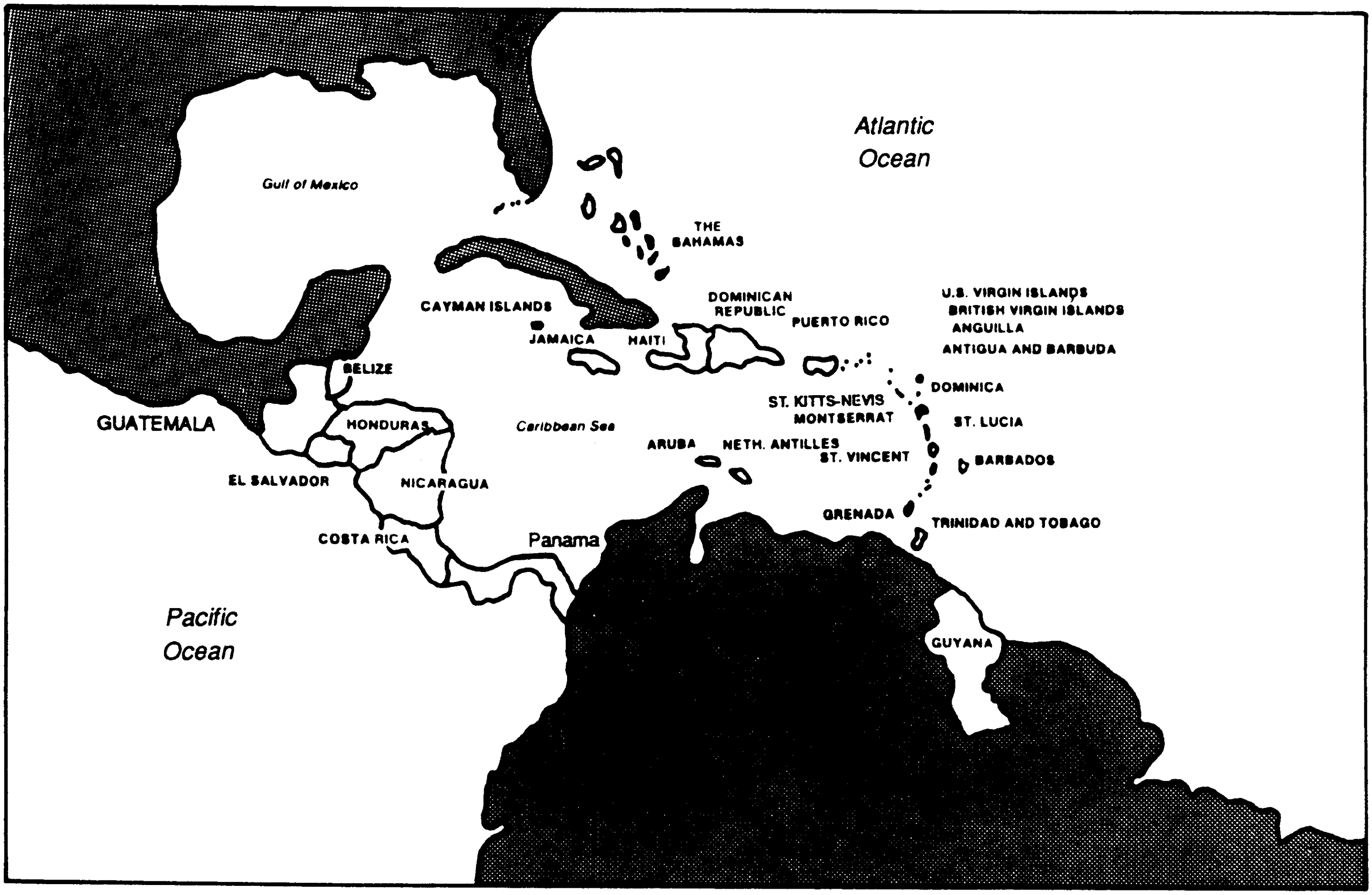
CARIBBEAN BASIN ECONOMIC RECOVERY ACT: IMPACT ON U.S. INDUSTRIES AND CONSUMERS

Tenth Report 1994

Investigation No. 332-227



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PREFACE

The submission of this study to the Congress and to the President continues a series of annual reports by the U.S. International Trade Commission (Commission) on the impact of the Caribbean Basin Economic Recovery Act (CBERA) on U.S. industries and consumers. Under section 215(a) of the act, the Commission must report annually on the operation of the program. The present study fulfills the requirement for calendar year 1994, the 11th year of program operation.

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

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

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EXECUTIVE SUMMARY

The Caribbean Basin Economic Recovery Act (CBERA) has been operative since January 1, 1984. CBERA eliminates, or in some cases reduces, tariffs on eligible products of designated Caribbean, Central American, and South American countries. The primary goal of CBERA is to promote export–oriented growth in the Caribbean Basin countries and to diversify their economies away from traditional agricultural products and raw materials such as aluminum, bananas, coffee, petroleum, and sugar. CBERA applies to the same tariff categories covered by the more restrictive U.S. Generalized System of Preferences (GSP) program. CBERA benefits extend beyond those of GSP by applying to additional products and by establishing more liberal product qualifying rules.

Section 215 of the statute requires the U.S. International Trade Commission (the Commission) to prepare an annual report reviewing actual and probable future effects of CBERA on the U.S. economy generally, on U.S. industries, and on U.S. consumers. Highlights of the Commission's 10th annual report on CBERA for the year 1994 follow:

- U.S. merchandise imports from the 24 countries designated as beneficiaries of CBERA (referred to herein as CBERA countries) totaled $11.2 billion in 1994, or 1.7 percent of U.S. imports worldwide. Although apparel articles are generally not eligible for duty–free or reduced–duty treatment, they continued to lead the list of all imports from CBERA countries in 1994. This series of reports has documented the shift in the product mix of U.S. imports from the Caribbean Basin countries during the CBERA years from lower–duty items such as petroleum products in favor of more higher–duty light manufactures such as apparel and other textile products. Reflecting this shift in product mix is the increase in U.S. tariff revenue from imports from CBERA countries (as indicated by "calculated duties") to $429.5 million in 1994 compared with $378.9 million in 1993 and only $75.3 million in 1984.

- Imports entered duty–free and at reduced duties under CBERA in 1994 totaled just over $2.0 billion, or 18.3 percent of imports from the CBERA countries. CBERA duty–free imports in 1994 were a record high $2.0 billion and CBERA reduced–duty imports were $32 million. In comparison, GSP duty–free imports from the CBERA countries were just $376 million in 1994.

- Two countries, the Dominican Republic and Costa Rica, continued to lead all countries in taking advantage of CBERA. These two countries combined have accounted for more than one–half of overall annual U.S. imports under CBERA since 1989. The Dominican Republic was the top supplier of leather footwear uppers and jewelry of precious metal—the leading CBERA imports. The leading imports from Costa Rica were jewelry of precious metal and frozen beef.

- Of the $2.0 billion worth of U.S. imports that entered under CBERA in 1994, only $943 million of those imports could not have received tariff preferences under any other program. The five leading import items benefiting exclusively from CBERA in 1994 were leather footwear uppers, beef, medical and surgical instruments, hot–rolled bars and rods, and ethyl alcohol.

- The overall effect of CBERA-exclusive imports on the U.S. economy and consumers continued to be negligible in 1994, although a few U.S. industries were measurably affected. The Commission used a partial–equilibrium analysis to produce "upper bound" estimates of these effects. Imports of the 20 leading items, except sugar, (measured at 8–digit subheadings of the *Harmonized Tariff Schedule of the United States*) benefiting exclusively from CBERA in 1994 produced net welfare gains for U.S. consumers. Ethyl alcohol yielded the largest such net gain, valued at $14.2 million, followed by leather footwear uppers, medical and surgical instruments, frozen beef, and frozen concentrated orange juice. Displacement of U.S. output by CBERA imports also was measured using upper bound estimates. Industries that may have experienced displacement of more than an estimated 5 percent of the value of U.S. production were: higher–priced cigars (9.9 percent of domestic shipments displaced, valued at $2.5 million); variable resistors (9.4 percent displacement, valued at $581,000); and fresh pineapples (8.2 percent displacement, valued at $4.3 million).

- Drawing largely on direct observation and reports from U.S. embassies, the Commission identified 14 new projects and 24 expansion projects for CBERA–related export–oriented production in 1994 involving capital outlays totaling $42.6 million. Several individuals contacted during the course of this investigation expressed concern that U.S. trade with and investment in CBERA countries would decline as a result of increased trade between the United States and Mexico under the North American Free Trade Agreement (NAFTA). Through staff travel to Trinidad and Tobago, the Commission identified significant new foreign direct investment in that country during 1994 including confirmed CBERA–related projects valued at $4 million. Industries identified as having the most CBERA–related export opportunities in Trinidad and Tobago included tropical cut flowers, spices, furniture, and products made from native fruits.

CHAPTER 1
Introduction

The United States launched the Caribbean Basin Initiative (CBI) in 1982 to promote political and social stability in the Caribbean (including Central American) region.[1] The CBI encompasses a number of public- and private-sector programs that aim to promote increased foreign and domestic investment in nontraditional sectors of the Caribbean Basin countries,[2] to diversify their economies, and to expand their exports.

The CBI included the bill enacted as the Caribbean Basin Economic Recovery Act (CBERA). The CBERA contains provisions for the United States to extend nonreciprocal duty-free treatment to most products of designated Caribbean countries. The CBERA was enacted on August 5, 1983, and entered into force on January 1, 1984.[3] As of yearend 1994, 24 countries were designated CBERA beneficiaries (CBERA countries).[4]

This report fulfills a statutory mandate under the CBERA, which requires the U.S. International Trade Commission (the Commission) to report annually on the operation of the CBERA program and its impact on U.S. industry, consumers, and the economy in general. The report, the 10th in the series, covers calendar year 1994. It focuses on U.S. imports under the CBERA program from the 24 beneficiary countries.

As of September 26, 1995, legislation was pending in the House of Representatives that would repeal the Commission's reporting requirement. The bill, H.R. 1887, was reported out of the Committee on Ways and Means on June 27, 1995, and sent to the House floor. Also as of September 26, 1995, no companion legislation had been introduced in the Senate.[5]

Approach

The actual effects of CBERA on the U.S. economy and industries are assessed through an analysis of imports under the act and trends in U.S. consumption of these imports. General economic, trade, and investment data come from standard reference sources such as Census trade files, investment and other data developed by Federal agencies that administer and monitor the program, and materials developed by commodity and industry analysts of the Commission. Because available investment data tend to be very limited, staff relied on State Department cables and fieldwork in selected beneficiary countries to obtain the necessary information. The report includes comments from persons interested as a result of the *Federal Register* notice.

A quantitative assessment of the effects of CBERA is made through measurement of the welfare effect, using a method developed for these reports. A similar method has been employed in the first nine reports of the series. The welfare effect has two components: the gain to consumers[6] from lower-

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

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

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

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

[5] That reporting requirement is enumerated in section 215(a) (19 U.S.C. 2704(a)).

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

priced imports and the loss in tariff revenues to the U.S. Treasury.[7] A measurement of the potential displacement in domestic shipments as a result of CBERA imports is also included. The discussion of probable future effects of the CBERA is based on analyses of economic trends and investment patterns in CBERA beneficiaries. This work depended principally on fieldwork by Commission staff and on information received from U.S. embassies in beneficiary countries.

Organization

The present chapter provides an overview of the CBERA program. Chapter 2 presents tables and descriptions of U.S. trade with CBERA-eligible countries during 1994. Chapter 3 addresses the effects of CBERA in 1994 on the economy, industries, and consumers of the United States. Chapter 4 examines the probable future effects of CBERA through discussions of investment activity in the region and of the products most likely to be exported to the United States in the near future under the CBERA program. Appendix A contains a list of submissions received in response to the Commission's *Federal Register* notice of May 25, 1995 by which public comments for this investigation were solicited. Appendix B explains the economic model used to derive the findings presented in chapter 3.

Overview of the CBERA Program

The CBERA was initially scheduled to remain in effect for 12 years, through September 30, 1995. However, the Caribbean Basin Economic Recovery Expansion Act of 1990 (hereinafter "1990 CBERA")[8] repealed this termination date, making the benefits permanent. Signed into law on August 20, 1990, as part of the Customs and Trade Act of 1990, the 1990 CBERA also expanded the program in many respects.[9] The following sections summarize CBERA provisions on beneficiaries and qualifying rules.

Beneficiaries

Section 212(b) of CBERA lists 27 Caribbean, Central American, and South American countries and territories as potentially eligible for CBERA benefits, but gives the President the authority to designate eligible beneficiaries, to terminate beneficiary status, and to suspend or limit a country's CBERA benefits in certain respects.[10] When Aruba gained independence from the Netherlands Antilles in 1986, the number of potentially eligible CBERA countries and territories increased to 28.[11] CBERA beneficiaries are required to afford internationally recognized worker rights as defined under the U.S. Generalized System of Preferences (GSP) program.[12] To date, CBERA benefits have not been withheld from any country on the basis of worker rights violations.

Trade Benefits Under CBERA

As a result of the two CBERA acts and of administrative or legislative enhancements, CBERA currently affords preferential rates of duty below the most-favored-nation (MFN) rates[13] to most products

[7] Losses to producers are not estimated in this report. This is explained further in ch. 3.

[8] The Caribbean Basin Economic Recovery Expansion Act also is commonly referred to as CBEREA, CBERA II, or CBI II.

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

[10] For specific provisions pertaining to the designation of countries and territories as eligible for CBERA benefits, see sec. 212(a) of the CBERA. For a more detailed discussion of these provisions, see U.S. International Trade Commission, *Impact of the Caribbean Basin Economic Recovery Act on U.S. Industries and Consumers, Seventh Report, 1991*, (investigation No. 332-227), USITC publication 2553, Sept. 1992, p. 1-2.

[11] Presidential Proclamation 5458, "To Designate Aruba As a Beneficiary Country for Purposes of the Generalized System of Preferences and the Caribbean Basin Economic Recovery Act," *Presidential Documents*, Apr. 11, 1986, p. 471.

[12] The President may waive this condition if he determines that the designation of a particular country would be in the economic or security interest of the United States, and so reports to Congress. Sec. 212(b), CBERA, as amended. Under the GSP program, internationally recognized worker rights include the right of association, the right to organize and bargain collectively, a prohibition on the use of forced or compulsory labor, a minimum age for the employment of children, and acceptable working conditions regarding minimum wages, hours of work, and occupational safety and health. Sec. 502(a)(4), Trade Act of 1974, title V (Public Law 93-618, 88 Stat. 2066 and following).

[13] The United States affords MFN tariff treatment to all CBERA countries under U.S. domestic law in accordance with U.S. international obligations under the General Agreement on Tariffs and Trade (GATT) or other agreements. MFN tariff rates are set forth in column 1 of the *Harmonized Tariff Schedule of the United States* (*HTS*). The column 1—general duty rates are, for the

of Caribbean Basin countries by reducing the tariff rate to free or, for a small group of products, by establishing tariff rates below the MFN rate.[14] In the case of apparel, eligible CBERA countries may qualify for liberal import quotas for apparel assembled in the beneficiary country from fabric formed and cut in the United States. These preferential quotas, known as guaranteed access levels (GALs), permit CBERA countries virtually unlimited access to the U.S. market for qualifying apparel.[15]

For some products, duty-free entry is subject to certain conditions, under either the original CBERA or subsequent regulations. Sugar (including syrups and molasses) and beef (including veal) are eligible for duty-free entry only if the exporting CBERA country submits a "Stable Food Production Plan" to the United States, assuring that its agricultural exports do not interfere with its domestic food supply and with use and ownership of land.[16] Imports of sugar and beef, like those of other agricultural products, are also subject to any applicable and generally imposed U.S. quotas and food safety requirements.[17]

Qualifying Rules

CBERA provides generally that eligible products must either be wholly grown, produced, or manufactured in a CBERA country or be "new or different" articles from substantially transformed non-CBERA inputs used in their manufacture in order to receive duty-free entry into the United States.[18] CBERA requires that the cost or value of the materials produced and the direct cost of processing operations in one or more CBERA countries total at least 35 percent of the U.S. customs value of the product at the time of entry. These rules-of-preference provisions allow CBERA countries to pool their resources to meet value content requirements and also permit inputs from Puerto Rico and the U.S. Virgin Islands to count in full toward the value threshold. Also, CBERA products can meet the 35-percent minimum value content requirement if CBERA value represents 20 percent of the U.S. customs value of the product and the additional 15 percent is attributable to U.S.-made (excluding Puerto Rican) materials or components.[19] Duty benefits currently applicable under CBERA in view of the program's rules-of-preference provisions are summarized in table 1-1.

The 1990 CBERA liberalized the original CBERA's rules of preference regarding Puerto Rican inputs used in CBERA exports. The act stipulates that articles produced in Puerto Rico that are "by any means advanced in value or improved in condition by a beneficiary country" are eligible for duty-free entry into the United States. To take advantage of this provision, the law requires that any materials added to such Puerto Rican articles must be of U.S. or CBERA-country origin and that the final product must be imported directly into the customs territory of the United States from the CBERA country.[20] This measure has encouraged production sharing between Puerto Rico and CBERA countries.

Section 222 of the 1990 CBERA also effectively modifies the original CBERA's rules of origin by extending duty-free entry into the United States for products—other than textiles and apparel and petroleum and petroleum products—that are "assembled or processed" in CBERA countries wholly from components or materials originating in the United States.[21] This provision effectively extends

13—*Continued*
most part, concessional and have been set through staged reductions of full statutory rates in negotiations with other countries. For some products, the MFN tariff rate is free. The basic statute currently in force with respect to MFN treatment is sec. 126(a) of the Trade Act of 1974 (19 U.S.C. 2136).

14 General note 3(c) to the HTS reflects special tariff treatment for eligible products of designated countries under various U.S. trade programs, including CBERA. General note 7 covers CBERA. For a discussion of products originally excluded from CBERA and subsequent modifications to the list of excluded products, see USITC, *Impact of the Caribbean Basin Economic Recovery Act on U.S. Industries and Consumers: The First Ten Years of CBERA, Ninth Report, 1993*, (investigation No. 332-227), USITC publication 2813, Sept. 1994, pp. 2-9.

15 The United States currently has bilateral agreements that provide for GALs with Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Jamaica. The agreement with Haiti expired on December 31, 1994, and it has not been renewed as of August 1995.

16 Sec. 213(c)(1)(B), CBERA, as amended.

17 For a more detailed discussion of special conditions affecting certain products, see "Products Eligible Under Special Conditions and Excluded Products," USITC, *CBERA, Seventh Report, 1991*, pp. 1-5 to 1-7.

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

19 Sec. 213(a)(1), CBERA, as amended.

20 Sec. 213(a)(5), CBERA, as amended.

21 This amended note 2 to subch. II, ch. 98 of the *HTS*, by adding new language.

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

Duty-free entry

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

- Certain agricultural products, including sugar, dairy products, cotton, peanuts, and beef, are subject to U.S. quotas and/or health requirements. Duty-free imports of sugar and beef are allowed only from countries that submit a "Stable Food Production Plan" to the United States to ensure that food production and the nutritional level of the population in the beneficiary country will not be adversely affected by export production.[4]
- Ethyl alcohol produced from agricultural feedstock grown in a CBERA country is admitted duty-free. Alcohol produced from non-CBERA agricultural feedstock is restricted to 60 million gallons (227.1 million liters) or 7 percent of the U.S. domestic ethanol market, whichever is greater.[5]
- Excluded from duty-free entry are: canned tuna; petroleum and petroleum derivatives; footwear (except disposable items and footwear parts such as uppers that are not covered by the Multifiber Arrangement)[6]; watches and watch parts[7]; sugar from any Communist country in the Caribbean Basin or in Central America, most textiles and apparel,[8] and the products (listed immediately below) eligible for reduced duty treatment.

Reduced duties for certain products

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

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[1] These provisions are discussed in greater detail in USITC, *CBERA, Seventh Report*, *1991*, pp. 1-2 to 1-7.
[2] Also applies to articles grown, produced, or manufactured in Puerto Rico, advanced in value or improved in condition in a CBERA country, and exported directly to the United States.
[3] This provision was added by sec. 222 of the 1990 CBERA, which amended note 2 to subchapter II of chapter 98 of the *HTS*. Textiles and apparel and petroleum products and derivatives are excluded.
[4] Sec. 213(c)(1)(B), CBERA, as amended.
[5] Sec. 213(a)(1), CBERA, as amended. See also sec. 423 of the Tax Reform Act of 1986, as amended by sec. 7 of the Steel Trade Liberalization Program Implementation Act of 1989 (19 U.S.C. 203 nt; Public Law 99-514 as amended by Public Law 101-221).
[6] Applies to footwear not eligible for duty-free entry under the U.S. Generalized System of Preferences (GSP) program as of Aug. 5, 1983, that is assembled in a CBERA country of U.S.-origin components. Restrictions on imports of such completed footwear were lifted by sec. 222 of the 1990 CBERA.
[7] The United States eliminated certain content restrictions on wrist watches in Oct. 1991.
[8] Textile and apparel articles that were subject to textile agreements when CBERA was enacted are not eligible for CBERA duty-free benefits. Textiles and apparel not subject in 1983 to the Arrangement Regarding International Trade in Textiles (the so-called Multifiber Arrangement, which has controlled much of world trade in textiles and apparel since 1974) and made of silk blends or vegetable fibers other than cotton are eligible for duty-free entry as are those chiefly of silk and other textile products not of cotton, wool, or manmade fibers. Bilateral agreements can be negotiated for duty-free entry of traditional hand-loomed, hand-sewn textile articles. For more information, see general note 7(d)(iii) to the *HTS*.
[9] Sec. 213(h), CBERA, as amended.

the production-sharing provisions of *HTS* subheadings 9802.00.60 and 9802.00.80[22] by extending special duty treatment to imported products containing U.S.-made components or parts.[23] Duty-free entry to the Caribbean value-added portion of a product, and to the portion of reentering U.S. inputs, is granted and the products from CBERA countries are effectively treated as U.S. articles.

The 1990 modifications also afford duty-free entry into the United States for certain articles that otherwise might not meet the substantial transformation and minimum value contribution requirements specified under the original CBERA. Merchandise likely to benefit includes articles produced through operations such as enameling, simple assembly or finishing, and certain repairs or alterations that were not significant enough to create a "new and different article of commerce" required under section 213 of the CBERA.[24]

CBERA and GSP

The 24 CBERA beneficiaries also are GSP beneficiaries.[25] CBERA and GSP share many similarities. Both programs share the goal of offering increased access to the U.S. market. Many products may enter the United States duty-free under either program. Like CBERA, GSP requires that eligible imports—(1) be imported directly from beneficiaries into the customs territory of the United States; (2) meet the substantial transformation requirement for any foreign parts or components; and (3) contain a minimum of 35 percent local value-added.[26]

The two programs differ in several ways that tend to make Caribbean Basin producers prefer CBERA to GSP. CBERA covers over 6,000 products, whereas GSP applies to only about 4,300 products. GSP benefits on any goods may be restricted or terminated during the annual GSP review. Beneficiaries may lose GSP duty-free entry privileges for products that achieve a specified market penetration in the United States (the "competitive need" limit), or may lose all GSP privileges if their national income grows to exceed a specified amount.[27] CBERA has none of these restrictions or provisions to terminate benefits. Moreover, CBERA imports suspended from GSP eligibility on the basis of U.S. market penetration (i.e., that exceed the competitive need limit) may continue to enter free of duty under CBERA.[28]

CBERA also has more liberal rules of origin than GSP. GSP requires that 35 percent of the value of the product be added in a single beneficiary or in a specified association of eligible countries.[29] In contrast, under CBERA the 35 percent local value added can include materials and processing from other CBERA beneficiaries, Puerto Rico, or the U.S. Virgin Islands. CBERA also requires as little as 20 percent local value added from CBERA beneficiaries, Puerto Rico, or the U.S. Virgin Islands when at least 15 percent of the value includes inputs from the United States.[30]

[22] Note 2(b) to subch. II, ch. 98 of the *HTS*.

[23] For further information, see USITC, *Production Sharing: U.S. Imports Under Harmonized Tariff Schedule Provisions 9802.00.60 and 9802.00.80, 1989-1992*, USITC publication 2729, Feb. 1994.

[24] For a more detailed discussion of this issue, see U.S. Department of Commerce, International Trade Administration, Latin American/Caribbean Business Development Center (LA/C Center), *1991 Guidebook: Caribbean Basin Initiative*, (Nov. 1990), p. 58.

[25] The U.S. GSP program was originally enacted pursuant to title V of the Trade Act of 1974 (Public Law 93-618, 88 Stat. 2066 and following) and was renewed for an additional 10 years pursuant to title V of the Trade and Tariff Act of 1984 (Public Law 98-573, 98 Stat. 3018 and following), as amended (19 U.S.C. 2461 and following). The GSP program formally expired at midnight July 4, 1993 but was extended until Sept. 30, 1994 as part of the Omnibus Budget Reconciliation Act of 1993 (H.R. 2264) on Aug. 4, 1993; it was again renewed retroactively through July 31, 1995 by the Uruguay Round Agreements Act. As of this writing, Congress is considering legislation to further extend the GSP program.

[26] The documentation requirements necessary to claim either CBERA or GSP duty-free entry are identical. A Certificate of Origin Form A is to be presented at the time the qualifying products enter the United States.

[27] 19 U.S.C. 2464(c)-(f).

[28] For example, in 1994 imports of leather footwear uppers and medical instruments from the Dominican Republic, aromatic drugs from The Bahamas, raw cane sugar from Guatemala and Nicaragua, cigars from the Dominican Republic and Nicaragua, and rope, curb, etc., of precious metal from Nicaragua exceeded the competitive need limit and were not eligible for GSP duty-free entry. However, these imports were eligible for duty-free entry under CBERA. These imports are discussed in greater detail in ch. 2.

[29] 19 U.S.C. 2463(b)(1)(B).

[30] 19 U.S.C. 2703(a)(1).

CHAPTER 2
U.S. Trade With The Caribbean Basin

This chapter analyzes U.S. trade with the 24 designated CBERA beneficiaries (hereafter CBERA countries) during 1994.[1] The analysis begins with an overview of two-way trade with these countries, but focuses on U.S. imports. Because duty-free and reduced-duty entries under CBERA provisions account for only a small portion of total U.S. imports from CBERA countries, 18.3 percent in 1994, a discussion of U.S. imports from the CBERA community entering under provisions other than CBERA is also presented.

Following a discussion of total U.S. imports from CBERA countries—first the dutiable and then the free-of-duty portion—the $2 billion U.S. imports entering the United States in 1994 under CBERA provisions are analyzed as a subsection of all duty-free imports from CBERA countries.

[1] The 24 designated CBERA countries are listed by regional groupings in table 2–2.

Two-Way Trade

The United States consistently has had a collective surplus in merchandise trade with the CBERA countries since 1987.[2] In 1994, the surplus amounted to $1.6 billion, down $226 million from 1993, as the rate of U.S. exports slowed and the rate of U.S. imports accelerated (table 2-1). The generally steady rise in U.S. exports to CBERA countries during 1984-94 mirrored the increase in U.S. exports worldwide over this period.

U.S. exports to CBERA countries totaled $12.8 billion in 1994, rising 7.4 percent over 1993 levels. Accounting for 2.7 percent of total U.S. exports in

[2] Statistical information in this report focuses generally on merchandise trade. Data on trade in services is not presented.

Table 2-1
U.S. trade with CBERA countries, 1984-94

Year	U.S. exports[1] Value	U.S. exports[1] Percent of total U.S. exports	U.S. imports[2] Value	U.S. imports[2] Percent of total U.S. imports	U.S. trade balance
	Million dollars		*Million dollars*		*Million dollars*
1984	5,952.9	2.8	8,649.2	2.7	-2,696.4
1985	5,743.0	2.8	6,687.2	1.9	-944.2
1986	6,064.6	2.8	6,064.7	1.6	-0.1
1987	6,668.3	2.7	6,039.0	1.5	629.3
1988	7,421.8	2.4	6,061.1	1.4	1,360.7
1989	8,105.0	2.3	6,637.4	1.4	1,467.6
1990	9,307.1	2.5	7,525.2	1.5	1,781.9
1991	9,885.5	2.5	8,229.4	1.7	1,656.1
1992	10,901.7	2.6	9,425.6	1.8	1,476.1
1993	11,941.9	2.7	10,094.0	1.8	1,847.9
1994	12,822.0	2.7	11,200.3	1.7	1,621.7

[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.

1994, CBERA countries combined ranked 9th as an export market for the United States, ahead of such markets as Singapore and France but behind the Netherlands and South Korea. With the exception of 1985, U.S. exports to CBERA countries have increased each year since CBERA was implemented in 1984.[3]

Meanwhile, U.S. imports from the region first ran counter to the overall trend of rising U.S. imports from all countries, as they initially declined from $8.6 billion in 1984 to around $6.0 billion in 1986. Imports from the CBERA countries remained stagnant in 1987 and 1988, before growing each year thereafter. Despite the increase of U.S. imports from CBERA countries after 1988, the 1.7-percent CBERA-country share of total U.S. imports in 1994 was much lower than the 2.7-percent share of the total accounted for by CBERA countries in 1984.[4]

Total U.S. imports from CBERA countries (both the CBERA preferential portion and all other imports) amounted to $11.2 billion in 1994, up 11.0 percent over 1993 levels. This was the seventh consecutive year to show an increase. The 1.7 percent combined share of CBERA countries in total U.S. imports in 1994 established these countries collectively as the 13th largest U.S. supplier for the year—ahead of Thailand and Hong Kong, but behind Italy and Malaysia.

Imports

Imports from CBERA-country Groups

Since CBERA became effective in 1984, the relative positions of the four Caribbean subregional groupings—Central America, Eastern Caribbean, Central Caribbean, and oil-producing countries—as U.S. suppliers have changed markedly (table 2-2). The decline in the volume and prices of imports of Caribbean petroleum products depressed the collective share of the oil-producing countries from 52.5 percent of all U.S. imports from CBERA countries in 1984 to 17.9 percent in 1994.[5] The share of U.S. imports from the Eastern Caribbean also declined during the CBERA decade, probably because the region's economies depend more on tourism than on export-oriented industry. In 1994, the Eastern Caribbean group accounted for only 1.9 percent of all U.S. imports from CBERA countries compared with 3.4 percent in 1984.

By contrast, the importance of the Central American and the Central Caribbean regions has grown rapidly since 1984. The former's share of total U.S. imports from CBERA countries increased from 23.6 percent in 1984 to 44.8 percent in 1993 and 45.5 percent in 1994. The latter's share increased from 20.5 percent in 1984 to 35.0 percent in 1993, dropping slightly to 34.6 percent in 1994, due to the U.S.-led economic embargo of Haiti.[6]

The growing significance over the CBERA period of the Central American and Central Caribbean regions of the CBERA community is explained by U.S.-Caribbean production sharing (i.e., value added to U.S. materials exported, or further processed in CBERA countries, and reimported by the United States)—particularly in the area of apparel production, but also in the area of other miscellaneous manufactures that were eligible for duty-free entry under CBERA. Production sharing is concentrated in the Central American and the Central Caribbean regions.[7]

[3] U.S. exports to CBERA countries are not discussed in the remainder of this report. For a discussion of this subject covering the years 1984-93, see U.S. International Trade Commission, *Impact of the Caribbean Basin Economic Recovery Act on U.S. Industries and Consumers: The First Ten Years of CBERA, Ninth Report, 1993*, (investigation No. 332-227), USITC publication 2813, Sept. 1994, ch. 1, pp. 20-34.

[4] For provisions of the original CBERA, subsequent provisions pertaining to CBERA, and statistical information for 1984-93, see ibid., chapter 1. See p. 9 of that report for an explanation of why U.S. exports to CBERA countries outperformed U.S. imports from these countries, even though CBERA is a program designed to provide preferential access to CBERA-country exports to the U.S. market.

[5] See ibid., ch. 1, p. 11 and p. 13.

[6] Imports from Haiti plummeted by 62 percent from their 1993 level to $58.8 million in 1994. U.S. trade with Haiti was severely affected by the embargo that the United States imposed in October 1991. Following the restoration of the democratically elected Government in Haiti in October 1994, President Clinton revoked the embargo among other Executive orders that pertained to the national emergency that had been declared with respect to that country.

[7] See also section on textiles and apparel later in this chapter.

Table 2-2
U.S. imports for consumption from CBERA countries, by major groups, 1984 and 1991-94

(1,000 dollars, customs value)

Group	1984	1991	1992	1993	1994
Non-oil-producing countries:					
Central America:					
Belize	42,843	35,622	58,510	48,984	49,392
Costa Rica	468,633	1,143,982	1,402,042	1,542,098	1,645,382
El Salvador	381,391	302,449	383,245	481,342	607,541
Guatemala	446,267	892,280	1,072,697	1,178,094	1,283,596
Honduras	393,769	552,238	780,638	914,380	1,091,688
Nicaragua	([1])	59,528	68,609	124,543	167,397
Panama	311,627	242,580	218,232	233,131	252,465
Subtotal	2,044,530	3,228,682	3,983,972	4,522,572	5,097,460
Eastern Caribbean:					
Antigua	7,898	3,895	5,414	14,806	5,435
Barbados	252,595	31,457	30,528	34,027	34,250
British Virgin Islands	1,335	2,567	3,235	14,143	14,604
Dominica	86	5,877	4,506	5,833	6,957
Grenada	766	8,086	7,476	7,940	7,247
Guyana	([2])	73,733	87,064	87,870	94,555
Montserrat	989	2,179	1,095	1,513	1,032
St. Kitts and Nevis[3]	23,135	15,553	22,857	23,775	21,716
St. Lucia	7,397	21,731	28,065	31,285	26,497
St. Vincent and Grenadines	2,958	7,507	4,530	4,855	5,430
Subtotal	297,161	172,586	194,771	226,049	217,723
Central Caribbean:					
Dominican Republic	994,427	1,976,624	2,366,509	2,667,202	3,076,519
Haiti	377,413	284,264	107,170	154,335	58,764
Jamaica	396,949	561,205	593,361	710,260	739,552
Subtotal	1,768,790	2,822,095	3,067,040	3,531,797	3,874,835
Total non-oil-producing countries	4,110,481	6,223,360	7,245,783	8,280,419	9,190,017
Oil-producing countries:					
Aruba	([4])	100,246	189,656	306,578	318,941
Bahamas	1,154,282	465,324	580,699	341,547	192,890
Netherlands Antilles	2,024,367	620,783	569,689	381,776	412,652
Trinidad and Tobago	1,360,106	819,653	839,787	783,714	1,085,781
Total oil-producing countries	4,538,754	2,006,007	2,179,833	1,813,615	2,010,264
Grand total	8,649,235	8,229,366	9,425,616	10,094,033	11,200,280

[1] Nicaragua was designated a CBERA beneficiary effective Nov. 8, 1990.
[2] Guyana was designated a CBERA beneficiary effective Nov. 24, 1988.
[3] Data for St. Kitts and Nevis included data for Anguilla (a nondesignated country) through 1985. After 1985, data for Anguilla were excluded.
[4] Aruba was designated a CBERA beneficiary effective Jan. 1, 1986. For statistical purposes, Aruba was treated as part of the Netherlands Antilles until 1986.

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

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

Product Composition of Total Imports

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

Light manufactures, principally apparel, but also footwear, medical, surgical and electrical instruments, sporting goods, and jewelry now account for an increasing share of U.S. imports from the region and constitute the fastest-growing sectors for new investment in CBERA countries. However, traditional agricultural and raw material products continue to play a significant role in the region's economies.

Table 2-3 shows the 35 leading U.S. imports from CBERA countries during 1990-94 on an 8-digit Harmonized Tariff Schedule of the United States (HTS) subheading basis, ranked by their import value in 1994.[8] Altogether these goods, which are either dutiable or free of duty under CBERA or some other provisions, accounted for almost two-thirds of total U.S. imports from CBERA countries in 1994. Many, including the top item (men's or boys' cotton trousers, breeches and shorts), were apparel articles.[9] The traditional products of bananas, coffee, and petroleum oils were the second, third, and fourth leading items, respectively.[10] Other leading imports included footwear uppers, shrimps and prawns, anhydrous ammonia, other petroleum products, medical and surgical instruments, articles of jewelry, cane sugar, aluminum ore and concentrates, methanol (methyl alcohol), and frozen, fresh or chilled beef.

Imports of coffee were up in value in 1994, but only because of sharp increases in coffee prices. With U.S. imports shifting away from CBERA countries to Mexico, Vietnam, and other sources, the volume of coffee imports was actually down during the year.

Imports of bananas increased in 1994. On July 1, 1993, the European Union (EU) set quotas as part of its new import regime on bananas, and subsequently reached "Framework Agreements" between the EU and four nations, including two CBERA countries, Costa Rica and Nicaragua.[11] This limited Caribbean exports of bananas to Europe, and as a result, a portion of the CBERA-country supply available for export to Europe was diverted to the United States.

Imports by value of most of the other leading items in table 2-3 rose in 1994, especially imports of anhydrous ammonia from Trinidad and Tobago, which enter free of duty on a most-favored-nation (MFN) basis. Imports of this item more than doubled to $218.1 million in 1994 compared with 1993 imports. The U.S. ammonia industry was reportedly unable to meet demand, which surged in response to higher domestic consumption of nitrogenous fertilizers and a larger Chinese market for nitrogenous and phosphatic fertilizers, which require ammonia as an input.

Dutiable and Special-Duty Imports

Table 2-4 shows that U.S. tariff revenues from imports from CBERA countries, as indicated by "calculated duties," amounted to $429.5 million in 1994, compared with $378.9 million in 1993 but only $75.3 million in 1984, the first CBERA year. The

[8] Some of these products, provided they are leading import items entering fully, or in part, under CBERA provisions, will also appear in table 2-8 and will be discussed later in this chapter or in chapter 3.

[9] Apparel from CBERA countries will be discussed separately in this chapter.

[10] U.S. imports of crude petroleum and petroleum products from CBERA countries decreased steadily between 1984 and 1989, reflecting plummeting global petroleum prices and a major reduction of petroleum-refining operations in the Caribbean Basin region. In all, imports of Caribbean petroleum and petroleum products shrank from $4.2 billion in 1984 to $1.2 billion in 1994, or 28.9 percent of their 1984 value. For statistical information for 1984-93, see USITC, CBERA, *Ninth Report, 1993*, ch. 1, pp. 11 and 13. Data for 1994 are compiled from official statistics of the U.S. Department of Commerce, based on SITC 2-digit classification.

[11] On Sept. 2, 1994, Chiquita Brands International, Inc. and the Hawaii Banana Industry Association filed a petition alleging that various practices of the EU, Colombia, Costa Rica, Nicaragua, and Venezuela concerning trade in bananas are discriminatory, unreasonable, and burden or restrict U.S. commerce. On Oct. 17, 1994, the United States Trade Representative instituted an investigation of the EU banana regime under Section 301 of the Trade Act of 1974, followed on Jan. 9, 1995, by an investigation of the banana policies and practices of Costa Rica and Colombia. Caribbean producers, concerned that the U.S. investigation could threaten their banana industry, are currently seeking a mutually beneficial solution to their differences with the United States.

Table 2-3
Leading U.S. imports for consumption from CBERA countries,[1] 1990-94

(1,000 dollars, customs value)

HTS Item	Description	1990	1991	1992	1993	1994
6203.42.40	Men's or boys' trousers, breeches and shorts, not knitted, of cotton	314,361	399,701	515,322	606,688	721,338
0803.00.20	Bananas, fresh or dried	441,861	443,179	521,421	517,146	543,023
0901.11.00	Coffee, not roasted, not decaffeinated	401,969	368,251	372,211	332,915	405,154
2709.00.20	Petroleum oils and oils from bituminous minerals, crude	649,365	516,764	502,123	373,985	384,828
2710.00.05	Distillate and residual fuel oils (including blends), under 25 degrees API	426,916	405,628	382,688	351,275	364,705
6205.20.20	Men's or boys' shirts, not knitted or crocheted, of cotton	111,463	120,118	216,687	317,219	355,513
6204.62.40	Women's or girls' trousers, breeches and shorts, of cotton	150,722	197,797	238,615	310,346	315,317
9801.00.10	U.S. goods returned without having been advanced in value	183,228	183,027	228,134	237,258	314,229
6109.10.00	T-shirts, singlets, tank tops and similar garments, of cotton	84,042	128,228	180,363	247,656	305,018
6212.10.20	Brassieres, other than containing lace, net or embroidery	133,442	152,509	202,162	248,691	291,577
6406.10.65	Footwear uppers, other than formed, of leather	116,656	121,305	151,764	199,773	246,557
6110.20.20	Sweaters, pullovers and similar articles, knitted, of cotton	82,323	137,350	185,406	212,101	243,491
0306.13.00	Shrimps and prawns, cooked in shell or uncooked, frozen	115,268	144,131	154,644	195,637	242,259
2814.10.00	Anhydrous ammonia	71,235	107,644	89,971	105,110	218,124
2710.00.10	Distillate and residual fuel oils (including blends), over 25 degrees API	56,740	132,267	189,601	214,713	213,807
9018.90.80	Medical and surgical instruments and appliances	83,451	107,601	113,952	143,329	180,972
6108.21.00	Women's or girls' briefs and panties, knitted or crocheted, of cotton	45,851	77,014	97,495	124,203	149,593
7113.19.50	Jewelry and jewelry parts of precious metal	54,346	41,883	57,418	90,196	146,808
2710.00.25	Naphthas (except motor fuel or motor fuel blending stock)	41,647	113,696	150,468	142,335	135,604
1701.11.01	Cane sugar entered pursuant to its provisions	20,988	142,186	174,085	177,448	133,459
6203.43.40	Men's or boys' trousers, breeches and shorts, not knitted, of synthetic fibers	53,001	86,886	106,748	111,664	133,288
2606.00.00	Aluminum ores and concentrates	138,182	152,505	176,143	163,915	131,033
2905.11.20	Methanol (methyl alcohol), nesi	22,248	24,783	14,092	18,298	120,976
0202.30.60	Frozen boneless beef, except processed	85,376	82,604	73,059	126,667	106,506
6115.11.00	Panty hose and tights, knitted or crocheted	10,004	13,215	19,145	84,157	102,704
6108.22.00	Women's or girls' briefs and panties, knitted or crocheted, of manmade fibers	42,497	54,165	61,246	82,182	99,704
2710.00.15	Motor fuel derived from bituminous minerals	126,757	117,536	153,707	151,414	98,550
1701.11.02	Other sugar to be used for the production (other than by distillation) of polyhydric alcohols	3,204	79,384	84,808	71,360	95,955
6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	59,084	58,708	86,463	86,991	92,567
0306.11.00	Rock lobster and other sea crawfish, cooked in shell, frozen	70,882	93,581	100,125	72,627	89,541
6204.31.20	Women's or girls' suit type jackets and blazers, of wool	16,004	31,470	51,954	81,126	75,410
6104.62.20	Women's or girls' trousers, breeches and shorts, knitted, of cotton	24,319	35,408	59,211	63,439	74,522
6107.11.00	Men's or boys' underpants and briefs, knitted or crocheted, of cotton	5,751	20,702	39,228	52,228	70,082
0201.30.60	Fresh or chilled boneless beef, except processed	45,657	51,127	55,259	64,969	62,994
2818.20.00	Aluminum oxide, except artificial corundum	100,762	106,884	82,589	65,548	60,950
	Total of items shown	4,389,604	5,049,239	5,888,306	6,444,612	7,326,158
	Total all commodities	7,525,208	8,229,366	9,425,616	10,094,033	11,200,280

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

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

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

Table 2-4
U.S. imports for consumption from CBERA countries: Dutiable value, calculated duties, and average duty, 1984 and 1992-94

Item	1984	1992	1993	1994
Dutiable value (*1,000 dollars*)[1]	4,567,416	3,269,148	3,467,856	3,730,777
Dutiable as a *share* of total imports (*percent*)	52.8	34.7	34.4	33.3
Calculated duties (*1,000 dollars*)[1]	75,293	322,434	378,933	429,491
Average duty (*percent*)[2]	1.6	9.9	10.9	11.5

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

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

average rate of duty applied to imports from CBERA countries was 11.5 percent in 1994, compared with 10.9 percent in 1993 but only 1.6 percent in 1984. The steady increase in U.S. tariff revenue from CBERA-country imports and the rise in the average rate of duty reflect the shift in the product mix of dutiable U.S. imports from lower-duty items such as petroleum products towards higher-duty goods, generally wearing apparel, most of which are dutiable at relatively high rates. Apparel, along with textiles accounted for about 95 percent of the duties paid in 1994 and petroleum products accounted for most of the remainder.

Dutiable Imports

Table 2-5 shows U.S. imports of selected product categories that, by statute,[12] are not eligible for CBERA duty-free entry. These imports, which consist almost entirely of apparel and petroleum products, account for nearly one-half of the total value of U.S. imports from CBERA countries (table 2-6). Nevertheless, a major portion of the apparel imports from the region enter at reduced duties under the 9802 production-sharing provision.

[12] Sec. 213(b), CBERA, as amended.

Imports of CBERA-ineligible products declined from $4.7 billion in 1984 to a low of $2.2 billion in 1986. This initial contraction of the ineligible portion of imports was caused by the shrinking value of petroleum-related imports, which once dominated this group. Ineligible imports subsequently rose to $5.0 billion in 1993 and $5.4 billion in 1994, largely as a result of the rapid increase of imports of CBERA-ineligible apparel (discussed in more detail below) and footwear. Imports of dutiable Caribbean footwear reached a record high $69.6 million in 1994, surging by 86.5 percent over 1993 levels (table 2-5).

Table 2-5
U.S. imports for consumption from CBERA countries of specific goods not eligible for CBERA duty-free entry, 1990-94

(1,000 dollars, customs value)

Product category	1990	1991	1992	1993	1994
Textiles and apparel[1]	2,006,348	2,558,240	2,995,699	3,633,136	4,131,500
Petroleum and petroleum products	1,340,317	1,399,607	1,467,580	1,288,605	1,234,429
Footwear	35,806	38,700	45,884	37,330	69,621
Certain handbags, luggage, and flat goods[2]	18,264	26,651	([1])	([1])	([1])
Certain leather apparel[2]	15,194	14,064	([1])	([1])	([1])
Work gloves[2]	4,360	4,415	127	([1])	([1])
Tuna	111	0	34	205	0
Total	3,420,400	4,041,677	4,509,324	4,959,276	5,435,550

[1] The data for textiles and apparel were compiled at the 8-digit, tariff rate-line level of the Harmonized Tariff Schedule of the United States.
[2] These products became eligible for a 20-percent duty reduction under CBERA beginning in 1992.

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

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

Table 2-6
U.S. imports for consumption from CBERA countries of goods not eligible for CBERA duty-free entry, 1984-94

Year	Noneligible imports	Percent of total imports
	Billion dollars	
1984	4.7	54.9
1985	3.1	45.8
1986	2.2	37.1
1987	2.6	42.7
1988	2.6	43.1
1989	2.9	43.3
1990	3.4	45.4
1991	4.0	49.1
1992	4.5	47.8
1993	5.0	49.2
1994	5.4	48.5

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

Three of the products listed in table 2-5—certain handbags, luggage and flat goods; certain leather wearing apparel; and work gloves—were not eligible for CBERA duty-free entry under the original CBERA legislation, but became eligible for duty reductions as a result of a legislative amendment effective in 1992.[13] The share of all U.S. imports from CBERA countries that were entered in 1994 under the gradual CBERA duty reductions was negligible (0.3 percent).

Table 2-7 breaks down total U.S. imports from CBERA countries between 1992 and 1994 into their dutiable and duty-free portions. Since 1986, the dutiable share of annual U.S. imports from CBERA countries has been about one-third of the total.[14] In 1994, at 33.3 percent, the dutiable share was somewhat lower than in 1993 and 1992. An increasing component of dutiable imports from CBERA countries is the dutiable portion of imports involving U.S.-Caribbean production sharing shipments.

Textiles and Apparel

Textile and apparel (henceforth apparel) constituted only 5.5 percent of overall U.S. imports from the region in 1984, but accounted for 39.8 percent of the total in 1993 and 40.5 percent in 1994.[15] Apparel has exceeded the value of petroleum products in U.S. imports from CBERA countries by a wider margin each year since 1988, when it became the leading category of U.S. imports from the region, displacing petroleum products. In 1994, imports of CBERA-country apparel at $4.6 billion amounted to almost four times the import value of petroleum and related products.[16]

The rapid growth of Caribbean apparel shipments to the United States followed the institution of the Special Access Program (SAP) announced by President Reagan in 1986. This program, not a part of CBERA, provides for "guaranteed access levels" (GALs) to the U.S. market for qualifying apparel from CBERA countries.[17]

The growth in apparel shipments to the U.S. market made Caribbean countries collectively the fastest-growing U.S. supplier between 1987-93, with Mexico the second-fastest.[18] During this period, the annual increase for CBERA apparel shipments to the U.S. market was 21 percent, and for Mexican

[13] Duties on handbags, luggage and flat goods, work gloves, and leather wearing apparel from CBERA countries are being reduced by 20 percent in five equal annual stages beginning in 1992. For more detail, see USITC, CBERA, *Ninth Report, 1993,* p. 5.

[14] Ibid., table 1-6, p. 16.

[15] Apparel accounts for almost all of the value of U.S. textile and apparel imports from CBERA countries. For data concerning the early years of CBERA, see ibid., pp. 11-13.

[16] These data, not shown in tabular form, are compiled from official statistics of the U.S. Department of Commerce. The data are based on SIC 2-digit classification.

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

[18] For more information on sources of U.S. imports of apparel, see USITC, *U.S. Imports of Textiles and Apparel Under the Multifiber Arrangement: Annual Report for 1994*, USITC publication 2884, Apr. 1995.

Table 2-7
U.S. imports for consumption from CBERA countries, by duty treatment, 1992-94
(1,000 dollars, customs value)

Item	1992	1993	1994
Total imports	9,425,616	10,094,033	11,200,280
Dutiable value[1]	3,269,148	3,467,856	3,730,777
Production sharing[2]	863,225	1,108,532	1,347,019
CBERA reduced duty[3]	29,418	38,069	31,938
Other dutiable	2,376,505	2,321,255	2,351,820
Duty-free value[4]	6,156,467	6,626,177	7,469,503
MFN[5]	2,097,079	2,101,160	2,514,726
CBERA[6]	1,498,556	1,865,544	2,018,220
Production sharing[7]	1,777,260	2,144,210	2,391,420
GSP[8]	340,666	354,836	375,686
Other duty free[9]	442,904	160,427	169,451
		Percent of total	
Total imports	100.0	100.0	100.0
Dutiable value[1]	34.7	34.4	33.3
Production sharing[2]	9.2	11.0	12.0
CBERA reduced duty[3]	0.3	0.4	0.3
Other dutiable	25.2	23.0	21.3
Duty-free value[4]	65.3	65.6	66.7
MFN[5]	22.2	20.8	22.4
CBERA[6]	15.9	18.5	18.0
Production sharing[7]	18.9	21.2	21.0
GSP[8]	3.6	3.5	3.4
Other duty free[9]	4.7	1.6	1.5

[1] Dutiable value excludes the U.S. content entering under *HTS* subheadings 9802.00.60, 9802.00.80, and misreported imports.
[2] Value of Caribbean Basin-origin value added, under *HTS* 9802.00.60 and 9802.00.80.
[3] Value of imports of handbags, luggage, flat goods, work gloves, and leather wearing apparel subject to 20-percent duty reductions under the CBERA between 1992 and 1996.
[4] Calculated as total imports less dutiable value.
[5] Value of imports which have a col. 1-general duty rate of zero.
[6] Reduced by the value of MFN duty-free imports and ineligible items that were misreported as entering under the CBERA program and the value of reduced-duty items (handbags, luggage, flat goods, work gloves, and leather wearing apparel) reported separately above as dutiable.
[7] Value of nondutiable exported and returned U.S.-origin products or components, under *HTS* 9802.00.60 and 9802.00.80.
[8] Reduced by the value of MFN duty-free imports and ineligible items that were misreported as entering under the GSP program.
[9] Calculated as a remainder, and represents imports entering free of duty under special rate provisions.
Note.—Because of rounding, figures may not add to the totals shown.
Source: Compiled from official statistics of the U.S. Department of Commerce.

shipments 16 percent.[19] In 1994, the first year in which the North American Free Trade Agreement (NAFTA) was in force, growth of apparel shipments by CBERA countries to the United States slowed; such shipments increased by 15 percent in volume compared with 50 percent for Mexico.

Industry and trade officials attribute this reversal to the preferential tariffs accorded to Mexican goods under NAFTA. Over four-fifths of U.S. imports of apparel from Mexico entered free of duty in 1994 under NAFTA, because the garments were assembled from U.S.-formed and cut fabric. By contrast, imports of such apparel from CBERA countries were dutiable at an effective rate of about 6 percent *ad valorem*.[20]

The penetration of the U.S. market by Caribbean apparel largely reflected the expansion of production-sharing operations in the Caribbean region (as in Mexico) by U.S. producers to avail themselves of low-cost labor in close proximity to the United States. Production sharing in both CBERA countries

[19] U.S. apparel imports by volume from all other countries grew by 3 percent annually in the same period.

[20] The average trade-weighted duty rate on apparel is 19 percent *ad valorem*. However, under HTS heading 9802.00.80, duty is assessed only on the foreign value added. Since the CBERA value added accounts for only one-third of the total import value of apparel originating in CBERA countries, the effective rate is about 6 percent.

and Mexico is highly efficient in assembling high volumes of basic garments. These operations are characterized by standardized runs, low-skilled tasks, few styling changes, and reasonably predictable consumer demand. The principal garments assembled are trousers and shorts, shirts and blouses, foundation garments, underwear, and coats and jackets (mainly sports coats and blazers).

Even before NAFTA was implemented, CBERA countries expressed concern about their future access to the markets of NAFTA partners and the threat of investment being diverted from the Caribbean to Mexico. Bills were introduced in the U.S. Congress during 1993 that were designed to provide NAFTA parity for textiles and apparel, as well as certain other articles, presently not eligible for preferential treatment under CBERA.[21]

In 1994, the Clinton administration proposed an "Interim Trade Program" (ITP) for the Caribbean Basin for inclusion in the Uruguay Round implementation legislation, which would have given almost NAFTA-equivalent tariff and quota treatment to qualifying textile and apparel imports from CBERA countries, on the condition that they meet certain reciprocal obligations regarding foreign investment and protecting intellectual property rights. However, the ITP was not included in the Uruguay Round implementing bill.

On January 18, 1995, Representative Philip M. Crane (R-IL) introduced H.R. 553, the Caribbean Basin Trade Security Act, which would make available NAFTA-like treatment to qualifying textiles and apparel and all other products now exempted from duty-free treatment under CBERA. If at the end of a 10-year period a CBERA country does not accede to NAFTA or negotiate a free-trade agreement with the United States, the normal MFN tariff treatment would again apply. This bill was favorably reported by the House Ways and Means Trade Subcommittee in March. Senator Bob Graham (D-Fla.) introduced similar legislation, S. 529, in the Senate on March 10, 1995.[22]

[21] For more on NAFTA parity, see USITC, CBERA, *Ninth Report, 1993*, pp. 37-38.

[22] The Commission received a submission containing comments in support of H.R. 553 and S. 529 dated July 13, 1995 from Richard L. Bernal, Ambassador of Jamaica to the United States.

Consideration of H.R. 553 was delayed and not included in an omnibus budget reconciliation bill considered by the House Ways and Means Committee on Sept. 13, 1995.

Duty-Free Imports

As table 2-7 shows, some two-thirds of total U.S. shipments from CBERA countries enter free of duty under one, or more than one, duty-free HTS provision. In 1994, entries were free of duty under one of the following provisions: (1) unconditionally under MFN or column 1-general tariff rates (22.4 percent of total imports), (2) conditionally under the Generalized System of Preferences or GSP (3.4 percent),[23] (3) conditionally under chapter 98 of the HTS, i.e. under production sharing (21.4 percent), (4) conditionally under CBERA (18.0 percent), or (5) under other provisions (1.5 percent).

MFN duty-free imports have made up a declining portion of total imports from CBERA countries between 1986-92, settling slightly above one-fifth of the total since then. The 3.4-percent GSP share in 1994 was the lowest since CBERA became effective because importers of products eligible for duty-free treatment under both GSP and CBERA have increasingly shifted to CBERA treatment. This has occurred partly because most rule-of-origin criteria for U.S. duty preferences, as well as paperwork requirements, are less stringent under CBERA than under GSP. Also, CBERA now has no statutory deadline, whereas the GSP program has lapsed twice and was last renewed retroactively through July 31, 1995, by the Uruguay Round Agreements Act.[24]

By contrast, the share of U.S. products reentering the United States duty-free under production-sharing provisions rose. The other fast-rising, duty-free category was CBERA itself, which accounted for only 6.7 percent of all imports from CBERA countries in the first year of the program compared with 18.0 percent in 1994.[25]

Imports Under CBERA

U.S. imports afforded duty-free entry under CBERA amounted to $2.0 billion in 1994 (table 2-7).[26] In 1994, duty-free CBERA imports accounted for an 18.0-percent share of total imports from

[23] GSP is discussed in some detail in USITC, *CBERA, Eighth Report, 1992*, p. 1-3.

[24] GSP lapsed again on July 31, 1995. Another renewal, which is supported by the administration, awaits action in Congress.

[25] USITC, CBERA, *Ninth Report, 1993,* p. 18.

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

CBERA countries, compared with 18.5 percent in 1993; this is a slight relative decline for the first time since the beginning of the program.[27]

Table 2-8 shows the 20 leading items afforded duty-free entry under CBERA between 1992-94. The products are ranked in terms of their 1994 value.[28] While the list contains some traditional Caribbean exports, the dominance of miscellaneous manufactured products and nontraditional agricultural items on the list mostly reflects the success of Caribbean nations in diversifying their exports in accordance with the objectives of CBERA. The import values of some items on the list, including the top-ranking leather footwear uppers, the second-ranking jewelry and jewelry parts, medical and surgical instruments,[29] hot-rolled bars and bar rods, and methanol posted significant gains in 1994.[30]

Figure 2-1 shows the composition of the leading CBERA imports in 1994. Imports of leather footwear uppers grew by 34.8 percent, following a similar rate of increase in 1993 (table 2-8). The Dominican Republic was by far the largest supplier.[31] Combined imports of fresh and frozen beef, the second largest category of CBERA imports, declined in 1994 following a significant increase in 1993 when supply from Australia was reduced.[32] These CBERA imports were supplied mainly by Costa Rica and Nicaragua. Imports of jewelry and jewelry parts, mostly from the Dominican Republic, were up by 64.3 percent in 1994 due to increased U.S. demand for the unique design of some of these low-cost items. Sugar imports under CBERA provisions declined in 1994, apparently because of more restrictive U.S. quota levels.[33] Notable in 1994 is the steep decline of aromatic drugs imports, as the producer of this analgesic shifted parts of operations from Bahamian facilities to Mexico.[34] Other leading import items under CBERA provisions shown on table 2-8 were cigars, pineapples, and electrical resistors.[35]

The CBERA utilization ratio, calculated as the ratio of duty-free imports entered under CBERA to the CBERA-eligible portion of total imports (i.e., imports not excluded from CBERA benefits or already eligible for MFN duty-free entry), provides an estimate of the extent to which the CBERA provisions have been used. This ratio was 62.1 percent in 1994 (table 2-9).

CBERA Imports by Sources

In 1994, the Dominican Republic and Costa Rica continued to lead all countries in taking advantage of CBERA, as they have done virtually each year since the program became effective in 1984. These two countries combined have been responsible for more than one-half of overall annual U.S. imports under CBERA since 1989;[36] in 1994 they provided 60.0 percent of the total (table 2-10). Guatemala ranked as the third major CBERA beneficiary in 1994 as it has each year since 1989.[37] In 1994, U.S. imports from Trinidad and Tobago under CBERA more than tripled, making this country the fourth-ranking CBERA beneficiary and displacing The Bahamas, which had been the fourth-ranking country in 1993.[38] Honduras was fifth in 1993 and 1994.

Imports from the Dominican Republic were up by 14.2 percent from 1993 to $751.0 million in 1994 as imports of the three leading items increased: leather footwear uppers, precious jewelry and parts, and miscellaneous medical and surgical instruments. Table 2-11 lists the leading items the United States imported under CBERA from each of the beneficiaries in 1994.[39] By contrast, imports of raw cane sugar from the Dominican Republic declined during the year.

[27] For data concerning the early years of CBERA, see USITC, CBERA, *Ninth Report, 1993,* table 1-6, p. 16.

[28] Total imports for some of these products also appear in table 2-3.

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

[30] Those leading items shown in table 2-8 that benefited exclusively from CBERA duty-free treatment in 1994 also appear on table 3-2 of this report.

[31] For a detailed discussion on CBERA imports of leather footwear uppers and their impact on the U.S. industry, see USITC, CBERA, *Ninth Report, 1993*, p. 46.

[32] For a detailed discussion of CBERA imports of beef and their impact on the U.S. industry, see ibid., p. 47.

[33] For a detailed discussion on CBERA imports of raw cane sugar and their impact on the U.S. industry, see ibid., pp. 48-49.

[34] For a detailed discussion of CBERA imports of aromatic drugs and their impact on the U.S. industry, see ibid., pp. 46-47.

[35] These three items and the impact of such imports on the U.S. industry are discussed in chapter 3 of this report.

[36] See USITC, CBERA, *Ninth Report, 1993,* table 1-14, p. 27.

[37] Ibid.

[38] The previously mentioned shift of aromatic drug production to Mexico pushed The Bahamas as CBERA beneficiary to eighth rank in 1994 from fourth rank in 1993.

[39] For the same data in 1993, see appendix table B-2 in USITC, CBERA, *Ninth Report, 1993*, pp. B-4 to B-8.

Table 2-8
Leading U.S. imports for consumption under CBERA provisions, 1992-94

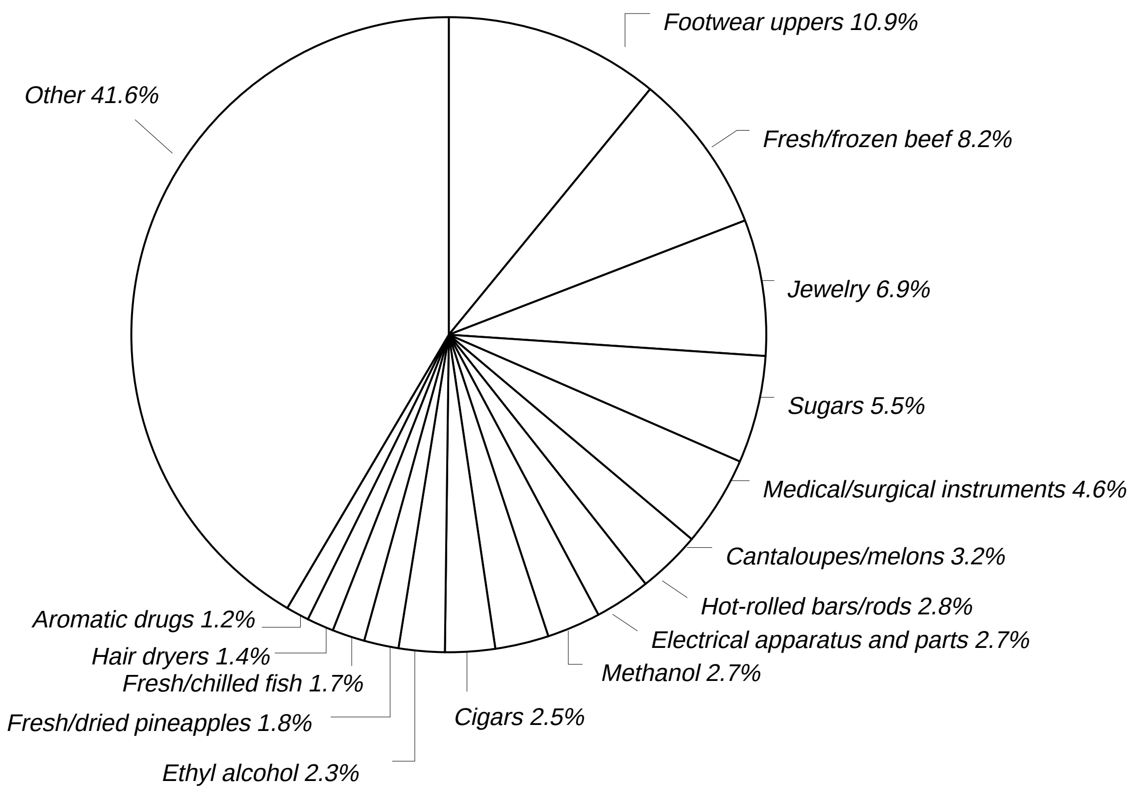
HTS subheading	Description	1992 CBERA imports	1992 Percent of total imports[1]	1993 CBERA imports	1993 Percent of total imports[1]	1994 CBERA imports	1994 Percent of total imports[1]	Leading source[2]
		1,000 dollars		*1,000 dollars*		*1,000 dollars*		
6406.10.6	Footwear uppers, other than formed, of leather	132,127	87.1	162,740	81.4	219,360	88.9	Dominican Republic
7113.19.50	Jewelry and jewelry parts of precious metal	40,038	69.7	84,682	93.9	139,224	94.8	Dominican Republic
0202.30.60	Frozen boneless beef, except processed	68,581	93.8	113,250	89.4	101,758	95.5	Nicaragua
9018.90.8	Medical and surgical instruments and appliances	42,656	37.4	53,104	37.0	92,555	51.1	Dominican Republic
0201.30.60	Fresh or chilled boneless beef, except processed	55,125	99.7	64,556	99.3	62,837	99.7	Costa Rica
1701.11.02	Other sugar to be used for the production (other than by distillation) of polyhydric alcohols[3]	54,603	64.4	54,743	76.7	59,142	61.6	Guatemala
7213.31.30	Bars and rods, hot-rolled, < 14mm in diameter, not tempered, not treated and not partly manufactured	15,422	100.0	21,679	99.6	56,032	100.0	Trinidad and Tobago
2905.11.20	Methanol (methyl alcohol), nesi	7,416	52.6	6,392	34.9	54,617	45.1	Trinidad and Tobago
1701.11.01	Cane sugar entered pursuant to its provisions[3]	139,026	79.9	76,231	42.9	52,156	39.0	Dominican Republic
2402.10.80	Cigars, cheroots, and cigarillos, over $0.23 each	32,721	96.3	38,539	96.1	50,073	97.9	Dominican Republic
2207.10.60	Undenatured ethyl alcohol for nonbeverage use	23,830	90.6	40,690	99.2	47,450	93.4	Jamaica
0807.10.20	Cantaloupes, fresh, entered between 9/16-7/31	35,693	95.5	44,844	92.2	43,963	86.1	Costa Rica
0804.30.40	Pineapples, fresh or dried, not reduced in size, in crates	33,742	80.2	35,431	82.7	35,884	94.0	Costa Rica
0302.69.40	Fish, nesi, excl. fillets, livers and roes, fresh or chilled	20,128	71.3	28,138	84.5	34,989	91.5	Costa Rica
8538.90.80[4]	Parts nesi for use with electrical apparatus	0	0.0	0	0.0	31,085	86.7	Dominican Republic
8516.31.00	Electrothermic hair dryers	20,213	66.7	26,992	69.9	28,938	72.6	Costa Rica
8536.50.80[4]	Electrical apparatus for switching or protecting electrical circuits nesi	0	0.0	0	0.0	23,916	93.5	St. Kitts-Nevis
2918.90.30	Aromatic drugs derived from carboxylic acids	78,594	21.4	152,260	88.6	23,261	91.6	Bahamas
9506.69.20	Baseballs and softballs	21,610	86.6	22,532	91.9	22,100	95.0	Costa Rica
0807.10.70	Melons, nesi, fresh	20,057	98.3	24,227	98.6	21,122	91.4	Costa Rica
	Total of above items	841,588	8.9	1,051,035	10.4	1,200,467	10.7	
	Total, all items entering under CBERA	1,527,974	16.2	1,903,613	18.9	2,050,158	18.3	

[1] Indicates CBERA duty-free imports as a percent of total U.S. imports from CBERA countries. Leading U.S. imports from CBERA countries are shown in table 2-3.
[2] Indicates leading CBERA source based on total U.S. imports for consumption during 1994.
[3] HTS subheadings 1701.11.01 and 1701.11.02 (along with 1701.11.03) were created on Oct. 1, 1990 from former subheading 1701.11.00; combined CBERA sugar imports under these subheadings totaled $193.6 million in 1992, $130.9 million in 1993 and $111.3 million in 1994.
[4] HTS subheadings 8536.50.80 and 8538.90.80 became effective Jan. 1994.

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

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

Figure 2-1
Composition of leading CBERA duty-free imports, 1994



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

Table 2-9
U.S. imports for consumption: CBERA eligibility and utilization, 1990-94

Item	1990	1991	1992	1993	1994
Eligible duty-free under CBERA (*1,000 dollars*)[1]	2,136,701	2,272,420	2,819,213	3,033,597	3,250,004
Duty-free under CBERA (*1,000 dollars*)[2]	1,022,686	1,120,697	1,498,556	1,865,544	2,018,220
CBERA utilization ratio (*percent*)[3]	47.86	49.32	53.15	61.49	62.09

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

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

Table 2-10
U.S. imports for consumption under CBERA provisions, by sources, 1990-94

(1,000 dollars)

Rank	Country	1990	1991	1992	1993	1994
1	Dominican Republic	311,075	402,507	567,022	657,673	751,028
2	Costa Rica	218,380	249,553	294,937	388,251	478,109
3	Guatemala	154,205	137,157	192,955	208,262	171,381
4	Trinidad and Tobago	38,274	26,542	44,695	44,602	142,901
5	Honduras	67,891	80,464	112,512	127,399	139,838
6	Nicaragua	174	16,849	40,018	74,408	80,554
7	Jamaica	60,689	60,080	48,156	76,496	69,316
8	Bahamas	8,578	10,652	93,324	167,110	45,062
9	El Salvador	28,313	30,041	27,249	26,530	41,126
10	Panama	12,344	17,417	23,753	38,523	35,141
11	Barbados	15,198	15,728	15,478	20,176	21,313
12	St. Kitts and Nevis	10,136	5,857	14,172	15,985	17,220
13	Haiti	63,793	50,053	19,151	33,378	15,770
14	Belize	18,566	5,445	23,733	12,526	13,112
15	Guyana	521	506	1,202	1,246	13,100
16	St. Lucia	3,552	3,195	3,957	4,463	6,077
17	Netherlands Antilles	4,518	5,241	2,964	3,489	3,214
18	Dominica	1,330	1,365	1,008	1,293	2,112
19	St. Vincent and Grenadines	1,517	140	165	233	1,299
20	Montserrat	0	0	41	271	886
21	Antigua	675	548	324	1,110	809
22	Grenada	2,809	1,307	1,081	144	768
23	Aruba	4	0	10	21	12
24	British Virgin Islands	157	52	68	17	11
	Total	1,022,699	1,120,697	1,527,974	1,903,606	2,050,158

Note.—Figures may not add to the totals given due to rounding. Data include both CBERA duty free and reduced-duty eligible items.

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

Imports under CBERA from Costa Rica were also up in 1994, rising by 23.2 percent from 1993 to $478.1 million. Imports of precious jewelry and parts more than doubled, making these products the leading import item from Costa Rica under CBERA. Frozen beef and pineapples also continued to be leading items under CBERA.[40]

Imports under CBERA from Guatemala declined by 17.8 percent in 1994 to $171.4 million, owing to sharp drops in imports of sugar, the leading item, and of cigarette leaf tobacco and frozen beef. The tripling of CBERA imports during the year from Trinidad and Tobago is attributable to two items: hot-rolled steel and iron rod, and methanol. Imports of the top item, hot-rolled steel and iron rod, more than doubled compared with 1993 imports; they were responsible for 39.2 percent of all CBERA imports from that country. Imports of methanol soared to 10 times their 1993 value in 1994, to account for 38.2 percent of all 1994 imports under CBERA from Trinidad and Tobago. This development reflected, in part, Trinidad and Tobago's enhanced supply capacity as the country began to produce methanol from reformed natural gas.[41] The larger imports were also attributable to greater U.S. demand for end uses of methanol, including for gasoline oxygenate additives and octane enhancers.[42]

Owing to large duty-free shipments under CBERA of certain aromatic drugs, The Bahamas ranked fourth among CBERA beneficiaries in 1993. As previously noted, shipments of this analgesic in 1994 dropped to only 15.3 percent of their 1993 value as production was shifted to Mexico, pushing The Bahamas to eighth rank as a CBERA beneficiary. CBERA imports from Honduras, led by imports of beef, were up 9.7 percent in 1994, amounting to $139.8 million.

[40] See chapter 3 for additional information on pineapple imports and their impact on the U.S. industry.

[41] Reformed natural gas results from the catalytic conversion of natural gas from methane.

[42] Although methanol enters under CBERA, it could also enter under GSP. Because methanol is therefore not an item benefiting exclusively from CBERA, the effect of its imports from CBERA countries on the U.S. industry has not been discussed in this series of reports.

Table 2-11
Leading U.S. imports for consumption entering under CBERA provisions, by sources, 1994

Source	*HTS* No.	Description	1994 CBERA imports	Percent of total 1994 CBERA imports
			(*1,000 dollars*)	
Antigua	8534.00.00	Printed circuits, without elements	356	44.0
	0302.69.40	Fish, nesoi, excl. fillets, livers and roes, fresh	348	43.0
	9114.90.30	Assemblies and subassemblies for clock movements	48	5.9
	8207.30.60	Interchangeable tools for pressing, stamping	34	4.2
		Total	786	97.1
Aruba	9030.10.00	Parts of pumps	4	33.3
	7113.19.50	Jewelry and jewelry parts of precious metal	3	25.0
	6204.69.90	Women's or girls' trousers, bib & brace overalls, nesi	3	25.0
	8207.90.75	Interchangeable tools nesi, not suitable for cutting	2	16.7
		Total	12	100.0
Bahamas	2918.90.30	Aromatic drugs derived from carboxylic acids	23,261	51.6
	3812.30.40	Antioxidizing preparations & other compound stabilizers	5,654	12.5
	2937.22.00	Halogenated derivatives of adrenalcortical hormones	5,297	11.7
	2922.19.50	Nonaromatic alcohols, their ethers and esters	4,200	9.3
	0509.00.00	Natural sponges of animal origin	1,185	2.6
	2916.39.70	Aromatic monocarboxylic acids, nesi	1,163	2.6
		Total	40,760	90.4
Barbados	8533.31.00	Electrical wirewound variable resistors	9,375	44.0
	9032.89.60	Automatic regulating or controlling instruments	4,807	22.6
	2208.40.00	Rum and tafia	1,922	9.0
	8533.39.00	Electrical wirewound variable resistors	1,134	5.3
	8533.21.00	Fixed electrical resistors	857	4.0
		Total	18,095	84.9
Belize	2009.11.00	Orange juice, frozen, unfermented	8,826	67.3
	1702.90.40	Other cane/beet syrups nesi	1,008	7.7
	1702.90.35	Invert molasses	991	7.6
	0807.20.00	Papayas (papaws), fresh	775	5.9
	2009.20.40	Grapefruit juice, unfermented, frozen	547	4.1
	1703.10.50	Cane molasses nesi	296	2.3
		Total	12,443	94.9
British Virgin Islands	4911.91.40	Pictures, designs, and photographs	7	63.6
	8413.81.00	Pumps for liquids, not fitted with a measuring device	3	27.3
	3924.10.50	Tableware and kitchenware articles, nesi of plastic	1	9.1
		Total	11	100.0
Costa Rica	7113.19.50	Jewelry and jewelry parts of precious metal	45,070	9.4
	0202.30.60	Frozen boneless beef, except processed	31,929	6.7
	8516.31.00	Electrothermic hair dryers	28,939	6.1
	0804.30.40	Pineapples, fresh or dried, not reduced in size	28,534	6.0
	9018.90.80	Medical and surgical instruments and appliances	21,683	4.5
	0201.30.60	Fresh or chilled boneless beef, except processed	19,521	4.1
	0807.10.20	Cantaloupes, fresh, entered between 9/16-7/31	18,500	3.9
	1701.11.02	Sugar used in production of polyhydric alcohols	16,675	3.5
	4016.93.50	Articles of vulcanized rubber other than hard rubber	16,198	3.4
	0302.69.40	Fish, nesi, excl. fillets, livers and roes, fresh	14,555	3.0
	9506.69.20	Baseballs and softballs	13,075	2.7

See footnotes at end of table.

Table 2-11—Continued
Leading U.S. imports for consumption entering under CBERA provisions, by sources, 1994

Source	*HTS* No.	Description	1994 CBERA imports	Percent of total 1994 CBERA imports
			(*1,000 dollars*)	
Costa Rica *Cont.*	8533.40.80	Variable resistors, incl. rheostats, potentiometers nesi	12,625	2.6
	2207.10.60	Undenatured ethyl alcohol, for nonbeverage use	11,346	2.4
	0807.10.70	Melons, nesi, fresh	11,288	2.4
	0714.10.00	Cassava (manioc), fresh or dried	10,046	2.1
	3926.90.95	Articles of plastics of heading 3901, 3904, nesi	7,932	1.7
	9018.39.00	Medical and dental instruments and appliances nesi	7,805	1.6
	0714.90.10	Fresh dasheens, whether or not sliced	7,343	1.5
	4418.20.80	Wooden doors and their frames and thresholds, nesi	7,237	1.5
	0603.10.80	Cut flowers and flower buds	6,997	1.5
	0603.10.70	Chrysanthemums, standard carnations, anthuriums	6,670	1.4
	0709.90.10	Chayote, fresh or chilled	6,594	1.4
	4016.93.10	Gaskets, washers, seals used in chapter 87	5,858	1.2
	8505.19.00	Permanent magnets nesi	5,632	1.2
	8536.50.80	Electrical apparatus for switching or protecting circuits	5,022	1.1
	2008.99.13	Banana pulp, otherwise prepared or preserved	4,921	1.0
	0714.90.20	Fresh yams, whether or not sliced	4,703	1.0
	9403.70.40	Furniture of reinforced or laminated plastics	4,579	1.0
		Total	381,277	79.7
Dominica	3401.11.50	Soap, nesoi, organic surface active products	1,903	90.1
	2103.90.60	Mixed condiments and mixed seasonings	43	2.0
	3301.90.10	Extracted oleoresins	29	1.4
	2009.30.60	Concentrated juice of any single citrus fruit	19	0.9
	0709.60.00	Fruits of the genus capsicum (peppers)	17	0.8
		Total	2,011	95.2
Dominican Republic	6406.10.65	Footwear uppers, other than formed, of leather	205,959	27.4
	7113.19.50	Jewelry and jewelry parts of precious metal	90,086	12.0
	9018.90.80	Medical and surgical instruments and appliances	70,433	9.4
	2402.10.80	Cigars, cheroots, and cigarillos	34,610	4.6
	1701.11.01	Raw cane sugar, no flavoring/coloring, quota	32,283	4.3
	8538.90.80	Molded parts nesi	29,439	3.9
	4202.12.80[1]	Trunks, suitcases, occupational luggage	12,617	1.7
	8535.40.00	Lightning arrestors,voltage limiters & surge suppressors	10,265	1.4
	8536.90.00	Electrical apparatus, nesoi, for switching	10,212	1.4
	7113.19.21	Rope necklaces and neck chains of gold	9,832	1.3
	0202.30.60	Frozen boneless beef, except processed	9,041	1.2
	8536.50.80	Electrical apparatus for switching or protecting circuits	8,845	1.2
	8305.20.00	Staples in strips	8,228	1.1
	8517.10.00	Telephone sets	7,991	1.1
	8531.90.80	Parts for electric sound or visual signaling apparatus	7,918	1.1
	9615.90.60	Hair accessories, and parts thereof, nesi	7,500	1.0
	8511.90.60	Parts nesi of electrical ignition or starting equipment	7,043	0.9
	1703.10.50	Cane molasses	7,043	0.9
		Total	569,345	75.8
El Salvador	2207.10.60	Undenatured ethyl alcohol, for nonbeverage use	10,875	26.4
	8532.24.00	Ceramic dielectric fixed capacitors, multilayer	6,368	15.5
	1701.11.02	Sugar used in production of polyhydric alcohols	3,400	8.3
	4819.40.00	Sacks and bags, nesoi, including cones, of paper	1,937	4.7
	6203.39.40	Men’s or boys’ suit-type jackets and blazers	1,847	4.5
	0807.10.70	Melons, nesoi, fresh	1,656	4.0

See footnotes at end of table.

Table 2-11—Continued
Leading U.S. imports for consumption entering under CBERA provisions, by sources, 1994

Source	*HTS* No.	Description	1994 CBERA imports	Percent of total 1994 CBERA imports
			(*1,000 dollars*)	
El Salvador	6204.69.90	Women's or girls' trousers, bib and brace overalls	1,566	3.8
Cont.	7615.10.70	Aluminum cooking and kitchenware, not enameled	1,215	3.0
	3923.10.00	Boxes, cases, crates and similar articles	1,127	2.7
	1703.10.50	Cane molasses	917	2.2
		Total	30,908	75.2
Grenada	8409.99.99	Parts nesi, used solely or principally with compressors	261	34.0
	9018.90.80	Medical and surgical instruments and appliances	235	30.6
	0809.40.40	Plums, prunes and sloes, fresh	80	10.4
		Total	576	75.0
Guatemala	1701.11.02	Sugar used in production of polyhydric alcohols	23,988	14.0
	0710.80.97	Other frozen vegetables reduced in size	11,823	6.9
	0807.10.20	Cantaloupes, fresh, entered between 9/16-7/31	10,210	6.0
	0201.30.60	Fresh or chilled boneless beef, except processed	7,450	4.3
	0710.80.93	Okra	7,062	4.1
	0202.30.60	Frozen boneless beef, except processed	6,566	3.8
	2401.20.80	Tobacco, partly or wholly stemmed	6,417	3.7
	0603.10.60	Roses, fresh cut	6,336	3.7
	1701.11.01	Raw cane sugar, no flavoring/coloring, quota	4,912	2.9
	0708.10.40	Peas, fresh or chilled, shelled or unshelled	4,716	2.8
	6204.69.90	Women's or girls' trousers, bib and brace overalls, nesi	4,492	2.6
	2924.29.19	Aromatic pesticides of cyclic amides	4,419	2.6
	0710.80.70	Other frozen vegetables not reduced in size	3,863	2.3
	6910.10.00	Ceramic sanitary fixtures, of porcelain or china	3,843	2.2
	2401.10.60	Cigarette leaf, not stemmed, not oriental	3,456	2.0
	0807.10.70	Melons, nesi, fresh	3,392	2.0
	0802.90.90	Nuts nesi, shelled, fresh or dried	2,939	1.7
	6204.39.80	Women's or girls' ensembles of artificial fibers nesi	2,680	1.6
	0710.21.40	Peas, uncooked, cooked by steaming, boiling in water	2,278	1.3
	9505.10.25	Christmas ornaments, other than of glass or wood	2,025	1.2
	1703.10.50	Cane molasses nesi	1,689	1.0
	3923.21.00	Sacks and bags (including cones)	1,672	1.0
	4015.19.10	Seamless gloves of vulcanized rubber, not surgical	1,666	1.0
	4203.30.00	Belts and bandoliers with or without buckles, of leather	1,657	1.0
		Total	129,551	75.6
Guyana	1701.11.01	Raw cane sugar, no flavoring/coloring, quota	9,314	71.1
	4412.12.20	Plywood of wood sheets of nonconiferous wood	1,482	11.3
	4412.11.20	Plywood of wood sheets of tropical wood	986	7.5
		Total	11,782	89.9
Haiti	9506.69.20	Baseballs and softballs	2,549	16.2
	6116.10.45[1]	Gloves, mittens & mitts (excl. ski/snowmobile)	1,639	10.4
	0804.50.40	Guavas, and mangosteens, fresh	1,559	9.9
	0811.90.52	Mangoes	1,153	7.3
	8544.51.80	Insulated electric conductors nesi	592	3.8
	7326.90.90	Articles of iron or steel, nesi	575	3.6
	8504.90.90	Parts for electric transformers, static converters nesi	570	3.6
	8536.69.00	Plugs and sockets for making connections	455	2.9

See footnotes at end of table.

Table 2-11—Continued
Leading U.S. imports for consumption entering under CBERA provisions, by sources, 1994

Source	*HTS* No.	Description	1994 CBERA imports	Percent of total 1994 CBERA imports
			(*1,000 dollars*)	
Haiti *Cont.*	6210.10.40	Garments, not knitted or crocheted, made up of fabric	453	2.9
	8538.90.80	Molded parts nesi	374	2.4
	4818.50.00	Articles of apparel and clothing accessories	303	1.9
	4106.19.20	Goat or kidskin leather, wet blues	297	1.9
	4105.19.10	Sheep or lamb skin, wet blues	269	1.7
	8504.50.00	Inductors nesi	269	1.7
	4016.99.35	Vibration control goods of natural rubber	259	1.6
	6116.10.13	Gloves, mittens and mitts of vegetable fibers	247	1.6
	8903.10.00	Inflatable vessels, row boats and canoes for pleasure	244	1.5
	8533.90.80	Parts for subheading 8533.40, ceramic or metallic nesi	222	1.4
		Total	12,029	76.2
Honduras	0202.30.60	Frozen boneless beef, except processed	21,613	15.5
	0201.30.60	Fresh or chilled boneless beef, except processed	17,032	12.2
	0807.10.20	Cantaloupes, fresh, entered between 9/16-7/31	11,096	7.9
	2402.10.80	Cigars, cheroots, and cigarillos	9,845	7.0
	6406.10.65	Footwear uppers, other than formed, of leather	9,765	7.0
	9506.69.20	Baseballs and softballs	6,303	4.5
	0804.30.40	Pineapples, fresh or dried, not reduced in size	5,704	4.1
	9603.90.80	Brooms and brushes nesi, mops, hand-operated	4,966	3.6
	3923.21.00	Sacks and bags (including cones)	4,857	3.5
	6210.10.40	Garments, not knitted or crocheted, made up of fabric	3,550	2.5
	9403.50.90	Wooden furniture other than seats	3,289	2.4
	2402.10.60	Cigars, cheroots and cigarillos containing tobacco	2,649	1.9
	9403.60.80	Wooden (except bent-wood) furniture other than seats	2,469	1.8
	2401.10.60	Cigarette leaf, not stemmed, not oriental	2,416	1.7
		Total	105,554	75.5
Jamaica	2207.10.60	Undenatured ethyl alcohol, for nonbeverage use	25,229	36.4
	0714.90.20	Fresh yams, whether or not sliced	6,693	9.7
	2208.40.00	Rum and tafia	6,658	9.6
	2402.10.80	Cigars, cheroots, and cigarillos	5,444	7.9
	2203.00.00	Beer made from malt	2,835	4.1
	2208.90.45	Cordials, liqueurs, kirschwasser and ratafia	2,763	4.0
	8536.90.00	Electrical apparatus nesi, for switching	1,841	2.7
	2103.90.60	Mixed condiments and mixed seasonings	1,583	2.3
	0807.20.00	Papayas (papaws), fresh	1,532	2.2
		Total	54,578	78.7
Montserrat	8535.90.80	Terminals, electrical splices and couplings	469	52.9
	8538.90.80	Molded parts nesi	413	46.6
		Total	882	99.5
Netherlands Antilles	4818.10.00	Toilet paper	744	23.1
	7326.20.00	Articles of iron or steel wire, nesi	304	9.5
	8504.31.40	Electrical transformers, nesi	225	7.0
	8544.60.20	Electric conductors voltage > 1000 with connectors	225	7.0
	8524.21.30	Pre-recorded magnetic tapes, of certain width	224	7.0
	8544.41.00	Electric conductors, volt >80 <1000 with connectors	201	6.3
	3823.20.00	Naphthenic acids, their water-insoluble salts	120	3.7

See footnotes at end of table.

Table 2-11—Continued
Leading U.S. imports for consumption entering under CBERA provisions, by sources, 1994

Source	*HTS* No.	Description	1994 CBERA imports	Percent of total 1994 CBERA imports
			(*1,000 dollars*)	
Netherlands Antilles *Continued*	8544.30.00	Insulated ignition wiring sets and other wiring sets	111	3.5
	8543.80.95	Articles designed for connection to telegraphic apparatus	93	2.9
	4818.30.00	Tablecloths and table napkins of paper pulp	80	2.5
	3507.90.00	Enzymes; prepared enzymes nesi, excluding rennet	75	2.3
	8431.49.90	Parts for use with headings 8425 to 8430 nesi	68	2.1
		Total	2,470	76.8
Nicaragua	0202.30.60	Frozen boneless beef, except processed	32,608	40.5
	0201.30.60	Fresh or chilled boneless beef, except processed	15,685	19.5
	7113.19.10	Rope, curb, etc. continuous lengths, of precious metal	9,380	11.6
	1701.11.02	Sugar used in production of polyhydric alcohols	8,857	11.0
	0302.69.40	Fish, nesi, excl. fillets, livers and roes, fresh	3,948	4.9
	0807.10.20	Cantaloupes, fresh, entered between 9/16-7/31	1,917	2.4
	1703.10.50	Cane molasses	1,493	1.9
	1701.11.01	Raw cane sugar, no flavoring/coloring, quota	1,131	1.4
		Total	75,019	93.1
Panama	0302.69.40	Fish, nesi, excl. fillets, livers and roes, fresh	10,085	28.7
	2402.20.80	Cigarettes containing tobacco, paper wrapped	4,733	13.5
	0807.10.70	Melons, nesi, fresh	2,812	8.0
	7113.19.50	Jewelry and jewelry parts of precious metal	2,274	6.5
	4823.60.00	Trays, dishes, plates, cups and the like of paper	1,729	4.9
	2008.99.13	Banana pulp, otherwise prepared or preserved	1,540	4.4
	9603.10.60	Brooms, except whiskbrooms, of broom corn	1,262	3.6
	2401.20.80	Tobacco, partly or wholly stemmed	1,117	3.2
	2924.29.39	Cyclic amides (including cyclic carbomates)	1,012	2.9
	0807.10.30	Watermelons, fresh, if entered from 12/1 to 3/1	1,002	2.9
		Total	27,566	78.4
St. Kitts and Nevis	8536.50.80	Electrical apparatus for switching or protecting circuits	9,464	55.0
	1701.11.01	Raw cane sugar, no flavoring/coloring, quota	1,524	8.9
	8533.40.80	Variable resistors, incl. rheostats, potentiometers nesi	1,017	5.9
	8529.90.39	Parts for use with heading 8525 to 8528 nesi	982	5.7
	8503.00.85	Parts for use with heading 8501 or 8502 nesi	636	3.7
	8504.40.80	Electric transformers, static converters, inductors nesi	512	3.0
		Total	14,135	82.1
St. Lucia	8525.10.20	Transmission apparatus for television	1,815	29.9
	8533.21.00	Electrical fixed resistors	1,452	23.9
	8532.29.00	Fixed electrical capacitors, nesi	966	15.9
	8533.40.80	Variable resistors, incl. rheostats, potentiometers nesi	597	9.8
	3926.90.95	Articles of plastics of heading 3901, 3904, nesi	328	5.4
	6307.90.40	Cords and tassels made up of textile materials	304	5.0
		Total	5,462	89.9
St. Vincent and Grenadines	7113.19.50	Jewelry and jewelry parts of precious metal	1,230	94.7
		Total	1,230	94.7

See footnotes at end of table.

Table 2-11—Continued
Leading U.S. imports for consumption entering under CBERA provisions, by sources, 1994

Source	*HTS* No.	Description	1994 CBERA imports	Percent of total 1994 CBERA imports
			(*1,000 dollars*)	
Trinidad and Tobago	7213.31.30	Bars & rods, hot-rolled, of iron or n/alloy steel	56,032	39.2
	2905.11.20	Methanol (methyl alcohol)	54,617	38.2
	0302.69.40	Fish, nesi, excl. fillets, livers and roes, fresh	3,811	2.7
	1701.11.01	Raw cane sugar, no flavoring/coloring, quota	2,994	2.1
	7214.40.00	Bars and rods of iron or nonalloy steel	2,752	1.9
	7213.39.00	Bars and rods, hot-rolled, of iron or nonalloy steel	2,703	1.9
		Total	122,909	86.0

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

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

Source: Compiled from official statistics of the U.S. Department of Commerce. Commodities sorted by imports for consumption, customs value in 1994.

CHAPTER 3
Impact Of CBERA on the United States in 1994

This chapter presents estimates of the welfare effects of CBERA on the U.S. economy in 1994. The chapter discusses the analytical approach used to measure quantitatively the impact of CBERA on U.S. consumers, the U.S. Treasury, and on U.S. industries whose goods compete with CBERA imports, and describes the U.S. imports that benefited exclusively from CBERA in 1994 and had the largest potential impact on competing U.S. industries.

Products That Benefited Exclusively From CBERA in 1994

U.S. imports of products benefiting exclusively from CBERA are defined as those that enter under either CBERA duty-free or CBERA reduced-duty provisions that are not eligible to enter free of duty under MFN rates or other provisions such as GSP. Consistent with this definition, GSP-eligible items imported from CBERA countries that entered under CBERA provisions are considered to benefit exclusively from CBERA only if they originated in a country that is not currently a designated GSP beneficiary or if imports of the item from a certain country exceeded GSP competitive-need limits.[1] Since the inception of the CBERA program, U.S. imports that benefit exclusively from CBERA have accounted for a relatively small portion of total U.S. imports from CBERA countries, but this portion rose substantially in recent years before decreasing in 1994.

The value of U.S. imports that benefited exclusively from CBERA decreased by 7.2 percent from $1.0 billion in 1993 to $943 million in 1994 (table 3-1). Such imports made up 8.4 percent of total U.S. imports from CBERA countries in 1994, a decrease from 10.1 percent in 1993. Seven items experienced large changes in exclusive CBERA duty-free imports from 1993 to 1994, accounting for about $71 million of the $73 million net change. The item having the largest impact on the net change was *Harmonized Tariff Schedule of the United States* (*HTS*) subheading 2918.90.30, aromatic drugs derived from carboxylic acids, which experienced a decrease of $129 million in CBERA duty-free imports. This was largely due to an ongoing shift in production of these drugs from The Bahamas to Mexico. Large increases in imports benefiting exclusively from CBERA occurred for leather footwear uppers (*HTS* subheading 6406.10.65) from the Dominican Republic, medical instruments (*HTS* subheading 9018.90.80) from the Dominican Republic, and wire rod (*HTS* subheading 7213.31.30). Other large decreases occurred for two tobacco subheadings (*HTS* subheadings 2401.10.60 and 2401.20.80)[2] and raw cane sugar used to produce polyhydric alcohols or for re-export (*HTS* subheading 1701.11.02) from Guatemala and Nicaragua. Leading products that were identified in previous annual CBERA reports as

[1] In 1994, Nicaragua was the only CBERA country that was not a designated GSP-beneficiary country.

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

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

[2] Imports of tobacco under *HTS* subheading 2401.10.60 fell from the ninth leading item benefiting exclusively from CBERA in 1993 to the 22nd leading item in 1994. The value of exclusive CBERA imports under this tobacco subheading fell from $25.9 million in 1993 to $5.9 million in 1994.

Table 3-1
Customs value of products that benefited from CBERA duty elimination and reduced duties, 1992-94

(Million dollars)

Item	1992	1993	1994
Total CBERA country imports:			
Value	9,426	10,094	11,200
Percent of total	100	100	100
Items entered under CBERA:[1]			
Value	1,528	1,904	2,050
Percent of total	16.2	18.9	18.3
Items benefiting exclusively from CBERA:[2]			
Value	671	1,016	943
Percent of total	7.1	10.1	8.4

[1] CBERA duty-free and reduced-duty imports excluding items that are MFN duty-free imports and ineligible items misreported as entering under CBERA.

[2] CBERA duty-free and reduced-duty imports, excluding items that are MFN duty-free and eligible for GSP duty-free treatment (except imports that exceeded GSP competitive-need limits and were eligible for duty-free entry under CBERA). Includes items from Nicaragua that would ordinarily be eligible for GSP duty-free treatment because Nicaragua does not qualify for GSP benefits.

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

benefiting exclusively from CBERA between 1984 and 1993 continued to rank among the leading U.S. imports in 1994. These are beef, pineapples, frozen concentrated orange juice,[3] tobacco leaf, and rum, which have consistently ranked among the leading items benefiting exclusively from CBERA since the inception of the program. Ethyl alcohol has ranked as one of the leading items benefiting exclusively from CBERA since 1985. Table 3-2 presents the leading 20 import items (ranked by c.i.f. value),[4] on an 8-digit *HTS* subheading basis, that benefited exclusively from CBERA in 1994.

Imports of five GSP-eligible products from The Bahamas, the Dominican Republic, and Guatemala were included in the list of leading CBERA-beneficiary products in table 3-2 because imports of the items from these countries exceeded GSP competitive-need limits and could continue to enter free of duty only under CBERA. One GSP-eligible item was included in the list of leading CBERA-beneficiary products in table 3-2 on the basis of imports from Nicaragua, which is not a designated GSP-beneficiary country. Imports from Nicaragua were also included in two of the five GSP-eligible items mentioned above.[5]

[3] The Commission received a submission from the Tropicana Products subsidiary of Joseph E. Seagram & Sons, Inc. in response to its formal request for comments. In regard to orange juice, it states, in part, that “Tropicana favors the CBERA, but Tropicana also believes that the CBERA would have a more beneficial impact if countries that benefit from U.S. tariff preferences reduced their own trade barriers, which are very high by global and hemispheric standards.” Submission of Joseph E. Seagram & Sons, Inc., July 14, 1995, by Nancy Levenson, Director of Federal Affairs for Seagram.

[4] The analysis presented below uses U.S. market expenditure shares in computing estimated welfare and U.S. production displacement effects. Since U.S. expenditures on imports necessarily include freight and insurance charges, and duties, when applicable, the analysis uses c.i.f. values for CBERA duty-free items, and landed, duty-paid values for non-CBERA imports and CBERA reduced-duty imports. (Technically, landed, duty-paid values are equal to c.i.f. values for items entering free of duty.) Import values reported in the remainder of this chapter are c.i.f. values unless otherwise specified.

[5] The products in question were leather footwear uppers and medical instruments from the Dominican Republic, aromatic drugs from The Bahamas, raw cane sugar from Guatemala and Nicaragua, cigars from the Dominican Republic and Nicaragua, and rope, curb, etc., of precious metal from Nicaragua. Raw cane sugar imports entered under *HTS* subheading 1701.11.02 from Guatemala and Nicaragua may not have benefited exclusively from CBERA duty-free entry because, under the U.S. sugar re-export program, importers may claim a duty drawback upon re-export of the sugar after it has been refined or after it has been included in a sugar-containing product that is exported. An unknown portion entered under *HTS* subheading 1701.11.02 may have been re-exported. Therefore, the value for this item in table 3-2 probably overstates the amount that benefited exclusively from CBERA.

Table 3-2
Value of leading imports that benefited exclusively from CBERA duty provisions in 1994

(1,000 dollars)

HTS subheading	Description	Customs value	C.i.f. value
6406.10.65[1]	Footwear uppers, other than formed, of leather	205,959	210,219
0202.30.60	Frozen boneless beef, except processed	101,758	107,714
9018.90.80[1]	Medical and surgical instruments and appliances	70,433	71,140
0201.30.60	Fresh or chilled boneless beef, except processed	62,837	66,928
7213.31.30	Bars & rods, hot-rolled < 14mm in diameter, not tempered, not treated and not partly manufactured	56,032	60,910
2207.10.60	Undenatured ethyl alcohol for nonbeverage use	47,450	51,344
0804.30.40	Pineapples, fresh or dried, not reduced in size, in crates	35,885	41,734
1701.11.02[2]	Cane sugar used to produce polyhydric alcohols	32,845	36,331
2402.10.80[3]	Cigars, cheroots and cigarillos	34,647	35,273
2918.90.30[4]	Aromatic drugs derived from carboxylic acids	23,261	23,385
2009.11.00	Frozen concentrated orange juice	14,483	15,502
0710.80.97	Frozen vegetables (asparagus, broccoli, and other), reduced in size	12,803	15,385
8533.40.80	Electrical variable resistors	14,376	14,507
4202.12.80[5]	Luggage with outer surface of textile material	12,639	13,351
2208.40.00	Rum and tafia	9,519	10,225
2401.20.80	Tobacco, partly or wholly stemmed	9,653	9,971
8533.31.00	Electrical wirewound variable resistors	9,375	9,640
7113.19.10[6]	Rope, curb; and similar articles of precious metal	9,380	9,398
0603.10.60	Roses, fresh cut	7,647	8,827
6204.69.90	Women's or girls' trousers, overalls, and shorts	7,126	7,407

[1] These *HTS* subheadings were items from the Dominican Republic that were not GSP eligible during 1994.
[2] This *HTS* subheading included imports from Guatemala and Nicaragua that were not GSP eligible during 1994. Value for sugar may overstate actual sugar imports benefiting from CBERA duty provisions because of sugar re-exported under the U.S. sugar re-export program.
[3] This *HTS* subheading was an item that included imports from the Dominican Republic and Nicaragua that were not GSP eligible during 1994.
[4] This *HTS* subheading was an item from the Bahamas that was not GSP eligible during 1994.
[5] Items subject to 20-percent duty reductions under the CBERA between 1992 and 1996.
[6] This *HTS* subheading was an item from Nicaragua that was not GSP eligible during 1994.

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

Since it was implemented in 1984, CBERA has had a minimal economic effect on the overall economy of the United States. In each year from 1984 through 1994, the value of CBERA duty-free U.S. imports has been around 0.03 percent or less of U.S. gross domestic product (GDP).[6] As pointed out in chapter 2, the total value of U.S. imports from CBERA countries remained small—amounting to 1.7 percent of total U.S. imports in 1994.

Welfare Effects of CBERA on U.S. Industries and Consumers in 1994

Analytical Approach

The following discussion briefly describes the approach that was used to analyze the welfare effects of duty-free and reduced-duty status under CBERA in 1994 on U.S. consumers, the U.S. Treasury and on U.S. industries whose goods compete with CBERA imports. Specifically, a computable partial equilibrium model was used to estimate the welfare effects and industry displacement effects of CBERA for each commodity.[7,8] A more detailed explanation of the approach can be found in appendix B.

[6] See previous reports in this series.

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

[8] Commissioner Newquist notes that in the context of this investigation, economic modelling provides only "estimates" regarding the impact of any event or series of events. In his view, economic models rely on the manipulation of a number of assumptions and variables, all of which differ according to the information sought and the judgment and prejudices of the modeler. Thus, models measuring the impact of a single event can and do produce widely divergent "results."

The estimation of the welfare effects of CBERA duty reduction[9] for 1994 is made using a standard economic methodology for measuring the welfare impact of a change in the prices of one or more goods. Without the duty reduction, full tariffs would have been in place in 1994 for CBERA imports not eligible for other duty-reduction programs. Since CBERA has been in effect, therefore, U.S. consumers have benefited from lower prices and higher consumption; competing U.S. producers have had lower sales; and tariff revenues to the U.S. Treasury have been lower.

In this report, the net welfare effect is measured by adding two components: (1) the gain in consumer surplus and (2) the decrease in tariff revenues to the U.S. Treasury resulting from the CBERA duty reduction.[10]

[8]—*Continued*

For purposes of this investigation, therefore, Commissioner Newquist considers economic modelling to be but one of many tools available to the Commission to analyze and assess the effects of the Caribbean Basin Economic Recovery Act.

For further discussion of Commissioner Newquist's views on the limitations of economic modelling, see, *Lamb Meat: Competitive Conditions Affecting the U.S. and Foreign Lamb Industries*, (investigation No. 332-357), USITC publication 2915, p. 5-36, fn. 73, Aug. 1995; *The Economic Effects of Antidumping and Countervailing Duty Orders and Suspension Agreements*, (investigation No. 332-344), USITC publication 2900, p. xi, ("Views of Commissioner Don Newquist"), June 1995; see also, *Potential Impact on the U.S. Economy and Industries of the GATT Uruguay Round Agreements, Volume I*, (investigation No. 332-353), USITC publication 2790, p. I-7, fn. 17, June 1994; *Potential Impact on the U.S. Economy and Selected Industries of the North American Free-Trade Agreement*, (investigation No. 332-337), USITC publication 2597, p. 1-6, fn. 9, Jan. 1993.

[9] For simplicity of exposition, the remaining discussion focuses on the welfare effects of reduced duties under CBERA. However, the same analysis applies to both duty-free and reduced-duty treatment under CBERA.

[10] Consumer surplus is a dollar measure of the total net gain to U.S. consumers from lower prices. Conceptually, it is defined as the "difference between the total value consumers receive from the consumption of a particular good and the total amount they pay for the good."

Net welfare effects typically also include changes in producer surplus. Because the model used in this analysis assumes that the supply of U.S. domestic production is perfectly elastic, that is, that the U.S. domestic price does not fall in response to CBERA, decreases in U.S. producer surplus are not captured in this analysis. However, it is expected that the effects of CBERA duty reductions on most U.S. industries are small.

Two assumptions have been made that tend to produce "upper bound" estimates of U.S. production that might be displaced. The first assumption is that the substitutability of competing U.S. and CBERA products is high. This is reflected in the high elasticity of substitution (that is, a substitution elasticity of 5) used in the analysis to estimate the potential displacement effect. The second assumption is that the supply prices of imports and U.S. production are not affected by CBERA (that is, that supply is perfectly elastic over the relevant range for CBERA imports, non-CBERA imports, and U.S. production). These assumptions ensure the identification of items that could be most affected by CBERA. In many cases the reported displacement effects may overstate the actual displacement that occurred because of low substitutability between Caribbean products and U.S. products, or upward-sloping supply curves.

The analysis was conducted on the 20 leading items that benefited exclusively from CBERA shown in table 3-2.[11] Estimates of welfare and U.S. potential industry displacement effects were made and industries that experienced potential displacement of over 5 percent of the value of U.S. production were selected for further analysis.

Items Analyzed

The effects of CBERA were calculated for the top 20 items that benefited exclusively from CBERA duty elimination and reduced duties in 1994 (table 3-3). These items accounted for 82.5 percent of the total customs value of imports that meet the exclusive CBERA specification, as defined above. For any particular item, the size of the market share of CBERA imports (value of imports benefiting exclusively from CBERA relative to apparent consumption) is a major factor in determining the estimated impact on competing domestic producers.[12]

[10]—*Continued*

Producer surplus is a dollar measure of the total net loss to competing U.S. producers from increased competition with imports. Conceptually, it is defined as the returns to entrepreneurs and owners of capital over and above what they would have earned in their next-best opportunities. See Walter Nicholson, *Microeconomic Theory: Basic Principles and Extensions* (New York: The Dryden Press, 1989) for further discussion of consumer and producer surplus.

Also, the welfare effects do not include short-run adjustment costs to the economy from reallocating resources between different industries.

[11] USITC industry analysts provided estimates of U.S. production and exports for the 20 leading items that benefited exclusively from CBERA.

[12] Other factors include the ad valorem equivalent tariff rate, the substitutability among beneficiary imports,

Table 3-3
Leading imports that benefited exclusively from CBERA, apparent U.S. consumption, and market shares, by *HTS* items, 1994

HTS subheading	Description	CBERA beneficiary imports (c.i.f value)	U.S. apparent consumption[1]	Market share
		1,000 dollars		*Percent*
6406.10.65	Footwear uppers, other than formed, of leather	210,219	1,592,219	13.20
0202.30.60[2]	Frozen boneless beef, except processed	107,714	5,790,692	3.02
9018.90.80	Medical and surgical instruments and appliances	71,140	4,404,976	1.61
0201.30.60[2]	Fresh or chilled boneless beef, except processed	66,928	-	-
7213.31.30	Bars & rods, hot-rolled, < 14 mm in diameter, not tempered, not treated and not partly manufactured	60,910	1,580,562	3.85
2207.10.60	Undenatured ethyl alcohol for nonbeverage use	51,344	1,430,782	3.59
0804.30.40	Pineapples, fresh or dried, not reduced in size, in crates	41,734	99,030	42.14
1701.11.02	Cane sugar used to produce polyhydric alcohols	36,331	3,497,315	1.04
2402.10.80	Cigars, cheroots and cigarillos	35,273	82,091	42.97
2918.90.30[3]	Aromatic drugs derived from carboxylic acids	23,385	-	-
2009.11.00	Frozen concentrated orange juice	15,502	2,479,299	0.63
0710.80.97	Frozen vegetables (asparagus, broccoli, and other), reduced in size	15,385	639,189	2.41
8533.40.80	Electrical variable resistors	14,507	324,687	4.47
4202.12.80	Luggage with outer surface of textile material	13,351	341,385	[4]4.60
2208.40.00	Rum and tafia	10,225	104,956	9.74
2401.20.80	Tobacco, partly or wholly stemmed	9,971	1,797,251	0.55
8533.31.00	Electrical wirewound variable resistors	9,640	24,154	39.91
7113.19.10	Rope, curb; and similar articles of precious metal	9,398	520,581	1.81
0603.10.60	Roses, fresh cut	8,827	300,854	2.93
6204.69.90	Women's or girls' trousers, overalls, and shorts	7,407	8,071,855	0.09

[1] U.S. apparent consumption defined as U.S. production plus total imports (landed, duty-paid basis) minus exports.
[2] Apparent consumption for *HTS* subheadings 0201.30.60 and 0202.30.60 were aggregated into one category and reported under *HTS* subheading 0202.30.60.
[3] Value of U.S. domestic production not available.
[4] Market share based on landed, duty-paid value.

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

The value of these imports relative to U.S. apparent consumption varied considerably in magnitude (table 3-3). For instance, in 1994, the value of U.S. imports of women's or girls' trousers, overalls, and shorts benefiting exclusively from CBERA was less than 0.1 percent of the value of apparent consumption. Conversely, the value of CBERA imports of higher priced cigars was approximately 43 percent of the value of apparent consumption.

Welfare Effects and the Displacement of Domestic Output

This section presents dollar estimates of the economic effects of duty elimination and reduced duties for the leading 20 products that benefited exclusively from CBERA in 1994. These effects are summarized in table 3-4, which presents dollar estimates of the consumer surplus that was generated, the tariff revenue from CBERA imports that was foregone, and the resulting net welfare effect. It also presents the value of U.S. domestic shipments, dollar estimates of U.S. shipments displaced by CBERA imports, and the ratio of shipments displaced to domestic shipments.[13]

The net welfare effects shown in table 3-4 were relatively small in magnitude. Except for sugar, the gain in consumer surplus (column A) was greater than the corresponding decline in tariff revenue (column B) for all of the items analyzed.[14] Ethyl alcohol was the item with the largest net welfare gain resulting from CBERA duty-free entry. Five other items with high net welfare gains, in value terms, were frozen concentrated orange juice, medical instruments, leather footwear uppers, frozen vegetables, and stemmed tobacco.

The six products with the largest potential displacement effects (column D), in value terms, were ethyl alcohol, medical instruments, leather footwear uppers, beef, frozen concentrated orange juice, and frozen vegetables.[15] In percentage terms, the largest potential displacement of domestic shipments occurred for higher priced cigars, variable resistors, and fresh pineapples. The three largest potential displacement effects reported were just under 10 percent, the remainder were under 4 percent, with half of the total number being under 1 percent.

Estimates of net welfare and industry displacement effects were also made using an assumption of lower substitutability (that is, a substitution elasticity of 2). The three industries with the largest displacement of U.S. production were the same as when higher substitutability was assumed (higher priced cigars, variable resistors, and fresh pineapples), although the ordering of the three was altered. Displacement for these three industries was lower and estimated to be between 2 and 4 percent of production in the respective industries.[16]

Further analysis of these three industries is presented below.

Highlights of U.S. Industries Most Likely Affected by CBERA in 1994

Cigars, Cheroots, and Cigarillos

U.S. imports of cigars, cheroots, and cigarillos with a unit value of $0.23 or more (*HTS* subheading 2402.10.80) benefiting exclusively from CBERA in 1994 increased in value by 29 percent over the 1993 level to $35.3 million and by 17 percent in quantity to 57.6 million cigars in 1994.[17] Only those imports

[12]—*Continued*
nonbeneficiary imports, and domestic production, and the overall demand elasticity for the product category.

[13] See appendix B for a more complete discussion of the data used to estimate the effects shown in table 3-4.

[14] Imports of sugar under *HTS* subheading 1701.11.02 from Guatemala and Nicaragua are believed to be re-exported after being refined and/or included in other products for export. These imports have no direct effect on U.S. consumers, and there is no revenue loss to the Treasury, given U.S. law on sugar imported for re-export. The U.S. refining industry benefits from these imports because it allows the use of excess refinery capacity, and U.S. consumers may benefit indirectly because of the added efficiency in the refining industry. Sugar imported under other provisions that is refined and re-exported qualifies for duty drawbacks—i.e. most duties paid are refunded.

[15] Imports of aromatic drugs from The Bahamas were a leading item that benefited exclusively from CBERA duty-free entry in 1994 (table 3-2). However, because of the lack of data for competing U.S. domestic production of this item, no net-welfare or displacement effects are reported in table 3-4.

[16] Estimates of potential industry displacement using the assumption of lower substitutability produced estimated displacement percentages as follows: cigars, 3.58 percent; pineapples, 2.95 percent; and resistors, 2.28 percent.

[17] Henceforth in the text, "cigars" will refer to cigars, cheroots, and cigarillos under *HTS* subheading 2402.10.80.

Table 3-4
Estimated welfare and displacement effects on the U.S. of leading imports that benefited exclusively from CBERA, 1994

HTS subheading	Description	Welfare effects: Gain in consumer surplus (A)	Loss in tariff revenue (B)	Net welfare effect (A-B)	Displacement effects: U.S. domestic shipments (C)	Reduction in domestic shipments: Value (D)	Share (D/C)
		1,000 dollars					*Percent*
6406.10.65	Footwear uppers, other than formed, of leather	6,981	6,431	550	1,213,234	17,115	1.41
0202.30.60[1]	Frozen boneless beef, except processed	3,170	3,028	142	4,298,900	10,702	0.25
9018.90.80	Medical and surgical instruments and appliances	4,577	3,799	778	3,704,998	17,886	0.48
0201.30.60[1]	Fresh or chilled boneless beef, except processed	-	-	-	-	-	-
7213.31.30	Bars & rods, hot-rolled, < 14mm in diameter, no tempered, not treated and not partly manufactured	994	954	40	1,259,436	3,433	0.27
2207.10.60	Undenatured ethyl alcohol for nonbeverage use	14,161	7,826	6,335	1,379,438	40,504	2.94
0804.30.40	Pineapples, fresh or dried, not reduced in size, in crates	1,574	1,484	90	53,119	4,348	8.19
1701.11.02[2]	Cane sugar used to produce polyhydric alcohols	-	-	-	3,374,979	-	-
2402.10.80	Cigars, cheroots and cigarillos	1,550	1,448	102	25,465	2,519	9.89
2918.90.30	Aromatic drugs derived from carboxylic acids	([3])	([3])	([3])	([3])	([3])	([3])
2009.11.00	Frozen concentrated orange juice	3,071	1,064	2,007	951,000	9,656	1.02
0710.80.97	Frozen vegetables (asparagus, broccoli, and other), reduced in size	1,628	1,154	474	481,500	7,625	1.58
8533.40.80	Electrical variable resistors	747	649	98	128,300	1,321	1.03
4202.12.80	Luggage with outer surface of textile material	181	175	6	160,000	402	0.25
2208.40.00	Rum and tafia	638	542	96	92,272	3,078	3.34
2401.20.80	Tobacco, partly or wholly stemmed	1,183	781	402	1,400,000	5,968	0.43
8533.31.00	Electrical wirewound variable resistors	508	461	47	6,174	581	9.42
7113.19.10	Rope, curb; and similar articles of precious metal	558	471	87	360,000	1,366	0.38
0603.10.60	Roses, fresh cut	519	440	79	151,715	1,268	0.84
6204.69.90	Women's or girls' trousers, overalls, and shorts	200	186	14	4,936,258	574	0.01

[1] Analysis for *HTS* subheadings 0201.30.60 and 0202.30.60 is combined under *HTS* 0202.30.60.
[2] Most sugar imported under *HTS* subheading 1701.11.02 is believed to be re-exported either as refined sugar or in sugar-containing products, which would qualify for a duty drawback under other *HTS* subheadings. Therefore, there is no effect on U.S. consumers and no loss of tariff revenues.
[3] Not available.

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

from the Dominican Republic and Nicaragua qualify as benefiting exclusively from CBERA during 1993-94.[18] U.S. cigar imports from the Dominican Republic represented nearly 58 percent of total cigar imports (quantity basis), and 64 percent and 62 percent of cigar imports from CBERA countries in 1993 and 1994, respectively.[19] CBERA duty-free imports represented over 98 percent of the total value of U.S. cigar imports from the Dominican Republic and Nicaragua in 1994.

U.S. imports of these cigars from the Dominican Republic, and the CBERA countries generally, differ markedly from those typically produced in the United States. The overwhelming majority of large cigars manufactured in the United States—including class H cigars[20]—are made by machine. Class H cigars manufactured in the United States use short-filler tobacco, may include a manufactured binder and/or wrapper, and retail for between $0.35 and $0.85 each. Conversely, almost all of the cigars benefiting exclusively from CBERA are hand-made, premium-priced cigars, consist of all natural tobacco, and generally retail for between $1 to $20 each.[21] U.S. imports of cigars benefiting exclusively from CBERA are not directly competitive with domestically produced cigars and are often, in fact, used to complement a distributor's portfolio of popularly priced U.S. cigars. Therefore, the impact on the U.S. industry is probably small.

[18] The Dominican Republic did not have GSP benefits in 1994 because U.S. imports under *HTS* subheading 2402.10.80 from the Dominican Republic exceeded 50 percent of the value of total U.S. imports of that product in the preceding year—the competitive need limit. Nicaragua is not currently a designated GSP beneficiary country.

[19] Nicaraguan imports for these years represented much less than 1 percent of total imports under CBERA.

[20] Class H cigars are defined for statistical purposes by the Bureau of Alcohol, Tobacco and Firearms as large cigars with a value of $235 or more per 1000 cigars. The Cigar Association of America, Inc. uses the aggregate total of imports in *HTS* 2402.10.30.90 and 2402.10.80.00 to determine U.S. imports of class H cigars. Certain imports under 2402.10.30.90 may not be valued at $.23 or over, but because the importer plans to sell them as Class H cigars, he will report them as such and pay the $30 per 1,000 cigars Federal excise tax accordingly. Over 72 percent of the 146 million cigars imported into the United States in 1994 were class H cigars.

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

Firms now producing cigars in the Dominican Republic are of two main types. Some firms are subsidiaries of U.S. firms that shifted their premium cigar production to the Caribbean, prior to the enactment of CBERA, because of the low-cost labor in the region and GSP eligibility for most cigars. Other firms are descendants of Cuban firms that left Cuba after the U.S. market was closed to Cuban cigars in 1962.

Electrical Wirewound Variable Resistors for a Power-Handling Capacity Not Exceeding 20 Watts

U.S. imports of wirewound variable resistors under *HTS* subheading 8533.31.00 came primarily from Barbados (54 percent by value), Mexico (27 percent), and Japan (10 percent) in 1994. Costa Rica, which accounted for only 2 percent of the value of these U.S. imports, was the only CBERA country other than Barbados that supplied such imports in 1994. U.S. imports of these resistors are not eligible for GSP treatment. Ninety-seven percent of the value of U.S. imports from CBERA countries under this subheading entered free of duty under CBERA in 1994.

U.S. imports of wirewound variable resistors from Barbados are solely produced for export to the United States by a single manufacturer that employs about 400 workers.[22] This manufacturer is owned by a firm based in the United Kingdom that also has operations in the United States. Besides being eligible for CBERA benefits, Barbados has favorable transportation links with the United States, attractive free-trade-zone policies, and relatively low wage rates.

In 1994, the value of U.S. consumption of electrical wirewound variable resistors for a power-handling capacity not exceeding 20 watts was about $24 million. Consumption of these products, as of most other electronic components, increased significantly in 1994, and was driven by a surge in the production of electronic systems, particularly those used in automobiles. In 1994, auto and truck sales in the United States rose by 8.6 percent to 15.2 million units and, in general, the use of electronic devices in automobiles rose.[23]

These imports are primarily mature products that compete with U.S. imports from Mexico rather than

[22] U.S. industry representative, interview by Commission staff, May 1995.

[23] Vanessa Craft, "Slowing Auto Sales Won't Brake Electronic Sales," *Electronic Business Buyer*, Jan. 1995, pp. 15-16.

U.S. production. U.S. resistor production consists primarily of products whose designs and manufacturing requirements change frequently. CBERA countries and other developing countries lack the infrastructure needed for competitive production of these types of resistors. Most notably, these countries lack skilled workforces, sophisticated communications infrastructures, and proximity to clients and suppliers. Therefore, the estimated impact of U.S. imports from CBERA countries of resistors under *HTS* subheading 8533.31.00 on the U.S. industry is most likely small.

Fresh Pineapples

U.S. imports of fresh pineapples in crates and packages (*HTS* subheading 0804.30.40) from CBERA countries increased by 4.6 percent in quantity while declining 8.1 percent in value from 1993 to 1994. Total imports from CBERA countries rose from 116,142 metric tons (mt) in 1993 to 121,528 mt in 1994, valued at $48.0 million and $44.1 million, respectively. Imports of fresh pineapples that benefited exclusively from CBERA increased from $40.0 million in 1993 to $41.7 million in 1994.

The rise in the quantity of U.S. fresh pineapple imports reflects a gain in imports from Costa Rica and Honduras that offset the decline in shipments from the Dominican Republic. Most of the fresh pineapple imports are grown on plantations operated by large, multinational corporations. These plantations were established in locations that took advantage of the infrastructure of the firms' existing banana operations and that approximated the soil and climate of Hawaiian production areas. In recent years, pineapple production in Costa Rica has expanded as more firms have entered the business to meet growing U.S. consumption. Imports of fresh pineapples from the Dominican Republic have declined in recent years as the result of agronomic problems that limited production suitable for export to the United States. Increased shipments from Honduras have helped to offset much of this decline.

The overall increased import supply has led to a decline in unit values from $0.41 per kilogram in 1993 to $0.36 per kilogram in 1994 for CBERA suppliers. This lower unit value is reflected in the decline of the value of total imports from CBERA countries.

Hawaii is the main source of U.S. domestic production of fresh pineapples, although there is minor cultivation of this crop in Puerto Rico. According to industry sources, transportation costs for fresh pineapples from the Western United States to the Eastern United States made Hawaiian pineapples more expensive in the eastern half of the country. As a result, firms began to produce fresh pineapples in CBERA countries to serve eastern markets. Nonetheless, Hawaiian product is perceived to be of higher quality by some consumers, as evidenced by sales of Hawaiian fresh pineapples at premium prices in eastern markets. In addition, there has been an increase in supplies of "jet-fresh" pineapples from Hawaii, which are shipped by air instead of the traditional ocean vessel/truck combination. On the other hand, there are very few CBERA-produced pineapples sold in western markets. Most of the direct competition between imports of fresh pineapples and domestically produced fresh pineapples occurs in the Midwest region of the country.

Overall, the CBERA countries' import market share of all imports of fresh pineapples (including fresh pineapples in bulk, *HTS* subheading 0804.30.20) increased from 93 percent in 1993 to 95 percent in 1994. Fresh pineapple imports from CBERA countries supplied about 48 percent (quantity basis) of U.S. domestic consumption in 1994, up from 46 percent in 1993.[24] U.S. domestic production of pineapples for the fresh market declined by 4 percent from approximately 130,000 mt in 1993 to 125,000 mt in 1994; however, higher U.S. producer prices offset the decline in production to a large extent.[25] Notwithstanding the large CBERA market share, the estimated impact of U.S. imports of fresh pineapples from CBERA countries on the U.S. industry is probably not large because of a relatively low degree of substitutability between CBERA-country and domestically produced fresh pineapple.

[24] Compiled from official statistics of the U.S. Department of Commerce, the Hawaiian Agricultural Statistics Service, and the Agricultural Marketing Service of the U.S. Department of Agriculture.

[25] Compiled from official statistics of the Hawaiian Agricultural Statistics Service and the Agricultural Marketing Service of the U.S. Department of Agriculture.

CHAPTER 4
Probable Future Effects of CBERA

The chapter describes the probable future effects of CBERA on the U.S. economy, providing a survey of overall investment activity and trends in the CBERA countries during 1994. Information was obtained from various published sources and field interviews conducted during March 1995; additional investment data were obtained from U.S. embassies in several of the relevant countries. The chapter assesses the effect CBERA-related investments[1] may have on U.S. imports in the near term and discusses the investment climate in Trinidad and Tobago, including its recent experience exporting to the United States under CBERA.

Previous reports in this series found that most of the effects on the U.S. economy and consumers of the one-time elimination of import duties under CBERA occurred within 2 years of the program's inception in 1984. Other effects were expected to occur over time as a result of an increase in export-oriented investment in the region. Such an investment increase may occur in response to diminution of tariffs for certain CBERA products. Since CBERA-related investment expenditures are assumed to be a barometer for future trade flows under the program, increased investment in a certain CBERA sector could lead to increased exports to the United States from that sector. Therefore, the report continues to monitor CBERA-related investment, assuming investment expenditures are a proxy for future trade effects on the United States.

Summary of Investment Activities and Trends

CBERA was designed to encourage an expansion in investment activity in nontraditional sectors. A significant amount of new, export-oriented investment in CBERA countries is directed toward the production of goods covered by U.S. trade provisions other than CBERA. Many of these investment projects are in free-trade zones (FTZs),[2] where U.S.-origin components are assembled for return to the United States under *HTS* heading 9802.00.80.[3] Other investment occurring in nonexport industries, such as tourism, is still consistent with the CBERA goals.[4] A number of trade-related and non-trade-related investment projects received section 936 financing.[5]

Despite noted progress by some CBERA countries in attracting and expanding foreign direct investment (FDI), a few have experienced difficulty in achieving

[1] The term is meant to refer to investment expenditures motivated by the preferences extended under CBERA.

[2] Each country typically has its own rules governing manufacturing or assembly activities in FTZs, also called export processing zones or industrial free zones. The FTZs are restricted-access areas for industrial, commercial and service facilities that operate independent of commercial regulations otherwise applicable in the host country. In-bond operations in FTZs are allowed to import duty-free inputs used as components for further transformation or assembly within the zone. Duty-free admission is temporary, enabling inputs to be further processed and subsequently re-exported for final sale. Apparel and electronics assembly operations are the principal sectors involved in Caribbean FTZs.

[3] See chapter 2 for a discussion on *HTS* heading 9802.00.80.

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

[5] As originally enacted, section 936 grants a tax credit equal to the Federal tax liability on certain income earned in U.S. possessions. A 1986 modification enable 936 funds to qualify as tax-exempt funds on deposit with Puerto Rican financial institutions available to finance projects in CBERA countries. The 1986 amendment provided a major incentive for investing in the Caribbean Basin because Puerto Rican financial institutions were able to lend the tax-exempt section 936 funds at below-market interest rates. For more detail, see USITC, *CBERA, Ninth Annual Report 1993*, pp. 38-40. Previous reports also contain project types eligible for section 936 financing. See USITC, *CBERA, Seventh Annual Report 1991*, pp. 1-9 to 1-10.

their desired investment goals. Political instability, insufficient investment incentives, restrictions on foreign exchange and profit repatriation, inadequate infrastructure, and lack of intellectual property rights enforcement may all contribute to lower investment levels. The smaller Eastern Caribbean islands have been particularly slow to diversify their economies, mainly due to the lack of natural resources. The smaller countries are dependent on a limited variety of exports, such as sugar and bananas, and are adversely affected when there is a fall in either domestic production or world prices. Moreover, regional investment may suffer as potential investors evaluate the implementation and effects of the North American Free-Trade Agreement (NAFTA), discussed later in this chapter.

Methodology

A number of resources were used by the USITC to research and gather information for this chapter. They included the U.S. Department of State diplomatic posts, Embassies of CBERA countries in the United States, and published sources.[6] Four public responses were received by the Commission including comments from Joseph E. Seagrams and Sons, Inc., the International Intellectual Property Alliance, Nintendo of America, Inc.,[7] and the Embassy of Jamaica.[8] In addition, USITC staff traveled to Trinidad and Tobago to investigate what was perceived to be the "high-growth" CBERA beneficiary country in terms of new investment. Investment on the islands has increased dramatically over the past few years.

A survey form was sent to each U.S. diplomatic post in CBERA countries. Nine out of the 24 diplomatic posts responded to the USITC investment survey, including those in 8 of the top 10 beneficiary countries.[9]

[6] Initial efforts began with meeting the Caribbean and Central American regional desk officers of the Department of State in Washington, DC. At each discussion, assistance and expertise were requested to develop a survey to send to diplomatic posts. With the officers' input, a form survey was sent to each post in conjunction with an official cable request, pursuing more consistent investment information from each CBERA country.

[7] In response to a *Federal Register* notice requesting public comments, the Commission received two submissions concerning intellectual property rights. The International Intellectual Property Alliance (IIPA), representing more than 1,500 companies that produce and distribute computers and computer software, motion pictures, television programs, home video cassette recordings, textbooks, trade books, references, professional publications and journals, outlined what it has perceived as blatant disregard for the protection of intellectual property rights (Letter to the Commission by Maria Strong, Associate General Counsel, IIPA, received July 14, 1995). The IIPA pointed out that "like the Generalized System of Preference Program, under the CBI the President makes his determinations regarding countries' beneficiary status based on mandatory and discretionary criteria. Importantly, intellectual property provisions are

[7]—*Continued*
included in both the mandatory and discretionary criteria." IIPA believes that most of the countries in the CBERA region have not met their IPR obligations. IIPA is petitioning to have El Salvador and Nicaragua—the most serious offenders in its opinion—removed from CBERA eligibility for program benefits.

Another set of comments was filed on behalf of Nintendo of America, Inc.; Reflection Technology Inc.; Acclaim Entertainment, Inc; Electronic Arts; Lucas Arts Entertainment; Mirage Studios; and Viacom New Media. Comments were submitted by David I. Wilson and Elizabeth R.P. Bowen, Arter & Hadden, on behalf of the listed firms, July 14, 1995. All filers are U.S. publishers and developers who create, market, and sell video games. They address the negative impact of granting CBERA benefits to Panama on U.S. industries and customers as a result of Panama's failure to provide adequate and effective protection and enforcement of U.S. intellectual property rights. The submission asserts that Panama's failure to curtail the transshipment of counterfeit goods to the countries throughout Latin America and its failure to provide adequate enforcement to deter the distribution and assembly of counterfeit goods within the FTZs, cause the U.S. Nintendo video game industry "irreparable harm in lost sales and market share in Panama and throughout Latin America." For that reason, filers believe that the U.S. Government should take action against Panama, and make it ineligible for CBERA benefits.

[8] Ambassador Richard L. Bernal, Ambassador of Jamaica, expressed enthusiastic support for the CBERA program in his comments, calling the program "an unqualified success" (Statement by Ambassador Richard L. Bernal from the Embassy of Jamaica, submitted by Stephen Lamar, Director of Jefferson Waterman International, July 14, 1995). He extended support to the Caribbean Basin Trade Security Act (S. 529/H.R. 553). In the statement, the Ambassador outlined the benefits of the act, as well as many of the trade distortions that are being felt due to the imbalance between Mexico's NAFTA preferences and the Caribbean's CBERA Program. Ambassador Bernal emphasized the importance of continuing the U.S./Caribbean partnership in trade.

[9] Of the nine posts, seven reported specific investment data. Countries that responded to the Commission's request for 1994 CBERA-related investment data were: The Bahamas, Costa Rica, Honduras, Jamaica, Panama, El Salvador and Belize. One post, Guatemala, reported that there was no CBERA-related investment. One post, the Dominican Republic, reported that the survey was beyond their resources.

New CBERA-related Investment in 1994

The information obtained from U.S. diplomatic posts in CBERA countries and published sources identify 14 new investment projects in CBERA-related goods and 24 projects enlarging existing facilities, for a total of 38 reported investments in 1994. Table 4-1 identifies how many projects were undertaken in each country by sector. The bulk of investments in 1994 CBERA countries were in the agricultural sector, with 19 investments. The manufacturing sector reported just over half of that number of projects with 10 projects; fisheries had five projects, most of which were in The Bahamas. The magnitude of reported CBERA-related new and expansionary investments in the six countries is shown in table 4-2. The largest concentration of reported investment by value is in the manufacturing/electronics sector, with agricultural products ranking second. Information from post reports indicates that the leading sector of investment is apparel assembly.[10]

[10] Although apparel assembly does not comply with our definition of CBERA-related investment, posts reported investment in seven new enterprises and eight expansionary investments in Costa Rica, El Salvador and Honduras for a total of $43.2 million. The apparel assembly investment is greater than all the 1994 reported CBERA-related investment, and is *not* included in table 4-2.

Table 4-1
Reported investment projects in CBERA countries, 1994

Country	Agricultural products[1]	Manufacturing/ Electronics[2]	Fishery products[3]	Other[4]	Total
Costa Rica	1	7		1	9
Jamaica	10	1			11
Panama	3		1		4
Bahamas	2		3	3	8
Belize	1		1		2
El Salvador	2	2			4
Total	19	10	5	4	38

[1] Includes aloe vera products, fresh herbs, orchard crops, coffee, cut flowers, vegetables, melons, chocolate, peanut butter, and luffa/vegetable bathing sponges.
[2] Includes jewelry, sensors, binders, packaging, filters, electric products, identification equipment, soldering equipment, transformers, electronic capacitors, and cartons.
[3] Includes frozen shrimp, shrimp, tropical fish, crawfish, conch, sponges, and lobster tails.
[4] Includes suncare products and fragrances, specialty chemicals, cleaning detergents, and pharmaceuticals.

Source: Derived from information reported to the USITC by seven U.S. embassies in CBERA countries and in published sources indicated in footnotes throughout the chapter.

Table 4-2
Reported investment activity in CBERA countries, 1994

(Millions of dollars)

Country	Agricultural products	Manufacturing/ Electronics	Fishery products	Other	Total
Costa Rica	7.10	10.90	-	3.50	21.50
Jamaica	3.97	4.06	-	-	8.03
Panama	1.50	-	0.50	-	2.00
Bahamas	0.85	-	3.06	1.84	5.75
Belize	0.25	-	3.00	-	3.25
El Salvador	0.98	1.10	-	-	2.08
Total	14.65	16.06	6.56	5.34	42.61

Source: Derived from information reported to the USITC by seven U.S. embassies in CBERA countries and in published sources indicated in footnotes throughout the chapter.

Costa Rica

According to the Costa Rican Coalition of Development Initiatives (CINDE),[11] six new companies in Costa Rica are expected to begin exporting CBERA goods as a result of $3.9 million in CBERA-related investment in 1994. The six new firms produce aloe vera goods, medical sensors for incubators, binders, filters, product identification equipment and packaging.[12] Another three firms that produce pharmaceuticals, soldering equipment, and transformers, are expected to increase exports due to expansionary investment of $17.6 million.[13] Officials of CINDE and the Government of Costa Rica believe that the CBERA program has been instrumental in attracting FDI to many sectors. However, a number of economic factors also have decreased the attractiveness of Costa Rica as a locus of FDI. For example, the combination of rising labor and utility costs, proposed tax hikes, and high interest rates have helped to keep the investment rate of growth at a low single-digit level.

Guatemala

According to the Guatemalan-American Chamber of Commerce, no CBERA-related investment activities occurred in Guatemala in 1994. Guatemalan trade officials maintain that the implementation of NAFTA, and the advantages now available for foreign investors in Mexico, may have had little to do with the lack of FDI in Guatemala.[14] Rather, officials cite general political instability, a high crime rate, and poor infrastructure as the chief reasons for lack of investment last year.

Honduras

There were no reported investment expenditures in CBERA-related sectors during 1994. Five firms that did report expansionary investment were in apparel assembly, and qualify for *HTS* heading 9802.00.80 of production sharing.[15]

In 1994, three-fourths of Honduras' world exports were in the nontraditional sectors of melon and shrimp. The increase in the value of shrimp exported from Honduras may have been due to an increase in world prices. The estimated supply of cultivated Honduran shrimp, in tonnage, shows a significant reduction for 1994. Honduran farm shrimp decreased 14.5 percent, from 11,700 metric tons on a heads-on basis to an estimated 10,000 metric tons.[16] The reason for the decline is the shrimp plague known as "Toura Syndrome," which attacks shrimp larva and results in decreased production. The plague was confirmed in Honduras as of March of last year.[17] U.S. technical assistance has been provided to Honduras to help combat the disease.

Jamaica

Jamaica is one of the leading CBERA country exporters to the United States. Eleven new firms in Jamaica are expected to begin exporting to the United States because of investments made in 1994, accounting for $8.03 million.[18] The reported new firms accounted for 71.6 percent of the reported capital investment expenditures in Jamaica.[19] Of the new CBERA-related firms, seven produce orchard crops; the others produce cut flowers, vegetables, fresh herbs, and fiberglass tanks.

The USITC survey encouraged exporters to express their concerns with the CBERA program. Some Jamaican exporters stated that they face

[11] CINDE stands for the "Coalicion Costarricense de Iniciativas de Desarrollo."

[12] U.S. Department of State telegram, "USITC Annual Caribbean Basin Investment Survey," message reference No. 003047, prepared by U.S. Embassy, San Jose, May 11, 1995.

[13] Ibid.

[14] U.S. Department of State telegram, "USITC Annual Caribbean Basin Investment Survey," message reference No. 004080, prepared by U.S. Embassy, Guatemala City, May 22, 1995.

[15] Four export-oriented firms were established in Honduras in 1994, according to the Honduran Foundation for Industrial Development and Export Promotion (FIDE). A fifth firm moved to Honduras from Haiti during the year. Reported investment by these five firms, which assemble apparel or produce thread and yarn, totalled $23.8 million in 1994. U.S. Department of State telegram, "USITC Annual Caribbean Basin Investment Survey," message reference No. 003102, prepared by U.S. Embassy, Tegucigalpa, May 19, 1995.

[16] Calculated from data obtained from the United Nations Food and Agricultural Organization.

[17] *Caribbean Update*, Feb. 1995, p. 12.

[18] U.S. Department of State telegram, "USITC Annual Caribbean Basin Investment," message reference No. 003107, prepared by U.S. Embassy, Kingston, May 11, 1995.

[19] Ibid. In addition, five investment projects in apparel assembly were reported, all of which qualify for production-sharing preferences. For more information, see the USITC *Production Sharing: U.S. Imports under Harmonized Tariff Schedule provisions 9802.00.60 and 9802.00.80.*, USITC publication 2886, May 1995.

difficulties with regulatory constraints when entering the United States. According to the Jamaican Government Investment Promotion Agency (JAMPRO), “the main problems faced by the [CBERA] exporters are the non-tariff barriers on agriculture produce and processed food items.”[20] JAMPRO also maintains that getting through the U.S. customs process is a difficult and expensive proposition, especially for smaller exporters without expertise.

The Bahamas

Three new firms were established as a result of CBERA-related investment during 1994, and five projects expanded through investments, totaling just over $5.75 million.[21] Three newly established firms produce and process tropical fish, and should begin exporting to the United States. Five firms expanded their investment and should be increasing their exports to the United States; two of which produce agricultural products; the remaining three firms produce suncare products, specialty chemicals, and cleaning detergents.

El Salvador

Four CBERA-related investment projects were completed in 1994, totaling $2 million.[22] Of the four expansionary investments, two firms produce agricultural products: honeydew melon and luffa, a vegetable bath sponge; one produces electronic capacitors and one cartons. Exports should increase to the United States under these product lines.

Panama

Four new firms were established in Panama in 1994 for the purpose of exporting to the United States under CBERA. Total 1994 investment in these firms amounted to $2 million.[23] Three firms will begin exporting melon and the other, frozen shrimp.

Belize

Two CBERA-related investment projects in shrimp and processed food were identified as having over $3.25 million in new and expansionary investment expenditures in Belize.[24] The Belize Government recently approved the implementation of a value-added tax for those imports entered into Belize for further processing. The tax replaces the current 14 percent stamp duty levied on nearly all imported goods. The tax process is perceived to be easier administratively than the stamp duty, possibly making the process run more smoothly.

To increase future investment, the Government of Belize aims to liberalize its trade regime through policy reforms, including the removal of quantitative restrictions and the phasing out of import surcharges. In 1994, 27 FDI concessions were given, mostly in the manufacturing sector. Examples of concessions include the ability to bring in capital or machinery duty-free, repatriation of profits for foreign corporations, and tax holidays, ranging from 3 to 15 years.[25]

Effect of NAFTA on CBERA Country Trade and Investment in 1994

Since NAFTA was implemented on January 1, 1994, CBERA countries have expressed concern regarding the added competition from Mexico. This section addresses concerns exporters have expressed in response to the USITC investment survey sent to each post in CBERA countries. Without some form of NAFTA parity, some fear U.S. companies will shift production to Mexico and exacerbate already high unemployment in the Caribbean.[26] Tariff-free and

[20] U.S. Department of State telegram, “USITC Annual Caribbean Basin Investment,” message reference No. 003107, prepared by U.S. Embassy, Kingston, May 11, 1995.

[21] U.S. Department of State telegram, “USITC Annual Caribbean Basin Investment Survey,” message reference No. 001620, prepared by U.S. Embassy, Nassau, June 9, 1995.

[22] Sarah Bradley, Economic/Commercial Assistant, U.S. Embassy, San Salvador, letter to USITC staff, dated June 29, 1995, “USITC Annual Caribbean Basin Investment Survey.”

[23] U.S. Department of State telegram, “US International Trade Commission Annual Caribbean Basin Investment Survey: Panama,” message reference No. 002629, prepared by U.S. Embassy, Panama City, May 12, 1995.

[24] Robert Merrigan, Economic and Commercial Officer, U.S. Embassy, Belize City, letter to USITC staff, dated May 19, 1995.

[25] Efrain Novello, Economic and Commercial Officer, U.S. Embassy, Belize City, telephone interview, July 6, 1995.

[26] *Caribbean Update*, Mar. 1995, p. 1.

liberal quota access under NAFTA and lower labor costs due to the recent peso devaluation make Mexico an even more competitive base for export-driven manufacturing.

The Caribbean Basin has already felt the impact of NAFTA in one of the most important sectors of the area, apparel. There is some divergence regarding the extent of the NAFTA impact on Costa Rica. According to the Costa Rican Textile Chamber [of Commerce], "while textile exports increased 33.6 percent in 1992 and 10.6 percent in 1993, growth of textile exports in 1994 was a scant 3.6 percent," a dramatic fall over the course of the last few years.[27] U.S. Embassy officials note that there may be other factors for the slowdown in the Costa Rican investment growth rate.[28] Among those factors noted are rising labor and utility costs, the highest interest rates in Central America, and proposed tax hikes, all of which increase uncertainty for the investor.

Investors from Jamaica are also very interested in passage of NAFTA parity legislation. "According to reports, the potential adverse impact of NAFTA is presently identified only in the apparel sector. However, in order to reinforce the confidence of foreign aid and domestic investors in the economic future of the country, the Jamaican Government is actively involved in promoting the passage of the Caribbean Basin Trade Security Act."[29]

In Guatemala, NAFTA is widely portrayed by the press and other officials as having a strong negative impact on Guatemalan exports to the United States, especially in apparel. This concern was most apparent in the fall of 1994 when the government interim trade program faltered and headlines predicted that the apparel assembly industry would pack up and head to Mexico. The question arose again with the recent closing of a large apparel assembly plant in Guatemala, where production was rumored to have been moved to Mexico.

An agriculture producer in Belize believes that NAFTA does not directly affect the firm's product, but that "the region may suffer economically as Mexico seeks to export ... [to] the United States, products which have been traditionally exported by CARICOM countries."[30]

A large investor in Honduras expressed "a concern with the possible impact of the FTA between Canada, U.S.A. and Mexico. ... [M]any companies will study the possibility of shifting their operations up north, especially to Mexico where [there] is plenty of labor at very competitive [prices] with [CBERA] countries."[31] The proximity of Mexico to the United States and the resulting decreases in transportation costs was identified as a possible benefit to moving operations to that country. On the other hand, some Honduran investors expressed optimism, emphasizing that should NAFTA parity be enacted, it will benefit their operations, enabling them to export many other goods.[32]

The debate in Congress on NAFTA parity is believed to have affected investment. The uncertainty associated with the enactment of a parity bill may have delayed investment in CBERA countries. According to the U.S. Embassy's economic officer in Costa Rica, "many investors appear reluctant to make substantial new investments in sectors benefiting from CBERA trade preferences until the expected passage of a CBI-enhancement program granting NAFTA-like treatment to textiles, apparel, etc."[33]

Country Profile: Trinidad and Tobago

This section contains an analysis of the climate for Trinidad and Tobago's CBERA exports, including new and expansionary investment. The selection of Trinidad and Tobago results from staff conclusions after the December 1994 Miami conference on the CBERA program. There, the USITC staff learned that Trinidad and Tobago was successful in attracting significant amounts of FDI. Unlike some other CBERA beneficiaries, Trinidad and Tobago has

[27] U.S. Department of State telegram, "USITC Annual Caribbean Basin Investment Survey," message reference No. 003047, prepared by U.S. Embassy, San Jose, May 11, 1995.

[28] Ibid.

[29] U.S. Department of State telegram, "USITC Annual Caribbean Basin Investment," message reference No. 003107, prepared by U.S. Embassy, Kingston, May 11, 1995.

[30] Robert Merrigan, Economic and Commercial Officer, U.S. Embassy, Belize City, letter to USITC staff, dated May 19, 1995, p. 5.

[31] U.S. Department of State telegram, "USITC Annual Caribbean Basin Investment Survey," message reference No. 003102, prepared by U.S. Embassy, Tegucigalpa, May 19, 1995.

[32] Ibid.

[33] U.S. Department of State telegram, "USITC Annual Caribbean Basin Investment Survey," message reference No. 003047, prepared by U.S. Embassy, San Jose, May 11, 1995.

expressed a willingness to assume reciprocal obligations as part of future trade agreements. Trinidad and Tobago had not been visited by Commission staff since 1990. The purpose of this year's investigative travel was to gather information about the extent to which the product of these investments is likely to return to the United States in the form of imports under CBERA. USITC staff traveled to Trinidad and Tobago in March 1995 to discuss CBERA-related issues with public- and private-sector officials.

Economic and Trade Performance

Trinidad and Tobago's petroleum-based economy enjoys a relatively high per capita income by Latin American standards,[34] even though output and living standards are substantially below their 1973-82 boom period levels. After the Dominican Republic, Trinidad and Tobago is the second-largest economy in the Caribbean and is part of the Caribbean Common Market (CARICOM).[35] Widespread unemployment, large foreign-debt payments, and low petroleum prices are currently the islands' most pressing difficulties. Inflation in Trinidad and Tobago hovered around 9 percent in 1994, a two-percentage point improvement over inflation in 1993.[36]

Despite its economic difficulties, the country has been relatively stable in the last 30 years, after gaining independence in August 1962 from the United Kingdom. Trinidad and Tobago does not receive any aid from the United States, a fact that is referred to with pride.[37]

Over the past few years, there has been a conscious effort by the Trinidad and Tobago Government to lay the groundwork for privatization and export-led growth, in order to move from a state-controlled to a market-oriented economy. For example, in 1992 the government undertook a large scale divestment program and has since divested several previously state-owned companies. In 1994, BIWA, the national airline for Trinidad and Tobago, was privatized through a partial divestment of the Government of Trinidad and Tobago.[38] The Fertrin ammonia plant and the Trinidad and Tobago urea company were divested to a U.S. company, called Arcadia Partners, in March 1993. The $175 million sale is the largest divestment in the Caribbean to date.[39] The government also sold 55 percent of the Trinidad and Tobago methanol company to two German firms, who have agreed to construct a new plant by 1996.[40]

From 1988 to 1991, the government negotiated International Monetary Fund standby agreements, rescheduled Paris Club debt,[41] and concluded an agreement for a World Bank structural-adjustment loan. During 1992-94, Trinidad and Tobago's debt-service payments averaged about $600 million per year, considered relatively high. The government has successfully met debt payments through issuing bonds, increasing income from divestiture of state-run enterprises, thus offsetting the effects of substantial loans from the Inter-American Development Bank. In 1995, debt-service payments are expected to decrease by 25 percent.[42]

[34] 1994 GDP per capita is $3,650. Taken from data in U.S. Department of State, *Country Reports on Economic Policy and Trade Practices*, Feb. 1995, p. 419.

[35] The Dominican Republic had a GDP of $9.17 billion in 1994, compared to Trinidad and Tobago's $4.75 billion. (Source: Ibid, p. 360.) Members of CARICOM include: Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and Grenadines, and Trinidad and Tobago. Contrary to the name, CARICOM is a customs union and not a common market.

[36] U.S. Department of State, *Country Reports on Economic Policy and Trade Practices*, Feb. 1995, p. 420.

[37] USITC staff interview with the U.S. Ambassador and Deputy Chief of Mission, Embassy of the United States in Port-of-Spain, Trinidad, Mar. 23, 1995.

[38] A group of investors purchased controlling interest of BIWA for $20 million and its 1500 employees are now owner-partners. Upon completion of the 3-year divestiture program, the employees will own 24 percent of BIWA.

[39] U.S. Department of Commerce, "Economic Trends and Outlooks: Trinidad and Tobago," Document 5155, Jan. 1995, p. 3.

[40] Ibid. The two German firms, who have agreed to invest $235 million in construction of a new methanol plant, are Ferrostaal AC and Helm AG.

[41] Created in 1956, the Paris Club is a forum for negotiations on countries' debt to government creditors. The club has no set membership. Instead, participants in any Paris Club negotiations are the debtor government and its creditors, who traditionally meet under the chairmanship of a senior French Treasury official. One distinguishing principle of the Club is that in rescheduling negotiations, systematic treatment of creditors is the rule. Typically, debtor countries approaching the Paris Club are usually required to conclude an agreement with the IMF providing for a loan along with an IMF-approved program of economic-policy measures. For more information, see P. Krugman and M. Obstfeld, *International Economics* (NY, NY: Harper Collins Publishers, 1991).

[42] U.S. Department of State, *Country Reports on Economic Policy and Trade Practices*, Feb. 1995, p. 421.

Merchandise trade exports of Trinidad and Tobago increased by 18.4 percent from $1.62 billion in 1993 to $1.93 billion in 1994. In contrast, merchandise trade imports fell from $1.39 billion in 1993 to $997 million in 1994, a fall of 28 percent. External public debt has steadily decreased from $2.095 billion to $2 billion in 1994. Now, debt as a percentage of GDP is 42 percent, down from 59 percent in 1988.[43] In 1994, Trinidad and Tobago enjoyed a positive trade balance of $512.6 million with the United States, largely from oil and petroleum products and not CBERA-related goods.

Investment Climate

The Government of Trinidad and Tobago aggressively courts foreign investors. Generally, there are no actual or de facto restrictions on investment. FDI is screened by the government to assess whether firms are eligible for incentives and to determine the environmental impact of FDI projects. Foreign investors are eligible for concessions, such as tax holidays, and non-tax incentives, negotiated typically in the manufacturing, tourism, and energy sectors. In addition, there is repatriation of capital dividends, interest and other distributions, and investment gains may be freely transacted.

On September 26, 1994, the Government signed a bilateral investment treaty with the United States that provides for repatriation of profits, repatriation of capital flows, national treatment/MFN, a dispute settlement mechanism, and GATT-consistent rules of origin for U.S. investors. [44]

Few Trinidadian resources are currently being devoted to intellectual property rights (IPR) protection, a situation that is expected to change during the 2-year phase-in period for the U.S.-Trinidad and Tobago IPR agreement also signed last September. Copyright protection is governed by the Copyright Act of 1985, in which a copyright is valid for 50 years. Although it is still in effect, the Copyright Act reportedly is not currently enforced.[45] Patents and trademarks are valid for 14 years. Patents can be extended for a maximum of 7 years while trademarks are renewable indefinitely for 14-year periods.

[43] Ibid.

[44] The bilateral investment treaty was sent to the U.S. Senate for ratification in July 1995 and is awaiting Senate action.

[45] U.S. Department of State, *Country Reports on Economic Policy and Trade Practices*, Feb. 1995, p. 424.

Investment Activity

Trinidad and Tobago reported a significant amount of FDI in 1994, with preliminary estimates hovering around $1.2 billion. The tremendous increase from $800 million in 1993[46] represents a 50-percent increase in investment inflows. New U.S. investment in Trinidad and Tobago increased by over 40 percent from $428 million in 1993 to nearly $600 million in 1994. Of that amount, only $4 million was confirmed to be CBERA-related.[47] Most of the FDI for 1994 was in the oil sector, the main income-generating industry in Trinidad and Tobago for several decades. However, petroleum products are not eligible for CBERA.

Trinidad and Tobago has been the focus of a number of multinational corporations' investment interest, since recently returning to the economic stability that was common during the oil boom years in the early 1970s. Over 90 percent of FDI is in the energy sector. The dominant gas producer in Trinidad is Amoco, which in June 1994 discovered a new 1-trillion-cubic-foot natural gas field off the island's southeast coast. Enron is a major U.S. energy firm that came to Trinidad in 1992 to develop natural gas fields belonging to the government's Trintomar gas venture. In addition, British Gas and Texaco have formed a joint venture to exploit gas reserves in the dolphin field off Trinidad's north coast.[48]

All petroleum products are excluded from duty-free treatment under the CBERA program.[49] Although the economy primarily focuses on oil production and derivative industries, there are a number of very small enterprises that take advantage of the CBERA and other trade preference programs. The areas identified as having the most CBERA opportunities for Trinidad and Tobago are exotic tropical cut flowers, spices (such as local curries and pepper sauce), furniture, and goods made of native fruits (ice creams, juices, and jams).[50]

One corporate example is the Sutton Farm, which produces and markets anthuriums, which are exotic

[46] USITC staff interview with Frank Mouttet, President, and Carmena Baird, General Manager, of the Trinidad and Tobago Chamber of Industry and Commerce, Port-of-Spain, Trinidad, Mar. 23, 1995.

[47] USITC staff interview with the First Secretary, U.S. Embassy, Port-of-Spain, Trinidad, Mar. 20, 1995.

[48] Ibid.

[49] The average U.S. rate of duty for energy and related products is just under 1 percent *ad valorem*.

[50] USITC staff interview with Wayne Yip Choy, President, Anthony Guiseppi and Clive Teelucksingh, General Managers, Trinidad and Tobago Manufacturers Association, Port-of-Spain, Trinidad, Mar. 21, 1995.

tropical flowers in over 10 color combinations, for export to the United States. In addition to production, Sutton Farms uses its marketing channels to distribute exotic flowers for several other island producers. Although no new investments were undertaken in 1994, Sutton Farm owners expect to expand in 1995.[51]

A few products were cited as areas where the CBERA benefits will be exploited more in the future, by firms that are currently looking into the export process. Those firms include Pete's Air Conditioning, Casey Confectionery (candy), Solo (soft drinks) and Carib Distillery (beer).[52]

During staff field work, a frequently reiterated concern of Trinidadian exporters was the difficulty associated with the customs process in Trinidad and Tobago, especially in the apparel assembly sector. Some exporters claim that export goods are delayed in customs for weeks, which makes meeting production deadlines extremely difficult.[53]

Although officially started in 1983, FTZs have experienced a particularly slow start on the islands due to insufficient funding.[54] Light manufacturing and assembly are the primary beneficiaries, but the number of firms is small. The FTZ program users primarily target the domestic and CARICOM markets. Some of the largest users are Nestle Caribbean International (distribution and international trade), Matuc International (distribution and international trading), Nucor Iron Carbide (iron carbide), Ocean Harvest Processing (fish and shrimp), and Caribbean Tire (tires).

One of the largest FTZs on the islands is Point Lisas Industrial Port and Free Zone. The largest FTZ tenant is Nucor Iron Carbide. Arcadia recently purchased an existing ammonia plant. Most of the FTZ's tenants are related to the oil sector, by either production or use of petroleum by-products. No Port Lisas tenants are producing goods that are currently exported under the CBERA program, although FTZ marketing that increases CBERA and other program awareness has recently begun.[55]

Most foreign investors in Trinidad and Tobago do not appear to be interested in trade preferences that are available to them; that is, investment decisions seem to be independent of currently available trade preferences.[56]

Another prevalent discussion topic during field interviews was Trinidad and Tobago's path toward acceding to the NAFTA. The Government of Trinidad and Tobago uses NAFTA as a rallying cry for liberalization. NAFTA is seen as a mark of recognition regarding sound fiscal management and an investment-friendly environment.[57] The American Chamber of Commerce of Trinidad and Tobago explained that educating islanders regarding NAFTA issues is critical. There are significant misunderstandings about what accession would realistically include. Considerable debate exists on whether acceding to NAFTA is preferable to NAFTA-parity for important sectors.

One contingent believes that NAFTA explicitly spells out the rules for trading, thus making the trade process more predictable, transparent and difficult to change. Some firms on the islands believe that NAFTA accession would be preferable because there are no duties on value-added.[58] Other firms are very reluctant to support NAFTA accession, primarily because they do not want to lose one-way preferences.[59] Furthermore, NAFTA-parity may have the flexibility to be easily withdrawn, so uncertainty of the preferences' time horizon can be important.[60]

[51] USITC staff interview with Pete Sutton, of Sutton Farms, Santa Cruz, and Trinidad, Mar. 21, 1995.

[52] USITC staff interview with Frank Mouttet, President, and Carmena Baird, General Manager, of the Trinidad and Tobago Chamber of Industry and Commerce, Port-of-Spain, Trinidad, Mar. 23, 1995.

[53] Often, assembly sharing deadlines are tight: turnaround is expected typically within 4 to 5 weeks of the time materials are shipped to the processors. USITC staff interview with Michele E. Chan, Director of Manufacturing Contractors Export Services, Ltd., Europe, Trinidad, Mar. 22, 1995.

[54] The FTZ program is an export program with the added goal of increasing investment on the islands. USITC staff interviews with Michael Leschaloupe, CEO of the Trinidad and Tobago Free Zones Company Limited, Port-of-Spain, Trinidad, Mar. 21, 1995.

[55] USITC staff interview with Niel Rolingson, CEO, Point Lisas Industrial Port Development Corporation, Trinidad, Mar. 23, 1995.

[56] USITC staff interview with Michael Leschaloupe, CEO of the Trinidad and Tobago Free Zones Company Limited, Port-of-Spain, Trinidad, Mar. 21, 1995.

[57] USITC staff interview with the President and the Executive Director of the American Chamber of Commerce of Trinidad and Tobago, Port-of-Spain, Trinidad, Mar. 22, 1995.

[58] USITC staff interview with Manager of Caribbean Safety Products, LTD., Point Lisas Industrial Estate, Trinidad, Mar. 22, 1995.

[59] USITC staff interview with the President of the South Trinidad Chamber of Industry and Commerce, San Fernando, Trinidad, Mar. 23, 1995.

[60] USITC staff interview with Clyde Alleyne, President, American Chamber of Commerce of Trinidad, Port-of-Spain, Trinidad, Mar. 27, 1995.

Some government officials are concerned about NAFTA, primarily because they do not want dumping from other countries.[61] In general, the private sector agrees with the process of liberalization, but not on whether NAFTA is the necessary goal. They are concerned about allowing reciprocity without phase-in periods and without tariffs and quotas. Observers maintain that most trade agreements have some degree of nonreciprocal concessions for sensitive industries and that safeguards are integral in trade agreements.[62]

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[61] USITC staff interview with the Ambassador, Ministry of Trade and Industry, Port-of-Spain, Trinidad, Mar. 22, 1995.

[62] USITC staff interview with the President and Executive Director of the American Chamber of Commerce of Trinidad and Tobago, Port-of-Spain, Trinidad, Mar. 22, 1995.

APPENDIX A

LIST OF SUBMISSIONS IN RESPONSE TO *FEDERAL REGISTER* NOTICE

SUBMISSIONS FOR THE RECORD INVESTIGATION NO. 332-227

Nancy Levenson, Director of Federal Affairs, on behalf of Joseph E. Seagram & Sons, Inc.
Dr. Richard L. Bernal, Ambassador from Jamaica to the United States
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Maria Strong, Associate General Counsel, on behalf of International Intellectual Property Alliance

APPENDIX B

TECHNICAL NOTES TO CHAPTER 3

The following discussion presents the methodology for estimating the welfare effects and the level of domestic output displaced by the duty-free and reduced-duty status granted to Caribbean imports under CBERA. The effects of CBERA are measured using a comparative static analysis. Because the CBERA duty changes were already in place in 1994, this analysis compares current market conditions with an estimate of what market conditions might have been had full tariffs been in place for CBERA imports to obtain net welfare and domestic output effects.[1]

Welfare and domestic output changes due to duty-free and reduced-duty treatment under CBERA are analyzed using a computable partial equilibrium (CPE) model for each of the selected industries. Imports from CBERA beneficiary countries, imports from non-CBERA countries, and competing domestic output are assumed to be imperfect substitutes for each other. Each of the three products is characterized by a separate market where differing equilibrium prices can exist. The three markets are depicted in panels a, b, and c of figure B-1.

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

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

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

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

The net welfare effect of CBERA imports is the increase in consumer surplus less the decrease in tariff revenue—the trapezoid $P_c abP_c'$ minus the rectangle $P_c acP_c'$ in panel a. That is to say, triangle abc. The dollar amount by which CBERA imports displace U.S. output is measured by the rectangle $Q_d' deQ_d$ in panel c.[2]

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

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

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

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

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

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

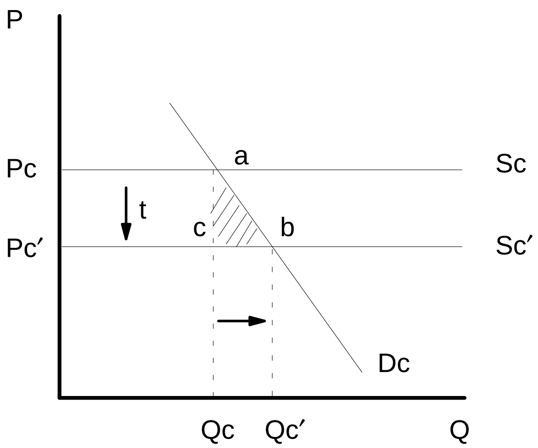
(2′) $(Q_n / Q_n') = (1+t)^{\varepsilon nc}$

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

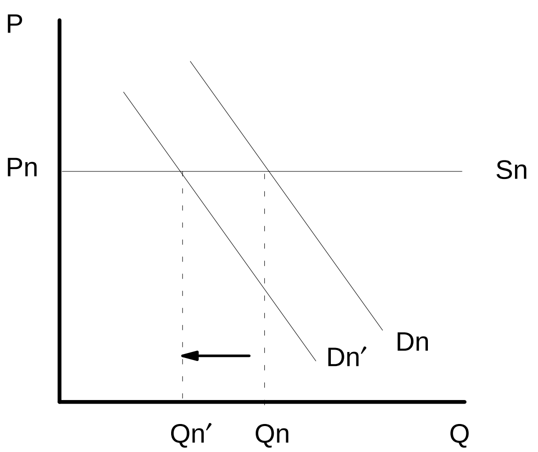
[1] The methodological presentation in the section entitled “Analytical Approach” in ch. 2 and the presentation in this appendix discuss the net welfare effects of the CBERA duty provisions in terms of a duty reduction or elimination. This is because it is common to discuss welfare and domestic output effects in terms of the results of a duty reduction, that is, to speak of the welfare gain to consumers, the loss of tariff revenues to the government, and the displacement of domestic production that result from a duty reduction. The actual analysis is done in terms of a comparison of the status quo with an estimate of what conditions might have been with MFN duty rates in place, the equivalent of analysis of an increase in duties. The welfare and domestic output effects are symmetrical in a comparative static analysis. For example, the gain to consumers from a duty reduction is the same as the loss to consumers from a duty increase of the same amount. (This is technically true only if income effects are negligible. Given the small U.S. expenditures on goods from CBERA countries, income effects are likely to be negligible for these products. See R. Willig, “Consumer’s Surplus without Apology,” *American Economic Review*, 66: 589-597.)

[2] Non-CBERA imports are also displaced by CBERA imports. The displacement value can be measured by the area beneath the supply curve, S_n, and between quantities Q_n and Q'_n in panel b. The impact of CBERA imports on non-CBERA imports is not discussed in this report.

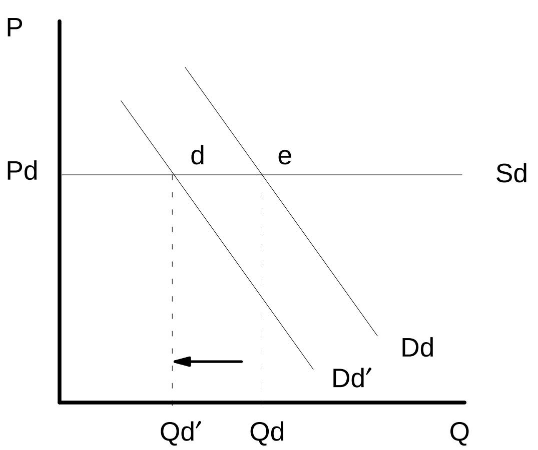
Figure B-1
Partial equilibrium analysis of the effects of CBERA duty provisions on U.S. imports



a. CBERA imports



b. non-CBERA imports



c. U.S. domestic output

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

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

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

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

where the V_i's are market shares for CBERA and non-CBERA imports and domestic output, η is the aggregate demand elasticity, and the σ_{ij}'s are the elasticities of substitution between the ith and jth products.[3] Estimates of the aggregate demand elasticities were taken from the literature.[4] To obtain the maximum displacement effects on domestic production, it is assumed that all of the elasticities of substitution are identical and high, in this case, 5.[5]

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

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

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

Given equations (1′) - (3′), we can derive the following measurements for changes in consumer surplus, tariff revenue, and domestic output:[6]

Consumer surplus: (where k is a constant)

$$\text{area of trapezoid } P_c abP_c' = \int_{P_c'}^{P_c} kP_c^{\varepsilon cc}\, dP_c$$

$$= [1/(1+\varepsilon_{cc})][(1+t)^{(1+\varepsilon cc)} - 1]P_c'Q_c' \quad \text{if } \varepsilon_{cc} \neq -1$$

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

Tariff revenue from CBERA imports:

$$\text{area of rectangle } P_c acP_c' = tP_c'Q_c$$

$$= tP'Q_c'(1+t)^{\varepsilon cc}$$

Domestic output:

$$\text{area of rectangle } Q'_d deQ_d = P_d(Q_d - Q_d')$$

$$= P_dQ_d'[(1+t)^{\varepsilon dc} - 1]$$

[6] A similar equation for the changes in non-CBERA imports can be derived; however, this effect is not discussed in this report.