CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 28, 2008

H.R. 7222
An act to extend the Andean Trade Preference Act, and for other purposes

As cleared by the Congress on October 3, 2008, and signed by the President on October 16, 2008

SUMMARY

H.R. 7222, enacted as Public Law 110-436, extends the provisions of the Andean Trade Preference Act (ATPA) and the Generalized System of Preferences (GSP). Additionally, the act establishes a program that will allow for expanded duty-free treatment of apparel imports from the Dominican Republic, repeals certain limitations on preferential treatment of apparel imports under the African Growth and Opportunity Act (AGOA), and expands the preferential treatment provided to Mauritius under AGOA. The act also extends customs user fees and shifts some corporate estimated tax receipts from 2014 into 2013.

CBO and the Joint Committee on Taxation (JCT) estimate that the act will increase revenues by $84 million over the 2009-2013 period and reduce revenues by $1.1 billion over the 2009-2018 period. CBO also estimates that H.R. 7222 will increase offsetting receipts (which are a credit against direct spending) by $1.1 billion over the 2009-2018 period (with all of that change occurring in 2017 and 2018). Thus, the net impact of the legislation is a reduction in deficits (or increase in surpluses) of $84 million over the 2009-2013 period and $7 million over the 2009-2018 period.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 7222 is shown in the following table. Spending under this legislation falls within budget function 750 (administration of justice).

	By Fiscal Year, in Millions of Dollars											
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2009-2013	2009-2018
CHANGES IN REVENUES												
GSP Extension	-620	-213	0	0	0	0	0	0	0	0	-832	-832
ATPA Extension	-102	-29	0	0	0	0	0	0	0	0	-132	-132
Earned Import Allowance Program for the Dominican Republic	-4	-4	-4	-5	-5	-6	-6	-6	-7	-7	-23	-54
Repeal of Apparel Preferences Limitation for AGOA	-2	-11	-14	-23	0	0	0	0	0	0	-50	-50
Expansion of Apparel Preferences for Mauritius	*	*	*	*	0	0	0	0	0	0	-1	-1
Corporate Estimated Tax Payments Due in 2013 and 2014	0	0	0	0	1,121	-1,121	0	0	0	0	1,121	0
Total Estimated Changes in Revenues	-728	-257	-19	-27	1,116	-1,127	-6	-6	-7	-7	84	-1,068
CHANGES IN DIRECT SPENDING												
Customs User Fees Extension and Repeal of Accelerated Payments												
Estimated Budget Authority	0	0	0	0	0	0	0	0	393	-1,468	0	-1,075
Estimated Outlays	0	0	0	0	0	0	0	0	393	-1,468	0	-1,075

Sources: Congressional Budget Office and Joint Committee on Taxation.

Notes: GSP = Generalized System of Preferences; ATPA = Andean Trade Preference Act; AGOA = African Growth and Opportunity Act.

* = revenue loss of less than $500,000.

Components may not sum to totals because of rounding.

BASIS OF ESTIMATE

Revenues

GSP Extension. H.R. 7222 extends the GSP through December 31, 2009. Initiated in 1976 and first authorized for a 10-year period, the program had been periodically extended through its previous expiration date of December 31, 2008. GSP provides duty-free entry for more than 4,650 products from 131 countries and territories. Based on the composition of recent imports under the program and CBO's forecast of total imports, CBO estimated the future customs value and an effective tariff rate for those imports under the GSP, yielding a projection of customs duties under the change in law. We then compared that projection for customs duties with its projection for duties in the absence of such preferences. CBO estimates that the extension of the trade preferences will reduce revenues from customs duties by $620 million in 2009 and $213 million in 2010, net of income and payroll-tax offsets.

ATPA Extension. Under the act, the ATPA trade preferences, which were scheduled to expire on December 31, 2008, are extended for each of the four beneficiary countries: Bolivia, Colombia, Ecuador, and Peru. (A free trade agreement with Peru, which is currently being implemented, would eventually supersede that country's ATPA preferences). For Colombia and Peru, the trade preferences are extended through December 31, 2009. For Ecuador and Bolivia, the trade preferences are extended through June 30, 2009. However, depending upon determinations to be made by the President regarding whether Ecuador and Bolivia satisfy numerous criteria upon which all beneficiary countries are assessed, those preferences could continue from July 1, 2009, through December 31, 2009.

Among the decision criteria are stipulations that a beneficiary country must not seize the property or repudiate the intellectual property rights of a United States citizen or corporation. The President must also consider the degree to which the trade policies of the country with respect to the other beneficiary countries contribute to the revitalization of the region. CBO cannot predict what determinations the President will make; therefore, we assume that there is a 50 percent probability that the President will make determinations such that ATPA preferences continue for both Ecuador and Bolivia. On that basis, CBO estimates that the extension of the ATPA preferences will reduce revenues from customs duties by $102 million in 2009 and $29 million in 2010, net of income and payroll-tax offsets.

Earned Import Allowance Program for the Dominican Republic. H.R. 7222 establishes a program with the Dominican Republic that will allow Dominican exports of certain types of apparel articles to receive duty-free treatment upon importation into the United States. Under the program, such Dominican apparel imports must be accompanied by an "earned import allowance certificate." Dominican apparel producers can earn such certificates by purchasing certain types of fabric made in the United States. For every two square-meter equivalent of U.S. fabric purchased by a Dominican producer, the producer will earn a certificate equal to one square-meter equivalent of qualifying apparel that could be redeemed upon exportation to the United States. The program will expire after 10 years.

Based on exports of fabric to the Dominican Republic and recent imports of qualifying apparel from the Dominican Republic, CBO estimates that this provision will reduce revenues from customs duties by $54 million over the 2009-2018 period, net of income and payroll-tax offsets.

Repeal of Apparel Preferences Limitation for AGOA. Enacted in 2000, AGOA provides preferential treatment to imports from 41 sub-Saharan African countries. Of that total, 26 are able to receive duty-free treatment on exports of apparel articles made with fabric purchased from a country that is not a party to the agreement. This expanded preferential treatment expires in 2012.

Prior to the enactment of H.R. 7222, this treatment was subject to a certain limitation. For any fabric deemed to have been available in commercial quantities in the AGOA region, AGOA countries must have used the regional fabric before purchasing fabric from third-party sources. Denim fabric was the only such fabric to have been deemed available in commercial quantities. The International Trade Commission (ITC) made annual determinations as to the amount of fabric available in the AGOA region and the amount of such fabric that had been used. If AGOA apparel producers failed to use all of the regionally available fabric for two consecutive years, then those countries would lose the duty-free preferential treatment offered to apparel made with such fabric purchased from non-AGOA countries.

H.R. 7222 repeals the limitation on commercially available fabrics, thereby obviating the need for any future ITC determinations. As of October 2008, ITC had made one determination that AGOA countries had not used all of the available denim in the AGOA region for 2007. Therefore, based on a 50 percent probability that ITC would make a similar determination in each of the remaining years in which the preferential treatment is offered, CBO estimates that repealing the limitation will reduce revenues from customs duties by $50 million over the 2009-2012 period, net of income and payroll-tax offsets. Such effects end in 2012 due to expiration of the preferences for all parties.

Expansion of Apparel Preferences for Mauritius. H.R. 7222 designates Mauritius as permanently eligible to receive duty-free treatment on exports of apparel articles made with fabric purchased from countries that are not parties to AGOA. Mauritius had temporarily been granted such a designation for the one-year period beginning on October 1, 2004. Based on recent imports from Mauritius and other AGOA countries, CBO estimates that this provision will reduce revenues from customs duties by $1 million over the 2009-2012 period. Such effects end in 2012 due to expiration of the preferences for all parties.

Corporate Estimated Tax Payments Due in 2013 and 2014. H.R. 7222 will shift revenues out of fiscal year 2014 into fiscal year 2013 by adjusting the portion of corporate estimated tax payments due in July through September of 2013. JCT estimates that this change will increase revenues by $1.1 billion in 2013 and reduce them by $1.1 billion in 2014.

Direct Spending

Customs user fees were scheduled to expire either after November 14, 2017 (for merchandise processing fees) or after October 7, 2017 (for fees established in the Consolidated Omnibus Budget Reconciliation Act (COBRA) of 1985). Such fees are recorded in the budget as offsetting receipts (a credit against direct spending). H.R. 7222 extends merchandise processing fees through February 14, 2018, and COBRA fees through January 31, 2018. CBO estimates that these provisions will increase offsetting receipts by $991 million in fiscal year 2018.

In addition, H.R. 7222 repeals subsections (c) and (d) of section 15201 of the Food, Conservation, and Energy Act of 2008 (Public Law 110-246). That legislation required certain payers of merchandise processing fees and COBRA fees to remit these funds to the federal government in the fourth quarter of fiscal year 2017 rather than in the first quarter of fiscal year 2018. CBO estimates that repealing section 15201 of P.L. 110-246 will decrease offsetting receipts by $393 million in 2017 and increase these receipts by $477 million in 2018. We expect that collecting merchandise processing fees in fiscal year 2018 as goods are imported will increase collections by about 20 percent because early collections of those payments would be based on the volume of goods imported in 2017 and because collections at the time goods are imported is expected to be more effective.

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