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

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

Fifth Report 1989

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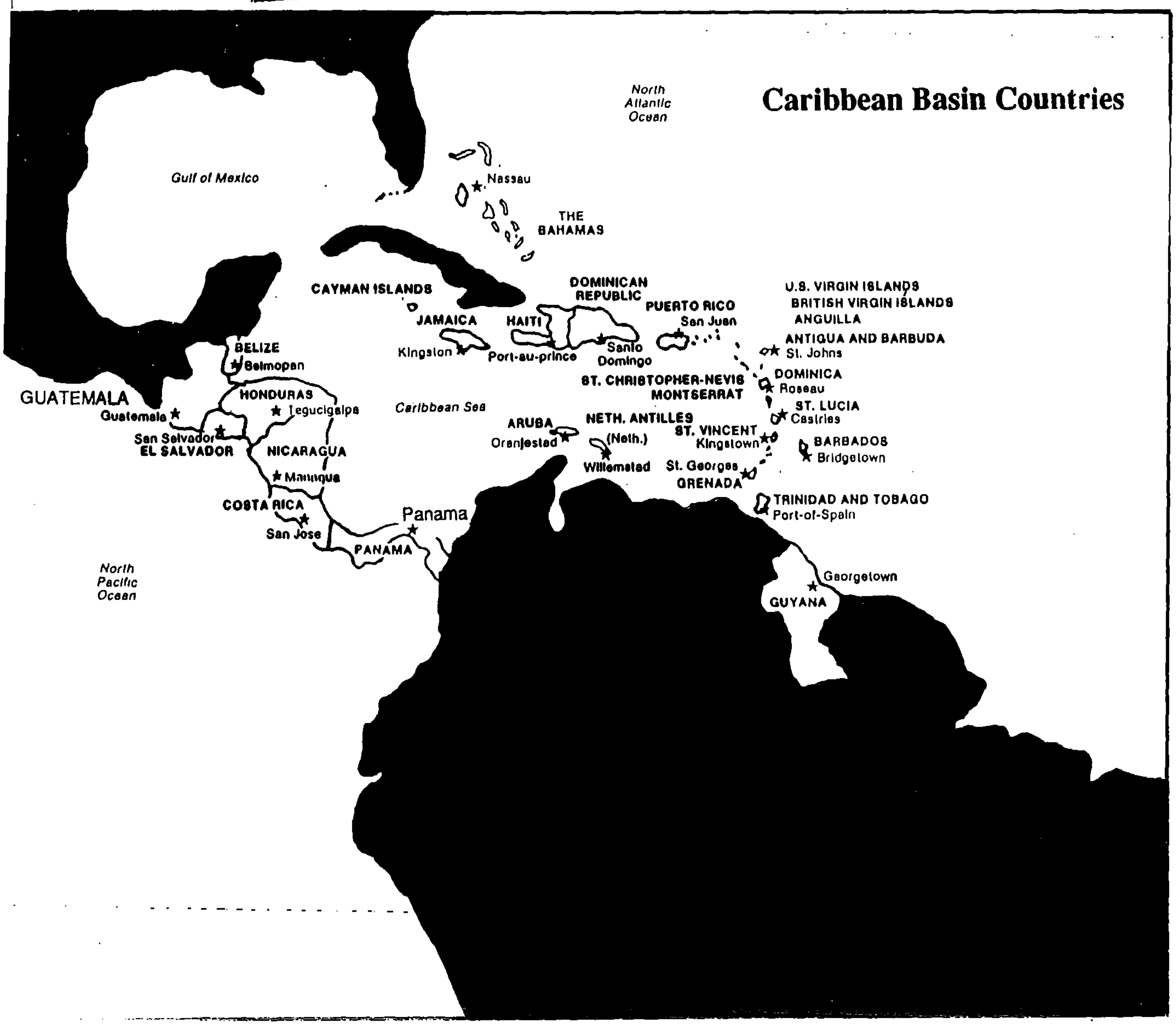

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Annual Report on the Impact of the Caribbean Basin Economic Recovery Act on U.S. Industries and Consumers

Fifth Report
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PREFACE

The submission of this study to the Congress and the President continues a series of annual reports by the U.S. International Trade Commission on the impact of the Caribbean Basin Economic Recovery Act (CBERA) on U.S. industries and consumers. The reports are mandated by section 215(a) of the act, which requires that the Commission report annually on the operation of the program. The present study fulfills the requirement for calendar year 1989.

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

The following countries were designated beneficiary countries upon the implementation of the CBERA: Antigua and Barbuda, Barbados, Belize, Costa Rica, Dominica, the Dominican Republic, El Salvador, Grenada, Guatemala, Haiti, Honduras, Jamaica, Montserrat, Netherlands Antilles, Panama, Saint Christopher-Nevis (St. Kitts), Saint Lucia, Saint Vincent and the Grenadines, Trinidad and Tobago, and the Virgin Islands (British). The Bahamas became a beneficiary nation in March 1985. Upon becoming independent of the Netherlands Antilles in April 1986, Aruba was designated as a beneficiary country, effective retroactively to January 1, 1986. In April 1988 Panama's beneficiary status was suspended and in November 1988 Guyana was designated as a beneficiary country. Panama's beneficiary status was restored in March 1990.

The report contains three chapters and three appendices. Chapter 1 focuses on the probable future effects of the CBERA. It examines significant investment projects in the region and provides an indication of products most likely to be exported to the United States in the future. Chapter 2 analyzes overall U.S. trade with the Caribbean Basin during 1989 and compares trade under special programs—CBERA, the Generalized System of Preferences (GSP), and Harmonized Tariff Schedule (HTS) subheadings 9802.00.60.00 and 9802.00.80, including statistical reporting numbers 9802.00.8010 and 9802.00.8050 (formerly Tariff Schedules of the United States (TSUS) items 806.30, 807-A, and 807.00). Chapter 3 addresses the actual effects of the CBERA in 1989, the 6th year of the program's operation, covering CBERA's effects on the U.S. economy, U.S. industries, and U.S. consumers. Appendix A contains a copy of the *Federal Register* notice by which the Commission solicited public comment for this investigation and a list of submissions received. Appendix B contains a table of the leading imports under CBERA provisions, by source, in 1989, U.S.-Caribbean trade data, and data on twin plants and projects financed with section 936 funds in 1989. Appendix C explains the economic model used to derive the results contained in chapter 3.

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EXECUTIVE SUMMARY

Probable Future Effects of CBERA

- As in previous years, a majority of the new investment reported in the region is focused in production of goods or provision of services that are ineligible for preferences of the Caribbean Basin Economic Recovery Act (CBERA). These areas include investment in apparel assembly, tourism, and data processing.

  Lower wage rates, proximity to the U.S. market, and reduced tariffs or duty-free access may all help explain such investment patterns. Firms specializing in the assembly of apparel or electronics benefit from the special access provided under the various subheadings of HTS heading 9802. Promotional efforts associated with the Caribbean Basin Initiative (CBI) may also play a part in attracting investment in tourism or other areas not eligible for CBERA preferences.

- The Commission identified 316 new or expansion investment projects in CBERA beneficiaries in 1989. A total investment value of $406 million was reported for the 263 projects that provided such data. Reported investment may substantially understate actual investment in the region but does indicate current trends.

  The highest level of new investment was reported in the sectors of manufacturing and services (including tourism). Investment in apparel, electronics, and medical supplies dominated investment in manufacturing. In the mining and energy sector, one large project—a methanol plant in Trinidad and Tobago—accounted for all of the new reported investment in that sector.

- In 1989, two private-sector projects with investments totaling $68.0 million received approval for section 936 financing.

  Both projects approved for section 936 funding in 1989 are centered in Jamaica. One involves $51 million for Air Jamaica to lease aircraft, the other $17 million for part of an AT&T fiber-optic cable system. In addition, six other projects that were under consideration in 1989—using a total of $191.0 million in section 936 funds—have subsequently received approval.

- A new version of "CBI II" legislation, designed to amend CBERA, was introduced in March 1989, and enacted in August 1990.

  The version of CBI II enacted included repeal of the termination date of CBERA. It did not, however, include modifications contained in earlier proposals, such as a 50 percent reduction in duties for certain products previously excluded from the program (footwear, handbags, luggage, flat goods, work gloves, and leather wearing apparel).

U.S. Trade with the Caribbean Basin

- The year 1989 marked the sixth year of operation of the CBERA. Total imports from CBERA beneficiaries rose at a healthy pace in 1989, compared with those of previous years.

  Total U.S. imports from CBERA beneficiaries climbed by 10 percent in 1989, to reach $6.6 billion. Strong growth in imports of such dutiable non-CBERA items as textiles and apparel, footwear, and leather apparel led the rise. The value of U.S. imports of petroleum and petroleum products declined slightly from 1988 levels.

- Total U.S. imports entering free of duty under CBERA provisions showed strong growth in 1989, rising by 15 percent, and accounting for 14 percent of trade from the beneficiaries.

  CBERA duty-free imports topped $905 million in 1989, a 15 percent increase over the 1988 level of $791 million. This level accounted for nearly 14 percent of total imports of $6.6 billion from beneficiary countries. By comparison, during the first year of operation of the CBERA program, CBERA duty-free imports accounted for about 7 percent of total imports from beneficiary countries.

- For the third year in a row, in 1989 the United States enjoyed a trade surplus with CBERA beneficiary countries.

  In 1989, the U.S. trade surplus with CBERA countries reached nearly $1.5 billion. Total U.S. imports rose by 10 percent but were 23 percent below the level of $8.6 billion registered in 1984. Total U.S. exports to CBERA countries, however, have been registering repeated gains in recent years. In 1989, U.S. exports rose by 9 percent over the 1988 level, to $8.1 billion. The 1989 level was 36 percent over 1984 U.S. exports of just under $6.0 billion.

- Certain product areas such as beef, cane sugar, and pineapples remained major beneficiaries of duty-free status in 1989. However, some nontraditional goods such as medical instruments, electrical apparatus, and variable resistors solidified strong CBERA export-oriented growth of recent years.

  Of the $906 million in total CBERA duty-free imports in 1989, beef remained the leading import item in 1989, valued at $118.5 million. Costa Rica was the leading source of this meat. Raw cane sugar was another leading import item, totalling $106.4 million in 1989. The Dominican Republic provided more than two-thirds of this sugar by value. Rounding out the top 10 CBERA duty-free items in 1989 were pineapples, baseballs and softballs, medical instruments, cigars, electrical apparatus, undenatured ethyl alcohol, and electrical variable resistors.

Impact of the CBERA in 1989

- Although the total customs value of duty-free imports to the United States under CBERA in 1989 was $906 million, the value that actually benefited from CBERA duty-free entry was $331 million.

  The $331 million in imports was 37 percent of imports given CBERA duty-free entry, 5 percent of the customs value of total imports from CBERA beneficiaries, and approximately 0.1 percent of total U.S. imports. With the CBERA-country share of U.S. imports at such low levels, the impact on U.S. industries and consumers in 1989 was minimal. However, between 1988 and 1989, the level of imports that actually benefited from CBERA provisions increased by 11 percent, from $297 million to $331 million.

- In each of the past 6 years, seven products have consistently entered among the leading items that actually benefited from CBERA tariff preferences.

  These items were beef, pineapples, orange juice, cigarette leaf, electrical capacitors, resistors, and rum. In addition, in each of the past 5 years, ethyl alcohol has been among the leading items that actually benefited from CBERA.

- The estimated net welfare cost to the United States of granting duty-free treatment to the 30 leading items that actually benefited from CBERA ranged from $2.4 million to $8.2 million in 1989.

  Compared with the total value of 1989 imports from CBERA beneficiaries, the range of net welfare cost represented about 0.04 to 0.12 percent. Among the 30 items observed, five products with high net welfare costs were frozen orange juice, fresh and frozen beef, certain tobacco products, frozen vegetables, and pineapples. In terms of c.i.f. value, these five imports accounted for 61 percent of the total imports that benefited from CBERA in 1989. In addition, the item with the largest net welfare cost resulting from CBERA duty-free treatment, ethyl alcohol, was also the only item to show a potential net welfare gain. The net welfare effect for ethyl alcohol ranged from a loss of $1.8 million to a gain of $0.9 million.

- In value terms, the seven CBERA imports with the largest displacement effects on output of competing U.S. industries were ethyl alcohol, certain tobacco products, fresh and frozen beef, frozen orange juice, frozen vegetables, grapefruit juice, and pineapples.

  The largest effect occurred for ethyl alcohol for which the displacement of domestic shipments ranged from $10.5 million to $14.4 million, or between 0.73 and 1.00 percent of the value of total domestic shipments.

Chapter 1
Probable Future Effects of the CBERA

As noted in previous reports, most of the initial effects of the one-time elimination of duties on imports from the Caribbean Basin region granted by the CBERA took place during the first 2 years after passage of the act.[1] Any future effects on U.S. industries and consumers can be expected to occur through export-oriented investment as investors attempt to take advantage of the lowered tariff levels and increasingly seek business opportunities in the region. This chapter presents an overview of the investments that occurred in 1988 and the degree to which such investments can be expected to affect U.S. imports in the near term. The general investment environment of the region is described, including the effects of political, economic, or social factors within beneficiary countries that enhance or diminish the likelihood of investment-induced exports to the United States under the CBERA. Also included is a summary of submissions received by the Commission in the course of this investigation. This chapter also examines Puerto Rico's program to promote complementary investment projects with CBERA beneficiary countries. Finally, legislation enacted in August 1990 that was designed to make permanent, and modify the CBERA in several other ways, is presented.

Methodology

This chapter is based on information obtained from a variety of sources including field visits to four CBERA-beneficiary countries. These countries—St. Kitts and Nevis, Dominica, St. Vincent and the Grenadines, and Trinidad and Tobago—were selected for fieldwork to provide a representative sample of the range of economic and other constraints facing Eastern Caribbean countries in particular that are trying to promote private investment and advance infrastructure development. Meetings were held with host government officials, individuals in private sector organizations involved in investment and export promotion, other representatives of the local business community, and U.S. Embassy staff. Additional data and information on investment were obtained through reports from U.S. embassies in the region and from U.S. Government agencies, the U.S. Department of Commerce in particular.[2]

[1] See ch. 2 of USITC, *First CBERA Report*.

[2] During the course of this investigation, in addition to investment information requested from U.S. Embassies in the region, the only other comprehensive and reliable source of investment data for the region available was provided by the U.S. Department of Commerce, Caribbean Basin Information Center. See also, "Data Problems and the USITC CBERA Report" in app. B of the *Second CBERA Report*, p. B-2.

Overview of Investment and Export Potential

Staff visited three Eastern Caribbean countries (St. Kitts and Nevis, Dominica, and St. Vincent and the Grenadines) and Trinidad and Tobago, and elicited views from private and government officials that are consistent with findings in previous reports. There is a widespread feeling among interview respondents that CBERA, while not an ineffective program, has generally not yielded substantial positive investment gains. CBERA has stimulated investment in only a very limited number of instances. Furthermore, the program is viewed as being largely redundant given the ability of many export manufacturers to ship their products to the United States under other duty-free provisions. Additionally, as is characteristic of less developed countries, infrastructural limitations pose significant, if not insurmountable, barriers to CBERA-led investment. Interviews also generated a number of findings not discussed in previous reports.

The interview respondents of the Eastern Caribbean countries and Trinidad and Tobago generally expressed a view that CBERA has not been effective in raising the level of exports to the United States, and has not lived up to expectations of many domestic business and government officials. In addition, while relatively few manufacturers export under CBERA, even fewer firms were formed as a result of CBERA. Most respondents laid the blame for the limited impact of CBERA on the design of the program. The most common specific criticism was the failure to include key industries in the program (or limiting their access with quotas and restrictions on certain commodities), and failure to take into account the Caribbean's great diversity and levels of development. Also mentioned as reasons for limited impact of CBERA was the existence of duty-free entry under GSP, various provisions of HTS heading 9802, and generally low duties on most commodities prior to CBERA.

Not all respondents blamed the ineffectiveness of CBERA on the way the program was designed. A number of respondents in Trinidad and Tobago argued that CBERA is not being utilized because of a lack of aggressive, entrepreneurial businessmen in the country. Domestic producers in the country have long been protected, they added, in an effort to develop import substitution industries. One drawback to this policy, it was stated, has been that domestic producers have not been concerned with export markets, or more generally, becoming internationally competitive. Although the Government of Trinidad and Tobago plans to open the economy to foreign competition in the mid-1990s,[3] it is unlikely, they said, that businessmen will soon develop the business acumen necessary to utilize fully the CBERA benefits.[4]

Several aspects of CBERA were recommended for improvement. Agricultural quotas and the exclusion of certain commodities from CBERA treatment are viewed critically by many respondents. As a result, much of the existing industrial base does not experience significant benefits from CBERA. A development official from St. Kitts and Nevis suggested that, given the nation's current effort to develop tourism, that perhaps CBERA could include incentives for investment in the industry in the Eastern Caribbean. Although not mentioned in the same context, data processing, another targeted service sector, would be favored for some type of CBERA treatment.

Whatever concerns they may have regarding shortcomings in the CBERA program, a number of government and business representatives felt that the program had brought more attention to the Caribbean, and they viewed this outcome as CBERA's greatest benefit. This increased attention is thought to have caused foreign investors to at least consider the region in investment decisions, whereas before they may not have done so. It is unclear, however, to what extent this attention has benefited the region, although most respondents felt that Costa Rica, Jamaica, and the Dominican Republic had received most of the investment into Caribbean countries. What investment has been placed into the Eastern Caribbean countries has been mainly in agroprocessing and light manufacturing assembly operations. There has been a very limited amount of investment into nontraditional industries such as winter vegetables and cut flowers.[5]

While the investment impact of CBERA on Caribbean countries is thought to be limited, it nevertheless is a significant benefit to select manufacturing operations. Staff visited several manufacturing operations that were actually developed as a result of CBERA. These and several other operations exporting under CBERA are growing rapidly, employing local engineering inputs for the production process, and demonstrating a basic level of innovative capability. Although representatives of these operations did not feel that they would go bankrupt in the absence of CBERA, they said that they would be adversely impacted in a significant way. Such operations are limited in both numbers and macroeconomic impact, but stand out as important local employers and internationally competitive manufacturers.

Infrastructure

In order to export to the United States, the Eastern Caribbean nations and, to a lesser extent, Trinidad and Tobago, must overcome a fairly daunting array of obstacles. An inadequate infrastructure is viewed by many local government and industry representatives as a barrier to fully realizing the potential benefits of CBERA. For example, product shipment to the United States is often difficult or costly,[6] given the geographical fragmentation of the region and the small size of the economies. The departure of cargo ships and planes to the United States is relatively infrequent by modern standards, and cargo often requires a number of transshipments within the Caribbean and the United States. The resulting delays are commonly aggravated by bureaucratic problems at the various transshipment points, which sometimes require that the exporter travel to the location to get the product moving again. As is true with infrastructural problems in general, the effect of transportation inadequacies varies among producers, but clearly represents a generally negative factor in investment decisions.

The consequences of an underdeveloped transportation system are substantial, especially for agricultural products. Many are highly perishable and rot before they reach the consumer.[7] For manufacturers, it is often essential to meet demands for timely delivery of the product, and an unpredictable shipment process makes this task difficult.[8] The limited size of Eastern Caribbean economies further complicates transportation problems since producers are often unable to fill a shipping container, thereby causing shipment to be postponed.

Agriculture and Agroprocessing

In Eastern Caribbean countries, an inadequate transportation system is only one of several impediments to developing export agriculture and agroprocessing. Agricultural and agroprocessing business representatives in St. Kitts and Nevis, Dominica, and St. Vincent and the Grenadines voiced strong frustration in getting their products

[3] A high-level government official in Trinidad and Tobago believes that opening the economy of Trinidad and Tobago will threaten the survival of many local firms, and that successful adjustment will require "massive" resources.

[4] For example, Trinidad and Tobago currently meet only 3 percent of their quota (guaranteed access level) negotiated under CBERA-related provisions of HTS statistical reporting number 9802.00.8010.

[5] For example, staff visited an orchid farm in Trinidad that is developing export markets in the United States. CBERA benefits to the operation are negligible, however, since the United States also provides duty-free entry for cut flower imports from Thailand, which is the firm's main competitor in the U.S. market.

[6] A manager of an electronics firm in St. Kitts and Nevis stated that the transportation cost to the United States was ten times higher than from Asia.

[7] In St. Vincent, a recent attempt to ship winter vegetables to the United States ended with the realization that the product could not get to market before rotting, given the current transportation system.

[8] One manager of an electronics firm stated that St. Kitts and Nevis recently lost an electronics firm to Haiti, partly because of the lengthy shipment process.

through U.S. Customs, and in obtaining approvals from the U.S. Department of Agriculture (USDA) and the U.S. Food and Drug Administration (USFDA). The General Manager of Dominica's Export-Import Agency stated that it is almost necessary to have someone at the customs point to get primary agricultural products through.

According interview respondents, processed agricultural products do not escape bureaucratic delays. These products must meet USFDA regulations before they are sold in the United States. Many producers lack the financial resources to make their products conform to these regulations. Those who have the resources must be extremely persistent to get the product to market. A relatively sophisticated producer of jellies, tropical fruit syrups, and sauces elaborated at length on the problems it experiences in gaining USFDA approval. The difficulty arises not from actually meeting the regulations, but rather from getting a clear explanation on what is required not only of the product, but of the labeling on the container. Producers describe the process as a bureaucratic nightmare that is characterized by inconsistent, legalistic explanations from U.S. agencies as well as inconsistent advice and poor communication among various U.S. agencies. Some producers state that part of the problem is a result of attracting greater scrutiny by U.S. Government agencies than is given to U.S. producers.[9] The decision to export to the United States may require many months if not years of delays, they said. Such delays require extreme patience on the part of their U.S. buyer, they added, who often abandons the business venture when delays become prolonged. If an agroprocessor or agricultural exporter gets the product to the U.S. market, exporters noted that state regulations vary, and often preclude easy national market coverage.

While agricultural and agroprocessing exporters said that they accept U.S. regulations as necessary, they complained of a lack of clear, unambiguous, and consistent information on regulations which severely limits their ability to penetrate the U.S. market. Industry representatives in St. Vincent and the Grenadines said that they receive no information dissemination from the appropriate U.S. agencies. Dominican exporters said that they receive occasional visits from U.S. agency representatives, but note that these U.S. representatives attempt to cover such a wide variety of issues relevant to exporters in such a limited amount of time that the crucial details of regulations are not discussed, or the officials lack detailed knowledge of specific regulations.

Thus, many respondents noted that an industry that appears to offer a comparative advantage for certain CBERA countries, and one that could have strong backward (input) linkages to the local economies, has not approached its export potential. CBERA industry representatives, many of whom have traveled to the United States, stated that they are aware of potential market niches and trends in the United States, and express frustration that they have not been able to exploit those markets.[10] The Eastern Caribbean interview respondents generally export agricultural products both to the United States and to the European Community (EC). When asked to compare gaining access to the EC market versus accessing the U.S. market, respondents consistently noted that it is much easier to gain access to the EC market. Even though countries such as West Germany have very strict regulations, Caribbean exporters said that they are told quite explicitly and unambiguously what they must do to meet those regulations.

Many interview respondents stated that the effects of a widespread inability of many Caribbean countries to penetrate the U.S. market with agricultural products is likely to be compounded in the mid-1990s. All three Eastern Caribbean countries that were visited receive preferential treatment by the United Kingdom for exports of certain agricultural products (mainly sugar from St. Kitts and Nevis, and bananas from St. Vincent and the Grenadines and Dominica). After 1992, in order to conform with the European Community's Single European Act, this U.K. preference will be removed or phased out. It is expected that the U.K. market for these commodities will be greatly reduced, creating a serious financial problem for Caribbean farmers of these crops. A transition to other crops and markets appears to be proceeding very slowly if at all.[11]

Labor Supply

Interview respondents made it clear that limited exports of non-agricultural products stem from more problematic structural characteristics of local economies. For both St. Kitts and Nevis and Dominica, a limited labor supply represents a serious barrier to expansion of the manufacturing sector.[12] According to interview respondents in both countries, a variety of factors account for

[9] For example, one industry representative who travels to the United States argued that he frequently sees U.S. products in stores that appear not to meet FDA labeling requirements as explained to him by FDA officials.

[10] When asked how they would explain the ability of certain tropical countries to successfully penetrate U.S. markets with agricultural crops, interview respondents noted that many such successes hinge on a U.S. business controlling the export of the crops.

[11] Some Caribbean countries can export to the EC under provisions of the Lome IV agreement. When asked to compare the success of CBERA versus Lome IV with respect to exporting agricultural commodities, an official of the Government of Trinidad and Tobago stated that Lome IV was so complicated that it was of limited use. The official felt that CBERA was a more favorable agreement.

[12] The labor shortage represents such a significant barrier to manufacturing expansion in St. Kitts and Nevis that the Government is targeting higher-value manufacturing (within the electronics and garment industry) as areas for promoting investment, rather than in manufacturing areas that require high levels of employment.

the labor shortage. First, the local populations are rather small and unemployment is reportedly less than 15 percent in both countries. Secondly, factory jobs carry a distinctly negative image in both countries. People consider factory jobs to be repetitious, boring, low-wage work that requires long hours.[13] Work in light manufacturing and assembly factories (the majority of factories in the Eastern Caribbean) is largely shunned by men. Consequently, the workforce in factories is dominated by women, many of whom are single parents, a factor which, many factory managers said, complicates the firms' ability to retain employees. Attitudes about factory work are further tainted by the highly mobile nature of light manufacturing assembly operations. Foreign-owned firms have sometimes moved from Caribbean countries with only a few days notice. Besides obvious economic repercussions, sudden losses of manufacturing operations create an attitude among the local populations that foreign-owned firms are not investing for the long term, and that they are "here today, gone tomorrow".[14]

Thirdly, interview respondents described wage rates in both St. Kitts and Nevis and Dominica as relatively high compared with other countries in the region. One high-level government official in St. Vincent and the Grenadines noted that Eastern Caribbean countries have high wage rates compared with other Caribbean countries (Jamaica and the Dominican Republic for example), and other disadvantages to manufacturers, such as transportation difficulties. He went on to ask rhetorically what countries such as his had to offer in return for the higher wage rates and transportation bottlenecks. Plants that are operating in these countries on the basis of minimizing labor costs are doing so in an environment where, certain businesspeople said, many workers do not feel compelled to accept particularly low wages. Many citizens of these countries can earn better wages in the tourist industry (primarily hotels), and frequently move to more well-known tourist islands in the region in search of such employment. Additionally, the tourist industry carries an image of glamour that entices many people away from factory work.[15] The loss of workers to higher wage nations also applies to those workers with more skills. The manager of a soap plant in Dominica noted that he frequently lost trained technicians to better-paying countries. Interview respondents in St. Vincent and the Grenadines and Trinidad and Tobago described the labor supply in more favorable terms; however, unemployment is substantially higher in those countries.

Thus, not all Caribbean countries are consistently good sources for abundant, very low-wage labor. Certain Caribbean countries are not likely to attract much investment requiring such a labor supply, and local investment promoters are aware of this fact. Accordingly, Eastern Caribbean countries are targeting tourism as a growth sector even though there is a concern over becoming over-dependent on that industry.[16] Tourism and data processing represent two industries targeted for growth in the Eastern Caribbean that receive no benefit from CBERA.

The lack of support industries makes expansion of the industrial base difficult and costly. For example, there is a lack of packaging plants (boxes, bags, cartons, etc.) making it necessary for many countries of the Eastern Caribbean to import packaging materials. Several manufacturers stated that, as a result, the packaging for a product is sometimes more expensive than its contents.

Section 936 Funds

One of the most significant potential benefits of CBI, many said, at least in terms of investment magnitude, is Section 936 funding that may be available from Puerto Rico.[17] CBERA beneficiary countries have extensive funds available to them if they sign a Tax Information Exchange Agreement (TIEA) with the United States. Countries that sign a TIEA, however, are required to abolish their bank secrecy laws, and risk a loss of bank investment. Of the Eastern Caribbean countries visited, neither St. Kitts and Nevis nor St. Vincent and the Grenadines have chosen to sign a TIEA. As officials in both countries pointed out, signing the TIEA does not guarantee large amounts of 936 funds will be invested in such countries. There is widespread agreement among business and government officials in the Eastern Caribbean interviewed that, practically speaking, the funds can only be used for large, multimillion dollar projects that small economies cannot easily absorb. The projects must be con-

[13] Numerous plant visits indicate that there is much validity to these perceptions in many factories.

[14] For example, investment promotion officials in St. Vincent and the Grenadines reported that the country lost three important manufacturing operations within one year. They said that there appeared to be no common reason for the loss of the plants.

[15] Interviews strongly suggest that the work environment and treatment of workers can greatly offset the difficulty in attracting labor. The best example of this came from a manager of an electronics firm in St. Kitts and Nevis. The manager said he had no labor problems in the plant. He also said that he interacted closely with his workers, attended management seminars, involved his workers more closely in the success of the plant, and provided managerial training to certain employees.

[16] There is a certain amount of incompatibility between expanding the tourism sector and expanding manufacturing. For example, Dominica has a reputation as being an island of natural beauty. The country recently turned away investment in a plastics recycling plant over fear that pollution from the plant could harm the island's environment. Also, some investment promotion officials cautioned that tourism can be "fickle," providing uneven levels of employment and earnings from one year to the next.

[17] For a detailed discussion of Section 936 funds and lending of such monies in 1989, see the section "Section 936 of the Internal Revenue Code" later in this chapter.

sidered relatively safe and be capable of earning foreign currency. Furthermore, while 936 funds are available at several percentage points below commercial lending rates, the multiple "backstops" of funding that must be acquired in case the investment project fails, along with insurance for political risks and the various financing fees in putting the loan together, add up to costs that make section 936 funds roughly as costly as commercial loans would be without insurance for political risks. The real advantage to section 936 funds, said a representative of a firm that recently borrowed such funds, is that they are available capital for investment, whereas commercial loans are difficult to acquire without costly insurance for political risk.

Trinidad and Tobago is the recipient of the largest amount of 936 funds. The country received over $145 million for two petrochemical projects, and is being considered for $25 million for another project. Dominica built a box plant for bananas with 936 funds, which permits the country to produce packaging materials locally rather than having to import them.

United States-Mexico Free Trade Agreement

Most interview respondents stated that there is widespread concern among Caribbean countries over a possible free trade agreement (FTA) between the United States and Mexico. Such an agreement, they said, raises the possibility that Mexico would become a more favorable destination for foreign investment than it is at present. They stated that a free trade agreement would add to other favorable factors enjoyed by Mexico, such as close proximity to the U.S. market, relatively extensive transportation linkages, and large pool of labor, that are unavailable in many Caribbean nations. Thus, while they expressed a general dissatisfaction with CBERA, they also voiced concern that more investment in general could be directed away from the region if such an FTA were enacted. Many interview respondents expressed the view that the Caribbean should be included in a free trade agreement with Mexico. Several respondents said that there is no threat to the Caribbean of a free trade agreement between the United States and Mexico. For example, one respondent said that the Caribbean is more stable politically than Mexico. Two different factory managers in Trinidad and Tobago stated that their chief competitor in Mexico produces poorer quality products than do their respective firms.

Several respondents said that a general hemisphere-wide free trade agreement would be the most beneficial type of agreement. The manager of a fairly large export-oriented appliance firm in Trinidad and Tobago said that such an agreement could benefit the Caribbean since it would open up South American markets that are currently highly protected from Caribbean exports.

Summary of Investment Activities and Trends

Overall, although some of the new investment taking place in the region during the past year has focused on products eligible for duty-free entry under the CBERA, the act has not fueled growth of the economies of CBERA beneficiaries or of their exports in a way that is likely to affect U.S. industries or consumers significantly in the immediate future. First, despite significant achievements by several beneficiary countries with aggressive investment promotion agencies, the overall level of private sector investment in the region has remained relatively low. Countries in the region continue to have difficulties attracting CBERA-eligible projects. In some cases, major investments that have been attracted have stalled or are producing below capacity.

Second, the scope of products produced in the region that are eligible for duty-free entry under the CBERA and not otherwise eligible under GSP is limited.[18] Much of the investment attracted to the region involves the production of goods such as apparel assembly operations that are ineligible for duty-free treatment under either program. Tourism projects, such as hotels, also receive a considerable amount of the new investment.[19] Moreover, some of the region's best-selling exports are not eligible for duty-free treatment.[20] As noted in chapter 3, excluded products include textiles and apparel, certain flat goods, footwear, petroleum and petroleum products, canned tuna, certain leather apparel, and work gloves.[21] Finally, most imports of CBERA-eligible products to the United States represent only a small fraction of total U.S. imports and consumption of such products.

However, in connection with this investigation, the Commission received submissions from two concerned industries. The Motion Picture Export Association of American (MPEAA)[22] commented on protection of intellectual property rights in certain Caribbean countries. The MPEAA noted that, in granting CBERA duty-free status to Caribbean countries, the President is required to consider the extent of adequate and effective enforcement of exclusive intellectual property rights for foreign nationals and the extent such countries engage in unauthorized broadcast of copyrighted material belonging to U.S. copyright owners. The MPEAA stated that

[18] For a list of these products, see table 3-3 in ch. 3.

[19] Tourism is important to the Caribbean because it brings in considerable foreign exchange earnings and also stimulates the local economy to provide a number of goods and services such as fresh fruit and vegetables, furniture, guide services, etc.

[20] For a list of these products, see figure 2-3 in ch. 2 and appendix table B-5.

[21] Although an early form of CBI II legislation proposed duty reductions for many such goods, the final version was much less comprehensive. For a discussion of CBI II legislation, see the CBI II discussion part of this chapter.

[22] Submission dated Aug. 10, 1989, Motion Picture Export Association of America.

"member companies continue to experience serious difficulties with illegal and unauthorized use of their product in a number of CBI countries."[23] Member companies lose an estimated $4 million annually due to such infringements, the MPEAA argued. In its submission, the MPEAA identified the Dominican Republic as violating copyrights through unauthorized broadcast and cable transmission of films owned by member companies. The MPEAA added that various degrees of signal theft and video piracy exist in Aruba, Belize, Barbados, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, and Panama. Panama was singled out as "a source of pirate videocassettes for most of the Caribbean Basin."[24] The U.S. Government should "exert its influence" on Caribbean countries, the MPEAA stated, to enforce the level of copyright protection which such governments committed themselves when signing the Caribbean Basin Initiative.[25]

Submissions to the USITC by the Cordage Institute (CI) and the American Cordage and Netting Manufacturers (ACNM) state that the American cordage industry "is being severely, adversely, economically impacted by the operation of CBERA provisions in a manner not intended by Congress when CBERA was enacted."[26] The ACNM states that baler twine, tying twine and rope of fibrillated polyolefin is "imported at less than fair value and improperly using CBERA benefits to avoid Congressionally-mandated quota and duty."[27] The CI maintains that cordage imports, from countries such as Costa Rica, enter the U.S. market, on a unit value basis, at costs up to 19 percent below production costs.[28] For the future, the CI expects "massive, below cost of production" imports from CBERA countries to the United States.[29] The CI submission concludes that strong penalties should be levied against importers who "knowingly claim a wrong classification to fraudulently take advantage of CBERA benefits."[30]

Previous CBERA reports have listed several problems that have hampered the efforts of CBERA beneficiaries to attract new private investment and that have made entry of their products into U.S. markets difficult. These problems include inadequate infrastructure, lack of affordable local financing, and lack of experience with the U.S. market. To date, most such problems have been ineffectively addressed. Since these problems are frequently structural in nature and are common in developing countries around the world, it is unlikely they will be successfully redressed in the near future. First, although the industrial infrastructure in the region is gradually improving with the assistance of foreign aid, inadequate inland transportation, port facilities, and energy supplies make operations uncertain and costly for foreign companies interested in investing in many CBERA countries. Inadequate infrastructure is evident everywhere in the region, but it is a particular problem in Belize and in the smaller countries of the Eastern Caribbean where infrastructure has been historically neglected. In many Eastern Caribbean countries, for example, the poor air and sea cargo handling facilities are reportedly one of the major constraints to development.[31]

Second, as reported in previous years, a lack of affordable local financing is another problem that continues to inhibit the growth of new ventures in the region. Banking systems throughout the Caribbean are conservative and appear reluctant to make loans for projects involving nontraditional exports. In a number of instances during the field visits, business and government officials said that the lack of local long-term credit means that joint ventures are essential for injecting capital into many projects.

Third, a lack of experience with the U.S. market by CBERA producers continues to make development of distribution networks and formation of joint ventures difficult. A number of beneficiary countries, assisted by USAID funding, have established trade promotion centers and funded local private organizations to facilitate entry into U.S. markets and to encourage local investment in response to this problem.[32] The situation has also been alleviated in some cases by the formation of exporter cooperatives and collectives.[33]

Other constraints that affect the ability of beneficiary countries to fully exploit the CBERA

[23] Submission dated Aug. 10, 1990, MPEAA, p. 2.
[24] Ibid, p. 5.
[25] Ibid, p. 6.
[26] Submission dated Aug. 10, 1990, Ann Ottoson King, Leighton and Regnery, Counsel to the Cordage Institute, p. 1, and submission dated May 1, 1990, Ann Ottoson King, Leighton and Regnery, Counsel to American Cordage and Netting Manufacturers, p. 2.
[27] Submission dated May 1, 1990, Ann Ottoson King, Leighton and Regnery, Counsel to American Cordage and Netting Manufacturers, p. 2.
[28] Submission dated Aug. 10, 1990, p. 2.
[29] CI submission dated Aug. 10, 1990, p. 3.
[30] CI submission dated Aug. 10, 1990, p. 6.

[31] In the Eastern Caribbean, for example, Dominica and St. Vincent and the Grenadines both lack airports capable of handling jet aircraft, and have limited deep water port capacity.
[32] For example, Jamaica Promotions Ltd. is an umbrella agency responsible for the nation's investment and trade promotion program. The Belize Export and Investment Promotion Unit provides investment promotion services, sponsors Belizean participation in trade missions and assists the government in enhancing export development. The Eastern Caribbean Investment Promotion Service, working in tandem with investment promotion agencies in each member country, provides similar services to Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and the British Virgin Islands.
[33] For a discussion of exporter cooperatives in Jamaica and Guatemala, see USITC, *Fourth CBERA Report*, p. 3-4.

include political and social instability perceived by investors, local controls on exports and imports, exchange controls that limit the availability of hard currency required for imported inputs, small domestic markets, and inefficient local bureaucracies. Some countries in the region are, however, making progress in liberalizing foreign exchange controls and import licensing systems. Moreover, many Caribbean countries are faced with shortages of managerial and skilled labor and inadequate supplies of unskilled and semi-skilled labor to fill some factory and agricultural jobs.

All of the difficulties cited above indicate that although investment is occurring in the region, large increases in exports to the United States, as stated in previous CBERA reports, cannot be expected to occur within the next few years.

New investment reported in CBERA countries in 1989

The 1987 CBERA report relied on data supplied by the U.S. Department of Commerce survey on investment projects in the Caribbean region. The Commission obtained data on 1988 investments from various sources in order to report on 1988 investment activities and future trends. For this report, investment data collected from two primary sources. First, from U.S. Embassies in the Caribbean, which were asked by the Commission to report significant, CBERA-related new investment in 1989. Second, from the Commerce Department, Caribbean Basin Information Center, which during the early part of 1990, compiled investment data for a 1988-90 Caribbean investment survey.[34] The investment figures in this section are not all-inclusive, since a number of investment projects in the region may be unreported, but are indicative of current trends in the region.

The Commission identified 316 new or expansion projects for 1989;[35] of these projects, 263 reported investment figures totaling $406 million. Table 1-1 provides a summary of reported new investment in CBERA countries, by sector.

Of the Caribbean's three subregions—Central America, the Central Caribbean, and the Eastern Caribbean—the Central Caribbean grouping led in 1989 with the highest value of reported new or expansion investment, followed by Central American and the Eastern Caribbean. By value of investment, the Central Caribbean reported $179 million in new investment in 1989. New investment in Central America and the Eastern Caribbean was reported at $116 million and $112 million, respectively.

[34] The most recent published report based on this data is the *Caribbean Basin Investment Survey,* U.S. Department of Commerce (November, 1988). Other sources for investment data included the Latin American Agribusiness Development Corporation, the Economic Development Administration of Puerto Rico (Fomento), The Agriculture Venture Trust in Barbados, and the Eastern Caribbean Investment Promotion Service. Published sources such as the *Caribbean Update* and the U.S. Department of Commerce, Caribbean Basin Information Center's publication *CBI Business Bulletin* were also used for general project information. Data from the different sources were frequently neither comprehensive nor comparable. Thus, the Commission does not maintain that the figures based on this information are all-inclusive.

[35] Some sources reported either aggregate figures for industry sectors or company listings in which the sector or product type could not be determined.

Table 1-1
Reported investment projects in CBERA beneficiaries, by sector, 1989

Sector	*Number of projects reported*	*Number of projects reporting investment amounts*	*Total investment reported*
			$1,000 dollars
Agriculture	92	81	50,750
Aquaculture	12	9	1,689
Manufacturing:			
Apparel	72	58	48,885
Electronics	31	28	27,344
Footwear	4	2	3,489
Furniture	10	10	5,527
Medical Supplies	6	6	36,582
Pharmaceuticals	2	2	8,100
Wood products	5	4	2,868
Other[1]	34	27	21,223
Mining and Energy	4	3	79,000
Service and Tourism:			
Construction	2	0	1,638
Data Entry	12	12	7,478
Services	9	9	71,277
Tourism	21	14	40,599
Grand total	316	263	406,435

[1] Includes a diverse range of products such as bicycles, catamarans, jewelry, and plastic bags.

Industrial sectors

As shown in table 1-1, the largest number of projects were reported in the agriculture and apparel sectors. Investment projects in the areas of tourism, data entry, electronics, aquaculture, and furniture, and "other manufacturing," also accounted for a large share of new investment activity.

The majority of investment in CBERA-eligible product areas that reported dollar values of investment was reported in agriculture, electronics, medical supplies and "other manufacturing." In agriculture, a total of $51 million in new investment was reported in 81 projects. Twenty-eight investment projects in the electronics sector (including manufacturing and assembly operations) reported a total of $27 million in new investment in 1989. Six projects in the area of medical supplies were valued at a total of $37 million. A wide variety of projects in the category of "other manufacturing" were valued at $21 million for 27 projects. These projects included sporting equipment, jewelry, plastic bags, luggage, and cardboard boxes.

Product areas not presently eligible for CBERA duty-free entry also reported significant infusions of new investment funds in 1989. These sectors included apparel, data entry, tourism, and other services.

Investment values were reported for 58 projects in the apparel sector with a total value of $49 million. Over $71 million in a variety of services were reported in 9 projects in 1989 such as consulting, container refurbishing, and cold storage. In addition, two projects in the services sector in Jamaica received section 936 financing in 1989. These were a $51 million loan to Air Jamaica to modernize its fleet, and a $17 million to AT&T for part of a large digital fiber-optic cable system. The data entry sector received $7 million in new investment for 12 reported projects. In tourism, a major Caribbean industry, $41 million worth of investment in 14 projects were reported in 1989. Most of these projects were either hotels, restaurants, or bars.

In the mining and energy sector, new investment was dominated by the lending of section 936 funds to Trinidad and Tobago to finance a methanol plant. A $79 million loan of such funds for this project accounted for the reported new investment in this sector.

Central America

New investment in Central America reached a reported 167 investment projects in 1989. Costa Rica led the list of countries with the highest level of investment activity, with 68 reported new projects. Guatemala reported the next highest level of new projects with 36, followed by Belize (33), Honduras (25) and El Salvador (5).

The two main areas of Costa Rica's new 1989 investment were agriculture and apparel. Many agricultural projects were in areas such as ornamental plants, fruits, and nuts.

New investment in Guatemala was attracted to various types of nuts and seeds, ornamental plants, flowers, and coffee. One investment in a nonagricultural area—cold storage—was, nevertheless, indirectly related to agriculture. Investment in apparel was the major sector reporting nonagricultural new investment in 1989.

The two main areas of Belize's new 1989 investment were agriculture and aquaculture. Investment in citrus farms, shrimp farming, crab harvesting, and fishing made up the bulk of new investment in Belize in 1989. About one-quarter of the new investment projects in Belize were centered in areas that are not eligible for CBERA preferences, particularly apparel and tourism.

Reported new investment in Honduras in 1989 was distributed in a wide variety of sectors. Furniture, apparel, agricultural areas such as ornamental plants, fruits, and fish accounted for the majority of such projects.

Of the five reported investment projects reported for El Salvador in 1989, two were in the area of shrimp harvesting, another two in shoe parts, and one in ornamental plants.

Central Caribbean

As noted above, of the three subregions of the Caribbean, the Central Caribbean countries of Jamaica and the Dominican Republic led in terms of attracting new investment in 1989. Ten new investment projects were reportedly started in Jamaica in 1989, and 75 in the Dominican Republic. New investment in the Dominican Republic, reaching a total of $99 million in 1989, was dispersed among a wide variety of sectors. Much of the new investments was reported in electronics, food processing, apparel, footwear, pharmaceuticals, cigars, medical supplies, and chemicals.

New investment in Jamaica in 1989 was focused on a few projects, although the dollar value of such investments was quite large. Two projects were financed with $68 million in section 936 funds.[36] One of these projects provides Air Jamaica with $51 million for leasing new aircraft, and the other provides AT&T with $17 million for a portion of a fiber-optic cable system. Five other new investments in Jamaica in 1989 were in textiles and apparel projects.

Eastern Caribbean

In the Eastern Caribbean region, 62 new investments were reported for 1989, with a total value of about $112 million. The largest number of projects was reported for Grenada. The new investment in Grenada was focused in apparel assembly, data entry, assembly of electronic items, and tourism. In St. Lucia, five new investments

[36] For a discussion of section 936 funds, see the following section.

in assembly of personal computer boards, and one data entry project were reported for 1989. Three investments in the electronics sector were reported for Antigua and Barbuda, and one investment in assembly of personal computer boards was reported for St. Kitts and Nevis.

Section 936 of the Internal Revenue Code

Section 936 of the U.S. Internal Revenue Code, and its predecessor provisions, grants tax preferences to U.S. firms operating in Puerto Rico designed to encourage reinvestment of profits to stimulate economic development in U.S. possessions.[37] These tax preferences have attracted much industry to the island and have been credited with supporting more than one-third of the total employment in Puerto Rico and nearly one-half of Puerto Rico's nongovernment employment.[38] In 1986, budgetary pressure prompted the U.S. Congress to consider repealing section 936. The Commonwealth of Puerto Rico suggested amending the section to allow projects in qualified CBERA countries access to the low-cost 936-funds.[39] Qualified CBERA countries are those that have signed and ratified Tax Information Exchange Agreements (TIEAs) with the United States.[40]

As of December 31, 1989, the total pool of 936 profits not repatriated to the U.S. mainland was estimated to total $14.6 billion. Most of these funds ($9.58 billion) were deposited in Puerto Rico's private financial institutions, broken down as follows: $6.1 billion in commercial banks, $2.5 billion in investment banks, and $1 billion in savings banks.[41] The remainder was invested directly by section 936 companies. Deposits of 936 funds rose by over $100 million in 1989, however, the ratio of 936 funds to total deposits has declined since 1987. In 1989, the funds represented nearly 35 percent of total deposits, compared to 37 percent in 1988 and 40 percent in 1987.[42]

Section 936 Financing

Section 936 funds are lent at concessionary rates by commercial financial institutions and the Government Development Bank for Puerto Rico (GDB), usually at around 80 percent of the London Interbank Offered Rate (LIBOR).[43] Both complementary and stand-alone projects in CBERA countries are eligible for section 936 financing. Commercial financial institutions may provide financing for either type of project, but the GDB is restricted by its bylaws to financing only complementary projects.[44] Although eligible

[37] Under section 936, qualified domestic corporations may take a credit equal to the portion of their U.S. tax attributable to taxable income earned by subsidiaries in U.S. possessions, such as in Puerto Rico. In order to be eligible for the tax preferences offered under section 936, at least 75 percent of this income must be derived from the active conduct of business; up to 25 percent may be passive income derived from investments in "eligible" activities. The portion of income earned by a section 936 firm that is generated from eligible investments is known as "qualified possession source investment income" or QPSII. Provisions of Puerto Rico's Tax Incentives Act of 1987 form a local counterpart to the federal tax credit granted to U.S. corporations under section 936. Firms qualifying for treatment under section 936 may receive exemptions, of up to 90 percent, on Puerto Rican income taxes for a period of 10 to 25 years. Earnings repatriated by a section 936 firm to its mainland parent, however, are subject to a Puerto Rico "toll gate tax." Starting at a rate of 10 percent, the toll gate tax declines the longer the funds are retained in Puerto Rico, dropping to 5 percent with a 5-year investment and to zero with a 10-year investment. Department of the Treasury, *The Operation and Effect of the Possession Corporation System of Taxation, Sixth Report,* March 1989, ch. 2.

These funds have created a unique monetary market in Puerto Rico. To ensure that these funds remain at the lowest possible cost and are channeled into high priority areas traditionally neglected by financial markets, Puerto Rico has enacted various mechanisms to monitor the funds. In March 1988, Regulation 3582 replaced Regulation 3087. Regulation 3582 has two principal goals: to foster economic development in Puerto Rico (and now the Caribbean) and to keep interest rates down. In addition, to more equally distribute the funds, the regulation established three mandatory reserve requirements. The island's financial institutions must invest 15 percent of their 936 deposits in the Government Development Bank for Puerto Rico, 1 to 2 percent in the Economic Development Bank of Puerto Rico, and 7 percent in selected eligible activities. Alexander F. Diaz, "Regulation 3582 gives firms incentives to invest profits locally for longer terms," *Caribbean Business,* March 30, 1989, p. 522. The combination of manufacturing and investment income earned by 936 firms constitutes what is commonly referred to as "936 funds."

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

[39] Prior to the enactment of the Tax Reform Act of 1986, investment income earned by a section 936 firm could only qualify as QPSII, and thus be eligible as part of a Federal income tax credit, if it was generated from an investment in Puerto Rico. Under the 1986 Act, section 936 was amended to allow income from investments in qualified CBERA beneficiaries to also be considered as QPSII. The act became effective Jan. 1, 1987. Treasury, *Sixth Report.*

[40] As of February 1990, six countries—Barbados, Jamaica, Grenada, Dominica, the Dominican Republic, and Trinidad and Tobago—had ratified TIEAs with the United States and were therefore qualified CBERA countries pursuant to section 936.

[41] Alexander F. Diaz, "936 deposits rose but their share of total deposits fell in '89," *Caribbean Business,* Mar. 15, 1990, p. S2.

[42] Of the three financial institutions, investment banks were the biggest loser in 1989, with their 936 funds dropping by nearly $300 million, while commercial banks gained over $100 million. The largest change in deposits occurred in savings banks, increasing from $658 million to just over $1 billion. Ibid.

[43] The banks are able to offer below-market rates on 936 loans because the interest rates that they pay on section 936 deposits are lower than those offered in the United States as well as on their other deposits. Even though they receive lower interest payments on deposits, it is more profitable for section 936 firms to retain their profits in banks in Puerto Rico than to repatriate, because of the combined Federal and local tax preferences.

[44] *Puerto Rico's Caribbean Development Program,* A Progress Report to the Ways and Means Committee U.S. House of Representatives. Commonwealth of Puerto Rico Economic Development Administration, Caribbean Development Office, Sep. 15, 1988, p. 11.

projects do not have to directly benefit Puerto Rico, access to 936 funds is limited to those projects that will not adversely affect the economy of Puerto Rico (i.e., no loss of jobs in Puerto Rico).[45]

By yearend 1989, four private-sector projects in CBERA countries, totaling $78.8 million, had received both approval from the U.S. Treasury for 936 financing and the funds.[46] Two of the projects, for a total investment of $68.0 million, were approved in 1989:

Company	Country	Investment (Million dollars)
Air Jamaica	Jamaica	51.0
AT&T Trans-caribbean Cable System	Jamaica	17.0
		68.0

Air Jamaica and Aviation Leasing Group in Puerto Rico devised a highly innovative financing structure to enable Air Jamaica to modernize its fleet. Air Jamaica leased two used Airbus A300-B4s with $51 million in 936 funds.[47] AT&T is constructing a $180 million digital fiber-optic cable system connecting the United States, Puerto Rico, the Dominican Republic, Jamaica, and Colombia. Only $17 million for the Jamaican section will be financed with section 936 funds since it was the only project participant with a TIEA when the funds were distributed in July 1989.

Six other projects under consideration in 1989 have since been granted approval for 936 financing for a total of $191.0 million. To alleviate the shortage of electrical power in the Dominican Republic, Transcaribbean Capital Corp. (a subsidiary of Seaboard Overseas, Ltd.) borrowed $18 million of 936 funds. The monies will be used to purchase a barge equipped with a 40 megawatt electricity plant.[48] Rose Hall Beach and Country Club in Montego Bay in Jamaica is being purchased by the Wyndham Hotel Co. which the Government of Jamaica is selling under its current divestment program. The company will use $10 million of section 936 funds to purchase, refurbish, and renovate the hotel.[49] The Barbados Telephone Company, owned by Cable and Wireless and the Government of Barbados, is planning to modernize the telecommunications infrastructure on the island. The total amount of 936 funds borrowed was $13 million.[50] Trinidad and Tobago's petrochemical industry will receives funds for two new projects. The Caribbean Methanol Co. will use $79 million of 936 funds to construct the island's second methanol plant. Phoenix Park will invest $66.5 million of 936 funds to build a facility to separate bethane and methane from natural gas.[51] Abbott Laboratories plans to construct a twin plant in the Dominican Republic to assemble intravenous solution sets. The plant will complement its Puerto Rican operations and will use $4.5 million in 936 funds.[52] The Economic Development Administration of Puerto Rico (Fomento) is in the process of evaluating 2 more projects in TIEA signatories for a total of $34.3 million in section 936 financing.[53]

Financing Obstacles

Given the large size of the section 936 funds pool, the number and value of projects in CBERA countries that have been financed with these funds are well below expectations.[54] The major stumbling block[55] for investment of 936 funds in the Caribbean has been the requirement that the

[45] All 936 loans must be approved by the Administrator of the Economic Development Administration of Puerto Rico (Fomento) and the Commissioner for Financial Institutions. Fomento performs economic analysis to determine if the project will have a negative impact on employment in Puerto Rico and what the effect will be on interest rates as a result of the outflow of 936 funds. The Commissioner reviews the transaction to ensure that it complies with the CBERA regulations and other banking legal requirements.

[46] In 1987, $1.2 million in section 936 funds were loaned on a government-to-government basis to Jamaica for the purchase of prefabricated homes built in Puerto Rico. In 1988, the second phase of this project entailed a loan for $7.5 million. Also in 1988, the ABC Container Company's corrugated box factory in Dominica was the first private sector project financed by 936 funds to become operational. The company borrowed $2.1 million and officially opened on March 30, 1989. Another project which received governmental approval but was unable to acquire the appropriate guarantees due to these financing difficulties was the Spanish Fort Free Zone in Jamaica, which was never constructed.

[47] The funds were disbursed on Aug. 28, 1989.

[48] The funds were disbursed on Jan. 19, 1990.

[49] Distribution of funds occurred in March 1990.

[50] The Cable and Wireless project has been under discussion for several years, but the funds are expected to be released in 1990.

[51] Disbursement of these funds is expected in 1990.

[52] The funds for this project were released in mid-1990.

[53] Details of these two projects are still being worked out but $25.3 million of 936 funds have been approved for another petroleum-refining project in Trinidad and Tobago and $9 million for a tourism project in the U.S. Virgin Islands. (The U.S. Virgin Islands are now allowed access to 936 funds for investment projects. Congress amended the Tax Reform Act of 1986 that made the U.S. Virgin Islands eligible for 936 monies on Jan. 1, 1989.) In total, $304.1 million worth of investments have been approved for 936 financed projects. See App. B for a complete listing of 936 funded projects and 1989 and 1990 twin plant operations. For more information on the 936 financial projects, see *Puerto Rico's Caribbean Development Program*, A Progress Report to the Ways and Means Committee, U.S. House of Representatives. Commonwealth of Puerto Rico, Economic Development administration, Caribbean Development office, Mar. 15, 1990.

[54] Opening Statement by the Honorable J. J. Pickle, Chairman, Subcommittee on Oversight, Committee on Ways and Means Hearing on Section 936-CBI Loan Program, Apr. 3, 1990.

[55] During fieldwork in Puerto Rico, USITC staff discussed the obstacles of financing projects with 936 funds. Most interviewees responded that the lack of qualified CBERA countries, i.e. countries that have signed TIEAs with the United States, presented the most formidible obstacle to overcome in lending of the funds.

country sign a TIEA with the United States.[56] Up until mid-1989, only four Caribbean countries had TIEAs with the United States: Barbados, Jamaica, Grenada, and Dominica. In October 1989, the Dominican Republic ratified a TIEA, and Trinidad and Tobago signed a TIEA which was ratified in February 1990. Two other countries have signed TIEAs—Costa Rica and St. Lucia—but as of yearend their respective legislatures have not ratified the agreements.[57] Interest in TIEAs seems to have increased in these countries with ratification expected in the near future.[58]

Many CBERA countries are reluctant to negotiate TIEAs with the U.S. Department of Treasury because of fears that and agreement would force them to change their tax system or reveal sensitive income data.[59] In some instances the negotiation of a TIEA has become an issue of national sovereignty. The U.S. Treasury contends that the reluctance is due to misconceptions on the part of the CBERA beneficiaries and that TIEAs are negotiated agreements that are narrowly focused and which take into account each country's individual set of circumstances.[60] Besides the requirement for signing a TIEA, another major impediment for lending 936 funds is the lack of guarantees for the loans.[61] The banks, which are accountable to shareholders, are reluctant to accept the foreign exchange and political risk of loans to the developing countries in the Caribbean region. Therefore, to obtain 936 loans for projects in CBERA countries, commercial and investment banks generally require some form of credit enhancement[62] or loan guarantee to ensure the lender that the monies will be repaid. Obtaining loan guarantees can present a significant hurdle for many small and medium-sized investors in the Caribbean.

Another financing obstacle to 936 investments is reported to be the lack of clear-cut guidelines.[63] Without implementing regulations, the Treasury Department had to examine each project on a case-by-case basis with some reviews taking up to several months.[64] In September 1989, the Treasury Department issued temporary regulations which outlined the requirements for qualified investments in qualified CBERA countries. To ensure that these investment projects generated qualified possession source investment income (QPSII) and thus allow the 936 firms to retain their tax exemption status, the regulations established the requirements needed to satisfy section 936.

For an investment to be a qualified investment under section 936, five requirements must be met.[65] First, the investment must be a loan from the 936 funds. Second, the loan must be made by a qualified financial institution. Third, the loan must be made to a qualified recipient for investment in active business assets or a development project in a Caribbean Basin country. Fourth, the investment must be authorized by the Commissioner for Financial Institutions of Puerto Rico. Last, the qualified recipient and the qualified financial institution must comply with certain certification, agreement, and due diligence requirements. A "qualified financial institution" is an entity that is engaged in a banking, financing, or similar business under the

[56] Other obstacles to section 936 financing of CBERA projects exist. They include a lack of proposals for economically viable projects in qualified CBERA countries, the high risk associated with investments in CBERA countries, the mismatch of short term 936 deposits with the long term financing needs of CBERA projects, and the uncertainty surrounding the continuation of tax preferences under section 936. For information on these obstacles, see USITC, *Fourth CBERA Report*, 1988, USITC Publication 2225, September 1989, pp. 3-11 to 3-13.

[57] St. Lucia signed a TIEA on Jan. 1, 1987. Costa Rica signed a TIEA on Mar. 15, 1989; a TIEA had been signed by Costa Rica in 1986, but was never ratified. The Dominican Republic signed a TIEA on Aug. 7, 1989.

[58] Even some non CBI countries have signed tax agreements with the United States; Mexico in January 1990 and Peru at the Cartagena summit in March 1990. The benefits from the agreements are enhanced tax administration and enforcement. Commonwealth of Puerto Rico, Economic Development Administration (Fomento), Second Progress Report to the Ways and Means Committee, U.S. House of Representatives, *Puerto Rico's Caribbean Development Program*, Mar. 15, 1990, pp. 2-4.

[59] During fieldwork in the Eastern Caribbean, USITC staff discussed the issue of TIEAs with various host government officials. In the two countries visited that have not signed TIEAs (St. Kitts and Nevis, and St. Vincent and the Grenadines), two main reasons were given for hesitancy over entering into a TIEA with the United States. First, concern was expressed that only projects larger than are likely for their countries could benefit from such financing. Hence, little possible economic benefit from section 936 funding was foreseen. Second, it was also stated that approving a TIEA would require repeal of banking secrecy laws that pertain to offshore banking. Various degrees of reluctance to make such a change in order to qualify for section 936 funds were expressed on this subject. Also see, Doreen Hemlock, "Tax discolsure requirement limits CBI use of 936 funds," *Caribbean Business*, Sep. 24, 1987.

[60] Statement of Kenneth W. Gideon, Assistant Secretary (Tax Policy), Department of the Treasury before the Subcommittee on Oversight, Committee on Ways and Means, U.S. House of Representatives, Apr. 3, 1990.

[61] Statement of Terrence Wadsworth on behalf of the Chase Manhattan Bank, N.A., before the Subcommittee on Oversight, Committee on Ways and Means, U.S. House of Representatives, Apr. 3, 1990.

[62] Forms of credit enhancement include: (1) letter of credit from a major international commercial bank; (2) a corporate guarantee from an international credit-worthy company; (3) a guarantee from a multilateral organization; (4) a guarantee from a credit-worthy insurance company; or (5) a guarantee from other private or government owned credit worthy organizations.

[63] Testimony of Jose A. Sosa, Commissioner of Financial Constitutions Commonwealth of Puerto Rico, before the Subcommittee on Oversight, Committee on Ways and Means, U.S. House of Representatives, Apr. 3, 1990.

[64] Prior to September 1989, the Treasury Department would not approve each project per se, but rather would issue a "no objection" letter.

[65] The temporary regulations were published in the *Federal Register*, vol. 54, No. 183, Sep. 22, 1989, pp. 38970-38979.

Treasury Regulations and meets the "eligible institution" criteria under Puerto Rico's Regulation 3582.[66] A person, corporation, or partnership that is engaged in a qualified business activity is a "qualified recipient." A loan would qualify as an investment in active business assets if the expenditures are for acquisition, construction, rehabilitation, improvement, upgrading, or expansion of assets used in a business activity. Qualified assets include tangible personal property (such as raw materials, furniture, machinery, or equipment) and rights to intangible property such as patents, inventions, formulas, etc. One stipulation, though, is that the real or personal property was not used in a business activity in the last five years.

During the initial review process, Treasury identified several problems associated with CBI investments. Thus, the temporary regulations address such issues as refinancing, privatization, and use of financial intermediaries.[67]

A goal of the CBI program is to promote economic development in the Caribbean countries by encouraging new investments.[68] With the region experiencing debt problems, the 936 funds were regarded by some as a possible source for low-cost loans. For example, when the Air Jamaica project was initially proposed in 1988, the option of refinancing the debt of several aircraft finance leases was explored. Air Jamaica contended that this refinancing would reduce interest costs, thus generating savings that could be used to make a down payment on new aircraft, reduce the airline's debt, or obtain other equipment.[69] The Treasury Department eventually turned down the refinancing project.[70] The temporary regulations reinforce this decision by maintaining that, as a matter of policy, refinancing does not generate any appreciable new assets, and therefore section 936 monies generally may not be used to refinance existing facilities.

[66] An eligible institution under Regulation 3582 is one that has been qualified by the Puerto Rico Commissioner for Financial Institutions.

[67] The Subcommittee on Oversight, House Committee on Ways and Means held a hearing on the Section 936 CBI loan program on Apr. 3, 1990. The subcommittee was investigating implementation by the Puerto Rican Government of the so-called 936-CBI loan program. Under discussion was whether the Caribbean countries do have meaningful access to these funds, whether there were better ways for the Government of Puerto Rico to run the program, and whether the section should be changed. At issue was the large amount of deposits (nearly $15 billion) and the small number of projects and monies disbursed. (Up until the end of 1989, there were only four projects that had received $78.8 million. However, with the issuance in September 1989 of temporary regulations and two new qualified countries, the amount of monies approved for disbursal totaled over $300 million by May 1990.)

[68] See House Report No. 98 266, 98th Cong., 1st Sess., pp. 2-3 (1983), Senate Report, No. 98 58, 98th Cong., 1st Sess., pp. 22-25 (1983).

[69] Statement of Carlos A. Burns, Vice President BT Securities Corporation, Puerto Rico Branch, Before the Subcommittee on Oversight, Committee on Ways and Means, U.S. House of Representatives, Apr. 3, 1990.

[70] Ibid.

Some countries in the region are undergoing divesture programs to reduce their debt. Another possible use suggested for 936 funds was for privatization projects. Many argued that several international development organizations such as World Bank and USAID promote privatization as a means for revitalizing the economies of debt-ridden countries.[71] Treasury noted that some privatization efforts do require refinancing of existing facilities, but sufficient development benefits are derived from privatization. Therefore, the temporary regulations reserve on the issue pending consultations with Overseas Private Investment Corporation, USAID, and the State Department to determine a more useful definition of appropriate privatization cases.[72]

To encourage investment, the CBI program attempts to make the lowest cost financing available to the ultimate user of 936 funds. However, some projects have recommended using several financial intermediaries, arguing that a Puerto Rican financial institution would not necessarily have knowledge of the local market. Since the Office of the Commissioner for Financial Institutions of Puerto Rico only supervises the Puerto Rican financial institutions, no mechanism exists for monitoring interest rate changes by non-Puerto Rican financial institutions. Thus, the Treasury Department saw the inclusion of several intermediaries as raising the cost of the loan.[73] Despite this concern, and recognizing the uniqueness of the Caribbean domestic market, the temporary regulations allow one financial intermediary per project.[74]

Uncertainty over continuation of section 936 has been further heightened by proposed legisla-

[71] Testimony of the Honorable Antonio J. Colorado, Secretary of State Commonwealth of Puerto Rico presented before the Subcommittee on oversight, Committee on Ways and Means, U.S. House of Representatives, Apr. 3, 1990.

[72] Testimony of Kenneth W. Gideon, Assistant Secretary (Tax Policy), Department of the Treasury, before the Subcommittee on Oversight, Committee on Ways and Means, U.S. House of Representatives, Apr. 3, 1990.

[73] Ibid.

[74] After the issuance of the temporary regulations, interested parties were allowed to comment on the regulations. In March 1990, these comments were aired at a hearing held at the Internal Revenue Service. Many of the persons testifying congratulated the Treasury Department for proposing the regulations; however, several complaints were lodged against the temporary rules. For instance, Antonio J. Colorado, Secretary of State of the Commonwealth of Puerto Rico, emphasized several problems with the regulations. He noted that privatization projects should be allowed (the regulations are reserved on this point), more intermediary institutions should be permitted (only one is allowed now), and urged more flexibility in the definition of qualified investments (qualified investments are limited to loans and not equity participation, joint ventures, or stock positions.) Statement of the Honorable Antonio J. Colorado, Secretary of State, Commonwealth of Puerto Rico, Presented at the Internal Revenue Service, Hearing on the proposed and temporary regulations interpreting Section 936 (d) of the Internal Revenue Code, Mar. 19, 1990.

tion that would have Puerto Rico hold a referendum in 1991 to decide its political status. In April 1989, three senate bills were introduced which would authorize a plebiscite on Puerto Rico's political status.[75] Of the three, Senate bill S. 712 was approved by the Senate Energy and Natural Resources Committee and was reported out of committee in August 1989. Three political status options are offered under the bill: statehood, enhanced commonwealth, or independence. Puerto Ricans would vote in June 1991 whether to become a state of the United States, continue the status quo with some minor modifications, or become an independent nation.[76] Section 936 would be affected if Puerto Rico were to become a state.[77] Under S. 712, if Puerto Rico does join the union, section 936 would only remain in effect until January 1994 then would be phased out over the next five years by reducing the credit by 20 percent annually.

In November 1989, the Senate Finance Committee held hearings on the bill. Some members of the committee were apparently concerned about the many complex economic, cost, and constitutional issues that were not fully addressed in the Energy and Natural Resources Committee's version of S. 712.[78] Consequently, another approach was suggested for statehood whereby federal transfer benefits would be gradually phased in (Puerto Ricans only receive partial benefits now) and Federal tax exemptions would be phased out (including Section 936) over a 5 to 10 year time span.[79] During the hearings, several senators urged the House of Representatives to begin parallel consideration of the political status of Puerto Rico.[80]

Despite these problems, efforts are being made to provide 936 financing to more CBERA projects. One such effort is a newly created public corporation developed by Fomento called the Caribbean Basin Financing Authority (CARIFA). This independent corporate and political body will provide financing for economic development projects for qualified countries in the Caribbean. As a subsidiary of Fomento, CARIFA will serve as an intermediary and will provide tax exemption to bond issues using 936 funds in the region. Previously, only Puerto Rico's financial institutions, and not 936 companies, were allowed to make direct investments of 936 funds outside of the island. If a 936 company wanted to invest directly, special purpose financial institutions needed to be established. CARIFA eliminates the middlemen financing costs thus facilitating the process of lending 936 funds by reducing the costs associated with the financing of projects in the Caribbean. The authority will also provide guarantees to eligible CBERA countries.[81]

Other programs are being considered to provide 936 financing to more CBERA projects. Member companies of the Puerto Rico USA Foundation[82] are working toward establishing a Caribbean Basin investment fund. This investment fund is intended to make financing available to small and medium-sized private sector projects that create employment. The USAID is also in the initial stages of creating a mechanism for granting guarantees to private banks in local countries to lend monies to small and medium-sized firms.

Twin Plant Program

Section 936 has also indirectly contributed, by the existence of 936 firms, to an increase in investment in CBERA countries resulting from Puerto Rico's promotion of twin plants, or projects complementary with operations in Puerto Rico. Fomento encourages firms with operations

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[75] The series of bills (S. 710, S. 711, S. 712) were introduced the week of Apr. 3, 1989.

[76] Puerto Rico public opinion polls reflect little support for independence. If Puerto Rico became independent, Section 936 would be terminated.

[77] The Senate Finance Committee recently asked the Congressional Budget Office to estimate the effects of changing Puerto Rico's political status. According to the CBO report, if Puerto Rico were to choose statehood, a possible outcome could be a "significant reduction in the growth of the Puerto Rican economy." This predicted downturn in the economy would be triggered by a decrease in investment, output, and employment in the manufacturing sector since the tax benefits under section 936 would be eliminated with statehood. The CBO report assumes the island's rapid development as a manufacturing economy in the past 40 years is due to the tax advantages U.S. companies have been able to realize there under Section 936. See Congressional Budget Office, *Potential Economic Impacts of Changes in Puerto Rico's Status Under S. 712*, April 1990.

[78] *Congressional Quarterly Almanac*, 1989, pp. 360-361

[79] Under the Energy and Natural Resource version of the bill, Federal transfer payment programs would be fully paid at the time of Statehood (fall 1991) while Section 936 would not be completely eliminated until 1998. Maintaining Section 936 while fully paying Federal benefits if Puerto Rico becomes a state has raised some concerns that this duality is unconstitutional.

[80] In May 1990, House bill 4765 was introduced. This legislation differs from the Senate bill in one major

[80]—*Continued*
aspect. Senate bill 712 is "self-executing," which means that once Puerto Rico decides on its political status, no further action would be required by Congress. Under H.R. 4765, Puerto Ricans would have four options to choose from: enhanced commonwealth, statehood, independence, and "none of the above." The language of the bill defines these alternatives in nonspecific terms. After the referendum determined the preferred status, Puerto Rico and the United States would enter negotiations to determine the specific terms, conditions, and transitional provisions for that status. Implementation of legislation would then be introduced in Congress under the "fast track" mechanism whereby legislative committees would have 180 days to act. Puerto Rico would have to vote to ratify this legislation. After ratification, Puerto Rico would enter its preferred choice in October 1992.

[81] Governor Rafael Hernandez Colon signed the bill in January 1990 which created the Caribbean Basin Projects Authority.

[82] This organization is a group of mainland manufacturing companies, financial institutions, and other firms which have operations or interests in Puerto Rico.

on the island to seek opportunities for splitting production between Puerto Rico and a Caribbean site in a twin plant arrangement. In most instances, the labor-intensive portion of the operation is moved offshore since Puerto Rico's labor pay scale is considerably higher than those in most of the CBERA countries. Section 936 firms are able to retain their 936 status due to the continuation of their Puerto Rican operations, whereas setting up twin plants enables them to reap the benefit of lower overall costs.

Further, although close to 20 twin plant operations were in existence prior to the enactment of the CBERA, the act contains additional incentives to encourage U.S. firms to establish complementary projects between Puerto Rico and CBERA countries. Under the CBERA, the value of materials and processing operations added in Puerto Rico may contribute any percentage of the 35-percent value-added requirement for duty-free entry into the U.S. market. CBERA differs from GSP in that the value-added requirement can be filled in more than one location, including Puerto Rico, and that U.S. content can be counted up to a stated limit of 15 percent.

Since 1985, Fomento has promoted 86 complementary projects corresponding to a total investment of approximately $414.2 million.[83] Fomento estimates that around 16,200 jobs will have been created in CBERA countries as a result of these investments. Forty-five of these projects have been undertaken by Section 936 firms. A total of fifteen projects, amounting to $75.5 million in investment funds, were scheduled for startup in 1989. As of June 13, 1990, 24 more projects valued at $224.5 million were scheduled to begin operation in 1990.[84] Unlike section 936 financing, twin plants are encouraged in all CBERA countries. The Dominican Republic, which did not have a TIEA until October 1989, is the largest recipient, with 44 projects overall, 13 in 1989. Other recipients include Barbados, Costa Rica, Grenada, Guatemala, Haiti, Jamaica, Panama, St. Kitts and Nevis, and Trinidad and Tobago.

CBI II Legislation

Legislation to extend and expand the CBERA was introduced by House Ways and Means Trade Subcommittee Chairman Sam Gibbons and cosponsors in August 1987 (H.R. 3101). This and subsequent legislation to amend the CBERA has become known as "CBI II."[85] Hearings were held in December 1987 and in September and August of 1988, but no further action was taken.[86] Chairman Gibbons re-introduced similar legislation to modify the original bill (H.R. 1233) in March 1989.[87] The Trade Subcommittee held markup sessions on H.R. 1233 in April and May 1989, after which the Subcommittee favorably reported the bill to the full Ways and Means Committee. In June, the full Committee approved H.R. 1233, which would modify the original legislation as follows:[88]

- Repeal the statutory termination date of September 30, 1995;
- Reduce existing MFN import duties by 50 percent for footwear (except leather footwear), handbags, luggage, flat goods, work gloves, and leather wearing apparel, with no subsequent quotas or limitations;
- Allow articles produced exclusively from U.S.-made parts, components, or products to enter the United States free of duty;
- Grant duty-free entry to imports of textile products subject to a statutory access limit[89] and granted 50 percent duty reductions on imports of textiles and apparel articles from the Caribbean subject to certain import quotas;
- Establish a guaranteed minimum access level for sugar imports at levels no less than 1989 aggregate levels;[90] and

[83] As of June 13, 1990. This figure includes projects financed by 936 funds and is included in the investment figures given in the section "Summary of Investment Activities and Trends" earlier in this chapter.

[84] See appendix table B-2 for a breakdown of 936-financed projects and twin plant operations.

[85] The thrust to amend the existing CBERA grew largely out of the recommendations of the Ways and Means Subcommittee on Oversight following its fact finding investigation in 1987 on the impact and effectiveness of the CBERA. As proposed in 1987, CBI II

[85]—*Continued*
legislation sought to remedy the shortcomings in the original CBERA legislation identified by the oversight committee. Proponents wanted to address their concern that CBERA did not liberalize trade sufficiently, because it excluded important beneficiary country exports from duty-free treatment. Further concern was expressed that some of the intended effects of the program were circumvented by later measures (e.g., restrictions on citrus and ethanol, decreased sugar quotas, and an antidumping order issued covering certain cut flowers from Costa Rica.) U.S. Congress, House, Subcommittee on Oversight, Committee on Ways and Means, *Report on the Committee Delegation Mission to the Caribbean Basin and Recommendations to Improve the Effectiveness of the Caribbean Basin Initiative*, 100th Cong., 1st sess., May 6, 1987.

[86] For further background on debate regarding reform of CBERA, and for details of the provisions of H.R. 3101, see ch. 3 of the USITC, *Third CBERA Report, 1987*, p. 3-7.

[87] Identical legislation was introduced in the Senate by Senator Bob Graham of Florida in August 1987 (S. 1594) in the 100th Congress and as S. 504 in the 101st Congress in 1989.

[88] *CBI Business Bulletin*, U.S. Department of Commerce, vol. VI, no. 5, June 1989, pp. 2-3.

[89] Guaranteed Access Levels (GALs) were established under the Special Access Program announced by the Reagan Administration in 1986, known as "807-A," or "Super 807." This program, not formally part of CBERA, would become a statutory program under CBI II legislation. Further details on the program and trade data showing that super 807 has spurred significantly increased imports from CBERA beneficiary countries are contained in ch. 2 of this report.

[90] To address administration concerns regarding the consistency of this provision under the General Agree-

- Relax import rules for ethanol products made with foreign feedstocks.[91]

In July 1989, House Ways and Means Chairman Rostenkowski attached the CBI II legislation to the Budget Reconciliation bill (H.R. 3299). In October, the House approved a less comprehensive version of the CBI II bill whereby several provisions were deleted. In particular, all language pertaining to textile and apparel products was eliminated. Thus, the language that reduced duties by 50 percent on textiles and apparel, language that allowed preferential treatment for rubber footwear, and the provision to remove the tariffs on clothing assembled from U.S.-made cloth in the Caribbean were all stricken from the bill.

In December, when H. R. 3299 went to conference, the Senate version of the budget bill did not contain any CBI provisions; and the House agreed therefore to delete all references to CBI. The House apparently acquiesced to this compromise if the Senate Finance Committee would report a new Caribbean trade bill "as a matter of legislative priority" in the new year and make "every best effort" to pass it by March 31, 1990.[92]

Administration efforts to rejuvenate the expansion of CBI commenced in late 1989 with President Bush calling upon Congress to pass CBI II legislation. In a November 17, 1989, memorandum, the President urged the "Congress to act quickly to pass balanced legislation to extend and expand the CBI program in a way that is consistent with U.S. obligations under the General Agreement on Tariffs and Trade (GATT)."[93]

Senate bill S. 504, the companion legislation to H.R. 1233, was approved by the Senate Finance Committee in March 1990.[94] Several amendments, which had been considered to be controversial, were not attached to the bill, including guaranteed sugar quotas and increased market access for textiles, leather goods, and petroleum. Finance Committee Chairman Lloyd Bentsen argued that it was better to pass a narrow bill than to see a more ambitious version defeated.[95] Below is Chairman Bentsen's proposal on CBI II:[96]

- *Repeal of termination date.*—Repeals the September 30, 1995 termination date of duty-free treatment under the CBI, thus making the program permanent.
- *Treatment of articles assembled from U.S. components.*—Grants duty-free treatment to articles assembled or processed in a beneficiary country wholly of U.S.-produced contents or ingredients, except water. This provision does not apply to any product excluded from duty-free treatment under CBI.
- *Conforming GSP amendment.*—Conforms the rule of origin for the Generalized System of Preference (GSP) to the rule of origin under CBI by requiring that GSP-eligible articles either be wholly the product of a beneficiary country or be substantially transformed in a beneficiary country.
- *Country eligibility and worker rights.*—Prohibits the President from designating any country as a CBI beneficiary if that country has not or is not taking steps to afford internationally recognized worker rights to workers in the country, as defined in the GSP statute. The President may waive this requirement for U.S. economic or national security reasons.
- *Pilot preclearance program.*—Requires the Commissioner of Customs, in fiscal years 1991 and 1992, to establish a pilot program in an appropriate Caribbean country for testing the extent to which having customs preclearance operations can enhance the development of tourism in the region.

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[90]—*Continued*
ment on Tariffs and Trade (GATT), the bill authorized the President to enter into agreements to grant appropriate compensation if actions under the provision are found to be inconsistent with U.S. international obligations. *International Trade Reporter*, June 21, 1989, p. 803, vol. 6. In a related matter, in 1988, Australia requested a GATT dispute panel to examine U.S. restrictions on sugar imports. In June 1989, the panel report ruled that the U.S. sugar quota program was inconsistent with GATT art. XI's prohibition of quantitative restrictions and with art. II's schedule of concessions. The panel recommended that the contracting parties request the United States to either eliminate these restrictions or bring them into conformity with the General Agreement. The GATT Council adopted the report in June 1989.

[91] In the past, Caribbean producers of ethanol used wine alcohol purchased from the European Community at below-cost prices, fermented the alcohol, and shipped it to the United States duty-free under CBERA. The amended bill allows Caribbean producers of ethanol to annually ship up to 60 million gallons of ethanol made with EC feedstocks to the United States CBERA duty-free. The issue of how much Caribbean raw material was needed in the final product to qualify for duty-free treatment reportedly slowed the progress of the bill in Congress. In November 1989, an amendment to the steel quota law, the Steel Liberalization Act (H.R. 3275), allowed Caribbean plants and their wine based ethanol 7 percent of the U.S. ethanol market (or 60 million gallons annually) if as much as 35 percent of the product's value had been added in the Caribbean. The threshold for the next 35 million gallons was 30 percent, for more it was 50 percent. This arrangement ends Dec. 31, 1991. The amendment set the standards for duty-free ethanol from the Caribbean. *Congressional Quarterly Almanac*, Vol. 45, 1st Session, 1989, p. 32.

[92] *Congressional Quarterly Almanac*, Vol. 45, 1st Session, 1989, p. 32.

[93] Memorandum, President Bush, Nov. 17, 1989.

[94] The Senate approved S. 504 in April 1990. The House and Senate conferees began work on S. 504 and H.R. 1233 in May 1990.

[95] *Congressional Quarterly Weekly Report*, vol. 48, No. 16, Apr. 21, 1990, p. 1182.

[96] *Caribbean Business Bulletin*, U.S. Department of Commerce, vol. VII, No. 3, April 1990, p. 8.

- *Scholarship assistance.*—Requires the Agency for International Development to establish and administer a program of scholarship assistance for students from beneficiary countries to study in the United States.
- *Promotion of tourism.*—Declares that increased tourism should be a central part of the CBI program and directs the Secretary of Commerce to complete a study of Caribbean tourism development strategies that was begun in 1986, including information on mutual benefits to the United States and the Caribbean and proposals for developing increased linkages between the tourism industry and other local industries.
- *Increase of duty-free allowance for tourists returning from the Caribbean.*—Increases the duty-free allowance for tourists returning from the Caribbean from $400 to $600 (the allowance for tourists to U.S. insular possessions would be increased from $800 to $1,200) and increases the duty-free alcoholic beverage allowances by one liter for CBI-produced alcoholic beverages.
- *Belize and Eastern Caribbean region.*—States the sense of the Congress that special efforts should be undertaken to improve the ability of Belize and Organization of Eastern Caribbean States countries to benefit from the CBERA.
- *Presidential reports.*—Requires the President to issue a complete report on the operation of the CBI program by October 1, 1993, and every three years thereafter.
- *Agriculture infrastructure support.*—States the sense of the Congress that, in order to facilitate trade with, and the economic development of, the CBI countries, the Secretary of Agriculture should coordinate with AID the development of programs to encourage improvements in the transportation and cargo and handling infrastructure in CBI countries to improve agricultural trade.

The Senate approved S. 504 in April 1990. Thereafter, the House and Senate conferees began work on the Customs and Trade Act of 1990 (H.R. 1594), a compendium of pending trade matters which included CBI II legislation. The two major differences between the Senate and House versions concerned treatment of leather gloves and sugar imports. The House bill provided for preferential treatment of leather gloves, which were exempted from duty-free treatment under the original CBI bill, while the Senate bill did not change the status of leather gloves. Meanwhile, the Senate bill had no sugar provision while the House version set a minimum quota for Caribbean sugar—a guaranteed market share even if future U.S. global sugar quotas were covered.

In June 1990, the House and Senate Conference continued debate on the Customs and Trade Act of 1990 (H.R. 1594). Two issues apparently blocked agreement on H.R. 1594: ethanol imports, and a tax break for companies investing in Puerto Rico (an item previously not covered in either House or Senate bill).[97] On ethanol, the House had lowered the 1986 requirement that offshore refineries use at least 75 percent Caribbean feedstocks to escape a 60-cents-per-gallon duty in the 1989 Steel Liberalization Act.[98] Many Senate conferees were not satisfied with the ethanol deal and offered several other proposals. No agreement was reached prior to the adjournment of the conference.

The lack of investment of section 936 funds[99] prompted Rep. J.J. "Jake" Pickle, Chairman of the Subcommittee on Oversight, House Ways and Means Committee, to introduce an amendment that would make investment of $100 million for local Caribbean development mandatory by statute.[100] The Senate conferees objected to the amendment since no Senate hearings had been held in the matter and that it might interfere with Puerto Rico's impending referendum on its political status.[101]

In late July, the Senate and House conferees were able to break the deadlock on ethanol and the Pickle amendment.[102] Under existing provisions, the domestic ethanol industry benefits from two tax breaks—a tax credit for blenders of gasohol (gasoline and ethanol) and a partial exemption from the motor fuel excise tax for sellers of gasohol, who collect 3 cents instead of 9 cents in taxes per gallon. The blenders credit expires December 31, 1992 and the excise exemption expires September 30, 1993. The compromise reached in conference entailed extending the 1989 House arrangement to December 31, 1992, the same expiration date of the blenders credit in effect; by matching the expiration date of the two provisions the conferees linked their fates.[103]

[97] *Congressional Quarterly Weekly Report*, June 23, 1990, p. 1946.

[98] In addition, the House version wanted to make this arrangement permanent.

[99] For a discussion of section 936 of the Internal Revenue Code, see p. 1-9.

[100] In 1986, the Section 936 was amended to allow projects in qualified CBERA countries with access to the low cost 936 funds. A memorandum of understanding from Fomento promised $100 million of investment in the qualified CBERA countries. The so called Pickle amendment made this promise mandatory.-*Congressional Quarterly Weekly Report*, June 23, 1990, p. 1946.

[101] Both the Senate and House are considering legislation that would allow Puerto Rico to vote on its preferred political status—independence, statehood, or enhanced commonwealth. Ibid. See the section "Section 936 of the Internal Revenue Code," earlier in this chapter for more information.

[102] Rep. Pickle agreed to pursue the matter at a later time. *Congressional Quarterly Weekly Report*, July 28, 1990, p. 2388.

[103] Ibid.

Before Congress recessed in August, the Customs and Trade Act of 1990 was passed and sent to President Bush for his signature.[104] The CBI II section of the act contained the Bentsen proposals (except for the conforming GSP amendment) plus several new sections. These additional sections are summarized below:

- *Rules of origin study*—Instructs the USITC to undertake an investigation to assess whether revised rules of origin for CBERA country products are appropriate. If the Commission finds that revised rules are necessary, it is to develop recommended revised rules. The report is due to Congress 9 months after the enactment of the bill.

- *Cumulation of beneficiary products for countervailing and antidumping determinations*—Exempts CBERA beneficiary countries from worldwide cumulation in application of injury tests in antidumping and countervailing duty cases.[105] A separate cumulation of imports from CBERA countries as a group would be established in making injury determinations where a CBERA beneficiary is the subject of a petition.

- *Requirement for investment of section 936 funds in Caribbean Basin Countries*—Requires the Government of Puerto Rico to take the necessary steps to ensure that at least $100 million of qualified Caribbean Basin country investments are made of section 936 funds during each calendar year after 1989.

- *Trade benefits for Nicaragua*—Designates Nicaragua as a beneficiary country under CBERA for 1990.

- *Extension of trade benefits to the Andean Region*—Expressed the sense of the Congress to extend the benefits provided under CBERA to the Andean Region to help revitalize the national economies of the Andes and further the U.S. anti-narcotics policy in the region.

- *Treatment of articles grown, produced, or manufactured in Puerto Rico*—Provides duty-free treatment to an article which is the growth, product, or manufacture of the commonwealth of Puerto Rico if the product is imported directly from the beneficiary country.

- *Ethyl Alcohol*—Amends the 1989 Steel Liberalization Act effective date to December 31, 1992.

[104] The act was signed into law by President Bush on Aug. 20, 1990.

[105] In general, the USITC cumulatively assesses the volume and effect of imports from two or more countries of like products subject to investigation if such imports compete with each other and with like products of the U.S. domestic industry.

Chapter 2
U.S. Trade With the Caribbean Basin

In 1989 the Caribbean Basin Economic Recovery Act (CBERA) marked its sixth year of operation. The act was signed into law in August 1983 and became operative by Presidential proclamation on January 1, 1984.[1] Enacted as a 12-year program, the CBERA is designed to encourage economic development in the Caribbean Basin, principally by providing trade preferences. The Caribbean Basin Initiative (CBI) refers to a broader program with goals of expanding foreign and domestic investment in nontraditional sectors of Caribbean Basin countries, diversifying their economies, and expanding their exports.[2]

This report focuses on the CBERA one-way trade preference program that allows duty-free access to the U.S. market of eligible products from designated beneficiary countries, provided that no less than 35 percent of their value is added in a Caribbean Basin country participating in the program. (U.S. value may be counted up to a level of 15 percent.)[3] As a result of the Omnibus Trade and Competitiveness Act of 1988, CBERA product eligibility was modified by broadening the President's authority under the program to withdraw, suspend, or limit the application of duty-free entry for a particular import of a beneficiary, in lieu of removing the country entirely from the program. This could occur in instances where, as a result of changed circumstances, a beneficiary would be out of compliance with the program's original designation criteria.[4]

The Caribbean Basin is defined as consisting of 28 Caribbean and Central American countries and territories, including the 27 originally specified as potential beneficiaries in section 212(b) of the act, and Aruba. The Caribbean Basin countries are categorized as either "designated," which signifies CBERA beneficiary status, or "nondesignated." In this report, the designated country group (also referred to as "CBERA countries") varies according to the year under discussion. In 1985, 22 countries were designated CBERA beneficiaries. Aruba was designated as an additional beneficiary in 1986. The beneficiary list was next changed in 1988, when it was expanded to include Guyana. Panama was removed from the list of designated countries for 1989.[5] The nondesignated country group contains the remaining eligible Caribbean Basin countries that had not received or had lost beneficiary designation for the particular year.[6] This chapter presents U.S. trade data[7] with the Caribbean countries, designated and nondesignated under CBERA, for 1989.

Two-Way Trade

In 1989, total U.S. imports from the Caribbean Basin countries (both designated and nondesignated) amounted to $7.0 billion, a 13.7 percent increase over the previous year's level (figure 2-1). Comprising 1.5 percent of overall U.S. imports (appendix table B-3), the Caribbean Basin was the 15th largest source of U.S. imports, a source ranking after Brazil and Saudi Arabia, but before Venezuela, Nigeria, and Swe-

[1] Public Law 98-67, title II.

[2] In addition to the CBERA, other elements of the CBI program include increased U.S. economic assistance to the region to foster private-sector development, a deduction on U.S. taxes for companies that hold business conventions in CBERA-eligible countries to increase tourism, a wide range of U.S. Government, State, and private-sector promotion programs, and support from other trading partners and multinational development institutions such as the Inter-American Development Bank, and the World Bank.

[3] The Tax Reform Act of 1986 required that ethanol producers use at least 30 percent local feedstock in 1987 to qualify for duty-free status, with the minimum rising to 60 percent in 1988 and to 75 percent thereafter.

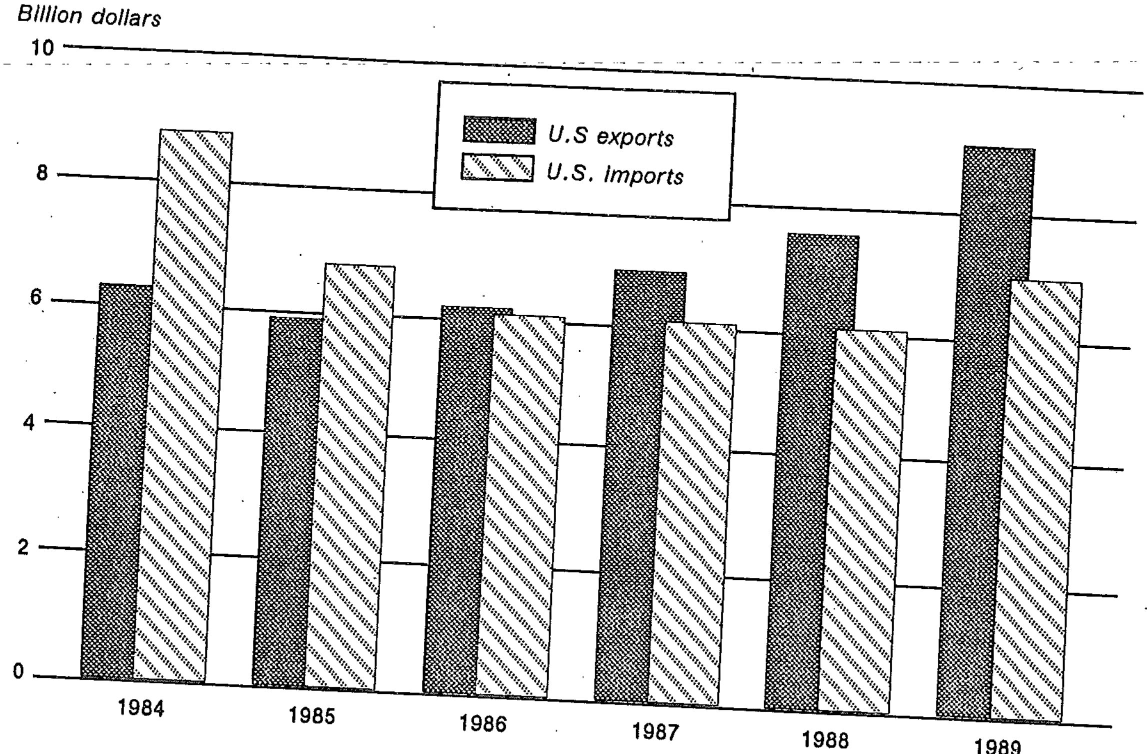
[4] The program amendment formally (1) creates a set of options from which the President may select the appropriate action should he decide that a beneficiary is no longer in compliance with the program's criteria for designation, and (2) establishes a process for public comment on the proposed action. The President may decide to (1) remove the country's beneficiary status entirely, or (2) limit product eligibility for the beneficiary. After the President decides on the appropriate action, he must publish a notice in the *Federal Register* at least 30 days prior to its taking effect. Within the 30 day period, the Trade Policy Subcommittee (TPSC) shall accept written comments and hold a public hearing regarding the proposed action. See Public Law 100 418, section 1909. For a description of the criteria that the President must consider in designating a country eligible for CBERA benefits, see U.S. International Trade Commission, *Operations of the Trade Agreements Program (OTAP)*, 35th Report, 1983, USITC Publication 1535, pp. 27-28.

[5] Guyana was designated as a CBERA beneficiary effective on Nov. 24, 1988. Panama's eligibility was suspended on Apr. 9, 1988, making it the first CBERA beneficiary to lose its designated status. See USITC, *OTAP, 40th Report, 1988*, USITC Publication 2208, July 1989, p. 156. Panama was included in the CBERA country grouping for 1988, because a portion of CBERA duty-free imports originated from Panama prior to its eligibility suspension. Effective Mar. 17, 1990, Panama was reinstated as a CBERA beneficiary. See 55 F.R. 7685, Mar. 2, 1990.

[6] The list of all designated and nondesignated Caribbean Basin countries and U.S. imports from these countries during 1985-89 are shown in table 1-3.

[7] On Jan. 1, 1989, the Harmonized Tariff Schedule of the United States (HTS) replaced the Tariff Schedules of the United States (TSUS). In using the product specific trade data for 1989 and previous years presented in this report, one should consider several important factors. The HTS trade data for 1984-88 used in this investigation were developed by the Commission by converting official TSUS import statistics to the HTS nomenclature format using Commission-developed concordances between the TSUS and the HTS. As a general observation, data that are developed under one system and subsequently translated and presented in another should be viewed with some caution. Such caution is recommended in this investigation due to the fundamental differences in structure and classification concepts between the HTS and the TSUS. Although the Commission believes that it has solved the great majority of the technical problems in converting trade data from one format to another, basic differences between the two systems make precise conversion of data impossible for many product categories.

Figure 2-1
U.S. trade with the Caribbean Basin countries, 1984-89



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

den. Combined U.S. exports to the Caribbean Basin countries in 1989 totaled $9.2 billion, or 2.6 percent of overall U.S. exports. Although the share was only slightly above 1988's 2.5 percent level, U.S. exports rose by 19.8 percent in value terms. In 1989, the Caribbean Basin remained the 10th largest export market of the United States—a market ranking after the Netherlands but larger, for example, than Belgium, Australia, or Singapore. For the fourth year in a row, the United States registered a surplus in trade with the countries of the Caribbean Basin, making this region one of the few areas of the world where the United States did not register a deficit in merchandise trade. The surplus reflects a 21.1 percent decline in U.S. imports from the Caribbean Basin since 1984, from $8.9 billion to $7.0 billion in 1989. While U.S. imports declined over the six year period, U.S. exports increased by 45.8 percent, from $6.3 billion to $9.2 billion. In 1989, the positive U.S. trade balance increased by 44.8 percent over the 1988 level, to slightly under $2.2 billion.

The designated CBERA beneficiaries are responsible for most trade between the United States and the Caribbean Basin (figure 2-2). In 1989, the CBERA countries accounted for 94.5 percent of the combined U.S. imports from the region, and for 88.2 percent of U.S. exports to the region. Between 1984 and 1989, U.S. imports from the CBERA countries declined 23.3 percent, from $8.6 billion to $6.6 billion, whereas U.S. exports to the group increased by 36.2 percent, from $6.0 billion to $8.1 billion (appendix table B-4). In 1989, U.S. exports to the CBERA countries rose by 9.2 percent over 1988's level, compared to a 9.5 percent increase in U.S. imports. The 1989 U.S. trade surplus with the CBERA countries was $1.5 billion, compared to $1.4 billion in 1988.

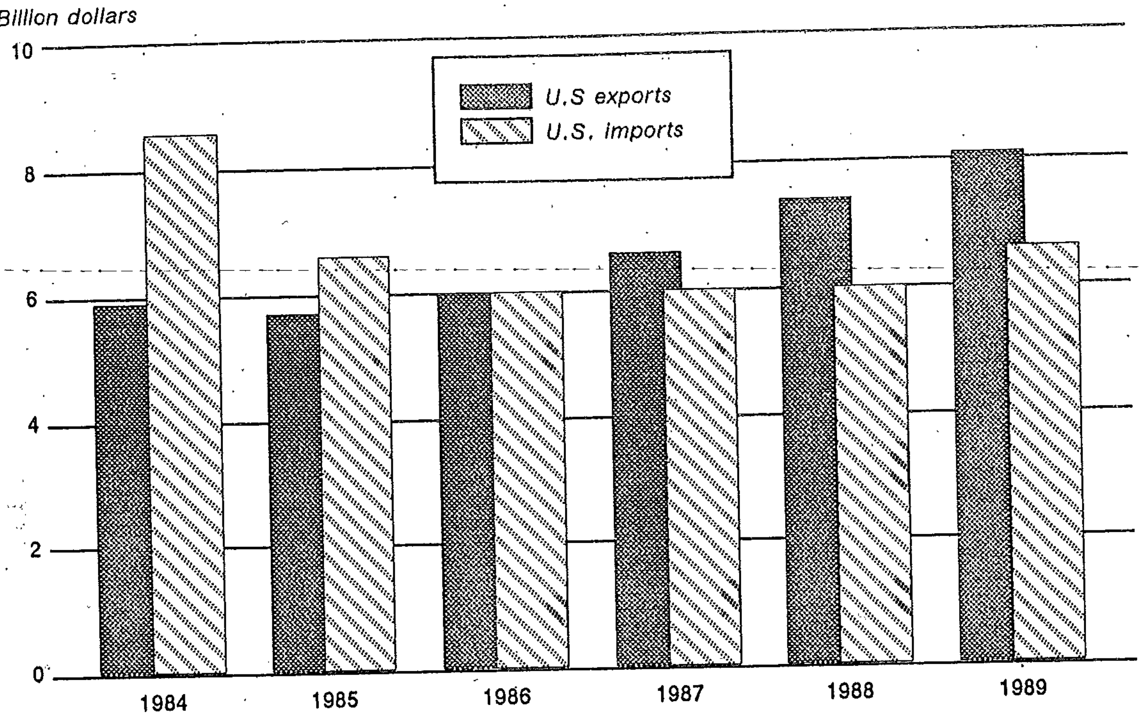
U.S. Imports

Total Imports From Nondesignated Countries

U.S. imports from nondesignated Caribbean countries reached a record level, $383.1 million, in 1989, up by 244.4 percent over the level of 1988 (table 2-1). The precipitous rise in nondesignated imports is largely due to imports from Panama.[8] Imports from the Cayman Islands also contributed to the rise in imports from nondesignated countries. U.S. imports in 1989 from tht country rose by 148 percent, to $48.0 million. U.S. imports from Suriname, however, fell by 15.9 percent in 1989, to reach $73.9 million.

[8] Panama lost its designation as a beneficiary in April 1988, but was reinstated as a CBERA beneficiary in March 1990.

Figure 2-2
U.S. trade with the countries designated under CBERA, 1984-89



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

Total Imports From Designated CBERA Countries

As shown in table 2-1, after declining in each of the previous 3 years, U.S. imports from the Caribbean Basin grew by 13.7 percent in 1989 to total $7.0 billion, up from $6.2 billion in 1988. Imports from countries designated as beneficiaries under the CBERA increased by $576.4 million, accounting for most of the $848.3 million total increase in the value of imports from the region. Almost all U.S. imports from the Caribbean Basin originate from designated CBERA beneficiaries. However, the share of imports from designated CBERA countries dropped from 98.2 percent in 1988 to 94.5 percent in 1989. The decline in the 1989 CBERA share was a result of Panama's removal from the group of beneficiary countries. Nonetheless, imports from the CBERA beneficiaries grew by 9.5 percent in 1989 to total $6.6 billion, up from $6.1 billion a year earlier.

The composition of U.S. imports from the CBERA beneficiaries also continued to change last year with strong growth exhibited in textiles, apparel, and chemical imports. In 1989, textile and apparel imports increased by 17.3 percent on a customs value basis, to account for 26.1 percent of all U.S. imports from the CBERA countries, up from 24.4 percent in 1988.[9] The value of textile and apparel imports from these countries has more than doubled since 1985. (Notably, textiles and apparel are not eligible for duty-free entry under the CBERA.) Chemical imports from CBERA beneficiaries increased sharply (by 88.4 percent) in 1989 to account for 8.3 percent of total imports, up from 4.9 percent the previous year.[10]

Imports of animal and vegetable products from the CBERA beneficiaries, consisting primarily of fruit, coffee, shellfish, and meat, continued to decline (by $29.3 million) in 1989, largely reflecting Panama's loss of beneficiary status. These imports accounted for 21.3 percent of U.S. imports from the CBERA beneficiaries in 1989 compared with 23.8 percent a year earlier and 27.3 percent in 1987.[11] Although imports of mineral products, consisting largely of petroleum and petroleum products, from the CBERA countries rose slightly in 1989, as a share of total imports from the group, they declined from 20.1 percent in 1988 to 18.4 percent in 1989.[12]

[9] Based on trade figures for ch. 50-63 of the HTS.
[10] Based on trade figures for ch. 28-38 of the HTS.
[11] Based on trade figures for chapters 1-14 of the HTS.
[12] Based on trade figures for chapters 25-27 of the HTS. Between 1983 and 1986, a 72 percent drop in the value of crude oil and petroleum product imports pushed total U.S. imports from the region sharply downward before leveling off in 1987. After dropping by 23.1

Table 2-1

U.S. imports for consumption, from designated and nondesignated countries under the CBERA, 1985-89

($1,000, customs-value basis)

Country	1985	1986	1987	1988	1989
Designated:					
Antigua	24,695	11,849	8,621	6,893	12,274
Aruba[1]	([3])	1,797	2,452	647	1,156
Bahamas	626,084	440,985	377,881	268,328	460,723
Barbados	202,194	108,991	59,110	51,413	38,725
Belize	46,951	50,181	42,906	52,049	43,056
British Virgin Islands	11,902	5,904	11,162	684	1,112
Costa Rica	489,294	646,508	670,953	777,797	967,901
Dominica	14,161	15,185	10,307	8,530	7,664
Dominican Republic	965,847	1,058,927	1,144,211	1,425,371	1,636,931
El Salvador	395,658	371,761	272,881	282,584	243,922
Grenada	1,309	2,987	3,632	7,349	7,862
Guatemala	399,617	614,708	487,308	436,979	608,280
Guyana[2]	([3])	([3])	([3])	50,432	55,858
Haiti	386,697	368,369	393,660	382,466	371,875
Honduras	370,219	430,906	483,096	439,504	456,790
Jamaica	267,016	297,891	393,912	440,934	526,726
Montserrat	3,620	3,472	2,413	2,393	2,285
Netherlands Antilles[4]	793,162	453,333	478,836	408,100	374,358
Panama[5]	393,605	352,206	342,700	256,046	([3])
St. Kitts and Nevis	16,258	22,278	23,793	20,822	21,447
St. Lucia	13,796	12,269	17,866	26,044	23,985
St. Vincent and the Grenadines	9,643	7,836	8,493	13,950	9,244
Trinidad and Tobago	1,255,498	786,405	802,838	701,738	765,265
Total	6,687,226	6,064,745	6,039,030	6,061,054	6,637,440
Nondesignated:					
Anguilla	([3])	89	168	497	348
Cayman Islands	10,950	14,611	27,670	18,195	48,041
Guyana[2]	46,010	62,928	58,828	([3])	([3])
Nicaragua	41,003	1,071	1,231	1,121	31
Panama[5]	([3])	([3])	([3])	([3])	258,319
Suriname	60,091	38,591	46,445	87,894	73,892
Turks and Caicos Islands	4,649	4,792	4,680	3,517	2,507
Total	162,703	122,081	139,022	111,224	383,137
Grand total	6,849,928	6,186,826	6,178,052	6,172,278	7,020,577

[1] Upon becoming independent of the Netherlands Antilles in April 1986, Aruba was designated separately as a beneficiary effective retroactively to Jan. 1, 1986. Trade data for Aruba, however, were not reported separately until June 1986. The 1986 figure for Aruba represents trade for June-December only.

[2] Guyana was designated as a CBERA beneficiary effective Nov. 24, 1988.

[3] Not applicable.

[4] See footnote 1.

[5] Panama lost its designation as a beneficiary effective Apr. 9, 1988.

Data for Anguilla, which has not been designated as a beneficiary country, were included with the data for St. Kitts and Nevis through 1985. For 1986-89, data for Anguilla are shown separately among the nondesignated countries.

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

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

Imports of petroleum and petroleum products are not eligible for duty-free entry under the CBERA.

After declining 9.4 percent between 1985 and 1988, U.S. imports from CBERA beneficiaries increased 9.5 percent in 1989, to $6.6 billion. The overall increase in 1989 can be traced to several geographic regions (table 2-2), and is partly the result of a 16.2 percent increase in imports from oil-producing countries. In 1985, oil-producing countries accounted for a 40.0 percent share of total imports from CBERA countries, and in 1989 accounted for a 24.1 percent share. The decline was primarily the result of falling oil prices which

[12]—*Continued*
percent in 1988, the value of crude oil and refinery product imports from the CBERA beneficiaries stabilized, dropping by only 1.3 percent in 1989.

Table 2-2
U.S. imports for consumption from countries designated under the CBERA, by major groups, 1985-89

($1,000, customs value)

Area or Country	*1985*	*1986*	*1987*	*1988*	*1989*
Non-oil-producing countries:					
Central America:					
Belize	46,951	50,181	42,906	52,049	43,056
Costa Rica	489,294	646,508	670,953	777,797	967,901
El Salvador	395,658	371,761	272,881	282,584	243,922
Guatemala	399,617	614,708	487,308	436,979	608,280
Honduras	370,219	430,906	483,096	439,504	456,790
Panama[1]	393,605	352,206	342,700	256,046	([5])
Subtotal	2,095,344	2,466,270	2,299,843	2,244,959	2,319,949
Eastern Caribbean:					
Antigua	24,695	11,849	8,621	6,893	12,274
Barbados	202,194	108,991	59,110	51,413	38,725
British Virgin Islands	11,902	5,904	11,162	684	1,112
Dominica	14,161	15,185	10,307	8,530	7,664
Grenada	1,309	2,987	3,632	7,349	7,862
Guyana[2]	([5])	([5])	([5])	50,432	55,858
Montserrat	3,620	3,472	2,413	2,393	2,285
St. Kitts and Nevis[3]	16,258	22,278	23,793	20,822	21,447
St. Lucia	13,796	12,269	17,866	26,044	23,985
St. Vincent and the Grenadines	9,643	7,836	8,493	13,950	9,244
Subtotal	297,578	190,771	145,397	188,510	180,457
Central Caribbean:					
Dominican Republic	965,847	1,058,927	1,144,211	1,425,371	1,636,931
Haiti	386,697	368,369	393,660	382,466	371,875
Jamaica	267,016	297,891	393,912	440,934	526,726
Subtotal	1,619,560	1,725,186	1,931,783	2,248,771	2,535,532
Total non-oil-producing countries	4,012,482	4,382,227	4,377,024	4,682,240	5,035,938
Oil-producing countries:					
Aruba[4]	([5])	1,797	2,452	647	1,156
The Bahamas	626,084	440,985	377,881	268,328	460,723
Netherlands Antilles[4]	793,162	453,333	478,836	408,100	374,358
Trinidad and Tobago	1,255,498	786,405	802,838	701,738	765,265
Total oil-producing countries	2,674,744	1,682,519	1,662,006	1,378,813	1,601,501
Grand total	6,687,226	6,064,745	6,039,030	6,061,054	6,637,440

[1] Panama lost its designated beneficiary status effective Apr. 9, 1988.
[2] Guyana was designated as a beneficiary effective Nov. 24, 1988.
[3] Data for St. Kitts and Nevis include Anguilla for 1985. For 1986-89, data for Anguilla have been excluded.
[4] Upon becoming independent of the Netherlands Antilles in April 1986, Aruba was designated separately as a beneficiary effective retroactively to Jan. 1, 1986. Trade data for Aruba, however, were not reported separately until June 1986. The 1986 figure for Aruba represents trade for June-December only.
[5] Not applicable.

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

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

caused a dramatic decrease in the value of imports from oil-producing CBERA countries during 1985–88.[13] Rebounding from a 4-year low in 1988, imports from these countries in 1989 were 40.0 percent below 1985's dollar figure. Total imports from non-oil-producing countries, on the other hand, increased by 25.5 percent between 1985 and 1989. In 1989, U.S. imports from these CBERA beneficiaries amounted to $5.0 billion, up from $4.7 billion in 1987.

In 1989, U.S. imports from the Central American country group grew modestly, by 3.3 percent from 1988 to 1989, and by 10.7 percent overall since 1985. The more modest 1989 growth largely reflects Panama's temporary loss of beneficiary status from April 1988 to March 1990. The Central American share of CBERA imports increased from 31.3 percent in 1985 to 35.0 percent in 1989. Although the country group figures were fairly steady over the 5 year period, several Central American countries have experienced sharp fluctuations in U.S. imports. Costa Rica is the only Central American country that sustained a five year increase in exports to the United States. In 1989, Costa Rica's exports to the United States rose by 24.4 percent over 1988 levels, to $967.9 million, marking a 97.8 percent increase over 1985's level. U.S. imports from Guatemala increased in 1989 by 39.2 percent over 1988, to mark a 52.2 percent rise over the 1985 level. The 1989 level was still slightly lower than the 1986 level. There were, however, substantial declines in 1989 U.S. imports from Belize (down 17.3 percent) and El Salvador (down 13.7 percent). U.S. imports from El Salvador have decreased by 38.3 percent since 1985, the year in which the country recorded it highest annual level of sales to the United States. Although U.S. imports from Honduras increased slightly (3.9 percent) in 1989, there has been a 23.4 percent increase since 1985. Finally, Panama's loss of beneficiary status in 1988 capped a 35.0 percent decrease over 4 years in 1988 in U.S. imports from Panama.

U.S. imports from the Central Caribbean have increased by 12.8 percent since 1988 and by 56.6 percent over the 1985 level. In 1989, there were substantial increases in U.S. imports from the Dominican Republic (14.8 percent) and Jamaica (19.4 percent). U.S. imports from Jamaica alone have increased by 97.3 percent since 1985. U.S. imports from Haiti have consistently approached the $400 million mark. The Central Caribbean country group has experienced the largest jump in market share of total U.S. imports from CBERA, from 24.2 percent in 1985 to 38.2 percent in 1989.

The Eastern Caribbean's share of U.S imports from the CBERA countries dropped slightly, from 3.1 percent in 1988 to 2.7 percent in 1989. Peaking in 1985 at 4.4 percent, the reduced East Caribbean market share is the result of U.S. imports decreasing by 39.4 percent since 1985 to a 1989 level of $180.5 million. The fall continued, even with the addition of Guyana to the country group in 1988 (Guyana added $55.9 million in exports to the United States to the group's total in 1989). Although U.S. imports rose from five countries in the group (Antigua, British Virgin Islands, Grenada, Guyana, and St. Kitts and Nevis) from 1988 to 1989, the increments for the most part were small in comparison with previous decreases. For example, the rise in imports from the British Virgin Islands from $0.7 million in 1988 to $1.1 million in 1989 pales in comparison to the 1987 level of $11.2 million. Antigua experienced the largest gain in 1989 of any Eastern Caribbean country. However, Antigua's increase of 78.1 percent over the 1988 level, to $12.3 million, still left U.S. imports about half of the 1985 high of $24.7 million. In 1989, U.S. imports from Barbados continued a dramatic decline. The 24.7 percent drop from 1988 brought the country's sales to a 5 year low and capped a total drop in U.S. imports from Barbados of 80.8 percent since 1985, to a level of $38.7 million.

Product Composition of Total Imports

The 9.4 percent contraction of U.S. imports from CBERA beneficiaries between 1985 and 1988 reversed in 1989, and reenforced a major change in product composition. CBERA exports have traditionally consisted of a few items, such as petroleum and petroleum products, sugar for consumption, coffee, bananas, aluminum ores and concentrates,[14] and cocoa. Although the traditional goods continue to weigh heavily in the CBERA countries' exports, efforts to diversify exports have diminished the relative importance of these customary items. As a share of total imports from CBERA countries, the combined share of the traditional imports in total U.S. imports noted above has steadily declined from 56.5 percent in 1985 to 33.1 percent in 1989.[15] The decrease in the value of petroleum imports alone accounted for 84.1 percent of this decline.

Table 2-3 shows U.S. imports during 1985–89 of the 30 leading items on an 8-digit HTS basis that together in 1989 accounted for 61.5 percent

[13] In 1984, four oil-producing countries—Trinidad and Tobago, the Netherlands Antilles, the Bahamas, and Aruba—were responsible for 52 percent of all U.S. imports from the CBERA countries, but his figure fell to 28 percent in 1986 and 1987. The value of U.S. imports from oil-producing countries fell a further $283 millilon in 1988 to result in a 23 percent total CBERA market share.

[14] The HTS, used for the first time in 1989, accounts for the traditional U.S. import of bauxite under the category of aluminum ores and concentrates.

[15] Figures for sugar, coffee, banana, aluminum ores and concentrates, and cocoa imports from CBERA countries are presented in table 2-3, while figures for petroleum and petroleum products imports and textiles and apparel are presented in figure 2-3 and appendix table B-5. The 1985 index of traditional imports was recalculated using a slightly higher HTS value for petroleum and petroleum products.

Table 2-3
Leading U.S. imports for consumption from countries designated under the CBERA, 1985-89
($1,000, customs value)

HTS Item	Description	1985	1986	1987	1988	1989
2709.00.20	Petroleum oils and oils from bituminous minerals, crude	1,006,296	576,476	521,755	413,181	474,046
0803.00.20	Bananas, fresh or dried	423,488	398,820	467,736	468,021	443,548
0901.11.00	Coffee, not roasted, not decaffeinated	631,499	986,975	592,039	372,559	360,225
2710.00.05	Distillate and residual fuel oils (incl. blends) test < 25 deg. A.P.I.	807,099	466,485	516,056	412,005	309,632
2918.90.30	Aromatic drugs derived from carboxylic acids with additional oxygen	59,324	105,387	74,470	50,212	277,732
6203.42.40	Men's or boys' trousers, breeches and shorts, not knitted	63,285	101,319	147,196	201,960	272,130
1701.11.00	Cane sugar, raw, not containing added flavoring or coloring	234,717	184,074	101,431	133,721	172,401
6204.62.40	Women's or girls' trousers, breeches & shorts, cotton, not folklore	29,459	37,003	63,432	100,689	146,413
2710.00.15	Motor fuel derived from bituminous minerals	215,279	185,528	175,614	134,671	145,453
2606.00.00	Aluminum ores and concentrates	51,176	77,900	106,692	114,791	131,678
9801.00.10	U.S. goods returned without having been advanced in value	106,330	95,844	85,217	108,960	110,473
6212.10.20	Brassieres, other than containing lace, net or embroidery	29,530	23,992	24,326	28,668	105,398
2818.20.00	Aluminum oxide, except artificial corundum	66,171	25,826	16,989	49,174	92,144
6205.20.20	Men's or boys' shirts, not knitted or crocheted, of cotton	29,552	55,226	69,168	86,659	89,218
0306.13.00	Shrimps and prawns, cooked in shell or uncooked, frozen	128,645	143,835	140,225	147,681	89,046
2814.10.00	Anhydrous ammonia	71,435	38,724	38,446	56,693	77,429
0202.30.60	Non retail cuts of meat of bovine animals, frozen, boneless, other	93,522	112,444	111,263	118,837	73,134
6406.10.65	Footwear uppers, other than formed, of leather	41,187	36,662	56,588	63,865	71,488
6203.43.40	Men's or boys' trousers, breeches and shorts, synthetic fibers, other	32,990	49,679	57,971	61,718	67,668
7108.12.10	Unwrought gold bullion and dore, nonmonetary	67,125	72,841	60,553	48,314	64,108
9018.90.80	Instruments and appliances used in medical, surgical, dental, other	4,422	2,628	1,494	17,101	63,353
6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	18,920	20,861	43,188	53,672	59,780
2710.00.10	Distillate and residual fuel oils (incl. blends) test >= 25 deg. A.P.I.	217,951	122,712	131,612	59,329	56,953
7202.60.00	Ferronickel	40,292	21,433	32,390	59,938	56,634
0201.30.60	Non retail cuts of meat of bovine animals, fresh/chld,boneless,other	10,389	12,494	12,363	13,201	49,576
1801.00.00	Cocoa beans, whole or broken, raw or roasted	65,239	65,858	68,734	70,108	47,285
6109.10.00	T-shirts, singlets, tank tops and similar garments	5,370	3,818	21,490	41,298	46,648
7113.19.50	Articles of jewelry and parts thereof of precious metals	3,458	4,697	11,449	12,954	42,245
6212.10.10	Brassieres, containing lace, net or embroidery	80,352	68,040	79,364	104,550	41,979
6206.40.30	Women's or girls' blouses and shirts, man-made fibers, other	21,412	26,395	32,154	39,712	41,730
	Total of items shown	4,655,914	4,123,978	3,861,404	3,644,245	4,079,546
	Total all commodities	6,687,226	6,064,745	6,039,030	6,061,054	6,637,440

Note.—1985-88 data are estimated under the HTS classification system.
Note.—Because of rounding, figures may not add to totals given.
Source: Compiled from official statistics of the U.S. Department of Commerce.

of total imports from the CBERA beneficiaries. In addition to textiles and apparel and the traditional U.S. imports, major U.S. imports from the CBERA countries in 1989 included beef, U.S. goods returned,[16] gold, aromatic drugs, aluminum oxide, shrimp, anhydrous ammonia, and footwear.

Important changes in the composition of U.S. imports from the CBERA beneficiaries during the 5 year period included the increase in sugar imports in 1988 by 31.8 percent, to $133.7 million (table 2–3). Even though U.S. imports of CBERA sugar increased 28.9 percent in 1989, overall sugar values were still down 26.5 percent from the 1985 level. Caribbean exporters suffered along with other foreign sugar suppliers from U.S. quota cutbacks until 1988. Because of concerns over the impact of a drought on the domestic crop, the United States increased its global sugar quota, with corresponding increases in the quotas for CBERA countries. The value of Caribbean coffee exports to the United States, which surged in 1986 to slightly under $1 billion, fell by 40.0 percent in 1987, and 37.1 percent in 1988. However in 1989, the value of U.S. imports of Caribbean coffee only fell by 3.3 percent, to $360.2 million, while the price of coffee plummeted worldwide by more than 50 percent. The 1989 dollar value of Caribbean coffee exports to the United States was 63.5 percent below the 1986 level. Although U.S. imports of CBERA cocoa remained constant in quantity, world cocoa prices dropped by 35 percent in 1989, and U.S. imports of CBERA cocoa fell 32.6 percent in value to a 5 year low of $47.3 million.

The biggest percentage increase in U.S. imports of a CBERA commodity in 1989 came from aromatic drugs derived from carboxylic acids with additional oxygen. The 453 percent 1 year increase brought U.S. imports of the commodity to $277.7 million, 163 percent greater than the 1986 previous high value for aromatic drugs.[17] U.S. imports of CBERA beef (HTS subheadings 0202.30.60 and 0201.30.60) declined by 7 percent between 1988 and 1989, dropping to $122.7 million.

In 1985 and 1986, the value of the region's petroleum exports to the United States fell sharply and was the primary reason for the overall decline in imports from the CBERA countries (figure 2–3). Petroleum and petroleum products accounted for 35.4 percent of total U.S. imports from the CBERA countries in 1985 in terms of value, and fell to a 22.7 percent share in 1986.[18] After stabilizing in 1987, the value of U.S. imports of petroleum and petroleum products from the CBERA countries declined by $318 million in 1988 and by an additional $14 million in 1989. The commodity's share of the total market decreased from a high of 49 percent in 1984 to 16 percent in 1989.

For the fourth year in a row U.S. imports of Caribbean textiles and apparel continued to grow in 1989 (figure 2–3). Consisting mostly of garments, textiles are a nontraditional export category for the CBERA countries. In 1985, textiles and apparel accounted for 9.7 percent of the total value of U.S. imports from the CBERA countries. In 1989, that figure rose to 26.4 percent.[19] Since 1985, the value of these imports has almost tripled; in 1989, textile and apparel imports from the CBERA countries grew by 17.7 percent, or $264 million. For the second year in a row, the value of U.S. imports of textiles and apparel surpassed U.S. imports of petroleum and petroleum products. Textiles and apparel now represent the principal U.S. import from CBERA-designated countries.

Dutiability and Special Duty-Free Programs

Table 2–4 breaks down U.S. imports from the CBERA beneficiaries, between 1985 and 1989, into their dutiable portion and the portion entering the U.S. customs territory free of duty. The duty-free entry is either under the most-favored-nation (MFN) rate of the HTS or under special rates of duty, such as are given by the CBERA.[20]

CBERA preferences constitute one of three major duty-remission or duty-reduction programs available to Caribbean Basin countries from the United States. The other two, which have been in effect for years, are the Generalized System of Preferences (GSP)[21] and provisions under HTS subheadings 9802.00.60 and 9802.00.80 (formerly TSUS items 806.30 and 807.00). Table 2–4 separately lists imports from the CBERA beneficiaries which entered the United States under special programs during 1985–89.

[16] U.S. goods returned refers to products of the United States that are returned after being exported without having been advanced in value, such as articles exported for temporary use abroad or those returned to the United States for repair.

[17] In 1988, certain analgesic products entering the United States from the Bahamas were classified in TSUS item 412.22, a residual or "basket" category containing benzenoid analgesics other than aspirin, ibuprofen, and acetaminophen. In 1989, however, because of the conversion to the HTS, the products in this TSUS classification were classified under various HTS subheadings, primarily depending on their structure. The analgesic product(s) under consideration for this report are now grouped in HTS subheading 2918.90.30. This is, however, a much larger "basket" category consisting of all aromatic drugs, analgesics or not, derived from carboxylic acids with additional oxygen function. As such, trade data for 1985–88 may not be directly comparable to HTS trade data for 1989. For a further discussion of comparability of TSUS and HTS data for the years 1984-88, see footnote 7 of this chapter.

[18] See figure 2–3 and app. table B–5 for petroleum and petroleum import figures.

[19] Ibid. See also the section on "Product Eligibility Under the CBERA" later in this chapter.

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

[21] For a discussion of the GSP, see the following section of this chapter.

Item	1985	1986	1987	1988	1989	Absolute change, 1989 over 1985	Percentage change, 1989 over 1985
	Value ($1,000, customs value)						
Total imports	6,687,226	6,064,745	6,039,030	6,061,054	6,637,440	(49,786)	(0.7)
Dutiable value[2]	2,962,025	1,916,553	2,110,950	1,975,850	2,101,839	(860,186)	(29.0)
HTS 9802.00.60 and 9802.00.80	238,630	261,632	336,380	427,144	504,882	266,252	111.6
HTS 9802.00.80.10	0	693	20,143	57,636	106,055	106,055	(7)
HTS 9802.00.80.50	(8)	260,878	316,234	369,483	398,241	(7)	(7)
Other	2,723,395	1,654,921	1,774,571	1,548,706	1,596,957	(1,126,438)	(41.4)
Duty-free value[3]	3,725,201	4,148,192	3,928,080	4,085,204	4,535,601	810,400	21.8
MFN[4]	2,070,491	2,340,473	2,056,248	1,927,912	1,854,400	(216,091)	(10.4)
CBERA[5]	493,024	670,711	768,467	790,941	905,762	412,737	83.7
GSP[5]	533,507	476,151	300,531	353,079	415,859	(117,648)	(22.1)
HTS 9802.00.60 and 9802.00.80	547,368	612,118	756,115	906,518	1,089,694	542,326	99.1
HTS 9802.00.80.10	0	562	58,422	161,708	286,437	286,437	(7)
HTS 9802.00.80.50	546,306	611,513	697,681	744,723	785,766	239,460	43.8
Other duty free[6]	80,8114	8,738	46,719	106,754	269,886	189,075	234.0
	Percent of total						
Total imports	100.0	100.0	100.0	100.0	100.0	(7)	(7)
Dutiable value[2]	44.3	31.6	35.0	32.6	31.7	(7)	(7)
HTS 9802.00.60 and 9802.00.80	3.6	4.3	5.6	7.0	7.6	(7)	(7)
HTS 9802.00.80.10	0.0	(8)	0.3	1.0	1.6	(7)	(7)
HTS 9802.00.80.50	(9)	4.3	5.2	6.1	6.0	(7)	(7)
Other	40.7	27.3	29.4	25.6	24.1	(7)	(7)
Duty-free value[3]	55.7	68.4	65.0	67.4	68.3	(7)	(7)
MFN[4]	31.0	38.6	34.0	31.8	27.9	(7)	(7)
CBERA[5]	7.4	11.1	12.7	13.0	13.6	(7)	(7)
GSP[5]	8.0	7.9	5.0	5.8	6.3	(7)	(7)
HTS 9802.00.60 and 9802.00.80	8.2	10.1	12.5	15.0	16.4	(7)	(7)
HTS 9802.00.80.10	0.0	(8)	1.0	2.7	4.3	(7)	(7)
HTS 9802.00.80.50	8.2	10.1	11.6	12.3	11.8	(7)	(7)
Other duty free[6]	1.2	0.8	0.8	1.8	4.1	(7)	(7)

[1] Panama is included as a beneficiary country in figures for 1985 through 1988. Data for Guyana are included in 1988 and 1989 only.
[2] Reported dutiable value has been reduced by the duty-free value of imports entering under HTS subheadings 9802.00.60.00 and 9802.00.80 and increased by the value of ineligible items that were reported as entering under the CBERA and GSP programs.
[3] The total duty-free value is calculated as total imports less dutiable value.
[4] Figures for MFN duty-free represent the value of imports which have a col. 1 duty rate of zero.
[5] Values for CBERA and GSP duty-free imports have been reduced by the value of MFN duty-free imports and ineligible items that were misreported as entering under the programs.
[6] Other duty-free imports were calculated as a remainder and represent imports entering free of duty under special rate provisions. For example, the other duty-free figure for 1989 includes $264.6 million dollars' worth of U.S. imports of aromatic drugs (HTS 2918.90.30) from the Bahamas that entered the United States duty-free, probably under a special duty-rate suspension for one product in the group.
[7] Not applicable.
[8] Less than 0.05 percent.
[9] Not available.

Note.-Because of rounding, figures may not add to totals given.
Source: Compiled from official statistics of the U.S. Department of Commerce.

Dutiable Value Of Imports

Between 1985 and 1988 the decline in the dutiable value of overall U.S. imports from the CBERA beneficiaries was roughly correlated with the decline in the value of CBERA-excluded petroleum and petroleum product imports from the group. The dutiable value of imports from CBERA beneficiaries declined 35.3 percent between 1985 and 1986 before rising modestly in 1987 and falling back in 1988. In 1989, imports from oil-producing countries rose 16.2 percent, and the dutiable value of imports increased by 6.4 percent. The 1989 level of dutiable value of imports is still 29.0 percent below the 1985 5-year high of $3.0 billion. In 1985, the year after CBERA became operational, the dutiable value of imports from the CBERA countries amounted to $3.0 billion, or 44.3 percent of the total.

As shown in the tabulation at the bottom of the page, in 1989, the dutiable value of U.S. imports from the CBERA countries amounted to $2.1 billion. Table 2-4 shows this level to be 31.7 percent of total U.S. imports for consumption from CBERA countries. The tabulation also shows that the average rate of duty and adjusted calculated duties have risen markedly since the start of CBERA. Calculated duties have risen by 150 percent from 1985-89, with a 14 percent rise in 1989 to $180.1 million. The tabulation also shows that the average duty rate has risen from 2.44 percent in 1985 to 8.57 percent in 1989.

Duty-Free Value of Imports

Although the dutiable value of imports from the designated countries has fluctuated, the total value of duty-free imports has increased over the past few years. The value of duty-free imports grew from $3.7 billion in 1985 to the 5 year high value of $4.5 billion in 1989. In addition, 1989 duty-free imports accounted for a 68.3 percent share of total imports from CBERA countries compared to a 55.7 percent share in 1985 (table 2-4).

MFN duty-free imports

Imports that enter unconditionally free of duty under MFN rates have consistently comprised a significant share of the overall value of U.S. imports from the designated countries (table 2-4). In 1989, 68.3 percent of all imports from the CBERA countries entered the United States free of duty, 40.9 percent of which received duty-free entry under the MFN column 1 general rate). In 1985, $2.1 billion, or 31.0 percent, of U.S. imports fell within this category.[22] The MFN duty-free content of imports from the CBERA countries jumped to 38,6 percent in 1986, reflecting a surge in MFN duty-free imports (principally coffee) coupled with a move away from dutiable goods (such as petroleum products). In 1989, MFN duty-free imports declined for the third year in a row to a 5 year low of $1.8 billion, or a 27.9 percent share of total imports.

CBERA duty-free imports

Out of a total of $4.5 billion in duty-free imports originating from the program's beneficiaries last year, $905.8 million worth, or 20.0 percent, entered the U.S. customs territory under the CBERA program (table 2-4). This is a 14.5 percent increase from the $790.9 million in CBERA duty-free imports in 1988, and represents 13.6 percent of total imports from the CBERA countries.

GSP duty-free imports

For the second year in a row, the duty-free imports under the GSP program rose in value in 1989 (table 2-4). Nevertheless, the 1989 value of GSP imports remained 22.1 percent below the 1985 value. Between 1985 and 1987, GSP imports fell from $533.5 million to a record low of $300.5 million. However, the value of these imports rebounded by 17.5 percent in 1988 and by an additional 17.8 percent in 1989 to $415.9 million. As a share of total imports from the CBERA countries, duty-free GSP imports peaked at 8.0 percent in 1985, and declined to 5.0 percent in 1987. In 1989, GSP imports from the CBERA countries accounted for 6.3 percent of the total.

HTS subheadings 9802.00.60, 9802.00.80.10, and 9802.00.80.50

HTS subheading 9802.00.60 provides an exclusion from the calculation of dutiable value, in imposing U.S. customs duties, for certain U.S. metal products returned to the United States for additional processing. HTS subheading

[22] The figure for MFN duty-free imports includes all items with a col. 1 duty rate of zero, regardless of how its entry into the United States was reported.

Item	1985	1986	1987	1988	1989
Dutiable value[1]	2,962,025	1,916,553	2,110,950	1,975,850	2,101,839
Calculated duties[1]	72,152	83,056	127,977	157,605	180,130
Average duty[2]	2.44	4.33	6.06	7.98	8.57

[1] In thousands of dollars. Reported dutiable value and calculated duty were adjusted to account for the duty-free value of imports entering under HTS subheadings 9802.00.60 and 9802.00.80 and for the value of ineligible imports that were reported in the official trade statistics as entering the United States under the GSP and CBERA programs. Figures are based on 1989 product eligibility.
[2] Percentages determined as follows: average duty = (calculated duty/dutiable value) x 100.

9802.00.80 provides similar treatment in the calculation of dutiable value for U.S. components in imported products that have been assembled in a foreign country. Considering the significance of textiles and apparel for the region's economy, in February 1986, the President announced a "special access program" under HTS subheading 9802.00.80 to liberalize the quotas of the CBERA beneficiaries. The program was designed to provide greater access to the U.S. market for textile and apparel products, as to which CBERA exporters would ordinarily claim eligibility for HTS subheading 9802.00.80, that were assembled solely from fabric produced and cut in the United States.[23] Items imported under the special access program (formerly referred to as 807-A or Super-807) are separately treated under HTS statistical reporting number 9802.00.8010.

The growth of U.S. imports from CBERA beneficiaries receiving reduced duties under HTS subheading 9802.00.80 largely reflects the upward trend in textile and apparel imports from these countries in recent years (table 2-4). In 1989, the customs value of HTS subheading 9802.00.80 imports from CBERA beneficiaries grew by 18.2 percent, reaching $1.6 billion and accounting for 23.8 percent of total U.S. imports from these countries. Out of such imports in 1989, imports under HTS subheading 9802.00.8010 accounted for $392.5 million, an increase of 78.9 percent over the value in 1988. Imports from CBERA beneficiaries for which duty entry under HTS subheading 9802.00.8050 totaled $1.2 billion in 1989, an increase of 6.3 percent over the prior year. The corresponding duty-free values of imports afforded duty reductions by means of HTS statistical reporting numbers 9802.00.8010 and 9802.00.8050 in 1989 were $286.4 million and $785.8 million, respectively.

Product Composition of Imports Under the CBERA

As in past years, imports of beef (HTS subheadings 0201.30.60 and 0202.30.60 combined) accounted for the largest product category of imports entering the United States under the CBERA ($118.5 million in CBERA imports) in 1989. The top 20 CBERA duty-free imports are listed in table 2-5 along with the corresponding figures for total U.S. imports from the region. The second-largest CBERA import category in 1989 was cane sugar, with imports valued at $106.4 million, up from $93.1 million in the prior year.[24] Pineapples totaled $32.0 million worth of CBERA duty-free imports followed by baseballs and softballs, and medical instruments, with $28.8 million and $27.1 million in CBERA imports, respectively. Leading CBERA imports in 1989 also include cigars, electrical apparatus for switching, ethyl alcohol (ethanol), electrical variable resistors, and jewelry.

Product Eligibility Under the CBERA

Figure 2-3 shows U.S. imports of certain categories of goods that are not eligible for duty-free entry under the CBERA. In 1989, for the second year in a row, the textiles and apparel import value exceeded the petroleum and petroleum products import value, thus the former grouping remained the largest import category excluded from CBERA eligibility.[25]

More limiting than the petroleum duties is the exclusion of wearing apparel, imports of which carry high duties. Yet, as previously mentioned, textile and apparel imports from designated countries have expanded rapidly, reflecting their competitive edge based on geographic proximity, lower production costs relative to some Asian producers, and utilization of the HTS statistical reporting number 9802.00.8010 program. In 1989, the total value of U.S. imports from CBERA countries classified under HTS 9802.00.80 grew by 18.2 percent to $1.6 billion.[26]

Although certain excluded product categories, especially apparel and petroleum, weigh heavily in the commodity composition of U.S. imports from the Caribbean Basin, the trade-weighted product coverage of CBERA eligibility remains extensive. The imports of goods that were not excluded (conditionally or unconditionally) from CBERA benefits by statute amounted to $3.8 billion in 1989, or 56.7 percent of all U.S. imports from designated countries. This leaves $2.9 billion, or 43.3 percent, of 1989 imports excluded from the CBERA. However, as mentioned in previous CBERA reports, the broad CBERA product coverage is somewhat deceptive if viewed as an indication of new preferential access to the U.S. market. Of the nonexcluded goods imported in 1989, $1.9 billion were already unconditionally free of duty under MFN tariff rates (table 2-4) and thus did not gain any new

[23] CBERA countries were invited to enter into bilateral agreements with the United States that would guarantee levels of access for their textile and apparel exports that qualify. These guaranteed access levels (GALs) are separate from quotas applicable to those products that were not assembled solely from U.S. made and U.S.-cut fabric. Costa Rica, the Dominican Republic, Haiti, Jamaica, and Trinidad and Tobago have had GAL agreements for several years. Guatemala signed a GAL agreement with the United States on Nov. 9, 1989. The agreement with Guatemala provided for a transition period; the GAL limits did not become effective until Mar. 1, 1990.

[24] The combined 1989 sugar import quotas for the CBERA beneficiaries, raw value, was 760,961 metric tons, more than double the 1988 quota level of 324,514 metric tons. The total world sugar import quota for 1989 was 2,258,050 metric tons.

[25] As pointed out in the previous CBERA reports, petroleum is subject to relatively low rates of duty. Therefore, the absence of duty-free privileges for this category has not severely restricted the benefits conferred by the CBERA.

[26] Table 2-4 and the accompanying discussion analyze 1989 trade in these categories.

Table 2-5
Leading U.S. imports for consumption entered under CBERA[1] provisions, by descending customs value of duty-free imports, 1986-89

HTS item	Description	1986		1987		1988		1989		Leading source[2]
		Duty-free under CBERA	Percent of CBERA duty-free to total from CBERA	Duty-free under CBERA	Percent of CBERA duty-free to total from CBERA	Duty-free under CBERA	Percent of CBERA duty-free to total fromCBERA	Duty free under to CBERA	Percent of CBERA duty-free total from CBERA	
		1,000 dollars		1,000 dollars		1,000 dollars		1,000 dollars		
1701.11.00	Cane sugar, raw, not containing added flavoring or coloring	112,098	60.9	73,785	72.7	93,137	69.7	106,446	61.7	Dominican Republic
0202.30.60	Nonretail cuts of meat of bovine animals, frozen, boneless, nesi	108,214	96.2	102,861	92.4	109,989	92.6	70,804	96.8	Costa Rica
0201.30.60	Nonretail cuts of meat of bovine animals, fresh, chilled, boneless, nesi	12,024	96.2	11,429	92.4	12,218	92.6	47,685	96.2	Costa Rica
0804.30.40	Pineapples, fresh or dried, not reduced in size, in crates	13,526	77.9	15,692	68.3	29,438	98.3	32,000	87.5	Costa Rica
9506.69.20	Baseballs and softballs	16,978	46.0	21,189	56.6	26,293	69.2	28,833	77.8	Haiti
9018.90.80	Instruments and appliances-medical, surgical, dental, other	0	0.0	288	19.3	8,660	50.6	27,054	42.7	Dominican Republic
2402.10.80	Cigars, cheroots and cigarillos containing tobacco, valued over $.23	18,820	58.0	23,049	65.9	22,121	62.5	25,613	78.8	Dominican Republic
8536.90.00	Electrical apparatus nesi, for switching/making connections	1,932	21.1	2,745	47.9	3,406	52.4	21,326	55.1	Haiti
2207.10.60	Undenatured ethyl alcohol of 80 percent volume alcohol, for nonbeverage use	25,092	90.7	27,468	95.5	10,641	62.2	21,093	100.0	Jamaica
8533.40.00	Electrical variable resistors, nesi, including rheostats, potentiometers	1,282	13.0	7,109	66.0	10,341	89.2	18,240	91.9	Costa Rica
7116.20.10	Articles of jewelry of precious or semiprecious stones	5,568	92.6	10,850	98.5	11,955	87.4	17,254	96.7	Dominican Republic
7113.19.50	Articles of jewelry and parts of precious metal, nesi	973	20.7	1,933	16.9	1,226	9.5	16,106	38.1	Dominican Republic

Table 2-5—*Continued*
Leading U.S. imports for consumption entered under CBERA[1] provisions, by descending customs value of duty-free imports, 1986-89

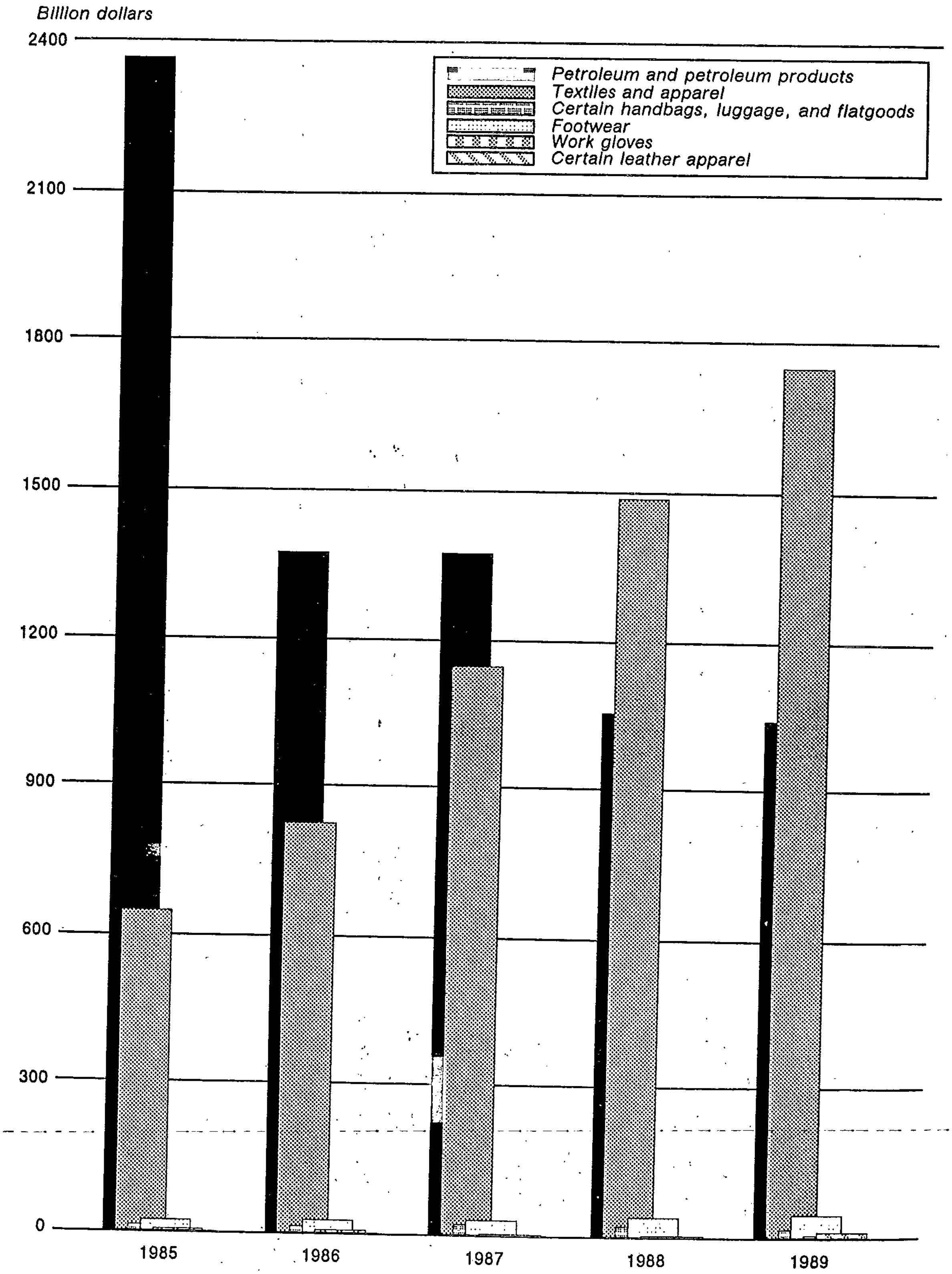
HTS item	Description	1986 Duty-free under CBERA	1986 Percent of CBERA duty-free to total from CBERA	1987 Duty-free under CBERA	1987 Percent of CBERA duty-free to total from CBERA	1988 Duty-free under CBERA	1988 Percent of CBERA duty-free to total fromCBERA	1989 Duty free under to CBERA	1989 Percent of CBERA duty-free total from CBERA	Leading source[2]
		1,000 dollars		*1,000 dollars*		*1,000 dollars*		*1,000 dollars*		
4303.10.00	Articles of apparel and clothing accessories, of furskin	1,597	20.9	1,453	37.1	3,625	38.3	12,751	93.0	Dominican Republic
2905.11.20	Methanol (methyl alcohol), other than to produce synthetic natural gas or use as fuel	3,454	33.8	6,983	43.9	23,492	57.0	12,542	43.9	Trinidad and Tobago
0807.10.20	Cantaloupes, fresh, if entered at any other time	4,707	68.3	6,232	75.6	8,517	76.1	12,167	64.3	Honduras
8532.24.00	Ceramic dielectric fixed capacitors, multilayer	5,311	28.1	12,803	49.8	12,255	53.2	12,149	54.0	El Salvador
6406.10.65	Footwear uppers, other than formed, of leather	4,507	12.3	8,695	15.4	12,320	19.3	11,877	16.6	Dominican Republic
8538.90.00	Parts nesi, suitable for use solely or principally with apparatus of heading 8535, 8536, 8537	2,892	80.5	4,076	65.2	4,737	60.9	11,850	62.1	Dominican Republic
0302.69.40	Fish, nesi, excl. fillets, livers and roes, fresh, chilled ...	7,239	48.3	7,285	41.1	7,785	34.0	11,054	45.7	Costa Rica
2009.11.00	Orange juice, frozen, unfermented and not containing added spirit	5,624	89.3	7,112	96.8	6,202	99.5	9,627	98.3	Belize
	Total of above items ...	351,839	62.7	353,037	66.4	418,359	66.0	526,468	64.8	
	Total, all items entering under CBERA	670,711	44.5	768,467	56.2	790,941	52.4	905,762	52.7	

[1] CBERA countries refers to designated beneficiaries.
[2] Indicates leading CBERA source based on total U.S. imports for consumption.

Note.—Figures for 1986-88 are estimated under the HTS classification system.
Note.—Because of rounding, figures may not add to totals given.

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

Figure 2-3
U.S. imports for consumption from CBERA countries of goods not eligible for duty-free treatment under CBERA, 1985-89



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

CBERA advantages. The remaining $1.9 billion in imports represented CBERA-eligible products that would have been dutiable without the CBERA (table 2-6).

Moreover, the CBERA has not broadly contributed to preferential access for the many Caribbean exports that are also eligible for duty-free entry under the GSP. Although the CBERA does permit duty-free entry for those products that lost GSP eligibility because their competitive-need limits were exceeded, the only item of significance in this category has been sugar imports from the Dominican Republic, which were redesignated as GSP-eligible in 1988.

Table 2-6 also shows that the CBERA utilization ratio was 46.56 percent, down several percentage points from its high of 53.84 percent in 1987. The GSP utilization ratio has been declining nearly every year since 1985, from 55.74 percent that year, to 26.88 percent in 1989. Utilization rates of the CBERA and GSP programs were calculated in this section by relating entries under each of the programs' provisions to the total value of imports that were nominally eligible for duty-free treatment, i.e., the portion not excluded by statue (conditionally and unconditionally) and not MFN duty-free.

Leading CBERA Beneficiaries

Table 2-7 ranks the CBERA-eligible countries by the 1989 value of their shipments to the United States that entered under the CBERA. The table also shows the shifts in these countries' relative standings as CBERA beneficiaries over time. Appendix table B-1 lists the leading items imported under CBERA from each of the beneficiary countries in 1989 with commodity shares.

In 1989, the Dominican Republic and Costa Rica remained the leading countries taking advantage of CBERA. Between 1985 and 1987, their relative weight steadily declined from a 49.4 percent combined share of all U.S. imports entering under CBERA to a 40.1 percent share in 1987. In 1988, however, the combined share of CBERA duty-free imports from the Dominican Republic and Costa Rica rebounded to 48.5 percent, and increased to a 5 year high of 54.1 percent in 1989.

The value of CBERA imports from the Dominican Republic in 1989 grew by 23.3 percent over the previous year's level to reach $299.2 million. The Dominican Republic was the leading source of many products entering the United States under the CBERA (table 2-5), such as sugar, medical instruments, cigars, jewelry, and furskin apparel.

Table 2-6

U.S. imports for consumption from the designated CBERA countries: Eligibility and utilization of the GSP and CBERA programs, 1985-89

($1,000 or percent)

Classification	*1985*	*1986*	*1987*	*1988*	*1989*
Eligible duty-free under CBERA[1]	1,571,529	1,491,289	1,427,192	1,559,577	1,945,165
Duty-free under CBERA[2]	493,024	670,711	768,467	790,491	905,762
CBERA utilization ratio[3]	31.37	44.97	53.84	50.68	46.56
Eligible duty-free under GSP[4]	957,202	998,604	962,905	1,061,115	1,547,285
Duty-free under GSP[2]	533,507	476,151	300,531	353,079	415,859
GSP utilization ratio[5]	55.74	47.68	31.22	33.27	26.88

[1] Excludes all HTS items that are already duty-free under MFN and that at a 10 digit level are either conditionally or unconditionally exempt from the program.

[2] Imports reported as entering duty-free under the CBERA and GSP programs were reduced by the value of misreported items that were already duty-free under MFN or that were ineligible for duty-free treatment under the programs.

[3] CBERA utilization ratio = (Actual entries/eligible entries under the CBERA) *100.

[4] Figures for 1985-88 are based on 1989 product eligibility.

[5] GSP utilization ratio = (Actual entries/eligible entries under the GSP) * 100.

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

Table 2-7

U.S. imports for consumption under CBERA provisions, by designated country, 1985-89

($1,000 dollars)

Rank	Country	1985	1986	1987	1988	1989
1	Dominican Republic	171,566	189,708	178,938	242,549	299,173
2	Costa Rica	72,184	112,710	129,577	141,076	190,756
3	Guatemala	42,440	54,143	57,621	77,256	112,627
4	Haiti	46,460	60,463	77,906	83,309	67,548
5	Honduras	44,620	53,765	53,150	56,181	52,647
6	Jamaica	40,365	51,017	58,293	42,022	51,542
7	Trinidad and Tobago	15,791	26,485	26,044	41,938	32,368
8	El Salvador	19,217	12,712	22,135	22,177	27,606
9	Barbados	11,372	10,223	20,223	19,125	14,850
10	St. Kitts and Nevis[1]	5,503	6,192	9,592	9,417	14,033
11	Belize	8,412	19,200	11,579	18,845	14,028
12	Bahamas	3,089	53,087	95,488	10,692	9,085
13	St. Vincent and the Grenadines	200	2,089	4,583	9,990	5,642
14	St. Lucia	1,556	2,183	2,568	3,007	2,971
15	Guyana[2]	([5])	([5])	([5])	131	2,769
16	Netherlands Antilles[3]	2,828	1,874	1,199	2,603	2,529
17	Antigua	349	533	333	255	2,309
18	Grenada	13	39	31	118	2,200
19	Dominica	320	494	626	358	844
20	British Virgin Islands	21	18	28	56	138
21	Montserrat	98	3	0	118	96
22	Aruba[3]	([5])	0	14	0	0
	Panama[4]	6,619	13,775	18,539	9,717	([5])
	Total	493,024	670,711	768,467	790,941	905,762

[1] Data for Anguilla, which has not been designated as a beneficiary country, were reported with the data for St. Kitts and Nevis through 1985. For 1986-89, figures for St. Kitts and Nevis do not include data for Anguilla.

[2] Guyana was designated as a beneficiary effective Nov. 24, 1988.

[3] Upon becoming independent of the Netherlands Antilles in April 1986, Aruba was designated separately as a beneficiary effective retroactively to Jan. 1, 1986. Trade data for Aruba, however, were not reported separately until June 1986. The 1986 figure for Aruba represents trade for June-December only.

[4] Panama lost its beneficiary status effective Apr. 8, 1988.

[5] Not applicable.

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

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

U.S. imports from Costa Rica rose by 35 percent from 1988-89, to reach $190.8 million. Leading items imported under CBERA from Costa Rica in 1988 were pineapples, meat, variables resistors, and fish. Costa Rica was the principal supplier of many of these products entering under CBERA in 1989.

Guatemala replaced Haiti as the third largest beneficiary in terms of trade under the CBERA in 1989. CBERA imports from Guatemala increased by 45.8 percent in 1989 to reach $112.6 million. These imports were led by meat, sugar, tobacco, and pesticides. In addition to Guatemala's increase in exports to the United States, Haiti's drop in exports to the United States was a factor in Guatemala surpassing Haiti's ranking.

Leading imports from Haiti in 1989 under CBERA were electrical apparatus, baseballs, softballs, inductors, and transformers. Total U.S. imports from Haiti under CBERA fell by 19 percent in 1989 to $67.5 million.

Honduras was the fifth leading source of U.S. imports under CBERA in 1989. Total U.S. imports entering under CBERA from Honduras were $52.6 million, down 6 percent from 1988, but 18 percent over the level of 1985. Leading items imported included meat, cigars, cantaloupes, and softballs.

Chapter 3
Impact of the CBERA in 1989

Since 1984, the first year of the Caribbean Basin Economic Recovery Act (CBERA's) implementation, the economic effects of the CBERA on U.S. industries, consumers, and the overall U.S. economy have been minimal.[1] In each year between 1984 and 1988, the value of U.S. imports from CBERA countries that obtained duty-free status under the act was equal to less than 0.03 percent of U.S. Gross National Product (GNP). Since the total level of imports from CBERA-beneficiary countries remained small relative to total U.S. imports, the economic impact of CBERA imports on the U.S. economy was, again, minimal in 1989.

This chapter presents estimates of the net welfare effects[2] of the CBERA on the U.S. economy. As in last year's report, it is divided into three sections. The first section describes the imported products that benefited most from the CBERA in 1989. The second section discusses the analytical approach that is used to measure the net welfare effects of CBERA in 1989. The third section concludes this chapter with a presentation of quantitative estimates. Technical notes for this chapter appear in appendix C.

Products Most Affected by CBERA

Since the CBERA's initiation, the imports from designated beneficiaries that have actually benefited from the duty elimination have accounted for only a small portion of the total imports from these countries. These are defined in this chapter as those imports that are not excluded by the CBERA,[3] or that would not otherwise have entered the United States free of duty.[4]

Between 1988 and 1989, the level of imports that benefited from CBERA increased from $297 million to $331 million, or by 11 percent. Fourteen percent of 1989 imports from CBERA beneficiary countries entered free of duty under the CBERA. This is in comparison with the 5 percent that actually benefited, or would not have received duty-free treatment without CBERA preferences (see table 3-1).

Description of Items Benefiting from CBERA

Since 1984, there has been little change in the product mix of CBERA imports. Leading U.S. imports under CBERA in 1989 on a c.i.f. basis are shown in table 3-2.[5]

Similar to previous years, a number of leading items imported under CBERA duty-free provisions such as raw cane sugar, baseballs and softballs, medical instruments, cantaloupes, and jewelry could also have entered the United States under Generalized System of Preferences (GSP) duty-free treatment. As discussed above, these products did not exceed competitive-need limits under GSP and would, therefore, continue to enter under GSP duty-free treatment if CBERA duty-free eligibility were eliminated. Therefore, these GSP-eligible products were not considered in this report's analysis of the effects of the CBERA. As noted earlier, the one exception was cigars, cheroots, and cigarillos from the Dominican Republic, which lost GSP eligibility on July 1, 1989.

[1] See U.S. International Trade Commission, *Annual report on the Impact of the Caribbean Basin Economic Recovery Act on the U.S. Industries and Consumers, Third Report 1987*, USITC Publication 2225, p. 2-1.

[2] The net welfare effect of CBERA duty elimination is the loss in tariff revenues to the U.S. Treasury and the loss in profits to U.S. competing industries, minus the gain to U.S. consumers that results from the lower priced CBERA imports.

[3] For a list of items excluded by the CBERA, see the section "Product Eligibility Under the CBERA" in ch. 2 of this report.

[4] See *Second CBERA Report*, p. 16 for further discussion. The imports that would not have otherwise entered free of duty are those that are not MFN duty-free and that are not eligible for GSP duty free treatment, including imports from GSP beneficiaries that had exceeded the GSP competitive-need limits or that had never been eligible for GSP treatment. One such item is cigars, cheroots, and cigarillos (HTS subheading 2402.10.80) from the Dominican Republic, which has not been eligible for GSP duty-free treatment since July 1, 1989.

[5] Because the figures in table 3-2 are presented on a c.i.f. basis, the relative ranking of the leading CBERA imports and their import values will not agree with those given in table 2-5, which are presented on a customs value basis.

Table 3-1
Customs value of products that benefited from CBERA duty elimination, 1987-89

Item	*1987*	*1988*	*1989*
Items benefiting from CBERA:			
Value (million dollars)	399	297	331
Percent of total	6.6	4.9	5.0
Items entered under CBERA:			
Value (million dollars)	768	791	906
Percent of total	12.7	13.0	13.6
Total CBERA country imports:			
Value (million dollars)	6,039	6,061	6,637

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

Table 3-2

C.i.f. value of leading U.S. imports for consumption entered under CBERA provisions, 1989

($1,000)

HTS subheading No.	Description	Duty-free under CBERA
1701.11.00	Raw cane sugar[1]	115,155
0202.30.60	Frozen boneless beef, except processed	76,005
0201.30.60	Fresh or chilled boneless beef, except processed	51,345
0804.30.40	Pineapples, in crates or other packages	38,559
9506.69.20	Baseballs and softballs[1]	29,410
9018.90.80	Instruments and appliances used in medical, dental or veterinary sciences[1]	27,568
2402.10.80	Cigars, cheroots and cigarillos valued ≥ 23¢[2]	26,113
2207.10.60	Undenatured ethyl alcohol	22,093
8536.90.00	Electrical apparatus nesi, for switching or protecting circuits[1]	21,613
0807.10.20	Cantaloupes, fresh[1]	20,645
8533.40.00	Electrical variable resistors	18,509
7116.20.10	Articles of jewelry of precious or semiprecious stone[1]	17,289
7113.19.50	Articles of jewelry and parts other than clasps[1]	16,122
2905.11.20	Methanol (methyl alcohol)[1]	13,526
4303.10.00	Articles of apparel and clothing accessories[1]	12,859
0302.69.40	Fish, n.e.s.i., fresh or chilled[2]	12,528
6406.10.65	Footwear uppers[1]	12,513
8538.90.00	Parts n.e.s.i., suitable for use solely with electrical purpose of circuit breakers[1]	12,354
8532.24.00	Ceramic dielectric fixed capacitors	12,288
0807.10.70	Melons nesi, fresh[1]	10,980
2009.11.00	Frozen orange juice, concentrated	10,115
2401.20.80	Tobacco, partly or wholly stemmed	10,033
0710.80.95	Frozen vegetables, n.e.s.i., reduced in size	9,634
0202.30.20	Frozen, boneless, processed, high-quality beef	9,543
2401.10.60	Cigarette leaf, not stemmed	9,385
0710.80.70	Frozen vegetables, n.e.s.i., not reduced in size[1]	9,197
1703.10.50	Cane molasses, n.e.s.i[1]	9,149
0714.90.10	Fresh dasheens[1]	8,690
2933.19.25	Aromatic or modified aromatic pesticides[1]	8,395
2208.40.00	Rum and tafia	8,263

[1] Eligible for duty-free entry under GSP.
[2] Eligible for duty-free entry under GSP, except imports from the Dominican Republic between July 1 and Dec. 31, 1989.

Source: U.S. Department of Commerce.

The first CBERA report analyzed the effects of the one-time duty change in 1984 and identified those products most affected by the CBERA. The products that were identified as most likely to benefit from the duty elimination in 1984 were selected from a 1983 list of the leading U.S. dutiable imports from CBERA beneficiary countries.[6]

In addition, import data from years prior to 1983 and actual leading CBERA duty-free imports from 1984 and 1985 were examined to construct the list of most affected products. These products are as follows:[7]

Product	Product
Beef and veal	Chemical mixtures derived from hydrocarbons
Tropical vegetables	Synthetic hormones
Fresh pineapples	Wire rods
Sugar	Office machine parts
Concentrated orange juice	Electrical capacitors
Rum	Resistors
Cigarette leaf and filler tobacco	Monolithic integrated circuits
Nitrogenous compounds	Miscellaneous electrical parts
Ethanol	Baseball equipment

With the exception of sugar from the Dominican Republic,[8] those products that benefited the most from duty-free treatment from 1984 to 1988 continued to benefit the most in 1989. In

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

[7] See *First CBERA Report*, pp. 2-2 and 2-3, and *Second CBERA Report*, p. 14 for further discussion.

[8] Sugar from the Dominican Republic gained GSP eligibility on July 1, 1988, and would have continued to enter duty-free in the absence of CBERA.

each of the past 6 years, seven products have consistently entered among the leading items that actually benefited from CBERA duty-free treatment. These items are beef, pineapples, orange juice, cigarette leaf, electrical capacitors, resistors, and rum. In addition, in each of the past 5 years, ethyl alcohol has been among the leading items that actually benefited from CBERA. Table 3-3 presents the leading 30 eligible items, on an eight-digit HTS basis, imported under CBERA provisions that were not GSP eligible, or MFN free of duty.

Products that Benefited the Most from CBERA in 1989

What follow are recent industry highlights of the five leading eligible items that benefited from CBERA in 1989 and that were not MFN duty free or that were not GSP-eligible goods.[9]

[9] The comparisons between 1988 and 1989 in this section should be considered as general indicators of trends as imports in 1988 entered under the TSUS, whereas the 1989 imports entered under the HTS. The 1988 HTS data presented here are estimates of imports for that year on an HTS basis. For a further discussion of the comparability of product specific data between 1988 and 1989, see footnote 7 of ch. 2.

Beef[10]

Between 1988 and 1989, CBERA imports of beef increased by 6.8 percent, from $131.1 million to $140.0 million (table 3-3). Costa Rica was the leading CBERA source of beef in 1989.

Pineapples[11]

Between 1988 and 1989, imports of pineapples increased by 16.3 percent, from $35.7 million to $41.5 million. Costa Rica was the principal CBERA source in 1989.

Ethyl alcohol[12]

Between 1988 and 1989, imports of ethyl alcohol increased by 120.0 percent, from $10.9 million to $24.0 million. The principal CBERA supplier of ethyl alcohol was Jamaica in 1989.

[10] Includes imports of HTS subheadings 0201.30.60, 0202.30.20, 0202.30.40, and 0202.30.60.
[11] Includes imports of HTS subheadings 0804.30.40 and 0804.30.20.
[12] Includes imports of HTS subheadings 2207.10.60 and 2207.20.00.

Table 3-3
C.i.f. value of leading imports that benefited from CBERA duty-free treatment in 1989
($1,000 dollars)

HTS Subheading No	*Description*	*CBERA-beneficiary imports*
0202.30.60	Frozen boneless beef, except processed	76,005
0201.30.60	Fresh or chilled boneless beef, except processed	51,345
0804.30.40	Pineapples, in crates or other packages	38,559
2207.10.60	Undenatured ethyl alcohol	22,093
8533.40.00	Electrical variable resistors	18,509
8532.24.00	Ceramic dielectric fixed capacitors	12,288
2402.10.80	Cigars, cheroots and cigarillos valued ≥ 23¢[1]	11,680
2009.11.00	Frozen orange juice, concentrated	10,115
2401.20.80	Tobacco, partly or wholly stemmed	10,033
0710.80.95	Frozen vegetables, n.e.s.i	9,634
0202.30.20	Frozen, boneless, processed, high-quality beef	9,543
2401.10.60	Cigarette leaf, not stemmed	9,385
2208.40.00	Rum and tafia	8,263
8533.21.00	Electrical fixed resistors	6,912
7213.31.30	Irregularly wound coils of hot-rolled rod	5,791
7214.40.00	Hot-rolled bars and rods containing < .25% carbon	3,961
2009.20.40	Grapefruit juice, concentrated	3,708
0802.90.90	Nuts, n.e.s.i	3,580
0202.30.40	Frozen, boneless, processed beef, except high-quality	3,113
0714.10.00	Cassava (manioc), fresh or dried	3,036
0804.30.20	Pineapples, bulk	2,908
0810.10.40	Fresh strawberries, if entered from 9/16 - 6/14	2,887
2402.10.60	Cigars, cheroots and cigarillos valued > 15 and < 23	2,768
0603.10.60	Roses, fresh cut	2,375
9507.90.70	Artificial baits and flies	2,296
2004.90.90	Other prepared vegetables, frozen	2,181
0805.10.00	Oranges, fresh or dried	2,103
2207.20.00	Ethyl alcohol and other spirits, denatured	1,945
7214.20.00	Concrete reinforcing bars	1,670
0714.90.40	Fresh arrowroot, salep, and jerusalem artichokes	1,655

[1] Cigars that benefited from CBERA duty-free treatment are from the Dominican Republic, which lost its GSP eligibility for cigars in July 1989. Figure given represents imports from July 1, 1989, through December 31, 1989.

Source: U.S. Department of Commerce.

Between 1988 and 1989, imports of electrical variable resistors increased by 74.6 percent, from $10.6 million to $18.5 million. The leading CBERA supplier in 1989 of electrical variable resistors was Costa Rica.

Ceramic dielectric, multilayer fixed capacitors

Between 1988 and 1989, imports of ceramic dielectric, multilayer fixed capacitors decreased by 0.8 percent, from $12.4 million to $12.3 million. The principal CBERA supplier of ceramic dielectric, multilayer fixed capacitors was El Salvador in 1989.

Measuring the Net Welfare Cost of CBERA in 1989

Analytical Approach

What follows is a brief description of the approach that was used to analyze the net welfare effects of CBERA duty-free treatment in 1989 on the U.S. economy, consumers, and industries that compete with CBERA imports. The net welfare costs of the CBERA duty elimination are the costs (i.e., the forgone benefits) to U.S. producers and the U.S. Treasury minus the gain to U.S. consumers.[13]

The effects of CBERA were analyzed by estimating the change in net welfare that would have occurred had the pre-CBERA tariffs been in place for beneficiary countries in 1989. In the presence of the duties, tariff revenues to the U.S. Treasury and profits for U.S. competing industries would have been larger, yet consumers would have paid higher prices for CBERA designated imports. The model estimates the effects of eliminating the CBERA duty-free status on the U.S. Treasury, U.S. producers, and U.S. consumers. The sum of these three effects provides a measure of the net welfare costs of CBERA in 1989.

In this analysis, imports from CBERA beneficiary countries, imports from non-CBERA countries, and competing domestic output are considered imperfect substitutes for each other.[14] Therefore, each of the three products is characterized by a separate market where differing equilibrium prices can exist for each.

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

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

Measurement of Net Welfare Effects of CBERA

The increased cost to consumers of eliminating duty-free treatment under CBERA would be reflected in the higher price U.S. consumers would pay for CBERA imports and is measured by the loss in consumer surplus.[15] Similarly, the increased benefits to the domestic competing industry and its factors of production would be reflected in the increased demand that would result for the U.S. domestic product. The benefit to the domestic industry and its factors is measured by the increase in producer surplus.[16] However, for this analysis, the domestic supply curve was assumed to be horizontal. Hence, there is no corresponding increase in net welfare benefits to producers. (Nor is there any welfare loss to consumers in the market for domestic output.) Instead, this analysis measures the dollar amount of domestic output displaced by CBERA imports.

In addition, a benefit would be realized in the absence of CBERA duty-free treatment through the increase in tariff revenue to the U.S. Treasury.[17] Increased tariff revenues would be received from both CBERA and non-CBERA imports. The increase in non-CBERA import tariff revenue would result from an increase in the demand for non-CBERA imports, i.e., with an increase in the price of CBERA imports, the sales of competing non-CBERA imports would also increase.[18]

Quantitative Results

In 1989, the value of U.S. imports from CBERA beneficiary countries was $6.6 billion, representing only 1.4 percent of total U.S. imports. The imports that actually benefited from the CBERA, i.e., those that were not specifically excluded under the act or that could not have entered free of duty under GSP or MFN, amounted to $331 million. This figure represents 5.0 percent of total imports from CBERA beneficiary countries or approximately 0.1 percent of total U.S. imports. Therefore, the effects of the CBERA on the U.S. economy were minimal.

This section presents dollar estimates of the net welfare costs of duty-free treatment for the leading 30 products that actually benefited from the CBERA in 1989. In addition, estimates of the tariff revenue forgone, the consumer surplus generated, and the domestic shipments displaced in 1989 are also presented.

[15] See Donald N. McCloskey, *The Applied Theory of Price*, New York, Macmillan Publishing Co., 1985, for further discussion on consumer surplus.

[16] See McCloskey, *The Applied Theory of Price*, for further discussion on producer surplus.

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

[18] See the technical notes in app. C for a more complete discussion of the methodology.

Description of items analyzed

The effects of the CBERA were calculated for the 30 items listed in table 3-3. These items accounted for 94 percent of the c.i.f. value of imports that actually benefited from CBERA duty-free treatment in 1989. The value of these imports as a ratio of competing U.S. producers' domestic shipments was varied in magnitude (see table 3-4). For instance, in 1989, the value of U.S. imports of fresh or frozen beef from CBERA countries, the largest import category in value benefiting from CBERA, was 1.28 percent of the value of domestic shipments. Conversely, the value of CBERA imports of cassava were approximately twice as large as the value of U.S. producers' domestic shipments.

The economic effects of duty-free treatment for these leading 30 items are summarized in tables 3-5 and 3-6. Table 3-5 presents dollar estimates of the consumer surplus that was generated and tariff revenue from CBERA and non-CBERA imports that was foregone. Table 3-6 presents dollar estimates of U.S. shipments that were displaced by CBERA imports.[19]

Effects on the U.S. economy in 1989: Net welfare costs and the displacement of domestic output

In 1989, the estimated net welfare cost to U.S. residents of granting CBERA duty-free treatment to the items listed in table 3-5 ranged from $2.4 million to $8.2 million. When compared with the total value of CBERA-country imports in 1989, net welfare cost amounted to approximately 0.04 to 0.12 percent.[20] As noted above, this range reflects the welfare cost for 94 percent of the total value of the items that actually benefited from CBERA duty-free treatment.

[19] See technical notes in app. C for a more complete discussion of the data that were used in the estimation of the effects shown in tables 3-5 and 3-6.

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

[21] Includes imports of HTS subheadings 2207.10.60 and 2207.20.00. See also table 3-5.

Except for ethyl alcohol, the loss in tariff revenues was not offset by the corresponding increase in consumer surplus for the items analyzed. In 1989, the item with the largest net welfare cost resulting from CBERA duty-free treatment, ethyl alcohol,[21] was also the only item to show a potential net welfare gain. The net welfare effect for ethyl alcohol ranged from a loss of $1.8 million to a gain of $0.9 million.

Five items with high net welfare costs, in value terms, were frozen orange juice, fresh and frozen beef,[22] certain tobacco products,[23] frozen vegetables,[24] and pineapples.[25] In terms of c.i.f. value, these five imports accounted for 61 percent of the total imports that benefited from CBERA in 1989. The substantial share of net welfare cost associated with these five items is mainly due to the high levels at which they are imported. In this analysis, the higher the value of imports and the less elastic the import-supply curve, the higher was the net welfare loss associated with removing the tariff.

In 1989, the percentage of domestic shipments from competing domestic industries that were displaced by the 30 leading imports benefiting from CBERA varied in magnitude. The largest effect, in value terms, occurred for ethyl alcohol, where the displacement of domestic shipments ranged from $10.5 million to $14.4 million or between 0.73 and 1.00 percent of the value of total domestic shipments. The seven products with the largest displacement effects, in value terms, were ethyl alcohol, certain tobacco products, fresh and frozen beef, frozen orange juice, frozen vegetables, grapefruit juice, and pineapples.

[22] Includes imports of HTS subheadings 0201.30.60, 0202.30.20, 0202.30.40, and 0202.30.60. See also table 3-5.

[23] The category, certain tobacco products, includes imports of HTS subheadings 2401.10.60 and 2401.20.80. See also table 3-5.

[24] Includes imports of HTS subheadings 0710.80.95 and 2004.90.90. See also table 3-5.

[25] Includes imports of HTS subheadings 0804.30.40 and 0804.30.20. See also table 3-5.

Table 3-4

C.i.f. value of imports that benefit from CBERA, and U.S. producers' domestic shipments that competed with CBERA duty-free imports, 1989

HTS Subheading No.	Description	CBERA beneficiary imports (c.i.f. value)	Value of U.S. producers' domestic shipments	Ratio of CBERA duty-free imports to competing U.S. shipments
		1,000 dollars	*1,000 dollars*	*Percent*
0202.30.60	Frozen boneless beef, except processed[1]	76,005	10,914,000	1.28
0201.30.60	Fresh or chilled boneless beef, except processed	51,345	(1)	(1)
0804.30.40	Pineapples, in crates or other packages[2]	38,559	53,600	76.80
2207.10.60	Undenatured ethyl alcohol[3]	22,093	1,446,000	1.66
8533.40.00	Electrical variable resistors	18,509	113,000	16.38
8532.24.00	Ceramic dielectric fixed capacitors	12,288	316,000	3.89
2402.10.80	Cigars, cheroots and cigarillos valued ≥ 23¢	11,680	90,400	12.92
2009.11.00	Frozen orange juice, concentrated	10,115	1,115,000	.91
2401.20.80	Tobacco, partly or wholly stemmed[4]	10,033	1,336,000	1.45
0710.80.95	Frozen vegetables, n.e.s.i.[5]	9,634	558,000	2.12
0202.30.20	Frozen, boneless, processed, high-quality beef	9,543	(1)	(1)
2401.10.60	Cigarette leaf, not stemmed	9,385	(4)	(4)
2208.40.00	Rum and tafia	8,263	105,000	7.87
8533.21.00	Electrical fixed resistors	6,912	380,000	1.82
7213.31.30	Irregularly wound coils of hot-rolled rod	5,791	367,300	1.58
7214.40.00	Hot-rolled bars and rods containing < .25% carbon	3,961	502,000	.79
2009.20.40	Grapefruit juice, concentrated	3,708	285,000	1.30
0802.90.90	Nuts, n.e.s.i	3,580	43,000	8.33
0202.30.40	Frozen, boneless, processed beef, except high-quality	3,113	(1)	(1)
0714.10.00	Cassava (manioc), fresh or dried	3,036	1,600	189.75
0804.30.20	Pineapples, bulk	2,908	(2)	(2)
0810.10.40	Fresh strawberries, if entered from 9/16 - 6/14	2,887	255,000	1.13
2402.10.60	Cigars, cheroots and cigarillos valued > 15¢ and < 23¢	2,768	86,800	3.19
0603.10.60	Roses, fresh cut	2,375	171,000	1.39
9507.90.70	Artificial baits and flies	2,296	109,000	2.11
2004.90.90	Other prepared vegetables, frozen	2,181	(5)	(5)
0805.10.00	Oranges, fresh or dried	2,103	191,000	1.10
2207.20.00	Ethyl alcohol and other spirits, denatured	1,945	(3)	(3)
7214.20.00	Concrete reinforcing bars	1,670	1,240,300	.14
0714.90.40	Fresh arrowroot, salep, and jerusalem artichokes	1,655	(6)	(6)

[1] The value of U.S. producers' domestic shipments and the ratio of CBERA duty-free imports to competing U.S. shipments for frozen boneless beef, except processed includes values of HTS subheadings 0201.30.60, 0202.30.20, 0202.30.40, and 0202.30.60.

[2] The value of U.S. producers' domestic shipments and the ratio of CBERA duty-free imports to competing U.S. shipments for pineapples, in crates or other packages includes values of HTS subheadings 0804.30.40 and 0804.30.20.

[3] The value of U.S. producers' domestic shipments and the ratio of CBERA duty-free imports to competing U.S. shipments for undenatured ethyl alcohol includes values of HTS subheadings 2207.10.60 and 2207.20.00.

[4] The value of U.S. producers' domestic shipments and the ratio of CBERA duty-free imports to competing U.S. shipments for tobacco, partly or wholly stemmed includes values of HTS subheadings 0710.80.95 and 2004.90.90.

[5] The value of U.S. producers' domestic shipments and the ratio of CBERA duty-free imports to competing U.S. shipments for frozen vegetables, n.e.s.i. includes values of HTS subheadings 2401.10.60 and 2401.20.80.

[6] Not available.

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

Table 3-5

The estimated range[1] of U.S. net welfare effects of CBERA duty-free treatment, by leading imports, 1989

($1,000 dollars)

HTS Subheading No.	Description	Gain in consumer surplus		Loss in tariff revenue from CBERA countries		Loss in tariff revenue from non-CBERA countries		Net-welfare effect	
		Lower range	Upper range	Lower range	Upper range	Lower range	Upper range	Lower range	Upper range
0202.30.60	Frozen boneless beef, except processed[2]	1,419	1,897	2,423	2,419	7	10	-1,011	-532
0201.30.60	Fresh or chilled boneless beef, except processed	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
0804.30.40	Pineapples, in crates or other packages[3]	550	798	1,126	1,118	3	4	-579	-324
2207.10.60	Undenatured ethyl alcohol[4]	5,974	8,125	7,736	7,258	0	0	-1,762	867
8533.40.00	Electrical variable resistors	537	756	1,006	995	40	56	-509	-295
8532.24.00	Ceramic dielectric fixed capacitors	784	974	1,108	1,109	31	39	-356	-174
2402.10.80	Cigars, cheroots and cigarillos valued ≥ 23¢	387	496	594	594	(7)	1	-208	-98
2009.11.00	Frozen orange juice, concentrated	1,286	1,798	2,079	1,967	260	370	-1,052	-539
2401.20.80	Tobacco, partly or wholly stemmed[5]	1,481	1,987	2,380	2,347	67	90	-965	-450
0710.80.95	Frozen vegetables, n.e.s.i[6].	807	1,104	1,359	1,334	60	82	-611	-313
0202.30.20	Frozen, boneless, processed, high-quality beef	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
2401.10.60	Cigarette leaf, not stemmed	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)
2208.40.00	Rum and tafia	394	513	617	614	1	2	-224	-103
8533.21.00	Electrical fixed resistors	299	352	392	393	2	3	-96	-43
7213.31.30	Irregularly wound coils of hot-rolled rod	32	54	98	96	1	2	-66	-44
7214.40.00	Hot-rolled bars and rods containing < .25% carbon	72	107	154	152	1	2	-83	-47
2009.20.40	Grapefruit juice, concentrated	749	963	988	979	2	3	-241	-19
0802.90.90	Nuts, n.e.s.i.	18	27	38	38	(7)	(7)	-20	-11
0202.30.40	Frozen, boneless, processed beef, except high-quality	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
0714.10.00	Cassava (manioc), fresh or dried	312	403	456	453	3	4	-147	-54
0804.30.20	Pineapples, bulk	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)
0810.10.40	Fresh strawberries, if entered from 9/16 - 6/14	24	27	29	29	(7)	(7)	-5	-2
2402.10.60	Cigars, cheroots and cigarillos valued > 15¢ and < 23¢	109	140	168	168	(7)	(7)	-59	-27
0603.10.60	Roses, fresh cut	71	101	135	134	5	7	-69	-39
9507.90.70	Artificial baits and flies	48	82	164	152	7	12	-123	-81
2004.90.90	Other prepared vegetables, frozen	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)
0805.10.00	Oranges, fresh or dried	38	42	45	45	0	0	-8	-3
2207.20.00	Ethyl alcohol and other spirits, denatured	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)
7214.20.00	Concrete reinforcing bars	35	51	72	71	0	0	-37	-20
0714.90.40	Fresh arrowroot, salep, and jerusalem artichokes	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)
	Total	15,434	20,807	23,176	22,474	491	686	-8,233	-2,354

[1] Ranges correspond to the lower range and upper range of the CBERA import supply elasticities, 2 and 5, that were used to make these calculations.
[2] Values of HTS subheadings 0202.30.60, 0201.30.60, 0202.30.20, and 0202.30.40 were aggregated into one category to estimate the net welfare effects and are reported on the line for HTS subheading 0202.30.60.
[3] Values of HTS subheadings 0804.30.40 and 0804.30.20 were aggregated into one category to estimate the net welfare effects and are reported on the line for HTS subheading 0804.30.40.
[4] Values of HTS subheadings 2207.10.60 and 2207.20.00 were aggregated into one category to estimate the net welfare effects and are reported on the line for HTS subheading 2207.10.60.
[5] Values of HTS subheadings 2401.10.60 and 2401.20.80 were aggregated into one category to estimate the net welfare effects and are reported on the line for HTS subheading 2401.20.80.
[6] Values of HTS subheadings 0710.80.95 and 2004.90.90 were aggregated into one category to estimate the net welfare effects and are reported on the line for HTS subheading 0710.80.95.
[7] Less than $500.
[8] Not available.

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

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

Table 3-6

The estimated range[1] of the effects of CBERA duty-free entry on the U.S. domestic shipments displaced by the CBERA imports, by HTS subheadings, 1989

HTS Subheading No.	Description	Lower range Value	Lower range Share of value	Upper range Value	Upper range Share of value
		1,000 dollars	percent	1,000 dollars	percent
0202.30.60	Frozen boneless beef, except processed[2]	1,621	.01	2,169	.02
0201.30.60	Fresh or chilled boneless beef, except processed	([2])	([2])	([2])	([2])
0804.30.40	Pineapples, in crates or other packages[3]	636	1.19	928	1.73
2207.10.60	Undenatured ethyl alcohol[4]	10,498	.73	14,425	1.00
8533.40.00	Electrical variable resistors	272	.24	386	.34
8532.24.00	Ceramic dielectric fixed capacitors	391	.12	486	.15
2402.10.80	Cigars, cheroots and cigarillos valued ≥ 23¢	454	.49	580	.64
2009.11.00	Frozen orange juice, concentrated]	1,551	.14	2,208	.20
2401.20.80	Tobacco, partly or wholly stemmed[5]	1,721	.12	2,321	.17
0710.80.95	Frozen vegetables, n.e.s.i[6].	941	.17	1,297	.23
0202.30.20	Frozen, boneless, processed, high-quality beef	([2])	([2])	([2])	([2])
2401.10.60	Cigarette leaf, not stemmed	([5])	([5])	([5])	([5])
2208.40.00	Rum and tafia	453	.43	591	.56
8533.21.00	Electrical fixed resistors	148	.04	175	.05
7213.31.30	Irregularly wound coils of hot-rolled rod	65	.02	110	.03
7214.40.00	Hot-rolled bars and rods containing < .25% carbon	146	.03	218	.04
2009.20.40	Grapefruit juice, concentrated	862	.30	1,107	.39
0802.90.90	Nuts, n.e.s.i.	21	.05	30	.07
0202.30.40	Frozen, boneless, processed beef, except high-quality	([2])	([2])	([2])	([2])
0714.10.00	Cassava (manioc), fresh or dried	131	8.18	171	10.71
0804.30.20	Pineapples, bulk	([3])	([3])	([3])	([3])
0810.10.40	Fresh strawberries, if entered from 9/16 – 6/14	10	([7])	11	([7])
2402.10.60	Cigars, cheroots and cigarillos valued > 15¢ and < 23¢	125	.14	161	.19
0603.10.60	Roses, fresh cut	69	.04	98	.06
9507.90.70	Artificial baits and flies	189	.17	337	.31
2004.90.90	Other prepared vegetables, frozen	([6])	([6])	([6])	([6])
0805.10.00	Oranges, fresh or dried	15	.01	17	.01
2207.20.00	Ethyl alcohol and other spirits, denatured	([4])	([4])	([4])	([4])
7214.20.00	Concrete reinforcing bars	71	.01	104	.01
0714.90.40	Fresh arrowroot, salep, and jerusalem artichokes	([8])	([8])	([8])	([8])
	Total	20,388		27,930	

[1] Ranges correspond to the lower range and upper range of the CBERA import supply elasticities, 2 and 5, that were used to make these calculations.

[2] Values of HTS subheadings 0202.30.60, 0201.30.60, 0202.30.20, and 0202.30.40 were aggregated into one category to estimate the the value of U.S. shipments that were displaced by CBERA imports and are reported on the line for HTS subheading 0202.30.60.

[3] Values of HTS subheadings 0804.30.40 and 0804.30.20 were aggregated into one category to estimate the the value of U.S. shipments that were displaced by CBERA imports and are reported on the line for HTS subheading 0804.30.40.

[4] Values of HTS subheadings 2207.10.60 and 2207.20.00 were aggregated into one category to estimate the the value of U.S. shipments that were displaced by CBERA imports and are reported on the line for HTS subheading 2207.10.60.

[5] Values of HTS subheadings 2401.10.60 and 2401.20.80 were aggregated into one category to estimate the the value of U.S. shipments that were displaced by CBERA imports and are reported on the line for HTS subheading 2401.20.80.

[6] Values of HTS subheadings 0710.80.95 and 2004.90.90 were aggregated into one category to estimate the the value of U.S. shipments that were displaced by CBERA imports and are reported on the line for HTS subheading 0710.80.95.

[7] Less than 0.005 percent.

[8] Not available.

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

APPENDIX A
FEDERAL REGISTER NOTICE AND LIST OF SUBMISSIONS

INTERNATIONAL TRADE COMMISSION

[Investigation No. 332-227]

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

AGENCY: United States International Trade Commission.

ACTION: Notice of deadline to submit comments in connection with 1989 annual report.

EFFECTIVE DATES: July 25, 1990.

FOR FURTHER INFORMATION CONTACT: Paul R. Gibson (202-252-1270), Trade Reports Division, Office of Economics, U.S. International Trade Commission, Washington, DC. 20436.

BACKGROUND: Section 215(a) of the Caribbean Basin Economic Recovery Act (CBERA) (19 U.S.C. 2704(a)) requires that the Commission submit annual reports to the Congress and the President on the impact of the act. The Commission instituted the present investigation under section 332(b) of the Tariff Act of 1930 (19 U.S.C. 1332(b)) on March 21, 1986, for the purpose of gathering and presenting such information through 1995. Notice of institution of the investigation and the schedule for such reports was published in the Federal Register of May 14, 1986 (51 FR 17678). The fifth report, covering calendar year 1989, is to be submitted by September 28, 1990.

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

WRITTEN SUBMISSIONS: The Commission does not plan to hold a public hearing in connection with the fifth annual report. However, interested persons are invited to submit written statements concerning the matters to be addressed in the report. Commercial or financial information that a party desires the Commission to treat as confidential must be submitted on separate sheets of paper, each clearly marked "Confidential Business Information" at the top. All submissions requesting confidential treatment must conform with the requirements of section 201.6 of the Commission's *Rules of Practice and Procedure* (19 CFR 201.6). All written submissions, except for confidential business information, will be made available for inspection by interested persons in the Office of the Secretary to the Commission. To be assured of consideration by the Commission, written statements relating to the Commission's report should be submitted at the earliest practical date and should be received no later than August 10, 1990. All submissions should be addressed to the Secretary to the Commission, U.S. International Trade Commission, 500 E Street SW., Washington, DC 20436.

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

By order of the Commission.

Issued: July 25, 1990.

Kenneth R. Mason,

Secretary.

[FR Doc. 90-17725 Filed 7-27-90; 8:45 am]

BILLING CODE 7020-02-M

SUBMISSIONS FOR THE RECORD INVESTIGATION NO. 332-277

Ann Ottoson King
Leighton and Regnery on behalf of the American Cordage and Netting Manufacturers

Ann Ottoson King
Leighton and Regnery on behalf of the Cordage Institute

Frances Seghers
Executive Director, Motion Picture Export Association of America, Inc.

APPENDIX B
STATISTICAL TABLES

Table B-1

Leading U.S. imports for consumption entering duty-free under CBERA, in 1989, with corresponding commodity shares, by source

(In thousands of dollars)

Country	HTS No	Description	1989 Duty-Free CBERA Imports	Share of 1989 CBERA Imports
Antigua	8804.00.00	Parachutes (including dirigible parachutes)	1,187	51.4
	8903.91.00	Sailboats, with or without auxiliary motor	1,062	46.0
	0807.10.70	Melons, n.e.s.i., fresh, if entered between 12/1 and 5/31	13	0.6
	0807.10.50	Ogen and galia melons between 12/1 and 5/31	13	0.6
	0807.10.60	Ogen and galia melons entered any other time	9	0.4
		Total of items shown	2,284	99.0
Bahamas	2934.90.50	Nonaromatic heterocyclic compounds.	3,550	39.1
	2937.22.00	Halogenated dervtives of adrnal cortical hormones	2,174	23.9
	2937.99.50	Hormones and their derivatives, other steroids	743	8.2
	2922.50.17	Aromatic dermatological agents	589	6.5
	0509.00.00	Natural sponges of animal origin	499	5.5
		Total of items shown	7,555	83.2
Barbados	8533.21.00	Electrical fixed resistors	5,429	36.6
	8534.00.00	Printed circuits	4,038	27.2
	2208.40.00	Rum and tafia	1,480	10.0
	8531.90.00	Parts of electric sound or visual signaling appar	1,146	7.7
	1703.10.30	Cane molasses for commercial extraction	550	3.7
		Total of items shown	12,643	85.1
Belize	2009.11.00	Orange juice, concentrated	8,532	60.8
	2009.20.40	Grapefruit juice, concentrated	3,281	23.4
	1701.11.00	Cane sugar raw no flavoring/coloring	1,476	10.5
	1703.90.50	Molasses n.e.s.i	370	2.6
	0807.20.00	Papayas (papaws) fresh	67	0.5
		Total of items shown	13,726	97.8
British Virgin Islands	2208.40.00	Rum and tafia	123	89.1
	7117.90.50	Imitation jewelry valued over $.20 per dozen	9	6.5
	8421.99.00	Parts for filtering, or purifying gas	4	2.9
	6914.90.00	Ceramic articles	2	1.5
		Total of items shown	138	100.0
Costa Rica	0804.30.40	Pineapples, in crates or other packages	27,600	14.5
	0202.30.60	Frozen boneless beef, except processed	25,235	13.2
	0201.30.60	Fresh or chilled boneless beef, except processed	22,693	11.9
	8534.00.00	Printed circuits	16,846	8.8
	0302.69.40	Fish n.e.s.i. except fillet, livers and roes	10,002	5.2
		Total of items shown	102,376	53.7
Dominica	3401.11.50	Soap, n.e.s.i., organic surface-active products	577	68.4
	2201.10.00	Water, mineral, aerated natural not sweetened	91	10.8
	8438.90.90	Parts of machinery for industrial preparation	84	9.9
	8517.30.50	Electrical telegraphic switching apparatus	30	3.6
	3401.19.00	Soap; organic surface-active products usd as soap	23	2.7
		Total of items shown	805	95.4
Dominican Republic	1701.11.00	Cane sugar raw no flavoring/coloring	72,768	24.3
	9018.90.80	Instruments & appliances for medical,surgical use	25,851	8.6
	7116.20.10	Jewelry of precious or semiprecious stones	17,231	5.8
	0202.30.60	Frozen boneless beef, except processed	16,491	5.5
	2402.10.80	Cigars, cheroots, cigarillos valued over $.23	15,109	5.1
		Total of items shown	147,450	49.3

Table B-1—*Continued*

Leading U.S. imports for consumption entering duty-free under CBERA, in 1989, with corresponding commodity shares, by source

(In thousands of dollars)

Country	HTS No	Description	*1989 Duty-Free CBERA Imports*	*Share of 1989 CBERA Imports*
El Salvador	8532.24.00	Ceramic dielectric fixed capacitors	12,140	44.0
	1701.11.00	Cane sugar raw no flavoring/coloring	3,239	11.7
	0202.30.60	Frozen boneless beef, except processed	2,052	7.4
	0807.10.70	Melons, n.e.s.i., fresh, if entered 12/1 to 5/31	1,433	5.2
	0710.80.70	Frozen vegetables n.e.s.i	1,338	4.9
		Total of items shown	20,202	73.2
Grenada	8413.91.90	Parts of pumps, n.e.s.i	2,058	93.6
	8533.90.00	Parts for electrical resistors, and rheostats	67	3.1
	0302.69.40	Fish n.e.s.i. except fillet, livers and roes	23	1.0
	8504.90.00	Transformer parts	22	1.0
	2208.40.00	Rum and tafia	15	0.7
		Total of items shown	2,183	99.4
Guatemala	0202.30.60	Frozen boneless beef, except processed	15,819	14.1
	1701.11.00	Cane sugar raw no flavoring/coloring	11,375	10.1
	2401.10.60	Cigarette leaf, not stemmed	8,938	7.9
	2933.19.25	Aromatic or modified aromatic pesticides	8,007	7.1
	2401.20.80	Tobacco, partly or wholly stemmed	7,644	6.8
		Total of items shown	51,783	46.0
Guyana	1701.11.00	Cane sugar raw no flavoring/coloring	2,081	75.2
	2935.00.45	Other drugs of sulfnamide(excl anti-infect agnts)	570	20.6
	3307.10.20	Pre-shave & shaving preparations contain alcohol	109	3.9
	4419.00.80	Tableware and kitchenware, of wood, n.e.s.i	6	0.2
	0303.79.40	Fish, n.e.s.i., frozen, excluding fillets	2	0.1
		Total of items shown	2,767	99.9
Haiti	9506.69.20	Baseballs and softballs	18,906	28.0
	8536.90.00	Electrical apparatus n.e.s.i. for switching	16,644	24.6
	8504.50.00	Inductors, n.e.s.i	4,360	6.5
	8504.31.40	Electrical trnsfrmers, oth thn liquid dielectric	3,824	5.7
	4818.50.00	Paper apparel and clothing accessories	2,390	3.5
		Total of items shown	46,124	68.3
Honduras	0202.30.60	Frozen boneless beef, except processed	11,207	21.3
	0201.30.60	Fresh or chilled boneless beef, except processed	6,904	13.1
	2402.10.80	Cigars, cheroots, cigarillos, valued over $.23	5,387	10.2
	0807.10.20	Cantaloupes, fresh, entered between 9/16-7/31	5,053	9.6
	9506.69.20	Baseballs and softballs	4,128	7.8
		Total of items shown	32,679	62.1
Jamaica	2207.10.60	Undenatured ethyl alcohol	19,081	37.0
	2208.40.00	Rum and tafia	4,942	9.6
	2402.10.80	Cigars, cheroots, cigarillos, valued over $.23	4,890	9.5
	2208.90.45	Cordials, liquers, kirschwasser and ratafia	4,177	8.6
	0714.90.20	Fresh yams, whether or not sliced or pellets	3,821	7.4
		Total of items shown	37,153	72.1
Montserrat	8538.90.00	Parts n.e.s.i., for use with electrical apparatus	87	90.6
	0603.10.60	Roses, fresh cut	9	9.4
		Total of items shown	96	100.0

Table B-1—*Continued*

Leading U.S. imports for consumption entering duty-free under CBERA, in 1989, with corresponding commodity shares, by source

(In thousands of dollars)

Country	HTS No	Description	1989 Duty-Free CBERA Imports	Share of 1989 CBERA Imports
Neth. Antilles	8544.60.20	Insulated electric conductors n.e.s.i	877	34.7
	7326.20.00	Articles of iron or steel wire, n.e.s.i	483	19.1
	8504.31.40	Electrical trnsfrmers, oth thn liquid dielectric	458	18.1
	8524.21.30	Pre-recorded magnetic tapes, certain widths	308	12.2
	3507.90.00	Enzymes and prepared enzymes, n.e.s.i	100	4.0
		Total of items shown	2,226	88.0
St. Kitts and Nevis	8503.00.40	Parts of motrs under 18.65 w othr thn commutators	3,512	25.0
	1701.11.00	Cane sugar raw no flavoring/coloring	3,217	23.0
	8504.31.40	Electrical trnsfrmers, oth thn liquid dielectric	1,358	9.7
	8504.31.20	Unrated electrical transformers	1,297	9.2
	8525.10.20	Transmission apparatus for television	1,126	8.0
		Total of items shown	10,510	74.9
St. Lucia	8533.21.00	Electrical fixed resistors	1,246	42.0
	8532.29.00	Fixed capacitors, n.e.s.i	1,122	37.8
	8518.50.00	Electric sound amplifier sets	179	6.0
	6307.90.40	Cords and tassels of textile materials	141	4.7
	4823.90.85	Articles of paper, paprbord and webs of cellulose	72	2.4
		Total of items shown	2,760	92.9
St. Vincent and the Grenadines	9506.51.40	Lawn-tennis rackets, not strung	5,359	95.0
	9506.69.20	Baseballs and softballs	241	4.2
	9506.51.60	Parts and accessories of lawn-tennis rackets	17	0.3
	0714.90.20	Fresh yams, whether or not sliced or pellets	11	0.2
	0709.90.05	Jicamas, pumpkins and breadfruit	11	0.2
		Total of items shown	5,639	99.9
Trinidad and Tobago	2905.11.20	Methanol (methyl alcohol), other than imported	12,542	38.8
	7213.31.30	Irregularly wound coils of hot-rolled rod	5,322	16.4
	7214.40.00	Hot-rolled bars and rods containing < .25% carbon	3,657	11.3
	2306.20.00	Oilcake and other solid residues	2,607	8.0
	9021.21.40	Artifical teeth and parts and accessories thereof	2,413	7.5
		Total of items shown	26,541	82.0

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 B–2
Twin Plants and 936-Financed Projects, 1989–90

Twin Plants, 1989

Company	*Country*	*Investment*	*Industry*
Cape Red Textile	Barbados	50,000	Apparel & Textile Products
L.M. Industries	Costa Rica	300,000	Apparel & Textile Products
Suttle Inc	Costa Rica	400,000	Electric & Electronic
American Home Products[1]	Dominican Republic	1,600,000	Chemicals & Allied Products
Bacardi Corp[1]	Dominican Republic	1,000,000	Printing & Allied Products
F.C. Industries	Dominican Republic	250,000	Apparel & Textile Products
Johnson & Jonhson Dental	Dominican Republic	800,000	Chemicals & Allied Products
P.R. Calcite	Dominican Republic	538,000	Stone Products
Quest Corp[1]	Dominican Republic	1,000,000	Electric & Electronic
Signal Caribe	Dominican Republic	500,000	Electric & Electronic
Bacardi Corp[1]	Dominica	0	Food Products
Quest	Jamaica	85,000	Electric & Electronic
South Pacific Textiles	Jamaica	1,000,000	Apparel & Textile Products
Total		7,523,000	

[1] 936 companies.

Twin Plants, 1990

Company	*Country*	*Investment*	*Industry*
Searle Pharmaceutical[1]	Costa Rica	2,000,000	Chemicals & Allied Products
Diversey P.R. Inc.	Dominican Republic	70,000	Chemicals & Allied Products
Five Star Fashion, Inc.	Dominican Republic	400,000	Apparel & Textile Products
Four Star Industries	Dominican Republic	300,000	Apparel & Textile Products
G H Bass (XT)[1]	Dominican Republic	700,000	Leather & Leather Products
Isabela Shoe (XT)[1]	Dominican Republic	500,000	Leather & Leather Products
Maiden Form (XT)[1]	Dominican Republic	1,000,000	Apparel & Textile Products
Mindy Lee Corp.	Dominican Republic	500,000	Apparel & Textile Products
National Chains Corp	Dominican Republic	150,000	Fabricated Metal Products
Outdoor Footwear (XT)[1]	Dominican Republic	1,500,000	Leather & Leather Products
P.R. Desposable Safetywear	Dominican Republic	300,000	Apparel & Textile Products
Playtex Apparel Inc[1]	Dominican Republic	800,000	Apparel & Textile Products
Themoking Corp[1]	Dominican Republic	2,000,000	Electric & Electronic
Allergan[1]	Grenada	600,000	Chemicals & Allied Products
Guys Dolls	Haiti	500,000	Plastic & Rubber Products
Telecom of Jamaica LTD	Jamaica	22,000,000	Telecommunications
Warner Lambert[1]	Jamaica	50,000	Food and Kindred Products
Total		33,370,000	

[1] 936 companies.
Source: Fomento.

Table B-2—*Continued*
Twin Plants and 936-Financed Projects, 1989-90
936 Projects, 1989-90

Company	*Country*	*Investment*	*Industry*
Barbados Telephone	Barbados	13,000,000	Infrastructure
ABC Container[1]	Dominican Republic	2,100,000	Paper/Allied Products
Abbotts Labs[1]	Dominican Republic	4,500,000	Chemicals/Allied Products
Seaboard	Dominican Republic	18,000,000	Infrastructure
Air Jamaica	Jamaica	51,000,000	Services
AT&T Cable	Jamaica	17,000,000	Telecommunications
Rosehall	Jamaica	10,000,000	Tourism
U.D.C./Transhore	Jamaica	8,700,000	Services
Caribbean Methanol	Trinidad & Tobago	79,000,000	Petroleum & Refining
Phoenix Park	Trinidad & Tobago	66,500,000	Petroleum & Refining[2]
Sapphire Beach	U.S.V.I.[3]	9,000,000	Tourism
Total		278,800,000	

[1] 936 companies.
[2] The details of another project in Trinidad and Tobago remains confidential but it will be related to chemicals and allied products and will use $25.3 million of 936 funds. The total amount invested will be $31.4 million.
[3] United States Virgin Islands.

Source: Fomento.

Table B-3
U.S. trade with the Caribbean Basin countries, 1984-89

Year	U.S. exports[1]	Share of U.S. exports to the world	U.S. imports[2]	Share of U.S. imports from the world	U.S. trade balance
	(Million dollars)	(Percent)	(Million dollars)	(Percent)	(Million dollars)
1984	6,300.2	2.9	8,896.5	2.8	-26,596.3
1985	5,996.4	2.8	6,849.9	2.0	-853.6
1986	6,292.2	2.9	6,186.8	1.7	105.4
1987	6,940.6	2.8	6,178.1	1.5	762.6
1988	7,666.3	2.5	6,172.3	1.4	1,494.0
1989	9,184.4	2.6	7,020.6	1.5	2,163.8

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

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

Table B-4
U.S. Trade with the countries designated under the CBERA, 1984-89

Year	U.S. exports[1]	Share of U.S. exports to the world	U.S. imports[2]	Share of U.S. imports from the world	U.S. trade balance
	(Million dollars)	(Percent)	(Million dollars)	(Percent)	(Million dollars)
1984	5,952.9	2.8	8,649.2	2.7	-2,696.4
1985	5,743.0	2.8	6,687.2	1.9	-944.2
1986	6,064.6	2.8	6,064.7	1.6	-0.1
1987	6,668.3	2.7	6,039.0	1.5	629.3
1988	7,421.8	2.4	6,061.1	1.4	1,360.7
1989	8,105.0	2.3	6,637.4	1.4	1,467.6

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

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

Table B-5
U.S. imports for consumption from CBERA countries of goods not eligible for duty-free treatment under CBERA, 1985-89
($1,000, customs value)

Product category[1]	*1985*	*1986*	*1987*	*1988*	*1989*	*Percentage change, 1989 over 1985*
Petroleum and petroleum products	2,371,060	1,375,565	1,376,662	1,058,524	1,044,432	(56.0)
Textiles and apparel	648,969	827,108	1,148,432	1,488,812	1,753,055	170.1
Certain handbags, luggage, and flatgoods	12,345	13,428	20,215	20,410	16,669	35.0
Footwear	22,497	26,529	30,365	39,255	45,215	101.0
Work gloves	5,404	6,177	3,996	3,906	5,452	0.9
Certain leather apparel	1,458	1,832	2,348	3,386	11,279	673.4
Tuna	0	0	117	14	2	([2])
Total	3,061,733	2,250,640	2,582,135	2,614,307	2,876,103	(6.1)

[1] Petroleum and petroleum products are HTS items 2709.00.10-2709.00.20, and 2710.00.05-2710.00.45. Textiles are defined as HTS items 5005.00.00.90, 5006.00.00.90, 5007.10.60, 5007.90.60, 5101.21.60, 5101.29.60, 5101.30.60, 5102.10.90, 5105.10.00-5105.30.00, 5106.10.00-5109.90.60, 5111.11.10-5112.90.60, 5204.11.00-5208.29.80, 5208.31.40-5208.31.80, 5208.32.30-5208.39.80, 5208.41.40-5208.41.80, 5208.42.30-5208.49.80, 5208.51.40-5208.51.80, 5208.52.30-5209.29.00, 5209.31.60-5209.39.00, 5209.41.60-5209.49.00, 5209.51.60-5212.25.60, 5306.10.00-5306.20.00, 5308.20.00, 5308.90.00, 5309.21.20-5309.29.40, 5311.00.20-5311.00.40, 5401.10.00-5403.49.00, 5404.10.20-5408.34.90, 5501.10.00-5516.94.00, 5601.10.10-5601.22.00, 5601.29.00.20-5606, 5607.41.30, 5607.49.15-5609.00.40, 5701.10.16-5701.90.20, 5702.10.90.10-5702.10.90.30, 5702.31.10-5702.32.20, 5702.39.20.10, 5702.41.10-5702.49.10, 5702.51.20-5702.59.10, 5702.91.30-5702.99.10, 5703.10.00-5704.90.00, 5705.00.20, 5801.10.00-5801.90.10, 5801.90.20.90-5802.19, 5802.20.00.20-5802.20.00.90, 5802.30.00.20-5803.90.30.00, 5803.90.40.90, 5804.29.00.20-5804.29.00.90, 5804.30.00.20-5804.30.00.90, 5805.00.25-5806.10.20, 5806.10.30.20-5806.39.20.00, 5806.39.30.20-5807.90.20.90, 5808.10.20.10, 5808.10.30.10-5811.00.40.00, 5901.10.10-5903.10.10, 5903.10.18-5903.20.10, 5903.20.18-5903.90.10, 5903.90.18-5903.90.30, 5905.00.90, 5906.91.10-5911.20.10, 5911.20.30-5911.90.00, 6001.10.20-6001.92.00, 6001.99.00.90-6002.93.00.80, 6002.99.00.90, 6301.10.00-6301.90.00, 6301.90.00.30-6302.22.20.30, 6302.29.00.20-6302.39.00.10, 6302.39.00.30-6302.93.20.00, 6304.99.60.10-6304.99.60.20, 6304.99.60.40, 6304.19.30.40-6304.91.00.50, 6304.91.00.70-6304.93.00.00, 6304.99.15-6304.99.20, 6304.99.60.10-6304.99.60.20, 6304.99.60.40, 6305.20.00-6307.90.75, 6307.90.90-6309.00.00, 6310.10.10, 6310.90.10, 9404.90.10, 9404.90.20, 9404.90.80, 9404.90.90. Apparel are HTS items, 3926.20.50.50, 4015.90.00.50, 4203.10.40, 6101.90.00.30-6102.90.00.15, 6102.90.00.25-6103.19.40.50, 6103.19.40.70-6103.29.10.60, 6103.29.20.30, 6103.29.20.36, 6103.29.20.42, 6103.29.20.50-6103.49.30.14, 6103.29.20.54-6103.29.20.62, 6103.29.20.66-6103.29.20.74, 6103.29.20.82-6103.39.20.30, 6103.49.30.18-6103.49.30.38, 6103.49.30.40-6104.19.20.60, 6104.19.20.80-6104.29.20.14, 6104.29.20.18-6104.29.20.26, 6104.29.20.30-6104.29.20.38, 6104.29.20.42-6104.29.20.50, 6104.29.20.53-6104.29.20.60, 6104.29.20.64-6104.29.20.76, 6104.29.20.82-6104.39.20.30, 6104.39.20.50-6104.49.00.30, 6104.49.00.50-6104.59.20.30, 6104.59.20.50-6104.69.30.14, 6104.69.30.18-6104.69.30.26, 6104.69.30.30-6105.90.30.30, 6105.90.30.50-6106.90.20.30, 6106.90.20.50-6107.12.00.20, 6107.19.00.20-6107.29.20.00, 6107.29.40.20-6107.99.20.00, 6107.94.40.20-6108.19.00.10, 6108.19.00.30-6108.22.00.30, 6108.29.00.20-6108.39.10.00, 6108.39.20.20-6108.99.20.00, 6108.99.40.20-6109.90.15.40, 6109.90.20.15, 6109.90.20.30-6110.90.00.14, 6110.90.00.18-6110.90.00.30, 6110.90.00.36-6110.90.00.51, 6110.90.00.60-6110.90.00.78, 6110.90.00.84-6111.90.50.40, 6111.90.60.20-6112.19.10.60, 6112.19.20.20-6112.19.20.30, 6112.19.20.50-6122.19.20.60, 6112.19.20.80-6112.49.00.20, 6113.00.00.15-6114.30.30.70, 6114.90.00.10, 6114.90.00.20, 6114.90.00.30, 6114.90.00.40-6114.90.00.55, 6114.90.00.65-6115.19.00.20, 6115.19.00.40-6115.20.00.10, 6115.20.00.30-6115.99.18.00, 6115.99.20.20, 6116.10.35.30, 6116.10.45.10-6116.10.45.30, 6116.90.90.10, 6116.90.90.20, 6116.90.90.30, 6116.91.00, 6116.92.20.50-6116.92.30.00, 6116.93.15, 6116.93.20.20, 6116.99.60.20, 6116.99.60.40, 6116.99.60.50-6117.10.20.00, 6117.10.60.10, 6117.10.60.20, 6117.20.00.30, 6117.20.00.50-6117.80.00.35, 6117.80.00.50-6117.90.00.14, 6117.90.00.18-6117.90.00.26, 6117.90.00.30-6117.90.00.36, 6117.90.00.40-6117.90.00.46, 6117.90.00.50-6117.90.00.56, 6117.90.00.60, 6201.19.00.50-6201.99.00.30, 6201.99.00.50-6202.99.00.30, 6202.19.00.10, 6202.19.00.20, 6202.19.00.30, 6202.99.00.50-6203.29.20.60, 6203.29.30.20, 6203.29.30.28, 6203.29.30.40, 6203.29.30.60, 6203.29.30.80, 6203.31.00-6203.39.20, 6203.39.40.10, 6203.39.40.20, 6203.39.40.30, 6203.39.40.50-6203.49.30.30, 6203.49.30.40-6203.49.30.45, 6203.49.30.60-6204.19.30.60, 6204.19.30.60-6204.19.30.60, 6204.19.30.80-6204.29.40.14, 6204.29.40.18-6204.29.40.26, 6204.29.40.30-6204.29.40.38, 6204.29.40.42-6204.29.40.50, 6204.29.40.42-6204.29.40.50, 6204.29.40.54-6204.29.40.62, 6204.29.40.54-6204.29.40.62, 6204.29.40.66-6204.39.40.30, 6204.39.40.50-6204.41.20.20, 6204.42.20-6204.42.30, 6204.43.20-6204.43.40, 6204.44.30-6204.44.40, 6204.49.00.10, 6204.49.00.20, 6204.49.00.30, 6204.49.00.50-6204.51.00.20, 6204.52.20, 6204.53.20-6204.53.30, 6204.59.20-6204.59.30, 6204.59.40.10, 6204.59.40.20, 6204.59.40.30, 6204.59.40.50-6204.62.20.50, 6204.62.40-6204.63.15, 6204.69.30.50, 6204.69.30.70, 6204.69.90, 6205.10.20, 6205.20.20, 6205.30.15-6205.30.20, 6205.90.20.10, 6205.90.20.20, 6205.90.20.30, 6205.90.20.50-6206.10.00.30, 6206.10.00.50, 6206.20.20-6206.20.30, 6206.30.20-6206.30.30, 6206.40.20-6207.11.00, 6207.19.00.10, 6207.19.00.30-6207.29.00.10, 6207.29.00.30-6207.99.40.00, 6207.99.60.20, 6207.99.60.40-6208.19.20.00, 6208.19.40.20-6208.29.00.10, 6208.29.00.30-6208.99.20.20, 6208.99.60.20, 6208.99.60.40-6209.90.30.40, 6209.90.40.20-6211.11.20.20, 6211.11.20.40-6211.12.30.05, 6211.12.30.25-6211.33.00.60, 6211.39.00.20-6211.43.00.90, 6211.49.00.20-6212.10.10.20, 6212.10.10.40-6212.10.20.20, 6212.10.20.40-6212.90.00.40, 6213.10.20-6213.90.20, 6214.10.20.00-6215.10.00.25, 6215.10.00.90-6215.90.00.20, 6216.00.25.30, 6216.00.30.10-6216.00.30.40, 6216.00.38.20, 6216.00.48.20-6216.00.48.45, 6216.00.50.00-6217.10.00.30, 6217.10.00.50-6217.90.00.10, 6217.90.00.20-6217.90.00.35, 6217.90.00.45-6217.90.00.60, 6217.90.00.70-6217.90.00.85, 6217.90.00.95, 6501.00.90, 6502.00.90.30, 6503.00.90, 6504.00.30, 6504.00.60, 6504.00.90.15, 6504.00.90.60, 6506.10.60, 6506.91.00, 6506.99.00, 6507.00.00. Handbags, luggage and flatgoods are HTS items 4202.11.00-4202.22.15, 4202.22.40-4202.22.60, 4202.22.80, 4202.29.00, 4202.31.60, 4202.32.40, 4202.32.95, 4202.91.00-4202.92.45, 4202.92.60-4202.99.00, 4602.10.21, 4602.10.22, 4602.10.25, and 4602.10.29. Footwear are HTS items 6401.10.00-6402.20.00, 6402.30.30-6405.20.90.90, 6405.90.90-6406.10.50,

[1]—Continued
6406.10.75–6406.10.80, and 6406.99.15. Work gloves are HTS items 4203.29.08, 4203.29.18, 6116.10.15, 6116.10.25, 6116.10.35.10–6116.10.35.40, 6116.92.20.10–6116.92.20.40, 6116.93.20.10, 6216.00.15, 6216.00.20, 6216.00.25.10, 6216.00.25.25, 6216.00.25.40, 6216.00.38.10, 6216.00.48.10, 6216.00.48.35. Certain leather apparel is HTS item 4203.10.40. Tuna is comprised of HTS items 1604.14.10, 1604.14.20, and 1604.14.30.
[2] Not applicable.

Note.—Figures for 1985–88 under the HTS classification system are estimated.

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

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

APPENDIX C
TECHNICAL NOTES TO CHAPTER 3

The CBERA has been in effect since 1984, therefore the current level of imports from CBERA beneficiary countries contains the effects of the duty-free treatment. The welfare effects of CBERA in 1989 are analyzed by examining the net-welfare costs that would result from the elimination of the duty-free treatment.[1] The model used in this report is similar to the model described in the third CBERA report.[2]

The Model

The removal of CBERA duty-free treatment is analyzed in a partial equilibrium framework. Imports from CBERA beneficiary countries, imports from non-CBERA countries, and competing domestic output are assumed to be imperfect substitutes for each other.[3] Therefore, each of the three products is characterized by a separate market where differing equilibrium prices can exist. The three markets are depicted in figure C-1. In each of the three diagrams, C-1a, C-1b, and C-1c, the vertical axis measures price, and the horizontal axis measures the physical quantity of the product.

It is assumed that the CBERA import supply curve to the U.S. market is upward sloping. This is shown by the curve S_c. (Henceforth, the subscripts c, n, and u refer to CBERA imports, non-CBERA imports, and U.S. output, respectively.) As noted by Rousslang and Lindsey (1984), it is customary to assume that import supply curves are perfectly elastic, or horizontal.[4] However, in the case of CBERA imports, this assumption is inappropriate because the CBERA countries export a substantial portion of their production to the United States. Therefore, they have few opportunities to divert sales from other markets to the U.S. market in response to an increase in U.S. demand.

On the other hand, it is assumed that the supply elasticity for the competing domestic industry is perfectly elastic. This is shown by curve S_u in figure C-1c. This assumption has been made so as to estimate the maximum possible effect of the CBERA on domestic production.[5]

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

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

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

[1] A similar approach is taken by Mendez and Murray in analyzing the effects on less developed countries (LDCs) under special tariff provisions of the United States. Jose Mendez and Tracy Murray, "LDC Benefits under Special Tariff of the United States: A comparison," USITC, Office of Economics, Unpublished mimeograph, July 11, 1988.

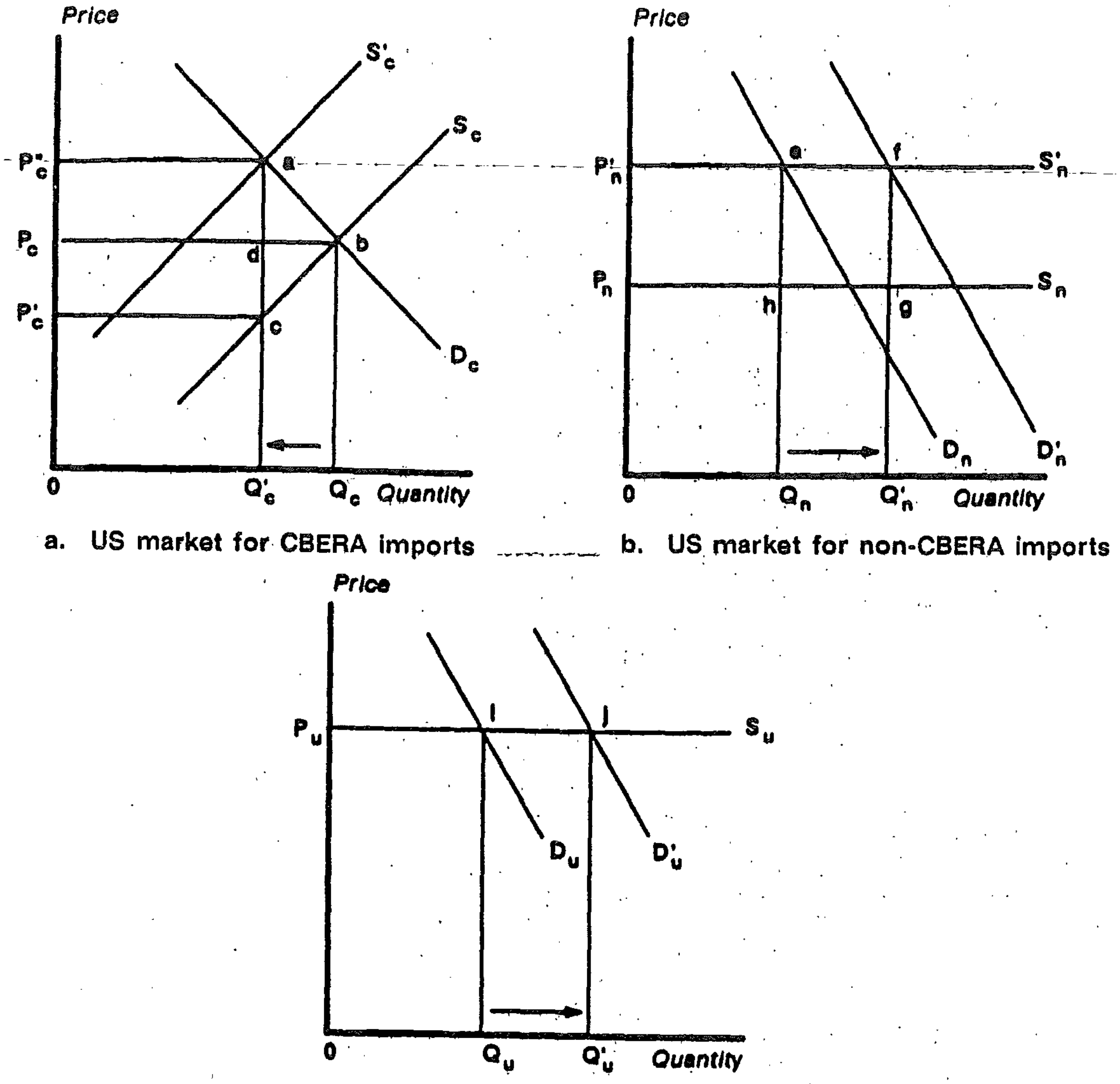
[2] See USITC, *Third CBERA report*, pages B-1-B-7, for a more in depth discussion of the methodology used in this report.

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

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

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

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



a. US market for CBERA imports

b. US market for non-CBERA imports

c. US market for the competing domestic industry

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

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

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

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

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

Description of Data

Import data were taken from official statistics of the U.S. Department of Commerce. The dollar estimates of consumer surplus and tariff revenues that were presented in the text of chapter 3 and the average ad valorem tariff rates discussed above were calculated from 1989 U.S. import data for CBERA and non-CBERA imports aggregated at the eight-digit HTS (Harmonized Tariff Schedule) level.

The calculations for the price elasticity of CBERA import demand, the cross elasticity of demand between non-CBERA and CBERA imports, and the cross elasticity of demand between U.S. domestic output and CBERA imports used in this analysis, were made from the import data described above, domestic-shipment data estimated by the staff of the USITC, and aggregate import-demand elasticities that were reported in the literature.[6]

Finally, as noted by Rousslang and Lindsey, it is extremely difficult to obtain reliable estimates of import-supply elasticities. For the CBERA import-supply elasticity, this report used the range suggested by Rousslang and Lindsey, 2 to 5.[7] Therefore, calculations of net-welfare effects and the displacement of U.S. domestic output by CBERA imports are presented in ranges corresponding to the two supply elasticities.

[6] The aggregate import demand elasticities were taken from Robert E. Baldwin, U.S. Tariff Policy: Formation and Effects, U.S. Department of Labor, Discussion Paper, June 1976. The derivation of the cross price elasticities of demand used in this analysis are discussed in further detail in the Third CBERA Report.

[7] Rousslang and Lindsey, U.S. CBI Tariff Eliminations, p. 522.