1997 CBERA Congressional Report

TRADE AND EMPLOYMENT EFFECTS OF THE CARIBBEAN BASIN ECONOMIC RECOVERY ACT

Thirteenth Annual Report to the Congress
Pursuant to Section 216 of the
Caribbean Basin Economic Recovery Act

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Executive Summary

During 1996, $3.1 billion in U.S. imports from the 24 Caribbean Basin Economic Recovery Act (CBERA) beneficiaries entered the United States duty-free under provisions in the CBERA; however, a significant portion of these duty-free entries probably would have qualified for duty-free entry under other existing U.S. trade preference programs such as the Generalized System of Preferences. Approximately 37 percent ($1.1 billion) of these duty-free entries probably would not have qualified for duty-free entry under other available U.S. trade preference programs and represent the unique benefits of the CBERA to the CBERA beneficiaries. These unique benefits represented 7.9 percent of total U.S. imports from the CBERA beneficiaries, but accounted for only 0.1 percent of total U.S. imports from all nations.

The main finding of this report is: Preferential tariff treatment under the CBERA does not appear to have had an adverse impact on, or have constituted a significant threat to, U.S. employment generally. There are several smaller domestic industrial sectors (e.g., leather cut for shoes and cigars and cheroots) that have been subject to significant, long-term (secular) domestic employment declines and significant increases in CBERA duty-free imports. The extent to which declines in employment in these sectors may have been affected by the tariff preferences granted under the CBERA -- as opposed to other factors -- is not clear; during 1996, trade and employment developments in these industries tended to moderate any adjustment problems.

Introduction

The Caribbean Basin Economic Recovery Act (CBERA), which was enacted on August 5, 1983 (Public Law 98-67, title II), contains the trade component of the Caribbean Basin Initiative (CBI) that was launched in 1983 to expand private sector opportunities and investment in nontraditional sectors of the Caribbean Basin beneficiaries as a way to help them diversify their economies and expand their exports. The CBERA authorized the President to proclaim duty-free treatment to eligible articles from designated beneficiary Caribbean Basin countries and dependent territories. The first proclamations and designations under the Act took effect on January 1, 1984. The Act was scheduled to remain in effect until September 30, 1995, but was expanded in 1990 by the Caribbean Basin Economic Recovery Expansion Act (Public Law 101-382, title II) with no statutory expiration date.

Section 216 of the CBERA requires the Secretary of Labor, in consultation with other appropriate federal agencies, to undertake a continuing review and analysis of the impact of the implementation of the CBERA on U.S. labor. The legislation also directs the Secretary to submit an annual report to the Congress presenting a summary of the results of the review and analysis. This report is the thirteenth in a series of annual reports to the Congress pursuant to Section 216 of the CBERA. It presents a summary of the analysis of the impact of duty-free treatment of certain U.S. imports from Caribbean Basin beneficiaries under the CBERA on U.S. trade and employment during calendar 1996. The 24 CBERA beneficiary countries and dependent territories covered by this report are: Antigua and Barbuda; Aruba; the Bahamas; Barbados; Belize; the British Virgin Islands; Costa Rica; Dominica; the Dominican Republic; El Salvador; Grenada; Guatemala; Guyana; Haiti; Honduras; Jamaica; Montserrat; the Netherlands Antilles; Nicaragua; Panama; St. Kitts-Nevis; St. Lucia; St. Vincent and the Grenadines; and Trinidad and Tobago. Anguilla, the Cayman Islands, Suriname, and the Turks and Caicos Islands are potentially eligible for CBERA benefits, but they have neither requested designation nor been designated so by the President of the United States.

First, this report reviews trends in U.S. trade with the CBERA beneficiaries, and identifies the leading items in U.S. trade (imports and exports) with those nations. Next, U.S. imports from the CBERA beneficiaries are examined with regard to the various U.S. trade preference programs (e.g., the CBERA; Section 222 of the CBERA, which was added to the CBERA in 1990 and permits duty-free entry of items made wholly of U.S. materials; the Generalized System of Preferences (GSP), a U.S. program initiated in 1975 that provides for duty-free treatment of nearly 4,500 tariff items from over 150 designated beneficiary developing countries; and the U.S. harmonized tariff schedule provisions for the duty-free entry of U.S. components and materials incorporated in offshore assembly of items imported into the United States -- HTS 9802.00.60 and 9802.0080). The report then attempts to identify U.S. trade preferences which are uniquely available to the beneficiary countries under the CBERA. Finally, domestic employment trends are reviewed for those domestic industries that produce goods like or similar to those in industrial groups of U.S. imports from the CBERA beneficiaries which have experienced significant growth and established significant U.S. market share as the result of CBERA benefits. The report closes with some general conclusions on the impact of the CBERA on U.S. employment.

U.S. import (customs value of imports for consumption) and export (f.a.s. value of domestic exports) data used in this report are based upon compilations of official statistics from the U.S. Department of Commerce, Bureau of the Census; U.S. nonfarm employment data (annual averages of monthly establishment employment) are tabulated from establishment payroll employment survey data from the U.S. Department of Labor, Bureau of Labor Statistics. Further details and analysis concerning the CBERA as well as detailed tabulations of U.S. trade with the CBERA beneficiary nations are available in more comprehensive annual reports (for this year as well as for prior years) which are prepared by the U.S. Department of Labor and are available from the Department's Bureau of International Labor Affairs, Office of International Economic Affairs, 200 Constitution Avenue, N.W., Room S-5325, Washington, DC 20210 (telephone: 202-219-7610) or the National Technical Information Service (NTIS), 5285 Port Royal Road, Springfield, Virginia 22161 (telephone: 703-487-4690).

U.S. Trade with the CBERA Beneficiaries

U.S. imports from the 24 CBERA beneficiaries in 1996 accounted for 1.8 percent of total U.S. merchandise imports from all countries and amounted to $14.5 billion, a 16 percent increase over their level in 1995. U.S. exports to the CBERA beneficiaries in 1996 accounted for 2.6 percent of all U.S. merchandise exports to the world and amounted to $15.4 billion, a 3.4 percent increase over their level in 1995.

On a bilateral basis, U.S. trade with the CBERA beneficiaries has moved from a merchandise trade deficit of over $3.2 billion in 1983 to a surplus of $830 million in 1996. Over this period, U.S. exports to the CBERA beneficiaries have increased each year (except in 1985), while U.S. imports from these countries decreased each year between 1983 and 1988 before beginning to increase each year thereafter. In nominal (current dollar) terms, U.S. exports to the CBERA beneficiaries in 1996 were 170 percent above their 1983 level, while U.S. imports from the CBERA beneficiaries in 1996 were 63 percent above their 1983 level.

Crude and refined petroleum, which accounted for over half of all U.S. imports from the CBERA beneficiaries in 1984, accounted for less than 12 percent in 1996. During 1996, U.S. imports of crude and refined petroleum products from the CBERA beneficiaries increased from their 1995 level of $962 million to $1,671 million in 1996, a 74 percent increase. While U.S. imports of non-petroleum products from the CBERA beneficiaries increased from their 1995 level of $11.6 billion to $12.9 billion in 1996, a 11 percent increase. U.S. imports of non-petroleum products from the CBERA beneficiaries have grown at an average annual rate of 13 percent over the 1988-96 period.

Leading industrial categories of U.S. imports from the CBERA beneficiaries in 1996 included: apparel ($5,964 million); agricultural products ($1,645 million); refined petroleum products ($1,315 million); food products ($806 million); chemicals ($769 million); fishery products ($506 million); electrical machinery ($486 million); instruments ($374 million); crude petroleum ($357 million); and leather goods ($357 million). These top-ten categories, based on the 2-digit Standard Industrial Classification system, accounted for 86 percent of all U.S. imports from the CBERA beneficiaries in 1996.

Leading industrial categories of U.S. exports to the CBERA beneficiaries in 1996 included: apparel ($2,851 million); nonelectrical machinery ($1,494 million); chemicals ($1,329 million); food products ($1,271 million); electrical machinery ($1,137 million); agricultural products ($1,024 million); miscellaneous manufactures, not specifically provided for ($847 million); refined petroleum products ($823 million); transportation equipment ($721 million); and textiles ($670 million). These top-ten categories, based on the 2-digit Standard Industrial Classification system, accounted for 79 percent of all U.S. exports to the CBERA beneficiaries in 1996.

Many of the leading categories of U.S. exports to the Caribbean Basin region are also among the leading import categories, indicating a substantial two-way flow of trade. For a large part, this results from the extensive trade under provisions 9802.00.60 and 9802.00.80 in the harmonized tariff schedule (HTS)--formerly items 806.30 and 807.00 in the Tariff Schedules of the United States--that assess U.S. import duties only on the foreign value-added in offshore assembly or further processing of U.S.-made components which are then imported into the United States. In 1996, slightly over 32 percent of the total value of all U.S. imports subject to duty from the CBERA beneficiaries entered the United States duty-free under these provisions.

U.S. Imports under the CBERA and Other Special Tariff Rate Provisions and Trade Preference Programs

Products specifically excluded from CBERA duty-free treatment include most textile and apparel items; certain footwear, handbags, luggage, and other leather goods; canned tuna; petroleum and petroleum products; and certain watches and watch parts. However, beginning in 1992, the phasing-in of a duty reduction was initiated on handbags, luggage, flat goods, work gloves, and leather wearing apparel from the CBERA beneficiaries; duties on these items were reduced by a maximum of 20 percent over a five-year period. U.S. imports of CBERA-beneficiary non-petroleum products subject to duty and excluded from CBERA (primarily wearing apparel) have increased almost nineteen-fold since 1983.

To be eligible for duty-free treatment under the CBERA, all products -- unless specifically excluded -- must meet one of the following rules of origin conditions: (1) be wholly grown, produced, or manufactured in a CBERA beneficiary; be grown, produced, or manufactured in Puerto Rico and advanced in value or improved in condition in a CBERA beneficiary; or have at least 35 percent of the direct processing costs and materials produced in a CBERA beneficiary or beneficiaries -- inputs from the United States, Puerto Rico, and the U.S. Virgin Islands are allowed to account for a portion of the 35 percent content rule (section 213 of the CBERA, as amended); or (2) be assembled in a CBERA beneficiary wholly from components and materials originating in the United States (section 222 of the CBERA, as amended). In addition, the articles must be exported directly to the customs territory of the United States; U.S. imports from the CBERA beneficiaries of sugar, syrups, and molasses, ethyl alcohol, and beef and veal products are subject to special rules.

All of the CBERA beneficiaries except the Bahamas and Nicaragua are also eligible for the tariff preferences provided by the GSP. The CBERA differs from the GSP program in three significant ways: 1) the number of items eligible for the duty-free entry is greater under the CBERA, 2) the percentage of value-added that must be produced in the exporting country is lower under the CBERA, and 3) there are no dollar limits in the amount of an item that can enter duty-free from a beneficiary country under the CBERA program while there are limits (referred to as competitive need limits) under the GSP program.

In 1996, slightly over $3.4 billion (or 23 percent) of the $14.5 billion in total U.S. imports from the CBERA beneficiaries entered most-favored-nation (MFN) duty-free. Of the remaining $11.1 billion which was subject to duty (i.e., not MFN duty-free), U.S. import duties were assessed on just over $4.5 billion, while over $6.6 billion entered duty-free under one of the special U.S. tariff preference programs.

Of the over $6.6 billion in U.S. imports subject to duty from the CBERA-beneficiaries that entered duty-free under one of the special U.S. tariff preference programs in 1996, $2.7 billion entered duty-free under section 213 of the CBERA; $323 million ($73 million CBERA-beneficiary value-added and $250 million U.S.-content value) entered duty-free under section 222 of the CBERA; $164 million entered duty-free under the GSP; $3.3 billion U.S.-content value entered duty-free under the HTS 9802.00.60 and 9802.00.80 provisions, and $93 million entered duty-free under other special rate provisions (mostly temporary rate provisions).

The share of the value of U.S. imports subject to duty from the CBERA beneficiaries that is eligible for duty-free treatment under the CBERA has increased since the program's inception, growing from 19 percent in 1984 to a high of 33 percent in 1989 before falling to 26 percent in 1996. These changes are due, in part, to the changing importance over this period of crude and refined petroleum products, which are excluded from CBERA benefits, in overall U.S. imports from the CBERA beneficiaries.

For products that were already eligible for GSP duty-free treatment when the CBERA came into effect in 1984, the CBERA beneficiaries have increased slightly their utilization of available U.S. tariff preferences (i.e., the percentage of eligible products that actually entered duty-free under either GSP or CBERA has risen moderately). In 1983, 62 percent of the value of items eligible for both GSP and CBERA (had the latter been in effect) entered duty-free under GSP; in 1984, 68 percent of the value of items eligible for both GSP and CBERA entered duty-free (12 percent under CBERA and 56 percent under GSP); and by 1996, 81 percent of the value of these items entered duty-free (78 percent under CBERA and 3 percent under GSP). However, for products eligible for CBERA, but not GSP, utilization has increased substantially from 42 percent in 1984 to 79 percent in 1996.

Leading industrial categories of CBERA duty-free U.S. imports (some of which would have been eligible for GSP duty-free entry) in 1996 included: sugar and confectionery products ($372 million); leather cut for shoes ($203 million); jewelry and silverware ($167 million); cigars and cheroots ($162 million); industrial organic chemicals ($142 million); prepared fruits and vegetables ($120 million); vegetables and melons ($118 million); medical and dental instruments ($95 million); blast furnace and steel products ($85 million); and meat and meat packing products ($75 million). These top-ten categories, based on the 3-digit Standard Industrial Classification system, accounted for 56 percent of the total CBERA duty-free value of U.S. imports in 1996.

Assembly of U.S.-made parts or materials by the CBERA beneficiaries (primarily into products ineligible for CBERA duty-free entry or into CBERA-eligible products that did not meet CBERA or GSP rules-of-origin requirements) continued to show strength in 1996. The value of U.S. imports of these assembled items from the CBERA beneficiaries, mostly entered under HTS item 9802.00.80, rose from $4.8 billion in 1995 to $5.5 billion in 1996 and accounted for 49 percent of all U.S. imports subject to duty from the CBERA beneficiaries. The U.S. tariff provisions covering the assembly of articles made from U.S.-made parts and materials (i.e., HTS 9802.00.60 and 9802.00.80) are available generally for U.S. imports from any country.

Assembled apparel items ($4,866 million with 64 percent U.S.-content value) accounted for 89 percent of the value of U.S. imports from CBERA beneficiaries under HTS items 9802.00.60 and 9802.00.80 in 1996. Six other industrial groups with appreciable amounts of 9802 items from the CBERA beneficiaries in 1996 included: scientific instruments ($259 million with 73 percent U.S.-content value), textile mill products ($148 million with 92 percent U.S.-content value), electrical machinery ($92 million with 55 percent U.S.-content value), leather products ($56 million with 70 percent U.S.-content value), rubber and plastic products ($16 million and 64 percent U.S.-content value), and miscellaneous manufactures ($16 million with 92 percent U.S.-content value).

Section 222 of the CBERA allows duty-free entry of products assembled in a CBERA beneficiary wholly from components and materials originating in the United States. During 1996, $323 million entered under Section 222, of which $73 million was CBERA value-added. Section 222 imports were concentrated in scientific instruments ($232 million with $50 million of CBERA value-added), leather products ($39 million with $11 million of CBERA value-added), and electrical machinery ($29 million with $8 million CBERA value-added).

The CBERA beneficiaries are eligible for reduced U.S. duties on certain leather products (including handbags, luggage, work gloves, and leather wearing apparel, but not footwear). In 1996, the United States imported $62.6 million of these eligible leather products from the CBERA beneficiaries, of which $36.6 million was subject to lower duties, $19.3 million was duty-free U.S.-content under the HTS 9802 provisions, $1.1 million was duty-free CBERA-beneficiary value-added under Section 222, and the balance ($5.6 million) was subject to full duty. The value of leather products imports from the CBERA beneficiaries that was eligible for reduced duties in 1996 was up $10.0 million (19 percent) from 1995.

In addition to receiving CBERA duty-free benefits, several CBERA beneficiaries have benefitted from the Special Access Program (SAP) which was established in 1986 and sets liberal quotas (guaranteed access levels, GALs) for textile and apparel items assembled in eligible CBERA beneficiaries from fabric formed and cut to pattern in the United States. In 1996, U.S. textile and apparel imports under the SAP program amounted to $1.7 billion, or about one-third of all U.S. imports of assembled apparel items under the HTS 9802 provisions from all the CBERA beneficiaries.

U.S. Trade Preferences Uniquely Provided by the CBERA

Nearly all products from the CBERA beneficiaries that qualify for duty-free entry under the GSP are also eligible for duty-free entry under the CBERA. The GSP program expired on August 1, 1995 but was eventually renewed on August 20, 1996 and made retroactive to the expiration date. During the period in which the GSP program had expired, importers were required to deposit duties at the MFN duty rate. Since these items were also eligible for duty-free treatment under the CBERA, most importers who had been using the GSP program switched to the CBERA program in order to avoid having to deposit duties. Since items covered by the GSP were ultimately given duty-free treatment, the benefits provided by the CBERA for GSP eligible articles are not considered to be unique. The CBERA provided the beneficiary nations unique duty-free treatment of their exports to the United States in 1996 in the following cases: products eligible for CBERA duty-free entry, but not eligible for duty-free entry under GSP ($1,022 million, of which $507 million entered CBERA duty-free); products imported from Nicaragua and the Bahamas that would have been eligible for GSP if those countries were GSP beneficiaries ($148 million, of which $107 million entered CBERA duty-free); products eligible for both CBERA and GSP duty-free entry which were imported from CBERA beneficiaries that had lost their GSP product eligibility due to exceeding that program's competitive-need limitations ($725 million, of which $458 million entered CBERA duty-free); and the CBERA-beneficiary value-added in Section 222 imports ($73 million).

The total unique CBERA benefits (i.e., the total of the amounts above entered duty-free under the CBERA) were $1,145 million in 1996 and represented the amount of U.S. imports from the CBERA beneficiaries that would not have received duty-free treatment under either the GSP or the HTS 9802 provisions and would have been subject to duty in the absence of the CBERA program. These benefits were $203 million (or 21.5 percent) more than they were in 1995, and they represented 7.9 percent of total U.S. imports from the CBERA beneficiaries, but accounted for only 0.1 percent of total U.S. imports from all sources in 1996.

The top-ten tariff schedule categories of items receiving duty-free treatment unique to the CBERA in 1996 included: footwear uppers ($177 million), cigars ($110 million), instruments and appliances ($94 million), methanol ($67 million), hot-rolled bars and rods ($61 million), ethyl alcohol ($60 million), raw sugar used to make alcohol ($54 million), fresh pineapples ($43 million), frozen beef ($37 million), and fresh beef ($33 million). Five of the top-ten items (footwear uppers, cigars, instruments and appliances, methanol, and raw sugar) were items that normally would have been eligible for duty-free entry under the GSP program, except that at least one CBERA-beneficiary country had lost its GSP eligibility for the item by exceeding that program's competitive need limitation. Beef (both frozen and fresh), hot-rolled bars and rods, ethyl alcohol, and fresh pineapples were the major items that the CBERA beneficiaries benefitted from due to these items being eligible for duty-free entry under the CBERA but not under the GSP program.

Of the $1.1 billion of imports receiving duty-free treatment unique to the CBERA, $432 million were imports from the Dominican Republic; the other major beneficiaries included Costa Rica ($153 million), Trinidad and Tobago ($144 million), Nicaragua ($116 million), and Guatemala ($108 million).

U.S. Employment and Trade with the Caribbean Basin Beneficiaries

If there are any adverse U.S. employment effects due to the tariff preferences of the CBERA, these will result from increased imports of items due to these tariff preferences. Given the availability to the CBERA beneficiaries of several U.S. trade preference programs with different requirements (and particularly the uncertainty surrounding the GSP program), it is often not clear how to isolate the effects of the CBERA. The analysis in this report used two measures of duty-free entries under the CBERA to the assess the impact of the CBERA on U.S. employment: 1) the total amount that entered CBERA duty-free, and 2) the amount that entered CBERA duty-free uniquely to the CBERA (i.e., what would most probably not have entered duty-free under any other existing program). Using these two criteria, attention is focused on 3-digit Standard Industrial Classification (SIC) categories of U.S. imports that entered duty-free under the CBERA which showed significant growth and represented a significant share of total U.S. imports in 1996.

Eight 3-digit SIC-based import groups were identified, each with an increase of at least $5 million in CBERA duty-free entries or Section 222 duty-free imports, where the value of CBERA duty-free imports accounted for at least 3 percent of the value of U.S. imports of that item from all sources in 1996. These import groups included field crops except cash grains, vegetables and melons, horticultural specialties, prepared fruits and vegetables, sugar and confectionery products, cigars and cheroots, leather cut for shoes, and medical and dental instruments. In addition, six groups (industrial organic chemicals along with five of the import groups listed above -- field crops except cash grains, prepared fruits and vegetables, sugar and confectionery products, cigars and cheroots, and leather cut for shoes) had CBERA duty-free imports which were unique to the CBERA that increased by over $1 million and accounted for at least one percent of total U.S. imports of that SIC group in 1996.

U.S. import trends in these product groups and employment trends in each of the U.S. industries producing products like those in these import groups will be considered shortly. Significant increases in U.S. imports of these products from the CBERA beneficiaries may, in part, reflect the availability of duty-free treatment under the CBERA. Since reliable U.S. employment data are not available for the field crops except cash grains, vegetables and melons, and horticultural specialties industries, no employment analysis was performed for these industries. (U.S. imports of these three products covered a large number of diverse items, and special provisions in the CBERA provide for expedited escape-clause import relief if import surges of perishable products from CBERA beneficiaries pose a threat to U.S. producers of like or similar products. In 1996, no petitions were filed for such relief.) To place the analysis of domestic employment trends in perspective, the overall U.S. employment situation in 1996 is discussed first.

The U.S. Employment Situation in 1996

During 1996, the overall employment situation in the United States remained strong. The U.S. economy added 2.3 million jobs during 1996; employment has increased by 11.3 million since 1991. Total nonfarm employment in 1996 (119.5 million) was 10.1 million (or 9.2 percent) above the previous cyclical high recorded in 1990. The job gains during 1996 occurred in both the service-producing and goods-producing sectors. Within the goods-producing sector, there were job gains in construction, but job losses in manufacturing and mining. Despite overall gains, employment in the goods-producing sector in 1996 (24.4 million) was slightly below that in 1990 by 474,000. The manufacturing sector lost 67,000 jobs in 1996 (leaving the sector with 619,000 jobs fewer than in 1990). The U.S. manufacturing sector, with employment of 18.5 million in 1996, has lost 2.6 million jobs since its peak in employment in 1979, although real manufacturing GDP has increased substantially since 1979. Most economists agree that many of these employment losses partially reflect growth in productivity and changes in technology; there is disagreement amongst economists over the relative importance of trade deficits and increased openness as a cause of these losses.

U.S. Import and Domestic Employment Trends in Selected Industrial Sectors Receiving Significant Benefits Provided under the CBERA in 1996

Prepared fruits and vegetables: U.S. imports from the CBERA beneficiaries of prepared fruits and vegetables totaled $130.8 million in 1996, $4.6 million above their level in 1995. CBERA duty-free imports of these items totaled $120.1 million in 1996 and accounted for 4 percent of total U.S. imports of prepared fruits and vegetables. Over 61 percent of the CBERA duty-free imports of prepared fruits and vegetables were in items that were not eligible for GSP duty-free treatment: U.S. imports from CBERA beneficiaries of these products that were eligible for CBERA but not for GSP duty-free treatment totaled $75 million in 1996, $74 million of which entered duty-free under CBERA. CBERA-free imports of items not eligible for the GSP accounted for 2.4 percent of total U.S. imports of prepared fruits and vegetables; major items were frozen orange juice, pineapple juice, broccoli, and banana pulp.

U.S. employment in the prepared fruits and vegetables industry has decreased at an annual average rate of 0.3 percent over the period 1979-96 and 0.7 percent over the 1990-96 period; during 1996 this industry lost 7,500 jobs (3.1 percent). U.S. imports from the CBERA beneficiaries and CBERA duty-free imports both increased moderately during 1996, although they remained a relatively small and decreasing percentage of total U.S. imports of these items. Given these factors, it is possible that some of the reduced employment in this industry was due to increased imports from the CBERA beneficiaries due to the duty-free provisions of the CBERA program. However, given that employment declines in this sector have been quite modest, and that imports from CBERA beneficiaries account for a very small and decreasing percentage of total U.S. imports of prepared fruits and vegetables, the duty-free provisions of the CBERA do not appear to have presented a significant adjustment problem for this industry. Sugar and confectionery products: U.S. imports from the CBERA-beneficiaries of sugar and confectionery products increased by 83 percent during 1996 to $499.7 million and accounted for 17.1 percent of total U.S. sugar and confectionery product imports. Over 94 percent of these imports from the CBERA beneficiaries entered duty-free under either the CBERA or GSP programs. CBERA duty-free imports of these items were $372.4 million in 1996, a 122 percent increase from their level in 1995, while GSP duty-free imports totaled $98.3 million, a 26.7 percent decrease over their level in 1995. U.S. imports from CBERA beneficiaries of sugar and confectionery products that were eligible for CBERA but not for GSP duty-free treatment were up 183 percent (or $59 million) in 1996 and totaled $92 million, $81 million of which entered duty-free under CBERA (2.8 percent of all U.S. sugar and confectionery product imports). Since U.S. cane sugar imports are subject to U.S. quota levels which are set to equate projected U.S. consumption needs with projected U.S. production, the duty-free provisions of the CBERA program do not permit the CBERA beneficiaries to increase their sugar exports into the United States at the expense of reduced U.S. production. A small portion of the CBERA duty-free imports of sugar and confectionery products are not covered by U.S. quotas, and it is possible that duty-free treatment of these items may have increased CBERA-beneficiary exports of those items. U.S. employment in the sugar and confectionery products industry has decreased at an annual rate of 0.8 percent over the 1979-96 period and decreased at a 0.1 percent rate over the 1990-96 period; in 1996, employment decreased by 1,500 jobs. Since U.S. sugar quotas control the level of U.S. sugar imports and only a small amount of sugar products that enter duty-free under the CBERA are not subject to quotas, the duty-free provisions of the CBERA do not appear to have presented any substantial employment adjustment problems for this industry.

Cigars and cheroots: U.S. imports of cigars and cheroots from the CBERA beneficiaries increased by 100.3 percent in 1996 and totaled $166.4 million. U.S. imports from the CBERA beneficiaries accounted for over 89 percent of all U.S. imports of these items in 1996. Almost all of this ($161.8 million) entered CBERA duty-free. U.S. imports of these items from CBERA beneficiaries that were eligible for CBERA but not for GSP duty-free treatment totaled $119.3 million in 1996, $116.4 million of which entered duty-free under CBERA. CBERA duty-free U.S. imports of cigars and cheroots, which were eligible for CBERA but not for GSP, increased 103.9 percent in 1996 and accounted for over 62 percent of total U.S. imports of these items from all sources in 1996. The largest CBERA duty-free item not eligible for GSP was cigars (valued over $0.23 each) from the Dominican Republic which had lost eligibility for this item by exceeding the competitive need limits for this item under the GSP program.

U.S. employment in the cigar and cheroots industry was 8,000 in 1979 but has been declining steadily at an average annual rate of 6.2 percent since that time. During 1996, employment increased by 300 to 2,700 and has recovered to its 1990 level after several years of losses in the early 1990s. U.S. imports from the CBERA beneficiaries did not increase substantially during the years when U.S. employment declines were significant in this industry, and during the 1994 to 1996 period when significant increases occurred in CBERA duty-free imports, U.S. employment in this industry increased by 600. As a result, it is especially difficult to associate changes in U.S. employment in this industry with increases in imports from CBERA beneficiaries since the significant changes in each have occurred during different points in time. Given the recent employment increases in this industry, the benefits provided by the CBERA do not appear to be creating any current adjustment problem for this industry.

Industrial organic chemicals: U.S. imports of CBERA industrial organic chemicals increased by $52 million (29.3 percent) to $230 million in 1996; $142 million of this entered CBERA duty free and most ($138 million) were items not eligible for GSP. Of the CBERA-free imports not eligible for GSP, $67 million was methanol from Trinidad and Tobago which has lost GSP eligibility by exceeding the competitive need limits; the remaining items were not eligible for GSP and were primarily ethyl alcohol and trifluralin. The CBERA beneficiaries accounted for 2.0 percent of total U.S. imports of industrial organic chemicals.

U.S. employment in the industrial organic chemicals industry declined by 2,100 (1.4 percent) to 143,800 in 1996. This decline was consistent with the long-term trend in this industry as employment has declined by a yearly average of 1.0 percent since 1979 and 1.2 percent since 1990. Given the very small percentage of CBERA-free imports in total U.S. imports of industrial organic chemicals and the relatively stable (although decreasing) employment in this industry, it does not appear that the CBERA program has resulted in any adjustment problem for this industry.

Leather cut for shoes: In three of the previous four annual reviews, it was determined that the CBERA may have been a contributing factor in the secular decline of the leather cut for shoes industry. U.S. imports of these items from the CBERA beneficiaries increased from $146.7 million in 1991 to $255.6 million in 1994 before falling to $203.4 million in 1995. During 1996, however, CBERA-beneficiaries exports to the United States of these items increased from $203.8 million to $215.0 million and accounted for 50.9 percent of total U.S. imports of these items. Over $211 million entered CBERA duty-free; $203.2 million under the regular CBERA provisions and $8.0 million under Section 222 of which $1.3 million was CBERA value-added. Total unique CBERA benefits received by the CBERA beneficiaries for these items (non-GSP items entered CBERA duty-free or CBERA value-added under Section 222) had increased rapidly, growing from $0.1 million in 1991, to $138.9 million in 1992, to $170.0 million in 1993, and to $215.7 million in 1994, then fell to $174.2 million in 1995 before increasing to $184.4 million in 1996. Of this $184.4 million in unique CBERA benefits, $177.1 million were imports from the Dominican Republic of footwear uppers (HTS item 6406.10.65); the Dominican Republic lost GSP eligibility for this item by exceeding the competitive need limits. The U.S. International Trade Commission estimated in 1995 that CBERA imports accounted for 13.1 percent of total U.S. apparent consumption (imports plus domestic production less exports) of this specific HTS item.

U.S. employment in the leather cut for shoes industry declined 20.8 percent in 1996 after declines of 22.6 percent in 1995 and 20.5 percent in 1994. Employment in 1996 was less than a third of its level in 1990. Given the significant employment declines in this industry since 1990 and the significant increases in imports from the CBERA beneficiaries over this period, most of which receive duty-free treatment unique to the CBERA, the benefits provided by the CBERA program may have played a minor role in the longer term secular decline of this industry (see previous reports). However, imports from the CBERA beneficiaries in 1996 were only one percent above their level in 1993, thus the employment losses in this industry over the last several years do not appear to be directly related to CBERA imports, although there could be time lags between increased imports and employment decreases. Thus although the CBERA program may have been a contributing factor in the longer-run decline in employment in this industry, import growth from the CBERA beneficiaries has moderated since 1994. Also, to the extent that these items are inputs into the final assembly of shoes, the duty-free access of CBERA-origin leather cut for shoes may enhance the competitiveness of U.S. shoe producers, with positive benefits in that sector.

Medical and dental instruments: U.S. imports of medical and dental instruments from the CBERA beneficiaries increased by 9.3 percent to $352.2 million in 1996; U.S. imports of these items from the CBERA beneficiaries have increased rapidly over the last several years with a 459 percent increase between 1992 and 1995. During 1996, almost 93 percent ($326.7 million) of these imports entered duty-free under the CBERA and this accounted for 5.5 percent of total U.S. imports of medical instruments. Of this, $232.2 million entered under Section 222 and $94.5 million entered duty-free under the regular CBERA provision of which $44.0 million were items not eligible for GSP duty-free treatment. Of the $232.2 million entered under Section 222, CBERA-beneficiary value-added amounted to only $49.9 million. The CBERA duty-free items that were not eligible for GSP consisted primarily of medical instruments from the Dominican Republic that had lost GSP duty-free treatment by exceeding the competitive need limits.

U.S. employment in the medical and dental instruments industry increased by 3,400 during 1996 after falling slightly in 1995; employment is now 21,600 above its 1990 level. Comparable employment data for earlier years are not available because this industry classification was created in 1988 as a result of a revision in the SIC. Although CBERA imports have increased significantly over the last several years, a sizable percentage of the increased CBERA duty-free imports are U.S. components entered under Section 222 or the regular 9802 program. While CBERA duty-free imports have increased significantly over the last several years, a substantial proportion of this has been U.S. components. Since the increase in CBERA duty-free imports was moderate in 1996 and U.S. employment in this industry remains relatively stable, it does not appear that the benefits provided by the CBERA program have produced a significant adjustment problem for this industry.

Conclusions

Although a definitive evaluation of the domestic employment impact of the CBERA cannot be made since the effects of duty-free provisions of the CBERA on U.S. imports cannot be completely isolated from the effects of other trade preference programs such as the GSP and HTS items 9802.00.60 and 9802.00.80, it is unlikely that the CBERA has had a significant effect on overall U.S. employment. In addition, U.S. trade flows with the CBERA beneficiaries have been small, representing 0.1 percent of total U.S. imports.

Neither the dollar amount nor the rate of increase in U.S. imports from the CBERA beneficiaries has been extraordinary or threatening. U.S. imports from CBERA beneficiaries in items eligible (or possibly eligible) for duty-free treatment under the CBERA, but not under GSP, have risen very moderately since 1984. Nevertheless, the actual amounts entered duty-free have been modest, and the CBERA program appears to have had only a small effect in altering the production or export structure of the CBERA beneficiaries.

The amount of U.S. imports from the CBERA beneficiaries that has received duty-free treatment has more than quintupled since 1983--the year prior to the implementation of the CBERA program--due to increased utilization of CBERA benefits, although one-half of this increase was due to increased use of the 9802 provisions. Only 7.9 percent of imports from the CBERA beneficiaries enter duty-free due to unique provisions provided by the CBERA program.

During 1996, there were significant increases in CBERA duty-free imports which also accounted for a significant share of total U.S. imports in several categories of manufactured products such as prepared fruits and vegetables, sugar and confectionery products, cigars and cheroots, leather cut for shoes, and medical and dental instruments. For each of these products, except sugar and confectionary products, a substantial portion of the duty-free benefits provided by the CBERA was not available under GSP. In addition, CBERA duty-free imports of industrial organic chemicals from the CBERA beneficiaries were a rather small share of total U.S. imports of these products, but nearly all of these imports entered duty-free due to provisions unique to the CBERA.

For most of the U.S. industries that produce items similar to those receiving substantial benefits under the CBERA, it is difficult to identify any adverse U.S. employment effects directly resulting from the CBERA benefits since either the U.S. market share of CBERA-beneficiary products is so small or U.S. employment growth in the industry has been relatively healthy. For several small industries (e.g., leather cut for shoes and, perhaps, cigars and cheroots), U.S. employment has been declining over the last five years, while U.S. imports from the CBERA beneficiaries have been increasing significantly over the last five years and currently account for a large portion of all U.S. imports of these items. In addition, U.S. imports from all sources also account for a significant portion of apparent U.S. consumption of these items. However, during 1996, CBERA duty-free imports increased only moderately in the case of leather cut for shoes, while employment continued to decrease rapidly in that industry; CBERA duty-free imports of cigar and cheroots increased rapidly, but employment in this industry increased. The combination of significant increases in CBERA duty-free imports and significant decreases in U.S. employment did not occur in either industry. Thus if the CBERA has played a role in the long-run secular employment declines in these industries, developments during 1996 have tended to moderate any CBERA effect.

Generally, the current level and composition of U.S. imports from the CBERA beneficiaries do not appear to pose a threat to U.S. employment. Most CBERA beneficiaries are small and have few resources. Traditionally, these beneficiaries have relied on exports of natural resources and agricultural products. While the world demand and prices for these have declined, the development of assembly operations has created new job opportunities in the CBERA beneficiaries and helped foster skills needed for further economic development and industrialization. With the current lack of an industrial infrastructure, the potential exists for more extensive industrial investment, much of which would use U.S.-produced capital goods. As the Caribbean Basin region develops, it is anticipated that it will attract increasing levels of U.S. exports which will generate additional job opportunities in the United States. On the other hand, the duty-free benefits of the CBERA offer an incentive for diversification of production and development of exports to the U.S. market. Thus, the CBERA could create a more significant impact on U.S. employment in the future.

While the CBERA may offer the beneficiaries an incentive to diversify their export structure and more readily gain access to the U.S. market, the margin of these benefits has been declining in recent years. For example, the United States has successfully negotiated and implemented several comprehensive free trade agreements (with Israel in 1986; Canada in 1989; and Canada and Mexico in 1994). In 1992, the United States granted unilateral trade preferences for a ten-year period to the Andean nations (Bolivia, Colombia, Ecuador, and Peru) on many of the same items covered by the CBERA. Also, as the result of the conclusion and implementation of the Uruguay Round of multilateral trade negotiations, U.S. trade barriers in general will be reduced for all (most-favored-nation) trading partners. Balancing these declines in the margin of benefit is the uncertain future of the U.S. GSP program; if the GSP program were to be eliminated in the future, the unique benefits that the CBERA program provides to the CBERA beneficiaries would be significantly increased.

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