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Caribbean Basin Enhancement Legislation

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Summary

Legislation has been introduced to provide Caribbean Basin countries similar tariff benefits afforded Mexico under the North American Free Trade Agreement (NAFTA). On the House side, Title I of H.R. 984 ("Caribbean and Central American Relief and Economic Stabilization Act) would provide Caribbean Basin countries with essentially the same tariff treatment that Mexico receives under NAFTA. On the Senate side, so-called Caribbean Basin Initiative (CBI) enhancement legislation has been included in S. 371, a bill to provide relief to the hurricane-ravaged countries of Central America. The Senate bill is more restrictive than the House bill in the scope of tariff benefits offered, particularly for textile and apparel products. The Clinton Administration, in testimony before the House Ways and Means Subcommittee on Trade on March 23, announced its opposition to H.R. 984. While supporting enhanced trade benefits for CBI countries, the Administration unveiled its own proposal that is more similar to S. 371. As in the past, the outlook in the 106th Congress for passage of some sort of enhancement bill remains uncertain. Efforts to help the region recover from hurricane damage may provide impetus for passage. But the legislation still lacks a consensus approach in the private sector and in Congress. This report will be updated.

Background

Ever since NAFTA was proposed in the early 1990s, Caribbean Basin leaders have expressed concern that Mexico's more preferential trading status would erode its own preferential access to the U.S. market as provided by the Caribbean Basin Economic Recovery Act (CBERA). The CBERA, commonly referred to as the Caribbean Basin Initiative or CBI, was enacted in 1983 in an effort to bolster the economic and political stability of this neighboring region. The CBERA is a non-reciprocal grant of duty-free or reduced duty access for certain CBI exports to the United States.

Legislation to enhance the CBI has been introduced in every Congress since 1993. The primary change proposed centers on the tariff treatment of the region's apparel exports. U.S. garment companies have set up factories in the region to assemble clothes cut from U.S. or foreign-made fabric, and then re-export the items to the United States.

Under U.S. trade law, apparel assembled in CBI countries from U.S. origin components is still subject to duty on the part of its value added locally. According to a U.S. International Trade Commission study, garments from CBI countries pay an ad valorem equivalent duty rate of 5.6%, while most all similar imports from Mexico under NAFTA come into the United States duty-free. This discrepancy has been one factor since NAFTA went into effect in causing Mexican apparel exports to the United States to rise at a much higher rate (44%) than those from CBI countries (17%).[1]

Central America's hurricane-induced economic and social setback in 1998 has provided added impetus to on-going efforts to provide CBI countries with similar tariff treatment its economic rival Mexico receives under NAFTA. As in the past, lack of private sector consensus on the legislation, as well as likely differences between House and Senate proposals, cloud the prospects for enactment of a CBI enhancement bill.

Conflicting Approaches

CBI enhancement has been a divisive issue for the U.S. textile and apparel industry. Some segments of the apparel industry oppose the legislation in any form on the grounds that it will accelerate longstanding production and job losses induced by import competition. The largest producer associations support some form of enhancement as a way to provide more leeway to use the cheapest sources of supply in their operations, but disagree on the scope of a CBI enhancement bill. The American Apparel Manufacturers Association, for example, has supported NAFTA-equivalent treatment which would allow duty-free benefits for some portion of apparel goods made from CBI country produced fabric, as well as some goods that contained components from other regions, such as Asia. But the American Textile Manufacturers Institute supports a form of tariff and quota exemptions that would apply largely to those goods made from fabric cut and formed in the United States and of yarn spun in the United States.[2]

The broad differences between the two producer associations were mirrored by different approaches offered by the Senate and House in the 105th Congress. The main Senate bill would have limited preferences to apparel made from fabric spun and yarn formed in the United States, whereas the main House bill would have provided freer entry for apparel made from U.S. or CBI country produced cloth, with limited entry for apparel made in CBI countries from third country (e.g. China or India) materials. These differences are again apparent in the 106th Congress: S. 371, introduced February 3, 1999, by Senator Bob Graham, D-Fla, is broadly similar to the CBI bill reported out of the Senate Finance Committee in the 105th Congress. H.R. 984, introduced March 4, 1999, by Rep. Philip M. Crane, R-Ill., provides more expansive tariff preferences without as many mandatory or discretionary eligibility requirements. The Clinton Administration's approach (which has not been introduced yet as legislation) is more similar to the Senate bill. Efforts to craft a consensus approach are on-going.

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[1] U.S. International Trade Commission. "Caribbean Basin Economic Recovery Act," Publication 3132, September 1998, p. 14.

[2] U.S. International Trade Commission. "Caribbean Basic Economic Recovery Act," Publication 3058, September 1997, p. 26.