CARIBBEAN BASIN INITIATIVE

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

SECOND SESSION

ON

S. 2237

AUGUST 2, 1982

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE

11-310 O WASHINGTON : 1982 HG97-114

COMMITTEE ON FINANCE

ROBERT J. DOLE, Kansas, *Chairman*

BOB PACKWOOD, Oregon
WILLIAM V. ROTH, JR., Delaware
JOHN C. DANFORTH, Missouri
JOHN H. CHAFEE, Rhode Island
JOHN HEINZ, Pennsylvania
MALCOLM WALLOP, Wyoming
DAVID DURENBERGER, Minnesota
WILLIAM L. ARMSTRONG, Colorado
STEVEN D. SYMMS, Idaho
CHARLES E. GRASSLEY, Iowa

RUSSELL B. LONG, Louisiana
HARRY F. BYRD, JR., Virginia
LLOYD BENTSEN, Texas
SPARK M. MATSUNAGA, Hawaii
DANIEL PATRICK MOYNIHAN, New York
MAX BAUCUS, Montana
DAVID L. BOREN, Oklahoma
BILL BRADLEY, New Jersey
GEORGE J. MITCHELL, Maine

ROBERT E. LIGHTHIZER, *Chief Counsel*
MICHAEL STERN, *Minority Staff Director*

CONTENTS

Administration Witnesses

Public Witnesses

Additional Information

Communications

CARIBBEAN BASIN INITIATIVE

MONDAY, AUGUST 2, 1982

U.S. SENATE,
SENATE COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to notice, at 9 a.m., in room 2221, Dirksen Senate Office Building, Hon. Robert J. Dole (chairman) presiding.

Present: Senators Dole, Chafee, Heinz, Byrd, Matsunaga, Baucus, and Bradley.

[The press release announcing the hearings, background material on the tax provisions of S. 2237, the Caribbean Basin Economic Recovery Act, and the prepared statements of Senators Dole and Heinz follow:]

[Press Release No. 82-148, July 9, 1983, U.S. Senate, Committee on Finance]

FINANCE COMMITTEE SETS HEARING ON S. 2237, LEGISLATION TO IMPLEMENT THE CARIBBEAN BASIN INITIATIVE

Senator Bob Dole, Chairman of the Senate Committee on Finance, announced today that the Committee will hold a hearing on Monday, August 2, 1982, on S. 2237. This bill, cosponsored by Senators Dole, Danforth, and Durenberger, would implement President Reagan's Caribbean Basin Initiative. The Committee will consider titles I, II, III, and IV of the bill, which encompass proposals for extending trade and tax incentives designed to promote economic development in potential beneficiary nations of the Caribbean Basin and Central American region. (The Committee on Foreign Relations previously completed consideration of title II of the bill, relating to emergency economic assistance.) Senator Dole stated that both administration and private sector witnesses are expected to testify.

The hearing will begin at 9:30 a.m. in Room 2221 of the Dirksen Senate Office Building.

Consolidated testimony.—Senator Dole urges all witnesses who have a common position or who have the same general interest to consolidate their testimony and designate a single spokesman to present their common viewpoint orally to the Committee. This procedure will enable the Committee to receive a wider expression of views than they might otherwise obtain. Senator Dole urges that all witnesses exert a maximum effort to consolidate and coordinate their statements.

Requests to testify.—Witnesses who desire to testify at the hearing on Monday, August 2, 1982, must submit a written request to Robert E. Lighthizer, Chief Counsel, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D.C. 20510, to be received not later than 10:00 a.m. on Monday, July 26, 1982. Witnesses will be notified as soon as practicable thereafter whether it has been possible to schedule them to present oral testimony. If for some reason a witness is unable to appear at the time scheduled, he may file a written statement for the record in lieu of the personal appearance. In such a case, a witness should notify the Committee as soon as possible of his inability to appear.

Legislative Reorganization Act.—Senator Dole stated that the Legislative Reorganization Act of 1946, as amended, requires all witnesses appearing before the Committees of Congress "to file in advance written statements of their proposed testimony, and to limit their oral presentations to brief summaries of their argument."

Written statements.—Witnesses who are not scheduled to make oral presentations, and others who desire to present their views to the Committee, are urged to prepare a written statement for submission and inclusion in the printed record of the hearing. These written statements should be typewritten, not more than 25 double-spaced pages in length, and mailed with five copies to Robert E. Lighthizer, Chief Counsel, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D.C. 20510, not later than Wednesday, August 11, 1982.

PREPARED STATEMENT OF SENATOR DOLE

I wish to note that not all of the witnesses we originally scheduled could be here today. We do expect to hold a second day of hearings for them.

THE ESSENTIAL U.S. INTEREST IN THE CARIBBEAN

The message you bring today marks an important new chapter in U.S. relations with our southern neighbors. It is perhaps in importance equal to another Presidential message on the subject pronounced long ago. In December of 1823, President Monroe sent a message to the Congress declaring that the United States would view as a threat to its own security any attempt further to impose European political systems or sovereignty upon the republics of the American continents. The core idea of the Monroe Doctrine—that the new lands of this hemisphere must remain free from outside intervention in order to pursue their own destinies in peace—today endures more vitally than ever. But the nature of the threats, enemies, and solutions have changed markedly in 160 years.

The beneficiary nations of the CBI are widely divergent in cultures, histories, languages, economies, and governments. But they share some common characteristics: Most are failing economically; they are increasingly oriented economically, politically, and socially to the United States—and together they form our southern border. Too long has this country failed adequately to comprehend our national interests in this integrated region, and to take full advantage of the mutual opportunities greater cooperation offers. These interests are profoundly important.

In a region suffering a history of conflict, the 15 recently emergent nations of the Caribbean Basin offer in their nascent states a tempting target for Soviet trouble-making. The announcement last Wednesday of the Soviet aid package to Grenada, the express purpose of which is to abrogate the historic Western ties of that island nation, provides a timely example of a real concern for our borders, our sea lanes, and the Panama Canal.

The United States has great economic ties to the region. Despite their colonial past, the CBI countries import more from the United States than any other country. Last year this amounted to over $6 billion—double what we imported from them, excluding petroleum. U.S. direct investment reached nearly $10 billion in 1981. We import over 90 percent of our industrial requirements of bauxite and alumina from the Caribbean countries, and rely on them to a significant degree for nickel. It seems clear that the region offers a vast new market for American products, if only greater economic and political stability can be brought about there.

Besides economic and security interests, the United States is bound by an increasing web of social ties with the Caribbean Basin countries. Some estimate that, excluding Mexicans, over 250,000 illegal immigrants now enter the United States yearly from the countries of the Caribbean Sea and Central America. Their desperate desire to seek political or economic emancipation in this country is perhaps matched only in magnitude by the strain on the services of our National and State Governments provide them once they are here. I note that for the entire region in fiscal year 1982 the United States targeted about $475 million in developmental aid; the Federal Government and the State of Florida have spent over twice that on Cuban and Haitian refugees since the Mariel boatlift.

The ability of the United States to exploit these increasingly strong ties to the Caribbean Basin countries rests on their own stability. As the nations of Central America struggle to end armed conflict among themselves and with Communist guerillas, as the Caribbean nations attempt to restructure their economies away from centuries of dependency on transfers from their former colonial sovereigns, an historic opportunity presents itself to the United States to aid in placing them on a firm, permanent path to growth and stability. The President's Caribbean Basin Initiative embodies a sound plan to that end.

THE CARIBBEAN BASIN INITIATIVE: A SOUND DEVELOPMENT PLAN

The CBI comprises trade, aid, and investment incentives in an integrated plan to foster market-oriented growth among the beneficiary nations. I am especially pleased to note that the plan is not only integrated in its U.S. contribution, but also in international participation—Canada, Mexico, Venezuela, and Colombia all will chip in to assist their neighbors in getting to their feet. The market opportunities created by the trade and tax incentives, together with the aid necessary to restructure debt and build essential infrastructure, constitute an unparalled opportunity for self-help and permanent improvement.

Any bold plan such as the CBI strikes across new ground that must be carefully surveyed before proceeding. I will listen especially closely to testimony on the effects of the one-way free trade area on import-sensitive U.S. industries. I understand that but a very small percentage of current U.S. imports in these articles originate in CBI countries. Yet, U.S. industries may have legitimate cause for concern in some cases with region's potential, so we will want to ensure that adequate attention has been given to safeguard their interests.

In the area of tax policy, too, the CBI raises new and difficult issues. The extension of the investment tax credit for overseas development may be justified for a limited time by the tremendous need evinced in these circumstances, but we will want to safeguard carefully against its abuse. Further, one may fairly question whether a capital-intensive development tool is the best one to offer to regions of high and endemic unemployment. I know the treasury reviewed many alternatives, and I look forward today to hearing why they chose the ITC as the best incentive.

THE CBI—A PLAN OF LIBERTY

In noting the large numbers of immigrants from the Caribbean countries, I recall the words enshrined on the Statute of Liberty that we have long proclaimed to the world:

Give me your tired, your poor
Your huddled masses yearning to breathe free
The wretched refuse of your teeming shore.
Send these, the homeless, temptest-tost to me,
I lift my lamp beside the golden door.

Some wonder if this longstanding offer is now too generous! But we have been immeasurably enriched as a Nation for it. We are proud to continue to be the beacon of liberty for the world.

The peoples of the Caribbean, however, do not want to leave their homelands to find that liberty. They know that—given the opportunity—their indigenous skills, industry, and entrepreneurial talents provide the basis for creating havens of peace and prosperity at home. The integrated, market-oriented plan of the President will provide the milieu in which their talents will thrive.

I hope that we can find a way to resolve any difficulties in the manner proposed to implement the CBI, so that we can soon embark with these countries on a new era of joint growth, prosperity, and peace. The Caribbean Basin Initiative can be the new lamp of liberty by which we lead them in fulfilling this high purpose.

DESCRIPTION OF TAX PROVISIONS OF S. 2237
THE CARIBBEAN BASIN ECONOMIC RECOVERY ACT

SCHEDULED FOR A HEARING

Before the

COMMITTEE ON FINANCE

ON AUGUST 2, 1982

Prepared for the Use of the

COMMITTEE ON FINANCE

By the Staff of the

JOINT COMMITTEE ON TAXATION

July 30, 1982

JCX - 34 -82

INTRODUCTION

The Senate Committee on Finance has scheduled a public hearing on August 2, 1982, on S. 2237, the Caribbean Basin Economic Recovery Act of 1982 (introduced by Senators Dole, Percy, and Danforth). This bill embodies the Administration's Caribbean Basin Initiative, and would provide economic benefits to certain Caribbean Basin countries through direct foreign aid grants, through trade assistance (including discretionary tariff reductions), and through tax investment incentives. The bill would also extend certain tax investment incentives to effectively tax-exempt persons investing in Puerto Rico, the U. S. Virgin Islands, and the other U. S. possessions.

This document, prepared in connection with the hearing on S. 2237, contains a description of the tax provisions of the bill (Title III). This document does not describe the trade assistance provisions, including discretionary tariff reductions (in Title I), or the direct foreign aid grants (in Title II).

The first part of the document is a summary of the bill's tax provisions. The second part is a more detailed description of those provisions, including present law, issues, and effective dates. The third part presents estimates of the revenue effects of those provisions.

In the House, Mr. Michel, for himself and others, introduced an identical bill, H.R. 5900. The Subcommittee on Trade of the Committee on Ways and Means held hearings on H.R. 5900 on March 17, 23, 24, and 25, 1982. The Subcommittee has reported certain portions of the bill, but did not have jurisdiction to report Title III.

I. SUMMARY OF THE BILL'S TAX PROVISIONS

Under present law, the investment tax credit and the Accelerated Cost Recovery System (ACRS) of writing off capital investment are generally available only for certain tangible depreciable property used predominantly in the United States. The bill would extend the benefits of the investment tax credit to investment in qualifying Caribbean Basin countries (certain countries that the President designates and that agree to exchange tax information with the United States). These benefits could pass through to U.S. shareholders of certain investing foreign corporations.

In addition, the bill would generally extend the benefits of the investment tax credit and one-half of ACRS to investment in U.S. possessions by certain U.S. corporations that are effectively exempt from U.S. tax. These benefits would pass through to certain U.S. shareholders. None of the bill's tax investment incentives could be the subject of a safe-harbor lease.

The bill also would generally allocate U.S. excise taxes on all rum imported into the United States to Puerto Rico and the U.S. Virgin Islands.

II. DESCRIPTION OF TAX PROVISIONS OF S. 2237 (The Caribbean Basin Economic Recovery Act)

A. Present Law

1. Rum excise taxes

The Internal Revenue Code imposes an excise tax on rum. Taxes collected under the Internal Revenue Code on rum produced in Puerto Rico or the U.S. Virgin Islands and transported to the United States (less the estimated amount necessary for payment of refunds and drawbacks) are paid to Puerto Rico or the Virgin Islands, respectively. Rum produced in Puerto Rico and the U.S. Virgin Islands enters the United States duty free.

2. Investment tax credit

For certain tangible depreciable property with a useful life of three years or more, taxpayers can claim, in addition to depreciation deductions, an investment tax credit that can consist of several elements. The regular investment credit can amount to as much as ten percent of the cost of the property. An additional investment credit of up to one and one-half percent (ESOP credit) is available if certain requirements concerning the operation of an employee stock ownership plan are met. An energy investment credit is available in addition to the regular and ESOP credits for certain energy property. With specific exceptions, buildings and their structural components do not qualify for these credits.

Property used predominantly outside the United States generally is not eligible for the tax benefits of the investment tax credit or the Accelerated Cost Recovery System (ACRS). Existing Treasury Regulations define predominant use outside the United States to mean physical location outside the United States for over one-half of the taxable year.

The investment credit is available only to the person that places the property in service (or, in certain cases, to persons who contract with that person). Corporate shareholders generally cannot take an investment credit for the investments of their corporation.

If a taxpayer makes an early disposition of property for which he took an investment credit, part of the credit is recaptured. Recapture also occurs if the taxpayer uses the property for which he took a credit predominantly outside the United States in any taxable year prior to the end of the recapture period.

3. Unapproved treaty credits

As explained above, the investment tax credit is generally not allowed for property used abroad.

In the 1960's, income tax treaties were signed with three countries, Brazil, Israel, and Thailand, that included limited extensions of the U.S. investment tax credit to certain investments in those countries. The Senate did not approve any of these extensions of the credit. The Senate reserved on the Brazilian credit after the Foreign Relations Committee urged postponement of consideration of a credit for foreign investment "until such time as the United States is able to put its political and economic houses in order. And the Committee wishes to make it clear that until that time arrives, it does not expect to give sympathetic consideration to any proposal designed to allow a tax credit for overseas investments by United States citizens."

Under the proposed treaty provisions, the investment tax credit would have been targeted so as to be available only for property used in certain businesses. The Brazilian treaty, for example, would have allowed the credit only for investments in "a qualified trade or business" in Brazil, which meant an activity using at least 80 percent of its assets in and deriving at least 80 percent of its gross income from a list of specific trades and business.

The rejected Brazilian treaty explicitly conditioned the credit on exclusive use of the property in Brazil. Moreover, the credit under each of the proposed treaties could not exceed the amount of U.S. property that the company acquired during the current year and the preceding year.

4. Possessions system of taxation

Certain U.S. corporations that do business primarily in Puerto Rico, the U.S. Virgin Islands, and the other U.S. possessions are effectively exempt from U.S. taxation on certain income (secs. 934 and 936). The Senate-passed version of H.R. 4961, the Tax Equity and Fiscal Responsibility Act of 1982, would restrict this effective exemption as it applies to passive investment income and to income from intangibles. Individual residents of the possessions are also generally exempt from U.S. taxation (secs. 931, 932, 933 and 934).

Property used predominantly in Puerto Rico, the U.S. Virgin Islands, or the other U.S. possessions is eligible for the investment tax credit and ACRS if the taxpayer does not qualify for the special tax rules for the possessions described above (secs. 931, 932, 933 and 936).

5. Safe-harbor leasing

Under the Economic Recovery Tax Act of 1981, a person who has acquired and will use certain tangible personal property can, in effect, sell some of the tax benefits associated with the property to another person, while the seller retains all the other benefits and burdens of ownership. These tax benefits include the investment tax credit and ACRS deductions.

6. Deferral

In general, income earned by a foreign corporation owned wholly or partially by U.S. shareholders is not subject to U.S. taxation until the U.S. shareholders receive that income in the form of dividends. This treatment is generally known as "deferral" of tax on foreign income. The shareholders of these corporations do not get the benefits of rapid cost recovery, an investment tax credit, or other tax benefits.

B. Issues

1. Should Congress use the revenue laws to encourage overseas investment by U.S. companies?

2. Is it appropriate to give tax credits for foreign investment that will yield income that may benefit from tax deferral or even (because of foreign tax credits) effective tax exemption?

3. Should Congress grant a credit when foreign multinational corporations use U.S. subsidiaries to invest in the Caribbean Basin instead of investing directly?

4. Should Congress give a credit for all investment in a designated country or should it target a credit at certain industries to avoid runaway plants or to encourage only certain activities?

5. Should foreign investment benefit from the ESOP credit and the energy credit?

6. Should the investment credit and ACRS provisions be extended to investment in Puerto Rico and other possessions by corporations effectively exempt from tax?

7. Should revenues attributable to excise taxes on rum from all countries be paid to Puerto Rico and the Virgin Islands?

C. Explanation of Tax Provisions

1. Rum excise taxes

All excise taxes collected at the current tax rates on rum imported into the United States from any country (less the estimated amount necessary for payment of refunds and drawbacks) would be paid over to the treasuries of Puerto Rico and the U.S. Virgin Islands. The amount per proof gallon paid over could not exceed the amount per proof gallon which would have been paid over if the rum had been produced in Puerto Rico or the U.S. Virgin Islands. The Secretary of the Treasury would prescribe by regulations a formula for the division of these tax collections between Puerto Rico and the U.S. Virgin Islands.

2. Extension of the investment tax credit to qualifying Caribbean Basin countries

In general

The bill would extend the investment tax credit to certain investments in property used predominantly in qualifying Caribbean Basin countries. The credit would generally be available for investments in property eligible (except for its location) under present law for the credit. The credit would be available only for property placed in service during the five-year period beginning after the date of enactment.

If during a taxable year the Caribbean Basin property for which a taxpayer took the investment credit were used predominantly outside one or more qualifying Caribbean Basin countries or the United States, the credit would be subject to the general investment credit recapture rules. However, recapture would not occur solely because the country in which the property is used ceases to be a qualifying country (because the President terminates the designation or because of termination of an exchange of information agreement).

For the purpose of depreciation deductions, the bill would treat Caribbean Basin property as property used outside the United States. Therefore, use of Caribbean Basin property would not entitle the taxpayer to the benefits of the Accelerated Cost Recovery System.

Qualifying Caribbean Basin country

The bill would apply only to property used predominantly in a qualifying Caribbean Basin country. Qualifying countries are those among certain enumerated countries and territories 2/ located in the

---

2/ The countries and territories are: Anguilla, Antigua and Barbuda, the Bahamas, Barbados, Belize, Costa Rica, Cuba, Dominica, the Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, Panama, Saint Lucia, Saint Vincent and the Grenadines, Surinam, Trinidad and Tobago, the Cayman Islands, Montserrat, the Netherlands Antilles, Saint Christoper-Nevis, Turks and Caicos Islands, and the British Virgin Islands. The bill defines country to include overseas dependent territories and possessions. Successor political entities of the enumerated countries and territories would be eligible for the benefits of the bill.

Caribbean and Central America that (1) the President designates as beneficiaries of the bill, and (2) that become parties to bilateral executive agreements with the United States providing for the exchange of tax information between the United States and the other country.

In determining whether to designate any country a beneficiary country under this Act, the President is to take into account a variety of factors, including an expression by the country of its desire to be so designated, the economic conditions in the country, the living standards of its inhabitants and any other economic factors that he deems appropriate, and the degree to which the country follows certain accepted rules of international trade. No one of these factors alone, however, is sufficient to require or to prevent designation. Before the President designates any country as a beneficiary country for purposes of the bill, he must notify the House of Representatives and the Senate of his intention to make the designation, together with the considerations entering into his decision.

Notwithstanding these factors, the bill provides four kinds of countries that the President generally cannot designate as beneficiary countries: Communist countries, countries that seize property of U.S. persons, countries that refuse to honor certain international arbitral awards, and countries that favor products of other developed countries over U.S. products.

The President may terminate designation of a country as a beneficiary country, but only if at least sixty days before such termination, he has notified the House of Representatives and the Senate and has notified such country of his intention to terminate such designation, together with the considerations entering into such decision. The President must terminate an existing designation (after complying with the notification requirements above) if he determines that, because of changed circumstances, a country is no longer eligible for beneficiary country status.

Exchange of information agreement

In order to qualify for the tax benefits provided by the bill, the bill requires not only presidential designation of the country but also an agreement providing for the exchange of tax information with the United States.

The bill authorizes the Secretary or his delegate to negotiate and conclude an agreement for the exchange of information with any beneficiary country. An exchange of information agreement is to provide for the exchange of such information, not limited to information concerning nationals or residents of the United States or the beneficiary country, as may be necessary and appropriate to carry out and enforce the tax laws of the United States and the beneficiary country, including information which may otherwise be subject to nondisclosure provisions of the local law of the beneficiary country such as provisions respecting bank secrecy and bearer shares. The exchange of information agreement is to be terminable by either country on reasonable notice and is to provide that information received by either country will be disclosed only to persons or authorities (including courts and administrative bodies) involved in the assessment, collection, or determination of appeals in respect of taxes of the United States or the beneficiary country. An exchange of information agreement will generally become effective on signature. The text of the agreement must be transmitted to Congress not later than sixty days after signature under the Case Act (1 U.S.C. section 112(b)).

Pass-through to U.S. shareholders

The investment credit would be available for property used by a branch of a U.S. corporation. The bill would not, however, directly permit the credit for property used by a foreign corporation. To create an investment incentive for investors who use a foreign corporation, however, the bill would deem a pro rata share of the otherwise available investment credit to be attributable to U.S. shareholders who own 5 percent or more of a foreign corporation that invests in qualifying Caribbean Basin property.

This "pass-through" of the credit to U.S. shareholders would be limited, however. The credit passed through to a U.S. shareholder could not exceed the shareholder's post-enactment net additional equity investment in the foreign corporation. Reinvested retained earnings of the foreign corporation thus would not qualify as additional investment. This rule would prevent allowance of the investment credit for the reinvestment of earnings that are free of U.S. tax until such earnings are repatriated in the form of dividends (and then subject to U.S. tax).

The bill would require the Secretary to prescribe regulations relating to the pass-through of the credit. Such regulations are to include at-risk rules and recapture rules similar to those now in effect for subchapter S corporations (such as the rule requiring recapture when a shareholder who took a credit disposes of subchapter S stock).

3. Investment Incentive Provisions Relating to U.S. Possessions

The bill would generally extend the investment tax credit and the Accelerated Cost Recovery System to property used by section 936 companies and other effectively tax-exempt persons in Puerto Rico and the other possessions. Because U.S. corporations (including section 936 companies) operating in Puerto Rico, the U.S. Virgin Islands, and the other possessions that are effectively free of U.S. tax would be unable to use these tax benefits, the bill would provide for a pass-through of the investment tax credit and fifty percent of the cost recovery deductions attributable to property owned by such corporations to certain corporations that together own 80 percent or more of the stock of such effectively tax-exempt corporations. Thus, a U.S. corporation that is a member of an affiliated group that includes the effectively tax-exempt corporation (but for special rules excluding the effectively tax-exempt corporation from an affiliated group) would be allowed the investment tax credit and fifty percent of the ACRS deductions attributable to the investment of the effectively tax-exempt corporation.

4. Safe-harbor Leasing

The bill would prevent the safe harbor leasing (under section 168(f)(8)) of tax benefits from extension of the investment tax credit to Caribbean Basin property or from extension of the investment tax credit and ACRS to the possessions.

D. Effective date

The extension of the investment tax credit to qualifying Caribbean Basin property would apply to property placed in service after the date of enactment. Property placed in service 5 years after the date of enactment (or thereafter) would not be eligible for the credit.

11-310 O—82——2

III. ESTIMATE OF REVENUE EFFECT

Proposal	1982 2/	1983	1984	1985	1986	1987
	Fiscal Year (In millions of dollars)					
1. Payment of excise taxes collected on rum to Puerto Rico and U.S. Virgin Islands	-0	-20	-20	-24	-27	-33
2. Extension of ITC to Caribbean Basin property 1/	-0	-25	-52	-56	-61	-55 3/
3. Extension of ITC and ACRS to persons engaged in trade or business in Puerto Rico or possessions.	-8	-30	-56	-83	-118	-147
Total revenue effect	-8	-75	-123	-163	-206	-235

1/ Estimate based on Treasury Department estimate for 1980. The forecast assumes 8 percent annual growth.

2/ Assumes effective as of October 1, 1982.

3/ Assumes expiration date of October 1, 1987.

II

97TH CONGRESS
2D SESSION

S. 2237

To promote economic revitalization and facilitate expansion of economic opportunity in the Caribbean Basin region.

IN THE SENATE OF THE UNITED STATES

MARCH 18 (legislative day, FEBRUARY 22), 1982

Mr. DOLE (for himself, Mr. PERCY, and Mr. DANFORTH) (by request) introduced the following bill; which was read twice and referred to the Committee on Finance

MAY 5 (legislative day, APRIL 13), 1982

Ordered referred jointly to the Committee on Finance and the Committee on Foreign Relations, provided that the Foreign Relations Committee is authorized to consider only title II of the bill and the Committee on Finance is authorized to consider titles I, II, III, and IV of the bill

---

A BILL

To promote economic revitalization and facilitate expansion of economic opportunity in the Caribbean Basin region.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Caribbean Basin Economic Recovery Act".

TITLE I—DUTY-FREE TREATMENT

SEC. 101. AUTHORITY TO GRANT DUTY-FREE TREATMENT.

The President may proclaim duty-free treatment for all eligible articles from any beneficiary country in accordance with the provisions in this title.

SEC. 102. BENEFICIARY COUNTRY.

(a)(1) For purposes of this Act, the term "beneficiary country" means any country in subsection (b) with respect to which there is in effect a proclamation by the President designating such country as a beneficiary country for purposes of this title. Before the President designates any country as a beneficiary country for purposes of this Act, he shall notify the House of Representatives and the Senate of his intention to make such designation, together with the considerations entering into such decision.

(2) If the President has designated any country as a beneficiary country for purposes of this Act, he shall not terminate such designation (either by issuing a proclamation for that purpose or by issuing a proclamation which has the effect of terminating such designation) unless, at least sixty days before such termination, he has notified the House of Representatives and the Senate and has notified such country of his intention to terminate such designation, together with the considerations entering into such decision.

(3) For purposes of this title, the term "country" means any foreign country, or any overseas dependent territory or possession of a foreign country.

(b) In designating countries as "beneficiary countries" under this Act, the President shall consider only the following countries and territories or successor political entities:

Anguilla
Antigua and Barbuda
Bahamas, The
Barbados
Belize
Costa Rica
Cuba
Dominica
Dominican Republic
El Salvador
Grenada
Guatemala
Guyana
Haiti
Honduras
Jamaica
Nicaragua
Panama
Saint Lucia
Saint Vincent and the Grenadines
Surinam
Trinidad and Tobago
Cayman Islands
Montserrat
Netherlands Antilles
Saint Christopher-Nevis
Turks and Caicos Islands
Virgin Islands, British

In addition, the President shall not designate any country a beneficiary country under this Act—

(1) if such country is a Communist country;

(2) if such country—

(A) has nationalized, expropriated, or otherwise seized ownership or control of property owned by a United States citizen or by a corporation, partnership, or association which is 50 per centum or more beneficially owned by United States citizens,

(B) has taken steps to repudiate or nullify an existing contract or agreement with a United States citizen or a corporation, partnership, or association which is 50 per centum or more beneficially owned by United States citizens, the effect of which is to nationalize, expropriate, or otherwise seize ownership or control of property so owned, or

(C) has imposed or enforced taxes or other exactions, restrictive maintenance or operational conditions, or other measures with respect to property so owned, the effect of which is to nationalize, expropriate, or otherwise seize ownership or control of such property,

unless—

(D) the President determines that—

(i) prompt, adequate, and effective compensation has been or is being made to such citizen, corporation, partnership, or association,

(ii) good-faith negotiations to provide prompt, adequate, and effective compensation under the applicable provisions of international law are in progress, or such country is otherwise taking steps to discharge its obligations under international law with respect to such citizen, corporation, partnership, or association, or

(iii) a dispute involving such citizen, corporation, partnership, or association over compensation for such a seizure has been submitted to arbitration under the provisions of the Convention for the Settlement of Investment Disputes, or in another mutually agreed upon forum, and

promptly furnishes a copy of such determination to the Senate and House of Representatives;

(3) if such country fails to act in good faith in recognizing as binding or in enforcing arbitral awards in favor of United States citizens or a corporation, partnership or association which is 50 per centum or more beneficially owned by United States citizens, which have been made by arbitrators appointed for each case or by permanent arbitral bodies to which the parties involved have submitted their dispute; or

(4) if such country affords preferential treatment to the products of a developed country, other than the United States, which has, or is likely to have, a significant adverse effect on United States commerce, unless the President has received assurances satisfactory to

him that such preferential treatment will be eliminated or that action will be taken to assure that there will be no such significant adverse effect, and he reports those assurances to the Congress.

Paragraphs (1), (2), and (3) shall not prevent the designation of any country as a beneficiary country under this Act if the President determines that such designation will be in the national economic or security interest of the United States and reports such determination to the Congress with his reasons therefor.

(c) In determining whether to designate any country a beneficiary country under this Act, the President shall take into account—

(1) an expression by such country of its desire to be so designated;

(2) the economic conditions in such country, the living standards of its inhabitants, and any other economic factors which he deems appropriate;

(3) the extent to which such country has assured the United States it will provide equitable and reasonable access to the markets and basic commodity resources of such country;

(4) the degree to which such country follows the accepted rules of international trade provided for under the General Agreement of Tariffs and Trade, as well

as applicable trade agreements approved under section 2(a) of the Trade Agreements Act of 1979;

(5) the degree to which such country uses export subsidies or imposes export performance requirements or local content requirements which distort international trade;

(6) the degree to which the trade policies of such country as they relate to other beneficiary countries are contributing to the revitalization of the region;

(7) the degree to which such country is undertaking self-help measures to promote its own economic development; and

(8) the degree to which workers in such country are afforded reasonable workplace conditions and enjoy the right to organize and bargain collectively.

(d) General headnote 3(a) to the Tariff Schedules of the United States (19 U.S.C. 1202) (relating to products of insular possessions) is amended by adding at the end thereof the following paragraph:

"(iv) Subject to the provisions in section 103 of the Caribbean Basin Economic Recovery Act, articles which are imported from insular possessions of the United States shall receive duty-free treatment no less favorable than the treatment afforded such articles when they are imported from a beneficiary country under such Act.".

(e) The President shall, after complying with the requirements of subsection (a)(2), withdraw or suspend the designation of any country as a beneficiary country if, after such designation, he determines that as the result of changed circumstances such country would be barred from designation as a beneficiary country under subsection (b).

SEC. 103. ELIGIBLE ARTICLES.

(a) Unless otherwise excluded from eligibility by this title, the duty-free treatment provided under this title shall apply to any article if—

(1) that article is imported directly from a beneficiary country into the customs territory of the United States; and

(2) the sum of (A) the cost or value of the materials produced in a beneficiary country or two or more beneficiary countries, plus (B) the direct costs of processing operations performed in such beneficiary country or countries is not less than 25 per centum of the appraised value of such article at the time of its entry into the customs territory of the United States. For purposes of determining this percentage the term "beneficiary country" shall include the Commonwealth of

Puerto Rico and the Virgin Islands of the United States.

The Secretary of the Treasury shall prescribe such regulations as may be necessary to carry out this subsection.

(b) The duty-free treatment provided under this title shall not apply to textile and apparel articles which are subject to textile agreements.

(c) For such period as there is in effect a proclamation issued by the President pursuant to the authority vested in him by section 22 of the Agricultural Adjustment Act, as amended (7 U.S.C. 624), to protect a price-support program for sugar beets and sugar cane, the importation and duty-free treatment of sugars, sirups, and molasses classified under items 155.20 and 155.30 of the Tariff Schedules of the United States shall be governed in the following manner:

(A)(1) For all beneficiary countries, except those subject to subparagraphs A(2) and B below, duty-free treatment shall be provided in the same manner as it is provided pursuant to title V of the Trade Act of 1974 (19 U.S.C. 2461 et seq.), at the time of enactment of this title: *Provided, however,* That the President upon the recommendation of the Secretary of Agriculutre, may suspend or adjust upward the value limitation provided for in section 504(c)(1) of the Trade Act of 1974 on the duty-free treatment afforded to beneficiary countries under this section if he finds that such adjustment will not interfere with the price support program for sugar beets and sugar cane and is appropriate in light of market conditions.

(2) As an alternative to subparagraph (A)(1), the President may, at the request of a beneficiary country not subject to subparagraph (B) and upon the recommendation of the Secretary of Agriculture, elect to permit sugar, sirups, and molasses from that country to enter duty-free during a calendar year subject to quantitative limitations to be established by the President on the quantity of sugar, sirups, and molasses entered from that country.

(B) For the following countries whose exports of sugar, sirups, and molasses in 1981 were not eligible for duty-free treatment because of the operation of section 504(c) of the Trade Act of 1974, the quantity of sugar, sirups, and molasses which may enter the customs territory of the United States in any calendar year shall be limited to no more than the quantity specified below:

	Metric tons
Dominican Republic	780,000
Guatemala	210,000
Panama	160,000

Such sugar, sirups, and molasses shall be admitted free of duty, except as provided for in subparagraph (C).

(C) The President, upon the recommendation of the Secretary of Agriculture, may suspend or adjust upward the quantitative limitations imposed under subparagraphs A(2) and B if he determines such action will not interfere with the price-support program for sugar beets and sugar cane and is appropriate in light of market conditions. The President, upon the recommendation of the Secretary of Agriculture, may suspend the duty-free treatment for all or part of the quantity of sugar, sirups, and molasses permitted to be entered by subparagraphs A(2) and B if such action is necessary to protect the price-support program for sugar beets and sugar cane.

(d)(1) The President may by proclamation suspend the duty-free treatment provided by this title with respect to any eligible article and may proclaim a duty rate for such article if such action is proclaimed pursuant to section 203 of the Trade Act of 1974 or section 232 of the Trade Expansion Act of 1962. Any proclamation issue pursuant to section 203 of the Trade Act of 1974 in effect when duty-free treatment pursuant to section 101 of this title is proclaimed shall remain in effect until modified or terminated.

(2) In any report by the International Trade Commission to the President under section 201(d)(1) of the Trade Act of 1974 regarding any article for which duty-free treatment

has been proclaimed by the President pursuant to this title, the Commission shall state whether and to what extent its findings and recommendations apply to such article when imported from beneficiary countries. With respect to any article which is subject to import relief in effect at the time duty-free treatment is proclaimed pursuant to section 101 of this title, the President may reduce or terminate the application of such import relief to imports from beneficiary countries prior to its otherwise scheduled date pursuant to the criteria and procedures of subsections (h) and (i) of section 203 of the Trade Act of 1974.

(3) For purposes of subsections (a) and (c) of section 203 of the Trade Act of 1974, as amended, the suspension of the duty-free treatment provided by this title shall be treated as an increase in duty.

(4) No proclamation which provides solely for a suspension referred to in paragraph (3) of this subsection with respect to any article shall be made under subsections (a) and (c) of section 203 of the Trade Act of 1974 unless the United States International Trade Commission, in addition to making an affirmative determination with respect to such article under section 201(b) of the Trade Act of 1974, determines in the course of its investigation under section 201(b) that the serious injury (or threat thereof) substantially caused by imports to the domestic industry producing a like or di-

rectly competitive article results from the duty-free treatment provided by this title.

(e)(1) If a petition is filed with the International Trade Commission pursuant to the provisions of section 201 of the Trade Act of 1974 regarding a perishable product and alleging injury from imports from beneficiary countries, then the petition may also be filed with the Secretary of Agriculture with a request that emergency relief be granted pursuant to paragraph (3) of this subsection with respect to such article.

(2) Within fourteen days after the filing of a petition under paragraph (1) of this subsection—

(A) if the Secretary of Agriculture has reason to believe that a perishable product from a beneficiary country is being imported into the United States in such increased quantities as to be a substantial cause of serious injury, or thc threat thereof, to the domestic industry producing a perishable product like or directly competitive with the imported product and that emergency action is warranted, he shall advise the President and recommend that the President take emergency action; or

(B) the Secretary of Agriculture shall publish a notice of his determination not to recommend the imposition of emergency action and so advise the petitioner.

(3) Within seven days after the President receives a recommendation from the Secretary of Agriculture to take emergency action pursuant to subparagraph 2 of this subsection, he shall issue a proclamation withdrawing the duty-free treatment provided by this title or publish a notice of his determination not to take emergency action.

(4) The emergency action provided by subparagraph 3 of this subsection shall cease to apply (1) upon the proclamation of import relief pursuant to section 202(a)(1) of the Trade Act of 1974, (2) on the day the President makes a determination pursuant to section 203(b)(2) not to impose import relief, (3) in the event of a report of the United States International Trade Commission containing a negative finding, on the day the Commission's report is submitted to the President, or (4) whenever the President determines that because of changed circumstances such relief is no longer warranted.

(5) For purposes of this subsection the term "perishable product" shall mean—

(A) fresh or chilled vegetables provided for in the Tariff Schedule of the United States items 135.10 through 138.42;

(B) fresh mushrooms provided for in the Tariff Schedule of the United States item 144.10;

(C) fresh fruit provided for in the Tariff Schedule of the United States items 146.10, 146.20, 146.30, 146.50 through 146.62, 146.90, 146.91, 147.03 through 147.33, 147.50 through 149.21, and 149.50; and

(D) fresh cut flowers provided for in the Tariff Schedule of the United States items 192.17, 192.18, and 192.21.

(f) No proclamation issued pursuant to this title shall affect fees imposed pursuant to section 22 of the Agricultural Adjustment Act (7 U.S.C. 624).

SEC. 104. MEASURES FOR PUERTO RICO AND UNITED STATES INSULAR POSSESSIONS.

(a) Item 813.31 of schedule 8 of the Tariff Schedule of the United States (19 U.S.C. 1202) is amended by striking out "4 liters" and inserting in lieu thereof "5 liters", and by inserting after "United States,", "and not more than 4 liters of which shall have been produced elsewhere than in such insular possession,".

(b) If the sum of the amounts of taxes covered into the treasuries of Puerto Rico and the United States Virgin Islands pursuant to section 302 of this Act is reduced below the amount that would have been covered over if the imported rum had been produced in Puerto Rico or the United States Virgin Islands, then the President shall consider com-

11-310 O—82——3

pensatory measures and, in this regard, may withdraw the duty-free treatment on rum provided by this title. The President shall submit a report to the Congress on the measures he takes.

(c) Section 1112 of the Trade Agreements Act of 1979 (19 U.S.C. 2582) is repealed.

(d) No action pursuant to this title may affect any tariff duty imposed by the Legislature of Puerto Rico pursuant to section 319 of the Tariff Act of 1930 (19 U.S.C. 1319) on coffee imported into Puerto Rico.

(e) For purposes of chapter 1 of title II of the Trade Act of 1974, the term industry shall include producers located in the United States insular possessions.

SEC. 105. TIME LIMIT TO ACT.

No duty-free treatment under this Act shall remain in effect after the date which is twelve years after the date of the enactment of this Act.

TITLE II—EMERGENCY ECONOMIC ASSISTANCE

SEC. 201. EMERGENCY ECONOMIC ASSISTANCE.

There are authorized to be appropriated for the fiscal year 1982, in addition to funds otherwise available for such purposes, $350,000,000 to carry out the purposes of chapter 4 of part II of the Foreign Assistance Act of 1961, as amended, for countries in the Caribbean Basin (which shall include the states of Central America).

TITLE III—TAX PROVISIONS

SEC. 301. AMENDMENT OF INTERNAL REVENUE CODE OF 1954.

Except as otherwise expressly provided, whenever in this title an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1954.

SEC. 301. PAYMENT OF EXCISE TAXES COLLECTED ON RUM TO PUERTO RICO AND THE UNITED STATES VIRGIN ISLANDS.

(a) IN GENERAL.—Section 7652 is amended by inserting after subsection (b) the following new subsection:

"(c) SHIPMENTS OF RUM TO THE UNITED STATES.—

"(1) DISPOSITION OF EXCISE TAXES ON RUM.—All taxes collected under section 5001 on rum imported into the United States (less the estimated amount necessary for payment of refunds and drawbacks) shall be covered into the treasuries of Puerto Rico and the Virgin Islands: *Provided, however,* That the amount of such taxes covered over to Puerto Rico and the Virgin Islands under this subsection shall not exceed the taxes which would be covered over if the rum had been produced in Puerto Rico or the Virgin Islands and transported to the United States. The Secretary shall by regulation prescribe a formula for the division of such tax collections between Puerto Rico and the Virgin Islands and the timing and methods for covering over of such tax collections.

"(2) RUM.—The term 'rum' means alcoholic spirits classified under items 169.13 and 169.14 of the Tariff Schedules of the United States (19 U.S.C. 1202)."

SEC. 303. EXTENSION OF INVESTMENT TAX CREDIT FOR CARIBBEAN BASIN PROPERTY.

(a) CREDIT FOR CARIBBEAN BASIN PROPERTY.—Section 48(a)(2)(B) is amended by inserting immediately after subparagraph (xi) the following new subparagraph:

"(xii) Caribbean Basin property (within the meaning of subsection (q)) which is placed in service after (the date of enactment) and before (5 years after the date of enactment).".

(b) DEFINITION OF CARIBBEAN BASIN PROPERTY.—Section 48 is amended by redesignating subsection (q) as subsection (r) and by inserting after subsection (p) the following new subsection:

"(q) CARIBBEAN BASIN PROPERTY DEFINED.—For purposes of this section—

"(1) IN GENERAL.—The term 'Caribbean Basin property' means section 38 property (as defined in section 38(a)(1)), which is used predominantly in a qualifying country (as defined in paragraph (2)) or any two or more qualifying countries, other than property which has previously been used predominantly in a beneficiary country (as defined in section 102(a)(1) of the Caribbean Basin Economic Recovery Act).

"(2) QUALIFYING COUNTRY.—The term 'qualifying country' means any beneficiary country (as defined in section 102(a)(1) of the Caribbean Basin Economic Recovery Act), which is a party to a bilateral executive agreement with the United States providing for the exchange of information between the United States and the beneficiary country.

"(3) AUTHORITY TO CONCLUDE EXCHANGE OF INFORMATION AGREEMENTS.—The Secretary or his delegate is authorized to negotiate and conclude an agreement for the exchange of information with any beneficiary country (as defined in section 102(a)(1) of the Caribbean Basin Economic Recovery Act). An exchange of information agreement shall provide for the exchange of such information, not limited to information concerning nationals or residents of the United States or the beneficiary country, as may be necessary and appropriate to carry out and enforce the tax laws of the United States and the beneficiary country, including information which may otherwise be subject to nondisclosure provisions of the local law of the beneficiary country such as provisions respecting bank secrecy and bearer shares. The exchange of information agreement shall be terminable by either country on reasonable notice and shall provide that information received by either country will be disclosed only to persons or authorities (including courts and administrative bodies) involved in the assessment, collection, or determination of appeals in respect of taxes of the United States or the beneficiary country.".

(c) CARIBBEAN BASIN PROPERTY USED PREDOMINANTLY OUTSIDE UNITED STATES FOR PURPOSES OF ACCELERATED COST RECOVERY SYSTEM.—Section 168(f)(2)(D) is amended by inserting after the words "under subparagraph (B)" the words "other than clause (xii)".

(d) CREDIT MAY NOT BE USED BY FOREIGN CORPORATION.—Section 882(b) is amended by redesignating paragraph (4) as paragraph (5) and by inserting after paragraph (3) the following new paragraph:

"(4) INVESTMENT CREDIT NOT ALLOWED FOR CARIBBEAN BASIN PROPERTY.—Foreign corporations shall not be allowed the section 38 credit with respect to Caribbean Basin property (as defined in section 38(q)(1).".

SEC. 304. PASSTHROUGH OF CREDIT TO 5 PERCENT UNITED STATES SHAREHOLDER OF FOREIGN CORPORATION.

Section 46 is amended by inserting after subsection (h) the following new subsection:

"(i) SPECIAL RULES FOR FOREIGN CORPORATIONS INVESTING IN CARIBBEAN BASIN PROPERTY.—

"(1) IN GENERAL.—A United States person who owns 5 percent or more in value of the outstanding stock of a foreign corporation shall be demed for purposes of section 38 to have made a qualified investment (within the meaning of subsection (c)) or qualified progress expenditures (within the meaning of subsection (d)) in an amount equal to the lesser of—

"(A) the shareholder's pro rata share of the foreign corportion's aggregate qualified investment in Caribbean Basin property (without regard to the taxable year, ending after (the date of enactment), in which such property was placed in service and without regard to adjustments to the basis of such property under section 1016(a)(2)), determined on the last day of the taxable year of the foreign corporation ending in or on the last day of the shareholder's taxable year, or

"(B) an amount equal to the excess of—

"(i) the shareholder's basis in the stock of the foreign corporation at the end of the shareholder's taxable year (without regard to adjustments to the basis of the shareholder's stock under section 551 or section 961, or as a consequence of a consent dividend under section 565), over

"(ii) the shareholder's basis in the stock of the foreign corporation on (the date of enactment),

reduced by the amount of qualified investment of the foreign corporation with respect to which the shareholder has previously used an investment credit under section 38.

"(2) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this subsection, including regulations providing rules for the application of section 47 (relating to certain dispositions, etc., of section 38 property) and section 46(c)(8) (relating to at risk limitations) with respect to the shareholder's qualified investment under this subsection in a manner similar to their application to shareholders of an electing small business corporation (within the meaning of section 1371).".

SEC. 305. RECAPTURE OF CREDIT.

Section 47(a) is amended by inserting after paragraph (8) the following new paragraph:

"(9) SPECIAL RULES FOR CARIBBEAN BASIN PROPERTY.—If during any taxable year any Caribbean Basin property (as defined in section 48(q)) taken into account in determining qualified investment under section 46(c) or section 46(d) is used predominantly outside a qualifying country (as defined in section 48(q)(2)) or two or more qualifying countries, or the United States, such property shall cease to be Caribbean Basin property in such taxable year. Property shall not cease to be Caribbean Basin property because a qualifying country in which the property is used ceases to be a qualifying country.".

SEC. 306. EXTENSION OF INVESTMENT TAX CREDIT AND ACCELERATED COST RECOVERY TO PROPERTY OWNED OR USED BY CERTAIN CORPORATIONS AND CITIZENS ENGAGED IN TRADE OR BUSINESS IN PUERTO RICO OR OTHER POSSESSIONS.

(a) EXTENSION OF INVESTMENT TAX CREDIT AND ACCELERATED COST RECOVERY.—Section 48(a)(2)(B)(vii) is amended to read as follows:

"(vii) any property which is owned by a domestic corporation or by a United States citizen and which is used predominantly in a possession of the United States by such a corporation or a citizen, or by a corporation created or organized in, or under the law of, a possession of the United States;".

(b) PASSTHROUGH OF INVESTMENT TAX CREDIT AND ACCELERATED COST RECOVERY DEDUCTIONS TO CERTAIN SHAREHOLDERS OF DOMESTIC CORPORATIONS ELECTING UNDER SECTION 936 OR ENTITLED TO BENEFITS OF SECTION 934(b).—

(1) SECTION 936 CORPORATIONS.—Section 936 is amended by inserting after subsection (g) the following new subsection (h):

"(h) PASSTHROUGH OF CERTAIN TAX ATTRIBUTES.—

"(1) IN GENERAL.—If a corporation with respect to which an election provided in subsection (a) is in effect for the taxable year (the 'electing corporation') would be a member of an affiliated group under the rules of section 1504(a) (without regard to section 1504(b)(4)), then a corporation which would be a member of such affiliated group and which owns common stock of the electing corporation shall be allowed as a credit against the tax imposed by this chapter its pro rata share of the amount determined under section 38 and as a deduction its pro rata share of 50 percent of the amount determined under section 168 with respect to property owned by the electing corporation. A corporation with respect to which an election provided in subsection (a) is in effect for the taxable year shall not be allowed a credit under section 38 or a deduction under section 168 if one or more of the shareholders of such corporation qualify for the benefits of this paragraph.

"(2) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this subsection, including but not limited to regulations providing rules for the application of section 46(c)(8) (relating to at risk limitations on qualifying investment in section 38 property), section 47 (relating to certain dispositions, etc., of section 38 property), section 465 (relating to at risk limitations on deductions), section 1245 (relating to certain dispositions of depreciable property) and section 1250 (relating to certain dispositions of depreciable realty)."

(2) SECTION 934(b) CORPORATIONS.—Section 934 is amended by inserting after subsection (d) the following new subsection (e):

"(e) PASSTHROUGH OF CERTAIN TAX ATTRIBUTES TO CERTAIN DOMESTIC CORPORATIONS.—

"(1) IN GENERAL.—If a domestic 934(b) corporation would be a member of an affiliated group under the rules of section 1504(a) (without regard to section 1504(b)(8)), then a corporation which would be a member of such affiliated group and which owns common stock of the domestic 934(b) corporation shall be allowed as a credit against the tax imposed by this chapter its pro rata share of the amount determined under section 38 and as a deduction its pro rata share of 50 percent of the amount determined under section 168 with respect to property owned by the domestic 934(b) corporation. A corporation which is a domestic 934(b) corporation for the taxable year shall not be allowed a credit under section 38 or a deduction under section 168 if one or more of the shareholders of such corporation qualify for the benefits of this paragraph.

"(2) DOMESTIC 934(b) CORPORATION.—The term 'domestic 934(b) corporation' means a domestic corporation satisfying the conditions of paragraph (1) and paragraph (2) of section 934(b) for the taxable year.

"(3) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this subsection, including but not limited to regulations providing rules for the application of section 46(c)(8) (relating to at risk limitations on qualifying investment in section 38 property), section 465 (relating to at risk limitations on deductions), section 1245 (relating to certain dispositions of depreciable property) and section 1250 (relating to certain dispositions of depreciable realty).".

(3) TECHNICAL AMENDMENTS.—Section 1504(b) is amended by inserting after paragraph (7) the following new paragraph:

"(8) A domestic 934(b) corporation, as defined in section 934(e)(2).".

SEC. 307. EXCEPTIONS TO DEFINITION OF QUALIFIED LEASED PROPERTY.

Section 168(f)(8)(D) is amended by striking out "(other than a qualified rehabilitated building within the meaning of section 48(g)(1))", by striking out the period after the words "under section 103(a)" and inserting the word ", and", and by inserting immediately thereafter the following new clause:

"(iv) which is not—

"(I) a qualified rehabilitated building within the meaning of section 48(g)(1), "(II) Caribbean Basin property within the meaning of section 48(q)(1), or

"(III) property which is owned by a domestic corporation which has an election in effect under section 936 or a domestic 934(b) corporation, as defined in section 934(e)(2), or which is used by such a corporation or by a United States citizen entitled to the benefits of section 931, 932, 933, or 934(c), or by a corporation created or organized in, or under the law of, a possession of the United States.".

O

The CHAIRMAN. I think Secretary Regan is on his way, but I know that you have a 9:30 appointment at the White House, Mr. Secretary.

We appreciate very much your appearance before the Senate Finance Committee. As I understand it, this is your first since confirmation before a Senate committee. It underscores the importance of this legislation, and we certainly appreciate your rearranging your schedule to be here. The hearing was on, then off, and now it's on again.

We hope to have a second hearing so that those witnesses who were notified that the hearing had been postponed will be able to participate. But we do have some very important witnesses today.

I have an opening statement which I ask will be made a part of the record, and we are pleased now to hear Secretary Shultz.

STATEMENT OF HON. GEORGE P. SHULTZ, SECRETARY OF STATE

Secretary SHULTZ. Thank you, Mr. Chairman. I appreciate your putting me in her early.

This is my first appearance before a Senate committee or formally before any committee of the Congress since my confirmation, and in a sense I suppose it is fitting to be here because this is sort of old home week in these surroundings for me. I have spent many hours in this room with you and your colleagues.

I might say that it's a pleasure to say "Mr. Chairman" and look at Senator Robert Dole, and that's a first for me in this committee hearing room.

You are perfectly correct that my appearance here signifies the great importance the President attaches to the legislation that you have before you.

We all know that we live in a troubled world. We also know that the United States as a great nation must face up to these troubles and do its part to try to resolve them. I am here to testify today about an innovative and creative program which this administration is proposing to address the problems of our immediate neighbors to the South—the Caribbean Basin.

The security and well-being of the countries of the Caribbean and Central America are vital to the United States and to the Western Hemisphere as a whole. Their crisis today is many-sided, and involves both emergency and long-term problems. Our response is comprehensive and integrated, with regard to the problems and needs of individual countries, and also with regard to the contributions they and their other neighbors—Canada, Columbia, Mexico, and Venezuela—can make to resolve their problems. The President's initiative is an outstanding example of the steadiness and seriousness with which we view our relations with the other countries of the Americas.

When I learned of the President's initiative, I was in the private sector. At the time, I thought it was the right medicine. Since then I have seen that the problems are even more severe than I imagined. The program is not just good medicine, it is vital.

Mr. Chairman, we are talking about an area which is of crucial and immediate concern to our own self-interest. You need only to glance at a map to see that it is indeed our third border. If this area should be dominated by regimes hostile to us or if it becomes the scene of prolonged social upheavals, the impact on our own economy and society would indeed be of major proportions. Let me give just a few examples of how closely we are linked with the basin countries.

First, the sea lanes of the Caribbean are a lifeline of our trade—one-half of all our imports and exports pass through this region, including three-quarters of our oil imports.

Second, many of our people have roots in the area. One out of five people alive today who were born in Barbados live in the United States; the same is true for 1 out of 6 Jamaicans, and 1 out of 10 Salvadorans.

Third, given proximity and existing ties, the United States is a natural safeheaven for those fleeing social and economic pressure in the basin. These pressures create illegal immigration, itself a great problem for us. The basin area is now the second largest place of origin of illegal immigration.

Fourth, the Caribbean is now a $7 billion market for our exports.

Clearly then, we have an enormous stake in helping our neighbors achieve economic and political stability.

When President Reagan announced this program on February 24 before the Organization of American States, and when he transmitted this legislation to the Congress on March 17, he stressed that there is an economic crisis in the Caribbean Basin that threatens our own well-being and the peace and prosperity of the whole hemisphere. Mr. Chairman, that crisis has not gone away. In fact it has deepened. These small countries to our south are acutely vulnerable to developments in the world economy. Over the last few years they have seen dramatic reversals in their terms of trade, as their oil and other imports have increased in price and their traditional exports have fallen in price. The worldwide slowdown in economic growth has choked off opportunities for developing new types of exports to the world market, as well as cut into tourism which has been an important source of foreign exchange for them. As a result they are not able to earn enough foreign exchange to pay for the imports they need. The productive base in these countries, already inadequate to provide the jobs and products which their populations need, is being eroded by acute shortages of spare parts, and by the lack of raw materials and agricultural inputs.

A result of the crisis is a rise in unemployment and underemployment which is truly of major proportions—5 to 40 percent in many countries. Added to the evils of inflation, spiraling foreign debt and major balance-of-payments problems, it amounts to an almost classic recipe for social discontent and loss of confidence in the future.

This is the kind of environment upon which the extreme and violent minorities on both sides of the political spectrum can feed and produce major political social upheavals. It is an extraordinary tribute to the strength of democratic and humane traditions in the region that the vast majority of countries in the area are governed by democratically elected governments. In the past 5 months since the time that the President announced the program on February 24, elections have been held and new democratic governments chosen in six countries.

Many of the countries in this region have strong new leadership which is committed to adjusting the structure of their economies to reflect the hard new economic realities which they face. Add this sentence to line 16 after "realities which they face." The CBI is aimed at helping these countries to implement the painful but unavoidable reforms which can reverse the deterioration and lead to self sustaining growth. The CBI's purpose is to help restore the faith of their peoples in their countries' ability to provide them with a better future.

The program which the administration has proposed to the Congress for the Caribbean Basin addresses the enormous economic problems in the area in a comprehensive way. It is an innovative program in several ways. First, it integrates three types of economic programs—trade opportunities, investment incentives, and aid. Each of these elements provides significant benefits. Even more importantly, each element reinforces the other. The emergency financial assistance will help countries cope with their short-term balance-of-payments and liquidity problems. the one-way free trade area and the investment tax credits will give long-term incentives for new investment to promote self-sustaining growth. The program as a whole is greater than the sum of its parts. We need to maintain the integrity of each element to insure the effectiveness of the program as a whole.

Second, this program is part of a major multilateral effort, particularly by Canada, Colombia, Mexico, and Venezuela. These four countries have already implemented improved programs of financial and technical assistance, as well as expanded new trade opportunities to the countries of this region. Their effort is impressive. It is particularly impressive since three of these countries are still developing countries themselves. Their effort is based on the perception—which we all share—that we cannot ignore the events in our neighborhood, and that, to insure our own long-term prosperity and stability, we must assist our neighbors to achieve the same goals themselves.

Third, this program was developed out of a continuing process of consultations with the countries of the region. It reflects their own priorities and assessments of their particular needs, as well as their own efforts and programs. It is thus very much a cooperative program and not a unilateral plan imposed by Washington.

The program was also developed in close cooperation with Puerto Rico and the Virgin Islands and includes important features to assure that the territories share fully in the renewed economic growth of the region. For this reason, Mr. Chairman, I am deeply concerned about the potential impact on the territories of the curtailment of tax benefits recently adopted by this committee.

Let me spend just a few minutes on the trade and investment provisions in the legislation since these aspects are of particular interest to the committee.

We already provide liberal entry into our market for much of the trade from basin countries. But there are several important limitations. First, some of the duties which remain in place are in sectors of special interest to the basin countries. And in other cases the duties which remain in place limit expansion into new and non-traditional export products. Second, a large part of the basin's present duty-free entry into our market comes from the generalized system of preferences. However, the GSP has ceilings on duty-free benefits, as well as product exclusions; these were established in the program largely for global reasons that are not relevant to the Caribbean Basin. These limitations, and the whole complex structure of the GSP, limits the ability of small and relatively inexperienced traders—which is often the case for the Caribbean Basin—to take advantage of the GSP opportunities.

The administration's proposal asks for duty-free treatment for all products from the basin except textiles and apparel. The proposal includes safeguards to provide relief to any U.S. industry seriously injured by increased basin imports. There are also provisions to protect the U.S. domestic sugar price support program where necessary. The proposal also includes a requirement for minimum local content to insure that the free trade area does not encourage mere "pass-through" operations involving little value added in the basin countries.

This proposal is a carefully balanced package which provides major benefits to the Caribbean Basin countries, but also safeguards essential U.S. economic interests. It is dramatic and simple. While the economic benefits of the free trade area are long-term, the offer of an unimpeded U.S. market to those small nations is a major political commitment with immediate impact. It will strongly encourage sound internal economic policies in order to take full advantage of this offer. This proposal relies on the market and not on artificial incentives. It eliminates duty barriers to our market, and thus it allows the enormous size of the U.S. market in itself to provide enormous and continuing incentives for investment, innovation and risk-taking in the Caribbean Basin.

The administration is also proposing extension of the domestic tax credit to the Caribbean Basin. U.S. investors would receive a credit up to 10 percent of the amount of new fixed asset investment in the basin countries. The system would operate in much the same fashion as does the credit granted domestically. We would grant this benefit for a 5-year period to countries which enter into executive agreements with the United States for tax administration purposes.

This incentive, particularly when combined with the free trade proposal, should have an important impact on U.S. investors' perceptions about the Caribbean Basin. In some cases the risks of investment in the basin have been perceived as high, especially when coupled with the start-up costs of developing new markets and marketing channels, training new local employees and managers, and overcoming transportation bottlenecks. The tax incentive promises a better return to U.S. business which undertakes investment in the basin, and thus should increase investment there.

Mr. Chairman, in my testimony, which I ask that you insert in the record in full—and I have been skipping around a little here—there are some sections on the trade and investment provisions which are of particular interest to the committee and on which my colleagues in the Treasury and USTR and State will be testifying to shortly. I will skip over those particulars since they will bring them out.

I know that there is some concern that these proposals will damage production and employment opportunities in the United States. I can understand that concern, particularly given the period of slow economic growth and budget austerity through which we are passing at present. But I believe these concerns are grossly exaggerated.

First, we are such a big economy compared to those of the Caribbean Basin that what looms large in the basin will still have a small impact here. The combined GNP of all the Caribbean Basin countries amounts to less than 2 percent of our GNP. Our imports from the Caribbean Basin account for less than 4 percent of our total imports worldwide. The imports that would be affected by our free trade proposal are at present less than one-half of 1 percent of our total imports, or two-hundredths of 1 percent, 0.002, of our GNP, so it's hardly a big item.

I really do not expect that this region will have a serious negative impact on our producers and workers even if imports from that region should grow at explosive rates. Nevertheless, as I noted before, we have proposed in the legislation certain safeguard provisions to deal with those cases where serious injury might occur or might be threatened.

Second, I also want to emphasize that the long-term benefits of this initiative are far greater than the short-term costs. The region already buys nearly $7 billion of goods from the United States. A stable, democratic, and prosperous Caribbean Basin means a much larger and growing market for our exports, and consequently significantly greater job opportunities for our workers.

Mr. Chairman, I appreciate that the legislation we have proposed is complex and controversial. I appreciate that the legislative process on such a bill is necessarily time consuming and complicated. I also appreciate that the Congress is carrying a heavy burden of important, indeed urgent, legislative work. Nevertheless, I urge that this piece of legislation be given priority attention. The needs of the Caribbean are urgent. The United States has an opportunity to play a constructive role in helping these countries shape a better future. That opportunity is there now, but it will not be there forever. We cannot afford to wait. We have already waited too long.

Our security and our credibility are at stake. The tragic war in the South Atlantic has led some hemispheric friends—mistakenly, I believe—to challenge our commitment to them as a partner. We must show them that this is not so. We must do our part. If not, the problems will escalate, not only in the Caribbean Basin but elsewhere in the hemisphere as well.

Mr. Chairman, I ask for your own strong leadership as well as the leadership and commitment of all of the distinguished members of this committee to insure rapid passage of this program.

I thank you, Mr. Chairman.

[The prepared statement of Secretary George P. Shultz follows:]

STATEMENT OF

GEORGE P. SHULTZ

SECRETARY OF STATE

BEFORE THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

WASHINGTON, D. C.

AUGUST 2, 1982

Mr. Chairman, distinguished members of the Committee: I am pleased to appear at this Committee again.

Mr. Chairman, we all know we live in a troubled world. We also know that the United States as a great nation must face up to these troubles and do its part to try to resolve them. I am here to testify today about an innovative and creative program which this Administration is proposing to address the problems of our immediate neighbors to the South - the Caribbean Basin.

The security and well-being of the countries of the Caribbean and Central America are vital to the United States and to the Western Hemisphere as a whole. Their crisis today is many-sided, and involves both emergency and long-term problems. Our response is comprehensive and integrated, with regard to the problems and needs of individual countries, and also with regard to the contributions they and their other neighbors -- Canada, Colombia, Mexico, and Venezuela -- can make to resolve their problems. The President's initiative is an outstanding example of the steadiness and seriousness with which we view our relations with the other countries of the Americas.

When I learned of the President's initiative, I was in the private sector. At the time, I thought it was the right medicine. Since then I have seen that the problems are even more severe than I imagined. The program is not just good medicine, it is vital.

Mr. Chairman, we are talking about an area which is of crucial and immediate concern to our own self-interest. You need only glance at a map to see that it is indeed our third border. If this area should be dominated by regimes hostile to us or if it becomes the scene of prolonged social upheavals, the impact on our own economy and society would indeed be of major proportions. Let me give just a few examples of how closely we are linked with the Basin countries. First, the sea lanes of the Caribbean are a lifeline

of our trade -- one-half of all our imports and exports pass through this region, including three-quarters of our oil imports. Secondly, many of our people have roots in the area. One out of five people alive today who were born in Barbados live in the United States; the same is true for one out of six Jamaicans, and one out of ten Salvadoran Third, given proximity and existing ties, the United States is a natural safehaven for those fleeing social and economic pressures in the Basin. These pressures create illegal immigration, itself a great problem for us. The Basin area is now the second largest place of origin of illegal immigration. Fourth, the Caribbean is now a $7 billion market.
Clearly then, we have an enormous stake in helping our neighbors achieve economic and political stability.

When President Reagan announced this program on February 24 before the Organization of American States, and when he transmitted this legislation to the Congress on March 17, he stressed that there is an economic crisis in the Caribbean Basin that threatened our own well-being and the peace and prosperity of the whole hemisphere. Mr. Chairman, that crisis has not gone away. In fact it has deepened. These small countries to our South are acutely vulnerable to developments in the world economy. Over the last few years they have seen dramatic reversals in their terms of trade, as their oil and other imports have increased in price and their traditional exports have fallen in price. The world-wide slow-down in economic growth has choked off opportunities for developing new types of exports to the world market, as well as cut into tourism which has been an important source of foreign exchange for them. As a result they are not able to earn enough foreign exchange to pay for the imports they need. The productive base in these countries, already inadequate to provide the jobs and products which their populations need, is being eroded by acute shortages of spare parts, and by the lack of raw materials and agricultural inputs. The result is a rise in unemployment and underemployment which is of truly major proportions -- 25 to 40 percent in many countries. Added to the evils of inflation, spiraling foreign debt and major balance-of-payments problems, it amounts to an almost classic recipe for social discontent and loss of confidence in the future.

This is the kind of environment upon which the extreme and violent minorities on both sides of the political spectrum can feed and produce major political and social upheavals. It is an extraordinary tribute to the strength of democratic and humane traditions in the region that the vast majority of countries in the area are governed by democratically elected governments. In the last five months, since the time that the President announced the program on February 24, elections have been held and new democratic governments chosen in six countries. Many of the countries in this region have strong new leadership which is committed to adjusting the structure of their economies to reflect the hard new economic realities which they face. The CBI is aimed at helping these countries to implement the painful but unavoidable reforms which can reverse the deterioration and lead to self sustaining growth. The CBI's purpose is to help restore the faith of their peoples in their countries' ability to provide them with a better future.

The program which the Administration has proposed to the Congress for the Caribbean Basin addresses the enormous economic problems in the area in a comprehensive way. It is an innovative program in several ways. First it integrates three types of economic programs -- trade opportunities, investment incentives, and aid. Each of these elements provides significant benefits. Even more importantly, each element reinforces the other. The emergency financial assistance will help countries cope with their short-term balance-of-payments and liquidity problems. The one-way free trade area and the investment tax credit will give long-term incentives for new investment to promote self-sustaining growth. The program as a whole is greater than the sum of its parts. We need to maintain the integrity of each element to ensure the effectiveness of the program as a whole.

Secondly, this program is part of a major multilateral effort, particularly by Canada, Colombia, Mexico and Venezuela. These four countries have already implemented improved programs of financial and technical assistance, as well as expanded new trade opportunities to the countries of this region. Their effort is impressive. It is particularly impressive since three of these countries are still developing countries themselves. Their effort is based on the perception -- which we all share--that we cannot ignore the events in our neighborhood, and that -- to ensure our own long-term prosperity and stability -- we must assist our neighbors to achieve the same goals themselves.

Thirdly, this program was developed out of a continuing process of consultations with the countries in the region. It reflects their own priorities and assessments of their particular needs, as well as their own efforts and programs. It is thus very much a cooperative program and not a unilateral plan imposed by Washington.

The program was also developed in close cooperation with Puerto Rico and the Virgin Islands and includes important features to assure that the territories share fully in the renewed economic growth in the region. For this reason I am deeply concerned about the potential impact on the territories of the curtailment of tax benefits recently adopted by this committee.

Let me spend just a few minutes on the trade and investment provisions in the legislation since these aspects are of particular interest to the Committee.

We already provide liberal entry into our market for much of the trade from Basin countries. But there are several important limitations. First, some of the duties which remain in place are in sectors of special interest to the Basin countries. And in other cases the duties which remain in place limit expansion into new and non-traditional export products. Secondly, a large part of the Basin's present duty-free entry into our market comes from the Generalized System of Preferences. However, the GSP has ceilings on duty-free benefits, as well as product exclusions; these were established in the program largely for global reasons that are not relevant to the Caribbean

Basin. These limitations, and the whole complex structure of the GSP, limits the ability of small and relatively inexperienced traders -- which is often the case for the Caribbean Basin -- to take advantage of the GSP opportunities.

The Administration's proposal asks for duty-free treatment for all products from the Basin except textiles and apparel. The proposal includes safeguards to provide relief to any U.S. industry seriously injured by increased Basin imports. There are also provisions to protect the U.S. domestic sugar price support program where necessary. The proposal also includes a requirement for minimum local content to ensure that the free trade area does not encourage mere "pass-through" operations involving little value added in the Basin countries.

This proposal is a carefully balanced package which provides major benefits to the Caribbean Basin countries, but also safeguards essential U.S. economic interests. It is dramatic and simple. While the economic benefits of the free trade area are long-term, the offer of an unimpeded U.S. market to those small nations is a major political commitment with immediate impact. It will strongly encourage sound internal economic policies in order to take full advantage of this offer. This proposal relies on the market and not on artificial incentives. It eliminates duty barriers to our market, and thus it allows the enormous size of the U.S. market in itself to provide enormous and continuing incentives for investment, innovation and risk-taking in the Caribbean Basin.

The Administration is also proposing extension of the domestic tax credit to the Caribbean Basin. U.S. investors would receive a credit up to 10 percent of the amount of new fixed asset investment in the Basin countries. The system would operate in much the same fashion as does the credit granted domestically. We would grant this benefit for a five-year period to countries which enter into executive agreements with the United States for tax administration purposes.

This incentive, particularly when combined with the free trade proposal, should have an important impact on U.S. investors' perceptions about the Caribbean Basin. In some cases the risks of investment in the Basin have been perceived as high, especially when coupled with the start-up costs of developing new markets and marketing channels, training new local employees and managers, and overcoming transportation bottlenecks. The tax incentive promises a better return to U.S. business which undertakes investment in the Basin, and thus should increase investment there.

I know that there is some concern that these proposals will damage production and employment opportunities in the U.S. I can understand that concern, particularly given the period of slow economic growth and budget austerity through which we are passing at present. But I believe these concerns are exaggerated. First, we are such a big economy compared to those of the Caribbean Basin that what looms large in the Basin will still have a small impact here. The combined GNP of all of the Caribbean Basin countries amounts to less than two percent of our GNP. Our imports from the Caribbean Basin account for less than four percent of our total imports world-wide. The imports that would be affected by our free trade proposal are at present less than one-half of one percent of our total imports -- or two hundreths of one percent (.0002) of our GNP. I really do not expect that this region will have a serious negative impact on our producers and workers even if imports from that region should grow at explosive rates. Nevertheless, as I noted before, we have proposed in the legislation certain safeguard provisions to deal with those cases where serious injury might occur or might be threatened.

Secondly, I also want to emphasize that the long-term benefits of this initiative are far greater than the short-term costs. The region already buys nearly $7 billion of goods from the U.S. A stable, democratic and prosperous Caribbean Basin means a much larger and growing market for our exports, and consequently significantly greater job opportunities for our workers.

Mr. Chairman, I appreciate that the legislation we have proposed is complex and controversial. I appreciate that the legislative process on such a bill is necessarily time-consuming and complicated. I also appreciate that the Congress is carrying a heavy burden of important, indeed urgent, legislative work. Nevertheless, I urge that this piece of legislation be given priority attention. The needs of the Caribbean Basin are urgent. The U.S. has an opportunity to play a constructive role in helping these countries shape a better future. That opportunity is there now, but it will not be there forever. We cannot afford to wait. We have already waited too long.

Our security and our credibility are at stake. The tragic war in the South Atlantic has led some hemispheric friends -- mistakenly I believe -- to challenge our commitment to them as a partner. We must show them this is not so. We must do our part. If we do not, the problems will escalate, not only in the Caribbean Basin, but elsewhere in the hemisphere as well.

Mr. Chairman, I ask for your own strong leadership, as well as the leadership and commitment of all the distinguished members of this Committee to ensure rapid passage of this program.

The CHAIRMAN. Mr. Secretary, I thank you very much. I believe there is a great deal of interest in this matter on the committee. Unfortunately, I think many members thought the hearing has been postponed, but after our conversation on Friday we were able to reschedule it. We tried to notify everyone. Senator Heinz has had a particular interest in this legislation.

I explained earlier that the Secretary must be at the White House by 9:30, but I understand Assistant Secretary Enders and others will be here to answer questions.

Secretary SHULTZ. They are here, I think.

The CHAIRMAN. And Ambassador Macdonald, and Tim McNamar of Treasury. I think Don Regan is on his way. So we will have questions.

John, do you have a statement you wish to make?

Senator HEINZ. I have a statement that I ask unanimous consent be put in the record. I would like to join you, Mr. Chairman, in welcoming our new Secretary of State here to the Senate Finance Committee.

Mr. Secretary, we are indeed pleased to have you. I think most of the members of the committee share, in general, your very articulate explanation of the need for a Caribbean Basin initiative. It is far reaching, it is farsighted. There are one or two parts of it that I have some reservations about, but I won't detain you because I know of your appointment with the Commander in Chief.

Secretary SHULTZ. Thank you.

The CHAIRMAN. Thank you, Mr. Secretary.

Secretary SHULTZ. Thank you, Mr. Chairman.

The CHAIRMAN. Is Secretary Regan hiding? Maybe he's putting out another forecast. [Laughter]

If it's all right with Ambassador Macdonald, we could go ahead and start your testimony, then if it is all right we could interrupt if Secretary Regan comes in.

Ambassador MACDONALD. Fine.

The CHAIRMAN. Tom, do you want to come up, too?

Ambassador MACDONALD. We are going to testify as a panel, Mr. Chairman.

Mr. Chairman, I would like to apologize, first, for Ambassador Brock, whose wife is sick. He wanted to be with her and therefore was unable to make this hearing.

The CHAIRMAN. Let me say that I know of his interest, because he called me to see if we couldn't expedite hearings. It was largely in response to that call that we were able to schedule the hearing today.

Ambassador MACDONALD. He was most appreciative of that. Both of you have worked hard on this.

STATEMENT OF HON. DAVID R. MACDONALD, DEPUTY U.S. TRADE REPRESENTATIVE

Ambassador MACDONALD. The President's commitment to a peaceful and prosperous hemisphere is clearly demonstrated by the Caribbean Basin Initiative. It is a bold and innovative plan for the long-term economic regeneration of the region. It is a program which is long on meaningful but cost-conscious economic incentives and short on the discredited giveaway programs of the development tradition.

The initiative is a tailored response to the unique social and political environment which prevails in the Caribbean and Central America. It is also tailored to the role most appropriately played by the United States as a partner in the search for economic stability; that is, as a source of capital and know-how for the small and too-often insulated economies of the region and as a receptive marketplace for Caribbean exports.

The initiative very clearly looks to the entrepreneur, whether from the United States, the Caribbean, or from third countries, as the source of the energy needed to revitalize the basin's economies.

We look to the self-interested entrepreneur to respond to: One, our extension of duty-free market access and an improved situation for textile and apparel products from the basin——

The CHAIRMAN. Mr. Ambassador, Secretary Regan is just arriving. If it is satisfactory, perhaps he could present his testimony; because I know he is headed for the same meeting.

Secretary REGAN. Good morning, Mr. Chairman.

The CHAIRMAN. Mr. Secretary, we will give you time to sort of get organized there, but I think you may be headed for the same place as Secretary Shultz so we wanted to put you on early. I understand, there will be someone from Treasury here to respond to questions.

We would be happy to have your statement now.

Secretary REGAN. Thank you, Mr. Chairman.

I appreciate the opportunity to make a statement, and Mark Leland, the Assistant Secretary for International Affairs from Treasury, will be here to answer the questions that this committee might have.

The CHAIRMAN. Let me say, as I indicated to Secretary Shultz, I think the fact that both you and Secretary Shultz have appeared underscores the President's commitment to this program and the high priority the administration places on this program. We appreciate very much your being here.

Secretary REGAN. Thank you, Mr. Chairman.

STATEMENT OF HON. DONALD T. REGAN, SECRETARY OF THE TREASURY

Secretary REGAN. I am pleased to have this opportunity to testify in support of the President's Caribbean Basin Economic Recovery Act. This act represents a bold new approach in our relations with the countries of the Caribbean Basin, which include the countries in Central America and the islands of the Caribbean.

The President's program is based on an economic partnership, not economic dependence. I stress the word "partnership." This program calls for contributions from the Caribbean Basin countries as well as from the United States. The program will provide substantial economic benefits to the countries of the Caribbean. They will enhance the security of the United States and will, over the longer term, provide benefits for our economy as well.

The goal of this legislation is to foster economic development in the countries of the region by helping to establish the foundation for stable and sustained future economic growth. Our major objective is to help these countries build their private sectors so that each country generates new economic activity, creating additional employment opportunities in the region.

The countries of the Caribbean Basin are faced with a series of economic problems. In recent years increases in the costs of imported energy, food, and capital goods have exceeded price increases for exports of the primary products—coffee, sugar, bauxite—on which the region is heavily dependent. The Caribbean Basin has been especially hard hit by the escalation in energy costs since 1974. The total cost of imported oil has increased by more than sixfold. This has given rise to serious balance-of-payments difficulties and forced greater recourse to foreign borrowing. High interest rates in international markets have intensified the need for foreign exchange and have made it more difficult to borrow abroad.

Most of the area's economies are also heavily dependent on the public sector to stimulate growth. The private sector is relatively weak and has been made even more so by the depressed economic conditions widely prevalent in recent years. In some cases inappropriate development strategies have aggravated these problems.

Let me give you several concrete examples of what has happened in these countries. Prior to last year Jamaica went through 7 consecutive years of negative economic growth with per capita income falling by some 25 percent. Haiti, the poorest country in the Western Hemisphere, still has an annual per capita income of less than $300. The war in El Salvador has reduced that country's GNP by 25 percent over the past 3 years. Such conditions create enormous hardships in the region.

These countries also have limited market sizes. No country in the region has more than 8 million people. Possibilities for intraregional trade are also limited. Thus, markets for their products must be found beyond their borders if industrial growth is to be possible. Because of its size, proximity, and traditional ties to the Caribbean, the U.S. market is the logical choice.

The economic difficulties I have alluded to, combined in some instances with serious underlying social and political divisions, threaten the stability of the region and create conditions which invite exploitation by countries that seek political advantage through subversion and terrorism.

The three-pronged program of trade and tax incentives and supplemental aid which has evolved out of consultations with our Caribbean neighbors contains specific responses to the problems which we have jointly identified. The efforts of the Caribbean Basin countries and the United States called for by this program will promote long-term economic growth and stability in the region, to the benefit of all the participants in the working partnership envisioned in this legislation.

BENEFITS FOR THE UNITED STATES

The administration's proposal is not a one-way street. Obviously it is in our own best security interests to help insure that our neighbors are healthy and prosperous. But there are other gains as well for us. The improved access of Caribbean products to the U.S.

market promises to benefit our consumers through lower prices. Also, as the economies of the region expand, new market opportunities will also arise for United States producers.

Moreover, we expect that the Caribbean Basin countries which take advantage of this program will purchase machinery and equipment from the United States as they build their capital bases. As their economies prosper and standards of living improve, purchases from the United States will further expand, strengthening the growth of output and employment in U.S. capital goods industries.

The provisions of the legislation requiring mutual agreement to exchange information for tax administration purposes, as a condition for the extension of the tax credit will improve compliance with our tax laws—a major tax policy goal of this administration and this committee.

I would now like to discuss why the investment tax credit was chosen as an investment incentive.

To be effective, an investment incentive must cause more investment to take place in the Caribbean Basin than would otherwise occur. An incentive does this by raising the rate of return on investments, making some profitable which were previously unacceptable.

An effective incentive should also attract projects which will continue to benefit the recipient economy after the expiration of the incentive period. The incentive should promote an increase in local production and employment in the Caribbean Basin, rather than simply encourage transfers of financial or intangible assets. This can best be achieved by encouraging investment in real physical capital—the precise target of the Caribbean Basin investment tax credit.

THE PROPOSED CARIBBEAN BASIN INVESTMENT TAX CREDIT

We are proposing an unprecedented extension for 5 years of the investment tax credit to property which is used predominantly in certain Caribbean Basin countries and which would otherwise qualify for a domestic investment tax credit. This is an innovative, carefully targeted incentive for new physical investment in Caribbean Basin countries. The investment credit proposal was selected after a careful interagency review of alternative investment incentives, including tax sparing.

This proposal represents as powerful a tax incentive for investment as is feasible without disturbing the integrity of our tax system. The credit for investment in the Caribbean will not exceed that which would be available for domestic investment, yet it is a significant incentive.

A Caribbean Basin country will qualify for this benefit if, first, it has been designated by the President as a country entitled to the benefits of the act; and, second, it enters into a bilateral executive agreement with the United States for exchange of information for tax administration purposes.

The rules and limitations which apply to the allowance of the investment tax credit for property used in the United States will apply to Caribbean Basin property. The regular investment credit is generally available for up to 10 percent of the cost of tangible personal property and other tangible property, generally not including buildings or structural components, used in connection with manufacturing, production, agriculture, or certain other activities.

Under present law, however, the credit would not be available to a U.S. shareholder that makes an equity investment in a foreign corporation that invests in qualifying property. Where, for reasons of local law or accepted business practice, it is necessary that the business activity be carried on through a "host country" corporation, allowance of the credit solely with respect to property owned directly by a U.S. person would not constitute an effective investment incentive.

To surmount this problem and insure the effectiveness of the credit as an investment incentive, we have designed a pass-through mechanism which would allow the credit on a current basis to a U.S. shareholder that owns 5 percent or more in value of a foreign corporation's stock, subject to certain limitations. The principal limitation is that the amount of investment eligible for the credit cannot exceed the amount of the shareholder's additional equity investment in the corporation after the date of the act. The purpose of this limitation is to key the incentive to new equity investment, which is permanent in nature and will constitute a base for continued future growth in the Caribbean Basin economies.

The 5-year sunset provision reiterates that this is a special measure intended to provide economic assistance in an extraordinary situation. At the end of 5 years consideration may be given to an extension of the credit, possibly through tax treaties.

MEASURES FOR PUERTO RICO AND THE U.S. VIRGIN ISLANDS

To adjust for the impact of the Caribbean Basin Initiative and the Economic Recovery Tax Act of 1981, the administration is also proposing important tax incentive and revenue measures for Puerto Rico and the U.S. Virgin Islands. My discussion will focus here on present law; I will comment on the provisions of the Senate-passed Tax Equity and Fiscal Responsibility Act of 1982 which affect Puerto Rico and the Virgin Islands later in my testimony.

Special investment incentives must be provided for Puerto Rico and the Virgin Islands so that the development in the Caribbean Basin induced by this legislation does not occur at the expense of these possessions. The Economic Recovery Tax Act of 1981, which provided needed U.S. investment incentives, eroded the relative incentive to invest in Puerto Rico and the Virgin Islands that existed under prior law. Making the investment tax credit available to investment in qualifying Caribbean Basin countries will encourage investment in the Caribbean Basin, possibly to the detriment of Puerto Rico and the Virgin Islands. It is essential that Puerto Rico and the Virgin Islands share in the expected economic progress, growth, and stability in this region.

Most U.S. corporations operating in Puerto Rico and the Virgin Islands currently benefit from special provisions in the Internal Revenue Code, principally sections 936 and 934, which virtually eliminate Federal tax on income from a trade or business there. Puerto Rico and, to a certain extent, the Virgin Islands, in turn, grant tax holidays for most manufacturing operations. These corporations have not been eligible for the investment tax credit and the benefits of Accelerated Cost Recovery deductions for property used predominantly in Puerto Rico or a possession.

The proposed legislation allows these corporations the investment tax credit and ACRS deductions. Since such corporations generally pay little or no tax in the United States, they will be unable to use these tax benefits to reduce their United States tax liabilities. The proposed legislation, therefore, provides that such domestic companies will pass the investment tax credit and 50 percent of the tax benefits of ACRS to their parent corporations in the United States.

These investment incentive provisions will reduce the cost of capital and promote real economic growth in Puerto Rico and the Virgin Islands, and will restore the relative preference for investment in Puerto Rico and the Virgin Islands that existed prior to the passage of ERTA.

An important revenue source for the governments of Puerto Rico and the Virgin Islands is the transfer to them of United States excise taxes on rum produced in those islands. To maintain this revenue source, the legislation provides that excise taxes on all rum will be transferred to Puerto Rico and the Virgin Islands.

Treasury estimates that the effects of the tax provisions of the Caribbean Basin legislation will be approximately $91 million in fiscal year 1983 and will increase from $116 million in fiscal year 1984 to $181 million in 1986. In addition, the program will result in foregone tariff revenues of approximately $65 million in fiscal year 1983, and increase from approximately $71 million in fiscal year 1984 to $81 million in 1986.

MEASURES AFFECTING PUERTO RICO AND THE VIRGIN ISLANDS IN THE TAX EQUITY AND FISCAL RESPONSIBILITY ACT OF 1982

Puerto Rico and the Virgin Islands will participate in and benefit from the long-term economic development of the Caribbean Basin region fostered by this legislation. We must insure, however, that in the short-term the economies of those two islands are not harmed.

Today the Puerto Rican unemployment rate is approximately 23 percent, with no immediate prospect of decreasing. Investment in plant and equipment in 1980, after adjusting for inflation, was only one-half the value of the investment in 1970. Between 1980 and 1981, the number of contractual agreements between the Puerto Rican Economic Development Administration and potential nonlocal investors dropped sharply. This drop in new contractual agreements indicates that the number of manufacturing plants beginning operation in Puerto Rico in the immediate future is likely to fall.

A provision of the Tax Equity and Fiscal Responsibility Act of 1982 would sharply curtail the benefits of the tax exemption systems that currently apply to Puerto Rico and the Virgin Islands. We opposed that provision because it will have the unintended effect of reducing investments in Puerto Rico and the Virgin Islands, causing severe economic distress.

We have been working closely with the Puerto Rican Government and its officials for several months to develop a proposal that will curb abuses of the exemption system for Puerto Rico but will avoid imposing unnecessary economic hardship on the island. We hope that this proposal will be substituted for the provision in the Senate bill in this week's Senate-House conference.

In conclusion, Mr. Chairman, the Caribbean Basin Economic Recovery Act is a bold and imaginative package which reflects the importance we attach to economic growth and the political stability of the Caribbean Basin countries. This proposal will strengthen our partnership with the region. It explicitly recognizes the close historical, economic and strategic ties which the United States has with the Caribbean and reflects the American tradition of lending a helping hand to those in need, and of encouraging those who are trying to help themselves.

The hour is late; it is time for action. I urge you to pass this legislation without delay.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Secretary, I don't want to get into any detailed questions. We have Mr. Leland here and others whom we have questions for.

But, as I understand it, the administration would like to pass this legislation before Congress adjourns this year. Is that correct?

Secretary REGAN. That is absolutely correct, Mr. Chairman.

The CHAIRMAN. And I also understand it has been marked up by the Trade Subcommittee in the House Ways and Means Committee, but it has not been acted upon by the full committee. I am not certain what the schedule is on the House side. I know this week we are involved in the conference on the revenue and spending reduction bill. I haven't spoken to Chairman Rostenkowski about this legislation.

Secretary REGAN. Well, I would urge, Mr. Chairman, as soon as you can see it developing on your calendars that you get together with him so that we could have a bill to take to the floors of both the Chambers.

The CHAIRMAN. All right.

I think one area that we want to focus on involves the so-called tax incentives. We don't want to create another loophole like 936. We hope we can modify that section some in conference as you suggest, but we are talking about a rather costly modification. Perhaps we can find some way to pick up the revenue we would lose if in fact changes are made in that provision which then would be added in the Senate bill.

Secretary REGAN. We understand what the chairman is saying, and the Treasury would be glad to work with you to see where we could pick up these additional revenues; because we do deem it vital that the Puerto Rican situation be handled in conference this week.

The CHAIRMAN. Could I ask just one other question? It is not related to this hearing, but I think it might be helpful.

There has been a lot of talk about interest rates. It seems they are coming down, not rapidly, but there is a good chance they may drop substantially, as I understand it, in the next few months. Do you agree with that observation?

Secretary REGAN. Well, Mr. Chairman, several of the major banks in New York and Chicago have already dropped their rate to 15 percent this morning, following the lead of one of Senator Heinz' home-town banks, the Mellon Bank, on Friday, going to 15. We are very encouraged by this. This is a drop now of 1½ percentage points in 2 weeks in the prime rate.

Our Treasury bills have come down now to where, for the first time since August of 1980, long before this administration took over, Treasury bills are selling below 10 percent, in single digits. We deem it fascinating that they've come down this quickly.

If the Congress continues to act responsibly, both in this revenue measure which it will be considering this week and also in these cuts, I am certain that, as we suggested earlier in our testimony, this will be the happy result of both monetary and fiscal policies being in conjunction to bring rates down.

So I am very hopeful that the Congress will see this as justification for what they are trying to do, and bite the bullet and continue on with what they have to do over the next several weeks.

The CHAIRMAN. Well, I appreciate that. I don't mean to get off the subject, but we are going to be looking at spending reductions this week in the Senate. In addition, in the revenue measure we have the largest spending reduction, about $17.3 billion in spending reductions. That has been overlooked by some because of some of the revenue implications.

Again, we appreciate your testimony.

Senator Heinz, do you have a question?

Senator HEINZ. Just one question. It doesn't relate precisely to the Caribbean Basin Initiative, but it does relate to our policy of how we will extend the benefits of investment tax credits, ACRS, and even safe-harbor leasing. That question is: Since we are going to have a bill that deals with many of those issues for the purpose of Caribbean development, is the Treasury Department as yet close to coming up with a policy of dealing with the extent to which we should, for example, extend safe-harbor leasing to capital equipment that is imported into the United States, for example by mass transit authorities?

Secretary REGAN. I have been considering that. As you know, it is not part of the current tax bill. But I think it is something that has really puzzled us as to how far we can go with that. It is tempting, but if it results in fewer jobs in the United States we can't afford it. So we have to be very careful of one hand, and then the other.

Senator HEINZ. Well, is the Treasury Department going to come to a conclusion about what they think our policy should be in the near future?

Secretary REGAN. Yes. I can assure the Senator that we will come to a conclusion on that. We have deliberately downplayed this during the Tax Act of 1982 in an effort not to confuse the two. But as soon as that is complete we will be on this other.

Senator HEINZ. Thank you.

Secretary REGAN. Thank you, gentlemen. I appreciate your courtesies.

The CHAIRMAN. Mr. Secretary, thank you.

Mr. Leland, if tax sparing is not good for the rest of the Caribbean why is it OK for Puerto Rico? Because that is, in essence, what we have in section 936.

Mr. LELAND. Mr. Chairman, the relationship between Puerto Rico and the United States, and the Caribbean and the United States are to some extent different. I think that Puerto Rico, for example, is subject to the U.S. minimum wage which none of the rest of the world is, for that matter. Its relationship to the United States is much closer than if Puerto Rico were a foreign country.

I think the situation between Puerto Rico and the rest is so different that whatever are the tax sparing analogies of Puerto Rico, there are a wide variety of reasons because of its connections with the United States, that it is not something that you would extend to whatever foreign country, because Puerto Rico clearly is not a foreign country.

The CHAIRMAN. Well, the Secretary touched on section 936, and we are going to try to figure out some way to solve the problems with that provision. But, you know, we had all kinds of testimony. We were talking about a section of the law that provided about $100,000 in revenue lost for jobs that pay less than $15,000 in wages. It is pretty hard to justify that. We know the drug lobby is interested in this. But it seems to me it is not very efficient if it costs about $25,000 in revenue loss to create one job.

Now, how much per drug company job will we lose if the House-Senate conference adopts the so-called Treasury/Puerto Rico "compromise"?

Mr. LELAND. Well, I think, basically it is going to cut in half in the conference what the present benefits are. So, whatever the computation is on that.

I think there is not an exact computation per job, as such. Perhaps Mr. Ballentine wants to add something.

Mr. BALLENTINE. In the pharmaceutical industry tax credits per worker now average above $54,000, approximately. This should cut that in half to approximately no more than $30,000, on average.

The CHAIRMAN. Does that make any sense? I don't understand that.

Mr. BALLENTINE. Of course, you are right that that is a very high level. It is, however, when compared per job in the pharmaceutical industry. It's not a comparison to the total number of jobs created, because of course jobs are created linking with the pharmaceutical industry in Puerto Rico. That's a direct computation.

The CHAIRMAN. What about a jobs credit for the Caribbean? Would that be a good idea? Senator Heinz has strong interest in targeted jobs credits.

Mr. LELAND. In the Caribbean? Well, we considered that. In looking at that proposal, we came up with the investment tax credit. I think the problem with the jobs credit is that, primarily what it does, it is a subsidy for a job, and when you take the subsidy off you are left with the same problem. The investment tax credit allows for capital which will help promote jobs and help promote exports; whereas a job credit is just a subsidy that they would learn to live with and after 5 years it would be very difficult to remove it.

The CHAIRMAN. I just have one other question, then I will yield to my colleagues. I want to get back to the rest of your statements, too, though. I would be very happy to put those in the record and let us ask questions. I think you maybe could summarize the statements.

Mr. Enders, to be eligible for CBI, countries must be abiding by international law in resolving expropriation disputes. There are a number of such disputes outstanding; in Honduras and Panama, for example. What must a country be doing to satisfy the standards in section 102 of the bill insofar as expropriations are concerned? And, second, would any CBI countries fail these standards at this time? And, third, what is the State Department doing to resolve the disputes?

Mr. ENDERS. With regard to the first question, you may know, I think Secretary Shultz referred to it, we are now in the process of negotiating a BIT with Panama which we hope will be a model that could be applied throughout the area, particularly as regards its investment dispute provisions.

The purpose of these conditions overall, Mr. Chairman, is to provide an incentive for the creation of a climate in which the proposed tax and trade concessions could be utilized vigorously by local entrepreneurs and foreign investors.

We will be trying to make a judgment through negotiation as to how effectively the recipient country has created such a climate and whether it is likely to maintain it in the future, so that the benefits under the act are not to be accorded on an automatic basis but on a judgmental basis after negotiation.

We are actively pursuing both of the investment disputes which you raised towards a conclusion.

The CHAIRMAN. Ambassador Macdonald, I know Senator Heinz wanted to get in on this at greater length, but have you taken a position on the exceptions included in the House Ways and Means Committee Trade Subcommittee?

Ambassador MACDONALD. Yes. We oppose them, Mr. Chairman.

The CHAIRMAN. So you would also oppose the same provisions on the Senate side?

Ambassador MACDONALD. Yes, we would. We are opposed to provisions which exclude on a product-by-product basis items from the scope of the Caribbean Basin Initiative. We are certainly flexible in our willingness to attempt to provide for particular or increased safeguard mechanisms with respect to particular industries where it appears that there might be a chance of their meeting substantial additional competition. Or, even generically we could work out a——

The CHAIRMAN. I may get back to that later.

Senator Heinz?

Senator HEINZ. Yes. Thank you, Mr. Chairman, your question really leads into a number of questions I have regarding the amendment that I filed, which Senator Dole has mentioned.

I guess I would like to begin with a more general question, though. Why have you chosen—I'm not sure which of the three or four of you I should address this to—to create a separate duty-free program rather than working within the structured GSP, Generalized System of Preferences?

Ambassador Macdonald, I suspect you are the right person to ask that question of.

Ambassador MACDONALD. Yes. Well, I'll try to answer it.

We felt that GSP has some limitations that did not seem to be appropriate for this particular initiative: It can be withdrawn from 1 year to the next; it has limitations which prevent its ever being used by a foreign country which becomes too successful, quantitatively, in exporting to the United States.

In an attempt to try to balance between the protection of American industrial rights and to assist this particular area, we felt that it was better to craft a free trade practice with, where necessary, increased safeguard mechanisms.

Senator HEINZ. Well, the generalized system of preferences was developed essentially with the problems of import-sensitive industries in mind. We don't extend GSP to certain industries, certain product categories, for that very reason. And you are right, there is an annual review; you're right, there certainly are limitations in terms of volume; but very few countries ever seem to graduate. Taiwan and Korea and Hong Kong are still being serviced—rather oddly, in my judgment—by having GSP duty-free treatment.

So I think we had better get down to cases. Since about 87 percent of current exports from the Caribbean enter duty-free already under GSP, what products do you expect to see coming in duty-free from the Caribbean? Second, are those not the very products which have been excluded from GSP eligibility because of their import-sensitivity, in particular, leather products? Finally, if so, what do you propose to do about the possible ramifications for such U.S. import sensitivity, or, more specifically, what do you mean when you talk about, as you said a minute ago, "increased safeguard mechanisms"?

Ambassador MACDONALD. It is true, Senator, that 87 percent of the Caribbean imports now come in duty-free. The products that we would foresee coming in would be, hopefully, light manufactured products, products which can meet the 25-percent value added test, and which are not now being produced by the Caribbean, and yet not the subject of runaway plants from the United States.

The area is small. There are 40 million people in the entire area that we are dealing with, and we feel, therefore, that its capacity to injure the United States' industrial or agricultural base overall is not great. That doesn't mean that there won't be particular cases where a competitive situation might arise; and, as to these, we have established a speedy safeguard mechanism for perishable vegetables, perishable commodities, and I think we would be willing to work with your office in some way extending that to other products.

Senator HEINZ. Let me ask you this. I am not clear on why the administration did choose to exclude textiles and apparel from the duty-free provisions of the CBI. Textiles and apparel are labor intensive; they are import-sensitive. I know the administration knows this because they spent a lot of time in the last year or so—Ambassador Brock and Peter Murphy—negotiating a multifiber arrangement. But so are leather product industries.

The percentage of penetration of these industries ranges from 30 percent to 79 percent, with most of them being well above 50 percent in such areas as handbags, leather work gloves, leather apparel—at 79, 55, 56 percent, respectively—footwear at 60 percent, luggage at 40 percent, personal leather goods at 30 percent.

So my question is: If you treat textiles and apparel one way, why don't you extend that same exclusion principle to leather products as well?

Ambassador MACDONALD. Well, for better or for worse——

Senator HEINZ. Will we get to choose?

[Laughter.]

Ambassador MACDONALD. Some people think better, some people think worse.

Textiles are the subject of a separate regime throughout the worldwide trading system, a separate set of agreements that are now recognized by the GATT and are handled under the supervision of the GATT. No other product is.

We are not interested in seeing other products go the way of textiles. We think it would be the slow death——

Senator HEINZ. Do you mean in terms of the decline of the industry or in terms of receiving necessary protection?

Ambassador MACDONALD. In terms of the establishment of a separate series of bilateral quota restraints such as textiles have.

The imports on leather goods from the Caribbean are quite small, although the penetration on leather goods from all countries, as you point out, Senator, is quite large in some cases. Well, let me stop there.

Senator HEINZ. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Matsunaga?

Senator MATSUNAGA. Thank you, Mr. Chairman.

Ambassador Macdonald, I fully appreciate the fact that the Caribbean Basin countries are very much in need of our assistance—the economy is bad, their per capita income in some instances is less than $520 per year per capita, plus, the administration has raised high hopes in them by promise of special assistance. But we are, of course, in real trouble domestically as well, and as a Senator from Hawaii I am especially concerned that because of the tropical nature of the State of Hawaii the Caribbean Basin nations will be in direct competition, even to the point of putting our domestic industry—particularly in the agriculture, in the area of sugar, pineapple, macadamian nuts, papaya, to name a few—out of business.

That is my principal concern, and I would like very much to be able to support your proposal; but then, if it means that by supporting CBI I will be helping to put Hawaii's industry out of business, I cannot of course support your proposal.

My question to you is: What assurance can the administration make or has the administration in mind in order to insure the continuance of agricultural businesses in Hawaii?

Ambassador MACDONALD. As for sugar, Senator, may I defer to Assistant Secretary Enders, who has been deep in the sugar problem as it relates to the Caribbean?

Secretary ENDERS. Senator Matsunaga, as you know, the draft law that you have before you was designed to be consistent with our Sugar Act and with its objectives. In specific, we intended it to make possible the continued maintenance of the sugar price objectives of the act at no cost to the Treasury; that is to say that there would be no demand on the Treasury as the result of CCC loans undertaken in the sugar field.

The draft law does contain a provision under which sugar from the Caribbean area could receive duty-free treatment on entry. By that, I should be specific—the duty would be forgiven but not the fee, which is now levied on sugar coming into the country from all destinations.

However, we were concerned about two things: One, that this duty-free treatment might result in an excessive commitment on the part of the Caribbean Basin countries to sugar, a commitment which could have some long-term implications both for them and for us, on the one hand. On the other hand, it was not entirely clear whether it would be possible without either very high fees or without some cost to the U.S. Treasury to maintain the objectives of the Sugar Act unless there were also a quantitative restriction, an outside limit, on the amount of sugar that could be introduced from the area. For that reason, you will find in the act some absolute maximums for the major producers that are believed to have a capacity to increase the production of sugar substantially over what it is now—the Dominican Republic, Guatemala, and Panama, in specific.

As regards other agricultural products, the standard safeguard device would be present. Each of these is rather small-scale economies, as you know, Senator, and we think the general remarks made about the overall jeopardy to the United States being not substantial very much apply there. But in individual cases, should this occur, the safeguard mechanism is there.

Senator MATSUNAGA. And Mr. Macdonald, will you answer the rest of the question?

Ambassador MACDONALD. Well, as to other agricultural crafts, there is a special safeguard mechanism for perishable commodities that is administered by the Secretary of Agriculture and provides for I believe it is a 14-day period within which a petition may be filed and a decision is required within 14 days by him that will prevent the further application of the tariff exemption while the main safeguard procedure goes ahead. It is a little bit like, you might say, a temporary injunction protecting those kinds of crafts.

There is a provision that OPEC insurance will not cover investments in items which might threaten our industry and agricultural base. But beyond that I think we feel that we do have a problem here with an area that is not a large area, not capable of creating a major competitive threat overall, and that the normal safeguard mechanisms that we have in place for all competitive imports should protect domestic industry where it appears to be threatened by this initiative.

Senator MATSUNAGA. What sort of showing needs to be made to prove that the domestic industry is being threatened?

Ambassador MACDONALD. A showing of serious injury.

Senator MATSUNAGA. And how would you define "serious injury"?

Ambassador MACDONALD. Well, that is one of those standards that is left flexible in order to meet the individual case. The International Trade Commission defines it to fit the particular situation that faces them in a petition brought by domestic interests.

Senator MATSUNAGA. And under the CBI we would still need to go to the ITC in order to show substantial injury?

Ambassador MACDONALD. Yes, with the exception of the special safeguard mechanism that I just outlined, which goes to the Secretary of Agriculture.

Senator MATSUNAGA. My time is up. I have other questions, but I will take them on the next round.

The CHAIRMAN. Senator Byrd?

Senator BYRD. No questions, Mr. Chairman.

The CHAIRMAN. Senator Chafee?

Senator CHAFEE. Thank you, Mr. Chairman.

Mr. Enders, in the background material we have, it talks about the population in the Caribbean Basin area we're dealing with doubling between 1950 and 1980, and the suggestion that there would be a doubling again by the end of this century, and thus tremendous pressure for immigration to the United States—legal and illegal.

Is the suggestion that if the area is made more prosperous through approaches such as this that the population rate of increase will decline?

Secretary ENDERS. Yes. There are two suggestions implicit in that, Senator Chafee: One, to the degree that social and political stability can be fostered in the area, the likelihood of sudden mass migrations from the area would be lessened. This is quite significant. For example, in the case of Nicaragua we think we have had something on the order of 100,000 people coming over the last 4 or 5 years, quite suddenly. And of course we have had earlier experience with what happens in Cuba.

Second, it is widely believed—there is a lot of evidence of this—in the area itself that increasing levels of income result in lower birth rates.

Senator CHAFEE. I am not disputing that; I am interested to hear you say it specifically: The richer a country is, the lower the birth rate.

Secretary ENDERS. That is correct, sir.

Senator CHAFEE. What about the problems of the sugar, getting back not to the threat posed to us but the problems raised by encouraging the exports, by dint of the fact that they are free exports, up to a quota? Isn't that correct?

Secretary ENDERS. Three countries would have a special quota legislated on them.

Senator CHAFEE. Yes.

Now, is there some concern that by encouraging such types of export the thrust toward becoming more self-sufficient in their own foods would be reduced?

Secretary ENDERS. That concern has been raised. Frankly, in the three countries involved—the Dominican Republic, Guatemala, and Panama—it does not appear to us to be a very substantial concern. And the other sugar producers of the area, in the judgment of the experts and of the trade, are unlikely to expand very much. So I would not rank that as a major concern, Senator.

Senator CHAFEE. The Puerto Ricans and, obviously there are representatives of the Commonwealth who speak for themselves, but those from the Virgin Islands have been calling on us, disturbed about the effect of the increased importation of rum and what it will do to their economy. Do you have any lifelines you can throw us on that one?

Ambassador MACDONALD. Yes, Senator Chafee. We have been talking to the Virgin Islands representatives here, and we think we may be able to work out something which will be in the nature of a safeguard mechanism that is more liberal, that is to say not as protective, as the safeguard mechanism that I believe is in the House bill as it came out of subcommittee, yet will take into account the threat of injury in the rum field to the Virgin Islands.

Senator CHAFEE. I am very sympathetic to this proposal. We are dealing with a very low income area and the possibilities of being of some assistance if we can overcome some of the difficulties that I'm sure will be raised. But I just want to make sure the administration is behind this. The suggestion is that the administration cooked it up and threw it out and they are letting it lie there without a great deal of thrust. None of us are very anxious to get out ahead on something and find that you have moved on to some other venture or initiative. What do you have to say to that?

Secretary ENDERS. Well, the President launched it personally, as you recall, Senator Chafee.

Senator CHAFEE. Has he mentioned it since?

Secretary ENDERS. Yes, he has mentioned it repeatedly since then. Earlier in the month, right after the Fourth of July recess, in two meetings at the White House, one with the leadership of both Houses and the other with the Republican leadership, he mentioned it as one of his top legislative priorities.

He so described it in public on July 21 at an occasion devoted to the Caribbean Basin Initiative, and said that he personally was leading the fight for its passage and hoped that it would be passed before summer recess. And he continues to be active with individual Congressmen and Senators.

Senator CHAFEE. Well, I think it is terribly important that those involved keep the pressure and interest up.

Thank you.

The CHAIRMAN. Could I just say in response to that, we postponed the hearing scheduled for 9:30 this morning, because we were having difficulty with getting some of the witnesses here, and Secretary Shultz called me himself to see if we wouldn't put it back on schedule. I think the fact that Secretary Shultz made his first official appearance since confirmation this morning is an indication of strong administration support, plus the fact that Secretary Regan was here, plus Ambassador Brock was scheduled and has been calling many of us on the committee to move ahead on these hearings. We are certainly willing to do that, but normally the House would proceed first on this matter. We don't want to set too many precedents, with the tax bill—you know, there are a lot of bullets to bite. We don't want them all.

But we are prepared as best we can after today's hearing to have another hearing, until everybody who wants to be heard has been heard, and then try to get into a markup session. In the meantime, I hope that the representatives of the different departments of the administration will be working with our staff and other staffs on the committee who have concerns—Senator Matsunaga's, Senator Heinz', and others—to see if we can come up with some consensus in this committee.

Senator Byrd?

Senator BYRD. Thank you, Mr. Chairman.

First let me say that every year I go to one Caribbean country or another. I like that area, think they are fine countries. I go at my own expense, I'd better add. [Laughter.]

Senator BYRD. Let me ask you this. Let's assume this legislation is approved—and this touches on Senator Heinz 'question earlier—what is the plan in regard to removing the tariff on imported leather footwear?

Secretary ENDERS. Senator Byrd, the proposal would be that we would enter into negotiations with each of the countries in the Caribbean. We have a number of concessions that we would like to obtain regarding information for tax purposes, for example, and also the creation of a general climate favorable to private investment and foreign private investment, the kinds of safeguards that would be given.

If those negotiations were successful, the proposal would be to use the authorities to grant duty-free treatment for the 12-year period in a bilateral agreement with each country. That would include the products that you just mentioned, if the authorities were granted of course by the Congress.

Senator BYRD. How much money are you seeking for this program?

Secretary ENDERS. The concept that we had was of trying to avoid an Alliance for Progress open-ended commitment of a budgetary sort. We didn't think that that was either credible in terms of our own situation here, or perhaps desirable for the countries involved, thinking that it would simply put them on the dole for a very long period of time.

The CHAIRMAN. Would you use another word there? [Laughter.]

Secretary ENDERS. You could volunteer, if you would like.

The CHAIRMAN. No, I'm getting enough heat without getting any more. [Laughter.]

Secretary ENDERS. So, on the other hand, their situation is near desperate in many cases; so we have proposed to the Congress a one-time emergency appropriation of $350 million, designed to given them the opportunity to get started again. But what they do in the future will be governed by how well they use the new opportunities we hope the law will provide for them.

Senator BYRD. Have you considered reducing other foreign aid by $350 million so there will not be a net increase?

Secretary ENDERS. This proposal is additional. It is a supplementary request, and it was considered after, indeed, much discussion of the type that you indicated: whether in fact other budgets should not be cut.

In point of fact, what had happened already was that the Caribbean had received a higher priority. Some funds had been taken from other areas and put to it, and it was just not possible to do more than that.

Senator BYRD. Well, what is the total amount of foreign aid that you are seeking for fiscal year 1983?

Secretary ENDERS. The total amount of foreign aid for the Caribbean area——

Senator BYRD. No, for the whole world—101 countries.

Secretary ENDERS. I will have to supply that to you. The total amount is on the order of——

Senator BYRD. 12 billion, isn't it?

Secretary ENDERS. 12 billion: The whole security system, multilateral, bilateral——

Senator BYRD. Foreign aid.

Secretary ENDERS. All the funds for military and security and economic——

Senator BYRD. $12 billion?

Secretary ENDERS. $12 billion.

Senator BYRD. Right. Now, you feel you can't find $350 million in there to shift to the Caribbean?

Secretary ENDERS. The proposal, Senator Byrd, is that the $350 million be appropriated in this fiscal year for this fiscal year. There has been some rearrangement of the $12 billion proposal to provide higher amounts of funds to the Caribbean, but the total amount to the Caribbean would go down in fiscal 1983 from what it is in fiscal 1982. In other words, this really is a one-time proposal.

Senator BYRD. But you are seeking $350 million for fiscal 1982.

Secretary ENDERS. 1982, sir.

Senator BYRD. And you also, from what you just said there, will seek funds for 1983 as well?

Secretary ENDERS. Funds for 1983. But those have been taken out of the overall budget request, which has been rearranged so that larger amounts go to the Caribbean and marginally less amounts to other places.

Senator BYRD. Well, just one final question. The foreign aid program is just about the only program in the budget that the administration has not recommended some reduction in. Don't you feel that there should be some reduction in the total? I'm not talking about the Caribbean Basin now, that's different—the total foreign aid program.

Secretary ENDERS. Well, in many cases we think that this is a relatively inexpensive way of obtaining national objectives and a lot less expensive than the corresponding military outlays that might have to be made, Senator.

Senator BYRD. In other words, the $12 billion foreign aid program is one that you feel is the appropriate figure?

Secretary ENDERS. And we think that, particularly in this area.

Senator BYRD. No, I am speaking now of the total.

Secretary ENDERS. Right.

Senator BYRD. I agree with you on the Caribbean, but I am speaking now of the total.

Secretary ENDERS. Yes. We continue to think that, compared with the security outlays that would have to be made if we did not have that program, that this is a very cost-efficient program.

Senator BYRD. And it is correct, is it not, that our country is supplying foreign aid to 101 different countries?

Secretary ENDERS. I cannot verify that figure to you. It may well be.

Senator BYRD. Well, you might verify it for the record, but I think it is correct.

Thank you.

The CHAIRMAN. As I understand it, under section 102 of the bill, the President cannot designate a Communist country for CBI benefits. What is a "Communist country" within the meaning of the bill, and does it include any countries in that area?

Secretary ENDERS. It does, Senator Dole, include a country for certain in that area: Cuba. The question of whether other countries in that area would so be qualified is a matter that judgment hasn't been made for the moment. We would not expect it to be made until the authorities are passed.

Senator BYRD. Would you indicate your plan in regard to Grenada?

Secretary ENDERS. Well, we are very worried, Senator Byrd, about the trends in Grenada. It is an oppressive one-party society. Whether it is in fact or should be so qualified at this moment as being a "Communist country" is uncertain to us, but we have to be very preoccupied about the direction of events there.

The CHAIRMAN. Right. They have just entered into a trade pact with the Soviet Union, but that in itself may not be determinative. Nicaragua is another one, I assume, that is making overtures to the Soviet Union. I assume that is under careful consideration.

Secretary ENDERS. Let me say with regard to both of those countries, they would have to be examined not only under the Communist-country exclusion but also to see whether they are countries that are running their economies in such a way so that they could in fact take advantage of free-enterprise type trade and the investment opportunities of the kind proposed.

The CHAIRMAN. What about the other countries who are going to participate—Canada, Mexico, Colombia, Venezuela? Are they moving ahead with their contributions?

Secretary ENDERS. They are moving ahead with their contributions. The Canadians have doubled their own aid effort to the area. The Colombians, interestingly enough, a country with a per capita income which is just below $1,000, have come up with substantial trade concessions, trade credits, and central bank deposits—quite a big program has been put together by Colombia. Venezuela and Mexico together have their oil facility under which they provide credit on oil purchases, which is worth over $700 million a year and is given to the countries of the area.

So our partners are adding up very substantially.

The CHAIRMAN. I will have some additional questions for the record; I know we have other witnesses.

[The questions follow:]

Questions From Senator Dole for the Administration on the Caribbean Basin Initiative

(1) To be eligible for the CBI's trade and investment incentives under S. 2237, a beneficiary country must abide by international law in resolving expropriation disputes. This includes abiding by the decision of arbitral tribunals. In Report No. 97-673, the House Appropriations Committee recently noted the difficulties of Construction Aggregates Corporation, a Chicago firm, in obtaining satisfaction from Honduras of such an arbitral award. In another exproporation dispute, the American owner of Citricos de Chiriqui, S.A., remains uncompensated for his claim against the Government of Panama.

(a) Will the Administration deny the benefits offered by S. 2237 to any country that fails to satisfy outstanding arbitral awards, as provided in section 102?

(b) What is the Department of State doing to resolve the above-mentioned disputes and any others that are outstanding at the present time?

(2) Concern has been expressed among some quarters in Puerto Rico that the entire commonwealth arrangement with the United States should be reexamined in light of the CBI, since some view Puerto Rico as receiving little of the benefit of the CBI while losing the advantage of its commonwealth relationship.

(a) What is the Administration's policy with respect to the evolving relationship of the United States with Puerto Rico and the Virgin Islands?

(b) Should Puerto Rico and the Virgin Islands retain greater control over their imports and more flexibility with regard to local application of U.S. regulatory laws? (i.e., under the Tariff Act of 1930, Puerto Rico retains control over its coffee tariff. Should this be extended to other products?)

(3) Since World War II, a goal of U.S. trade policy has been to promote multilateral, reciprocal, nondiscriminatory trade agreements.

(a) How does the CBI accord with this longstanding policy?

(b) How will the proposed CBI—and a U.S. request for a GATT waiver, if one is made—affect the pending U.S. disputes in the GATT against the European Communities that are based on their preference system?

(c) How do other beneficiaries of the U.S. Generalized System Preferences, against whom the CBI will discriminate, view the program?

(4) Section 102 of S. 2237 precludes designation as a CBI beneficiary any country that grants to another country reverse preferences adversely affecting U.S. commerce, unless assurances are obtained that the harm will be eliminated.

(a) What are the specific countries and programs that may be affected by this requirement?

(b) What action will be necessary for these countries to satisfy this standard?

The Chairman. One thing that may concern us in this committee is the investment credit—this would be a question we hope the Treasury might address—which would expire in 5 years, if in fact it is provided for that length of time. What we are concerned about is, after the 5 years there may be an extension through a tax treaty which would bypass this committee and the House Ways and Means Committee and go to the Foreign Relations Committee. We don't particularly have any quarrel with members of that committee, but if it is a matter of jurisdiction we believe that, where it affects revenues and taxes, this is the appropriate committee. We would want some assurance that we are not going to be bypassed down the road as has happened in the past.

Mr. Leland. I can give you that assurance, Mr. Chairman.

The Chairman. How are you going to do that? We may not be here in 5 years. [Laughter.]

Mr. Leland. The record will be.

The Chairman. The record will indicate?

Mr. Leland. The record can be looked up. There would be assurance that before it is continued in any way there would be consultations long before with this committee to discuss that issue.

The CHAIRMAN. The committee will survive; I'm not certain about the rest of us. I'm just speaking for myself, not any other Members who may be running this year.

But perhaps we can take care of that in the legislation itself, I should think.

Mr. LELAND. Well, in general, Mr. Chairman, we do try to consult—and maybe there should be more consultation—on all treaties. As you know, there has been a certain backlog, but in all the ones this committee is certainly an appropriate committee that has to be consulted.

The CHAIRMAN. I must say we have had a very good consultation procedure with the Senate Foreign Relations Committee. In fact, Senator Percy has made it a point as the chairman of that committee to inform us of any tax treaty and give us an opportunity for input, which we appreciate.

Senator Heinz?

Senator HEINZ. Mr. Chairman, I have a number of questions which I will submit, principally to Mr. Macdonald, USTR, for the record.

[The questions follow:]

QUESTIONS TO AMBASSADOR MACDONALD FROM SENATOR HEINZ

LEATHER-RELATED INDUSTRIES ARE ALREADY IN BAD SHAPE FROM IMPORTS

1. Are you aware of the share of the U.S. market held by imports of various leather product industries? If not, let me refresh your memory:

	Percent
Footwear	60
Luggage	40
Personal leather goods	30
Leather apparel	56
Handbags	79
Leather work gloves	55

Aren't these products already being imported from the Caribbean without the benefit of duty-free GSP treatment? Don't you think that imports of leather products from the Caribbean will increase once you give them duty-free treatment? Don't you think that this will further injure an already beleaguered set of industries?

JOB SUBSTITUTION RATHER THAN NET GROWTH

2. When the economy is in a recession and maybe bordering on a depression, with over 9 million people out of work, how can you propose a duty-free program that can only have the effect of throwing more U.S. workers out of their jobs?

The Administration is concerned with unemployment and poverty in the Caribbean. But why should we try to correct this at the expense of other workers, those in the U.S., those in my district, including those in industries such as leather products which are already being hit hard by imports and have high unemployment?

DETERMINE RATIONALE FOR TREATING LEATHER DIFFERENTLY FROM TEXTILES AND APPAREL

3. The Administration has excluded textiles and apparel from the duty-free provisions of the CBI. Textiles and apparel are labor intensive and import sensitive. But so are the leather products industries. Why haven't you extended this exclusion principle to leather products as well?

ILLUSTRATE THE LEATHER INDUSTRIES' LACK OF CONFIDENCE IN ADMINISTRATION TRADE POLICY

4. Leather product industries have had a series of misfortunes with the Executive Branch under the same safeguard mechanism you are proposing for the CBI.

Leather apparel received a unanimous finding of injury under the "escape clause" in 1980 and President Carter refused to provide import relief.

Footwear similarly was turned down by President Ford in 1976 reneging on a commitment that his Administration would provide import relief. Congress then asked that the International Trade Commission reopen the case. This led to President Carter providing import relief, but last June President Reagan refused to extend the import relief for footwear.

Why should the leather products industries have any confidence that the CBI safeguard mechanism will work for them or any other industry?

THE LOWER RULE OF ORIGIN REQUIREMENT IN THE CBI BILL WILL PERMIT NON-CBI PRODUCTS TO BE SHIPPED TO THE UNITED STATES

5. The "rules of origin" under the CBI specify that 25 percent local Caribbean content qualifies products (other than textiles and apparel) for duty-free treatment. This is lower than the 35 percent local content required under the GSP program. The Administration claims this level was chosen to avoid "runaway plants." However, has the Administration considered the very real possibility that products which are 75 percent Japanese or Taiwanese or Korean origin will be shipped to the Caribbean for finishing or whatever and enter the U.S. duty-free? The incentive to do so is significant with respect to certain products for which significant duties exist such as the wide range of leather products, or similarly, has the Administration conceived of an effective method to monitor and avoid the transshipment of goods from, for example, the Far East through the Caribbean Basin countries? Why was the 35 percent limit reduced to 25 percent?

POINT OUT THAT ESCAPE CLAUSE TYPE MECHANISMS HAVE NOT WORKED WELL SO FAR AND ARE UNLIKELY TO DO SO IN THE CBI CASE

6. The record of the safeguard mechanism on which the proposed CBI safeguard measure is based—the "escape clause"—brings to mind some serious questions regarding its ability to adequately protect domestic industries from import injury. You may recall that the Senate Finance Committee had to intervene and initiate an "escape clause" proceeding for the nonrubber footwear industry in 1976, after the industry had proved serious injury and yet received no import relief. While relief was granted the second time around, I am sure you know that President Reagan terminated relief for this industry as of June 30, 1981. What makes the Administration believe that the CBI safeguard measures proposed now are any more meaningful for import-sensitive industries such as the footwear industry?

GIVEN ADJUSTMENT ASSISTANCE CUTBACKS, WHAT WILL THE ADMINISTRATION DO WITH/FOR THOSE INJURED BY THE CBI PROGRAM?

7. Budget considerations have substantially reduced the Trade Adjustment Assistance benefits available to import-injured firms and workers. Does the Administration plan to develop a new policy with respect to Trade Adjustment Assistance whereby additional benefits are made available to help firms and workers who are adversely affected by imports resulting from this new free trade policy? If not, exactly what does the Administration intend to do to help firms, such as those in the leather products area, adjust to the new wave of import competition which will surely result from the CBI?

8. *Investment.*—It seems to me the key is investment—not just in industries that will export but in industries that will build local infrastructure and contribute to local needs.

(a) How do you avoid the problem of job substitution—the shifting of jobs and industries off shore, with no net growth?

(b) If you can't avoid it, how do you justify it to the American worker?

(c) Isn't the key component of a favorable investment climate expectations of political stability? How does the proposal encourage that?

(d) What evidence do you have the U.S. investors will respond to the incentives you are providing? Have you discussed them with the private sector? What kind of investments do your expect to be made? In what industries?

(e) Have you considered steps to promote tourism in the region, such as increasing the duty-free allowance for Caribbean purchases brought in by individuals? What proportion of the various islands' GNP comes from tourism not?

(f) Do your incentives apply to other than capital equipment? What about service industries?

9. Do you support the so-called Downey amendment, to make duty-free treatment of certain food products, primarily sugar and beef, contingent on the submission and approval of a Staple Food Protection Plan designed to maintain food production and nutrition levels?

Senator HEINZ. There is one thing that particularly puzzles me about the rules of origin that are proposed here in the CBI. Whereas under the GSP there is a 35-percent content requirement in order to qualify for duty-free treatment, in this legislation you are requesting 25 percent. I understand the administration claims that that level was chosen to avoid runaway plants. It also occurs to me, however, there may be another very direct effect, and that is that countries that right now on many of these items do not get—because they have graduated from the GSP—duty-free treatment such as Japan and Taiwan, to name two, may simply decide that what do is ship a product that is 75-percent Japanese made or 75-percent Taiwan made into the Caribbean, put a few labels on it—25-percent-worth content—and then ship it to the United States. This would permit, in a way that present law does not now enable, countries like Taiwan, Korea, Japan to get around the fact that they have graduated from GSP.

Why isn't this just a giant loophole, an invitation for the countries which are no longer poor countries? Japan is fairly well developed—some would say overdeveloped. Why isn't this just an invitation to them to come in through the back door?

Ambassador MACDONALD. I believe the legislation was framed with the concern that you have expressed in mind, Senator; and yet, with the view that many of these countries are small island nations, and it is difficult for them to add 35 percent to a product in order to qualify as to the origin of that product and thereby for the GSP preference.

There is another doctrine of law that we are counting on to prevent the kind of diversion that you are describing, and that is the doctrine of substantial transformation. This is a requirement in all origin cases in addition to the value added, whether it be 25 percent or 35 percent. And this, for example, can keep relabeling operations or maybe painting on a piece of china from accomplishing the result which all of us want to prevent; that is to say, where the real manufacturing operation takes place somewhere else and some cosmetic operation takes place inside the Caribbean.

Senator HEINZ. Is the doctrine of substantial transformation going to be met if 25-percent content is——

Ambassador MACDONALD. No, it's a separate requirement. You could meet the 25-percent, value-added test, for example, if you took orange juice concentrate and turned it into regular orange juice from concentrate; but, in the view of the Custom Services, we understand that this does, for example, meet the requirement of substantial transformation.

Senator HEINZ. Well, in view of the fact that it has taken us a lot of time to catch up, for example, with the Taiwanese mushrooms that were sent to Hong Kong and were not noticeably transformed—they remained mushrooms—and were then shipped from Hong Kong into the United States and considered of Hong Kong origin under the doctrine of substantial transformation. I'm a little suspicious about how successfully one can not only apply but police the doctrine of substantial transformation. I may get into that again on another occasion.

Ambassador MACDONALD. I take it you don't need a response to that?

Senator HEINZ. Not at this time. Thank you, Mr. Ambassador.

The CHAIRMAN. Senator Matsunaga?

Senator MATSUNAGA. Thank you, Mr. Chairman.

As I understand it, the CBI provides not only for the lifting of tariff and other trade restrictions but also assistance in commerce; that is, providing assistance in marketing products of the Caribbean Basin nations. Am I correct in this?

Secretary ENDERS. The complaint has been raised by many of the small producers in the area that it is hard for them to understand, for example, sanitary inclinations in the United States and how the requirements of our law can be met. So one of the provisions, for example, of the proposal is that we would provide on an outreach basis such assistance to producers in the area so that they could effectively meet our law but also sell in the United States according to our law.

Senator MATSUNAGA. Well, Puerto Rico, Virgin Islands—in the case of Puerto Rico, for example, I am told that in 1980 the per capita income was lower than in the Bahamas, the Barbados, the Netherlands Antilles, and Trinidad and Tobago. And the Virgin Islands didn't do as well, either. Certainly if you were lending marketing assistance to the countries involved, and Puerto Rico, the Virgin Islands, and even Hawaii suddenly could use some of that assistance, wouldn't the administration be opposed to a provision providing for such assistance especially in the marketing of tropical crops, fruits which would be adversely affected by the CBI?

Secretary ENDERS. The cases you cite, Senator, are cases essentially that rely either on petroleum or on finance and are unlikely to be major beneficiaries of the agricultural entry provisions.

I wish we had somebody from the Department of Agriculture here, but I understand that in fact the network of USDA offices that are concerned with let's take this marketing and sanitary conditions throughout the United States and including the State of Hawaii is very substantial already. It is not proposed to duplicate that into the Caribbean but only to make available, on a spot basis, some of its services.

Senator MATSUNAGA. Well, that leads me to a followup question on Senator Chafee relative to the Virgin Islands.

I am told that Virgin Island representatives have proposed various amendments addressing not only the rum import quota but the Environmental Protection Agency regulations for certain effluent treatment and the value-added domestic content for the Virgin Islands.

As you know, the domestic requirements as applied to the Virgin Islands and to Puerto Rico were very costly and would restrict the competition that otherwise would be available to the Virgin Islands and Puerto Rico.

What about the proposal of cutting down on the requirements of matters dealing with the import commodities?

Ambassador MACDONALD. We are supporting the amendments.

Senator MATSUNAGA. You are?

Ambassador MACDONALD. Yes, that are proposed by the Virgin Islands on EPA, providing for a relaxation of EPA requirements.

Senator MATSUNAGA. I have no further questions.

The CHAIRMAN. Senator Chafee?

Senator CHAFEE. I just want to say one thing. It seems to me that inevitably this proposal is going to result in duty-free imports coming into the United States that are going to compete with some products that are produced somewhere in the United States. It can't help but do that, and I think we might as well all recognize that.

I think that to attempt to sell it, that no one is going to be even twinged in the slightest by this proposal, I think is really not facing up completely to the facts.

We believe that in expanding a free market area and helping these countries, good is going to come out of it in the long run. I think the statistics that you showed in the background material that a billion dollars has been spent on 140,000 Cubans and Haitians who come to Florida is indicative of the expense of illegal immigration, or immigration of the consequences that we have experienced. But somebody is going to be nicked, I think—some States, some areas—inevitably. Isn't that so, Mr. Enders?

Secretary ENDERS. That is absolutely right, Senator Chafee. I think that a couple of additional points could be made, and I refer back to what Senator Heinz had to say on it.

One, this is a proposal that says: To the degree that we are going to permit duty-free entry under GSP or any other provision of goods from some developing country into our market, why don't we permit them to come in from our immediate neighbors? And in effect we are giving a preference to our immediate neighbors over all other suppliers of those goods, thinking that we have a special stake in their economic and social health.

Second, that's why we thought it ought to be a long-term proposal, because we think that the countries of this area ought to have a chance to develop investments, not the kind that are involved in the GSP with a potential that it could be removed at almost any time.

Third, I would say that this is trade creating, this proposal, too. These are places that spend almost all of the dollars they earn in the United States; so, in effect, if somebody feels what you call the twinge of competition, somebody is also going to feel the twinge of new orders. It's going to be both, but I think our own judgment is that except for a few cases it is going to be mainly in the twinge range of sensation.

Senator CHAFEE. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Byrd?

Senator BYRD. Secretary Enders, you mentioned Nicaragua. I am not clear as to your position and the State Department's position on Nicaragua. Cuban military personnel are there, Russian-supplied military equipment is there, it has a Marxist-oriented government; are you seriously considering giving U.S. aid to Nicaragua?

Secretary ENDERS. No, sir. However, we are not prepared. We think it would be premature for us to determine that this country has in fact become a Marxist/Leninist country, although the trends, Senator Byrd, as you indicate, are very worrisome. It still retains some private enterprise elements in its economy; there are still opposition parties that are active there; we still have a small assistance program which goes to the private sector, which is designed to help it keep alive—I think it's $5.6 million this year. But frankly I think that we would want to look very long and hard at Nicaragua before benefits of this kind of legislation could be extended to it, and we would like to see quite a different direction in both its economic and its political affairs from what is now the case.

Senator BYRD. I would hope so. Taking money out of the pockets of the American workingman and workingwoman, the American wage earners, and turning it over to the Government I think you would have to say is certainly Marxist oriented, is it not?

Secretary ENDERS. I would agree with that.

Senator BYRD. And it certainly has a tremendous number—Im speaking in relative terms, now—of military personnel, trained by Cubans with Russian equipment, and yet you don't regard that as a Marxist-oriented nation.

Secretary ENDERS. Well, I think it is a Marxist-oriented nation; I don't think there is any question about that at all. Whether it is in fact a Communist country in the same sense Cuba is, is a judgment that we haven't yet reached, but everything looks very worrisome, Senator. There are 2,000 Cuban military personnel in that country at the present time.

Senator BYRD. Does the State Department have any fear that this large military buildup—large in terms of Central America—in Nicaragua, that that is not likely to be exported to other Central American nations?

Secretary ENDERS. We are very concerned about that, as are Nicaragua's neighbors.

Senator BYRD. Well, one final question. If this legislation is enacted, funds would be available for use wherever you desire except—does it exclude Cuba, by definition?

Secretary ENDERS. Sir, if this legislation were enacted there would be funds available, appropriated funds, neither for Cuba nor for Nicaragua nor for Grenada. In none of those cases are the use of budget funds proposed. The question would be: Would their producers qualify for the trade and investment benefits of the legislation? And I'm indicating both on economic policy grounds and on political grounds that we would have to look very carefully at that; and, frankly, I'm not encouraged at all by what I see.

Senator BYRD. You could not assure this committee then that funds or other benefits of the legislation would not be used for Cuba? Couldn't you assure the committee it would not be used for Cuba under Castro?

Secretary ENDERS. Yes, sir.

Senator BYRD. But you won't say the same thing for Nicaragua under its present government?

Secretary ENDERS. I think that very well may be the judgment that would be reached, but it has not been reached at the present time. We would want to see to what degree a private sector and opposition parties, and so forth, will be maintained there. Frankly, I would be very pessimistic about it, Senator Byrd.

Senator BYRD. And are there opposition parties in Greneda?

Secretary ENDERS. They are nonexistent.

Senator BYRD. Thank you.

The CHAIRMAN. We might be able to help you a little in the way we write the definitions.

I might say, since we do have Senator Baucus and Senator Bradley with questions and we do have the Governor of Puerto Rico who would like to testify, we will ask that your statement be made a part of the record. We have covered some of the basic questions, and there will be questions in writing. I think Senator Long may have some questions of Ambassador Macdonald. He has some concerns, and he is not able to be here this morning.

[Ambassador Macdonald's statement follows:]

PREPARED STATEMENT OF AMBASSADOR DAVID R. MACDONALD, DEPUTY U.S. TRADE REPRESENTATIVE

Chairman Dole and members of the committee, last February, President Reagan proposed the implementation of a multi-dimensional development program for the Caribbean Basin. On the occasion of the Caribbean Basin Initiative's unveiling, the President spoke firmly of our vital interest in the well-being and security of the countries of the Caribbean Basin.

The President's program will advance our national interests in the Caribbean Basin in several ways: By alleviating the root causes of human misery which have stimulated a major and sustained flow of people from the Caribbean Basin into the United States, by promoting long-term self-sustaining growth, thus reducing the need for future assistance from the United States and expanding markets for our goods, by strengthening regional cooperation and the principle of burden sharing through coordination of our contribution with those of Mexico, Canada, Venezuela, Colombia, and with self-help measures by recipient nations; and by enhancing the security of, or prospects for, democratic political evolution in the area, thus offering a credible alternative to the thesis that economic progress can only be achieved through violent change and the imposition of undemocratic Marxist governments.

The Caribbean Basin Initiative is a bold, yet practical program for restoring economic health to the countries that compose our third border. We know that the Initiative alone cannot guarantee both economic recovery and sustained growth, but if it can contribute significantly to a peaceful, democratic outcome to this region's struggles with nation building, then it will have served its purpose well.

With all that has been written and said about the President's Initiative, at least one issue remains unchallenged: the seriousness of the economic and social problems with which the Basin is confronted today. The region is experiencing declining rates-of-growth, deteriorating balance-of-payments and terms-of-trade, rising inflation, and expanding debt-service ratios. Malnutrition, high infant mortality rates, and alarming numbers of unemployed youth are among the social costs of the region's economic stagnation.

The Caribbean Basin as a region is nearly defenseless today to the vararies of the international economy. Battered by the oil price hikes, and more recently by the fall of sugar and other commodity prices, these economies have had to weather storms that are still posing a threat to economies many times their size and institutionally far sounder.

It is in the spirit of providing new opportunities for those willing to help themselves that the Administration has put forth the Caribbean Basin Initiative. The CBI has been carefully designed to help foster and support important structural adjustments in the economies of its beneficaries. It is a fact, which the majority of these countries recognize, that previous economic strategies of inward development—or "import substitution"—have come up against the inevitable constraints of their tiny domestic and regional markets. The CBI contributes to these countries' own efforts to direct their economies towards more balanced, export-led development strategies. Structural adjustments of this nature are not easy. But in our numerous consultations with the nations of the region, we found a general recognition of the increasing necessity to embark on just such a course. The CBI will help to facilitate difficult decisions and make it worth the effort required to revise entrenched but often inefficient economic policies.

During our consultations with the Caribbean beneficiaries, we spoke with national leaders who had confidence in the future and intended to bring prosperity back to the region through their own hard work. Their optimism was tempered only by the substantial impediments to regional economic revival which dim the prospects for a totally self-generated recovery.

Our discussions led us to look for ways in which the U.S. might assist these countries in reducing what we all agreed were the most important current obstacles to self-renewal. We agreed that our response to immediate economic impediments should, as far as possible, be consistent with the goal of long term development. Finally, we agreed that actions taken by the donors should be complemented and reinforced by self-help measures implemented by the beneficiaries.

The Initiative is a response to the specific impediments to recovery raised by the beneficiaries. Let me review the program elements in relation to the problems they are meant to address.

The nations of the Basin are all vitally dependent on trade. Without liberal access to regional and hemispheric markets, there is little incentive to new or expanded production. Although a large percentage of current Basin exports enter the U.S. without paying duty under GSP, the proposed free trade arrangement will create the opportunity for a far broader array of non-traditional exports. Such products are often "non-traditional" precisely because U.S. duties have been too high to justify the start-up or expansion costs of what may be an otherwise viable productive investment. One must also consider the relative disadvantages that most Basin countries have had vis-a-vis the larger and more rapidly industrializing countries of the Far East and Latin America in competing effectively under the GSP scheme. Finally, where a Caribbean country is a successful exporter, the GSP's competitive need limitation acts as a disincentive to expanded production.

One of the Basin's most pressing problems has been a chronic shortage of investment capital due to an oftentimes poor investment climate. This has resulted from many factors ranging from political instability, to the global recession, to the lack of assured market access for potential new output. A widespread response in the Basin and throughout much of the Third World has been an expansion of, and a deepening dependence on, public sector investment and management. This has led in most cases to massive foreign debt burdens and a progressive curtailment in private investment.

The Initiative's tax credit scheme will help to attract capital that might otherwise have been withheld from the region. U.S. tax practice recognizes that capital investment must be promoted, but a U.S. firm investing in the Basin currently is not eligible for the same favorable tax treatment of fixed asset expenditures which is available in the U.S. under the domestic investment tax credit. Our proposal to extend to same type of tax treatment for investments in the Basin constitutes a simple, and we believe equitable solution to this problem. Such treatment will be extended to qualifying beneficiaries for five years.

So in the case of both our trade and tax proposals, a more amenable climate for commercial activity is being created. It should be remembered, however, that private sector initiative and market forces will determine, ultimately, the success of our joint efforts.

The U.S. Department of Commerce and my Office already have received a sizeable number of inquiries from potential U.S. investors, and the Commerce Department has established a Caribbean Basin Business Information Center to provide support services for companies interested in developing business opportunities in the Basin. The Center had received approximately 600 inquiries from individuals and companies throughout the country, including the Virgin Islands and Puerto Rico. It is noteworthy that many of the inquiries have been from small and medium sized firms.

The CBI's investment incentives will operate in conjunction with expanding efforts by OPIC and AID to stimulate private sector investment in the Basin. In 1981, OPIC increased its insurance coverage in the Basin by approximately 70 percent over 1980, to a value of $308 million. OPIC credit services to the Basin increased nearly 90 percent in the same period, to a value of $55.3 million for 30 projects. These projects represent nearly $460 million in new investments, and by the fifth year of operation will create an estimated 6,200 jobs.

The United States is currently negotiating bilateral investment treaties (BITS) with Panama and Antigua. Both these negotiations are at an advanced state and it is likely that ad referendum agreements will be reached with both these countries later this summer or early in the fall. In addition, the United States had held consultations on the possibility of initiating BIT negotiations at the request of Belize, Guatemala, El Salvador, Costa Rica, Jamaica, Barbados, Haiti, Trinidad/Tobago, and Honduras. Subsequently, a number of these countries indicated that they would like to begin negotiations on BITs in the fall. To date, interest in the U.S. BIT program, which was undertaken in earnest only at the beginning of 1982, has been greater in the Caribbean Basin region that in any other geographic area. This is undoubtedly due to the perception by the countries in the region that a BIT with the United States would usefully complement the key economic components of the Administration's Caribbean Basin Initiative.

There has been an urgent request by several of the potential beneficiaries for relief in the form of concessional aid. They have sought concessional aid because it is the only practical solution to their very serious balance-of-payments and debt problems. The prospects for many of these economically depressed nations would be much worse if there was insufficient credit to support even the most basic private sector borrowing needs. Today, the sums that are needed for this purpose are of manageable proportions. The cost that could be incurred from a failure to take remedial action now would be far greater than the provision of these financial resources.

You also have before you certain proposals regarding Puerto Rico and the Virgin Islands. We want to assure that in reducing impediments to economic revitalization in the Caribbean Basin generally, we will be establishing a relationship with Puerto Rico and the Virgin Islands that encourages these islands to play a dynamic role in the region.

One important consideration was the potential effect on their revenues of a duty-reduction on rum. Accordingly, we are proposing that all excise taxes on imported rum be rebated to Puerto Rico and the Virgin Islands. Of similar importance will be the granting of additional investment-related tax benefits to these areas. Other steps are proposed which should be of mutual commercial benefit to our territories and to their neighbors in the Basin.

The Caribbean Basin Initiative is a program aimed at nation-building in the broader sense. We are striving to achieve pluralistic societies with strong and free private institutions. We intend to give this institutional aspect particular emphasis by making the granting of beneficiary status dependent upon, among other things, the degree to which workers in each country enjoy reasonable work place conditions and have the right to associate freely and bargain collectively. Our foreign assistance spending for the development of free labor movements, through the Latin American Regional/American Institute for Free Labor Development will be increased to help achieve this goal.

The Caribbean Basin Initiative is a mutual commitment to reduce impediments to economic growth through a meaningful partnership—both regional and hemispheric. Self-help is the final key needed to unlock the door to economic opportunity over the next decade. I am confident that the nations of the Basin are prepared to direct their economies in a manner which will tap the resources of entrepreneurs and workers alike. Revitalization is not, and will not be a unilateral concern. It is a goal that we will seek together, and in so doing, establish the basis for lasting peace and prosperity throughout the region.

The CHAIRMAN. Senator Baucus?

Senator BAUCUS. Thank you, Mr. Chairman.

Mr. Secretary, I was not here when Secretary Shultz gave his statement. I understand he did not take questions. I wonder if you would perhaps address a point he made on page 6 of his testimony, essentially referring to the major multilateral effort of Canada, Colombia, Mexico, and Venezuela as well as the United States, apparently, on this if not specific initiative at least generally. Would you comment on the efforts that those countries are taking, in addition to the United States, in the Caribbean? And the degree to which they are greater than or less than our effort?

Secretary ENDERS. Well, Canada is providing $500 million, Canadian, over a 5-year period. The Canadian economy is about one-tenth the size of the United States; that would be equivalent to, in our case, providing, as you can see, $4 billion, Canadian, to the area over that period. It would be a very substantial sum.

Canada is providing trade preferences to the Commonwealth-Caribbean, has not done so to Central America. Mexico provides some trade advantages to the area and approximately $350 million a year in oil facility benefits to the area. Venezuela, the same, $350 million a year to the area. If you put that on a per capita basis, their per capita income is much lower than ours—it's about $2000 in the case of Mexico, and $3000 in the case of Venezuela. So that's a substantially much greater burden. And the largest burden of all is being carried by Colombia, which has a per capita income of less than $1000 and is providing substantial amounts of Central Bank deposits trade credits and trade concessions to the area.

So, although it is hard to compare apples and oranges on this, Senator, I think that our partners are making a very substantial effort, and in some cases I think the amounts will be greater than ours.

Senator BAUCUS. To what degree is this initiative a first step—that is, a second step—in extending these kinds of concessions and aid further south; that is, to put it south to other Central American countries and maybe even to South American countries?

Secretary ENDERS. Well, there are countries in South America that have raised that question; it was raised almost immediately. Our response to it was, Look, these countries that we are proposing to help are small; there are 23 of them in the area; they are quite fragile; they do not have the kinds of resources that the larger continental economies of South America do. Even though the per capita income may be lower in South America, they are countries in our immediate neighborhood, too; we feel a particular responsibility to them. So this is not designed to be a moveable feast for the others, but something to deal with our immediate neighborhood. And we have made that very clear to other countries.

Senator BAUCUS. Thank you very much.

The CHAIRMAN. Senator Bradley?

Senator BRADLEY. Thank you, Mr. Chairman.

Mr. Enders, how can we be sure with this initiative that we won't end up with problems similar to the one we have with the general system of preferences, where the relatively wealthier nations among the group peel off all the benefits?

Secretary ENDERS. Well, it is a private enterprise initiative, Senator, in the sense that it is not for us to assign to individual entrepreneurs the benefits; it is a question of whether they are able to take advantage of them. And undoubtedly there will be some countries and some individuals and enterprises that will do better than others. The conditions are not uniform in the area, but in looking through it we think that all of the countries in the area can take some benefit from the initiative.

One of the purposes of the negotiations we hope to have with individual countries is to encourage them to create the kinds of tax systems and legal systems, regimes for foreign investments, that would enable all of them to take advantage of it.

Senator BRADLEY. But would you not admit, because the initiative is essentially skewed in the direction of the private sector, those countries that have a more advanced infrastructure, that have a more sophisticated distributional system in the country, and so forth, that they would be better able to take advantage of this initiative?

Secretary ENDERS. I am not entirely certain of that, Senator Bradley. For example, it is true that a country like Barbados——

Senator BRADLEY. What about Aruba? Let's not take Barbados or Trinidad.

Secretary ENDERS. Well, Aruba lives, to a considerable degree, off——

Senator BRADLEY. And don't take Aruba as Aruba, but take some country that is not as well off in an infrastructural sense as Barbados or Trinidad.

Secretary ENDERS. Well, I was going to compare Barbados and Haiti. Haiti is a very primitive country in many ways, and yet it is a country in which light manufacturing has begun already. We think there is considerable reason to believe that it would develop fairly rapidly under this proposal. So it is not only the advanced countries but some of the less-advanced ones.

Senator BRADLEY. So you reject the hypothesis that this is an initiative that will clearly benefit those islands and those countries that have a more advanced infrastructure?

Secretary ENDERS. Well, I think everybody will have something to bargain for in this. I do think Barbados would do very well, but I wouldn't exclude the poorest ones by any means.

Senator BRADLEY. Is there any way that we can make sure that these incentives are skewed toward labor-intensive industries?

Secretary ENDERS. Well, we have an area of relatively low labor costs. Frankly, one of the things that we concerned about, and you will find a condition written into the law itself on this, we want to make sure that the countries of the area are applying responsible labor standards, too, and in particular permitting the development of free trade unions and collective bargaining.

So we will definitely want to make sure that the proposal will in fact result in more jobs in the area. That is the purpose, but not on an irresponsible sweatshop basis. I would put the emphasis on the other side, Senator Bradley.

Senator BRADLEY. But the point is, in some of these islands the typical thing is that you turn your agricultural land over to essentially cash crops, then you export finished food goods at rather exhorbitant prices.

Now, is there any way you can try to skew the investment incentives so you have a broader base labor-intensive development process?

Secretary ENDERS. Well, with regard to agriculture, a great deal of the area is underdeveloped already. I think it is a common experience in going to the islands to find that they have abandoned a lot of their agricultural land and are not now using it. One of the purposes of this initiative is to bring it back into use.

We are hopeful that as it does come back into use that that will also stimulate crops for local consumption. Too many of these islands are already too import-dependent. It is not obvious to us that this is going to make it worse in the foodstuff case.

Senator BRADLEY. I was not here when Senator Dole made his initial comments, but I am told by staff that he made a nod in favor of essentially targeted tax-sparing. Is that true?

The CHAIRMAN. No.

Senator BRADLEY. If not, let me ask the question, then: What do you think of——

The CHAIRMAN. We don't think much of it.

Senator BRADLEY. I know you don't in Puerto Rico, but what do you think of it as a part of the Caribbean Initiative—that if these countries would lower their tax rates that you would get some credit on American taxes in exchange for the investment tax credit?

Mr. LELAND. Senator, I think the investment tax credit, we felt in analyzing all the methods, is the most efficient. It is simple; it is direct; they get it right away; we've had a way that it can be passed-through back to the United States, a percentage.

Tax-sparing as such, which we have analysed as an incremental value for what you would get in an increased investment, for what the cost of it is, would not seem to be the way to get the types of investment that we want. The 10-percent tax credit would be targeted to doing it. The other would have to apply to everything, and you would have to come up with all kinds of formulas; the worldwide problem becomes an added problem.

Senator BRADLEY. But the point is you have looked at that and rejected it?

Mr. LELAND. Exactly.

The CHAIRMAN. That saves us rejecting it.

Well, again we would ask that your statement be made a part of the record, and I assume that other members will have questions. I am not certain of your schedule for the next 30 or 40 minutes.

Senator BRADLEY. Mr. Chairman, may I ask one more question? I thought we were going to go for one more.

The CHAIRMAN. Well, we have some witnesses who have been waiting about an hour.

Senator BRADLEY. All right.

Just to follow up on what Mr. Enders said, that we would seek certain changes in the political or economic circumstances of the named countries. Could I ask you what, specifically, were you referring to? How will we attempt to, say, promote the free enterprise system in the Caribbean, if that's your purpose?

Secretary ENDERS. It is not political changes, let me make clear, Senator. But a question that we would have, for example, is: Is the country prepared to enter into a bilateral investment treaty with the United States? What sort of a tax system is available for enterprises that might take advantage of the provisions of this law? Is that tax system such so that the benefits that we would accord could really be effective in the country? That kind of question.

So it's not so much a question of converting them all to a particular kind of economic policy, rather it is laying it out to them that "We are prepared to offer these benefits only if you are prepared to make the effort that would make them effective."

Senator BRADLEY. So you are not giving any special consideration to countries that heretofore have not adopted free market principles but who would, in exchange for certain incentives, adopt those free market principles?

Secretary ENDERS. This is not intended to come under the question of, for example, public versus private ownership or enterprise in those countries. I don't mean to express any view on that, only, the question is: Can there be a rational use of resources, and will entrepreneurs be able to obtain credit for enterprises that would respond to these benefits? In other words, we are not trying to tell a country what kind of a pattern of ownership it could have.

Senator BRADLEY. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Thank you very much.

Ambassador MACDONALD. Mr. Chairman, if I could make just one last statement, I think on behalf of all of us it is clear that we have not been able to anticipate all of the conceivable problems that might arise in connection wit a complex piece of legislation such as this.

I would just note that we are more than willing to work with your staff and with the staff of the other Senators on this committee toward resolving some of the matters that have been raised here.

The CHAIRMAN. Well, I would recommend that be done very quickly. It seems to me there are a number of questions that have been raised, good questions, and other areas that you may have addressed that we are not aware of. So maybe we could start meetings with members of the committee staff and individual members' staffs with the three departments. It might be very helpful.

Thank you.

Our next witness is Mr. David Rockefeller on behalf of the United States/Jamaican Business Council, the Americas Society, the Council for the Americas, and the CBI Coalition. He will be followed by the Governor and the Resident Commissioner of Puerto Rico, and Mr. Sam Segnar, chief operating officer Inter-North, Omaha, Nebr., on behalf of the CBI Coalition and Caribbean/Central American Action.

Mr. Rockefeller, we are very pleased to have you this morning. We hope we haven't kept you waiting too long.

STATEMENT OF DAVID ROCKEFELLER, CHAIRMAN OF THE AMERICAS SOCIETY; COCHAIRMAN OF THE U.S. BUSINESS COMMITTEE ON JAMAICA, AND THE CBI COALITION

Mr. ROCKEFELLER. Thank you, Mr. Chairman.

I am appearing here in my capacity as chairman of the Americas Society as well as the cochairman of both the U.S. Business Committee on Jamaica and the CBI Coalition. If I may, I would like to say just a few words about these groups to explain their interests.

The Americas Society was formed last year to pull together several different groups long concerned with Latin America and the Caribbean and to focus the private sector's efforts in this area more effectively and more efficiently.

The major component of the Americas Society is the Council of the Americas, at which I also serve as chairman. This nonprofit association by itself represents more than 200 U.S. companies who together have a substantial majority of U.S. private investment in Latin America and the Caribbean.

The U.S. Business Committee on Jamaica was formed at the request of President Reagan about a year and a half ago to stimulate U.S. investment in that nation and explore the best ways in which the public and private sectors could work together to assist economic redevelopment in Jamaica.

In addition to encouraging new foreign investments, our group has focused very strongly on helping indigenous small- and medium-sized companies. We are finding this to be a long-term task, but we are encouraged by the results to date and by the fact that in addition to a sister committee in Jamaica, which is also a private sector group, there are now also sister private sector committees in Venezuela, Canada, Germany, and the United Kingdom. I think this is an interesting and, as far as I know, an unprecedented fact in relation to assistance from the private sector to a specific country.

The CBI Coalition represents a broad range of not-for-profit groups concerned with the Caribbean Basin which are convinced that the Caribbean Basin Initiative is a critical step in strengthening that region, and that of course is the purpose of our being here today.

It is because of my experience with each of these groups that I am particularly pleased to have this opportunity to support the administration's Caribbean Basin Initiative Recovery Act. The Caribbean Basin Initiative responds directly and constructively to three lessons that I feel I have learned in both my current endeavors in the area and in prior endeavors as a banker and a private citizen.

The lessons are: First, the vitality of the some two dozen nations covered by the CBI is very much in the best interests of the United States.

Second, the U.S. private sector can and should play a greater role in assuring this vitality through trade, investment, and technical assistance; and,

Third, the U.S. private sector can only fulfill its potential with a supportive public sector climate, both in terms of U.S. policies and the policies of the host nations.

As the representatives of the administration have already pointed out today, the CBI seeks to recognize these lessons in three straightforward ways: First, to encourage trade the CBI would allow most exports from the region to enter the United States duty free, and assist nations in the area to replace policies of import-substitution with free-trade policies; second, to encourage private sector investment it would provide new tax credits to U.S. companies which were involved or which seek to be involved; and, finally, to help prime the pump and to improve the investment climate, the bill would call for a grant of an additional $350 million in direct economic assistance to the region this year.

While these steps are simple and relatively modest in relation to the need, they are of course not without some controversy. There are those, for instance, who feel that these actions will be at the expense of jobs and workers in the United States, and of course we have heard that question raised this morning already.

I personally do not believe that there is much substance to these arguments. Even if the CBI exceeded all expectations in its impact, it would involve a very minor amount of economic activity in competition with the U.S. economy. Moreover, it would have very positive offshoots in terms of potentially lowered consumer prices on a few goods and of a healthier market for U.S. exports, with some 42 million people the total population of the nations involved.

It is important that the collective self-interest of individual groups in our country not be allowed to destroy the CBI as termites do the foundations of a house. I think in this regard the introductory comments which I have just read of Secretary Shultz are very important in telling that the impact on our economy is likely to be very small indeed.

Others in this country have problems with tax incentives proposed, seeing them other than adequate or as overly generous. For my own part, of course, I would prefer some form of tax sparing to the presently proposed tax credits. I don't happen to agree with the Treasury Department's analysis of that. I think probably the best would be to have both tax credits and tax sparing, but I personally think that tax sparing would be a very beneficial thing and a very proper and fair thing to introduce. I understand that you will hear more later on this subject, which is a rather complex one, from a representative of Arthur Andersen. I hope you will have a chance to listen to that, because it is a highly technical but I think an important question.

The fundamental question, of course, is putting in place a mechanism that will work and work with maximum efficiency. And this may well require some trial and error overtime. I myself will be glad to respond to questions on this issue, and I'm sure that some form of tax benefit would be helpful in stimulating investments.

Still other critics have problems with the aid component, concluding again that it is either inadequate or in some cases too much, so that it is badly targeted. I would be the last to say that the United States has the perfect formula for distributing aid, especially in a way to encourage private investment, but I am firmly convinced tha the level of our aid in the Caribbean Basin and elsewhere is far below what it should be and that we are increasingly sophisticated in the application of the aid which is being given out both in the interests of the recipients and the United States.

I am also absolutely sure of one fact, namely that private investment in the Caribbean will only come with the prior strengthening of public sector infrastructure through bilateral and multilateral assistance. The $350 million proposed in the bill seems to me to be an absolute minimum spread across all the nations concerned, especially since only a minor portion of the total will in fact go for infrastructure; the bulk will go to alleviate severe balance-of-payments problems.

Finally, some critics voice concerns that efforts to help the Caribbean Basin will be viewed as unfair competition by the rest of Latin America and by Puerto Rico and the Virgin Islands. In certain instances these concerns are perhaps justified. But steps have been proposed, and they are being taken, I believe, to alleviate those possible dangers. I do not believe these concerns in this context constitute a valid reason to abandon the CBI, which in itself

11-310 O—82——7

does not threaten other areas. On the contrary, it should challenge us to expand the CBI concept in the future and create a more comprehensive trade, investment, and assistance policy for all of the Caribbean and Latin America nations including the Commonwealth of Puerto Rico and the Virgin Islands.

The fact is that CBI is a first step and only a first step. It is impossible to determine now exactly what shape its footprint will be in the future. It should not, however, be diminished in importance because it is a first step, rather it is something like man's first step on the surface of the Moon—properly enacted and monitored, the CBI can open up for us and our southern neighbors exciting new vistas of mutual cooperation and economic well-being.

It is very sad that despite decades of effort the United States still lacks a comprehensive development policy toward Latin America and the Caribbean, and for that matter toward the Third World as a whole.

We now have before us a wonderful opportunity, it seems to me, to begin to force and forge such a policy in a new framework which places emphasis on a proper balance between the respective roles of the public and private sectors. CBI cannot be all things to all people, nor does it pretend to be; but it can be a vital and substantive point of departure. The stakes are high for our many friends in the Caribbean who have put their faith in our help. The stakes are high for us in terms of our position and that of other critical regions of the world.

We long have argued the case for democracy and free enterprise in the Caribbean and Latin America as a solid antidote to the empty rhetoric of totalitarianism as preached by Castro. Now, it seems to me, is the time to add further substance to our own words and strengthen lasting models of just what we mean.

For all these reasons, I and the members of the organizations that I represent urge you and your colleagues to move expeditiously to set the Caribbean Basin Initiative into action. This is an opportunity that if missed will not soon return, if at all. Positive action such as that proposed by CBI, on the other hand, can set in motion a process that will benefit the hemisphere and our own Nation for decades to come.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Mr. Rockefeller. We will hope to complete hearings on this proposal this week. We are trying to schedule another hearing on Friday, following the action on the revenue increase and spending reduction proposal.

I must go next door to a tuition tax credit meeting, but Senator Chafee will chair the hearings. We appreciate very much your testimony. I hope I will be back in time to hear the Governor and the Commissioner and the other witnesses, including Sam Segnar. Thank you very much.

Just as an aside, in your old line of work, are you as optimistic on interest rates? I was just handed a wire copy that said the prime is down to 15 percent, and even some indication that there may be a further drop. Do you have any inside information you could pass on just privately to this group? [Laughter.]

Mr. ROCKEFELLER. I'm afraid I no longer have any inside information. I think that it looks a little bit encouraging that interest rates might continue a somewhat downward trend the rest of this year, but I would think it would be unduly optimistic to expect that they are going to remain down or go to levels that we have been familiar with in the past, at least until we have been able to deal with inflation and also in balancing the Federal deficit.

The CHAIRMAN. Well, we think we have helped that along with our Finance Committee bill and with Senate action on that. I hope you agree.

Mr. ROCKEFELLER. Well, I think it's better to have $114 billion than $180 billion, but I think substantially below $100 billion would be a lot better.

The CHAIRMAN. I'll be back.

Mr. ROCKEFELLER. Thank you.

Senator CHAFEE. What we'll do is do the questioning of Mr. Rockefeller and then proceed with the Governor and Mr. Corrado's testimony.

Mr. Rockefeller, I think it's important that we reiterate the point that you made that this is really a very small area as far as affecting our total imports. I would like to quote from the statistics that Mr. Shultz gave. He said:

> The combined GNP of the Caribbean Basin countries amounts to less than 2 percent—less than 2 percent of the U.S. GNP. Our imports from there are less than 4 percent of our total worldwide imports, thus our total imports from there are 4 percent of our total imports, and those imports that would be affected by this are at present less than one-half of 1 percent of our total imports.

So I just don't think it is going to cause the mammoth dislocations in our Nation's economy that some seem to suggest. And I agree with you, I would hope we could move right along with this.

Senator Byrd?

Senator BYRD. Thank you, Mr. Chairman.

Mr. Rockefeller, I was interested in your comment on the need to get to a balanced budget and eliminate these huge deficits. I must say I'm greatly alarmed at the magnitude of these deficits. To me they are unbelievable, totally unbelievable. This country will have for 3 consecutive years, maybe 4 consecutive years, deficits exceeding $100 billion. I thought your appraisal in your reply to Senator Dole was accurate. I don't see how the interest rates can come down significantly over a long period of time with these deficits being as they are.

Let me ask you this about this particular legislation: Would you have any problem if the committee were to write into the legislation the elimination of Cuba and Nicaragua as beneficiaries?

Mr. ROCKEFELLER. I would think that the legislation as it is presently drawn, from what I understand, would effectively preclude any in going to either of those countries. Whether we would be better off to specifically mention them by name, I am not so sure. It seems to me unlikely that the Government of Cuba is going to change in the near future. I sort of like to feel that there is a possibility of some modification in the program of Nicaragua. If that were the case, it would be too bad to have them written out permanently. In other words, if we could find some way of bringing about a change to cause them to give more support to the private sector than they have, I would like to see the door left open to that. But at the present time I would think it would be inappropriate.

Senator BYRD. Of course, if there were a change in Nicaragua, the administration could always come back to the Congress and seek to change the legislation as might be enacted this year.

Mr. ROCKEFELLER. It might take a little time to do, though.

Senator BYRD. Well, Congress can act fast if it is necessary to do so. But, I agree with you, generally speaking it doesn't act very fast.

Thank you.

Senator CHAFEE. Mr. Matsunaga.

Senator MATSUNAGA. Thank you, Mr. Chairman.

Mr. Rockefeller, I wish first of all to commend you for the role which you have played through your various organizations such as the United States/Jamaican Business Council, the America Society, the Council for the Americas, and the CBI Coalition. Frequently, I think, more than Government officials, businessmen and those in the private sector can be effective in bringing about a climate which would be necessary for an initiative such as the CBI to succeed. I commend you for it. I'm sure that those of Puerto Rico and the Virgin Islands sometimes wish they had champions such as yourself. I might say even Hawaii would be happy to have a champion such as yourself. Because of the way the proposal is made, unless the safeguards are definitely installed, Puerto Rico, the Virgin Islands, and Hawaii, too, stand to suffer and perhaps even witness the passing of major agricultural businesses in the respective areas.

My question to you is, Will your organizations take into consideration and support those safeguards which we believe ought to be installed for the areas in our domestic industries.

Mr. ROCKEFELLER. I don't know that I would want to make such a blanket statement, in that I don't know just what you might be proposing, but certainly all of our committees are very mindful of the important role that Hawaii and Puerto Rico and the Virgin Islands play in our whole economy. and we want to see them remain very healthy. I think it is significant that as far as the U.S. business community in Jamaica is concerned, we have a very important group from Puerto Rico, and we have discussed this at length with the Governor. I think that the program in Jamaica is being pursued and recommended in the closest coordination with Puerto Rico. The Governor may want to comment on that later on.

We haven't had as much to do with Hawaii, merely because it is farther away, but we certainly would want to see any legislation fair to Hawaii as it would be to the United States in general. One would have to measure the impact of any particular aspect of the legislation in terms of the overall benefit to the country as a whole as compared to possible hurt to any specific group.

Senator MATSUNAGA. In summarizing your understanding of the CBI, you spoke of the proposed $350 million in direct assistance. Do you happen to know how that $350 million is proposed to be spent?

Mr. ROCKEFELLER. Well, my understanding is that most of it would be for balance of payment assistance rather than for infrastructure; and, based on the experience we have had in Jamaica, that seems to me to be a reasonable thing and would undoubtedly be helpful to the countries involved, because without that kind of balance-of-payments assistance they are not going to be able to develop their industries and hence increase their exports.

In Jamaica this is dramatically true. For example, they have not been able to do anything to help improve their hotels, which were so vital to the tourist industry, because they didn't have the foreign exchange to import the necessary materials. I think this can be very helpful.

Senator CHAFEE. Senator Baucus?

Senator BAUCUS. Thank you, Mr. Chairman.

Mr. Rockefeller, to some degree there are different interests here in this initiative. On the one hand American businesses will do a little better, to the degree that there are tax concessions; second, ideally people in these countries will do a little better because their economic benefits; third, arguably, our national security is enhanced. And to some degree there the three parts of this initiative, that is, the tax concessions, the trade barrier reductions, and the direct aid, serve those various interests. The three parts of the program, though, could be changed to tilt toward one of the interests rather than the other; that is, if this is entirely a tax concession initiative, I suppose it would help American business greater than if it were not entirely a tax concession initiative.

My question to you is: Would you change in any way the mix of tax concessions, trade barrier reductions, and direct aid, from the point of view of our national security, only?

Mr. ROCKEFELLER. My feeling is that all three are necessary, and that in terms of an initial incentive to business to invest more in that part of the world, the tax incentives may be the least important. I say that simply because for a business to invest in a foreign country, or indeed at home, but particularly in a foreign country, the first thing they look to is political and economic stability, the climate for investment, and the likely prospects for a return—not only in 1 year but over a period of time. And the economic conditions in many of these Caribbean countries has been very poor. That certainly is the case in Jamaica, that I am most familiar with.

The deterioration that took place in Jamaica during the 8 years prior to Prime Minister Sayaga's coming as Prime Minister was such that you couldn't turn that around in a short space of time.

Senator BAUCUS. I understand that, and I think from a business point of view that is probably correct; even from the point of view of American national security that is probably correct, too. But what guarantee do we have that these forms of aid will get to the people more efficiently or to a greater degree than other forms of U.S. aid in the past? I mean, we all like to think that it will; but how do we know that it will?

Mr. ROCKEFELLER. I don't suppose there is any absolute guarantee, but I would hope that those administering the program would make available funds to those countries under conditions that they felt would be likely to create the kind of climate that is needed. Certainly that is true in the aid being given to Jamaica.

Senator BAUCUS. You say you "hope that that's the case." Is there anything in this initiative that makes that the case? Are there these conditions?

Mr. ROCKEFELLER. I think that the Government at the present time is very well informed on what is going on in all of these countries. My experience has been that their understanding of both the needs of the country and of business needs for investment is good. Certainly, again referring to Jamaica, the cooperation between the U.S. Government, the private sector here, and the private sector of other countries has been excellent. So I think the prospects for effective utilization of these funds at the present time is the best it's been for a long time.

Senator BAUCUS. Do you think that the aid should be conditioned upon those conditions? That is, should we condition some of this aid more directly on whether it gets to the lower levels?

Mr. ROCKEFELLER. It would be according to how you would describe those conditions. I think the important thing is to make sure that the people who are administering the program understand the problem and the needs, and are sympathetic with it and are going to do it well. I think the more restrictive language you have, it sometimes is counterproductive. I am not sure that I quite envision a language that would be beneficial in making certain that it is spent the best way.

Senator BAUCUS. But do you think we should push in that direction? That is my question.

Mr. ROCKEFELLER. Surely.

Senator BAUCUS. Thank you.

Senator CHAFEE. Mr. Rockefeller, in your testimony you mentioned that you supported the investment tax credits, but you also regretted, as I understood your testimony, that the administration had not asked for tax-sparing.

Tax-sparing, I assume, is requiring the Caribbean nation to take some form of reduction in its taxes in order to be eligible for the tax credit to count for the American investors. Is that what tax-sparing means, as you use it?

Mr. ROCKEFELLER. No, Senator Chafee. It's quite a separate thing. It is a technical question, and yet its basic concept is not that difficult.

Our country has been trying to encourage nations to pass legislation which would encourage foreign investment, thereby improving the investment climate. And one of the things that they have done in many cases is to say—and of course, Puerto Rico has done this. They have said we will give a tax reduction to a company coming in to make an investment over a period of time, a reduction in their income taxes so as to give them an incentive to make the investment. But at the present time if a foreign country does that and as a result the earnings of the investor are increased, when those earnings are returned to the United States the U.S. Treasury taxes the increased earnings so that the benefit accrues to the Treasury and is taken away from the foreign country. In other words, in a way it is kind of a reverse subsidy. We are asking the foreign country to give concessions which benefit the U.S. Treasury. This seems to me to be inequitable and contrary to the best interests of encouraging foreign investment.

Tax-sparing simply means that the Treasury would recognize these benefits given by a foreign currency and would allow those funds to flow through to the parent without U.S. tax.

Senator CHAFEE. All right, fine. Thank you.
Any other questions, gentlemen?
[No response.]
Senator CHAFEE. Thank you very much, Mr. Rockefeller. We appreciate your coming, and as always you have been constructive.
Mr. ROCKEFELLER. Thank you.

PREPARED STATEMENT OF DAVID ROCKEFELLER

Mr. Chairman, my name is David Rockefeller, and I am appearing here in my capacity as chairman of The Americas Society, as well as a co-chairman of both the U.S. Business Committee on Jamaica and the new CBI Coalition.

Perhaps I should say a word about these groups.

The Americas Society was formed last year to pull together several different groups long-concerned with Latin America and the Caribbean, and to focus the private sector's efforts in this area more efficiently and effectively. A major component of The Americas Society is the Council of the Americas, of which I also serve as chairman. This non-profit association by itself represents more than 200 U.S. companies who together have a substantial majority of U.S. private investment in Latin America and the Caribbean.

The U.S. Business Committee on Jamaica was formed at the request of President Reagan to stimulate U.S. investment in that nation and explore the best ways in which the public and private sectors could work together to assist economic redevelopment in Jamaica. In addition to encouraging new investment, our group has focused very strongly on helping indigenous small and medium-sized companies. We are finding this to be a long-term task, but we are encouraged by the results to date and by the fact that—in addition to a sister committee in Jamaica—there now are also sister committees in Venezuela, Canada, Germany and the United Kingdom.

The CBI Coalition represents a broad range of not-for-profit groups concerned with the Caribbean Basin which are convinced that the Caribbean Basin Initiative is a critical step in strengthening that region.

It is because of my experience with each of these groups that I am particularly pleased to have this opportunity to support the Administration's Caribbean Basin Economic Recovery Act. The Caribbean Basin Initiative responds directly and constructively to three lessions I have learned in both my current endeavors in the area and in prior endeavors as a banker and a private citizen. These lessons are: *first,* the vitality of the some two dozen nations covered by the CBI is very much in the best interest of the United States; *second,* the U.S. private sector can and should play a greater role in assuring this vitality through trade, investment and technical assistance; and *third,* the U.S. private sector can only fulfill its potential within a supportive public sector climate, in terms both of U.S. policies and the policies of the host nations.

As the representatives of the Administration have pointed out today, the CBI seeks to recognize these lessons in three straightforward ways. To encourage trade, the CBI would allow most exports from the region to enter the U.S. duty-free, and assist nations in the area to replace policies of import substitution with free trade policies. To encourage private sector investment, it would provide new tax credits to U.S. companies which are involved or seek to be involved. To help improve the investment climate, it would grant an additional $350 million in direct economic assistance to the region this year.

While these steps are simple and relatively modest, they are not without controversy.

There are those, for instance, who feel these actions will be at the expense of jobs and workers in the U.S. I personally do not believe there is much substance to these arguments. Even if the CBI exceeded all expectations in its impact, it would involve a very minor amount of economic activity in competition with the U.S. Moreover, it would have very positive offshoots in terms of potentially lower consumer prices on a few goods and of healthier markets for U.S. exports to some 42 million people—the total population of the nations involved. It is important that the collective self-interest of individual groups not be allowed to destroy the CBI as termites do the foundation of a house.

Others have problems with the tax incentives proposed—seeing them either as inadequate or as overly generous. For my own part, I would prefer some form of targetted tax-sparing, and I understand that you will hear later on this subject from a representative of Arthur Andersen. The fundamental question, of course, is putting in place a mechanism that will with maximum efficiency. This may well inquire some trial and error over time. I myself will be gald to respond to questions on this issue.

Still others have problems with the aid component—concluding, again, that it is either inadequate or too much, or that it is badly targetted. I would be the last to say that the U.S. has the perfect formula for distributing aid—especially in a way to encourage private investment—but I am firmly convinced that our aid in the Caribbean Basin and elsewhere is far below what it should be and that we are increasingly sophisticated in the use of aid in the interests of both recipients and the U.S. I also am absolutely sure of one fact—private investment in the Caribbean will only come with the prior strengthening of public sector infrastructure through bilateral and multilateral assistance. The proposed amount in the bill seems to me to be an absolute *minimum* when spread across all the nations concerned, especially since only a minor portion of the $350 million addition will in fact go for infrastructure. The bulk will go to alleviate severe balance of payments problems.

Finally, some voice concerns that efforts to help the Caribbean Basin will be viewed as unfair competition by the rest of Latin America, and by Puerto Rico and the Virgin Islands. In certain instances, these concerns are justified, but steps have been proposed and are being taken to alleviate them. I do not believe these concerns in this context constitute a valid reason to abondon the CBI, which, in itself, does not threaten other areas. On the contrary, it should challenge us to *add to* the CBI in the future and create a more comprehensive trade, investment and assistance policy for *all* of the Caribbean and Latin America, including the Commonwealth of Puerto Rico and the Virgin Islands.

The fact is that CBI is a first step—and only a first step—and it is impossible to determine now exactly what shape its footprint will be in the future. It should not, however, be diminished in importance because it is a first step. Rather, it is something like man's first step on the surface of the moon. Properly enacted and monitored, the CBI can open up for us and our southern neighbors exciting new vistas of mutual cooperation and economic well-being.

It is very sad that—despite decades of effort—the U.S. still lacks a comprehensive development policy toward Latin America, the Caribbean, and the so-called Third World as a whole. We now have before us a wonderful opportunity to begin to forge such a policy in a new framework which places proper emphasis on the respective roles of the private and public sectors. The CBI cannot be all things to all people, nor does it pretend to be, but it can be a vital and substantive point of departure. The stakes are high for our many friends in the Caribbean who have put their faith in our help. The stakes are high for us in terms of our position and other critical regions of the world.

We long have argued the case for democracy and free enterprise in the Caribbean and Latin America as a solid antidote to the empty rhetoric of totalitarianism and Castro. Now is the time to add further substance to our own words and strengthen lasting models of just what we mean.

For all these reasons, I and the members of the organizations I represent urge you and your colleagues to move expeditiously to set the Caribbean Basin Initiative into action. This is an opportunity that, if missed, will not return soon, if at all. Positive action, on the other hand, can only set in motion a process that will benefit the Hemisphere—and our own nation—for decades to come.

Senator CHAFEE. Governor Romero, you have a statement. We welcome you here. We have the statement before us. If you wish to deliver it or to summarize it, that's entirely up to you; but certainly it will go into the record.

Governor ROMERO-BARCELO. Thank you, sir.

Mr. Chairman, I would like to deliver my statement.

Senator CHAFEE. All right. Why don't you proceed.

STATEMENT OF HON. CARLOS ROMERO-BARCELO, GOVERNOR OF PUERTO RICO

Governor ROMERO-BARCELO. Mr. Chairman and members of the committee, the President's proposed Caribbean Basin Economic Recovery Act is a bill in which I have taken great interest because its purpose is to implement an initiative which I am convinced can be of great benefit to Puerto Rico, to our Nation, and to our Nation's neighbors in the Caribbean area.

During 1981, my administration worked very closely with the Federal administration in formulating the program which the President make public on February 24, 1982, in an address to the Organization of American States. Subsequently I have collaborated frequently with the White House and the Department of State in explaining and advocating the Caribbean Basin Initiative in a variety of forums, including several meetings with heads of government or foreign ministers from nations located in the Caribbean region. In addition, government officials from Puerto Rico have traveled to such nations as Jamaica and Dominica, with State Department support, to move ahead on cooperative ventures which we ourselves had already been pursuing, and we are now undergoing one of those ventures with Jamaica.

Senate bill 2237 does, however, pose some potential problems for Puerto Rico, problems which could arise from increased foreign competition, particularly in the rum and tuna industries, and which must be addressed in order to prevent granting unfair competitive advantages to others at serious cost and injury to ourselves. Nevertheless, I am satisfied that once the tuna and rum difficulties have been addressed the bill will offer our island an array of exciting new opportunities which will more than offset any other difficulties it might cause. Especially noteworthy among the opportunities are those pertaining to Puerto Rico's anticipated role as a key instrument in the actual implementation of several important aspects of the initiative. The reason I underscore the tuna and the rum industries is because of the environmental aspects of those industries; we are required to meet them in Puerto Rico, but other countries would not be required to meet them, and they would be polluting the Caribbean waters at the same time they were being given incentives—plus the fact that in the fishing industry we are also not allowed to use foreign vessels, though they would have the advantage of using foreign vessels and foreign crews at a much lower rates of pay, and these are the aspects of really unfair competition.

In addressing you today, however, I must report that during the past month a dark shadow has fallen across the entire spectrum of philosophical principles which form the basis for the Caribbean Basin Economic Recovery Act. Casting that shadow is the Tax Equity and Fiscal Responsibility Act of 1982, also known as H.R. 4961, which was approved by this committee on July 2, by the full Senate on July 23, and which this week is scheduled for consideration in the House/Senate conference committee.

Consequently, in the few minutes available to me at this hearing I must forego detailed comment on S. 2237 and concentrate instead on the alarming implications of language currently contained in H.R. 4961.

The commendable goal of S. 2237 is to increase Caribbean Basin stability by fostering social progress, private sector economic development, and the establishment and/or strengthening of democratic institutions of government.

Nowhere in the Caribbean Basin are social progress, private sector economic development, and democratic institutions of government more firmly rooted that in Puerto Rico, a community of 3.2 million American citizens. Moreover, because such a large percentage of Puerto Rico's development in all of these areas has occurred during just the past four decades, the people of our island are uniquely equipped to serve as a conduit for Federal assistance to our Caribbean neighbors.

We have much in common with our neighbors in terms of language, culture, climate, topography, and history, and we can speak from individual and collective experience in sharing with them successful techniques and strategies as well as in helping them to avoid mistakes.

The modernization and industrialization of Puerto Rico, a society which only four decades ago was as poor and as underdeveloped as some of the most disadvantaged Caribbean islands and nations are today, has been accomplished with the aid of Federal incentives that are similar to those proposed under S. 2237.

Let me just add here that 40 to 50 years ago Puerto Rico was known as the Caribbean poorhouse, and those who have visited Puerto Rico will find it almost impossible to imagine. We were poorer than the Dominican Republic, poorer than Jamaica, poorer than Haiti. The disease, the undernourishment, the lack of health facilities—40 to 50 years ago in Puerto Rico were just incredible.

Senator CHAFEE. What was your population 40 years ago? Do you know—roughly?

Governor ROMERO-BARCELO. Forty years ago? Forty years ago it was a little under 2 million people.

In 1940 Puerto Ricans endured an average life expectancy of about 46 years. Common denominators of everyday life included poverty, illiteracy, disease, and despair.

In 1982 problems persist, as must be expected on an island which has no income from mineral resources and which must cope with a population density of almost 1,000 persons per square mile, which is 15 times greater than the U.S. national average. It is the equivalent to putting the population of the 1970 census of the whole world within the confines of the United States. That would be about the density of the population in Puerto Rico.

Yet, in 1982 Puerto Ricans have achieved an average life expectancy of 74 years of age, which is actually greater than the U.S. national average; and 1 out of 24 Puerto Ricans is enrolled in an institution of higher learning, a figure which actually exceeds the national average on a per capita basis. Once known as the Poorhouse of the Caribbean, Puerto Rico—together with Martinique, Guadaloupe, and the U.S Virgin Islands—now possesses the highest standards of living south of the Rio Grande.

In a very real sense, then, Puerto Rico has been a remarkably successful laboratory for precisely the kind of development which the Caribbean Basin Initiative seeks to bring about in foreign lands; and, consequently, our island can be, as Federal officials have recognized, a resource, a valuable resource, in making the Caribbean Basin Initiative a success. Our example can serve as a source of inspiration, and our accumulated experience and expertise can serve as a source of education and training.

Our own desire to contribute in this regard is predicated in part upon our interest in helping others, by aiding the Nation in a worthy cause. But it is also based upon the firm conviction that a more prosperous and stable Caribbean will be of direct benefit to Puerto Rico and to the national interest in terms of commerce, service industries, joint manufacturing enterprises, and tourism.

Also of great significance in the context of the Caribbean Basin Initiative is Puerto Rico's value as a symbol. In consistently supporting our island's drive for economic development, the United States since World War II has demonstrated genuine concern for its Caribbean citizens. This policy, therefore, lends credibility to the Federal Government's more recently announced intention to begin demonstrating increased concern for the progress of other Caribbean basin peoples.

All of which brings us to the tax bill, H.R. 4961.

Until such time as residents of Puerto Rico acquire the full Federal political participation to which our American citizenship should entitle us, accompanied by appropriate transition measures to phase us into the Federal fiscal system, Puerto Rico will continue to need investment incentives such as, or similar to, those contained in section 936 of the Internal Revenue Code.

Just to give a brief historical perspective of section 936, the reason why there is no tax in Puerto Rico is because we have no representation and we have no vote in national elections. This is based on the principle of "No taxation without representation."

As Mr. Rockefeller testified here, one of the first things that any investor takes into account before he makes an investment is how secure is the investment, how stable is the economy, how stable is the area where they are going to invest? And Puerto Rico, even though it is recognized as being very politically stable and having a stable economy, yet the fact that it is not a State still gives a doubt as to what will happen in the future. So it means the additional incentives now as a territory that it would not need as a State.

To the extent that some corporations may have violated the letter or spirit of section 936, we fully support measures aimed at closing loopholes and terminating abuses. And indeed, both through changes in our local regulations and through discussions with the U.S. Department of the Treasury concerning administrative changes, we have cooperated completely in that regard.

We likewise acknowledge the urgency of reducing Federal budget deficits and are prepared to do our share to achieve that goal, as in fact we already have, since the Federal spending cutbacks of 1981 and 1982 have affected Puerto Rico far more severely than any State of the Nation on a per capita basis, even though Federal spending in Puerto Rico was lower, on a per capita basis, than in any State, even before the cutbacks began last year.

But the possessions' credit limitation contained in H.R. 4961 would do much more than close possible loopholes and correct suspected abuses. Its provisions are so drastic that its immediate effect would be to start a reversal of two generations of industrial progress in Puerto Rico and severely reduce our ability to continue advancing toward socioeconomic equality with the rest of the Nation.

If not amended in House-Senate conference, the changes to section 936 contained in the Tax Equity and Fiscal Responsibility Act will both betray the economic and social development opportunitites of millions of American citizens in Puerto Rico and at the same time send an ominous message to people throughout the hemisphere.

Confidence in the good faith of the United States has never been abundant in the Caribbean and Latin America, and, notwithstanding the merits of the U.S. position, the recent conflict in the Falklands has if anything increased the traditional hemispheric suspicions about the sincerity and depth of U.S. solidarity with its neighbors.

Far more disconcerting, however, would be the gutting of section 936—at the very moment that the United States proposes to enact a long-term, wide-ranging Caribbean Basin development plan this Nation would simultaneously be seriously and substantially reducing its economic development commitment to its own Caribbean citizens.

Just try to imagine, if you will, the signal this would send to each and every island and nation in the Caribbean Basin. To begin with, Puerto Rico would be so inundated with new and unwarranted economic hardships that we would no longer be able to play a vital role in the implementation of the CBI; nor could any Puerto Rican continue to support the program in the international arena, because obviously the first question put to us by foreign leaders would be, "How can you expect us to believe in this plan when the United States is turning around at the very same moment and abandoning its commitment to you?"

And that, of course, is really the bottom line, as far as S. 2237 is concerned. The pending tax bill would, if enacted in its current form, strip S. 2237 of all credibility and convert the CBI into a target of regional ridicule even before it gets off the ground.

There is already ample doubt in other lands about whether Washington will follow through on the long-term commitments implied under the initiative, despite my own efforts and those of other Federal, State, and local officials. But if the serious shortcomings of H.R. 4961 are not corrected, then I am convinced that S. 2237 may in practical terms become dead letter even before it emerges from committee.

So it is that I leave you today with a request for immediate action on the part of the Senate conferees who will meet tomorrow with Members of the House. I urge that the conference committee accept the recommendations of the President and the Secretary of the Treasury, and that the possessions' credit limitation be duly amended in accordance with the administration's compromise proposal, which has the support of the Government of Puerto Rico, and which will permit our island to continue both its internal development and its external evolution as America's gateway to the Caribbean.

I would like to add a conclusion to make sure you know that my statements are not intended in any way or manner to be a threat of withdrawing our support to the Caribbean Basin Initiative, as has been interpreted in some sectors of the press.

Our statement is one of concern. I feel that if the tax bill is approved as it has already been approved in the Senate, regarding section 936 to Puerto Rico, it would destroy the credibility of the Nation's willingness and desire to help in the Caribbean and Central America, and it would say, "How can you expect us to believe that you are going to maintain your desire and support if they have just pulled the rug from under your feet in Puerto Rico, and your economic development is being affected by these tax measures all of a sudden, without your support, without consultation with you?"

So, this is a grave concern that I have, and I have expressed this to Ambassador Kirkpatrick and to the State Department. I have spoken at length, also, to the Assistant Secretary for Latin American Affairs, Tom Enders, and to the White House. I have no doubts that in those conversations they shared very seriously our concerns.

Senator CHAFEE. Well, Governor, there is no question but what your concern has been expressed. We will not argue with that. Very ably expressed. I think what we might do now is to take the statement of Commissioner Corrada or any comments that you wish to make. Perhaps if you could summarize your statement because it is a little bit long and would take us quite a while. Could you do that, Mr. Corrada?

[The prepared statement of Hon. Carlos Romero-Barcelo follows:]

STATEMENT OF THE

HONORABLE CARLOS ROMERO-BARCELO

GOVERNOR OF PUERTO RICO

MISTER CHAIRMAN AND MEMBERS OF THE COMMITTEE:

THE PRESIDENT'S PROPOSED CARIBBEAN BASIN ECONOMIC RECOVERY ACT IS A BILL IN WHICH I HAVE TAKEN GREAT INTEREST, BECAUSE ITS PURPOSE IS TO IMPLEMENT AN INITIATIVE WHICH I AM CONVINCED CAN BE OF GREAT BENEFIT TO PUERTO RICO, TO OUR NATION, AND TO OUR NATION'S NEIGHBORS IN THE CARIBBEAN AREA.

DURING 1981, MY ADMINISTRATION WORKED CLOSELY WITH THE FEDERAL ADMINISTRATION IN FORMULATING THE PROGRAM WHICH THE PRESIDENT MADE PUBLIC ON FEBRUARY 24, 1982, IN AN ADDRESS TO THE ORGANIZATION OF AMERICAN STATES. SUBSEQUENTLY, I HAVE COLLABORATED FREQUENTLY WITH THE WHITE HOUSE AND DEPARTMENT OF STATE IN EXPLAINING AND ADVOCATING THE CARIBBEAN BASIN INITIATIVE IN A VARIETY OF FORUMS, INCLUDING SEVERAL MEETINGS WITH HEADS OF GOVERNMENT OR FOREIGN MINISTERS FROM NATIONS LOCATED IN THE CARIBBEAN REGION. IN ADDITION, GOVERNMENT OFFICIALS FROM PUERTO RICO HAVE TRAVELLED TO SUCH NATIONS AS JAMAICA AND DOMINICA, WITH STATE DEPARTMENT SUPPORT, TO MOVE AHEAD ON COOPERATIVE VENTURES WHICH WE OURSELVES HAD ALREADY BEEN PURSUING.

S.2337 DOES POSE SOME POTENTIAL PROBLEMS FOR PUERTO RICO: PROBLEMS WHICH COULD ARISE FROM INCREASED FOREIGN COMPETITION--PARTICULARLY IN THE RUM AND TUNA INDUSTRIES--AND WHICH MUST BE ADDRESSED IN ORDER TO PREVENT GRANTING UNFAIR COMPETITIVE ADVANTAGES TO OTHERS AT SERIOUS COST AND INJURY TO OURSELVES. NEVERTHELESS, I AM SATISFIED THAT, ONCE THE TUNA AND RUM DIFFICULTIES HAVE BEEN ADDRESSED, THE BILL WILL OFFER OUR ISLAND AN ARRAY OF EXCITING NEW OPPORTUNITIES WHICH WILL MORE THAN OFFSET ANY OTHER DIFFICULTIES IT MIGHT CAUSE. ESPECIALLY NOTEWORTHY AMONG THE OPPORTUNITIES ARE THOSE PERTAINING TO PUERTO RICO'S ANTICIPATED ROLE AS A KEY INSTRUMENT IN THE ACTUAL IMPLEMENTATION OF SEVERAL IMPORTANT ASPECTS OF THE INITIATIVE.

IN ADDRESSING YOU TODAY, HOWEVER, I MUST REPORT THAT, DURING THE PAST MONTH, A DARK SHADOW HAS FALLEN ACROSS THE ENTIRE SPECTRUM OF PHILOSOPHICAL PRINCIPLES WHICH FORM THE BASIS FOR THE CARIBBEAN BASIN ECONOMIC RECOVERY ACT. CASTING THAT SHADOW IS THE TAX EQUITY AND FISCAL RESPONSIBILITY ACT OF 1982, ALSO KNOWN AS H.R.4961,

WHICH WAS APPROVED BY THIS COMMITTEE ON JULY SECOND, BY THE FULL SENATE ON JULY TWENTY-THIRD, AND WHICH THIS WEEK IS SCHEDULED FOR CONSIDERATION BY A HOUSE-SENATE CONFERENCE COMMITTEE.

CONSEQUENTLY, IN THE FEW MINUTES AVAILABLE TO ME AT THIS HEARING, I MUST FORGO DETAILED COMMENT ON S.2337, AND CONCENTRATE INSTEAD ON THE ALARMING IMPLICATIONS OF LANGUAGE CURRENTLY CONTAINED IN H.R.4961.

THE COMMENDABLE GOAL OF S.2337 IS TO INCREASE CARIBBEAN BASIN STABILITY BY FOSTERING SOCIAL PROGRESS, PRIVATE SECTOR ECONOMIC DEVELOPMENT, AND THE ESTABLISHMENT AND/OR STRENGTHENING OF DEMOCRATIC INSTITUTIONS OF GOVERNMENT.

NOWHERE IN THE CARIBBEAN BASIN ARE SOCIAL PROGRESS, PRIVATE SECTOR ECONOMIC DEVELOPMENT, AND DEMOCRATIC INSTITUTIONS OF GOVERNMENT MORE FIRMLY ROOTED THAN IN PUERTO RICO, A COMMUNITY OF 3.2-MILLION AMERICAN CITIZENS. MOREOVER, BECAUSE SUCH A LARGE PERCENTAGE OF PUERTO RICO'S DEVELOPMENT IN ALL OF THESE AREAS HAS OCCURRED DURING JUST THE PAST FOUR DECADES, THE PEOPLE OF OUR ISLAND ARE UNIQUELY EQUIPPED TO SERVE AS A CONDUIT FOR FEDERAL ASSISTANCE TO OUR CARIBBEAN NEIGHBORS.

WE HAVE MUCH IN COMMON WITH OUR NEIGHBORS, IN TERMS OF LANGUAGE, CULTURE, CLIMATE, TOPOGRAPHY, AND HISTORY; AND WE CAN SPEAK FROM INDIVIDUAL AND COLLECTIVE EXPERIENCE IN SHARING WITH THEM SUCCESSFUL TECHNIQUES AND STRATEGIES, AS WELL AS IN HELPING THEM TO AVOID MISTAKES.

THE MODERNIZATION AND INDUSTRIALIZATION OF PUERTO RICO--A SOCIETY WHICH ONLY FOUR DECADES AGO WAS AS POOR AND AS UNDERDEVELOPED AS SOME OF THE MOST DISADVANTAGED CARIBBEAN ISLANDS AND NATIONS ARE TODAY--HAS BEEN ACCOMPLISHED WITH THE AID OF FEDERAL INCENTIVES THAT ARE SIMILAR TO THOSE PROPOSED UNDER S.2337.

IN 1940, PUERTO RICANS ENDURED AN AVERAGE LIFE EXPECTANCY OF ABOUT 46 YEARS. COMMON DENOMINATORS OF EVERYDAY LIFE INCLUDED POVERTY, ILLITERACY, DISEASE, AND DESPAIR.

IN 1982, PROBLEMS PERSIST, AS MUST BE EXPECTED ON AN ISLAND WHICH HAS NO INCOME FROM MINERAL RESOURCES, AND WHICH MUST COPE WITH A POPULATION DENSITY OF

ALMOST ONE THOUSAND PERSONS PER SQUARE MILE, FIFTEEN TIMES GREATER THAN THE U. S. NATIONAL AVERAGE.

YET IN 1982 PUERTO RICANS HAVE ACHIEVED AN AVERAGE LIFE EXPECTANCY OF 74 YEARS OF AGE, WHICH IS ACTUALLY GREATER THAN THE U. S. NATIONAL AVERAGE; AND ONE OUT OF EVERY 24 PUERTO RICANS IS ENROLLED IN AN INSTITUTION OF HIGHER LEARNING, A FIGURE WHICH ALSO EXCEEDS THE NATIONAL AVERAGE, ON A PER CAPITA BASIS. ONCE KNOWN AS THE "POORHOUSE OF THE CARIBBEAN", PUERTO RICO--TOGETHER WITH MARTINIQUE, GUADALOUPE, AND THE U. S. VIRGIN ISLANDS--NOW POSSESSES THE HIGHEST STANDARD OF LIVING SOUTH OF THE RIO GRANDE.

IN A VERY REAL SENSE, THEN, PUERTO RICO HAS BEEN A REMARKABLY SUCCESSFUL LABORATORY FOR PRECISELY THE KIND OF DEVELOPMENT WHICH THE CARIBBEAN BASIN INITIATIVE SEEKS TO BRING ABOUT IN FOREIGN LANDS. AND CONSEQUENTLY, OUR ISLAND CAN BE, AS FEDERAL OFFICIALS HAVE RECOGNIZED, A <u>RESOURCE</u>--A VALUABLE RESOURCE--IN MAKING THE CARIBBEAN BASIN INITIATIVE A SUCCESS. OUR EXAMPLE CAN SERVE AS A SOURCE OF INSPIRATION, AND OUR ACCUMULATED EXPERIENCE AND EXPERTISE CAN SERVE AS A SOURCE OF EDUCATION AND TRAINING.

OUR OWN DESIRE TO CONTRIBUTE IN THIS REGARD IS PREDICATED IN PART UPON OUR INTEREST IN HELPING OTHERS, BY AIDING THE NATION IN A WORTHY CAUSE. BUT IT IS ALSO BASED UPON THE FIRM CONVICTION THAT A MORE PROSPEROUS AND STABLE CARIBBEAN WILL BE OF DIRECT BENEFIT TO PUERTO RICO AND TO THE NATIONAL INTEREST, IN TERMS OF COMMERCE, SERVICE INDUSTRIES, JOINT MANUFACTURING ENTERPRISES, AND TOURISM.

ALSO OF GREAT SIGNIFICANCE, IN THE CONTEXT OF THE CARIBBEAN BASIN INITIATIVE, IS PUERTO RICO'S VALUE AS A SYMBOL: IN CONSISTENTLY SUPPORTING OUR ISLAND'S DRIVE FOR ECONOMIC DEVELOPMENT, THE UNITED STATES SINCE WORLD WAR TWO HAS DEMONSTRATED GENUINE CONCERN FOR ITS OWN CARIBBEAN CITIZENS. THIS POLICY THEREFORE LENDS CREDIBILITY TO THE FEDERAL GOVERNMENT'S MORE RECENTLY ANNOUNCED INTENTION TO BEGIN DEMONSTRATING INCREASED CONCERN FOR THE PROGRESS OF OTHER CARIBBEAN BASIN PEOPLES.

ALL OF WHICH BRINGS US TO H.R.4961.

UNTIL SUCH TIME AS RESIDENTS OF PUERTO RICO ACQUIRE THE FULL FEDERAL POLITICAL PARTICIPATION TO WHICH OUR AMERICAN CITIZENSHIP SHOULD ENTITLE US, ACCOMPANIED BY APPROPRIATE TRANSITION MEASURES TO PHASE US INTO THE FEDERAL FISCAL SYSTEM, PUERTO RICO WILL CONTINUE TO NEED INVESTMENT INCENTIVES SUCH AS, OR SIMILAR TO, THOSE CONTAINED IN SECTION 936 OF THE INTERNAL REVENUE CODE.

TO THE EXTENT THAT SOME CORPORATIONS MAY HAVE VIOLATED THE LETTER OR SPIRIT OF SECTION 936, WE FULLY SUPPORT MEASURES AIMED AT CLOSING LOOPHOLES AND TERMINATING ABUSES. AND INDEED, BOTH THROUGH CHANGES IN OUR LOCAL REGULATIONS AND THROUGH DISCUSSIONS WITH THE U.S. DEPARTMENT OF THE TREASURY CONCERNING ADMINISTRATIVE CHANGES, WE HAVE COOPERATED COMPLETELY IN THAT REGARD.

WE LIKEWISE ACKNOWLEDGE THE URGENCY OF REDUCING FEDERAL BUDGET DEFICITS, AND ARE PREPARED TO DO OUR SHARE TO ACHIEVE THAT GOAL, AS IN FACT WE ALREADY HAVE, SINCE THE FEDERAL SPENDING CUTBACKS OF 1981 AND 1982 HAVE AFFECTED PUERTO RICO FAR MORE SEVERELY THAN ANY STATE OF THE NATION, ON A PER CAPITA BASIS, EVEN THOUGH FEDERAL SPENDING IN PUERTO RICO WAS LOWER, ON A PER CAPITA BASIS, THAN IN ANY STATE, EVEN BEFORE THE CUTBACKS BEGAN LAST YEAR.

BUT THE POSSESSIONS CREDIT LIMITATION, CONTAINED IN H.R. 4961, WOULD DO MUCH MORE THAN CLOSE POSSIBLE LOOPHOLES AND CORRECT SUSPECTED ABUSES. ITS PROVISIONS ARE SO DRASTIC THAT ITS IMMEDIATE EFFECT WOULD BE TO START A REVERSAL OF TWO GENERATIONS OF INDUSTRIAL PROGRESS IN PUERTO RICO, AND SEVERELY REDUCE OUR ABILITY TO CONTINUE ADVANCING TOWARD SOCIO-ECONOMIC EQUALITY WITH THE REST OF THE NATION.

IF NOT AMENDED IN HOUSE-SENATE CONFERENCE, THE CHANGES TO SECTION 936 CONTAINED IN THE TAX EQUITY AND FISCAL RESPONSIBILITY ACT WILL BOTH BETRAY THE ECONOMIC AND SOCIAL DEVELOPMENT OPPORTUNITIES OF MILLIONS OF AMERICAN CITIZENS IN PUERTO RICO, AND AT THE SAME TIME SEND AN OMINOUS MESSAGE TO PEOPLES THROUGHOUT THE HEMISPHERE.

CONFIDENCE IN THE GOOD FAITH OF THE UNITED STATES HAS NEVER BEEN ABUNDANT IN THE CARIBBEAN AND LATIN AMERICA, AND--NOTWITHSTANDING THE MERITS OF THE U.S. POSITION--THE RECENT CONFLICT IN THE FALKLANDS HAS, IF ANYTHING, INCREASED THE TRADITIONAL HEMISPHERIC SUSPICIONS ABOUT THE SINCERITY AND DEPTH OF UNITED STATES SOLIDARITY WITH ITS NEIGHBORS.

FAR MORE DISCONCERTING, HOWEVER, WOULD BE THE GUTTING OF SECTION 936: AT THE VERY MOMENT THAT THE UNITED STATES PROPOSED TO ENACT A LONG-TERM, WIDE-RANGING CARIBBEAN BASIN DEVELOPMENT PLAN, THIS NATION WOULD SIMULTANEOUSLY BE SERIOUSLY AND SUBSTANTIALLY REDUCING ITS ECONOMIC DEVELOPMENT COMMITMENT TO ITS OWN CARIBBEAN CITIZENS.

JUST TRY TO IMAGINE, IF YOU WILL, THE SIGNAL THIS WOULD SEND TO EACH AND EVERY ISLAND AND NATION IN THE CARIBBEAN BASIN. TO BEGIN WITH, PUERTO RICO WOULD BE SO INUNDATED WITH NEW AND UNWARRANTED ECONOMIC HARDSHIPS THAT WE WOULD NO LONGER BE ABLE TO PLAY A VITAL ROLE IN THE IMPLEMENTATION OF THE C-B-I. NOR COULD ANY PUERTO RICAN CONTINUE TO SUPPORT THE PROGRAM IN THE INTERNATIONAL ARENA, BECAUSE OBVIOUSLY THE FIRST QUESTION PUT TO US BY FOREIGN LEADERS WOULD BE, "HOW CAN YOU EXPECT US TO BELIEVE IN THIS PLAN, WHEN THE UNITED STATES IS TURNING AROUND AT THE VERY SAME MOMENT AND ABANDONING ITS COMMITMENT TO YOU?"

AND THAT, OF COURSE, IS REALLY THE BOTTOM LINE, AS FAR AS S.2337 IS CONCERNED. THE PENDING TAX BILL WOULD, IF ENACTED IN ITS CURRENT FORM, STRIP S. 2337 OF ALL CREDIBILITY AND CONVERT THE C-B-I INTO A TARGET OF REGIONAL RIDICULE EVEN BEFORE IT GETS OFF THE GROUND.

THERE IS ALREADY AMPLE DOUBT IN OTHER LANDS ABOUT WHETHER WASHINGTON WILL FOLLOW THROUGH ON THE LONG-TERM COMMITMENTS IMPLIED UNDER THE INITIATIVE, DESPITE MY OWN EFFORTS AND THOSE OF OTHER FEDERAL, STATE, AND LOCAL OFFICIALS. BUT IF THE SERIOUS SHORTCOMINGS OF H.R. 4961 ARE NOT CORRECTED, THEN I AM CONVINCED THAT

S. 2337 MAY IN PRACTICAL TERMS BECOME A DEAD LETTER EVEN BEFORE IT EMERGES FROM COMMITTEE.

SO IT IS THAT I LEAVE YOU TODAY WITH A REQUEST FOR IMMEDIATE ACTION ON THE PART OF THE SENATE CONFEREES WHO WILL MEET TOMORROW WITH MEMBERS OF THE HOUSE: I URGE THAT THE CONFERENCE COMMITTEE ACCEPT THE RECOMMENDATIONS OF THE PRESIDENT AND THE SECRETARY OF THE TREASURY, AND THAT THE POSSESSIONS CREDIT LIMITATION BE DULY AMENDED IN ACCORDANCE WITH THE ADMINISTRATION'S COMPROMISE PROPOSAL, WHICH HAS THE SUPPORT OF THE GOVERNMENT OF PUERTO RICO, AND WHICH WILL PERMIT OUR ISLAND TO CONTINUE BOTH ITS INTERNAL DEVELOPMENT AND ITS EXTERNAL EVOLUTION AS AMERICA'S GATEWAY TO THE CARIBBEAN.

STATEMENT OF HON. BALTASAR CORRADA, RESIDENT COMMISSIONER, PUERTO RICO

Mr. CORRADA. Thank you, Senator. I will be pleased to do that. I ask that my full statement consisting of 3 pages of a short statement and 12 pages of a longer statement be made part of the record.

Senator CHAFEE. Yes. Well, if you want to read your short one, handle it any way you wish.

Mr. CORRADA. I will summarize from both and that will make it shorter.

Senator CHAFEE. Fine.

Mr. CORRADA. Mr. Chairman, President Reagan's CBI program represents the first comprehensive effort in 20 years on the part of the United States to stimulate economic development in that region. I believe it is a bold initiative that merits our support and merits the general support of the Congress as well as serious discussions and debate that must take place before enactment of the measure.

The governments of the countries in the region have been following the development of the CBI not only with great interest but also with raised expectations. They are eager to use the incentives provided for in the legislation to put into effect their own programs designed to attract investment of capital in their economies.

The impact of the CBI on the United States as a whole and on its territories in the Caribbean, Puerto Rico and the Virgin Islands in particular, should be favorable economically as new investment and trade opportunities are developed and politically as improvement of social conditions in the Caribbean Basin bring about further democratization.

Economic stability is a cornerstone to political stability. We cannot hope to have stable governments in the region until the people have the means to survive. Puerto Rico does not want to be right there in the middle of the Caribbean with economic development that is totally disassociated from the rest of the Caribbean Basin. We want economic development for Puerto Rico, but we also want to sit in a Caribbean Basin where prosperity and economic stability come about to the other regions, because if that doesn't happen we will be threatened by massive immigration from neighboring countries like the Dominican Republic and Haiti. We will be threatened by political instability in the area. And that is one of the reasons I am supporting the CBI Initiative.

At the same time, in developing the policy, it is important to adequately protect, preserve and further develop the Puerto Rican economy within the context of the CBI as well as in terms of the general responsibility of the Federal Government to provide for the well-being of the U.S. territories and possessions and Puerto Ricans as citizens of the United States.

In his letter to Congress dated March 17 transmitting to us the CBI bill, President Reagan states that "Puerto Rico and the U.S. Virgin Islands have a long-standing special relationship with the United States" and that "their development must be enhanced by our policy toward the rest of the region." In that context, the President reaffirmed his administration's commitment to certain treatment for Puerto Rico in the bill that I will not repeat, but I mention in my statement.

The specific concessions or safeguards are contained in the Caribbean Basin Economic Recovery Act bill sent by President Reagan to Congress. I am pleased with these features in the bill and urge you to make sure that any bill reported by the Committee retains and strengthens these provisions.

I am particularly concerned, members of the committee, with the need for additional safeguards and protection for rum and tuna. In the other body, the Subcommittee on Trade of the Ways and Means Committee strengthened the safeguards for rum. I am now seeking to, strengthen the provisions for tuna and I trust that this committee will look particularly into these two specific areas in improving the bill as it is considered by the committee.

Also, I would suggest that before tariffs are eliminated, particularly with reference to agriculture, the Secretary of Agriculture should conduct a study of any perishable agriculture products to determine the impact of duty-free treatment on domestic producers, including those in Puerto Rico, and only if the Secretary finds that domestic production will not be adversely affected, should tariffs be eliminated.

Finally, I would like to state, Mr. Chairman, and I join Governor Romero in his expression of deep concern about the tax bill, that our general support for the CBI is really predicated, of course, on the ability of Puerto Rico being able to retain Federal tax policies to enhance its economic development.

If section 936 of the Internal Revenue Code is changed drastically, as it is currently in the Senate tax bill, then, Mr. Chairman, the rug will be pulled from under our feet. There is no way that we could continue to support the CBI toward a policy of economic strengthening of the other countries in the Caribbean Basin at a time when we see that Puerto Rico is being adversely affected and that Congress would be emasculating a program of economic incentives to our own domestic areas as in section 936 with regards to Puerto Rico. Therefore, unless an agreement is reached in conference which modifies drastic changes to section 936, I would feel compelled, if such a bill is enacted, to withdraw my support from the CBI, very much to my regret because I think it is an important piece of legislation for the Caribbean. But there is no way that I can continue to endorse the CBI legislation when you are taking action that would further exacerbate the economic distress of the people of Puerto Rico by weakening our tax incentives.

If, as I hope, an agreement is reached during conference and the Governor and the Secretary of the Treasury have already struck a compromise that will be considered in conference, if that compromise is agreed, then, of course, I will continue to fully support, as I have in the past, the CBI, and, in fact, will urge the committee to expedite its consideration and enact this important legislation that will strengthen the role of the United States in the Caribbean and democracy in that region.

Thank you, Mr. Chairman.

[The prepared statement of Hon. Baltasar Corrada follows:]

STATEMENT OF RESIDENT COMMISSIONER BALTASAR CORRADA BEFORE THE COMMITTEE ON FINANCE, UNITED STATES SENATE, ON THE CARIBBEAN BASIN ECONOMIC RECOVERY ACT (S. 2237) - August 2, 1982

Mr. Chairman, Members of the Committee:

As I appear before you today to testify on the Caribbean Basin Economic Recovery Act, House and Senate conferees are beginning their discussions of the tax bill (H.R. 4961). That legislation, as approved by the Senate, makes drastic and damaging changes to Section 936 of the Internal Revenue Code, a cornerstone of the economic development of Puerto Rico during the past decades.

Mr. Chairman, you and all Committee members should be fully aware of the devastating impact the proposed changes would have on the economic development and the people of Puerto Rico:

- Between 15,000 to 30,000 jobs will be lost with the unemployment rate rising from 23.5 to 26.5%;
- Federal expenditure will rise by not less than $375 million by 1984;
- Puerto Rico's treasury will lose about $187.9 million in that same period, the equivalent of 9% of Puerto Rico's operating budget for FY 83;
- A downturn in the Puerto Rican economy anywhere from 10 to 25%;
- Exports will be reduced by not less than 20%;
- A reduction of 80% in 936 funds deposited in banking institutions and savings and loans (over $4 billion);
- Higher cost of money and inevitably higher interest rates;
- The collapse of several banking and savings and loans institutions with a corresponding loss to the Federal government of over $500 million;

- A loss of about 30,000 jobs in different states which are related to 936 corporations' economic activities in the U.S. economy;
- Economic development program will stall with no new investments, nor expansions.

In plain language, Mr. Chairman, the rug will be pulled out from under our feet if the amendments to Section 936 approved by this Committee and the Senate prevail in conference.

In letters dated July 27 to Chairman Rostenkowski and to Ranking Member Conable of the Ways and Means Committee, President Reagan wrote that the Senate bill "would discourage investments in Puerto Rico which are fully consistent with the original objectives of the United States possession tax incentives and are vital to the economic development of the island."

As you know, the Department of the Treasury and the Governor of Puerto Rico have agreed on compromise language regarding changes to Section 936 and related provisions. I have complete hope that the conferees will adopt the language agreed to regarding that matter. As you know, both Governor Romero-Barceló and I have been very strong and early advocates and supporters of the Caribbean Basin Initiative. I still believe that the idea is a good and solid one with the proper mix of trade and tax incentives. However, I also believe, to paraphrase the expression that "charity begins at home," that incentives to ensure and promote our domestic economic development must begin at home. It is one thing to help your neighbor; it is quite another to help him at the expense of your own well-being. And that, members of the Committee, is precisely what we would

- iii -

be doing if we enact the CBI legislation to give economic incentives to the nations of the Caribbean at the same time that we are emasculating a program of economic incentives to our own domestic areas as is Section 936 of the IRC.

It is thus with regret that I must state that, unless an agreement is reached in conference which modifies the drastic changes to Section 936 adopted by the Senate, I must withdraw my support of the CBI legislation. There is no way that I can continue to endorse the CBI legislation when you are taking action that would further exacerbate the economic distress of the people of Puerto Rico by weakening our own tax incentives.

If, as I hope, an agreement is reached during conference, I will continue to support the prompt enactment of the CBI legislation. With that in mind, I ask that my original full testimony in support of S. 2237, consisting of 12 pages and an Attachment A be made part of the record of this hearing.

I will be happy to answer any questions from members of the Committee.

I appear today before the Committee as the only official directly elected by the people of Puerto Rico to represent them in the Congress of the United States to testify on S. 2237, the Caribbean Basin Economic Recovery Act.

President Reagan's Caribbean Basin Initiative (CBI) program, represents the first comprehensive effort in 20 years on the part of the United States to stimulate economic development in that region. As such, this proposal merits general support of the Congress as well as serious discussions and debate that must take place before enactment of the measure.

The governments of the countries in the region have been following the development of the CBI not only with great interest but also with raised expectations. They are eager to use the incentives provided for in the legislation to put into effect their own programs designed to attract investment of capital in their economies.

Their people are ready to work to ensure a climate that is favorable to investors both from the United States as well as from other countries.

The impact of the CBI on the United States as a whole and on its territories in the Caribbean in particular, should be favorable economically as new investment and trade opportunities are developed and politically as improvement of social conditions in the Caribbean Basin bring about further democratization.

Economic stability is a cornerstone to political stability. We cannot hope to have stable governments in the region until the people have the means to survive: until hungry persons have food; homeless people shelter, and sick people health care, we cannot expect them to be receptive to our democratic ideas. And the way to meet these basic human needs is through the creation of jobs that give people dignity and the means to survive. And how do we create jobs? By attracting industry that will establish a long-term interest in the Caribbean Basin countries and invest capital there and by stimulating trade among the countries in the area and our country. This is precisely the purpose of the CBI.

From the beginning, Puerto Rico has followed with great interest and concern the policy as it has taken shape. Our interest is primarily threefold: First, as the sole Spanish-speaking area of the United States in the region, we stand as a critical bridge between the U. S. and the Caribbean Basin countries. Second, we share a common history, heritage, and geographic location with these countries and thus we have a deep and sincere interest in aiding their economic development. The stability that would be brought to the area through the increase of economic development and a more hopeful future for the residents of the region can only help to advance the interest of the United States and Puerto Rico in this area by reducing the appeal of the Cuban/Soviet model. Third, potential negative impact of the investment and trade components of the policy on the U.S. domestic areas in the Caribbean has to be averted to convert the CBI into a plus and not a minus to our economy.

One of the key elements for the success of the CBI must be the involvement of the private sector in manners that may bring about a partnership between our entrepreneurs and businessmen (Americans including Puerto Ricans) and their local counterparts in the Caribbean Basin countries and the development of fair business, trade and labor practices as a result of this effort. If this is accomplished we will be presenting to the peoples of those countries our own model for economic development in a positive and attractive way. On the contrary, if the investment and trade activities exacerbate exploitation of natural resources and labor in those countries and only help the rich to get richer, the policy will be counterproductive. Puerto Rico's experience in this sense is enlightening and offers a good example of how to do today in the Caribbean Basin countries what we have been successfully doing in Puerto Rico for the last thirty years and how to avoid some of our past mistakes.

In developing the policy, however, it is important to adequately protect, preserve and further develop the Puerto Rican economy within the context of the CBI as well as in terms of the general responsibility of the federal government to provide for the well-being of the U.S. territories and possessions and Puerto Ricans as citizens of the United States.

In his letter to Congress dated March 17 transmitting to us the CBI bill, President Reagan states that "Puerto Rico and the U. S. Virgin Islands have a long-standing special relationship with the United States" and that "their development must be enhanced by our policy toward the rest of the region." In that context, the President reaffirmed his Administration's commitment to the following treatment for Puerto Rico.

First, the accelerated cost recovery system (ACRS) and the investment tax credit (ITC) will be extended to property used by companies operating in Puerto Rico and the U.S. Virgin Islands.

Second, excise taxes on all imported rum will be transferred to Puerto Rico and the Virgin Islands and other measures may be taken by the President if rum revenues to Puerto Rico and the Virgin Islands are reduced, including the withdrawal of duty-free treatment of rum provided by this bill.

Third, inputs into Caribbean Basin production from Puerto Rico and the Virgin Islands will be considered domestic inputs from Caribbean Basin countries for purposes of the rules of origin. This will help Puerto Rico to develop the concept of "twin plants" and joint resource development with Caribbean Basin countries.

Fourth, industries in Puerto Rico and the Virgin Islands will have access to the same safeguard provisions as mainland industries under the Trade Act of 1974. This would allow industries, including agricultural and manufacturing industries, to petition the International Trade Commission for relief from serious injury or the threat thereof resulting from increasing foreign competition in the U.S. market. Such relief may include an increase in U.S. duties on foreign products or tariff-rate quotas or quantitative restrictions on imports or the negotiation of orderly marketing agreements or any combination thereof.

Fifth, the tropical agricultural research facility at Mayaguez, Puerto Rico will be used to further the agricultural development of the Caribbean Basin.

The specific concessions or safeguards are contained in the Caribbean Basin Economic Recovery Act bill sent by President Reagan to Congress. I am pleased by these features in the bill and urge you to make sure that any bill reported by the Committee retains and strengthens these provisions.

Despite these specific measures for Puerto Rico, we are still concerned about certain issues such as the bulk shipment of rum and imported processed tuna. The government of Puerto Rico is urging the Congress to amend the legislation to prohibit bulk shipments of rum duty-free while still allowing bottled rum to be shipped free of tariffs. Currently, there are no bulk rum shipments to the U.S. from other Caribbean countries. The purpose behind this suggestion is to protect the industry in Puerto Rico and prevent the loss of jobs. During mark-up by the Subcommittee on Trade of the Ways and Means Committee, an amendment was adopted to establish a quota system for imports of rum from the region. This amendment provides some additional protection to the rum industry and I trust it will be retained.

Puerto Rico's processed tuna industry presently accounts for over 40 percent of all United States production. Because of environmental regulations, labor and operating costs and the use of United States flag vessels in Puerto Rico, Caribbean Basin countries not covered by U.S. laws and regulations will be able to attract tuna companies presently operating in Puerto Rico, and other areas of the United States, and create serious unemployment in our domestic areas. The tuna industry is highly mobile and can be relocated out of the United States on short notice and at minimal costs. Tuna companies are businesses sensitive to pressure from other segments of the industry; if one company relocates, competition will force the others to also relocate. Thus, it is important that the legislation approved by the Congress contain adequate safeguards to protect our domestic tuna industry. I urge your Committee to give particular attention to the effect of the CBI on the canned tuna industry of the United States.

There are other assurances and concessions made to us by the Reagan Administration arising from the discussion with them of the CBI which will be addressed in separate bills or by other actions in addition to those specifically covered by the bill under your consideration.

In a fact sheet given to us by Reagan Administration officials the following commitments were made to us:

I. Agriculture

a. Crop Insurance - The Department of Agriculture will extend to Puerto Rico through the Federal Crop Insurance Corporation its reinsurance program no later than mid-1983 provided certain technical problems can be overcome.

b. Price Supports - The Department of Agriculture will extend to Puerto Rico price supports for rice and will consider the possibility of extending to Puerto Rico price supports for all commodities produced in Puerto Rico for which there is a U.S. price support program.

c. Puerto Rican Agricultural Development - The Federal government, through the Department of Agriculture or other agencies, will provide technical assistance to Puerto Rico upon request for the purpose of improving the productivity of the island's agriculture.

Technical assistance will also be given to Puerto Rico upon request in an effort to integrate the island's agricultural development with that of the Caribbean Basin as a whole.

The Federal government will also make greater use of the Tropical Agriculture Research Center, located in Puerto Rico, for the purpose of developing and implementing an integrated Caribbean Basin agricultural strategy.

II. Transportation

a. Air negotiations - The U.S. Government should seek to expand air routes between and through San Juan and foreign countries for American and foreign flag carriers.

In future bilateral air negotiations account will be taken of the vital importance of increasing foreign carrier entry into Puerto Rico. Prior consultation between Puerto Rican officials and U.S. negotiators should be undertaken regularly.

U. S. flag carriers should be able to take advantage of San Juan's status as the transportation hub of the Caribbean. For Caribbean nations, the U.S. should seek a liberal entry regime for U.S. carriers between Puerto Rico and Caribbean nations.

These policies should be negotiated with a view to achieving Puerto Rico's objectives, including the establishment of a Canada-Puerto Rico air route and new or additional air routes between Puerto Rico and Mexico, Venezuela, Brazil and the United Kingdom.

b. Cruise Ships - The Administration has endorsed an amendment to existing legislation to permit cruise ship passengers on foreign flag carriers to travel:

(1) between San Juan and other U.S. ports; and

(2) between U. S. ports and San Juan without restrictions as long as there exist no U. S. flag carriers available to provide adequate service between U. S. ports and San Juan or viceversa.

A bill I introduced to this effect, H.R. 1489, has been approved by the Subcommittee on Merchant Marine of the House Merchant Marine and Fisheries Committee. Full Committee action is scheduled for August 3 and I expect the bill will be approved and sent to the floor for prompt action.

The current restriction limiting the number of hours a cruise ship or cruise ship passengers can remain in the port of San Juan shall be extended from 24 hours to 72 hours.

c. Shipping to Puerto Rico - The Department of Transportation is studying carefully its regulations affecting cost of shipping for Puerto Rico, with a view to modifying those regulations where Puerto Rican economic development is being retarded. Consideration should be given to specific requests from Puerto Rico in the area of rate setting and financing vessels.

III. AID

AID Procurement - AID will make a strong effort to secure material inputs, technical assistance contracting and institutional support from Puerto Rico.

IV. Environmental Regulations

EPA will review, at Puerto Rico's request, the application of its regulations to the islands. EPA will endeavor to be more flexible in future application of regulations having a substantial impact on these areas.

V. Crude Refinery Facility

If justified by feasibility studies, the Departments of State and Energy will promote Puerto Rico as a center for refinery of heavy crude. The State Department and Department of Energy will bring to the attention of the region the possibility of using Puerto Rican facilities for heavy crude refining and the export of lighter crudes or products.

VI. Copper and Oil Explorations

The Federal government will continue to provide to Puerto Rico, where appropriate, technical assistance for the purpose of assisting the exploration and development of copper, oil or other natural resources.

VII. CBI Implementation

Puerto Rican officials are deeply interested in participating in the design and implementation of the CBI. The U.S. Government has in fact, consulted very closely with these officials on all aspects of the CBI and intends to continue to do so. Puerto Rican

11-310 O—82——9

officials will be invited to participate in many of the bilateral discussions involving CBI implementation.

While Puerto Rico will benefit by the proposed legislation and by other actions we must overcome major and growing economic problems. Some of these are structural: sharp increases in electrical, energy and transportation costs, unemployment of more than 22 percent, substantial underemployment and a labor force participation rate of about 41 percent versus more than 60 percent for the mainland. The latter reflects a large pool of people willing but not able to find work and insufficient technical and language training.

These structural problems in combination with the deep U.S. recession, ever growing low-wage country competition for Puerto Rican products in the U.S. market and existing and projected real reductions in federal aid make our development task massive.

For these reasons I believe it essential and I recommend that the Administration and the Congress address other important measures both in the context of the CBI as well as other federal policies in Puerto Rico:

1. Phasing in of equal treatment for Puerto Rico in federal programs from which we are excluded or where our share is below what we would receive if treated like a state. See attachment A.

2. Before tariffs are eliminated, the Secretary of Agriculture must conduct a study of any perishable agricultural product to determine the impact of duty free treatment on domestic producers, including Puerto Rico. Only if the Secretary finds that domestic production will not be adversely affected, should tariffs be eliminated.

As part of the same study, the Secretary should establish monthly sales levels of domestic produce, based on the sales for the 1st full year (or on a historical average if that better reflects domestic production). If sales of domestic products fall below these levels in any month, the current tariff should immediately be reimposed.

3. Continuation and strengthening of an Adjustment Assistance Program related to the CBI Initiative and establishment of an early warning system, to identify threatened industries and plants before they are damaged and to help them become more competitive, produce new products, save and expand jobs.

4. The extension to Puerto Rico, as proposed in the CBI bill, of the 1981 accelerated cost recovery system and investment tax credits and the extension of R & D benefits as major new development tools.

5. A strong federal policy for the development of maritime transportation including ports development, airport and ground transportation infrastructure in Puerto Rico is necessary to be consistent with the Administration's plans under CBI to develop Puerto Rico into a major transportation hub for the Caribbean.

6. Protection of bulk shipments of rum from Puerto Rico and the U.S. Virgin Islands by retaining the payment of duties on foreign rum shipped in bulk.

7. Exemption of prepared or preserved tuna from the duty-free treatment provided under the bill.

The three basic elements of aid, trade and investment utilized in the CBI proposal can get the job done if enough private industry interest is generated to stimulate the needed economic development and if the program is followed through and monitored to ensure that, once implemented, attention is continued to be focused on its objectives.

The success of the CBI is important if the countries of the region are to develop the economic potential that will enable them to meet the legitimate needs of their people. The investment made by the United States and the other donor countries (Canada, Mexico, Venezuela and Colombia) will in turn increase the trade between all countries in the region to the economic benefit of all concerned.

The market is there; ready to grow and expand. Since 1978, exports of goods and products from Puerto Rico to the CBI nations have more than doubled; for FY 1981 alone there was a 60% increase in exports from the previous year for a total figure of $491 million. It is clear that with efforts on both sides, the program can succeed and become a model of economic development through private investment.

Although some have criticized the proposal as "too little, too late," the Administration deserves praise for its efforts in addressing what is, admittedly, a difficult task. In closing, I want to again stress my full support on behalf of this initiative. In his recent address at a reception held at the OAS to gather support for the CBI bill, President Reagan restated that enactment of this legislation remains one of his priorities for the weeks left in this Congress. I share that hope and urge your Committee to expedite action on this important piece of legislation.

Thank you.

ATTACHMENT A

Characteristics of Unequal Treatment and
Estimated Additional Federal Assistance in 1979
Had Puerto Rico Been Treated Like a State

Federal Department	Program	How Puerto Rico's treatment differs from States	Estimated additional assistance under Statehood 1/ ($ million)
Education 2/	Elementary and Secondary Education (Title I)	Different allocation formula applied	$ 68
Health and Human Services 2/	Supplemental Security Income (SSI)	Excluded	304
	Aid to Families with Dependent Children and Adult Programs (AFDC)	Federal matching rate set at 75 percent and island funding subject to a ceiling for fiscal year 1979	62
	Social Services (Title XX of Social Security Act)	Instead of being included in the formula, $15 million are set aside for Puerto Rico	24
	Medicaid (Medical Assistance Program-Title XIX of Social Security Act)	Matching rate set at 50 percent and island funding subject to a ceiling in fiscal year 1979	82
Treasury	General Revenue Sharing	Not included	263
Plus: Earned Income Credit payments (See pp. 128 and 129.)			31
Less: Projected reduction in Food Stamps due to projected increases in SSI and AFDC payments			(113)
	Total		$721

1/Calculations are described in appendix III. In each case, we consulted Federal officials responsible for administering the programs, and they concurred with the methods for computing estimates.

2/Department of Health, Education, and Welfare in 1979.

Source: General Accounting Office Report to the Congress, Puerto Rico's Political Future: a Divisive Issue with Many Dimensions, March 2, 1981.

Senator CHAFEE. Well, thank you very much, Commissioner Corrada.

Governor, what is the compromise that has been struck with Treasury regarding section 936?

Governor ROMERO-BARCELO. Yes, several aspects. One of them is to distribute the profits of the subsidiary companies in Puerto Rico, the subsidiary corporations, in a 50-50 split right down the line between the parent company and the subsidiary. The other is to take into consideration the other alternative which would be left as an election to the companies, the section 936 corporations, would be to select on a profit and cost basis. If they have evidence that they really spent the money for the research and development of the product of the marketing intangibles in Puerto Rico, then those costs would be taken into consideration and the real profits would be then adjudicated together with the Treasury—the TRS.

The second is a very important factor. That is the companies in Puerto Rico, the section 936 companies, are allowed to have up to 50 percent of their income from passive sources, such as dividends or interest, and still be tax free. Now the Senate version has changed it that they must have 90 percent of their income from manufacturing activities. We have reached an agreement that this should be reduced to, instead of 50-50 as it is now, it should be reduced to 65-35 in 3 years: 55-45 the first year, 60-40 the second year, and 65-35 the third. In other words, 65 percent of the manufacturing activities, the income must come from manufacturing activities. In the passive income aspect, if the bill would go through as it is in the Senate version, that would immediately obligate companies to take out all their funds that they have deposited in the banks and also in the Government development bank. That would immediately bring about the closing of no less than two savings and loan associations in Puerto Rico and would seriously affect the banks and would seriously affect the Government which has used the 936 funds which have been deposited in the Government development bank, the loan to municipalities, the loan to the agencies and departments in Puerto Rico. They would have to find that money somewhere else at a time when interest is extremely high and money is not that available.

Senator CHAFEE. I see. Also, Commissioner Corrado went into some additional specifics indicating the effect in the unemployment rate. Senator Matsunaga.

Senator MATSUNAGA. Thank you, Mr. Chairman. First of all I wish to commend you, Governor Romero and Commissioner Corrado, for the effective manner in which you represent your constituents.

Governor ROMERO-BARCELO. Thank you, Senator.

Senator MATSUNAGA. And sometimes you may feel that maybe by declaring yourselves an independent nation, you might get greater assistance from the Federal Government, but I don't blame you because so often here in Washington we forget that Puerto Ricans are Americans and so are the Virgin Islands. Of course, I have been accused of being a Puerto Rican Senator from time to time, because I keep reminding my colleagues about the equal treatment which we should accord all Americans.

Governor ROMERO-BARCELO. We don't accuse you, Senator, we brag about it. [Laughter.]

Senator MATSUNAGA. Well, I, for one, am fully in accord with your representation. Unfortunately, I am not a member of the Conference Committee. They cut off that number at three, and I am No. 4 on the Democratic side, though I would strongly urge that you get a hold of the Conference Committee members and make your effective presentation as you have this morning.

I am somewhat concerned about the CBI effect on Puerto Rico, of course, as you have learned this morning. What is your present per capita income?

Governor ROMERO-BARCELO. The present per capita income in Puerto Rico is approximately $4,000.

Senator MATSUNAGA. Oh, so you've made considerable increase since 1980 when the last figures were made available?

Governor ROMERO-BARCELO. Definitely. Now, probably this year, 1982, when our gross state product for fiscal year 1982 is down 3.9 percent, the second time in the last 40 years that it has been down. Our income per capita might go down this year.

Senator MATSUNAGA. So at this stage your per capita income exceeds all of the Caribbean Basin?

Governor ROMERO-BARCELO. Well, not the per capita income. There is some like Trinidad and Tobago, because of the large oil investments and such a small population compared to ours; the Bahamas, maybe Guadelupe and Martinique and maybe Antilles and Virgin Islands might have a little bit more than ours, but when we talk in terms of standard of living, I doubt that the median standard of living in any of those areas is better or higher than in Puerto Rico, even though the per capita might be a little bit higher. The number of people with a large income in those areas would be proportionately much larger than in Puerto Rico because of the smaller population which tends to give you the wrong impression when you talk of per capita income, which is an average and not a median.

Senator MATSUNAGA. No further questions.

Senator CHAFEE. One of the very helpful points that you have made here is that you are an area that has done well and that you can stand as a beacon to the other countries. So I think that you should be commended for an excellent statement, Governor, and the Commissioner as well. We do appreciate your coming and the support that you are lending to this and we hope we can straighten out the 936 problems that you each raised.

Mr. ROCKEFELLER. Thank you, Senator.

Senator CHAFEE. Thank you very much for coming. We appreciate it.

Mr. ROCKEFELLER. Thank you very much, Senator. We appreciate it. Thank you for all your credits.

Senator CHAFEE. Mr. Sam Segnar.

STATEMENT OF SAM F. SEGNAR, CHIEF OPERATING OFFICER, INTERNORTH, OMAHA, NEBR., THE CBI COALITION AND CARIBBEAN-CENTRAL AMERICAN ACTION

Senator CHAFEE. Mr. Segnar, why don't you proceed. Do you have a statement? All right, fine. Why don't you proceed, Mr. Segnar.

Mr. SEGNAR. Thank you, Mr. Chairman, members and associates of the committee. My name is Sam F. Segnar. I am president and chief executive officer of InterNorth, Inc., which is a diversified energy company based in Omaha, Nebr. I am also here today in my capacity as chairman of Caribbean-Central American Action, which is a nonprofit organization of 60 corporations promoting Caribbean development and better United States-Caribbean relations. I am also here as one of four cochairmen of the CBI Coalition, which I think you know is a group supporting the legislation now before you.

First, I want to thank you for this opportunity to be here and particularly since I regard this legislation as one of the most important measures before Congress in this session. Along with other Americans with business interests and long-term experience in the Caribbean region, I am concerned about the economic pressures pushing these countries to the brink of disaster and, ironically, at a time when we see a new resurgence of popular and government support for free enterprise has been sweeping the region.

I applaud the present Caribbean Basin Initiative as a sound means of addressing immediate balance of payments problems, while building a foundation for a prosperous economic future in which Caribbean countries can pay their own way through trade and business growth.

I know that, as members of this committee, you are already familiar with the particulars of the bill and what the President's proposals entail. With your permission, I would like to submit for the record, along with my remarks to you today, a statement setting forth in some detail supporting points for the three chief conclusions I hope you will reach about the trade and tax provisions of this bill. And these conclusions are: First, the trade and tax incentives offered will, in fact, lead to increased U.S. investments in the Caribbean Basin and to increased exports of Caribbean goods to the United States. Second, this expanded trade and investment activity will, in fact, help the Caribbean Basin countries achieve their own economic development goals, build more prosperous and equitable societies and become less dependent on outside assistance. And third, the U.S. economy and our own businesses and workers will not suffer as a result and, in fact, in the longer term we will all benefit.

With these arguments in the record, I will confine my remarks to three related observations.

First, we must all recognize that we are not talking about aiding people in the Caribbean faced with a choice between helping one and hurting the other. Both in the short term and in the long term, our own economy can only benefit from increased prosperity in the Caribbean Basin. Americans sell to Caribbean countries more goods and services than we buy from them by quite a wide margin. As these countries increase their sales to us and their reserves of foreign exchange, we need not fear that this advantage to us would disappear.

As Prime Minister Compton of St. Lucia said during a recent visit, "If we are prosperous—that is the countries of the Caribbean—where do you think the money will be spent?" As a businessman, I am convinced that the entire Caribbean Basin represents a growth market for U.S. industry. As the economics of these countries develop and access to consumer goods spreads more widely through their population, demand for the kind of products that American business and labor can best supply will grow. This will mean more jobs and more business opportunities for us here at home.

At the same time, Caribbean imports represent surprisingly little potential competition for endangered U.S. industries. Because of the extremely small total volume involved, even the leading industrial exports from the Caribbean to the United States are technically less than 1 percent of total U.S. imports of the same item, not to mention the fact that all imported items represent only a portion of total U.S. consumption. A good example, and we've heard some of it this morning, is footwear, an item the House Ways and Means Committee, Trade Subcommittee voted to exclude from the CBI in an effort to protect the U.S. footwear industry.

An exclusion like this, however, would seriously damage a promising industry in the Caribbean, while letting the products in would, in fact, have a miniscule impact on the U.S. market. The fact is that while over half of the U.S. footwear sales now come from abroad and therefore the U.S. industry legitimately feels threatened, nevertheless, not even 1 percent of these products are of Caribbean origin. The region could double or even quintuple in production and still not make a noticeable dent.

A second observation I would like to make concerns the readiness of the U.S. private sector to take up the opportunities and challenges the CBI legislation would provide. It is fair to say that the trade incentives as well as the tax incentives will not only be harmless, but also meaningless if American business firms do nothing. This could be particularly embarrassing since so much hope has been engendered in the Caribbean and Central America by the CBI's promise of tapping the immense resources of the U.S. private sector and opening up the vast U.S. consumer market.

The fact that this is not, strictly speaking, a commitment which is in the power of the U.S. Government to deliver, does not mean that it should not have been made. It was made because both U.S. policymakers as well as the elected leaders of Caribbean countries realize there is no other way to achieve their economic development goals. What it does mean is that the success or failure of the whole effort will depend on the responsiveness and imagination of U.S. firms.

I would like to assure you as a businessman that U.S. business is up to the challenge. I am convinced that there is enough added interest in the region, enough added willingness to explore the unfamiliar and take on creative ventures there, as a result both of the specific incentives in this bill and of the overall climate of heightened awareness it will create, to make the CBI work.

American businessmen are strongly drawn to two aspects of the CBI effort. The genuine opportunities they will discover for profitable commercial operations in joint ventures in the region and the long-term concern we all feel, not only as business managers, but as Americans for the region's sound economic future and its implications for our own national security and well being.

My own company provides just one example. We have been involved in the Caribbean Basin for over 15 years with some 2,500 employees throughout the region. When we look at the CBI, we are not only thinking of ways our own operations might qualify for the 10-percent tax credit, or benefit from the removal of duties or products we might buy ourselves, we are equally looking at a way to avert a disaster we think of unspeakable proportions that could easily engulf the whole region: the possibility of wholesale economic collapse, the possibility of overturning democratic institutions, the possibility of desperation political turmoil and violence. We are looking at a scenario that could ultimately mean the drying up of markets many Americans have come to depend on: the loss of extensive existing investments and an environment making it impossible to continue doing business in the region at all.

We are looking as Americans at a possible scenario that would mean, at best, massive new waves of immigrants on our shores and, at worst, an enormous security problem very close to our borders. This, of course, is the down side, but it is equally important to keep it in mind.

But the other side from the U.S. business point of view, is the vast array of untapped opportunity that can be found in the Caribbean Basin once heads are turned in what has been that unfamiliar direction.

My final point is simply one of urgency. There are some who say that CBI is a fine idea and its aid as well as its trade and tax concessions are just what this country should be doing in the Caribbean, but they say the timing is wrong: not in a recession, not in a tax year, not in a deficit year, and not this year. If I could only leave you with one thought today, it would be this: I think that next year may be too late. We are indeed at a time when our resources are limited, but the most limited resource we have in this case is time itself.

The monetary concessions represented in the CBI bill are extremely modest. The $350 million proposed aid package is dwarfed by the $6.9 billion worth of U.S. products the Caribbean countries buy from us each year. The small amount of revenue foregone by the U.S. Treasury in removed import duties and claimed investment tax credits, will most probably be entirely recoverable in taxes paid by those investors over the years if the ventures are profitable and are, in any event, dwarfed by the millions we now spend to deal with immigration and the billions we would have to spend to insure our national security if the region were in turmoil or in hostile hands.

The Caribbean Basin Initiative is not a luxury to put off for a better day. It is a sound investment in good times and an even sounder one in harder times. We have to remember that the same economic conditions that are putting pressures on our home economy are daily operating in the Caribbean to make an already perilous situation worse.

The question is not whether we can afford the CBI at this time. The question is whether at this time can we afford its defeat or delay. I believe the answer to this question is "no," and I hope, Mr. Chairman, that you and your committee will agree and move the CBI legislation as rapidly as possible.

Thank you very much.

[The prepared statement follows:]

PREPARED STATEMENT OF SAM F. SEGNAR, PRESIDENT AND CHIEF EXECUTIVE OFFICER, INTERNORTH, INC., CHAIRMAN, CARIBBEAN/CENTRAL AMERICAN ACTION, COCHAIRMAN, CBI COALITION

Mr. Chairman, members of the committee—my name is Sam F. Segnar; I am president and chief executive officer of InterNorth, Inc., a diversified energy company based in Omaha, Nebraska. I am also here today in a different capacity as chairman of Caribbean/Central American Action, a non-profit organization promoting Caribbean development and better United States-Caribbean relations, and as one of four co-chairman of the CBI Coalition, a group supporting the legislation now before you.

First I want to thank you for this opportunity to be here, particularly since I regard this legislation as one of the most important measures before Congress this session. Along with other Americans with business interests and long-term experience in the Caribbean region, I have been concerned about the economic pressures pushing these countries to the brink of disaster, ironically at a time when a new resurgence of popular and government support for free enterprise as a development approach has been sweeping the region. We therefore strongly welcome and applaud the President's Caribbean Basin Initiative as a sound means of addressing the immediate balance-of-payments problem while building a foundation for a prosperous economic future in which Caribbean countries can pay their own way through trade and business growth.

I know that as members of this Committee you are already familiar with the particulars of the bill and what the President's proposals entail. With your permission I would like to submit for the record, along with my remarks to you today, a statement setting forth in some detail supporting points for the three chief conclusions I hope you will reach about the trade and tax provisions of this bill. These conclusions are:

First, that the trade and tax incentives offered will in fact lead to increased U.S. investment in the Caribbean Basin and to increased exports ot Caribbean goods to the United States;

Second, that this expanded trade and investment activity will in fact help the Caribbean Basin countries achieve their own economic development goals, build more prosperous and equitable societies, and become less dependent on outside assistance; and

Third, that the U.S. economy, and our own business and workers, will not suffer as a result.

With these arguments in the record, I will confine my oral remarks to three related observations.

First, we must all recognize that we are not talking about aiding people in the Caribbean at the expense of people in the United States. We are not faced with a choice between helping one and hurting the other, or vice versa. Both in the short term and in the long term, our own economy can only benefit from increased prosperity in the Caribbean Basin. Americans sell to Caribbean countries more goods and services than we buy from them. As these countries increase their sales to us, and their reserves of foreign exchange, we need not fear that this advantage would disappear. As Prime Minister Compton of St. Lucia said during a recent visit, "If we are prosperous"—that is, the countries of the Caribbean—"where do you think the money will be spent?"

As a businessman I am convinced that the entire Caribbean Basin represents a growth market for U.S. industry. As the economies of these countries develop, and access to consumer goods spreads more widely through their populations, demand for the kind of products that American business and labor can best supply will grow. This will mean more jobs and more business opportunities for us here at home.

At the same time, careful observation reveals that Caribbean imports represent surprisingly little potential competition for endangered U.S. industries. Because of the extremely small total volume involved, even the leading industrial exports from the Caribbean to the United States are typically less than one percent of total U.S. imports of the same item—not to mention the fact that all imported items represent only a portion of total U.S. consumption. A good example is footwear, an item the House Ways and Means Committee's Trade Subcommittee voted to exclude from the CBI in an effort to protect the U.S. footwear industry. An exclusion like this, however, would seriously damage a promising industry in the Caribbean, while letting the products in would in fact have a miniscule impact on the U.S. market. The fact is that while over half of U.S. footwear sales now come from abroad—and therefore the U.S. industry legitimately feels threatened—nevertheless not even one percent of these products are of Caribbean origin. The region could double or even quintuple its production and still not make a noticeable dent.

The same example points to the other reason why increasing the Caribbean Basin's share of our market will seldom be at the expense of domestic producers. The fact is that nearly all the areas that are most promising for new Caribbean production—labor intensive industries like electronic assembly, toy manufacturing, or apparel items like footwear—are areas where imports already account for a major part of U.S. sales. The principal effect of the CBI on this situation will be to permit Caribbean countries to compete more effectively with the current giants in the field—primarily Far East countries like Taiwan and Singapore—for a proportionately larger share in our current imports. No U.S. business will be affected because a small number of shoes that would have been bought from Singapore are bought instead from, say, St. Lucia.

In fact, since Caribbean countries are close enough to make co-production a feasible option, expansion of these industries in Caribbean countries may well mean a new lease on life for U.S. firms now teetering from foreign competition. By adding a production line in the Caribbean and retaining the more sophisticated operations at their domestic plant, they could save American jobs that would otherwise be lost.

A second observation I would like to make concerns the readiness of the U.S. private sector to take up the opportunities and challenges the CBI legislation would provide. It is fair to say that the trade incentives as well as the tax incentives will be not only harmless but meaningless if American firms in significant numbers do nothing to take up on them. This could be particularly embarrassing since so much hope has been engendered in the Caribbean and Central America by the CBI's promise of tapping the immense resources of the U.S. private sector and opening up the vast U.S. consumer market. The fact that this is not, strictly speaking, a commitment which is within the power of the U.S. Government to deliver on does not mean it should not have been made. It was made, after all, because both U.S. policymakers as well as the elected leaders of these countries themselves have finally realized there is no other way to achieve their economic development goals. What it does mean is that the success or failure of this whole effort will depend on the responsiveness and imagination of U.S. firms.

I would therefore like to assure you as a businessman that U.S. business is up to the challenge. I am convinced there is, and increasingly will be, enough added interest in the region, enough added willingness to explore the unfamiliar and take on creative ventures there—as a result both of the specific incentives in this bill and of the overall climate of heightened awareness it will create—to make the CBI work. American businessmen are strongly drawn to two aspects of the CBI effort—the genuine opportunities they will discover for profitable commercial operations and joint ventures in the region, and the long-term concern we all feel not only as business managers but as Americans for the region's sound economic future and its implications for our own national security.

My own company provides just one example. InterNorth has been involved in the Caribbean Basin for a decade, with some 2500 employees throughout the region, engaged in the production and marketing of industrial gas and other aspects of our business. When we look at the CBI, we are not particularly thinking of ways our own operations might qualify for the 10 percent tax credit, or benefit from the removal of duties on products we might buy or sell. We are looking at a way to avert a disaster of unspeakable proportion that could easily engulf the whole region—the possibility of wholesale economic collapse; the possibility of overturning democratic institutions in countries that have long enjoyed and treasured them; the possibility of desperation, political turmoil, and resort to violence. We are looking at a scenario that could ultimately mean the drying up of markets many American companies have come to depend on, the loss of extensive existing investments, and an environment making it impossible to continue doing business in the region at all. We are looking as Americans at a possible scenario that would mean—at best—massive new waves of immigrants on our shores, and at worst an enormous security problem on our border that our adversaries could exploit to our serious harm.

This, of course, is the downside—and it is important to keep it in mind. But the other side from the U.S. business point of view is the vast array of untapped opportunities that really can be found in the Caribbean Basin once heads are turned in that unfamiliar direction.

Two years ago when my company began a serious effort to look for new types of ventures in the Caribbean, even outside our traditional lines of products and services, the stimulus was quite frankly more political than commercial. I felt then—as I do now—that it is essential for U.S. firms, in the national interest and their own long-term business interests, to do something positive to help pro-American, pro-enterprise governments in the Caribbean, typified by Jamaica's Edward Seaga, to survive and prosper. They came to power promising their people a new partnership with American private enterprise, and I think we have to do our part to build that partnership.

What I have discovered in attempting to carry out that commitment is that real opportunities abound. Development in the Caribbean Basin isn't a burden to be left to aid specialists. Viable commercial enterprises are both feasible and highly desirable for both company and host country.

For the last four months my own company as had an employee spending time in the region with the specific task of identifying projects the countries need and we could undertake, either on a profit or non-profit basis depending on the project's nature. We came up with 29 five possibilities, which we have now narrowed to four. One will be a research center where new agricultural and industrial technologies can be tested, serving not only as an investment in itself but a stimulus for third-party investments in projects the center demonstrates to be feasible. We also have a vocational training arm that has already trained trainers in Jamaica and is looking at similar needs in Dominica and other Eastern Caribbean islands.

Though I use my own company as an example because I am familiar with it, InterNorth is by no means alone. Caribbean/Central American Action represents some 60 U.S. firms that have all committed themselves to work for Caribbean development. To fully activate this resource, we need the leadership and sense of national commitment that the Caribbean Basin Initiative will provide. And beyond this core group are innumerable smaller firms for which the specific trade and tax incentives the CBI will offer might make the difference in their ability to play a role.

My final point is simply one of urgency.—There are some who say the CBI is a fine idea, and its aid as well as its trade and tax concessions are just what this country should be doing in the Caribbean—but the timing is wrong. Not in a recession. Not in a tax year. Not in a deficit year. Not this year.

If I could only leave you with one thought from this encounter it would be this one: next year may be too late. We are indeed at a time when our resources are limited. The most limited of them all is time itself.

The monetary concessions represented in the CBI bill are extremely modest. The $350 million proposed aid package is dwarfed by the $6.9 billion worth of U.S. products the Caribbean countries buy from U.S. industry every year. The small amounts of revenue foregone by the U.S. Treasury in removed import duties and claimed investment tax credits will most probably be entirely recoverable in taxes paid by these investors over the years if the ventures are profitable, and are in any event dwarfed by the millions we now spend to deal with immigration, and the billions we would have to spend to insure our national security if the region were in turmoil or in hostile hands.

The Caribbean Basin Initiative is not a luxury to put off for a better day. It is a sound investment in good times, and an even sounder one in harder times. We have to remember that the same economic conditions that are putting pressures on our own economy are daily operating in the Caribbean to make an already perilous situation worse. The question is not whether we can afford the CBI at this time; the question is whether—at this time—we can afford its defeat or delay.

I believe the answer to that last question is "no."

Senator CHAFEE. Thank you, Mr. Chairman. Mr. Segnar, I take it from your comments that you are familiar with the area and you have personally done business there?

Mr. SEGNAR. Yes, sir.

Senator CHAFEE. And you think that this effort will be a stimulus to the economies and help with the poverty and reduce the immigration from there and the immigration to the United States?

Mr. SEGNAR. I certainly do.

Senator CHAFEE. Well, fine. Thank you very much.

Mr. SEGNAR. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Matsunaga.

Senator MATSUNAGA. Thank you, Mr. Chairman. Mr. Segnar, in making the statement and I quote:

> We are not talking for the most part about products to compete with domestically produced products, where new competition would mean harm to U.S. manufacturing firms and the loss of American workers' jobs.

Did you have Hawaii in mind also?

Mr. SEGNAR. No, sir, I did not.

Senator MATSUNAGA. You did not. I guess Hawaii is too far off into the Pacific to be considered in connection with the Caribbean Basin, but I suppose you were here earlier.

Mr. SEGNAR. Yes, sir, I was.

Senator MATSUNAGA. And you heard my expressions of concern about the safeguards which need to be provided within the act to insure that domestic industry, whether it be in Hawaii, Puerto Rico, Virgin Islands, or anywhere else in the United States, ought to be provided. Do you agree with that?

Mr. SEGNAR. Yes, sir. I agree in principle with what you say. It is certainly not my intent in supporting this legislation that, as I said in my comments, we would aid the Caribbean Basin at the expense of America. I think it is something that we can do together and that we can benefit together if we structure the program properly and I believe the President's initiative provides that structure.

Senator MATSUNAGA. In Hawaii we have had the experience of businesses such as the pineapple industry, for example, moving into foreign countries and taking lock, stock, and barrel the pineapple canneries from Hawaii to areas such as the Philippines and to Taiwan and elsewhere, notably Thailand, because of cheap labor in those areas. Where they had to pay $5 an hour in Hawaii to employ a steelworker, they could get by with paying 17 cents an hour and 27 cents an hour in a foreign country.

Now, do you suppose that American businesses will do likewise under the CBI: Move into Caribbean Basin countries for the purpose of avoiding high cost of labor and even to the extent of closing down plants and factories here in the United States proper?

Mr. SEGNAR. Senator, I don't think that what represents the potential in the Caribbean Basin is in the foreseeable future a significant threat to skilled American labor. The work force, in my experience, through most of the area is quite unskilled, that what we will see going there will be, in fact, labor-intensive operations but operations that require little or no skill, or such skill that can be quickly taught.

I don't see that as a threat in our country. I see it instead as really an opportunity. If we can, in concert from here to there, cause minor assembly operations or unskilled, again labor-intensive pieces of our particular products to become more competitive because we were able to first, indeed, use the lower wages there; but, second, provide badly needed jobs, that we, together, will benefit.

Senator MATSUNAGA. So that you don't think that it would worsen our unemployment situation here in the United States?

Mr. SEGNAR. No, sir. I do not.

The CHAIRMAN. Thank you, Senator Matsunaga. We especially appreciate this part of your statement, Mr. Segnar, and we certainly plan to move as quickly as we can on this legislation. There are some areas that we need to work out and I suggested this morning to the administration witnesses that they work with the full committee staff as well as members' staff. If we can work out some of those differences, and obviously some of them we probably can't, but we need to resolve all the issues we can. What we are concerned about primarily is not just creating another generous tax "incentive" that might be improper to use that might help some American companies avoid taxes, but might not do very much for the Caribbean Basin.

So, are you certain that the program is structured in a way that really provides more job opportunities, promotes industrial growth in the Caribbean Basin area? That is the big question we have. Can we do it, or is it just a great idea, something nice to talk about, and we spend $2 or $3 billion, only to find out that it didn't work. I guess we need some assurance in that what has been proposed will really work.

Mr. SEGNAR. I think the basic structure that is proposed, that is, with the initial money to help with the very severe balance-of-payments problems through the area, along with an effort to cause private enterprise to establish certain operations throughout the area, that we would be in a long-term, viable position to improve the conditions, living standards let's say, in the Caribbean. If the investments are made, and on evaluation, I think, be sound, it will be long-lasting. It won't be something that will happen today and be gone tomorrow.

The CHAIRMAN. Well, I thank you very much. We are also looking in this committee at legislation called enterprise zones, and we want to make certain that is also expedited, but it raises some of the same questions.

We might want to submit some questions in writing, if that is satisfactory to you.

Mr. SEGNAR. Yes, sir. That will be fine.

The CHAIRMAN. Thank you.

Our final panelists this morning are Mr. Stephen Koplan, legislative representative, AFL-CIO, and Mr. Leroy Weiner, president, Airway Industries, Inc., Ellwood City, Pa., accompanied by Mr. Stanley Nehmer, president of Economic Consulting Services.

I would say at the outset that your statement will be made a part of the record. You can summarize or any way you wish to proceed. The statements presented will be made a part of the record as given in full.

STATEMENT OF STEPHEN KOPLAN, LEGISLATIVE REPRESENTATIVE, AFL-CIO, WASHINGTON, D.C.

Mr. KOPLAN. Thank you, Mr. Chairman. I will summarize my statement and I appreciate the opportunity to have the entire statement appear in the record.

Mr. Chairman, I am accompanied by Elizabeth Jager, trade economist in our department of economic research.

The AFL-CIO appreciates this opportunity to present our views on the administration's Caribbean Basin Economic Recovery Act. On July 23, the AFL-CIO and Caribbean trade unionists met in Washington for discussion of this issue. The meeting demonstrated mutual recognition of the need for the trade unionists to be consulted on the plans and programs being considered by our respective governments for the development of the Caribbean economies. The AFL-CIO supports the need for this involvement of the trade unions of our respective countries in the Caribbean Basin Initiative proposals.

It is our primary duty in any such initiative to consider and protect existing jobs of workers of all concerned nations, including the United States, and the great need to create new job opportunities. This the U.S. Government proposal does not do.

The AFL-CIO supports direct economic assistance in the form of a supplemental appropriation for the Caribbean countries desperately in need of help.

We do urge, however, that the $350 million sum provided in the bill, be carefully scrutinized to determine whether that amount is appropriate for fiscal year 1982, and to review the proposed allocation of those funds. However, the AFL-CIO is strongly opposed to the trade and tax incentives contained in the bill. Those incentives will only serve to further weaken the U.S. industrial base by encouraging new runaways by U.S. industries to the Caribbean region, result in a quickening of lost U.S. jobs, skilled as well as unskilled, and create windfall benefits for non-Caribbean countries from the Soviet Union to the Far East, to funnel goods to the United States through these Caribbean countries.

Title I of the bill lists 28 countries in the Caribbean Basin as potentially eligible beneficiary countries for so-called one-way free trade with the United States; zero tariffs for 12 years on U.S. imports from those designated countries. At present, about 87 percent of the products of those countries. At present, about 87 percent of the products of those countries already enter the United States duty-free under the generalized system of preferences for less developed countries.

If S. 2237 is adopted, massive trade diversions from a flood of imports worldwide can be funneled through any one or any combination of these 28 Caribbean countries. Imports of virtually any product made anywhere in the world will also be able to penetrate the U.S. markets through the U.S. Virgin Islands, Guam, and American Samoa. All that will be necessary is the claim that 25 percent local content of the product originated in the Caribbean Basin region or in U.S. insular possessions.

Even GSP requires a higher local content requirement of 35 percent, or if more than one country is combined, the requirement under GSP is 50 percent. The ridiculously low local content provisions in S. 2237 make all industries in the United States subject to assault from imports without benefiting economies of the Caribbean.

Past experience has taught us that assembly and passthrough arrangements like those contained in the bill can be used to sidestep U.S. trade and tariff laws. The trade provisions of the bill contain no effective safeguards for U.S. industries against injury from imports.

The tax incentives proposed in title III are equally astounding. Just last year, the administration sold the Congress a package of business tax incentives that will result in hundreds of billions of lost revenues to the Treasury. This was done, ostensibly, to encourage increased investment and productivity in the United States. Pictures were painted of countless purchases of machinery and equipment, plants springing up all over our Nation, and, of course, shrinking unemployment lines. Now, in title III of the bill, the administration is proposing tax incentives that will decrease domestic investments. This is contradictory to the whole purpose of last year's tax bill that indicated its top priority was to increase domestic investment.

The total tax incentives in the bill amount to over $800 million, but that does not represent their real cost. When coupled with the bill's so-called trade incentives, the real cost will be higher U.S. unemployment caused by the manipulation of these proposals by the shippers who funnel worldwide U.S. imports through the Caribbean region. This will be accompanied by diminished U.S. investment in our own domestic industries and further decreases in U.S. industry's productivity.

In sum, the administration's trade and tax incentives are ill-conceived and unthinkable when balanced against the miseries brought by 9½ percent unemployment.

Mr. Chairman, there is a more intelligent and meaningful way to address the very real problems of the Caribbean Basin than what is proposed in S. 2237. The AFL-CIO experience demonstrates that development must be based on expanding the opportunities for the citizens of these countries, not by enhancing the benefits for multinational corporations.

Internal market growth with rising living standards, not trade diversions, should be the root to economic infrastructure that provides the real base for long-term improvements. It must involve improved education and training programs. In many countries it must include land reform programs and better means of encouraging internal self-investment rather than the continual exodus of capital to Miami banks. And certainly, a central element of development must be the assurance that the workers and people of the country become the chief beneficiaries of any development.

Thank you, Mr. Chairman.

[The prepared statement of Stephen Kaplan follows:]

SUMMARY OF STATEMENT OF STEPHEN KOPLAN,
LEGISLATIVE REPRESENTATIVE, DEPARTMENT OF LEGISLATION,
AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS
BEFORE THE SENATE FINANCE COMMITTEE ON THE
CARIBBEAN BASIN ECONOMIC RECOVERY ACT -- S. 2237

August 2, 1982

1) The AFL-CIO does support direct economic assistance in the form of a supplemental appropriation for the countries in the Caribbean Basin desperately in need of help. We do urge that the $350 million sum provided in S. 2237 be carefully scrutinized to determine whether that amount is appropriate for fiscal year 1982, and to review the proposed allocation of those funds.

2) On July 23, the AFL-CIO and Caribbean trade unionists met in Washington for discussion of this issue. The meeting demonstrated mutual recognition of the need for the trade unionists to be consulted by our respective governments for the development of the Caribbean economies. The AFL-CIO supports the need for this involvement of the trade-unions of our respective countries in the Caribbean Basin Initiative proposals.

It is our primary duty in any such initiative to consider and protect existing jobs of workers of all concerned nations -- including the U.S. -- and the great need to create new job opportunities. This the U.S. Government proposal does not do.

3) The AFL-CIO is strongly opposed to the trade and tax incentives contained in the bill. Those incentives will only serve to further weaken the U.S. industrial base by encouraging new runaways by U.S. industries to the Caribbean region, result in a quickening of lost U.S. jobs -- skilled as well as unskilled -- and create windfall benefits for non-Caribbean countries from the Soviet Union to the Far East.

4) If S. 2237 is adopted, massive trade diversions -- from a flood of imports worldwide -- can be funneled through any one or any combination of 28 Caribbean countries by satisfying a ridiculously low local content requirement of 25 percent for the Caribbean region or U.S. insular possessions.

5) The trade provisions of the bill contain no effective safeguards for U.S. industries against injury from imports. They are ill-conceived and unthinkable when balanced against the miseries brought by 9.5 percent U.S. unemployment.

6) The total tax incentives in the bill amount to over $800 million but that does not represent their real cost. The real cost will come from diminished U.S. investment in our own domestic industries and further decreases in U.S. industries' productivity. Additionally, the tax incentives will simply assure continued swollen profits for multinationals at the expense of the U.S. economy.

7) The AFL-CIO believes there must be a more intelligent and meaningful way to address the very real problems of the Caribbean Basin than the tax and trade provisions proposed in S. 2237.

STATEMENT OF STEPHEN KOPLAN,
LEGISLATIVE REPRESENTATIVE, DEPARTMENT OF LEGISLATION,
AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS
BEFORE THE SENATE FINANCE COMMITTEE ON THE
CARIBBEAN BASIN ECONOMIC RECOVERY ACT -- S. 2237

August 2, 1982

The AFL-CIO appreciates this opportunity to present our views on the Reagan Administration's "Caribbean Basin Economic Recovery Act," S. 2237.

At its February meeting, the AFL-CIO Executive Council made the following statement regarding the Administration's proposal: "aid in the development of Caribbean nations needs to be enhanced, but proposals for "one-way" free trade and additional investment incentives to U.S. firms for investing abroad should be rejected." (Full text of statement attached.)

AFL-CIO union members look upon those who live and work in the Caribbean Basin as their brothers and sisters -- in many cases this is literally the relationship. In addition, thousands of U.S. union members live and work in Puerto Rico and U.S. possessions in the region. These workers know the problems of runaway factories from the mainland and among the islands. Wage exploitation and massive unemployment that can develop from mismanaged policies are not new to them. Neither the workers in the Caribbean nor the workers in the United States want programs that cost one another jobs and thus lead to more unemployment. Yet that is the fear raised by the Administration's trade and tax incentive proposals.

On July 23, the AFL-CIO and Caribbean trade unionists met in Washington for discussion of this issue. The meeting demonstrated mutual recognition of the need for the trade unionists to be consulted on the plans and programs being considered by our respective governments for the development of the Caribbean economies. The AFL-CIO supports the need for this involvement of the trade unions of our respective countries in the Caribbean Basin Initiative proposals.

It is our primary duty in any such initiative to consider and protect existing jobs of workers of all concerned nations -- including the U.S. -- and the great need to create new job opportunities. This the U.S. Government proposal does not do.

The AFL-CIO supports direct economic assistance in the form of a supplemental appropriation for the Caribbean countries desperately in need of help. We do urge, however, that the $350 million sum provided in S. 2237 be carefully scrutinized to determine whether that amount is appropriate for fiscal year 1982, and to review the proposed allocation of those funds.

However, the AFL-CIO is strongly opposed to the trade and tax incentives contained in the bill. Those incentives will only serve to further weaken the U.S. industrial base by encouraging new runaways by U.S. industries to the Caribbean region, result in a quickening of lost U.S. jobs -- skilled as well as unskilled -- and create windfall benefits for non-Caribbean countries from the Soviet Union to the Far East, who funnel goods to the U.S. through these Caribbean countries.

The bill in Title I sets forth various criteria that are required for a country to be designated a "beneficiary country." All the criteria are designated to safeguard investments for those who may invest -- none require that the workers in those countries share in the benefits of such investment. We believe that a basic requirement for a country to participate in the Caribbean Basin program be that the workers in that country have the right to form unions and to bargain effectively concerning their wage and terms of employment. Without equal requirements for workers' rights, this legislation only protects the rights of those who invest money, not those who invest their work.

Title I of the bill lists 28 countries in the Caribbean Basin as potentially eligible "beneficiary countries" for so-called one-way free trade with the United States -- zero tariffs for 12 years on U.S. imports from those designated countries. However, the Administration admits that at present about 87 percent of the products of those countries already enter the U.S. duty free under the Generalized System of Preferences (GSP) for less developed countries. Its reason for blithely requesting absolute authority to "grant duty-free access for all Caribbean Basin imports with the exception of textiles and apparel covered by textile agreements" is mind-boggling. To quote Ambassador William Brock's statement before the Subcommittee on International Trade of the House Ways and Means Committee on March 17, it is because "there is uncertainty and fear in the Caribbean Basin about the future of the GSP program." On that same day, the General Counsel for the Office of the United States Trade Representative, Donald de Kieffer, testified in the Senate Appropriations Subcommittee on Foreign Operations that "many potential Caribbean exports have never been included in this scheme [GSP]. Other products have been eliminated from eligibility through the GSP petition process or by the competitive need limitations." For those reasons, according to Mr. de Kieffer, the trade provisions of the Caribbean Basin Initiative were crafted.

Mr. Chairman, why does the Administration choose to abolish the modest existing Congressional limitations for GSP benefits? Why does it instead expand those benefits massively beyond the 2,900 imported products now entering the U.S. duty free under GSP -- rather than deal directly with the future of the GSP program scheduled to end in 1984? The approach taken in S. 2237 makes a mockery of Congressional intent in 1974 when GSP was enacted.

The AFL-CIO opposed GSP in the Trade Act of 1974. But with all of its shortcomings, that law at least tailored GSP somewhat in an attempt to limit the damage: by exempting some specific import-sensitive products -- those products already heavily harmed by imports -- and allowing for removal of others. The GSP law also contains mechanisms to limit the dollar amount and the quantity of imports that receive the preference. S. 2237 would sweep away these protectives, minimal as they are.

If S. 2237 is adopted, massive trade diversions -- a flood of imports worldwide -- can be funneled through any one or any combination of these 28 Caribbean Basin countries. Imports of virtually any product made anywhere in the world will also be able to penetrate the U.S. market through the U.S. Virgin Islands, Guam and American Samoa. All that will be necessary is the claim that 25 percent local content of the product originated in the Caribbean Basin region, or in U.S. insular possessions -- even GSP requires a higher local content requirement of 35 percent -- or if more than one country is combined, the requirement is 50 percent.

The ridiculously low local content provisions in S. 2237 make all industries in the U.S. subject to assaults from imports without benefiting the economies of the Caribbean. If trade is to be used to help build healthy industries within the Caribbean countries, the bill should have much higher content provisions.

Past experience has taught us that assembly and pass-through arrangements like those contained in the bill can be used to side-step U.S. trade and tariff laws. For example, the American watch industry fought against the use of the Virgin Islands as an entry point for Soviet watches (which, it was claimed, were disassembled and assembled under trade rules in the Virgin Islands) some years ago. The arrangement merely helped destroy the U.S. watch industry. Job creation in the Virgin Islands was minimal. No watch industry developed there. But importers and foreign producers benefited.

The trade provisions of the bill contain no effective safeguards for U.S. industries against injury from imports. The bill empowers the President to designate any country as a beneficiary country if he "determines that such designation will be in the national economic or security interest of the United States and reports such determination to the Congress with his reasons therefor." Moreover, if injury is claimed by a U.S. industry, it is no longer sufficient for the International Trade Commission to determine under Section 201(b) of the Trade Act of 1974 that an article is being imported into the United States in such increase quantities as to be a substantial cause of serious injury. The bill imposes a new unrealistic burden on the ITC -- to determine that the injury results from the duty-free treatment afforded under the Caribbean Basin Initiative.

Mr. Chairman, U.S. imports rose sharply in 1981. The first 5 months of 1982 have shown a continued deterioration in the trade balance. In fact, the surplus of exports over imports in manufactured products changed to a deficit in the first 5 months of this year. Steel, autos, electronics, textiles, and other basic industries have been seriously hurt by the combined pressures of imports and recession.

The impact accelerated across manufacturing: apparel, tires, glass, hand tools, nuts and bolts, machine tools, roller bearings, semi-conductors, motor vehicle parts, canned fish, aircraft engines and spacecraft parts showed import surges in 1981 -- a nationwide problem for manufacturing and employment in those industries. Are American workers now to be sent a legislative message that for the next 12 years, U.S. trade policy will encourage a continuous loss of U.S. jobs in each of these products or parts of products as well as the more sophisticated manufactures that we were told would comprise this country's new industrial base?

It is mystifying that the Administration's trade incentives for the Caribbean Base Initiative are proposed at a time when our nation already has a 1981 trade deficit of $40 billion with the world that includes a $3.2 billion deficit with the Caribbean Basin countries. At the same time, the U.S. value of imports receiving GSP treatment has risen to $8.4 billion up from $3 billion just 6 years ago.

The tax incentives proposed in Title III are equally astounding. Just last year, the Administration sold the Congress a package of business tax incentives that will result in hundreds of billions of lost revenues to the Treasury. This was done ostensibly to encourage increased investment and productivity in the United States. Pictures were painted of countless purchases of machinery and equipment, plants springing up all over our nation, and of course, shrinking unemployment lines. Now in Title III of S. 2237, the Administration is proposing "an unprecedented extension for 5 years of the investment tax credit to property which is used predominately in certain Caribbean Basin countries and which would otherwise qualify for the domestic investment tax credit." The purpose of this proposal is admittedly to "encourage the placement of machinery and equipment in the Caribbean Basin." This is contradictory to the whole purpose of last year's tax bill, that indicated its top priority was to increase domestic investment.

Not only will the credit be allowed to a U.S. citizen, resident, or corporation investing in such property, but the credit would also be passed through to a U.S. shareholder who owns 5 percent or more in value of the outstanding stock of a foreign corporation. The purpose of this provision is to encourage new equity investment in the Basin that is permanent in nature. According to the Administration, its investment tax credit proposal will cost the Treasury about $50 million in 1983, and a total of nearly $300 million during the 5-year period of the extension. However, the actual costs could be much larger and the tax credit mechanism is like an open-ended appropriation.

In addition, the Administration proposes extending the newly enacted accelerated cost recovery system (ACRS) and the investment tax credit to U.S. corporations operating in Puerto Rico and U.S. insular possessions. It is ironic that the cost of this provision to the Treasury would have paid for the $100 million in trade adjustment assistance training monies originally supported by the Administration but in its judgment no longer affordable. Yet the purpose of this provision is to further the flight of business from the U.S.

The total tax incentives in the bill amount to over $800 million, but that does not represent their real cost. When coupled with the bill's so-called trade incentives, the real cost will be higher U.S. unemployment caused by the manipulation of these proposals by the shippers who funnel worldwide U.S. imports through the Caribbean region. This will be accompanied by diminished U.S. investment in our own domestic industries and further decreases in U.S. industries' productivity.

In sum, the Administration's trade and tax incentives are ill-conceived and unthinkable when balanced against the miseries brought by 9.5 percent unemployment. Such incentives for further increases in unemployment must be rejected.

The trade and tax incentives will not answer the problems that must be addressed to develop Caribbean nations. They will simply assure continued swollen profits for multinationals at the expense of the U.S. economy.

The U.S. contribution is not reflected in the so-called cooperative actions of Mexico, Venezuela, and Canada. The U.S. contribution needs to be re-examined in terms of more realistic approaches.

Mr. Chairman, there is a more intelligent and meaningful way to address the very real problems of the Caribbean Basin than what is proposed in S. 2237.

The AFL-CIO experience demonstrates that development must be based upon expanding the opportunities for the citizens of these countries, not be enhancing the benefits for multinational corporations. Internal market growth with rising living standards -- not trade diversions -- should be the route to economic development. These countries need help in developing the infrastructure that provides the real base for long-term improvements. It must involve improved education and training programs. In many countries, it must include land reform programs, and better means of encouraging internal self-investment, rather than the continual exodus of capital to Miami banks. And certainly, a central element of development must be the assurance that the workers and people of the country become the chief beneficiaries of any development.

The AFL-CIO urges that the Congress send the Administration back to the drawing board to design a more thoughtful plan of assistance to that area -- not a blueprint to further pauperize America. At the least, that plan should include recognition of the past effects of runaway industries in the Caribbean countries and the current plight of the U.S. economy.

Attachment: AFL-CIO Executive Council Statement on International Trade and Investment

Statement by the AFL-CIO Executive Council

on

International Trade and Investment

February 15, 1982
Bal Harbour, Fla.

The recession-bound U.S. economy continues to lose jobs and production, a trend aggravated by mismanaged trade policies and practices. The U.S. trade balance suffered a record $40 billion deficit in 1981. As the world faces recession, many nations are increasing their barriers to imports of U.S. goods and further subsidizing their exports to the U.S. The Reagan Administration is ignoring these facts.

The Administration's monetary policies have brought a high value to the dollar -- up 16 percent against major currencies since 1980 -- encouraging imports and retarding exports. These monetary policies have thus dealt a double blow -- a downturn at home and a disaster in trade from added imports and slackening exports.

U.S. basic industries, already in need of revitalization, have been severely injured by the impact of expanded imports on top of the recession. Steel has suffered import penetration of about 20-25 percent of the U.S. market since last August. Auto imports in 1981 increased their share of a falling market to 31 percent in January. Apparel imports were over 33 percent of the market. Machinery and machinery parts imports caused new concern in a weakened market. With import pressure mounting, virtually every type of manufacturing and related services felt the brunt of lost orders both at home and abroad.

Instead of imports declining as they usually do in a recession, products of more than one-quarter of the manufacturing industries showed a sharp import rise in the third-quarter of 1981 over the same period the year before -- these include such varied items as tires, glass, apparel, hand tools, nuts and bolts, machine tools, roller bearings, semiconductors, motor vehicle parts, canned fish, aircraft engines and spacecraft parts.

International Trade & Investment

Even America's newest industries, the so-called "high technology industries," are beginning to be hurt by imports. By January 1982, the New York Times was reporting that the United States had lost its lead in computer chip technology and production of aircraft. parts was expanded into closed economies -- including the People's Republic of China.

While imports of manufactured goods rose 13 percent in 1981, exports of manufactured goods were up only 7 percent. There has been inadequate attention to the composition of exports. The dollar value of exports does not tell the full story in terms of jobs and products. For example, the U.S. exports much raw material involving relatively little labor instead of manufactured goods and processed foods which require considerable labor input.

Instead of continuing trade adjustment assistance promised to workers injured by imports, the Administration's 1983 budget proposal calls for a mere 1 percent of the 1981 outlays for trade adjustment assistance and a complete end of the program in 1984.

The only recognition of the need to act in the U.S. interest was the conclusion of the Multifibre Arrangement.

The AFL-CIO calls upon the President and the Congress to undertake a number of specific measures in the trade area:

* placement of temporary restrictions on harmful imports during the term of the recession to prevent added penetration of U.S. markets by foreign producers and a further weakening of the U.S. industrial base.
* enactment of additional domestic content laws to protect endangered U.S. industries, such as H.R. 5133, which assures the continued U.S. capability to produce autos.
* speedy and effective handling of the dumping and subsidy cases in steel, to assure the promised redress for these unfair trade practices.
* ending of the President's continued authority to negotiate further tariff reduction.

International Trade & Investment

* assurance that a portion of U.S. raw material exports be processed in this country, so that export of products such as grain, logs, etc., is conditioned upon specific domestic processing.
* establishment of bilateral shipping agreements and adherence to cargo preference laws.
* extension of the "manufacturing clause" of the U.S. Copyright Law to protect against widespread losses of jobs in the printing industry.
* extension of Trade Adjustment Assistance to provide adequate compensation to those unemployed because of trade, and improve training, job search, and relocation aid to those displaced workers who need such help.
* commitment that foreign grant, insurance and loan programs, such as the Export-Import Bank, are carefully managed to safeguard U.S. interests at home and abroad. Despite defects of the Ex-Im Bank, funds must not be slashed until other countries cut or eliminate their subsidy programs. Ex-Im Bank funds and guarantees must not be extended to any Communist countries.
* aid in the development of Caribbean nations needs to be enhanced, but proposals for "one-way" free trade and additional investment incentives to U.S. firms for investing abroad should be rejected.
* vigorous enforcement of reciprocity provisions of the Trade Act must be undertaken.

The AFL-CIO believes that enforcement of the Trade Act and the fashioning of new remedies to assure a strong and diversified U.S. industrial structure are essential for America's well being.

###

STATEMENT OF LEROY WEINER, PRESIDENT, AIRWAY INDUSTRIES, INC., ELLWOOD CITY, PA.

The CHAIRMAN. Mr. Weiner.

Mr. WEINER. My name is Leroy Weiner and I am president of Airway Industries, Inc., a luggage company located in Ellwood City, Pa.

My appearance here today is on behalf of several trade associations and labor unions in the leather products industry whose members will be directly affected by the trade measures proposed in title I of the Caribbean Basin Initiative, S. 2237.

These organizations, which constitute the leather products coalition are: Amalgamated Clothing and Textile Workers Union, AFL–CIO; Footwear Industries of America, Inc.; International Leather Goods, Plastics and Novelty Workers Union, AFL–CIO, Luggage and Leather Goods Manufacturers of America, Inc.; National Handbag Association; United Food and Commercial Workers International Union, AFL–CIO, Work Glove Manufacturers Association.

These organizations certainly appreciate the opportunity of appearing and presenting information today.

Also here with me today is Stanley Nehmer, President of Economic Consulting Services, a consultant to these industries. These organizations have each submitted statements and I would ask that these statements be put into the record.

The CHAIRMAN. They will be made a part of the record.

Mr. WEINER. Thank you.

[The statements follow:]

Luggage and Leather Goods
Manufacturers of America, Inc.
350 Fifth Avenue
New York, New York 10118
212/695-2340

STATEMENT OF LEROY WEINER, PRESIDENT, AIRWAY INDUSTRIES, INC., ELLWOOD CITY, PENNSYLVANIA AND PAST PRESIDENT, LUGGAGE AND LEATHER GOODS MANUFACTURERS OF AMERICA, INC.

Beforé the Committee on Finance
United States Senate
On S.2237

August 2, 1982

My name is Leroy Weiner. My appearance before the Committee today is in my dual capacity as President of Airway Industries, Inc., a luggage company located in Ellwood City, Pennsylvania and as Past President of the Luggage and Leather Goods Manufacturers of America, Inc., the trade association representing domestic producers of luggage and personal leather goods. In addition, I am appearing as part of a coalition of leather products industries which is supportive of the basic objectives of the Caribbean Basin Initiative but whose goal is to seek an exclusion of their products from the free-trade aspects of the CBI. We strongly urge the passage of an amendment to S.2237 such as passed by the House Trade Subcommittee which exempts from duty-free treatment footwear, handbags, luggage, flat goods, work gloves, and leather wearing apparel.

The industries which comprise this sector share the traits of labor-intensity and import-sensitivity, characteristics which are also shared with the textile and apparel industry. We feel quite strongly that our products should receive an exclusion from duty-free treatment under the CBI similar to the exclusion being granted textiles and apparel.

I will confine my remarks today primarily to the anticipated negative effects of the CBI on the luggage and personal leather goods industries. First, let me provide you with some background information on these industries.

U.S. imports of luggage (including business cases) increased five-fold between 1975 and 1980, from $49 million to $243 million, during a time when real growth in the domestic market was only moderate, at best, and domestic shipments were on a downward trend. Moreover, in 1981 imports increased by a further 20 percent to $292 million and captured an even greater share of the U.S. luggage market, while domestic shipments declined by approximately 15 percent according to our estimate. Imports continue to increase by 6 percent in the first five months of 1982. Increasing imports have clearly been at the expense of domestic production. We estimate that imports now have at least 40 percent of the U.S. market.

The situation with respect to personal leather goods is similar. The term "personal leather goods" or "flat goods" includes such products as billfolds, key cases, eyeglass cases, cigarette cases, secretaries and coin purses of leather and other materials. In real terms, domestic shipments of personal leather goods have fallen since 1978, while imports have risen rapidly. Imports increased by 17 percent in 1981 to $84 million and clearly captured an even larger share of the U.S. market as domestic shipments declined by an estimated 15 percent. As with the luggage industry, imports of flat goods have been increasing at a time when the market has not been growing and, thus, imports are at the expense of domestic production. While import penetration in the personal leather goods industry has not yet reached the level achieved in the luggage industry, it is clear that the import market share is rising rapidly. We estimate that imports now have more than 30 percent of the U.S. market.

The luggage and personal leather goods industries have been fighting an uphill battle for self-preservation. We have sought exclusion for our products from the Generalized System of Preferences because of their import-sensitivity and have been successful, for the most part, at keeping most of our items from being added to the GSP list. Last year, the luggage industry sought, and received, a technical assistance grant of just under $250,000 from the Department of Commerce designed to aid import-impacted industries. The luggage industry has embarked on an extensive and ambitious program to improve its productivity, produce an even higher quality product, offer a better value to the consumer, and, in general, become more competitive. It makes no sense for the U.S.

Government, on the one hand, to help this industry become more competitive, and, on the other hand, to provide duty-free treatment for products that will only negate these efforts by virtue of increased imports.

With imports continually rising and no end in sight, and in light of the current state of the industry, it should be perfectly clear why we are so fearful of the free-trade aspects of the CBI. Quite simply, these import-sensitive industries cannot afford the further loss of market share which will undoubtedly occur if duty-free status is granted to imports from the Caribbean.

I would like to bring to the attention of the members of the Committee a fact with regard to the import situation which is too often overlooked in the desire of the United States to help developing countries. New foreign suppliers of imports to the United States do not displace traditional suppliers; rather they add to the already too vast pool of imports. In other words, increased imports of luggage or personal leather goods from the Caribbean will not be at the expense of other imports, for example, from the Far East, but will instead be at the expense of domestic producers. We have seen this happen numerous times as new country suppliers enter the U.S. leather products markets. We do not want to see this happen again. The United States imported almost $5 million of luggage and personal leather goods from the Caribbean in 1981, a figure which is already on the rise. At a time when total U.S. imports of luggage and personal leather goods combined increased by 19 percent between 1980 and 1981, imports of these products from the Caribbean increased by 61 percent. Even without cutting the duties, imports from the Caribbean are growing at a faster rate than overall imports.

I would also like to comment on the so-called safeguard measures available as part of the CBI or such as may be proposed as amendments to the bill. They will not work. They have not worked since the Trade Act of 1974 revised the "escape clause" procedures. During the six months that the International Trade Commission is investigating and the two months the President is considering what the ITC may recommend, imports will increase rapidly. This has been the case all too often since 1974. A vivid illustration of this phenomenon of rapidly increasing imports is easily found. Imports of luggage, <u>in one month alone</u> (November 1981) increased by 50 percent compared to imports in the same month in 1980. The situation of rapidly rising imports is already at hand, rendering future safeguards meaningless. Moreover, to bring such actions is time-consuming and costly, an expense our industries simply cannot afford. As it is now, these industries must repeatedly prove their import-sensitivity to the Executive Branch. Last year, when several petitions were accepted for GSP consideration with respect to luggage and personal leather goods, I had to appear in person at hearings on two separate occasions in Washington and we filed innumerable documents and letters. The cost and time involved, of course, would be substantially magnified if we had to prove injury from Caribbean imports under the "escape clause" procedures. This is an unacceptable burden for us and is, in fact, no "safeguard."

I have only one other comment I wish to make. I am disturbed regarding apparent inconsistencies between the anticipated effects of the CBI on industries such as these and the President's recent statement on small businesses. I believe he called us the "heart and soul" of the free enterprise system. I strongly believe that we are part of the foundation of the U.S. economy. Two out of three new jobs are created by small business. Airway Industries is a small business, but we are the third largest employer of workers in our section of Pennsylvania. We are also the employer of last resort for minorities and women. Airway employs three times, on a percentage basis, the number of racial minorities who reside in Lawrence County. And this county is suffering an unemployment rate of 13.1 percent (in April). The negative effects of the CBI are going to be felt most strongly and most devastatingly on industries made up of small businesses such as ours. In many cases we are already suffering from the effects of import competition. Enough is enough. Do not make the leather products industries and the small businesses of these industries pay for this policy initiative.

Leather related products must be excluded from duty-free treatment under the Caribbean Basin Initiative. We ask you to add our products to the exclusion being granted textiles and apparel. An amendment to Section 103(b) such as adopted by the House Trade Subcommittee meets our concerns with this legislation. I understand that Senators Heinz, Moynihan, Mitchell, Kennedy, Tsongas, Kasten, Cohen, Randolph, Bumpers, Humphrey, Helms, and Pryor will propose an amendment to S.2237 that will add the six leather-related products to the textile and apparel items already exempt from free zone status. I strongly urge passage of this amendment.

AMALGAMATED CLOTHING AND TEXTILE WORKERS UNION

MURRAY H. FINLEY
President

JACOB SHEINKMAN
Secretary-Treasurer

SOL STETIN
Senior Executive Vice President

SCOTT HOYMAN
Executive Vice President

AFL-CIO, CLC
15 UNION SQUARE • NEW YORK, N.Y. 10003
(212) 242-0700

TESTIMONY OF AMALGAMATED CLOTHING AND TEXTILE WORKERS UNION, AFL-CIO

MURRAY H. FINLEY, PRESIDENT
JACOB SHEINKMAN, SECRETARY-TREASURER

ON THE CARIBBEAN BASIN INITIATIVE
S. 2237

Before the Committee on Finance
U.S. Senate

August 2, 1982

Summary

The Amalgamated Clothing and Textile Workers Union, AFL-CIO represents workers in the textile, apparel, footwear and leather apparel industries. We support the President's initiative with regard to the Caribbean, but organized labor has concerns about S. 2237, specifically the one-way free trade aspects. American workers cannot be made to pay for this new initiative. No individual sector or group of sectors in our economy should bear an inequitable portion of the burden.

The import-sensitivity and import injury sustained by both the nonrubber footwear and the leather apparel industries are well documented. Footwear imports continued to increase 27 percent in the first five months of 1982 compared to the same period in 1981 and there is no immediate end in sight for import growth. With domestic production of footwear falling (14 percent in January-April 1982) import penetration has risen sharply to 60 percent. Import penetration for leather wearing apparel was approximately 56 percent in 1981 and imports continue to increase in 1982.

We believe that workers in the leather-related industries will be among the sectors hardest hit by the one-way free trade proposal. I urge the Committee to amend the current legislation to exclude shoes, leather apparel and other leather-related products from duty-free treatment similar to the exclusion granted textiles and apparel. Follow the example of the House Trade Subcommittee by adopting an amendment to Section 103 (b) of the legislation.

AMALGAMATED CLOTHING AND TEXTILE WORKERS UNION

MURRAY H. FINLEY
President

JACOB SHEINKMAN
Secretary-Treasurer

SOL STETIN
Senior Executive Vice President

SCOTT HOYMAN
Executive Vice President

AFL-CIO, CLC

15 UNION SQUARE • NEW YORK, N.Y. 10003
(212) 242-0700

TESTIMONY OF AMALGAMATED CLOTHING AND TEXTILE
WORKERS UNION, AFL-CIO

MURRAY H. FINLEY, PRESIDENT
JACOB SHEINKMAN, SECRETARY-TREASURER

ON THE CARIBBEAN BASIN INITIATIVE

S. 2237

Presented by Arthur Gundersheim
Assistant to the President and Director,
International Trade Affairs

Before the Committee on Finance
U.S. Senate

August 2, 1982

My name is Art Gundersheim, Director of International Trade Affairs for the Amalgamated Clothing and Textile Workers Union, AFL-CIO. In addition to representing workers in the textile and apparel industries, our Union of some 500,000 members also represents workers producing shoes and leather apparel.

We recognize the Caribbean area as one where political, economic, and social stability are so important to the security and the economic well-being of our own country. If the Caribbean policy is successful, it will help the free trade union movement in that area, which in itself will contribute mightily to the democratic process.

We support the President's initiative with regard to the Caribbean. It is important that its objectives are realized. But having said this I must make it clear that organized labor has concerns on its implementation which must be met if the new policy is not to cause hardship to firms and workers in this country. Here I refer specifically to the one-way free trade aspects of the Caribbean Basin initiative.

In the November 1981 Convention of the AFL-CIO the resolution on trade and investment included the statement:

> New proposals for trade arrangements with America's nearest neighbors, or with any other individual foreign country, should be based on a realistic assessment of the past and future impact of trade and investment not only in the host country but on specific parts of the U.S. economy and on U.S. workers.

What this means is that labor wants to help in this new initiative but it cannot be done at a price that we cannot bear. The new trade arrangement with the Caribbean cannot result in the closing of U.S. plants. American workers cannot be made to pay for this new initiative. No individual sector or group of sectors in our economy should bear an inequitable portion of the burden.

For these reasons, we believe that shoes, leather apparel, and other leather-related products should receive similar treatment to that being accorded textiles and apparel under the CBI and should be excluded from duty-free treatment, as was accomplished by the amendment to this legislation passed by the House Trade Subcommittee.

The import-sensitivity and import injury sustained by both the nonrubber footwear and the leather apparel industries are well documented. Nonrubber footwear was specifically excluded from the Generalized System of Preferences by the Trade Act of 1974. Leather apparel was removed from the list of eligible articles under the GSP because of its import sensitivity. The U.S. International Trade Commission found that imports were a substantial cause of the injury suffered by both the nonrubber footwear and leather apparel industries. However, at the present time there is no import relief in effect for either of these industries. Leather apparel did not receive relief, despite a unanimous finding of injury by the ITC in 1980. Similarly shoes were unanimously found by the ITC to continue to need import relief just last year. Once more workers and firms were rebuffed when the President terminated import relief on nonrubber footwear as of June 30, 1981. Thus, our people have no faith in the import relief mechanisms set forth in the Caribbean Basin Initiative. We cannot rely upon these avenues to seek relief when imports from the Caribbean increase because of duty-free treatment. Indeed, there is no option open to the footwear industry under the "escape clause" until July 1, 1983, 2 years after the expiration of import relief.

Both the nonrubber footwear industry and the leather apparel industry are suffering deeply from import penetration. Thousands of jobs have been eliminated in these industries as a result of increasing imports.

With respect to leather apparel, U.S. imports achieved tremendous growth during the latter part of the 1970's, rising from $131 million in 1975 to $318 million in 1978. After declining somewhat since 1978, concurrent with reduced domestic demand for these products, imports jumped more than 20 percent in 1981 compared to levels in 1980 and again by 20 percent in the first four months of 1982. Import penetration in 1981 was approximately 56 percent. We estimate that approximately one-half of the firms in the leather wearing apparel business in 1975 are no longer in business today or are no longer producing leather apparel, and that domestic production has declined by approximately 50 percent since that time. Both employment and average hours worked in this industry have also declined markedly.

With respect to footwear, our industry remains in serious trouble because of the unsolved import problems, aggravated by the termination of import relief by President Reagan in June 1981. Today, there are almost 11,000 fewer workers in this industry than in the first four months of last year. Imports increased 27 percent in the first five months of 1982 compared to the same period in 1981 and there is no immediate end in sight for import growth. With domestic production falling (a decline of 14 percent in January-April 1982), import penetration has risen sharply to 60 percent, substantially greater than import penetration on the order of 50 percent from which we have suffered in recent years.

Duty-free treatment for all imports other than textiles and apparel from the Caribbean has the potential for seriously affecting the footwear, leather apparel and other leather-related industries. We remain very concerned about a further loss of job opportunities for our workers. This country has a specific need for, and indeed an obligation to provide, entry-level or lower-skilled jobs to certain segments of the population who, for a variety of reasons, cannot readily find alternative employment. An economic base which supplies entry-level or low-skilled jobs to those segments of the population which cannot otherwise be employed is critically important for the United States. Unemployment and all its serious attendant social problems cannot be accepted as the norm for these workers. So long as our country remains a beacon for the dispossesed of the rest of the world and so long as we must rely on the private sector for job creation in our society, we absolutely need to preserve industries such as those in the leather products sector.

There is no one to bear the burden of increased domestic unemployment created by the CBI but the workers themselves.

There are likely to be no trade adjustment assistance benefits to help them along. Even welfare and unemployment benefits are being cut back in some areas. We believe that workers in the leather-related industries will be among the sectors hardest hit by the one-way free trade proposal, primarily because of the labor-intensity and import-sensitivity of these industries.

Shoes, leather apparel and other leather-related products should be excluded from duty-free treatment under the CBI. These industries have among the highest duty rates precisely because of their import sensitivity and these duties play an essential role in maintaining the viability of these industries. I urge the Committee to amend the current legislation to incorporate our products similar to the exclusion from duty-free treatment granted textiles and apparel. Follow the example of the House Trade Subcommittee by adopting an amendment to Section 103 (b) of the legislation.

Thank you.

STATEMENT OF FAWN K. EVENSON
FOOTWEAR INDUSTRIES OF AMERICA
BEFORE THE SUBCOMMITTEE ON INTERNATIONAL TRADE
SENATE COMMITTEE ON FINANCE
ON
THE CARIBBEAN BASIN INITIATIVE

INTRODUCTION AND SUMMARY

Footwear Industries of America (FIA) is a trade association representing domestic manufacturers of nonrubber footwear and suppliers to the footwear industry. We are pleased to have the opportunity to testify on S. 2237, the Caribbean Basin Initiative (CBI) proposal.

FIA recognizes the need to promote economic and political stability in the Caribbean region. However, we are concerned that duty-free imports of footwear from Basin countries, under the one-way free trade provisions of the CBI, will unfairly burden firms and workers in our industry. Imports have risen to an unprecedented 60 percent of the nonrubber footwear market in the first four months of this year; if Caribbean Basin beneficiaries are encouraged to export duty-free footwear to the U.S., footwear imports could grow even more, further threatening the domestic industry.

Therefore, we urge this committee to accept Amendment No. 1370, introduced by Senator Heinz and co-sponsored by Senators Mitchell, Moynihan, Kennedy, Tsongas, Cohen, Kasten, Randolph, Helms, Bumpers, Humphrey and Pryor, to exclude footwear from the duty-free provisions of the Caribbean Basin Initiative.

A companion amendment introduced by Congressman Ed Jenkins of Georgia has already been debated and passed by the Trade Subcommittee of the House Ways and Means Committee during its consideration of the CBI.

BACKGROUND

It long has been recognized that footwear is among the most import-sensitive industries in the U.S. and that it continues to be severely threatened by high levels of imports. The Congress acknowledged the import-sensitive nature of footwear by including non-rubber footwear in a list of articles specifically excluded from eligibility for Generalized System of Preferences (GSP) treatment under Title V of the Trade Act of 1974.

Further, the International Trade Commission (ITC) twice unanimously determined that imports seriously injured the domestic footwear industry. Following the second unanimous injury finding, import relief was granted to the industry in June, 1977, in the form of Orderly Marketing Agreements (OMA's) negotiated with Taiwan and Korea to limit imports from those two sources for four years (June 30, 1977 - June 30, 1981).

In April, 1981, The ITC concluded that footwear imports continued to injure the domestic industry, and recommended extension of import quotas on footwear from Taiwan, the largest single foreign supplier. The ITC further recommended that action be taken against surges from other countries whose imports undermined the import relief program and threatened the domestic industry. On June 30, 1981, despite the ITC's recommendation, President Reagan terminated the Orderly Marketing Agreements with both Taiwan and Korea.

Between 1977 and 1981, imports captured roughly one-half of the domestic nonrubber footwear market — the highest import penetration rate of any major industry. Since the beginning of this year, imports have increased at unprecedented levels — May saw an increase of 48 percent over the previous May. Import penetration for the first four months, the most complete data available, was 60.1 percent of our market - a level never reached before in our history. Production has declined by 14 percent and we have lost over 10,000 jobs; our employees are averaging 34 hour weeks and factories are closing from California to New Hampshire.

INJURY TO THE INDUSTRY COULD BECOME EVEN MORE SEVERE IF CARIBBEAN BASIN BENEFICIARIES ARE ENCOURAGED TO EXPORT DUTY-FREE FOOTWEAR TO THE U.S. FOOTWEAR EXPORTS FROM THE AREA CAN BE EXPECTED TO GROW DRAMATICALLY.

The Caribbean Basin Area clearly has the potential to develop its footwear industry. Footwear is considered an "easy-entry" industry; it is one of the earliest manufacturing industries encouraged by developing countries, because of their low-wages, and pool of semi-skilled labor. While current shipments from the region are only at 2 million pairs, historical trends indicate that a country can increase footwear exports substantially in a very short time period. For example:

— Imports from Singapore grew from 1,000 pairs in 1977 to almost 4.5 million pairs last year.

— Imports from Hong Kong rose from 8.7 million pairs to 28.3 million pairs between 1977 and 1981.

— Imports from the Philippines rose from 620,000 pairs in 1977 to 13.2 million pairs in 1981.

— Between 1977 and 1981, imports from Thailand grew from 120,000 pairs to 5.8 million pairs.

— Before political problems disrupted its industry, imports from El Salvador rose from a mere 53,800 pairs in 1977 to 3.4 million pairs in 1979.

Second, numerous Caribbean countries already have an indigenous footwear industry. (See Table I, attached) Again, many still are relatively small, but comparatively low capitalization requirements make expansion of capacity easy. Thus, the potential exists for rapid expansion of production and exports if the U.S. offers these countries duty-free treatment on footwear.

It also must be noted that imports from the Caribbean will be in addition to already high imports from other sources. They will not merely replace existing suppliers. While there has been some historical displacement of imports from other suppliers as new sources develop, the predominant effect of higher imports has been to reduce domestic production, not total imports from other nations.

For example, between 1968 and 1976, when imports from Taiwan and Korea rose by 183.7 million pairs, imports from the rest of the world did not decline; it was domestic production which fell by 220 million pairs, most of this due to the rise in imports. In addition, a number of relatively new entrants into the market have now gained a significant foothold in the U.S. It is unlikely that these now-established and growing suppliers to the U.S. market could be replaced or destroyed. Imports from Hong Kong, for instance, have held at over 20 million pairs (growing from 6.6 million in 1976), and at 28 million pairs in 1981, were 36 percent above year-earlier levels. Imports from the Philippines rose from almost nothing in 1976 to 14 million pairs in 1980. In fact, imports from the Philippines rose in 1980 in face of a general drop in consumption and imports. Singapore increased its imports from 2.9 million pairs in 1980 to almost 4.5 million pairs in 1981, a 50 percent growth, despite an overall growth rate in imports of 2.7 percent. Clearly these "new entrants" are not going to disappear from our market due to increased development in the Caribbean.

A further indication of the Caribbean area's potential to expand its footwear industry is the fact that the area is a major exporter of footwear uppers, as Tables II and III indicate. The Dominican Republic and Haiti are the second and third largest suppliers, respectively, of unlasted leather footwear uppers and of other (rubber/plastic, cotton and fiber) uppers. In 1981, their combined imports of uppers were 9.4 million pairs. However, higher-value finished products may be shipped instead if footwear is afforded duty-free treatment.

Also, cotton and fiber uppers will not receive duty free treatment because they are covered by the Multi-Fiber Agreement. However, if these uppers are converted into higher-value finished footwear, the finished product will enter duty free under the CBI. We should also note that rubber/fabric footwear imports have duties ranging from 20 percent to an effective rate of 65 percent. Certainly, this is an incentive to convert these uppers to duty-free finished footwear.

THE U.S. WILL BE THE FOCAL POINT FOR CARIBBEAN EXPORTS, SINCE IT IS THE LARGEST AND MOST OPEN MARKET IN THE WORLD.

U.S. tariffs on nonrubber footwear are among the lowest in the world, ranging from 0 to 20 percent ad valorem. The trade-weighted ad valorem rate is approximately 10 percent. In comparison, Canadian duties for countries with MFN status range from 22½% - 25% ad valorem. In Korea, the general duty range is 60% ad valorem. Mexico's duty rate is 35% ad valorem FOB, plus additional surcharges and taxes. Spain's duties range from 8% -35% ad valorem, with an additional compensatory imports tax of 10%. Brazil has a 170% ad valorem tariff, in addition to a deposit scheme and additional taxes, which virtually prohibit footwear imports. Duties in Australia generally are 34% or 46.5% ad valorem. Duties in Japan range from 8.6% - 27%. (Source: U.S. Department of Commerce)

Moreover, non-tariff barriers in the U. S. are virtually non-existent. (The one non-tariff barrier applicable to shoes, American Selling Price, was abolished on July 1, 1981.) In contrast, Canada has once again imposed a global quota on footwear imports. Mexico requires licenses on all footwear imports, which are not issued freely. In the Philippines, footwear is classified as a consumer item which cannot be imported. Brazil requires import licenses, which generally are not issued for footwear. Australia maintains quantitative restrictions on many types of footwear. Japan has a severe quota on imports of leather products which includes leather footwear.

It is not surprising, then, that U. S. imports accounted for 39 percent of total nonrubber footwear imports by OECD countries in 1976 and 1977 (the latest year for which such data are available). For most of the world's top 19 footwear exporting countries (which account for almost 85 percent of total world exports), the U.S. is the single largest recipient of footwear exports, absorbing 41 percent of total exports by these 19 countries.

<u>SAFEGUARD MEASURES ARE NOT SUFFICIENT TO PREVENT SUBSTANTIAL GROWTH IN IMPORTS</u>.

The Administration has proposed use of the "escape clause" procedure to safeguard domestic industries from injury under the Caribbean Basin Initiative. Nonrubber footwear, however, is <u>precluded</u> from even filing a petition under this safeguard mechanism until July of 1983.

Under the terms of the Trade Act of 1974, Section 203 (j):

> "No investigation for the purposes of section 201 shall be made with respect to an article which has received import relief under this section unless 2 years have elapsed since the last day on which import relief was provided with respect to such article pursuant to this section."

The import relief program for non-rubber was terminated by this Administration on July 1, 1981. According to our interpretation of the bill, no changes have been made to this section of the Trade Act of 1974. Thus, our industry, which was found injured by imports by the International Trade Commission as recently as last year, cannot even utilize the safeguard provisions of the CBI until July of 1983.

Further, while agricultural products have been given a "fast track" mechanism for escape clause relief under the CBI, no such provision is included for other products. Thus, the full nine month time frame provided under section 201 of the Trade Act must elapse before relief can be provided. Assuming that our industry were to petition for relief in July of 1983, we would not even have a decision before March of 1974.

Given the growth in imports from various "new start" countries to which we have referred in previous sections of this testimony, this two year waiting period before import relief could be provided offers us little consolation.

Furthermore, the necessity of having to prove injury under the safeguard measures is a needless and costly burden to the industry. The government already has a wealth of information on the injury to the industry from imports--from two affirmative ITC injury findings and the ITC recommendation last year that import relief not be terminated.

Finally, our recent experience with the Administration, which terminated our import relief program despite the recommendation of the International Trade Commission, leaves us with little confidence in the whole safeguard mechanism.

OTHER CONCERNS ABOUT THE CARIBBEAN BASIN INITIATIVE

Another very serious problem we see with the CBI is that footwear from other sources may be transshipped through the Caribbean area or assembled there to take advantage of duty-free export to the U.S. The industry experienced a severe transshipment problem when footwear from Taiwan was transshipped through Hong Kong to avoid the quota on nonrubber footwear imports from Taiwan. The Administration acted on this problem only after it existed for several months. Almost seven months elapsed from the time the issue was originally called to its attention, to the time that a Certificate of Origin program was implemented with Hong Kong in November, 1978. Thus, it was time-consuming to investigate and remedy the problem. In the meantime, the footwear industry developed in

Hong Kong, and its imports have remained at high levels - over 28 million pairs in 1981.

It also is likely that production facilities may be transferred from the Far East to the Caribbean, to take advantage of the latter area's even lower wage rates and proximity to the U.S. market. Or with only a 25 percent local value content requirement, the Caribbean Basin could become a major "finishing" area for footwear essentially produced elsewhere, and then shipped to the U.S. duty-free.

PUBLIC POLICY CONSIDERATIONS INDICATE THAT THE CARIBBEAN BASIN INITIATIVE COULD BE COUNTERPRODUCTIVE AT THIS TIME.

With unemployment hovering at 9.5 percent, development initiatives in the Caribbean area could result in the export of much-needed U.S. employment. Footwear workers could be severely affected, since they are among the hardest to employ and frequently experience prolonged unemployment. They are generally women, under 25 or over 50 years of age, semi-skilled, and with limited formal education.

RECOMMENDATION AND CONCLUSION

The Congress must recognize the import-sensitive nature of the nonrubber footwear industry and the severe threat which imports continue to pose. Encouraging exports from the Caribbean Basin will only exacerbate the injury caused by already excessively high levels — 60 percent import penetration. We urge this committee to accept Amendment No. 1370, proposed by Senator Heinz, to exclude footwear from the items eligible for duty-free treatment under the Caribbean Basin Initiative.

TABLE 1

NONRUBBER FOOTWEAR: U.S. IMPORTS FROM SELECTED CARIBBEAN COUNTRIES
ANNUAL 1977 - 1981
(in pairs)

	1977	1978	1979	1980	1981
Bahamas	-	-	19,656	361	342
Barbados	-	-	-	-	-
Costa Rica	20,486	43,288	60,348	128,937	115,050
Dom. Rep.	26,408	198,619	205,698	152,003	295,095
El Salvador	13,464	409,755	3,418,616	176,571	3,755
F W Indies	1,620	-	-	10,050	-
Guatemala	99,968	167,254	145,936	287,227	334,025
Guyana	-	2,470	90	2,050	1,488
Haiti	598,894	701,128	626,630	774,251	1,197,835
Honduras	-	205	18,138	1,351	7,908
Jamaica	2,823	-	900	112	-
LW/WW I	-	-	-	3,610	2,183
Antilles	-	84	-	-	30
Nicaragua	1,548	-	-	-	300
Panama	-	2,730	3,840	1,986	33,632
Surinam	44,268	6,766	1,680	-	5,056
Trinidad	337	-	7,308	-	-
Total, Selected Caribbean Countries	809,816	1,532,299	4,508,840	1,538,509	1,996,699

SOURCE: Department of Commerce data

TABLE 2

RUBBER/PLASTIC, COTTON AND FIBER SHOE UPPERS BY COUNTRY

	1980	1981
	(000 Pairs)	
Dominican Republic	3,304.0	4,280.1
Haiti	752.6	1,196.5
Hong Kong	910.3	755.3
El Salvador	231.0	348.5
Korea	96.0	39.5
Taiwan	3,375.3	5,505.8
Mexico	1,171.3	271.7
All Other	245.7	697.6
TOTAL WORLD	10,286.2	13,115.0

SOURCE: U.S. Department of Commerce, IM146

TABLE 3

UNLASTED LEATHER SHOE UPPERS BY COUNTRY, 1980 & 1981

	1980	1981
	(000 Pairs)	
Korea	4,591.0	3,449.3
Taiwan	915.7	1,240.4
Dominican Republic	2,294.8	2,269.2
Haiti	2,154.7	1,645.9
Mexico	782.8	1,065.5
India	390.4	1,210.9
Hong Kong	296.6	335.4
Brazil	103.9	211.7
El Salvador	—	18.9
All Other	1,189.0	1,354.8
TOTAL WORLD	12,718.9	12,822.0

International Leather Goods
Plastics and Novelty Workers' Union
Affiliated with American Federation of Labor and Congress of Industrial Organizations
General Office: 265 West 14th Street, New York, N. Y. 10011
Telephone: ORegon 5-9240

STATEMENT OF RALPH CENNAMO, GENERAL PRESIDENT,
INTERNATIONAL LEATHER GOODS, PLASTICS, AND NOVELTY
WORKERS' UNION, AFL-CIO

To the Committee on Finance
United States Senate
On S.2237

August 2, 1982

Summary

The International Leather Goods, Plastics, and Novelty Workers' Union, AFL-CIO represents a substantial number of workers in the domestic handbag, luggage and personal leather goods (flat goods) industries.

All three of the industries in which our members work are labor-intensive and thus particularly vulnerable to import competition from low-wage foreign countries. Thousands of jobs have been lost in these industries because of imports and increasing volumes of imports are an ongoing concern of workers. Any added impetus to increasing imports, such as duty-free treatment for imports from the Caribbean, has a strong potential for further adversely affecting all three of these industries. I have not heard of anything that the Administration is going to do to help those of our workers who will surely lose their jobs if the CBI bill is passed as proposed by the Administration.

The only satisfactory solution to our concerns regarding this legislation would exclude leather related products from duty-free treatment just as it will exclude textiles and apparel. The bill reported out by the House Trade Subcommittee incorporated such an amendment. I urge you to grant us this exclusion.

International Leather Goods
Plastics and Novelty Workers' Union
Affiliated with American Federation of Labor and Congress of Industrial Organizations
General Office: 265 West 14th Street, New York, N. Y. 10011
Telephone: ORegon 5-9240

STATEMENT OF RALPH CENNAMO, GENERAL PRESIDENT, INTERNATIONAL LEATHER GOODS, PLASTICS, AND NOVELTY WORKERS' UNION, AFL-CIO

To the Committee on Finance
United States Senate
On S.2237

August 2, 1982

My name is Ralph Cennamo and I am General President of the International Leather Goods, Plastics, and Novelty Workers' Union, AFL-CIO. Our Union represents a substantial number of workers in the domestic handbag, luggage and personal leather goods (flat goods) industries. My appearance here today, as with the other spokesmen of the leather products industries, is to seek an exclusion of leather-related products from duty-free treatment under the Caribbean Basin Initiative, similar to the amendment passed by the House Trade Subcommittee. The exclusion we seek is the same as that being accorded textile and apparel imports.

All three of the industries in which our members work -- handbags, luggage and personal leather goods -- are labor-intensive and thus particularly vulnerable to import competition from low-wage foreign countries. Whether handbags, luggage, or personal leather goods, each of these industries has been characterized by increasing imports which have caused lost market share and jobs. A large proportion of our workers are minorities, primarily blacks and Hispanics, and a similarly large portion are women. In fact, many of our workers came to the United States from the Caribbean. Most of our workers can be characterized as unskilled or semiskilled. Mobility is limited. Thus, many of our workers fall into the "hard-to-employ" category.

Increasing volumes of imports are an ongoing concern of workers in these labor-intensive industries. We have seen almost 80 percent of the U.S. market for handbags overrun by imports. Despite the fact that the U.S. market for handbags reached $1 billion for the first time in 1981, imports continue to capture all of the growth of the market and more. Thousands of jobs have been eliminated in this industry. While trends in the luggage and personal leather goods industries have not reached such dramatic proportions, they are nevertheless likewise suffering from import competition. Import penetration is estimated at 40 percent in the luggage industry and 30 percent in the personal leather goods industry in 1981. Any added impetus to increasing imports, such as duty-free treatment for imports from the Caribbean, has a strong potential for further adversely affecting all three of these industries. Our workers cannot tolerate any further erosion of their market or their job opportunities.

Our Union has consistently protested that these products are import-sensitive and has fought against the inclusion of these products from duty-free treatment under the Generalized System of Preferences. Similarly, they should be excluded from duty-free treatment under the CBI.

These three industries combined have traditionally employed more than 50,000 workers. According to Government data, some 4,000 jobs have been eliminated in the last five years alone. Available employment data for this year are even more dismal. Some 3,000 fewer workers in these industries were employed in the first four months of 1982 compared to employment levels for the same period a year ago.

We have great difficulty competing with imports from low-wage countries, such as those in the Caribbean. The average hourly wage in the domestic leather products sector was $4.99 in 1981, substantially below the average of $7.98 for all U.S. manufacturing. Yet wages in certain of the Caribbean countries range from only $.50 per hour to $2.00 per hour. Developing countries have succeeded in gaining market share for the items our members produce and clearly they do not need duty-free treatment to assist their U.S. market penetration any further. To allow duty-free entry of these imports will act only to increase the advantage of imports at the expense of domestic production and jobs. The United States cannot export all the jobs of labor-intensive industries. If we allow this to happen, what will happen to these workers?

Trade adjustment assistance benefits for workers who have lost their jobs because of imports have been drastically reduced. I have not heard of anything that the Administration is going to do to help those of our workers who will surely lose their jobs if the CBI bill is passed as proposed by the Administration. I can tell you though, what will happen. I do not expect many workers will find jobs elsewhere. Jobs lost will be permanent. The welfare rolls will increase. Isn't it enough that 9 million people are already out of work in this country?

We would like to see our neighbors and fellow workers in the Caribbean enjoy some economic, political and social stability. However, why should our workers in the handbag, luggage and personal leather goods industries be made to pay for this policy in disproportion to other U.S. industries? The only satisfactory solution would exclude leather related products from duty-free treatment just as it will exclude textiles and apparel. The bill reported out by the House Trade Subcommittee incorporated such an amendment. I urge you to grant us this exclusion.

Mr. WEINER. The administration's Caribbean Basin Initiative has the goal of promoting the economic well-being of the people of the Caribbean area and of alleviating the economic crisis that threatens them.

The organizations before you at this time, that I have mentioned, certainly support this goal and the aspirations of the Caribbean peoples. However, those who work in leather-related industries in the United States have similar aspirations for themselves and their families. And they are also facing serious economic problems arising out of growing volumes of imports.

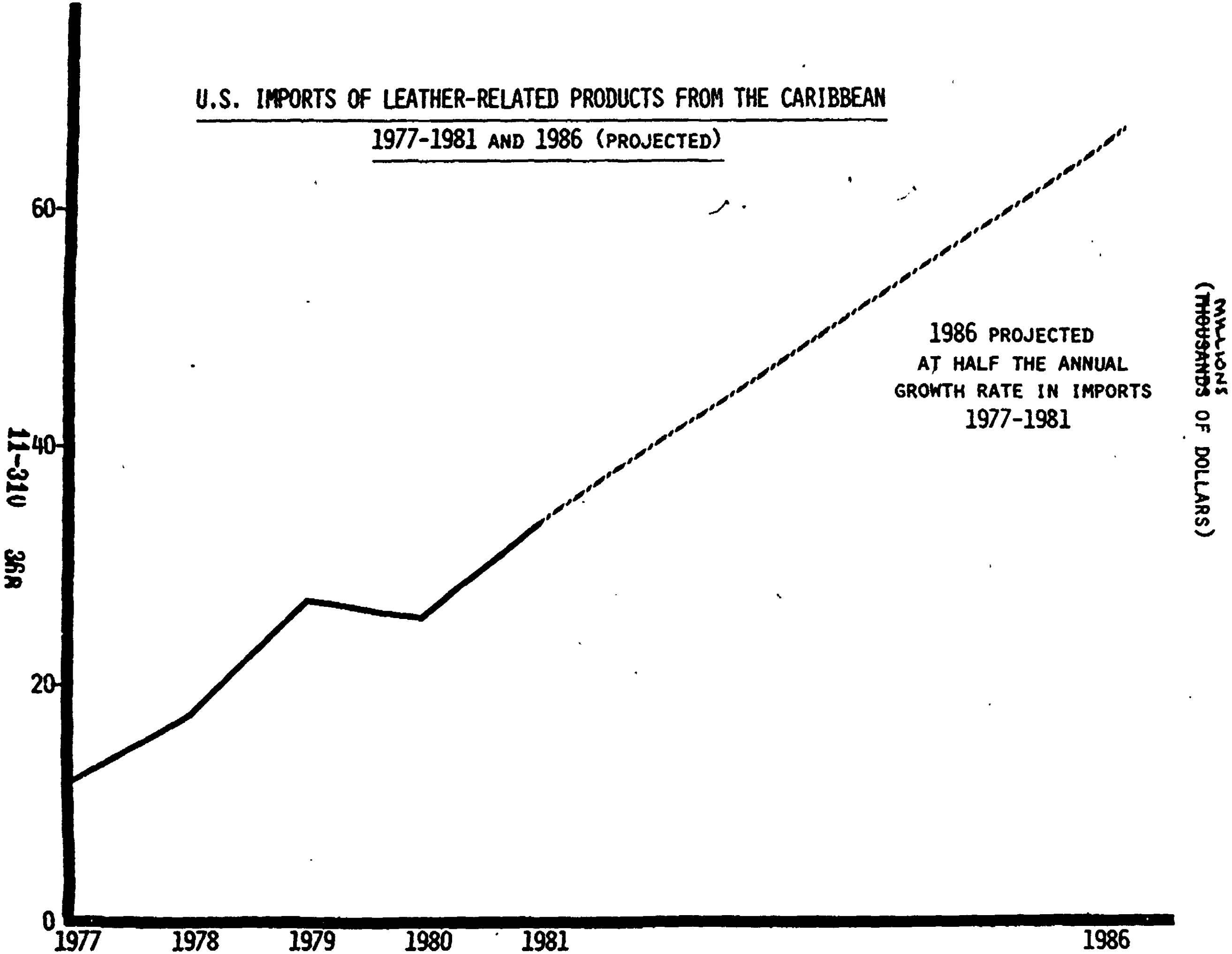
The Caribbean countries are already substantial suppliers of competing leather products and have the ability, with their large pool of cheap labor, to increase their exports to us even further. It is manifestly unfair to have firms and workers in the leather products industry pay for this national policy initiative.

Some of our organizations oppose the trade aspects of CBI totally, but at the very least, given the vulnerability of the leather products industry to imports, we seek an exclusion from the free-trade provisions of the Caribbean Basin Initiative as has already been decided for textiles and apparel, which are similarly labor-intensive and import-impacted industries.

The Amendment to this legislation passed by the House Trade Subcomitttee addresses our concerns by exempting footwear and luggage, flat goods, handbags, workgloves, and leather wearing apparel. Under Section 103(b) of the legislation, the leather-related industries should receive this exclusion for a number of important reasons, which are spelled out in detail in our written submissions.

First, imports of leather-related products from the potentially beneficiary countries in the Caribbean are already substantial and growing. Imports of all leather-related products from the Caribbean rose from $11.8 million in 1977 to $33.3 million in 1981 at an average annual growth rate of 30 percent. Even if imports of leather-related products from the Caribbean achieve only half of this growth rate over the next 5 years, imports will double to 67 million dollars by 1986. This is graphically shown on a chart which Mr. Nehmer will provide, which shows the growth rate at only half of what its been in the past 5 years.

[Chart follows:]

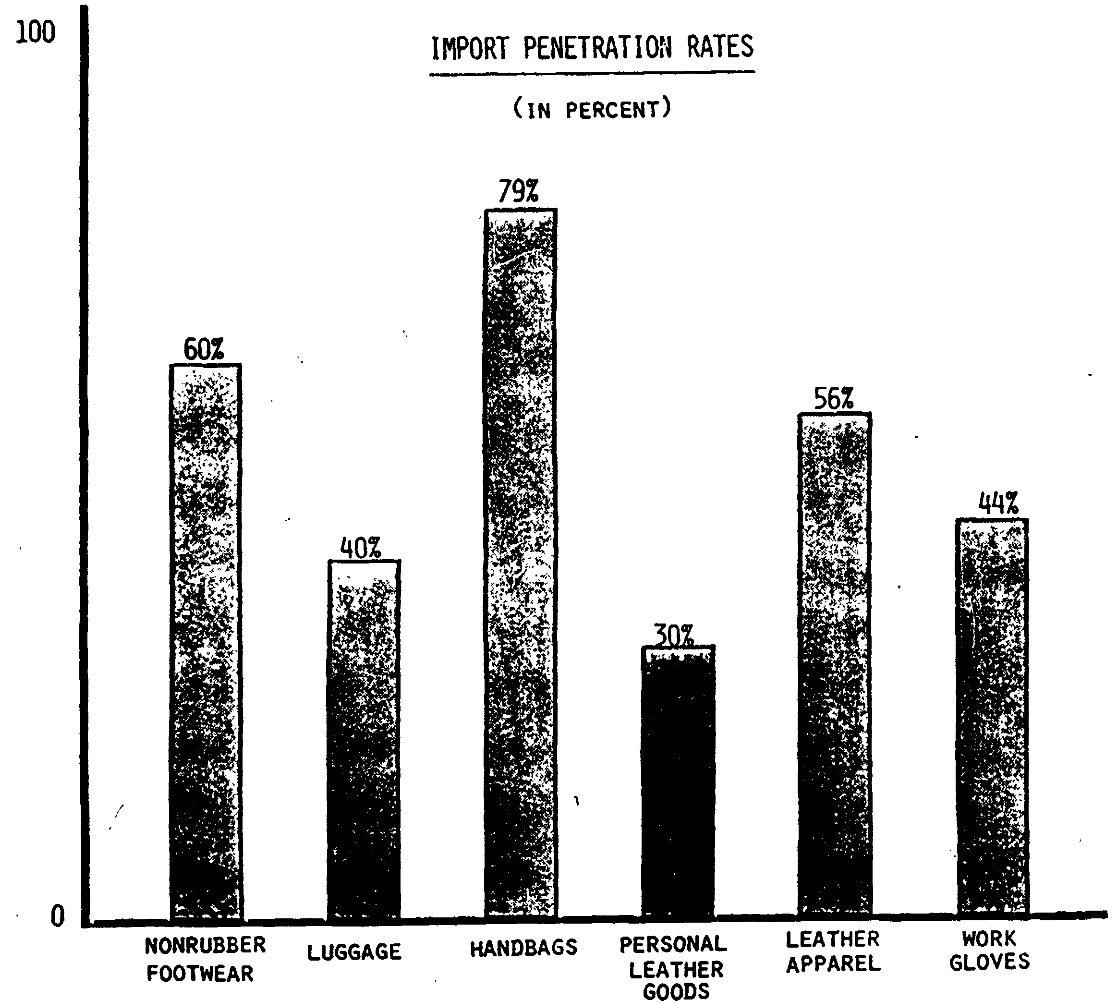

U.S. IMPORTS OF LEATHER-RELATED PRODUCTS FROM THE CARIBBEAN
1977-1981 AND 1986 (PROJECTED)
1986 PROJECTED
AT HALF THE ANNUAL
GROWTH RATE IN IMPORTS
1977-1981
MILLIONS
(THOUSANDS OF DOLLARS)
0
20
40
60
1977
1978
1979
1980
1981
1986

11-310 36R

Yet, excluding this 33 million dollars worth from duty-free treatment, when total imports from the Caribbean last year were 10 billion dollars, should in no way undermine the objectives of this legislation.

Second, not only are leather products imports from the Caribbean sizeable and growing, but they are also increasing in penetration of the U.S. markets together from imports from other countries. Once again, the best way to show this is by this chart which illustrates import penetration rates in various industries: Nonrubber footwear, 60 percent; luggage, 40 percent; handbags, 79 percent; personal leather goods, 30 percent; leather apparel, 56 percent; workgloves, 44 percent.

[Chart follows:]


IMPORT PENETRATION RATES
(IN PERCENT)
100
0
60%
40%
79%
30%
56%
44%
NONRUBBER FOOTWEAR
LUGGAGE
HANDBAGS
PERSONAL LEATHER GOODS
LEATHER APPAREL
WORK GLOVES

Third, increased imports from the Caribbean under one-way free trade will not replace imports from other countries, but rather will be at the expense of U.S. firms and their workers. And I have heard statements today to the contrary. I look for the information which substantiates those statements. I would be happy to give information which would show why this would not be true.

Fourth, the U.S. leather-related industries are labor-intensive and employ about 250,000 workers, providing jobs for many groups in this country which are the hardest to employ; minorities, women and the semiskilled. This is exactly why we are concerned by the points mentioned by Senator Bradley about the export of labor-intensive jobs. Thousands of jobs have been lost in these industries.

I am incensed by the fact that statements have been made today that there is no damage to be done. Most recently and startling is the loss of some 16,000 jobs in the shoe industry and 4,000 jobs in the luggage and personal leather goods industries and handbag industry in May of this year compared to May of last year.

Fifth, as well over a majority of firms of these industries are small businesses, the closing of such companies would be tragic, coming as it would when the President, himself, on March 1, pledged himself to a program to promote small business. This he announced less than a week after he announced the CBI program.

Sixth, the Congress and the executive branch have already recognized the import sensitivity of the leather-related industries. Virtually all of these products are excluded from GSP treatment. Nonrubber footwear and leather apparel received unanimous findings of injury from imports by the ITC under the escape clause.

Seventh, by allowing these imports from the Caribbean, now excluded from GSP duty-free treatment, to enter duty-free as well, the administration is discarding the concept of import sensitivity and is applying zero duty treatment to those items which are clearly import sensitive. Such a policy flies in the face of all trade legislation in recent years. The duty-free provisions of the CBI represent a dramatic change in U.S. trade policy for leather products. It is a very harmful change.

Eighth, the administration assures us that existing safeguard measures will be adequate to protect U.S. firms and workers from injury due to increased imports generated by one-way free trade. That is absolutely wrong. And once again I have heard statements that there would be no harm done. I would be happy to supply information to show that harm would be done.

The existing safeguard measures do not work for the leather products sector. It is characteristic of these industries that imports can increase rapidly before safeguard actions can be taken, regardless of how good the intentions of the executive branch.

Footwear is not even eligible to apply under the safeguard proposed under the CBI legislation before July 1, 1983.

In conclusion, with substantial and growing import penetration, the leather-related industries are already in a state of seige. They have suffered from plant closings and lost jobs due to imports. These industries look to Congress for its help in preventing further damage. If this committee moves forward with the trade provisions of the Caribbean Basin Initiative, we ask that leather products be excluded from these one-way free trade measures as has been approved by the House Trade Subcommittee.

Do not exacerbate our problems in the name of a national policy initiative. Do not cause more of our plants to close. Do not make our workers pay for this new policy. We ask the committee, at the very least, to support amendment No. 1370 to S. 2237, which Senators Heinz, Kennedy, Moynihan, Mitchell, Tsongas, Kasten, Randolph, Cohen, Bumpers, Humphrey, Helms, and Pryor have cosponsored, which would exclude our products from duty-free treatment under the CBI.

Thank you. Mr. Nehmer and I would certainly be available for questions.

The CHAIRMAN. Senator Chafee.

Senator CHAFEE. Thank you, gentlemen, for your statements. They are helpful and worthy of consideration here, certainly. Mr. Koplan's point, which I hadn't realized, that the local content requirement of 25-percent status will qualify to come in duty free I think is disturbing and I certainly want to look at that.

I take it American Tourister is a member of your association?

Mr. WEINER. That is correct.

Senator CHAFEE. Fine. Thank you, gentlemen. I'm glad you came because you are the only voices on the other side.

The CHAIRMAN. There will be more on Friday. Steve.

Mr. KOPLAN. I just wanted to comment further about the local content requirement.

I have with me a copy of an ad that appeared on March 17 of this year in a publication called Woman's Wear Daily. It was under the heading, "Plants for Sale." This is the ad: "Factory for sale or lease. Tax free and soon to be duty-free to the United States under pending congressional bill; 1 hour and 40 minutes from the United States. American management will stay, fully air-conditioned, finest plant facilities in the Caribbean, lowest labor cost. Under $2.75 a day, 150 sewing machines."

So I answered the ad. [Laughter.]

Mr. KOPLAN. I did not buy the plant, but I made the call and I reached Pierre Cardin in New York and I spoke with a Mr. Schaefer. And what I was told was that now—what is being made there is luggage and handbags—and that now is coming in under items 806 and 807 of the U.S. tariff laws, what he said to me was, "This is a beautiful operation." He said, "There aren't any Federal regulations down there." He said, "Actually, our labor cost is only $2.66 a day, that is the actual amount that we pay." And he proceeded to try and sell me on the plant.

I was just curious where it was. The plant is in Haiti, I was told. I didn't follow up to see whether it has been sold yet. But I think that this is sad. What we are talking about here is a content requirement that is so ridiculously low in this legislation that anyone worldwide can funnel through the Caribbean Basin region. There was an attempt, for example, to exclude automobiles and automobile products from being shipped through the Caribbean Basin region. There was a vote on that but the administration opposed that amendment in the Trade Subcommittee on the House side.

What I am trying to emphasize is that we want to help the people of the region, but we do not see this legislation as legislation that will benefit the people of the region. We see this legislation as a benefit for multinationals, for countries to ship worldwide to the United States through the Caribbean Basin region for anyone. When the question was raised today about Cuba and Nicaragua, as a matter of fact, in section 102 of the bill, Cuba and Nicaragua are both listed as countries eligible to be designated as beneficiary countries by the President. They are specifically in the bill on the list of countries eligible to be designated. I didn't think that quite came across with the questioning this morning. Finally, I am concerned with the statement made by Mr. Rockefeller this morning, and I am quoting from his prepared text.

He said that "it is important that the collective self-interest of individual groups not be allowed to destroy the CBI as termites do the foundation of a house." And I say on behalf of the 14 million people that the AFL-CIO represents that I find that statement very nonproductive and we resent that type of analogy.

We are here in an effort to help this committee in its deliberations. And as to those "nonprofit" groups that belong to the CBI Coalition, I would just like to list some of them that I have with me: Air Florida, Alcoa, Amax, Chesepeake & Potomac Telephone Co., Coca-Cola, Esso Inter America. I think that the committee should have a list of those who belong to the CBI Coalition. I offer to make the list that I have available for the committee record.

I thank you for indulging me, Mr. Chairman. We have strong feelings about this legislation.

[The information follows:]

CBI COALITION

July 16, 1982

Co-chairmen:
David Rockefeller
Frank Borman
Lee Kling
Sam Segnar

Air Florida
Alcoa
Amax
American Airlines
Appropriate Technologies International
Association of American
Chambers of Commerce in Latin America
Willie Campbell
CARE
Caribbeana Council
Caribbean/Central American Action
Charter Company
The Chesapeake & Potomac Telephone Company
Coca Cola Company
Control Data Corporation
Eastern Airlines
ESSO Inter-America
Goddard Enterprises, Limited
Grace-Kennedy Ltd.
Greater Syracuse Chamber of Commerce
Greater West Palm Beach Chamber of Commerce
InterNorth, Inc.
Island Resources Foundation
Joseph E. Seagrams & Sons
Martin Marietta Corporation
National Association of Negro Women
National Association of State Universities
and Land Grant Colleges
New World Dynamics
Partners of the Americas
Phelps-Stokes Foundation
Reynolds Metals Company
Dr. Auguste Rimpel, Jr.
Save the Children
Sir Philip Sherlock
Sister Cities
Tesoro Petroleum Corporation
The Phoenix Metro Chamber of Commerce
Donald W. Whitehead, Esq.
Raul Yzaguirre

CARIBBEAN MEMBERS

Antigua Chamber of Commerce
Barbados Manufacturers' Association
Caribbean Association of Industry and Commerce
Caribbean Development Bank
Consejo Hondureno de la Empresa Privada
Dominica Association of Industry and Commerce

Mr. NEHMER. Mr. Chairman, I'm Stanley Nehmer. Just one point that came up this morning. I think it would be useful to help the committee in clarification.

This is the question of the safeguards that the administration has proposed in this legislation. There seems to be a lot of talk on their part of "don't worry, there will be safeguards that will work." These industries in the leather products coalition have had a lot of experience with the safeguards. The footwear industry was promised import relief by President Ford's administration when they received the unanimous finding of injury by the ITC. President Ford did not follow up on his promise.

President Reagan terminated the import relief for footwear last June 30, 1981. President Carter received a unanimous finding of injury in a recommendation for import relief from the ITC on leather wearing apparel and he did not deliver import relief.

The discretionary authority in the hands of the President, no matter which administration has been in office over the last several administrations, insofar as these industries are concerned, has resulted in no or very limited import relief for the leather products industry. And for that reason, we cannot accept that discretionary authority, whether it is the existing escape clause, which incidentally, as Mr. Weiner pointed out, the footwear industry isn't eligible under the law to apply for until next July 1, whether it is the present escape clause which they propose as a safeguard mechanism or some fast-track mechanism which was talked about but never introduced on the House side. So long as the President has the discretionary authority, these industries cannot accept it because the whole history has been that a whole succession of administrations have not been willing to provide import relief when the facts warranted it.

Thank you.

The CHAIRMAN. Well, I appreciate that and I think the one thing that concerns many of us is that we are not just providing more generous tax benefits to big business, although I must say, based on the vote on the Senate floor on the Tax Revenue Bill, maybe some people don't really care about that. We thought we made some basic reforms in that measure, but we got not a single Democratic vote. Nor did we have the support of organized labor.

Ms. JAGER. I'd like to make two points, Senator, because of so much discussion this morning.

One, is that the experience that we've had with claims that help to given areas will deter immigration have not proved to be the case. This has not been true in the last 15 years on the Mexican border, for example, where we have lost a great many jobs to the area, but the problem of immigration continues and I think it would be unfortunate if this were an impression that was left with the committee that this program would somehow deter immigration.

The other point is that there seems to be a belief that somehow during a recession that people are raising a question now that is simply because the recession has created a few problems. I don't think that any attention has been given to the first half of the year's trade figures.

We've had this recession now for over a year, but last year, at this point in the recession, in the first 6 months of last year, we had a trade surplus in manufactured products. We've had a $10 billion turnaround. We had a $6 billion surplus in the first 6 months of 1981. We have a $4 billion deficit in the first 6 months of 1982.

Now I think that this should weigh in the consideration of how much more injury people expect the American worker to suffer, because most of the business discussions this morning about people looking for jobs assumed that there are a lot of skilled workers who won't be affected. But skilled workers are now seeking unskilled jobs, Mr. Chairman. The goods that are coming in are very sophisticated goods as well as the unskilled and unsophisticated goods. And I think the magnitude of this is so shocking that I think it is unfortunate that it has been overlooked.

Thank you very much.

The CHAIRMAN. Thank you. We certainly appreciate the very good signals you have given us as far as areas we ought to focus on. And, again, when we start trying to see if there is any consensus, we certainly will be consulting you and other members heard in opposition.

We do hope to have another hearing, hopefully on Friday afternoon of this week, but that will be announced at a later time. Your entire statements will be made a part of the record. We appreciate very much your being here this morning.

Thank you.

Mr. KOPLAN. Thank you, Mr. Chairman.

Mr. WEINER. Thank you.

Mr. NEHMER. Thank you.

[Whereupon, at 12.38 p.m., the hearing was adjourned.]

[By direction of the chairman the following communications were made a part of the hearing record:]

STATEMENT OF
VIRGIN ISLANDS DELEGATE RON DE LUGO

BEFORE THE
SENATE COMMITTEE ON FINANCE

AUGUST 2, 1982

Mr. Chairman, members of the Committee, Governor Juan Luis of the U.S. Virgin Islands and I are here today to testify on the President's Caribbean Basin Initiative, and we appreciate this opportunity to appear before your committee.

We commend the President for focusing the attention of his Administration on this economically depressed and hence politically volatile area and for taking the first initiative in over twenty years to address the concerns of our closest neighbors. We in the U.S. Virgin Islands are acutely aware of these concerns. Our geographical location, our status as a flagship of American democracy in the Caribbean, and our close family, cultural and social ties to the island nations of the Eastern Caribbean enable us to clearly perceive both the legitimate needs of the area, and the delicate balance between foreign and domestic policy that the United States must maintain in addressing these needs.

In these distressed economic times, that balance becomes even more critical. Consequently, last December, when the President's Caribbean Basin Initiative began to take shape, twenty-six colleagues of mine from both parties in the House of Representatives, and representing the appropriate jurisdictional committees, joined with me in expressing our concern to the President that his new policy not erode the delicate economic base that the Congress of the United States has so carefully and painstakingly built up over the years

FOR THE TERRITORIES WHICH ARE UNDER ITS DIRECT PURVIEW IN THAT AREA. I HAVE ATTACHED A COPY OF THAT LETTER TO MY TESTIMONY FOR YOU AND YOUR COLLEAGUES.

IN THAT SAME LETTER, WE ALSO REQUESTED THAT IN VIEW OF ITS UNIQUE LOCATION AND TIES, THE U.S. VIRGIN ISLANDS PLAY AN ACTIVE ROLE IN THE DEVELOPMENT AND IMPLEMENTATION OF THE NEW CARIBBEAN POLICY. THE PRESIDENT RESPONDED TO ME AND MY COLLEAGUES BY CONCURRING THAT THE TERRITORIES IN THE AREA SHOULD PLAY "AN IMPORTANT, POSITIVE ROLE IN THE CARIBBEAN BASIN INITIATIVE", AND HE CONTINUED, "THE INITIATIVE SHOULD BE STRUCTURED SO AS TO REINFORCE AND CONTINUE THE IMPRESSIVE ECONOMIC GAINS ACHIEVED BY THE VIRGIN ISLANDS AND PUERTO RICO."

BASED ON THE PRESIDENT'S ASSURANCES, THE U.S. VIRGIN ISLANDS DEVELOPED JOINTLY WITH THE ADMINISTRATION SEVERAL SAFEGUARDS FOR OUR FRAGILE ECONOMY WHICH HAVE BEEN INCORPORATED INTO THE CARIBBEAN BASIN INITIATIVE LEGISLATION AS SENT DOWN BY THE PRESIDENT ON MARCH 17, 1982 WE WERE PARTICULARLY PLEASED TO NOTE THAT THE PRESIDENT, IN HIS TRANSMITTAL ADDRESS, COMMENTED SPECIFICALLY ON THE "LONG-STANDING SPECIAL RELATIONSHIP" OF THE U.S. VIRGIN ISLANDS WITH THE UNITED STATES, AND TO HEAR HIM SAY THAT THE DEVELOPMENT OF THE U.S. VIRGIN ISLANDS AND PUERTO RICO "MUST BE ENHANCED BY OUR POLICY TOWARD THE REST OF THE REGION."

AS LEGISLATIVE ENDORSEMENT FOR THE PRESIDENT'S STATED POLICY POSITION ON THE U.S. TERRITORIES IN THE CARIBBEAN, I WAS ABLE TO

HAVE CERTAIN AMENDMENTS INCLUDED IN THE BILL WITH THE BIPARTISAN SUPPORT OF THE WAYS AND MEANS SUBCOMMITTEE ON TRADE. WITHOUT OBJECTION THAT SUBCOMMITTEE INCLUDED CHANGES IN HEADNOTE 3(A) OF THE U.S. CUSTOMS LAWS THAT WILL ENABLE THE VIRGIN ISLANDS, WHICH IS OUTSIDE THE U.S. CUSTOMS ZONE, TO REMAIN COMPETITIVE IN VIEW OF THE VERY FAVORABLE CUSTOMS BENEFITS BEING EXTENDED TO CARIBBEAN BASIN NATIONS WHICH ALREADY ENJOY SUBSTANTIAL INVESTMENT ATTRACTIVENESS BECAUSE OF THEIR ABSENCE OF MINIMUM WAGE AND OTHER COSTLY REGULATORY REQUIREMENTS.

THE SUBCOMMITTEE WAS ALSO UNANIMOUS IN AGREEING ON THE NECESSITY OF EASING CERTAIN INAPPROPRIATE REGULATORY REQUIREMENTS ON THE RUM INDUSTRY IN THE U.S. VIRGIN ISLANDS THAT WOULD HAVE MADE THAT INDUSTRY UNABLE TO COMPETE. IN THE RARIFIED AND COMPETITIVE DISTILLED SPIRITS BUSINESS, PENNIES PER GALLON DETERMINE SUCCESS OR FAILURE. RUM IS VIRTUALLY SYNONYMOUS WITH THE CARIBBEAN, AND THE U.S. VIRGIN ISLANDS AND OUR NEIGHBORING RUM PRODUCERS TAKE GREAT PRIDE IN THEIR PRODUCTS WHICH, IN THE CASE OF THE U.S. VIRGIN ISLANDS, HAS A LONG HISTORY GOING ALL THE WAY BACK TO THE AMERICAN REVOLUTION.

THE RUM INDUSTRY OF THE U.S. VIRGIN ISLANDS, UNLIKE THAT OF OTHER CARIBBEAN RUM-PRODUCING ISLANDS, HAS AN UNIQUE AND INTEGRAL RELATIONSHIP TO OUR ECONOMIC AND POLITITCAL STATUS. RECOGNIZING THE UNINCORPORATED TERRITORY'S GEOGRAPHICAL ISOLATION, LACK OF RESOURCES, INFRASTRUCTURE, PUBLIC SERVICES, LOW INCOME LEVELS, AND GENERAL INABILITY TO COMPETE FOR INVESTMENT DOLLARS, THE CONGRESS MANDATED

IN THE REVISED ORGANIC ACT OF 1954 THAT THE EXCISE TAXES ON RUM BE COVERED OVER TO THE VIRGIN ISLANDS TREASURY. WITH NO OUTFLOW OF FUNDS FROM THE UNITED STATES, THIS GAVE THE TERRITORY A RELIABLE REVENUE RESOURCE WHICH IS BEING EFFECTIVELY USED FOR BADLY NEEDED CAPITAL IMPROVEMENT PROJECTS AND TO SHORE UP ITS ECONOMIC, SOCIAL, AND POLITICAL STRUCTURE. THIS IS AN EXCELLENT EXAMPLE OF A SUCCESSFUL WORKING RELATIONSHIP BETWEEN GOVERNMENT AND PRIVATE INDUSTRY THAT HAS REDOUNDED TO THE BENEFIT OF THE COMMUNITY AS A WHOLE.

FOR THIS REASON, OUR ECONOMIC FUTURE TO A VERY LARGE EXTENT DEPENDS ON THE CONTINUATION OF THE RUM INDUSTRY IN THE VIRGIN ISLANDS. RECOGNIZING THIS THE TRADE SUBCOMMITTEE ADOPTED, ON A BIPARTISAN VOTE, A RUM TARIFF RATE QUOTA THAT WILL AVERT AN ECONOMIC CRISIS IN THE U.S. TERRITORY AND AT THE SAME TIME ENABLE THE PRESIDENT TO EXTEND TARIFF BENEFITS TO ELIGIBLE CARIBBEAN RUM PRODUCERS.

I WOULD LIKE TO EMPHASIZE HERE THAT WE DO NOT SEEK IN ANY WAY TO PROHIBIT OUR FELLOW CARIBBEAN ISLANDS FROM EXPANDING THEIR RUM EXPORTS TO THE UNITED STATES. MOST ALREADY ENJOY DUTY-FREE ACCESS TO CANADA AND A NUMBER OF EUROPEAN COUNTRIES FROM WHICH THE U.S. VIRGIN ISLANDS ARE PRECLUDED AND ALL HAVE LOWER WAGES AND OTHER EXEMPTIONS THAT CAN BE DIRECTLY TRANSLATED INTO PRICE ADVANTAGES. THE VERY FLEXIBLE TARIFF RATE QUOTA ADOPTED BY THE TRADE SUBCOMMITTEE, WHICH IS NOT DISSIMILAR TO CERTAIN ASPECTS OF THE SUGAR PROVISIONS, IS INTENDED TO ENABLE ALL OF THE RUM PRODUCERS IN THE CARIBBEAN, <u>INCLUDING</u> THE U.S. VIRGIN ISLANDS, TO SHARE EQUITABLY IN THE EXPANDING RUM MARKET.

FURTHERMORE, WE ARE WILLING TO BE, AND HAVE ALWAYS BEEN, OPEN TO LATITUDE IN THE QUOTA RATES AND HAVE DEMONSTRATED OUR SINCERITY BY WORKING CLOSELY WITH AMBASSADOR BROCK AND HIS STAFF IN INSURING THAT THE PRESIDENT'S CARIBBEAN BASIN INITIATIVE WILL ACCOMPLISH HIS GOALS AND BRING THE GREATEST POSSIBLE BENEFITS TO ALL CONCERNED.

MR. CHAIRMAN, AS THE RECESSION TAKES IT TOLL ON THE MAINLAND, THE FRAGILE TOURISM-BASED ECONOMIES OF THE U.S. TERRITORIES ARE REELING. THE COMBINATION OF THE BUDGET CUTS OF THE LAST TWO YEARS, THE TAX CUTS LAST YEAR THAT HAVE AN UNIQUE IMPACT ON LOCAL REVENUES, AND TAX PACKAGE NOW PENDING FINAL ACTION THIS YEAR WHICH TEARS AT THE VERY HEART OF THE TERRITORIES' ECONOMIC DEVELOPMENT FUTURE HAS LEFT US STUNNED.

EVEN WITHOUT THE HEIGHTENED COMPETITION THAT THE C.B.I. WILL GENERATE IN OUR AREA, THE U.S. VIRGIN ISLANDS IS AT A VERY TENUOUS AND CRITICAL CROSSROAD. OUR ABILITY TO COMPETE FOR THE SHRINKING TOURIST DOLLAR REMAINS IN GRAVE DANGER AS LONG AS THE HALF-WAY COMPLETED EXPANSION OF THE AIRPORTS IN ST. THOMAS AND ST. CROIX GOES UNFINISHED. OUR ATTRACTIVENESS TO BADLY NEEDED INVESTMENT DOLLARS WILL CONTINUE TO DIMINISH AS LONG AS LEGISLATION TO LOWER THE 30% WITHHOLDING RATE IN THE U.S. VIRGIN ISLANDS REMAINS UNPASSED AND THE CONCOMMITANT STRUGGLE FOR HOME MORTGAGES AND SMALL BUSINESS LOANS, THE LIFEBLOOD OF A HEALTHY COMMUNITY, WILL CONTINUE TO ESCALATE WITH POSSIBLY DIRE SOCIAL AND POLITICAL REPERCUSSIONS. UNEMPLOYMENT IN OUR ISLANDS WILL CONTINUE TO MOUNT UNLESS CREATIVE AND INNOVATIVE NEW PROGRAMS, SUCH AS CERTAIN WATCH INDUSTRY LEGISLATION NOW MOVING

THROUGH THE HOUSE, IS PASSED BEFORE A CRISIS ERUPTS.

WE ARE AMERICAN CITIZENS AND WE ARE WILLING TO SHARE OUR PART OF THE BURDEN AND JOIN IN THE PRESIDENT'S EFFORTS FOR FUTURE ECONOMIC SECURITY. WE ARE ALSO WEST INDIANS, AND WE APPLAUD THE PRESIDENT AND WANT HIS CONSTRUCTIVE NEW CARIBBEAN POLICY TO BE THE SUCCESS HE INTENDS FOR ALL OF US IN THAT CRITICAL AREA OF THE WORLD.

THE U.S. VIRGIN ISLANDS STANDS AT THE VERY CENTER OF THAT DELICATE BUT CRITICAL-TO-MAINTAIN BALANCE BETWEEN DOMESTIC AND FOREIGN POLICY WHICH I DESCRIBED IN THE BEGINNING OF MY TESTIMONY. I BELIEVE THAT THE LEGISLATION AS REPORTED OUT BY THE TRADE SUBCOMMITTEE WILL MAINTAIN THAT BALANCE AND I URGE, MR. CHAIRMAN, THAT YOUR COMMITTEE HELP US TO HELP THE PRESIDENT AND HIS ADMINISTRATION ACHIEVE THE VERY WORTHWHILE GOAL OF MAKING THE CARIBBEAN, INCLUDING THE U.S. TERRITORIES IN THE CARIBBEAN, STRONGER, ECONOMICALLY HEALTHIER AND MUTUALLY SUPPORTIVE.

STATEMENT OF

HONORABLE JUAN LUIS, GOVERNOR

UNITED STATES VIRGIN ISLANDS

BEFORE THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

August 2, 1982

Mr. Chairman, distinguished members of the Committee, thank you for this opportunity to appear before you today to present the views of the United States Virgin Islands regarding President Reagan's Caribbean Basin Initiative Plan (CBI).

The Virgin Islands is the United States' only English-speaking democracy in the Caribbean. As such, the people of the Virgin Islands are proud Americans who, in the past, have volunteered for service in our country's efforts to defend democracy and promote freedom around the world.

Additionally, the Virgin Islands have economic, social and cultural ties of long standing with the non-American citizens of the neighboring Caribbean Islands. Thus, the United States is in a position to capitalize on the U.S. Virgin Islands relationship to the other non-American neighboring Caribbean nations by utilizing the Territory in the innovative approach to foreign policy encompassed by the Cairbbean Basin Initiative.

We have taken advantage of the opportunities given us by the administration to develop some of the policies and programs to be included in the CBI. This Committee should take careful note that in our meetings with U.S. Trade Representative William Brock, Ambassador Robert Ryan of the State Department, and other administration officials, we have consistently emphasized that the CBI should contain measures which will maintain and improve the ability of the United States Virgin Islands to develop its own economy and thus continue to serve as an example to other countries in the region of the political and social stability and the economic advantages that a democratic system, such as that in the Virgin Islands, can provide.

The people of the Virgin Islands welcome and favor the Caribbean Basin Initiative as a recognition by the U.S. Government of the importance of our region, and we understand the necessity for changing foreign policy to provide and strengthen democracy in the Caribbean nations. But we want to emphasize that in some cases the impact of U.S. foreign and domestic policy is shouldered disproportionately by the U.S. Territories.

The Virgin Islands wishes to ensure that the CBI will improve general economic conditions in the entire region. However, the program must also be structured to avoid damage to our already strained local economy, now bearing the severe impact of current federal budget and tax cuts, together with insufficient infrastructure and limited natural resources. By structuring the CBI in this manner the United States will gain increased credibility in the region because significant efforts would be directed toward its own Territory, and it will therefore be in a better position to advance its goals of encouraging social and political stability in the Caribbean.

Certain safeguards have been included in the CBI legislation, as proposed by the administration, to help the Virgin Islands maintain some of the special tax and trade concessions which have long been the basis for United States policy towards its Territories. Other vital safeguards have been proposed by the House Ways and Means Subcommittee on Trade.

The "centerpiece" of the President's CBI program is a free trade arrangement by which Caribbean Basin products may be imported into the United States free of all customs duties. When I first discussed this aspect of the CBI with the administration I expressed the Territory's strong opposition to this plan as it applies to one of our most important domestic products, rum. As the Committee is aware, the United States returns to the Virgin Islands treasury all of the federal excise taxes imposed on V.I. produced rum that is shipped to the United States. In fiscal year 1981 this accounted for about $37.1 million dollars or about 15% of the Territory's budget. The V.I. rum industry also provides three percent of total local manufacturing employment. I feared then, as I do today, that permitting duty free access to competing Caribbean rums will destroy our rum industry and the jobs and revenues it provides.

11-310 O—82——14

The Virgin Islands rum industry is much more vulnerable to competition from other Caribbean rum than is the Puerto Rican rum industry. About 80% of Virgin Islands rum is sold in bulk and bottled under private labels or used in foods or pre-mixed drinks. Thus, unlike the market for well-known brands manufactured in Puerto Rico, once the duty is eliminated the market for V.I. rum is likely to shift to distillers from other countries which can use low cost labor and which are not subject to U.S. environmental and regulatory laws.

Three "safeguards" were included by the administration in the legislation to help the Virgin Islands rum industry. While they did provide some protection for Virgin Islands government revenues, as originally proposed, they did not provide any protection for the existing production of our rum industry and they did not accomodate the possibility that this industry could otherwise grow and prosper. The safeguards are as follows: First, excise taxes on foreign rums would be returned to the Virgin Islands and Puerto Rico and divided between the Territory and the Commonwealth according to a formula which has yet to be determined; second, Virgin Islands industries would be allowed to petition the International Trade Commission under the Trade Act of 1974 for import relief for injuries caused by increased imports from Caribbean Basin countries; and third, by a so-called "snap-back" provision, the President may withdraw duty free treatment on rum if he determines that excise tax revenues returned to the V.I. and Puerto Rico are reduced below the amount that would have been returned if the imported rums had been manufactured in the V.I. and Puerto Rico.

The House Ways and Means Trade Subcommittee strengthened the third safeguard and added two additional safeguards which the Virgin Islands Government supports. With respect to the third safeguard, the Subcommittee required that the impact on the Puerto Rican and Virgin Islands rum industries shall be measured separately.

The Subcommittee also provided that Virgin Islands rum producers would not be subject to the federal water pollution laws if the Territory determines that rum stillage discharges will not interfere with local water quality. This provision will permit the V.I. rum producers to avoid costly investments which reports have shown to be unnecessary. Of course, such an investment would be useless if the V.I. rum industry is forced to cut back or shut down its operations. This type of flexibility with regard to federal regulatory measures which are not necessarily required to protect offshore island environments, should be encouraged.

Finally, the Subcommittee limited the total quantity of rum that could be imported duty-free by beneficiary countries to 110% of the prior year's imports provided that V.I. rum production in that year did not drop by more than 5% as compared to the previous year. Such a quota system is vitally important because it would allow the Virgin Islands rum industry to grow and prosper in the context of a free trade area.

Because of the prime importance placed by the President on providing duty free treatment for rums of Caribbean Basin countries, the Virgin Islands is eager to lend its support to this part of the CBI program, but the Territory will not be in a position to do so unless safeguard provisions such as those added by the Trade Subcommittee are retained and unless certain other trade and non-trade provisions are also included in the legislation.

The first administration proposed safeguard is in Title III of the Legislation and thus was not addressed by the Trade Subcommittee. We believe this provision should be amended to spell out the formula for dividing foreign rum excise revenues between the V.I. and Puerto Rico rather than leaving this for the determination of the Secretary of the Treasury. The formula should be based on relative production during some historical period, perhaps calendar year 1981. We stand ready to work with the Committee, the administration and Puerto Rico in determining this formula.

Other trade issues important to the Virgin Islands economy, but not related to rum were approved by the Ways and Means Trade Subcommittee and have received administration endorsement, and I am asking for this Committee's support as well. The first of these relates to a liberalization of the requirements of Headnote 3(a) of the U.S. Tariff Schedules as they relate to the duty-free importation of Virgin Islands-produced watches. This is contained in H.R. 5758, a bill which was developed by the U.S. Department of Commerce. It would serve to help reduce the negative impact of the value-added provision of the CBI bill by maintaining a needed competitive edge for the Virgin Islands watch industry. Second, another administration endorsed measure to permit an increase in the foreign content limitation on non-watch products from 50% to 70% has been included in the CBI legislation as approved by the Trade Subcommittee. In order to stimulate trade between the Territory and other Caribbean nations, we believe that the provision should be further amended to include language which would permit Caribbean Basin products to be excluded in determining the foreign content of U.S. Virgin Islands products under Headnote 3(a).

The CBI legislation, originally proposed by the administration, would as also allow tourists to return to the United States from the U.S. Virgin Islands with an additional liter of locally produced alcoholic beverages duty free. We urge this Committee's support of this provision which will prove of some benefit to both our tourist and rum industries.

In addition to trade measures the CBI legislation includes certain tax measures, revenue measures, and other measures to promote the economic development of the Caribbean region. These too must take account of the needs of the Virgin Islands.

In the area of taxes, the CBI legislation contains a provision to permit U.S. domestic corporations to receive the benefits of the Investment Tax Credit and the Accelerated Cost Recovery System for investments made in the U.S. Virgin Islands and Puerto Rico. At the same time, the legislation would provide for the Investment Tax Credit to be available to other countries in the Caribbean region. This comparative advantage for U.S. Territories is exactly the type of concept that the Virgin Islands needs and supports, and we urge that it be extended to other portions of the legislation as well. At the same time, however, there is a distinct need for other tax incentives to be extended to investors in the United States Virgin Islands. While investment tax credits and accelerated depreciation are useful in attracting capital intensive industries, our studies have shown that lighter, more labor intensive industries are the types most likely to invest in the U.S. Virgin Islands. To facilitate such investment we urge Senate support for H.R. 5985, which would lower to 10% from 30% the tax rate on dividends, interest, and other passive income flowing from the Virgin Islands to the United States and foreign countries. Such a measure will put the Virgin Islands on a par with Puerto Rico and with the many countries that have negotiated tax treaties with the United States. We also urge that the CBI legislation be amended to permit the Virgin Islands to participate in U.S. bilateral investment treaties.

Unfortunately, none of these investment promoting measures, whether approved as part of the CBI or separately, will have much positive impact for the Territory if the changes to Section 934 of the Internal Revenue Code, recently approved by the Senate, are permitted to be implemented. By cutting back on passive investment income subject to tax incentives and by eliminating income attributed to intangibles owned by U.S. subsidiaries operating in the V.I., the attractiveness of the Territory as an investment location relative to other Caribbean Basin countries will be minimized. As applied to the Virgin Islands, these measures have practically no impact on U.S. revenues, yet they are extremely harmful to the industrial development efforts of the Territory. Therefore I strongly urge that they be reevaluated in the context of the CBI.

Other strong measures are needed to stimulate investment and increased trade in the Virgin Islands. We share many of the same economic development problems with the rest of the Caribbean region. Like our Caribbean neighbors, the Virgin Islands must share in the Emergency Economic Assistance being offered in the Caribbean Basin Initiative legislation, particularly at a time when domestic economic development programs have been reduced and eliminated. The federal government should provide funding for upgrading of power generation and water production, distribution, and storage facilities in the Territory and for the establishment of a Territorial Development Bank. Such funding could take the form of a grant, or, preferably, it could be handled by returning to the Virgin Islands the excise taxes imposed by the United States on petroleum products manufactured in the Virgin Islands and shipped to the United States. The latter method has the additional advantage of providing a long term funding source for Territorial needs without the need for annual appropriations.

The proposed Territorial Development Bank would provide a low-interest funding source for improvement and expansion of territorial infrastructure and for private sector growth. Establishment of such an institution is vital in light of the elimination and cutbacks of such domestic funding sources as the Economic Development Administration, the Small Business Administration, and the Farmers Home Administration. It would put the Virgin Islands on a par with other nations in the region which presently have access to low interest funds through institutions such as the World Bank and the Inter-American Development Bank. Ironically, even though many of these institutions are funded in part by the United States, they are not permitted to finance investments in U.S. Territories. Without a Territorial Development Bank we are not competitive and our future economic growth will be seriously restricted.

While the U.S. Virgin Islands has attempted to diversify its economy through promoting manufacturing industries, tourism remains the mainstay of the Territory. In view of other nations' assistance to neighboring Caribbean Islands' efforts to expand their airport facilities, we strongly believe that the CBI presents an excellent opportunity for the United States to keep the Virgin Islands competitive by doing likewise in its own Territory. In 1976, the federal government agreed to fund an expansion of the St. Thomas airport, rated as a black star airport, by extending its 4800 foot runway into the sea and by leveling two hills which have made the airport only marginally safe for jet operations. Phase I of this project, which creates the landfill on which to construct the new runway, will be completed in the next few months. We have been working with the administration in obtaining the necessary fiscal year 1982 funding to begin Phases II and III, runway and terminal construction. Although we have not yet received the funds, we expect that the administration will honor this commitment to the economic future of the Territory. However, further funding of an additional $34 million dollars is needed in fiscal years 1983 and 1984. The Virgin Islands seeks the aid of Congress in earmarking the funds to complete this project in the Airport and Airway Development Program legislation.

The St. Croix airport is also in need of modernization and expansion. Lengthening of the runway there to 10,000 feet would permit non-stop flights to the West Coast and to Europe. Completion of both projects would allow wide-body flights to both islands and would help tremendously in our efforts to promote tourism.

Another provision included in the CBI legislation, which would benefit both the Territory and the Caribbean as a whole, is increased agricultural research. I understand that the National Marine Fisheries Service (NMFS) has submitted a proposal to expand this provision to provide funding for a Fishery Research Institute in the Caribbean. The Virgin Islands is the best location for this Institute for several reasons. First, the CBI proposal put forward by NMFS emphasizes the Eastern Caribbean, of whhch the Virgin Islands is a part and with which the Virgin Islands shares a common language and culture. Second, the fisheries of the Virgin Islands are very similar to the Eastern Caribbean resources, and research carried out in the Virgin Islands presently forms much of the basis for regional management. Third, fisheries research in the Virgin Islands is well-established and has been quite successful in dealing with resource questions. Finally, Virgin Islands technicians and graduates of the College of the Virgin Islands have worked throughout the region for many of the island governments. As a result, logistical contacts are already in place.

In closing I wish to reiterate the Virgin Islands' strong support for federal measures to help promote economic development of our strategically vital region. But I wish to emphasize that the Caribbean Basin Initiative will be significantly enhanced by the United States ensuring that its own Territories are first adequately protected. In so doing the United States will be in a better position to encourage social and political stability by promoting its trade and investment policies in the region. I ask this committee to strengthen the administration's CBI legislation as I have proposed. There is no better way for the United States to show its commitment to the Caribbean region than by providing at the same time as for other countries funding and economic improvements measures for its own Territories.

I pledge my assistance to this Committee as it considers these and other measures which will improve the position of the Virgin Islands within the Caribbean Basin Initiative and which will improve the position of the United States within the Caribbean Basin.

Thank you very much.

RON DE LUGO
Delegate, Virgin Islands

COMMITTEE ON INTERIOR AND
INSULAR AFFAIRS

SUBCOMMITTEES:
PUBLIC LANDS AND NATIONAL PARKS
INSULAR AFFAIRS

COMMITTEE ON PUBLIC WORKS
AND TRANSPORTATION

SUBCOMMITTEES:
AVIATION
SURFACE TRANSPORTATION

POST OFFICE AND
CIVIL SERVICE COMMITTEE

SUBCOMMITTEE:
POSTAL OPERATIONS AND SERVICES

Congress of the United States
House of Representatives
Washington, D.C. 20515

WASHINGTON OFFICE:
[illegible] Rayburn House Office Building
Washington, D.C. 20515
(202) 225-1790

DISTRICT OFFICES:
U.S. Federal Building — [illegible]
St. Thomas, Virgin Islands [illegible]
(809) 774-[illegible]

P.O. Box 7140
[illegible]
St. Croix, Virgin Islands [illegible]
(809) 773-[illegible]

December 8, 1981

Honorable Ronald W. Reagan
President of the United States
The White House
Washington, D.C. 20500

Dear Mr. President:

We are writing to bring to your attention our concerns for the political and economic future well-being of the United States territories in the Caribbean-the U.S. Virgin Islands and Puerto Rico-which will be directly impacted by the Caribbean Basin Initiative.

We would ask that clear recognition be given to two basic principles in the development of the Caribbean Basin Initiative. First, that the territory of the U.S. Virgin Islands should play an active role in the policy development, and secondly, that new Caribbean policy be consistent with territorial policy.

Over the past twenty-five years, the Congress of the United States has carefully developed a territorial policy based mainly on trade and tax incentives in order to secure economic and political stability and to enable the U.S. Virgin Islands to achieve an increasing degree of self-reliance. The delicate balance inherent in that policy has been eroded over the past several years by the extension of escalating trade and tariff concessions to emerging nations with no concommitant re-evaluation of the concessions previously singular to the U.S. Virgin Islands. The effect in this erosion of territorial policy can be clearly seen in the critical condition of the territory's infrastructure, public services and investment climate.

The extension of unilateral advantages to the island countries in the Caribbean or the unwitting sharing of advantages currently enjoyed only by the Virgin Islands can lead to the decimation of the Virgin Islands' economic and social position in the region. The destructive effect of such a policy will be not only limited to the Territory, but it may well be Caribbean-wide, for the Virgin Islands and Puerto Rico remain the American flag-ships of the entire region.

Mr. President, we believe the counter productive results of such a policy will be avoided by faithful adherence to the principle of full consultation with territorial government officials and Congressional representatives as the Caribbean Basin Initiative is being developed. Second, continued economic growth and prosperity in the Virgin Islands can only be achieved by commitments to the principle that the overall competitive position of the Virgin Islands will be preserved as a fundamental part of any Caribbean Initiative which your Administration might submit to the Congress.

We are ready to work with you and your Administration to build a successful Caribbean policy which does not threaten U.S. interests in our off-shore areas, and indeed strengthens them.

Respectfully yours,

Ron de Lugo

Morris K. Udall, Chairman
Committee on Interior & Insular Affairs

Manuel Lujan, Jr.

James R. Jones, Chairman
Committee on Budget

Robert J. Lagomarsino

Michael D. Barnes, Chairman
Subcommittee on Inter-American Affairs

Edward J. Derwinski

Jonathan B. Bingham, Chairman
Subcommittee on International Economic Policy and Trade

Richard B. Cheney

John F. Seiberling, Chairman
Subcommittee on Public Lands & National Parks

Douglas K. Bereuter

Kent Hance

Silvio O. Conte

Fortney H. (Pete) Stark, Chairman
Subcommittee on Select Revenues

Ron Marlenee

Don H. Clausen

Dan Marriott

Clement J. Zablocki, Chairman
Committee on Foreign Affairs

Baltasar Corrada

Fofo I.F. Sunia

George M. O'Brien

Phillip Burton, Chairman
Subcommittee on Labor-Management Relations

Joseph P. Addabbo, Chairman
Subcommittee on Defense

Antonio Borja Won Pat, Chairman
Subcommittee on Insular Affairs

STATEMENT OF
JAMES P. WALSH
ON BEHALF OF THE
AMERICAN TUNABOAT ASSOCIATION
on
S. 2237
THE CARIBBEAN BASIN ECONOMIC RECOVERY ACT

COMMITTEE ON FINANCE
UNITED STATES SENATE

August 2, 1982

Thank you for the opportunity to provide the views of the American Tunaboat Association on S. 2237, the Caribbean Basin Economic Recovery Act, a bill to implement a major element of President Reagan's Caribbean Basin Initiative.

The American Tunaboat Association (ATA) is a non-profit fishery cooperative based in San Diego, California. ATA represents 111 of the 132 U.S.-documented and U.S.-built long-distance tuna fishing vessels. ATA member vessels search for and harvest tuna in wide expanses of the Atlantic and Pacific Oceans and deliver their catches to U.S. canneries located in Puerto Rico, Southern California, American Samoa, and Hawaii. In addition, and ATA vessels some transship their fish from Guam to these canneries.

The entire U.S. tuna fleet, including numerous smaller vessels not belonging to ATA, landed 489,878,000 pounds of tuna in 1981, round weight. From that amount 221,500,000 pounds of canned tuna was produced, or 31 percent of the U.S. supply. Overall the U.S. tuna industry provides a wholesome, high-protein food product for about 65 million

Americans each year. Almost all of the tuna canned in this country is caught in waters outside the jurisdiction of the United States.

The President's Caribbean Basin Initiative is a laudable attempt to deal with the long simmering economic and political troubles that have beset the countries in the Caribbean basin. Yet the President stated he did not intend to harm Puerto Rico in the process of trying to help these foreign countries improve their economies. However, the one-way free trade proposal would expose the canneries operating in Puerto Rico, as well as those located in American Samoa, Hawaii and Southern California, to competition from tuna canneries, set up in the beneficiary Caribbean countries, that the domestic canneries simply could not keep pace with. The U.S. tuna industry considers this too high a price to pay for a foreign policy initiative which may not, despite good intentions, achieve its goals.

Potentially, S. 2237 will force the entire U.S. tuna canning industry to transfer to Caribbean basin beneficiary countries. With the loss of domestic canning operations, the U.S. tuna fleet would have to land tuna where the canneries are located and, possibly, register under a foreign flag in order to stay in business.

Let me briefly explain why we believe such a radical change in the U.S. tuna industry could occur as a result of S. 2237 and why Congress should exempt canned tuna from the bill. Up to now, the tariffs on imported canned tuna have kept the U.S. industry competitive and the product widely available to the American consumer at a reasonable price. But foreign imports are increasing and may reach 20 percent of the U.S. market this year, up from 10 percent in 1981. The fact is foreign cannery operations simply do not have the same costs as U.S. canners -- the cost of labor, land, and money is lower in many foreign nations. Moreover, plants in foreign countries do not have to meet the same environmental, health and safety, and consumer standards that U.S. plants do. This cost differential, since there is essentially no limit on the amount of duty-free canned tuna that can enter the United States from beneficiary countries under S. 2237, will likely cause a wholesale shift of tuna canneries to the Caribbean basin once a few are set up and are successful. Canneries can be moved and set up fairly easily so a U.S. company that wishes to remain competitive will go where the competitors are located, i.e., outside the United States.

It is apparent to us that the President's staff, in rushing to do something about the Caribbean basin failed to consider adequately the impact of this proposal on the tuna industry, especially on the canneries located in Puerto Rico. Moreover, they demonstrated a lack of knowledge about the industry, and an insensitivity to existing Federal policies that support the U.S. fishing industry and U.S. insular possessions. And, once the CBI was announced, they have steadfastly refused to alter the proposal even though they are beginning to realize the negative impact S. 2237 and H.R. 5900 will have on our industry. We are asking Congress to rectify their mistakes by exempting canned tuna from the duty-free treatment proposed in the bill.

The Administration has argued that very little tuna canning capability presently exists in these countries and the potential growth is limited. But there is little doubt that they are wrong about the potential, especially since major tuna fishing grounds lie off the western shore of Central and South America. Again, this demonstrates a lack of understanding about our industry.

The Administration also claims that safeguard mechanisms exist for protecting Puerto Rico's and the domestic industry's interests. Section 201 of the Trade Act of 1974, we are told, provides protection against serious injury from duty-free imports. But this is a very weak safeguard. First, the burden of proof is considerable and requires a substantial investment in lawyers, economists, and trade experts in order to surmount that burden. Further, we cannot conceive of any President imposing an investment-threatening tariff on canned tuna from a Caribbean country after a multi-million dollar processing plant is built there. We view this so-called safeguard as very weak indeed.

Over the history of its highly successful development, the U.S. tuna fleet has been subjected to seizures, fines, harrassment, and even life-threatening incidents in Latin American countries. The ATA membership, consequently, is not sanguine about having to deliver their catch of tuna to processing plants in Central American countries. If, as we fear, your Committee does not exempt tuna from S. 2237, the U.S. tuna industry, as we know it today, will become the foreign tuna industry with the attendant loss of jobs and associated economic benefits. For these reasons, we ask you to amend S. 2237, exempt tuna from its provisions, and retain the existing tariff rates on imported canned tuna.

Thank you.

Before the
Committee on Finance of the
United States Senate

In the Matter of	)	
	)	
Legislation to Implement the Caribbean Basin Initiative	)	S. 2237
	)	

COMMENTS OF THE
AMERICAN WATCH ASSOCIATION

The comments which follow are submitted by the American Watch Association (AWA), a trade association that represents approximately forty member and associate member United States companies which are engaged in the importation, manufacture, or assembly of watches, watch movements and watch parts for sale in the U.S. and world markets. AWA members include the firms which market such well-known watch brands as Bolova, Casio, Citizen, Concord, Ebel, Elgin, Girard Perregaux, Hamilton, Helbros, Longines, Movado, Omega, Pulsar, Rado, Rolex, Seiko, Waltham, Wittnauer and many others.

The AWA is sympathetic to the foreign policy objectives of the President's Caribbean Basin Initiative. However, we are convinced that CBI will raise profound adverse problems for the U.S. watch industry:

(1) Enactment of CBI will almost certainly destroy the struggling watch assembly industry in the U.S. Virgin Islands.

(2) Separate legislation (H.R.5758) which has been approved in the House Ways and Means Subcommittee on Trade to provide additional incentives for Virgin Islands watch assembly, will prove inadequate both to compensate the V.I. industry for enactment of CBI and to restore that industry to some degree of health.

(3) CBI, as proposed by the Reagan Administration, poses serious problems of administration, many of which have already been experienced in administering the Virgin Islands watch assembly program.

Accordingly, the AWA believes that CBI might best be patterned after the existing Generalized System of Preferences (GSP) which recognizes that the watch industry is an import-sensitive industry and which therefore includes an exclusion for watches under GSP.

I. Enactment Of CBI Will Destroy The Virgin Islands Watch Assembly Industry

Background

The 1954 Customs Simplification Act (P.L.83-768), in order to promote light industry in the U.S. insular possessions, provides for duty-free treatment for articles of foreign origin under General Headnote 3(a) of the Tariff Schedules of the United States (TSUS). The law spells out three tests which articles must meet in order to qualify for the tariff preference:

(1) They must be judged to be the "growth, product or manufacture" of the insular possessions, a test which is the subject of Customs Service regulations discussed below;

(2) The value of the foreign content of the articles cannot exceed 50% (subsequently raised to 70% (P.L.94-88)) of the total value of the articles landed in the U.S.; and

(3) The articles must be shipped directly from a U.S. insular possession into the Customs territory of the U.S.

The 1966 Watch Quota Act (P.L.89-805) places an annual quota on the number of watches and watch movements eligible for duty-free tariff treatment under General Headnote 3(a). That quota is equal to one-ninth of U.S. apparent consumption of watches during the preceding calendar year. The quota is allocated among the insular possessions according to the following formula:

Virgin Islands	-	87.50%
Guam	-	8.33%
American Samoa	-	4.17%

In practice, the Virgin Islands watch assembly industry operates on three fundamental principles:

(1) <u>Tariff Differential</u>. The basic incentive for watch assembly in the Virgin Islands is the tariff incentive (duty-free treatment) provided by law. Virgin Islands watch assembly operations have traditionally been based on the production of watches in those TSUS categories -- watches and watch movements having 17 jewels or more -- where the duty on direct imports is greatest.

(2) <u>70-30 Test</u>. According to law, the value of the foreign content of a watch assembled in the Virgin Islands cannot exceed 70% of the landed value of that watch in the United States, without forfeiting the duty-free benefits of General Headnote 3(a). This test, alone, serves only to require that the U.S. landed cost to be figured at a price sufficiently high to permit the articles to meet the 70% test of General Headnote 3(a). It involves no test of labor value-added in the territories nor economic contribution to the insular possessions. For example, a watch landed in the Virgin Islands costing $4.00 must be sold to a U.S. importer for at least $5.71 to meet the 70-30 test. That does not mean, however, that the assembler in the Virgin Islands must add at least $1.71

in labor value in the Virgin Islands, it merely means that the Virgin Islands assembler must mark up the watch by this amount.

(3) Substantial Transformation. The third basic element of the General Headnote 3(a) program involves the tests administered by the Customs Service in determining what articles constitute the "growth, product or manufacture" of the Virgin Islands. These tests, rather than the 70-30 test, constitute the U.S. government's requirements for minimum assembly and labor value-added under the General Headnote 3(a) program for watches. The Customs Service regulations are unavoidably complex, presenting the territorial producer with a variety of major and minor assembly operations which it must perform in order to meet the Customs guidelines for substantial transformation. (See Customs Service Change of Practice Ruling T.D. 80-146 of June 2, 1980.) These regulations provide separate tests for the duty-free assembly of mechanical and electronic watches and watch movements.

Caribbean Basin Initiative Benefits Meet Or Exceed Those Of General Headnote 3(a)

The benefits to companies operating in Central America and the Caribbean, contained in S.2237 and H.R.5900, these benefits generally meet or exceed the benefits available to Virgin Islands watch assemblers under the General Headnote 3(a) program. With regard to tariff incentives, CBI offers the same duty-free treatment now accorded Virgin Islands watch assemblers. However, if the import ceilings of both programs are considered, CBI appears to be the more attractive program. By our rough calculations, the ceiling in 1982 on duty-free benefits under General Headnote 3(a) would extend to approximately $97 million in imports of watches and watch movements. (This calculation is based on a ceiling of 8.809,000 watch units permitted for the Virgin Islands under the General Headnote 3(a) program for 1982, multiplied by an estimated average value per unit of $11.00.) In contrast, CBI would permit duty-free benefits for approximately $52 million of imports for each five-digit TSUS item category. For watches there are two such categories -- TSUS Item No. 688.45 and No. 715.05 -- for a potential total of $104 million in 1982. This figure, however, does not include potential benefits to CBI for watch movements for which there are 16 five-digit TSUS categories under TSUS Item No. 716.-- and another 16 under TSUS Item No. 719.--. <u>Theoretically then, the duty-free benefits under CBI could extend to as much as $1.7 billion in watch and</u>

watch movement imports in 1982. Calculated from whatever perspective, CBI benefits will clearly extend to a greater volume of watch imports than is possible under the General Headnote 3(a) program.

With respect to the foreign content limitations under CBI, it is our understanding that the 70-30 test under General Headnote 3(a) will be amended to conform to the 75-25 foreign content test under CBI. This 5 percent differential means that watches assembled under the CBI program could be imported into the U.S. at a price that is 5 percent less than a comparable watch assembled in the Virgin Islands.

Finally, with respect to standards for substantial transformation, CBI appears to contain no specific minimum assembly requirements in contrast to the specific substantial transformation tests properly imposed on the Virgin Islands watch industry by the Customs Service. It is not clear to us whether the 75-25 test in CBI will operate in practice as a simple mathematical formula for determining the minimum landed price in the United States permitting the value of the foreign content of CBI imports to remain no greater than 75% of the total, or whether the 75-25 test will be treated as an actual test of labor value added in CBI beneficiary countries. In our judgment, two factors will prohibit the latter approach of a 75-25 labor value requirement.

First, the Customs Service has discovered to its regret that it is difficult enough to enforce the minimum assembly requirements it imposes on U.S. insular possession assemblers who operate within the Customs territory of the United States. It is hard to imagine that the Customs Service can effectively police the assembly operations of firms operating outside of the United States Customs territory, especially companies which are completely foreign-owned operations.

Second, if watches are a valid example, a 25% minimum value added requirement strictly enforced would lead to ludicrous results. The assembly requirements for watch production are relatively similar from one kind of watch to another differing significantly only between electronic and mechanical watches. That is, a moderately expensive mechanical watch requires the same kind of assembly work as does an inexpensive mechanical watch. In turn, both kinds of watches involve approximately the same assembly costs. However, if the minimum assembly costs were tied to a 25% CBI requirement, the minimum assembly requirement would fluctuate substantially depending on the cost of the foreign components. In order to meet such a fluctuating requirement, CBI watch assemblers would have to pad artificially their assembly procedures to meet the test for higher priced watch articles. Surely the United States does not want to force producers, who would be engaged in otherwise legitimate assembly operations, to engage in such subterfuge.

Virgin Islands Watch Producers Would Operate At A Great Disadvantage Compared With Their CBI Counterparts

Not only are CBI benefits potentially more attractive than General Headnote 3(a) incentives, Virgin Islands watch assemblers must operate under an overwhelming handicap. These producers are required by law to pay their employees in the Virgin Islands wages which are tied directly to the U.S. minimum wage scale. Curently, the minimum wage in the Virgin Islands, like that in the United States, is $3.35 an hour. By contrast, the prevailing wage for workers in light manufacturing industries in the Caribbean Basin area is significantly less than $1.00 per hour. Accordingly, even if General Headnote 3(a) producers could enjoy the same benefits as CBI producers, their profitability and capacity to reinvest their earnings in their offshore operations is vastly smaller than their CBI counterparts.

Summary

The Virgin Islands watch assembly industry was experiencing problems prior to the announcement of the Caribbean Basin Initiative. In contrast to an industry that employed approximately 1,200 Virgin Islands workers and recorded more than 4.6 million units shipped to the United States in 1973, Virgin Islands imports had fallen to less than half in 1981 and shipments had declined to 2.7 million units. The reasons for this decline can be traced in large measure to the evolution of the U.S. watch industry in recent years away from production of mechanical watches, where the duty-free benefits of General Headnote 3(a) are greatest to production of electronic watches, where General Headnote 3(a) benefits are substantially less.

At the very time that the Virgin Islands watch industry is experiencing difficulties stemming from ordinary technological and economic forces, the United States is proposing a new challenge to the industry in the form of the Caribbean Basin Initiative. Plainly, enactment of CBI would destroy that industry and preempt any possibility of restoring it to health and place hundreds of Virgin Islands workers in the unemployment lines.

II. Parallel Watch Legislation Will Not Undo The Dangers Of CBI

H.R.5758

Some government officials have recognized the potential danger that CBI would inflict on the Virgin Islands watch assembly industry, but contend that legislation (H.R.5758) sponsored by the Delegate from the Virgin Islands, Mr. DeLugo, would compensate the industry and permit it to regain its former vigor. Unfortunately, the AWA, which has worked closely with the U.S. Commerce Department and Mr. DeLugo to develop that legislation, is convinced that H.R.5758 is clearly inadequate to do both tasks.

The DeLugo bill, which has been approved by the House Ways and Means Subcommittee on Trade, would:

(1) Abolish the 70-30 foreign content test in General Headnote 3(a).

(2) Raise the watch quota from one-ninth of U.S. apparent consumption to 10 million units or one-ninth of apparent consumption, whichever is greater.

(3) Provide the Departments of Commerce and the Interior with substantially greater administrative flexibility in establishing rules and quota allocation.

(4) Most importantly, authorize "Production Incentive Certificates" which could be redeemed to secure the refund of duties accrued to the face value of the certificates. The value of these certificates would be tied by a complicated formula to creditable wages paid to Virgin Islands and other insular possessions workers in the assembly of watches and watch movements under the General Headnote 3(a) program. According to the formula, a producer would be eligible for a certificate in the amount of 90% of the creditable wages on the first 300,000 watch units produced each year. The Commerce and Interior Departments would be authorized to establish lower percentages on units ranging in number from 300,000 to 750,000 watches per year. The overall value of certificates that could be issued to all Virgin Islands watch producers in any year could not

exceed $5 million in value. H.R.5758 authorizes Production Incentive Certificates for a 12-year period, after which the program would have to be renewed by Congress if it were to continue.

<u>Limitations of H.R.5758</u>

The provisions of H.R.5758 are a necessary step in the direction of restoring vitality to the watch assembly industry in the Virgin Islands, Guam and American Samoa. The legislation, however, cannot be expected both to restore that vitality and to compensate for the benefits other Caribbean Basin countries would gain from enactment of CBI.

For instance, abolishment of the 70-30 test would allow Virgin Islands watch producers to sell their products to the United States at substantially lower prices. However, such repeal would not affect the Customs Service minimum assembly requirements for substantial transformation -- nor should it -- and finally, repeal of the 70-30 test would have no effect on the profitability of Virgin Islands watch assemblers although perversely it might make it easier for these producers to sell watches at a loss.

Further, if the insular watch assembly industry were a healthy one, it might be helpful to raise the ceiling on the annual quota and allow for greater administrative flexibility. These provisions of H.R.5758, under current economic conditions in the Virgin Islands, are virtually irrelevant.

Finally, the Production Incentive Certificate concept is one which the American Watch Association supports as the only practical solution to the long term economic health of the Virgin Islands watch industry, inspite of our general aversion to artificial economic incentives which may result in market distortions. Nonetheless, the Production Incentive Certificates, as commendable as they may be, will not adequately compensate Virgin Islands producers for the damages that enactment of CBI will bring.

H.R.5758 is designed to encourage a proliferation of relatively small watch assembly firms in the Virgin Islands and other U.S. insular possessions. The Production Incentive Certificates achieve their greatest value for production not exceeding 300,000 units a year. Above that level, the bill is unclear as to what percentage of watches can be credited toward the value of the certificates. It is likely that the benefits accruing to large producers would be substantially reduced if the departments lowered the percentage of wages that are creditable for production ranging from 300,000 to 750,000 units. In any event, production exceeding 750,000 units a year would receive no benefits at all. The certificates would have been of only marginal value to a large insular producer such as Timex was several years ago when it received an allocation of 1 million watch units a year.

Even for small watch producers the benefits of H.R.5758 are considerably reduced. First, there would be a considerable lag between the time that insular production occurs and the time that a company is awarded the Production Incentive Certificate rebating a portion of its wage costs. During this time, in order to compete with watch operations established in CBI countries, the small insular producers would have to rely on credit at almost prohibitively high interest rates. Second, that small producer's certificate is relevant in terms of competition with CBI watch producers only in the sense that the value of the certificate can be converted to hard cash. For many small producers there will be no direct imports for which the certificates can be cashed in. In that event, these producers will be forced to seek buyers for their certificates in the marketplace and doubtless will have to sell their certificates at a substantial discount in order to find a buyer among direct importers and to compensate direct importers for the red tape that inevitably will accompany transfer of certificates.

Lastly, the value of the Production Incentive Certificates will be diminished somewhat by the uncertainty that surrounds their availability as contemplated by H.R.5758. Not only does the bill fail to identify over the long run what the value of the certificate might be for production over 300,000 units a year, but the annual ceiling of $5 million suggests that in some years when demand for insular watch quota is especially high, competition among producers will cause Production Incentive Certificates to be spread more thinly over the total number of Virgin Islands watch producers.

Ultimately, insular watch assemblers are likely to receive Production Incentive Certificates that reflect only approximately 50-60% of their creditable wages. At this level, the certificates are not nearly valuable enough to compensate Virgin Islands watch producers for the several disadvantages attendant to production in that territory -- principally the linkage with U.S. minimum wage rates.

H.R.5758 is plainly a step in the right direction. However, its value is not sufficient to outweigh the many advantages that CBI would afford U.S. and foreign companies wishing to establish operations in Central America and the Caribbean.

III. Experience With Virgin Islands Watch Production Anticipates Problems That CBI Would Bring

The experience of the insular possessions watch industry, in our judgment, provide valuable lessons with regard to problems that are likely to be encountered should Congress enact the Administration's Caribbean Basin Initiative.

Funnel-Through Operations

The General Headnote 3(a) program for insular watch assembly is characterized by a variety of regulations establishing minimum assembly criteria. These fairly complex rules were developed by Congress and previous Administrations in response to serious challenges to U.S. law created by the 1975-1978 influx of low labor imports originating in the Soviet Union. Beginning in 1974 when the value of shipments of Soviet-origin watches and watch movements totaled only $210,000, Soviet-origin watches mushroomed until they accounted for $2,401,000 (12% of all Virgin Islands shipments) in 1977. During that same period, the number of employees in the Virgin Islands watch industry fell from nearly 1,200 to slightly more than 900 workers.

The reason for the surge of Russian-origin imports and the decline in total employment can be traced to the fact that these watches were being shipped to the Virgin Islands virtually completed (some watch industry and Commerce Department evidence pointed to the possibility that Russian-origin watches were in fact shipped complete to Panama and other locations in the area, disassembled in part, and shipped to the Virgin Islands for final re-assembly). Assembly of Russian-origin watches in the Virgin Islands consisted of a 2 or 3 screw operation in which no more than 10 or 15¢ local labor was involved. The incentive for this funnel-through operation was the duty savings under General Headnote 3(a) compared with the exceptionally high import duties that a Column 2 country such as the Soviet Union would ordinarily pay on direct imports. Confronted with the problem of funneling Russion-origin watch movements through the Virgin Islands first, the House Ways and Means Committee and the full House of Representatives voted for, and subsequently the Commerce Department and Customs Service established, substantially more rigorous and consistent standards for minimum assembly requirements needed (1) to qualify for a General Headnote 3(a) quota allocation and (2) duty-free treatment as a "growth, product or manufacture" of the Virgin Islands.

The problem associated with the Russian-origin watch funnel-through affair, highlighted a number of other problems that can be expected to accompany enactment of CBI.

Substantial Transformation

The essence of both the Headnote 3(a) and CBI programs is a desire on the part of the United States to encourage economic development in less-developed areas within the Western Hemisphere. The basis of such economic development must be, in both instances, encouragement of the greatest possible local labor and resulting wages in the process of assembling or completing the manufacture of foreign-origin produces to which the United States assigns duty-free benefits.

Throughout the crisis involving Russian-origin watches, it was difficult for governmental or industry experts to identify and verify the assembly procedures of insular watch producers using Soviet-origin components. Moreover, the problem was aggravated by difficulties the U.S. government experienced in determining the proper valuation of these watch components. The importance of determining both assembly procedures and valuation were crucial because they involved (1) the eligibility of Russian-origin watches for duty-free treatment and (2) the ability of companies using non-Russian-origin products to compete with low labor companies.

The difficulties experienced by the watch industry and the U.S. government in the Virgin Islands can only be compounded in reference to monitoring duty-free production under the Caribbean Basin Initiative in the Virgin Islands. The Customs Service and Commerce Department each had access to the production facilities of watch assemblers in the Virgin Islands. No such access will exist for companies operating in Central America and the Caribbean. The Customs Service will have to rely largely on the bills of lading and foreign invoices, coupled with unverifiable assurances from foreign producers, that production meets the criteria established under CBI. Should producers ever decide again to use Russian-origin watch products, it will be virtually impossible to detect violations of CBI requirements. In that instance, the U.S. watch industry and traditional watch importers will be placed at an unfair competitive disadvantage from which there will be little likelihood of reprieve.

IV. Enactment Of CBI Could Engender Social Unrest In the Virgin Islands

The position of the AWA is that the assembly of watches in U.S. insular possessions, and particularly in the Virgin Islands, has an established role in the U.S. watch market. We neither desire U.S. government action that would artificially enhance that role nor steps that would destroy the industry. In sum, we seek policies which will allow the industry to return to its traditional position as one element of the overall watch industry.

Moreover, the AWA believes the United States should take extraordinary measures to safeguard the Virgin Islands watch assembly industry and other General Headnote 3(a) programs. Based on our knowledge of social and economic conditions in the U.S. Virgin Islands, it would not be unreasonable to fear that the territory could evolve in much the same way the government of Grenada has moved in becoming a socialist island regime. Certainly growing racial and economic unrest can be predicted should the Island's economy worsen.

CBI, in its commendable attempt to commit some of the resources of the United States to building the economies of Central America and the Caribbean, perversely threatens to aggravate the economic problems of the Virgin Islands. Viewed from the perspective of the United States mainland, the loss of 600 jobs, or even 1,200 jobs, in the watch assembly industry is not of major concern. Viewed, however, from the standpoint of the economy of St. Croix, on which a great bulk of the watch assembly industry is located, such a loss would be of tragic proportions.

We do not in any way claim that enactment of CBI would automatically trigger a socialist revolution in the Virgin Islands. However, we are convinced that its enactment would worsen the economic condition of the workers on St. Croix and St. Thomas. As representatives of the Virgin Islands must frequently remind the United States, the citizens of the Virgin Islands are Americans. We can think of no greater embarrassment to the United States than a series of racial and economic riots that could stem from a decision by Congress and the Administration to award tariff and tax privileges to CBI countries at the expense of established and potential private sector investments in the Virgin Islands.

V. Conclusion

The AWA is convinced that enactment of CBI as it is currently conceived, would destroy watch assembly operations in the Virgin Islands and Guam. We are just as convinced that enactment of H.R.5758 is both absolutely necessary for the continued existence of the Virgin Islands and Guam watch industries and at the same time it is inadequate to compensate for the injury to these industries that passage of CBI would inflict.

We have attempted in our statement to describe a number of problems which we believe will accompany passage of CBI that transcend the watch industry. On balance, we agree with the comments expressed at the August 2 hearing of the Committee that the CBI proposal might better be patterned after existing provisions of the GSP duty-free program. We are especially convinced that the decision of Congress in the 1974 Trade Act to exempt certain import-sensitive industries from GSP is a particularly important action Congress should continue under the Caribbean Basin Initiative. In particular, the American Watch Association urges Congress to provide a waiver under CBI, however the legislation is finally constituted, exempting watches and watch movements from duty-free tariff treatment.

SUBMISSION FOR THE RECORD TO THE COMMITTEE ON FINANCE, UNITED STATES SENATE, BY CHARLES W. PARRY, PRESIDENT, ALUMINUM COMPANY OF AMERICA, REGARDING PROPOSED LEGISLATION ON THE CARIBBEAN BASIN. AUGUST 3, 1982

I believe that it is important that your hearing record concerning pending legislation on the Caribbean Basin reflect the reasons why my corporation is such a strong supporter of the President's program to promote economic development there. Alcoa has little or nothing to gain directly from the President's initiative. Our basic investments in the Basin area have long been in place, and the bauxite and alumina which we import are duty free. However, as a corporate citizen, we feel strongly that this proposal is in the national interest and can help to stabilize a neighboring region to the south that is now in considerable travail.

Although the great bulk of Alcoa's capital investment, labor force, and business activities is in the United States, thus linking our fortunes to the buoyancy of the American economy, we are also an international firm. We depend on foreign sources for bauxite, the basic raw material that is processed into aluminum. In this era of high cost domestic energy supplies, we have also increasingly developed primary metal production abroad to remain cost competitive, chiefly in supplying overseas markets. We have established manufacturing facilities in Western Europe, Japan, Australia, Mexico, and Brazil to supply semi-finished and finished products for those local markets. All of these involvements make us keenly aware of the growing interdependence of the countries of the world, of the internationalization of markets for commodities and goods, and of the globalization of flows of funds and loans.

The Caribbean area, in its small way, is very much a part of this global economy. Alcoa's initial experience there came in 1916 in Dutch Guiana, now Suriname, when it obtained a mining concession. Since then, our investment in that land has grown enormously in both mining and processing. We have undertaken similar types of ventures on a smaller scale in Jamaica and the Dominican Republic. Other investments, of a different character, have been made in Trinidad, Mexico, and Venezuela. During these many years, we have watched former colonial territories achieve independence. We have observed the wholesome impact of foreign investment on local progress. Indeed, we have been most impressed by the stimulative effect of many free enterprise efforts in Mexico and Venezuela, which, despite great domestic problems, have experienced enormous economic growth in recent years. I am sure that this approach deserves to be promoted elsewhere in the Caribbean. This bill would help to do that.

I share the views of those who believe that it is important to America's security and well-being to have neighbors who are friendly, who enjoy political stability, and who are making economic progress. The turmoil in most of Central America illustrates the dangers that can arise from indifference, both by the United States and by the local governments themselves, to basic social injustices and to economic stagnation. One Cuba in the area is enough.

Sometimes, the problems of the Basin region seem insoluble. Habits and practices which grew out of slavery and colonial rule continue to handicap governments of the Caribbean islands, despite their usually democratic political systems. Equally burdensome to achieving social harmony and peace in most of Central America is the weight of centuries of oligarchic landholding arrangements. In addition, most of this bill's potential beneficiaries suffer from a lack of modern infrastructure, a scarcity of natural resources, few indigenous sources of energy, woefully unskilled manpower, a substantial brain drain, a stultified free market system, and a population that is much too large to be sustained by the weak agricultural economies that prevail around the Basin.

The President's program is not a panacea, but merely a beginning. It will take years of intensive informational and promotional efforts in the United States to attract sufficient American capital to generate the jobs, skills, and trading systems to make a dent in the region's depressed economies. American entrepreneurs will need the bill's tax incentives and its provisions for duty free entry into the American market to compensate for the substantial additional risks in the area, compared with the Far

East or other offshore locations. Such risks will arise from uncertainties about turning out either traditional or new consumer products for export in industry or agriculture, given a largely untested local work force, local industrial relations conditions, and the possibility of changeable local government policies.

With current shortages of capital in the United States, it will not be easy to generate enthusiasm for Caribbean investment among American businessmen, unless the prospects for profit appear very real. Flows of investment which this legislation might encourage will not have significant repercussions on the U.S. domestic market through job loss or enhanced imports, since development will not come that fast even with added incentives. In any case, most imports from beneficiary Caribbean countries are not likely to compete with products likely to be made in the U.S. If such goods do not come from the Caribbean, their source will be elsewhere overseas.

As a guide to your verdict about this bill, the analogy of Puerto Rico's experience seems to me quite instructive. On a very modest scale, the legislation before you would extend to the Caribbean Basin nations some of the much larger tax and duty free provisions long granted to Puerto Rico. We should note well that, with such incentives, outside investment there has created a sizable manufacturing and service sector, as well as a more modernized agriculture. Living standards have been greatly raised in the last 30 years.

Still, these laws have proved to be no full cure for local difficulties. Despite the ability of Puerto Ricans, as American citizens, to emigrate to any of the 50 states, thus relieving pressures on jobs on the island, unemployment is still 20 percent or more. Citizens of Caribbean Basin lands will have no such escape valve. Moreover, the flow of federal funds for food stamps, social security, and other programs in Puerto Rico is probably $4 to $5 billion a year. This sum is vastly greater for 2½ million Puerto Ricans than any public U.S. appropriations for 37 million in the whole Caribbean proposed under this or any other legislation.

In this light, if the United States is at all serious about the plight of close neighbors beset by economic depression, social disequilibria, and, in some cases, by grave political turmoil, the President's Caribbean Basin proposal is really the least that our nation can do to help. After all, our future, and, to some extent, our fortunes are inevitably intertwined with theirs in the Basin. Indeed, I say this about the links between our nation and the Caribbean with full awareness that the Basin's problems are now clearly evolving to crisis proportions.

This bill will at least give all of us some foundation for building a better future. Certainly, any specifically troublesome issues in the legislation ought not be beyond the wit and will of the Congress to resolve in fairly short order.

STATEMENT TO THE UNITED STATES SENATE COMMITTEE ON FINANCE
REGARDING S2237
LEGISLATION TO IMPLEMENT THE CARIBBEAN BASIN INITIATIVE
SENATOR D. G. ANDERSON, STATE OF HAWAII
August 11, 1982

Hawaii has a vital interest in the Administration's proposed Caribbean Basin Initiative legislation which seeks to facilitate the region's economic development. The particular importance of this proposal to the people of Hawaii lies in its extension of duty-free status to the nations of the Caribbean for the export of their agricultural products to the United States. Much of the Caribbean is climatically similar to Hawaii and the agricultural crops likely to be exported are, to a great extent, the same crops which form the basis of Hawaii's agricultural exports to the mainland. To grant these nations the benefit of duty-free access to the United States is, therefore, to grant to them a basic benefit of statehood without reciprocal obligations and at the expense of at least one of the states.

I share the Administration's desire to assist the nations of the Caribbean. I am concerned, however, that the burden of providing such assistance will fall disproportionately upon Hawaii and upon those in our state who are engaged in agriculture. Hawaii's principal agricultural exports are sugar, pineapple, papaya, flowers and tropical plants, ginger root, coffee and macadamia nuts. While the principal export of the Caribbean is coffee and the coffee industry in Hawaii has long since declined to its present relatively small size, preferential status for Caribbean exports of sugar and other tropical crops creates a special problem for Hawaii.

Major efforts are underway in Hawaii to diversify our agriculture, to reduce our dependence upon sugar and pineapple and to utilize some of the excess croplands for macadamia nuts, papaya, ginger root, tropical flowers and house plants. If the development of these same crops in the Caribbean is encouraged through the extension of duty-free access at the very time that we are seeking to develop them as viable alternatives, it will almost surely have a devastating economic impact upon these infant enterprises and frustrate our effort: to move away from our traditional reliance on sugar and pineapple.

World sugar production currently exceeds consumption by an unprecedented amount. The dumping of surplus sugar on the world market has forced the United States to impose sugar quotas as a means of protecting the domestic sugar growers and avoiding the necessity of large governmental purchases of excess domestic sugar. The Caribbean nations are traditional suppliers of sugar to the United States, historically providing more than one-third of our sugar import needs. These countries therefore gain significantly from the operation of our quota program because of the higher price they receive for their sugar sales in our protected market. The duty-free access they enjoy (with the exception of the Dominican Republic, Panama, and Guatemala) assures them of additional return on sugar sold on the American market as compared with sales on the world market. At today's prices, the difference is more than 10 cents per pound.

As long as sugar quotas are in place, the Caribbean Basin Initiative, which would extend duty-free treatment to sugar imports from 27 nations of the region including the Dominican Republic, Panama, and Guatemala, does not pose any threat to our domestic industry. The existence of quotas extend very significant benefits to the Caribbean suppliers. However, should these quotas be abandoned in the advent of stronger world sugar prices, then the almost unlimited duty-free access Caribbean sugar producers would enjoy would likely encourage additional investment in sugar despite the worldwide ability to over-produce. Under these circumstances, the legislation under consideration would pose a serious threat to the successful management of our domestic program.

Duty-free access, coupled with the relative transportation advantage which the Caribbean enjoys, is likely to encourage investment in competing agricultural crops to the detriment of the Hawaiian economy. While safeguards are provided in the Caribbean Basin Initiative as drafted by the Administration, those safeguards become operative only with the demonstration of significant detrimental economic impact. We in Hawaii fear that the burden of the Caribbean Basin Initiative will therefore fall unequally on our shoulders. We fear that it will distress our already fragile agricultural economy. We fear that it will preclude our efforts to diversify our production. We fear it will result in a loss of agricultural jobs and therefore increase our social welfare costs.

For these reasons, we urge that the Caribbean Basin Initiative proposal be modified. We recognize the special interest which the United States has in the Caribbean and we are aware of the region's special problems. We understand the Administration's concern. However, we cannot endorse the present proposal which so clearly threatens Hawaii's economic well-being.

11-310 O—82——17

STATEMENT TO THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

On S. 2237

Submitted by

ANTI-FRICTION BEARING MANUFACTURERS ASSOCIATION
1235 JEFFERSON DAVIS HIGHWAY, SUITE 704
ALEXANDRIA, VIRGINIA 22202

August 11, 1982

TO THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

On S. 2237

August 11, 1982

The Anti-Friction Bearing Manufacturers Association (AFBMA) is an Association of 41 companies which manufacture ball and roller bearings and balls and rollers in the United States. Some are large manufacturers of a full spectrum of bearing products; others are smaller companies which concentrate on special or limited lines. Together our members manufacture more than 75 percent of all U.S.-produced ball and roller bearings, valued at $3.6 billion in 1981. A list of our membership has been attached to the written text of this Statement.

AFBMA strongly opposes those provisions of S. 2237 which would establish unqualified duty-free treatment for imports of articles produced by eligible countries located in or around the Caribbean Basin. If enacted, the adverse future impact of such provisions would tend to be felt most heavily by certain segments of U.S. manufacturing, including bearings, which have traditionally been considered import-sensitive. Such impact would aggravate problems that are already severe and cause the financial burden of supporting the CBI to be borne by the firms and workers in the industries affected. AFBMA recommends, therefore, that

<u>S. 2237 be modified so as to exclude articles manufactured by import-sensitive U.S. industries such as the bearing industry from the duty-free treatment envisaged</u>.

Beyond consideration of the inequities contained in S. 2237 as currently drafted, the AFBMA opposes in principle any legislation that has the effect of reducing the prevailing rates of duty on bearings, balls and rollers for the following reasons:

* Imports and import penetration levels on these items have risen steadily in recent years. In 1981, imports supplied over 13 percent of total domestic consumption of all bearings by value, and 63 percent of all ball bearing units sold.
* Imports have increasingly dominated the most lucrative high-volume, standard bearing lines, forcing U.S. producers to retreat from many of these markets.
* U.S. bearing producers have experienced reduced profitability on their remaining business.
* Imports have made significant inroads in major bearing consuming industries, resulting in lost OEM sales not reflected in the import statistics.
* Bearings are incorporated into all types of strategic equipment. The United States needs a strong industry capable of supplying a full line of bearings.

* Over the last five years, developing countries have made significant gains in the U.S. bearing market without the advantage of preferential tariff treatment.

Imports Are Growing Steadily and Rapidly

Bearings are fundamental components in all machinery comprising rotary parts and serve to reduce friction and conserve energy. Without bearings there would be no machine tools, no rolling mills, no transportation, no elevators, no aircraft instruments, no radar or weapons systems, no printing presses, no farm machinery.

Imports, however, have become a major concern to the United States bearing industry, a concern which has been growing over the past decade. In 1973, the (then) Tariff Commission recommended, and the President imposed, temporary increased duties on certain ball bearings and parts. During the increased duty period, importers made significant inroads in the other bearing classifications. Since the increased duties expired in 1978, importers from a growing list of countries have intensified their assault on the whole U.S. bearing market.

The most recent trend is indicative of how sensitive imports of bearings are to reductions in the rate of U.S. duty. According to figures published by the Department of Commerce, the volume of ball bearings imported rose from 163 million to 219 million units between 1977 and 1981, despite a net decline in U.S. apparent consumption during that period. By 1981, imported ball bearings accounted for 63 percent of the U.S. market.

This increase in market share is primarily a reflection of the trend among importers to concentrate on the supply of high-volume, standardized bearings. They move in on these markets with low-priced products, eventually forcing U.S. producers to retreat from these markets. For example, the size 203 ball bearing is the single most important size high-volume standard bearing, incorporated in many products such as automobile alternators and small electric motors. In 1973, at least nine U.S. producers were offering the 203 ball bearing. By 1980, only one automated line in the United States still produced it.

This example is only part of a broader trend which pervades the market, and which has become a growing threat to the health of the U.S. bearing industry. Domestic producers have had to stay ahead of the importers by increasingly concentrating their efforts on low-volume, more technically sophisticated bearings, which cost more to develop and more to produce.

Impact of Increased Imports on U.S. Bearing Producers

Maintaining production of some high-volume standard bearings is critical to the continued health of the U.S. bearing industry. When a manufacturer produces a high-volume product he can automate a line to run for months at a time with very little supervision and only minor retooling. But when a manufacturer is unable to produce at least some high-volume items, his costs increase; lines must be completely retooled periodically, requiring increased labor input and downtime. As the U.S. industry's high-volume base has been eroded by imports, AFMBA members' overhead costs have gone up, making all their products less competitive.

As a result of these lost standard bearing sales, the U.S. bearing industry has been unable to expand its facilities in order to compete more efficiently with imports. We could call this "production suppression." As imports increase, the U.S. bearing industry becomes less able to summon up the means to compete more effectively with them. Between 1977 and 1981 -- while imports were increasing -- U.S. output of ground ball bearings declined by 15 percent.

Perhaps an even more serious problem, both for our industry and for the country as a whole, is that the erosion of our high-volume base threatens our research and development efforts. These efforts are concentrated in the more technologically sophisticated bearings, bearings which are essential to the U.S. defense effort. Bearings are critical components of aircraft, weaponry, trucks and tanks -- the entire spectrum of military equipment. The Department of Defense is very much involved in our research and development efforts. However, U.S. industry must maintain its capital base, which is very much dependent on our standard bearing business, in order to continue development and production of these critical strategic bearings.

The United States bearing industry is especially vulnerable at this time due to a decline in demand from our consuming industries. Thirty-two percent of all bearings are consumed by the U.S. automobile industry. Not only has U.S. automobile consumption declined precipitously in the last few years, but increased automobile imports have had a significant impact on our industry because of fewer sales of OEM bearings. Several of our members have declared bankruptcy; one -- Schatz Federal -- was a supplier of bearings to the automotive original equipment and replacement markets. Farm equipment, which accounts for eight percent of bearing consumption, has also declined in the last few years, as have the appliance and motor industries.

Increasing Imports from Developing Countries

Most of the import competition of which we complained in 1973 was due to imports from Japan, which continues to be a threat to the United States bearing industry. Japanese bearing producers, however, have now established satellite plants in several developing countries, thereby demonstrating substantial flexibility in locating production facilities in low wage countries for shipment to the United States. In 1975, for example, imports from Singapore were valued at $1.8 million; in 1981, they had risen to $15.7 million, to account for more than 7 percent of all imports. Singapore has become the largest single supplier of 0-9mm ball bearings to the U.S. market; this bearing class is critical to the U.S. aerospace and defense efforts. In fact, if the developing countries are considered as a group, their share of total U.S. imports of ball bearings increased from 4.1 percent in 1977 to 8.9 percent in 1981, as the volume of their shipments to the U.S. market nearly tripled (from 7.2 million units in 1977 to 19.4 million units in 1981).

The example of Singapore is instructive. Clearly such developing countries are able to exploit the U.S. market without duty-free treatment; they need no encouragement by way of additional concessions which would send critical industries such as the bearing industry into further decline. Moreover, they serve to point out how foreign producers can readily establish bearing assembly facilities in low-wage areas as a means of furthering their penetration of the U.S. market.

Conclusion

U.S. bearing consumption declined over the last five years in terms of volume. Nevertheless, imports -- increasingly from developing countries -- expanded their share of the U.S. market by 19 percentage points. More important, the standard bearing base on which the U.S.

industry relies is being conceded, item by item, to imports. There is no question that bearing imports have very free access to the U.S. market, access which will increase with the already scheduled tariff cuts over the next five years. Duty-free treatment, particularly given the mobility of foreign-owned production facilities to which the bearing industry has proven to be especially vulnerable, simply cannot be allowed to add fuel to the fire. AFBMA has no choice, therefore, but to recommend that S. 2237 be modified to exclude articles manufactured by import-sensitive industries such as the bearing industry from the duty-free treatment envisaged.

AFBMA COMPANY NAMES
July 29, 1982

THE ABBOTT BALL COMPANY
Railroad Place
West Hartford, Conn. 06110

ACCURATE BUSHING COMPANY
A Subsidiary of Ex-Cell-O Corp.
443 North Avenue
Garwood, New Jersey 07027

AETNA BEARING COMPANY
a Katy Industries Subsidiary
4600 W. Schubert Avenue
Chicago, Ill. 60639

AMERICAN KOYO BEARING MFG. COMPANY
Highway 601
Orangeburg, SC 29115

AMERICAN ROLLER BEARING COMPANY
150 Gamma Drive
Pittsburgh, Pa. 15238

THE BARDEN CORPORATION
200 Park Avenue
Danbury, Conn. 06810

BRENCO, INCORPORATED
P. O. Box 389
Petersburg, Va. 23803

C & S BALL BEARING MACHINERY
CORPORATION
956 Old Colony Road
Meriden, Conn. 06450

FAFNIR BEARING
Division of Textron, Inc.
P. O. Box 1325
New Britain, Conn. 06050

FAG BEARINGS CORPORATION
Hamilton Avenue
Stamford, Conn. 06904

FEDERAL-MOGUL CORPORATION
P. O. Box 1966
Detroit, Mich. 48235

FRANTZ MANUFACTURING COMPANY
Steel Ball Division
West Lincolnway
Sterling, Ill. 61081

THE FREEWAY CORPORATION
9301 Allen Drive
Cleveland, Ohio 44125

GENERAL BEARING COMPANY
High Street
West Nyack, N.Y. 10994

HARTFORD BALL COMPANY
Div. of Virginia Indus., Inc.
951 West Street
Rocky Hill, Conn. 06067

HEIM DIVISION
Incom International Inc
P. O. Box 430
Fairfield, Conn. 06430

HOOVER-NSK BEARING COMPANY
P. O. Box 1507
Ann Arbor, Mich. 48106

HOOVER UNIVERSAL, INC.
P. O. Box 113
Saline, MI 48176

INA BEARING COMPANY, INC.
3399 Progress Dr.
Bensalem, PA 19020

INDUSTRIAL TECTONICS, INC.
P. O. Box 1128
Ann Arbor, Mich. 48106

KEENE CORPORATION
Kaydon Bearing Division
2860 McCracken Street
Muskegon, Mich. 49443

KENDALE INDUSTRIES, INC.
7600 Hub Parkway
Cleveland. Ohio 44125

KEYSTONE ENGINEERING CO.
1444 South San Pedro Street
Los Angeles, Cal. 90015

L & S BEARING COMPANY
P. O. Box 754
Oklahoma City, Okla. 73101

LYDALL, INC./SUPERIOR BALL
100 Wellington Street
Hartford, CT 06106

McGILL MANUFACTURING CO., INC.
909 N. Lafayette Street
Valparaiso, Ind. 46383

MORSE INDUSTRIAL PRODUCTS
Borg-Warner Corporation
620 S. Aurora
Ithaca, New York 14850

MPB CORPORATION
Precision Park
Keene, N.H. 03431

NATIONAL BEARING COMPANY
P. O. Box 4726
Lancaster, Pa. 17604

NEW HAMPSHIRE BALL BEARINGS, INC.
Route 202
Peterborough, N.H. 03458

NMB CORPORATION
9730 Independence Ave.
Chatsworth, CA 91311

NN BALL & ROLLER, INC.
800 Tennessee Rd.
Erwin, TN 37650

NTN ELGIN CORPORATION
1500 Holmes Road
Elgin, IL 60120

PT COMPONENTS, INC.
Link-Belt Bearing Division
P. O. Box 85
Indianapolis, IN 46206

REXNORD INC.
Mechanical Power Division
4701 W. Greenfield Ave.
Milwaukee, WI 53214

ROLLWAY BEARING DIVISION
Lipe-Rollway Corporation
Box 4827
Syracuse, New York 13221

SKF INDUSTRIES, INC.
1100 First Ave.
King of Prussia, PA 19406

THOMSON INDUSTRIES, INC.
Manhasset, New York 11030

THE TIMKEN COMPANY
1835 Dueber Avenue, S.W.
Canton, Ohio 44706

THE TORRINGTON COMPANY
Subs. of Ingersoll-Rand Co.
P. O. Box 1008
Torrington, Conn. 06790

TRW Bearings Division
TRW, Inc.
402 Chandler Street
Jamestown, N.Y. 14701

BEFORE THE

COMMITTEE ON FINANCE

OF THE

UNITED STATES SENATE

Public Hearing on S.2237,
Encouraging U.S. Investment in
The Caribbean Basin

STATEMENT OF

ARTHUR ANDERSEN & CO.

August 2, 1982

TAX SPARING DEFINED

In its broad sense, "tax sparing" means eliminating or reducing income taxes on investments in other countries through the granting of certain preferences. In the context of the U.S. taxation system, however, the most common usage of the term "tax sparing" means the granting of a tax credit for income taxes of another country that the country has chosen not to collect for its own political and economic reasons, typically as an incentive to a business to invest in that country.

In order to fully understand "tax sparing," it is first necessary to understand the general taxation system of the investor's home country, applied to income from an investment made in another country.

Some countries exempt income earned abroad either totally or partially from tax while some grant arbitrary foreign-tax credits without regard to the actual amount of foreign tax paid. Others have a hybrid system of exemptions and arbitrary credits or may reduce the taxation of foreign income through the allowance of special deductions. In this presentation the term "tax sparing" generally will be used in reference to the pseudo-credit approach described above unless otherwise indicated.

The U.S. tax system basically operates on the principle of worldwide taxation of all income of U.S. citizens or corporations and residents (individual or corporate). Thus almost all income directly earned from outside of the United states by such taxpayers is taxable when earned. Exceptions include the Section 913 exemption for U.S. individuals living and working outside of the United States and the Section 936 form of tax sparing for business operations in U.S. possessions. Since income earned in another country is normally taxed by the foreign country in which it is earned, double taxation could occur without some relief being granted. This relief is granted in the United States in the form of the foreign tax credit under which the U.S. tax payable on the income is reduced for income taxes actually paid to another country on such income. Oversimplifying a complex situation, to the extent the U.S. tax rate exceeds the foreign rate, the taxpayer pays the difference to the U.S. Treasury; if the foreign tax rate exceeds the U.S. rate, the U.S. taxpayer owes no further tax. The result of this system is that any foreign tax incentives inure to the benefit of the U.S. Treasury, not the U.S. investor, diluting or eliminating the benefit intended by the foreign country.

ADVANTAGES FROM ADOPTING TAX SPARING

Economic, political and defense-oriented considerations are involved in the adoption of a tax-sparing policy. These considerations can significantly affect various segments of the U.S. society and economy. Following are the most obvous benefits of tax sparing:

- Tax sparing would allow for better coordination of tax policy with economic, foreign and defense policy. The United States could grant sparing treatment to specfic developing countries where it is in the overall national interest to do so. Through its tax-treaty system or through the Internal Revenue Code, the United States could selectively provide sparing treatment to certain countries (and not others) and specific industries (such as natural resources or agriculture) within a country.

- Through tax sparing the United States could provide aid to a particular country utilizing the skills, resources, ingenuity and know-how of the private sector. Consistent with the underlying philosphy of the Economic Recovery Tax Act of 1981 and the conclusions of the summit conference at Cancun, Mexico, the government would be relying on the private sector to accomplish its objectives instead of using the traditional foreign aid approach.

- U.S. international business competes in a highly competitive marketplace. Among its strongest competitors are large international businesses of other countries, such as France, Japan and West Germany. These and other economically developed nations have recognized the need to establish tax-sparing relationshps with developing countries that benefit their international businesses. By adopting a sparing policy, the U.S. government will be helping to make U.S. business more competitive with businesses of other developed nations.

- When U.S. business invests in a developing country having investment incentives, the present U.S. tax system provides a shortrun obstacle to the repatriation of its profits to the

United States based on effective cash management because of the tax that will have to be paid to the United States at that time. Tax sparing would remove this obstacle and allow U.S. business to remit it profits in accordance with normal business needs.

- U.S. Treasury personnel responsible for negotiating (or re-negotiating) tax treaties have a difficult time encouraging developing countries to enter into a treaty with the United States. Because their citizens typically have small capital investments in the United States, there is little motivation for such countries to seek a tax treaty reducing U.S. income taxes on such capital. Thus they are reluctant to reduce their taxes on U.S. capital flows to their country through a treaty. By having tax sparing as a negotiating tool, U.S. negotiators would have another card to play in negotiation of a treaty.

HISTORY OF TAX SPARING IN THE UNITED STATES

For many years the United States recognized tax sparing as part of its Internal Revenue Code (Code) and in a number of tax-treaty provisions entered into but not ratified. Proposed treaties where tax sparing was agreed to included those negotiated with Pakistan (1956), India (1959), Isreal (1960) and Egypt (1960). In each of these treaties, a provision was included whereby taxes reduced or eliminated by the source country under tax law provisions designed to increase investment would nevertheless have been allowed as a credit against U.S. taxes.

11-310 O—82——18

There have been several instances of tax sparing in the Internal Revenue Code, of which one of the earliest examples of was Section 931. Under this section, originally enacted in 1921, income earned by a U.S. corporation from an active business carried on in Puerto Rico and other U.S. possessions was not subject to U.S. tax until remitted as a dividend to the U.S. shareholder. Under Section 332 of the Code, it was possible for a U. S. parent company to liquidate such a corporation and transfer its accumulated profits free of further U.S. tax to the U.S. shareholder. Thus profits could be earned in the possession, accumulated there in lieu of paying dividends and later remitted to the U.S. corporate parent company through a formal liquidation of the earning company. In examining fiscal history, one finds that in 1921, when Congress enacted the predecessor section to Section 931, the House of Representatives approved a provision which would have exempted all foreign-source income (not simply income from a possession) of such a corporation from U.S. tax. The Senate revised the House's provision to limit the exemption to income within a possession. The House provision would have represented the ultimate in tax sparing of foreign-source income.

In 1975 Section 931 was modified to apply only to U.S. individual taxpayers. Section 936, the successor to Section 931, was then enacted to benefit possession business income of U.S. corporations. Under that section, the U.S. company involved in possession activity is currently taxable on the profits of that activity. However, the U.S. tax on that income is reduced by an imputed credit under Section 936; this credit is based on the ratio of qualified possession income to the total income of the corporation. Thus for many business activities of U.S. companies in Puerto Rico and other possessions, all or substantially all of the U.S. income tax payable on the income is eliminated by the imputed credit. Future dividends from the possession company earning that income can be remitted to the U.S. parent free of additional U.S. tax.

In adopting this change, Congress stated:

> "Under the bill, these corporations are generally to be taxed as corporations, but <u>a full 48 percent foreign tax credit is to be given for the business and qualified investment income from possessions regardless of whether or not any tax is in fact paid to the government of the possession</u>. The effect of the revised treatment will be to exempt from tax the income from business activities and qualified investments in the possessions, to allow a dividends received deduction for dividends from a possessions' corporation to its U.S. parent corporation, and to tax currently all other foreign source income of possessions' corporations (with allowance for the usual foreign tax credit). Your committee believes that this revised treatment will assist the U.S. possession in obtaining employment-producing investments by U.S. corporations, while at the same time encouraging those corporations to bring back to the United States the earnings from the investments to the extent they cannot be reinvested productively in the possession." (Emphasis added.) (House Report 94658; 94th Congress, 2nd Session; HR 10612.)

In the late 1950s considerable support developed in Congress for the establishment of total tax sparing. Under the leadership of the late Representative Hale Boggs of Louisiana, momentum developed for the authorization of a U.S. corporate entity which would operate outside of the Uited States, entirely free of U.S. tax (a modified version of the 1921 Act provision discussed earlier). Such legislation was never enacted.

The former Western Hemisphere Trade Corporation (WHTC) provisions of the Code (repealed in 1975) also operated in a manner which resulted in tax sparing. Those provisions (former Sections 921 and 922 of the Code) allowed a U.S. corporation which carried on a qualified business activity in the Western Hemisphere a special deduction from taxable income earned by that company. This special deduction was based on a formula, the numerator of which was 14% and the denominator of which was the then-current maximum corporate income tax rate. For many years this deduction effectively reduced the taxable income of a WHTC by an amount between 25% and 30% of the income. Once those profits were subject to U.S. tax, they were remittable as dividends to a U.S. parent company without any additional income tax.

TAX-SPARING PROGRAMS OF OTHER MAJOR COMMERCIAL NATIONS

Many other major commercial nations have adopted tax sparing as an integral part of their tax systems. Among them are the other major commercial nations of the world - Belgium, France, West Germany, Japan, The United Kingdom, The Netherlands, Norway and Sweden. Businesses of these nations are the prime competitors of U.S. international business.

West Germany

West Germany has utilized the principle of tax sparing to an important degree with both developing and developed nations. For example, its treaty with the United States exempts dividends paid by U.S. subsidiaries from German taxation. Additionally, West Germany has incorporated the tax-sparing concept into its tax law which applies to countries with which Germany has no tax treaties.

Under German tax law, dividends from foreign subsidiaries are taxable at the regular corporate tax rates. In 1972 tax sparing was introduced through a provision that provided that dividends received from subsidiaries in developing countries effectively are not taxed; the law specifically lists some 130 countries as eligible developing countries. For dividends received from a subsidiary in an eligible country, it is assumed (deemed) that taxes have already been paid on the profits distributed, and a tax credit is allowed at the German corporate tax rate, regardless of the amount of tax actually paid. Thus, for any country where the tax rate is lower than the German rate, or where taxes were reduced under investment incentive laws, the related earnings are tax-free and the tax is "spared." This form of tax sparing is broader than that normally provided by treaty because it is not limited to countries with which Germany has a treaty.

In addition to the law's provisions, West Germany has an extensive network of tax treaties with both developed and developing nations (51 treaties concluded as of January 1981). Fifteen treaties (mainly with developing countries) included tax-sparing provisions; those provisions are generally of two different types -- "deemed paid" credits and "classic tax-sparing" credits, both of which apply to withholding taxes on dividend distributions.

"Deemed paid" credits operate in much the same way as tax sparing in the tax law described above. The treaty establishes a flat rate at which foreign taxes are "deemed" to have been paid on the dividend, regardless of any what was actually paid (i.e., regardless of any exemptions or reductions by the developing country). As a result, the amount of the taxes allowed as a credit can be greater than the taxes actually paid.

The second type of tax-sparing credit (the classic type) is more direct. The credit allowed is based upon the full amount of the taxes that would have been paid before any tax reductions or exemptions were granted under incentive laws in the developing country. As a result, the full effect of the tax incentives granted by the developing country in the form of reduced withholding taxes is preserved.

In general, tax sparing, as found in Germany's tax treaties (particularly recent ones), is fairly broadly worded, referring only to "special incentive measures" in the developing country rather than to specify foreign incentive laws.

United Kingdom

Tax sparing is broadly defined under the 1970 Taxes Act. The tax authorities are granted the authority to negotiate tax sparing; the law states that sparing is limited to "incentives granted by developing countries to romote industrial, commercial, scientific, educational or other development in a territory outside the U.K." In 1976, treaty negotiators were given the authority to grant sparing treatment for any tax concessions negotiated in the treaty (e.g., withholding taxes reduced by treaty).

As of 1980, the United Kingdom presently grants tax-sparing concessions as part of its treaty system with 78 countries. Twenty-two treaties (mainly with developing countries) incorporate taxsparing provisions.

Like the United States, the United Kingdom allows foreign taxes paid as a credit against any U.K. tax payable. Typically, the sparing provision specifies that, for the purpose of computing the amount of foreign taxes allowed as a credit, taxes "spared" under various incentive measures will still be counted. Usually, the treaties specify that tax sparing will take into account both (a) withholding taxes of the developing country and (b) taxes relating to the underlying profits out of which the dividends are paid.

The amount allowed as a credit normally exceeds the actual amount paid, thereby decreasing the total tax burden. Further, under the 1970 Taxes Act, for the purpose of calculating U.K. tax, dividends are "grossed up" in determining taxable income only by the amount of tax actually paid; taxes spared are excluded. This combination preserves the full effect of the inventive grnnted by the developing country.

Actual tax sparing provisions in U.K. treaties are generally quite specific in describing which laws of the developing country are covered by the sparing. Also, a clause usually is included which extends tax-sparing coverage to include any substantially similar incentives which might be established in the future provided the incentives are approved by both nations. This feature provides a means for expanding the specific wording of the treaty while avoiding complete renegotiation every timea new incentive is created. Also, in some cases, U.K. treaties specify a time limit (e.g., 10 years, as in the case of Kenya) for tax-sparing provisions.

Japan

Japan grants tax sparing solely through the medium of tax treaties. As of 1980, Japan had negotiated tax treaties with 33 countries, 8 of which contained tax-sparing provisions.

Japan's tax law allows corporations to claim a direct tax credit for any foreign taxes paid, as well as an "indirect credit" for foreign taxes paid on profits from which dividends are paid by foreign subsidiaries, similar to that of the United States.

Tax sparing contained in Japanese tax treaties interacts with the Japanese tax law. Many treaties cover taxes spared under special incentive measures applicable to business profits in the developing country. Dividends are not grossed up for taxes spared. Generally, sparing is also allowed for withholding taxes spared under the treaty itself.

The treaty sparing provisions are the same two types ("deemed paid" and "classic tax sparing") contained in West German treaties. Briefly, the "deemed paid" tax-sparing provisions specify a set rate at which taxes will be allowed as a credit; this rate is not affected by rate reductions or exemptions granted by the developing country. Thus, the amount allowed as a credit may be greater or less than the actual tax paid.

The "classic" sparing credit allows a credit only for taxes actually spared. Thus, the "classic" sparing provisions directly recognize incentive programs and the amount of taxes spared by the developing nations.

In general, the classic provisions are nonspecific in nature. They refer to "special incentive measures" in the developing country and specify merely that both countries must agree to what measures are covered, thus preserving flexibility.

Japan also allows a deduction for a reserve of 15% of investments in developing countries; the reserve is restored to income in five annual installments. For natural resource development, a reserve of 40% to 100% is allowed.

France

The French tax system generally follows the principle of "territoriality." With few exceptions, principally anti-tax evasion and avoidance provisions, directly earned foreign-source income is nontaxable, either when earned or received. Thus, there is no need for a foreign tax credit since the income is not subject to French corporate income tax. As a result, tax incentives granted by developing nations directly to branches of French companies are not affected by French taxes.

Through its treaties, France also has addressed the matter of tax sparing for withholding on dividends. As of 1980, France had entered into tax treaties with 59 countries. Of these, 27 treaties contained taxsparing provisions. Almost all of the 27 countries are developing nations. A significant number (15) are West African countries. All of the countries are given a similar taxsparing arrangement. In general, the tax-sparing provisions in French treaties contain fairly precise wording identifying the specific laws of the developing country covered by the treaty provisions.

The sophistication of the international tax systems of these four countries can be demonstrated by the fact that three of them have more double tax treaties than does the United States. The fourth country, Japan (33 treaties), has about the same number as the United States. Each country has several treaties with sparing provisions ranging from 8 such treaties for Japan to 27 for France.

A list of the tax sparing treaties of each of these commercial nations is included as Exhibit B.

TAX INCENTIVES IN DEVELOPING COUNTRIES

Developing countries that emphasize private enterprise in developing their economies often have considerable difficulty attracting the capital investment needed to develop natural resources or manufacturing capability. In many countries there is not enough local cpaital to supply the funds needed for this development. As a result of capital needs, many such countries provide significant incentives designed to attract foreign investment.

When a nation is already short of capital, direct subsidies (such as cash grants, loans, etc.) usually cannot be used to attract new capital. Thus countries with a significant capital shortage utilize income tax incentives to attract potential investors. Such incentives often reduce taxes payable on the profits produced from the business in which the capital is invested and also reduce taxes which apply to the remittance of those profits to the investors. The tax incentives may involve complete elimination of tax; reduction of rates; allowance of special deductions such as accelerated depreciation of fixed assets; allowance of a deduction for royalties or technical service fees for technology received from the investor; and other types of exemptions or deductions. Regardless of the form, the incentives produce the same overall result--the reduction of income taxes payable on profits.

Several countries follow the incentive system and each uses its incentives to accomplish its own purposes. Some, such as Ireland, Singapore, Taiwan and Korea, use them primarily to promote the development of exportproducing activities. Others, such as Brazil and Mexico, use the incentives to enhance the development of specific undeveloped areas within the country. A country like Jamaica has incentives designed to attract investment into almost every conceivable commercial area other than wholesaling and retailing of products locally.

Many developing countries have indicated extreme unhappiness when they grant income tax incentives to U.S. investors and then find the taxes are collected by the United States when the U.S. investor repatriates its profits back to the United States. They believe the U.S. Treasury is being enriched at their expense.

The countries selected were chosen to represent a geographical, economic and cultural cross-section. They are Brazil, Ireland, Jamaica, Mexico and Singapore.

Incentives offered by these countries are typical of those offered by many developing countries. They represent programs of countries that are trying to build their econoes by emphasizing the development of the private sector. Such countries believe that they can best increas their productivity and employment of individual businesses.

Brazil

Brazil provides a wide range of tax-related incentives aimed at encouraging investment by foreigners or Brazilians in certain regions of the country, targeted industries, capital market and increasing exports.

Regional - Some of the major incentives available in specific areas of the country are:

- Tax exemptions for new industries (up to 15 years)
- Reductions in income taxes for existing industries that increase capacity at least 50%.
- Credit against income tax for additional amounts invested in the business.
- State and local tax benefits.

Sectional - For specific industries, incentives include:

- Tax exemptions or reductions in tax rates.
- A credit against taxes for amounts invested in the business.
- Accelerated depreciation.
- Exemptions from VAT (Value Added Tax), import duties, sales tax, etc.

The targeted industries include fishing, forestry, mining, tourism and alcohol fuel production. Of these targeted industries, several relate to natural resources or tourism, two business activities which can only be carried on in Brazil.

Capital Market - In order to stimulate foreign portfolio investment in the Brazilian capital market, investment companies (including those partially or wholly foreign owned) are granted the following incentives:

- Exemption from corporate income tax.
- Reduced withholding rates on profits.
- Tax credits for additional investments.

In addition, numerous exemptions and benefits are available to individual investors.

Exports - In an attempt to increase Brazilian exports, incentives are granted to manufacturers, including:

- Reduction of taxable income (by the ratio of export sales to total sales).
- Exemption from VAT (both Federal and State).
- Exemption or reduction of excise taxes and customs duties.
- Subsidies based upon federal excise taxes.
- Low interest working capital loans for export production.

Ireland

Ireland provides tax incentives for investment in several forms: a top corporation tax of 10%; Shannon Relief; export sales relief (all tax holiday plans); and accelerated depreciation. The incentives are open to foreign as well as domestic investors. Major investment incentives include:

- A 10% corporation tax on profits on goods manufactured in Ireland. The goods need not be for export, may be foreign-owned and available from 1981 until the year 2000.
- Shannon Relief: Exemption from corporate tax for export companies operating at Shannon Airport.
- Export Sales Relief: Reduction in taxable income by the ratio of export sales to total sales.

Note: Both the Shannon Relief and Export Sales Relief were replaced by the 10% corporation tax. They continue to be available until 1990 for companies electing them prior to January 1, 1981.

- Accelerated Depreciation: 120% of cost allowed in the first year (certain areas only).
- Other incentives include: Exemption from corporate tax for increases in inventory values due to inflation and government grants for investments in designated areas or industries.

Jamaica

Incentives for investment by Jamaican nationals or foreigners approved by the government are generally in the form of tax holidays of varying lengths, depending upon the industry. Examples are resort hotels (10-15 years), resort cottages (7 years), manufacturers of exports to non-Caribbean common market areas (10 years) and agricultural products (5 years). In addition, general manufacturers or processors seeking to serve the local and Caribbean common market areas can be exempt (5-9 years).

All businesses operating in the Kingston Free Zone (an exportoriented activity) are totally exempt from tax, and foreign-owned international finance companies are taxed at 2½% of net income. Profits from most of these approved activies can generally be remitted to nonresident owners free of withholding tax, provided the shareholder's country of residence does not tax the dividends. Finally, most approved investments are allowed to import duty free the raw materials and machinery needed to produce the export products.

Mexico

Mexico provides tax incentives for investment in industrial development in specific industries and regions. Businesses qualifying for such incentives cannot have more than 49% of foreign ownership.

The incentives are granted inthe form of tax refund certificates for up to 50% of the cost of the investment. The amount of the incentive granted is based on the nature of the business activity and the region in which it is located. The incentives focus on "pioneer enterprises," of businesses in which:

- Up to 30% of the investment is in fixed assets excluding land.
- The investment is for the manufacture of machinery and equipment.
- The inment generates new employment.

The industries specifically targeted include automobile, cement, mining and tourism.

The tax refund certificates may be used to pay federal tax liabilities of the business, including corporate income tax.

In certain geographical areas (mainly along the U.S. border and coastal zones), exemption from import duties is available to companies involved in the processing or assembly of goods for export. There is no requirement for 51% Mexican ownership of such companies.

Singapore

Investment incentives in Singapore are primarily direced toward promoting export activity (especially in high-technology industries) and promoting Singaporebased financial markets and services. While the tax incentives make no distinction between domestic and foreign capital, Singapore welcomes foreign investment, and there are very few egal restrictions on such investment.

New industries:

- Five-to-ten year tax holdiay, upon approval by the government as a "Pioneer" (new)enterprise.
- Dividends paid out of exempted profits are also tax exempt (effectively there is no withholding in Singapore).

Expansion of Existing Industries:

- Up to a five-year tax holiday, upon government approval. The quantity of tax relief is a function of the level of expansion.
- Related dividends are tax exempt.

11-310 O—82——19

Export Development Enterprises:

- Taxable income is reduced by the ratio of export sales to total sales.
- Tax relief period is granted up to five years.
- Related dividends are tax exempt.

Other Incentives:

- Reduced tax rates or tax holidays for certain enterprises such as international trading companies, consulting firms, warehousing firms and shipping companies. Each of these incentives involves business activity related to the export of goods or services from Singapore.

PRECEDENTS FOR ASSISTING DEVELOPING COUNTRIES THROUGH THE U.S. TAX SYSTEM

In the past the United States often utilized its tax policy to assist the economic development of developing countries. The WHTC (mentioned earlier) was initially directed at assisting in the development of investments in Latin America and the Caribbean. However, it was also used by U.S. businesses for investment in Canada. Further, the WHTC was largely used by U.S. international business as a marketing vehicle for products manufactured in the United States and sold in other nations of the Western Hemisphere.

The Revenue Act of 1962 contained a number of provisions on taxation on international business. The basic impact of that Revenue Act on international business was to increase the U.S. taxation of income earned by foreign subsidiaries of U.S. companies. However, the act made several exceptions to the increased taxation for foreign subsidiaries carrying on business activities in what were called "less-developed countries." Included in such special treatment were:

- Preferential treatment (nongross-up) for determination of the foreigntax credit on dividends paid by subsidiaries which operated in lessdeveloped countries (Sections 902(a) and 902(d) of the Code prior to the modifications of PL 94-455).

- Deferral of taxation of dividends and interest received by a foreign subsidiary holding company from investments in subsidiaries in less-developed countries which were reinvested in such countries (Section 955 of the Code prior to repeal by PL-9412).

- Capital gain treatment for the gain on shares sold by a U.S. parent company which were owned in subsidiaries operating in less-developed countries (Section 1248(d)(3) of the Code prior to modification by PL 94-455).

In the mid-1970s, Congress and the Administration decided it was no longer desirable to provide broad base preferential treatment for investments in developing countries. As a result, Public Laws 94-12 and 94-455 ended the preferential treatment by repealing the provisions involved.

CONCLUSION

A tax-sparing agreement between the United States and a developing country results in the United States giving preferential treatment, through its tax system, to U.S. investment in that country. Such an arrangement could result in political, economic and defense benefits. Thus tax sparing is a method available to the United States for encouraging U.S. private capital investment in order to assist countries we wish to help by directly supporting private investment in the country's economy.

The United States has a long history of assisting other countries in developing their economic systems. This assistance has taken the form of direct foreign aid and/or loans to the other country. The economic development of many countries has also been spurred by American business investment.

Many people believe that the contribution of private enterprise to the economic growth of a developing country can be as important as the efforts of government. They know from experience that private enterprise investments generate business activities that often result in identifiable, immediate benefits to the country's economy in the form of new employment, training of unskilled persons, production of goods, earning of foreign exchange, and development of agricultural and mineral natural resources. Government aid in the traditional foreign aid sense, however, has often been targeted at more broadly based objectives that are of less direct and immediate benefit. Many nations in the world, both capital exporting and capital importing, believe increased investment is the way to go, and establish fiscal and other incentive programs designed to attract foreign capital investment.

U.S. businesses have often found that the availability of such incentives is an important factor in the decision to invest in a foreign country. As a result they have established plants, mines, farms and other business activities in developing countries, and the incentives offered by those countries were often a factor in the ability of U.S. businesses to operate there successfully.

The business operations of many of those U.S. companies have been important factors in building up the economies of the countries through increased employment, more efficient production of goods, development of natural resources, earning of foreign exchange, etc. No local government efforts could duplicate these benefits.

Current U.S. government policy does not provide blanket benefits in our tax system for investments in developing countries. However, another policy of the U.S. government (as expressed by President Reagan in Philadelphia and presented at the Cancun summit) relies on the private sector to aid economic development in developing countries. This policy should mean that the government will provide support for investments in specific countries on a selective basis. It would not be sound to have a single, broad-based policy apply to over half the countries in the world on an absolute basis. It would seem sound, however, to have selective preferential tax treatment targeted at specific countries of high foreign policy priority to the United States. This policy would recognize the need of the country and the U.S. national interest.

We believe the no tax-sparing policy previously followed by the U.S. government should be reconsidered by the Administration and Congress, and a policy of highly selective tax sparing should be adopted, preferably through the tax treaty mechanism. Such a policy should be clearly defined to aid in its understanding by both the developing countries and U.S. investors. Further, it should be made a permanent part of U.S. foreign policy as has been the case in other major commercial nations.

Because the treaty negotiation and ratification process is painfully slow, it might be desirable to incorporate tax sparing into the Internal Revenue Code. Congress could then stipulate the type of country which should qualify for tax sparing and delegate authority to the President to designate, by Executive Order, the specific countries to be granted tax sparing.

APPENDIX: EXISTING TAX TREATIES WITH TAX-SPARING PROVISIONS

	France	Germany	Japan	United Kingdom
Algeria	sparing	-	-	-
Bangladesh	-	-	-	sparing
Barbados	-	-	-	sparing
Belize	-	-	-	sparing
Botswana	-	-	-	sparing
Brazil	sparing	sparing	sparing	-
Cyprus	-	sparing	-	sparing
Egypt	-	no sparing	no sparing	sparing
Fiji	-	-	-	sparing
Ghana	-	-	-	sparing
Greece	no sparing	sparing	-	no sparing
India	sparing	sparing	sparing	-
Indonesia	sparing	sparing	-	sparing
Iran	sparing	sparing	-	-
Ireland	sparing	sparing	sparing	no sparing
Israel	sparing	sparing	-	sparing
Jamaica	-	sparing	-	sparing
Kenya	-	sparing	-	sparing
Korea	sparno	sparing	sparing	sparing
Madagascar	sparing	-	-	-
Malaysia	sparing	sparing	sparing	sparing
Malta	no sparing	sparing	-	sparing
Morocco	sparing	sparing	-	-
Pakistan	sparing	no sparing	no sparing	sparing
Philippines	sparing	-	-	no sparing
Portugal	no sparing	-	-	sparing
Singapore	sparing	no sparing	no sparing	sparing
Spain	no sparing	no sparing	sparing	sparing
Sri Lanka	-	sparing	-	sparing
Sudan	-	-	-	sparing
Thailand	no sparing	no sparing	sparing	-
Trinidad/Tobago	-	sparing	-	sparing
Tunisia	sparing	sparing	-	-
West African Colonies (12 formerly French colonies)	sparing	-	-	-
Zambia	-	no sparing	sparing	no sparing

Sources

European Taxation, published by International Bureau of Fiscal Documentation, Amsterdam, The Netherlands.

International Tax Treaties Of All Nations, published by Oceana Publications Inc., New York

APJ

Dr. Theodore R. Malloch
Assistant Prof. of Political Science
Gordon College
Wenham, MA 01984
and
Director of "Justice for Land and People"—a project
of the APJ Education Fund

August 10, 1982

Thank you for the opportunity to present this testimony to the Senate Finance Committee on important issues arising from the Reagan Administration's Caribbean Basin Initiative (CBI) as embodied in the Caribbean Basin Economic Recovery Act before Congress (H.R. 5900 and S. 2337).

Our research on world hunger, continuing population growth, persistent environmental problems, and many resource shortages has brought us to a new awareness of the intimate connection between human society and the land, air, and water on which all humanity depends for life.[1]

Competition for land in the United States and in much of the Third World is intensifying in a multiple quest for industrial development, food and energy production, and housing.

Although we are pleased that the proposed legislation begins to take seriously the Third World, especially the Caribbean states on our doorstep, we are not enthusiastic about its central thrust or its particular approaches to the complex problems of development in the basin. We believe that it would be a serious mistake to pass this legislative package without comprehensive changes.

Development in the Caribbean: A Needed Redefinition

As we see it, the states of the Caribbean, like many other Third World states, share similar problems of development. Poverty, shortages in food production, inadequate supplies of fresh water, overpopulation, severe unemployment and underemployment, and uneven resources in economic, energy, housing, health, and other areas, present sizeable roadblocks to Caribbean governments as they face the question: how to improve the quality of life for their people. The Reagan plan announced in S. 2337 does not grasp these problems in their fullness. Moreover, it complicates matters by providing $60 million above the allocated $50 million for military aid and training for El Salvador. This should be removed from S. 2337 and debated separately since it unduly effects the development questions under debate in the remainder of the bill.

Government attempts to overcome the above problems in a tropical environment are most difficult to fulfill. The constant pressure on limited resources presents a growing threat to an extremely delicate ecological balance. Scientific experts throughout the Caribbean region agree that the environment is endangered by underdevelopment as well as from ill-planned, careless development.[2] The CBI seems intent on development of any kind, and it is with this that we wish to take issue.

When one looks at the islands and certain mainland territories in the Caribbean basin, a definite uneven distribution of resources and uneven levels of development become obvious. Some of the smallest islands are stricken with dismal poverty. Haiti's political and economic problems are so serious as to produce emigration and "boat people". Mexico, Trinidad, and Venezuela have become oil producers. Guyana and Surinam have unknown hinterlands. Puerto Rico is an American commonwealth maintained by the paternalistic generosity of the metropole. And as bauxite-rich Jamaica swings from democratic socialism to free-market capitalism, she languishes in a continued cycle of deepening dependence.

Colonialism and Geography in the Caribbean Basin Region

The political and cultural history of the area is diverse because of the varying early European imperial influences: Spanish, British, Dutch, and French. The picture is further complicated by the fact of slavery. The population of the Caribbean was largely transplanted from Africa, India, and to a lesser extent China, to work on sugar and other agricultural plantations.

The historical pattern of colonialism and imperialism has had a definite influence on the range of Caribbean political systems and their effectiveness both regionally and nationally. These states exhibit a wide range of linguistic, cultural, climatic, demographic, physical, developmental, and financial characteristics. Therefore the task of establishing regional institutional machinery to harmonize the diversity of national interests and to integrate organizations to safeguard the environment while developing industry and economies is most difficult to achieve.[3] But it should be remembered that the attainment of any degree of regional integration is influenced not only by economic and social objectives but also by the political will of sovereign states, and herein lies the dilemma facing all planning. Here the Reagan program, insisting on a bilateral approach, does not sufficiently recognize the regional and international interdependencies and downplays or rejects proven multilateral approaches. This is an error in our judgment. Various calls by international organizations for the formulation and implementation of strategies aimed at the achievement of sustainable development reach far beyond the boundaries of the Caribbean. The question must be raised: how can a world strategy help governments, intergovernmental bodies, private organizations, other mediatory structures, and individual persons to cooperate with each other and jointly employ the limited means available to much greater effect?[4]

Eco-Economics in Bankrupt Economies

Questions of development and planning need to be addressed in the face of the Northern-induced debt trap because, while foreign private capital from the U.S. dried up in the Caribbean in the 1970s, the outflow to the U.S. of profits and debt charges on previous investments continued, creating the alarming situation in which investment income outflow during the 1970s averaged over 50 percent of capital investment inflow. The inescapable implication is that a substantial share of the capital inflow from a capital-rich country has been financed by income generated in a capital-poor country. In fact, when you exclude official capital inflows, investment income outflow in the Caribbean far exceeded private capital inflow. To what degree is S. 2337 simply another short-term plan that will continue a debilitating trend? Can it be demonstrated that S.2337 will help to reverse this trend?

Faced with deteriorating economies, many Caribbean governments have resorted to domestic money creation by their central banks and to foreign borrowing to finance rapidly expanding domestic budget deficits. The obvious consequence of such a policy is to intensify inflation and to accelerate the growth of public debt. Jamaica's external debt for instance grew from $154 million in 1970 to $1,036 million in 1978, an increase from 11.5 percent to 39.4 percent of its GNP.[5]

In sum, the confluence of events in the 1970s confronted the small non-oil producing, foreign-trade dependent Caribbean countries with the worst of consequences: small size and economic dependence. Good stewardship of human and natural resources was not something the governments of those countries could afford, given their poverty, indebtedness, and energy dependency. The Reagan plan does not aim to undo any of these deep structural problems, as far as we can see, and in certain ways it will only exaccerbate them by allowing them to become more entrenched.

Land: For Exports or Local Consumption?

It is estimated that over 70 percent of the Caribbean region's products are exported. Multinational companies are the primary or only agents of trade, many putting their money into short-term projects with high economic gains. The Caribbean plantation economy has not radically changed since the days of sugar. Today new raw materials are exported, as are semi-processed goods, to the industrialized consumers of the North--to Europe, Canada, and the U.S. Reagan opens the doors wider to this pattern in the tax credits he offers in the CBI, thus reinforcing the poor system of export cropping. The only people who will really profit are the already rich.

In all too typical a fashion, the ex-colonies (not all are independent yet) see the best agricultural plots given over to the production of "cash crops"[6] (sugar cane, bananas, coffee, and citrus), while food imports at exorbitant prices place a heavy toll on the balance of trade. A can of imported peas in a supermarket can cost as much as $3.75. This export-oriented agricultural system creates another problem: soil erosion and degradation. It is not surprising to find that over-exploitation and slash-and-burn cultivation have caused the forest areas of the Caribbean to shrink by almost one-half in just over a decade.

In the Caribbean as a whole, the vicious cycle of occupation of marginal lands, loss of fertile soil, and movement to even more marginal land is difficult to break. The movement of the poor is spontaneous and makes planned utilization of wildlands difficult if not impossible. A possible solution to the occupation of marginal lands is agrarian reform, but as long as the land-owning oligarchies of the region remain the chief force in governments, meaningful land reform will not take place.[7] Again the CBI only satisfies the already landed interests, the plantation economies; it thereby fails to speak to the issue of just land reform and distribution.

Soil erosion is also affecting large areas of many islands, leading to the loss of rich fertile land. The depletion of the vegetation cover and the deforestation of watershed areas are changing the flow of rivers, diminishing the supply of water, increasing sedimentation, and thereby causing flash-flooding.

Tropical forests are vital to the countries of the Caribbean area. Timber exports bring in precious foreign currency. But because firewood is the main fuel for cooking and heating for lower income people in most of the rural areas, the problem of deforestation is exaccerbated.[8] Since other fuels are expensive and less available, most Caribbean countries have to import these at considerable cost.

Energy, Fishing, and Industry

Alternative sources of energy are sorely needed in most of the Third World; this is especially true in the Caribbean. The Reagan plan misses a splendid opportunity tc foster energy systems which are benign and cost-efficient. Some possible sources of energy include: biomass--from sugar cane and tropical grasses, certain woody species, water hyacinths, cellulosic feedstocks, and base stocks for methyl alcohol production; bio-conversion and cogeneration--such as terrestrial and marine energy farms, anaerobic digestion systems for methane production, utilization of animal feedlot wastes, ethanol from agricultural wastes, and solid waste landfill for energy recovery; wind--the West Indies trade winds are the most constant in the world; ocean thermal energy conversion (OTEC)--as "fuel" for generating electricity; and most importantly, solar energy--plentiful in the tropical zone where the climate with year-round isolation levels is greater than anywhere on the U.S. mainland.

Various solar technologies could supply heat, hot water, air conditioning, and other residential and industrial needs.[9]

Fishing has also been important to the national economies of Caribbean countries, particularly the smaller islands where largescale livestock production was and is not feasible. But the rapidly expanding Caribbean fisheries are endangered by natural environmental stresses and man-made problems including the destruction of coastal habitats through haphazard building, construction of dams and industries, and over-catching. All of these threaten the stock and reproduction of fish, as does oil drilling and the oil shipping traffic which passes through the Caribbean Sea. These issues are not even raised in the Caribbean Economic Recovery Act.

When it comes to industrialization, the wider Caribbean is not "highly" developed, although concentrations or "pockets of industry" currently exist and are quickly expanding in Mexico, Venezuela, the Greater Antilles, and particularly in Puerto Rico. Every trend points to an increase in the number of high-pollution industries like oil refineries, petrochemical and chemical plants, mining and ore refining factories, as well as the traditional sugar industry, a vital source of foreign trade to most Caribbean countries, and a constant source of pollution. In fact, the waste from sugar refining has turned a number of bays into serious pollution hazards. Most Third World countries do not have strict environmental standards, a reality which often encourages multinationals to locate polluting industries there instead of on the U.S. mainland where they would be either disallowed or highly regulated.

Development in a Delicate Eco-System

Development is the great challenge to the Third World, and certainly to the Caribbean. How can a country achieve it without putting undue pressure on the environment, on the resources on which development is based? How can a nation make development sustainable? What is enough development? This is the dilemma: how can the Third World, and the Caribbean governments in particular, design for themselves a path that appreciates questions such as these?

Desperately needed is a new or redefined conception of development. Reagan's notion of development is not new. The take-off models of the old "trickle down" theory are well tested and have been found wanting. As numerous Third World (and First World) commentators have elaborated,[10] what we need is an ecodevelopment that will minimize the impacts on ecological systems or natural processes that help support and maintain life, while maximizing the benefit from resource utilization to local populations. These benefits cannot be construed exclusively in narrow economic terms, but must include material, social, cultural, and spiritual development, in a more wholistic way.

The significance of this view of development over the traditional approaches embodied in S 2337 is the profound understanding that all resources, even more so in small, Third World countries, are _finite_ and therefore must be managed wisely in a careful stewardly fashion if a true and more comprehensive development of human populations is to be engendered.

What is development after all? It is not just a process of rational actions in the economic, political, and social spheres. It is also, and very deeply the focus of redemptive hopes and expectations. In an important sense, As Peter Berger reminds us in _Pyramids of Sacrifice_, development is a religious category. "Even for those living on the most precarious margins of existence, development is not just a matter of improved material conditions; it is _also_ a vision of redemptive transformation."[11]

Certainly development has to do with the liberation of the poor, the alteration of existing power structures, the unfolding of culture in freedom, and the redistribution of goods. The question must be asked: does the development anticipated in S. 2337 serve the cause of justice or does it simply build on existing injustices?[12]

All persons have a God-given right to the earth which also includes the obligation of responsibility to care for the earth and its human communities. This right can only be realized through supportive solidarity, justice, and love. A central concern of human beings must be global justice: eliminating the scandal of radically unequal distribution and development, overcoming oppression among persons with its consequence of cultural inferiority of whole or parts of entire popu.ations.

Healthy development, here and in the Caribbean, means good stewardship of people and resources, not a narrow, short-term efficiency that leads to costly and dangerous distortions later on. Stewardship in terms of development means conserving, sustaining, and participating in the care of God's creation. It is unjust to wait and hope that development will "trickle down"[13] when God's creatures--our neighbors--are in need today!

A healthy endogenous and self-reliant path to human development means: 1) attacking poverty directly through land reform and other measures to redistribute the means of producing food; 2) building on local resources and cultural values; 3) maximizing participation by people in decision making; and 4) nurturing "interdependence" along a horizontal, not a vertical axis.[14]

It is perhaps something of an irony that the greatest threat to our created endowment is posed by two groups at opposite extremes of prosperity: 1) the very poor (who were and are colonized) are the agents of deforestation and soil destruction; 2) the rich (beneficiaries of colonialism, new and old) are depleting the earth's easily accessible non-renewable resources so rapidly that little of the scarcer ones will be left over by the time most of the Third World is in a position to afford them. "If the future is not to be mortgaged beyond redemption, Northern wastefulness will have to be braked and Southern poverty alleviated."[15]

We need to begin to elaborate models of development that are in keeping with the normative demands of just stewardship; these must become the umbrella for all future growth, and they must be fully integrated into national and international planning. A more comprehensive form of development is the only hope for peaceful development, for total development, for the very survival of large portions of the world's population into the twenty-first century.[16] Many millions of those people live, and seek a better living, in the states of the Caribbean basin.

Thank you for taking our observations and urgings into your consideration. Please revamp substantially the Caribbean Basin Economic Recovery Act. This is an opportunity to do justice.

* * * * *

NOTES

[1] See the "kit" on land issues, "Justice for Land and People," produced by James Skillen and Theodore Malloch (Washington, D.C: APJ Education Fund, 1982), and especially the APJ position paper: "Justice for the Land; Land for the Caring." For more background see James W. Skillen, International Politics and the Demand for Global Justice. Sioux Center, IA: Dordt College Press, 1981.

[2] See for instance the various technical reports of the Center for Energy and Environmental Research, San Juan, Puerto Rico.

[3] See "Institutional Structures and Environmental Management in the Wider Caribbean Area"--a background paper for the UNEP/ECLA Caribbean Environment Project, June, 1978; also, "Documents Submitted to the First Meeting of Planning Officials in the Caribbean," Havana, Cuba, January, 1979; and Norman Girvan, ed., Readings in the Political Economy of the Caribbean. Kingston, Jamaica: New World Group, 1977.

[4] As related in North-South: A Program for Survival. Cambridge, MA: MIT Press, 1980; and United Nations Environment Program, "Intergovernmental Meetings on the Action Plan for the Caribbean Environment Program," Montego Bay, April, 1981.

[5] Ransford W. Palmer, "Development with Dependence: The Problems of the Caribbean States," Caribbean Educational Bulletin: May, 1981, pp. 27-29.

[6] See Theodore R. Malloch, "Land Use in Jamaica," a Bread for the World Research Paper, 1980. Also note Raymond F. Hopkins, et al., Food in the Global Arena. New York: Holt, Rinehart and Winston, 1982.

[7] A dramatic case study on the struggle in Latin America is Penny Lernoux, Cry of the People. New York: Penguin Books, 1980.

[8]See Erik Eckholm, "Planting for the Future: Forestry for Human Needs," World Watch Paper #26, February, 1979; and Nigel Smith, "Wood: an Ancient Fuel with a New Future," World Watch Paper #42, January, 1981.

[9]See "Energy Needs, Uses and Resources in Developing Countries," Brookhaven National Laboratory, March, 1978.

[10]For instance, A.M. Gajraj, "Development and Environmental Stress," CEPAL/UNEP Conference on Development and Human Ecology, April, 1979; and, UNEP/UNCTAD Symposium on "Patterns of Resource Use, Environment and Development Strategies," Cocoyoc, Mexico, October, 1974. Two of the best known American advocates are Dennis Pirages, Global Ecopolitics. Scituate, MA: Duxbury Press, 1978, and Louis Rene Beres, People, States and World Order. Itasca, IL: F.E. Peacock Pub., 1981.

[11]Peter L. Berger, Pyramids of Sacrifice. New York: Doubleday, 1976, p. 17. Two recommended collections: Frank Tachau, ed., The Developing Nations. New York: Harper and Row, 1972; and Ingolf Vogeler, ed., Dialectics of Third World Development. Montclair, NJ: Osmun, 1980.

[12]See To Break the Chains of Oppression. Committee on the Churches' Participation in Development, Geneva: WCC, 1975.

[13]See Theodore R. Malloch, "Careless Growth Endangers the Caribbean," Christian Science Monitor, April 14, 1982.

[14]James B. McGinnis, Bread and Justice: Toward a New International Economic Order. New York: Paulist Press, 1979, pp. 261-265.

[15]Paul Harrison, Inside the Third World. New York: Penguin Books, 1981, p. 452.

[16]Park G. Marden, et al., Population in the Global Arena. New York: Holt, Rinehart and Winston, 1982.

August 11, 1982

STATEMENT OF
CHEMTEX, INC.
BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL TRADE
OF THE
COMMITTEE ON FINANCE
U.S. SENATE
ON S. 2237

Chemtex, Incorporated of New York, New York, is a domestic corporation engaged in the design, engineering, erection and operation of plants to produce man-made fibers and films, covering textile filament and staple, fibers for industrial and home uses, and miscellaneous specialty items. Chemtex' ownership interest in numerous production plants around the world provides for continuing technical developments, in-plant training facilities, and a pool of experts readily available for new plant start-ups.

In 1974, Chemtex entered into a joint venture arrangement with Olympic Fibers in Costa Rica, for the production of "pre-oriented polyester filament yarn" (POY), which is sold as a continuous filament item.

POY is produced from small polyester chips (purchased from the United States, and representing approximately 50% of the final sales price of the POY) which are specially treated and then fed into a spinning system, where the chips are melted in an electrically heated extruder, filtered, and then pumped through a number of dies, producing fine strands (filaments) that are quenched by a cross flow of cool air, collected into bundles of filaments, coated with a special protective lubricant, and wound up on spools.

In its finished form, POY is purchased by customers in North and South America, who use it to produce a wide variety of end products, primarily apparel (trousers, suits, shirts, blouses, rainwear, and sweaters) and home furnishings (sheets, pillow-cases, and tablecloths).

S. 2237, (the "Caribbean Basin Economic Recovery Act") proposes to establish a "one way free trade zone" between the United States and eligible countries (including Costa Rica) and thereby presents a unique opportunity for the United States to fashion a beneficial trade arrangement with Central American and Caribbean countries without a large revenue or trade impact. For example, the elimination of U.S. duty on POY from Costa Rica would not have any significant adverse impact on the U.S. Treasury -- if Olympic Fibers were to sell in the U.S. twenty-five percent (25%) of its total POY production and all U.S. duties were eliminated on that product, the cost to the U.S. Treasury would be less than $500,000 per year. Moreover, Olympic Fibers is the only producer of POY from all the countries which are eligible for preferential treatment under the Caribbean Basin Initiative. Obviously, U.S. imports of POY from other areas outside the scope of the Caribbean area would not be affected, thus precluding a sudden surge of duty-free imports on a world-wide basis.

It is important to note that POY (classified under TSUS 309.31) is not subject to any bilateral textile restraint agreement under the Multifiber Arrangement (MFA). While there are two bilateral textile agreements between the United States and Costa Rica, both due to expire at the end of 1983, neither agreement covers POY. The limitations of the first agreement pertain to trade in textile category 649 (man-made fiber, brassieres and other body-supporting garments); the other agreement establishes a consultative mechanism concerning trade in other textile product categories. Moreover, no bilateral agreement from any other country restrains trade in POY. At the present time, however, the existing 10.4% duty does constitute a barrier which prevents Olympic Fibers from selling large volumes in the U.S. market.

Even with the duty-free treatment provided by the Caribbean Basin Initiative, Olympic Fibers anticipates that it could export a maximum of 25% of its total capacity to the U.S., or about 3.46 million pounds per year. This figure represents 0.2% (2/10 of 1%) of the total estimated 1981 U.S. filament capacity (1.6 billion pounds) -- hardly a significant market share. Moreover, the Caribbean Basin legislation contains a number of safeguard mechanisms such as the minimum content requirement and the ability to use the remedies available under sections 201 to 203 of the Trade Act of 1974, should a threat of injury or injury itself actually develop in a U.S. industry, because of the duty-free imports.

There is one important point of clarification which Chemtex suggests be added either in the legislation or the legislative history. This concerns the interpretation of section 103(b) of the bill, which states in full that "the duty-free treatment provided under this title shall not apply to textile and apparel articles which are subject to textile agreements." The section-by-section analysis of the bill which the Administration prepared does not explain the intended application of this provision, nor does the White House February 24 "Fact Sheet" on Caribbean Basin Policy.

It is the position of Chemtex that section 103(b) be interpreted in the same manner as the identical language is interpreted for purposes of the Generalized System of Preferences (GSP) program, i.e., excluding from the category of eligible articles only those textile and apparel articles which are presently covered under a restraint agreement pursuant to the MFA, and not covering items like POY, which are not subject to any such quantitative restriction. We believe that this is the proper interpretation of the legislation as it is now written. President Reagan, in his speech to the Organization of American States on February 24, stated:

> The only exception to the free trade concept will be textile and apparel products because these products are governed by other international agreements. However, we will make sure that our immediate neighbors have more liberal quota arrangements.

The clear implication, thus, is that the textile exclusion is limited to those articles already subject to an existing MFA quota. POY is not subject to any such quantitative restriction. The logic of applying a more generous quota for the textile products excluded from the CBI's duty-free treatment necessarily assumes that some type of quota is already in existence. This interpretation is reinforced in a statement made by Ambassador Brock during the course of the briefing for reporters, also held on February 24th:

> Secondly, the trade area, there is one exception which I think, is fairly obvious and that's in the textile and apparel area simply because it's covered by the international agreement, the Multi-Fiber Agreement . . . (emphasis added)

Moreover, the language of § 103(b) is identical to the textile exemption from the Generalized System of Preferences (GSP) program, contained in § 503(C)(1)(A) of the Trade Act of 1974. The established interpretation of the GSP textile exemption is that it applies only to articles actually subject to a quantitative restraint; thus, a significant number of textile and apparel items classified in Schedule Three of the U.S. Tariff Schedules ("Textile Fibers and Textile Products") are presently GSP eligible items. It would certainly appear that, in adopting the identical language, the Administration should administer the textile exemption in the same manner for purposes of the Caribbean Basin Initiative. Any other interpretation would lead to the anomolous result whereby identical statutory language would be administered differently for the two programs; there is simply no valid legal justification for such an outcome.

As President Reagan noted in his February 24 speech to the Organization of American States, the Caribbean Basin Initiative is designed to create conditions under which creativity, private entrepreneurship and self-help can flourish. Olympic Fibers is a highly visible, high-technology plant which is vital to the Costa Rican economy. Since Olympic Fibers is also one of the most significant and technologically advanced employers in the country, the elimination of U.S. duties on POY would increase the training and employment opportunities for Costa Rican laborers, and increase hard currency revenues to the government.

For a country like Costa Rica, whose foreign debt is nearly $3 billion, the CBI offers hope for overcoming the problems associated with massive debts and capital flight. Moreover, Ambassador Robert J. Ryan, the State Department coordinator for the Caribbean Basin Initiative, has testified that Costa Rica is a country with a strong democratic tradition which could be a model for the rest of the region if it could resolve its economic problems; the CBI represents a foundation upon which economic development may prosper. This unique opportunity must not be hampered by unnecessary restrictions and disincentives.

Statement of the
COMPONENTS GROUP
of the
ELECTRONIC INDUSTRIES ASSOCIATION (EIA)
on the
CARIBBEAN BASIN INITIATIVE
to the
Senate Finance Committee

The Caribbean Basin Initiative (CBI), as described by President Ronald Regan and annotated by Ambassador David Macdonald, is a 4-pronged program: Trade, Investment, Aid, and Security Assistance. Of them, the largest is Trade. From the U.S. point of view, it focuses on the import side of Trade.

CBI features the prospect of duty-free entry of products from 25 Caribbean countries into the U.S. market for a period of 12 years. That feature is cast as the motivation for new investments in Caribbean facilities for growing, extracting, or manufacturing. And that, in turn, is the reason why A.I.D. would grant $350 million to Caribbean governments for their providing infrastructure (roads, power, etc.) to the new facilities.

It must be recongnized that CBI is built on the fundamental intent to improve economic conditions in Caribbean nations by absorbing their output -- of more and different products than they have traditionally produced -- in the U.S. marketplace.

The U.S. economy cannot afford to absorb more duty-free imports unless we insist on U.S. Content in manufactured articles entering on that basis. It is entirely reasonable to incorporate "Content" requirements in CBI. Experience under the U.S. Generalized System of Preferences (GSP) has demonstrated that developing countries must import materials and component parts in order to manufactrure articles which are saleable in the United States. We contend that some of those materials and components should be obtained from U.S. sources -- especially if the resultant assemblies are to be imported into the USA without tariff.

Furthermore, CBI should require a substantial amount of Local Content in manufactured articles entering from beneficiary Caribbean countries. We regard

35% Local Content, the amount stipulated in GSP, as an absolute minimum. To accept less than 35% is to encourage "trans-shipment" practices by third countries, especially by fully-developed industrialized countries. Trans-shipment means that already-manufactured articles stop briefly in a country enjoying trade preference; there, by merely applying labels or breaking bulk shipments into packaged lots, the merchandise is prepared for re-shipment, now originating from a country whose exports may enter the USA duty-free.

Substantial value must be added in a CBI beneficiary country, or else no improvement in the Caribbean standard-of-living will result. It is only through meaningful work, i.e., processing or assembly operations, that those countries' employment will increase and their populace acquire skills.

There is a very important, additional reason for insisting on U.S. Content and Local Content in 1-way free trade, no matter how benevolent. That lies in the fact CBI would abandon GSP's process for designating specific articles as eligible for duty-free treatment. All products shipped from Caribbean nations would be eligible, at least until some injured U.S. party succeed in a "safeguard" action. CBI would also elevate GSP's limitations on the cumulative value of imports of a specific article, duty-free, from any beneficiary country.

The Components Group of EIA could support CBI only if it also stipulates the minimum U.S. Content and Local Content in articles entering the USA duty-free. Our proposal for a suitable provision, which would also satisfy the need to define a CBI rule-of-origin, is set forth below.

(Proposed) PROVISION FOR U.S. CONTENT AND LOCAL
CONTENT TO BE INCORPORATED IN H.R.5900 and S.2237

"The CARIBBEAN BASIN Economic Recovery Act"

SEC. 103. ELIGIBLE ARTICLES.

(a) The duty-free treatment shall apply only --

(1) to an article which is imported directly from a beneficiary Caribbean

country into the customs territory of the United States without any change of title to, or re-packaging of, the article at itermediate points; ano

(2) if the local content of the article is not less than 35 percent of the appraised value of such article at the time of its entry into the customs territory of the United States; for purposes of this title, the term "Local Content" means the value of the materials produced, and the direct costs of processing operations performed, in the beneficiary Caribbean country, expressed as a percentage of the said appraised value; and

(3) if, of the non-local content of the article, the value of materials which had originated in the United States is not less than the greatest value of materials which had originated in any one other country; for purposes of this title, the term "non-local content" means the sum of values of materials which had originated in any country(ies) other than the beneficiary Caribbean country and were incorporated, within the jurisdiction of the beneficiary Caribbean country, into the article; except that

(4) if the non-local content is not more than 15 percent of the said appraised value, then the provision of paragraph (3) need not apply.

(b) In the event that the article is eligible for duty-free treatment in all respects except for the provision of subsection (a) (3), then tariff shall be assessed and collected on that portion of the said appraised value which represents the sum of values of materials which had originated in any country(ies) other than the said Caribbean country and the United States.

• Then Subsections (b) through (f) of the present bills would be redesignated as subsections (c) through (g), respectively.

August 2, 1982

STATEMENT OF CAMERON CLARK, JR.
PRESIDENT OF THE COMMITTEE FOR 806.30 AND 807, INC.

This statement is submitted by Cameron Clark, Jr., President of the Committee for 806.30 and 807, Inc., in response to the Committee on Finance's announcement of hearings on S.2237, a bill to implement the Administration's Caribbean Basin Initiative. Mr. Clark, is also President of his own firm, Production Sharing International, Ltd., and his statement strongly endorses enactment of S.2237, the Caribbean Basin Economic Recovery Act.

The Committee for 806.30 and 807, Inc. is a Washington-based organization which supports the principles of and the need for tariff items 806.30, 807 and international production sharing. It was founded in 1976 and is comprised of member firms who operate or support production sharing facilities abroad utilizing these tariff provisions. The Committee seeks to communicate the benefits of the use of these provisions to all interested parties, to conduct research on the economic and social impacts which the provisions have on the United States and other countries and to provide a forum for those interested in the production sharing process.

Your Committee's hearing on the Administration's proposal for Central America and the Caribbean area at this time is most commendable and encouraging. There remains a lack of consensus and a vast amount of confusion in the United States on the appropriate approach to growing political instability in this vital region. There also is confusion as to whether the United States will follow through with its initiative toward the type of economic development that can bring greater political stability and social progress to the region. Further delay on S.2237 can only increase doubts and discourage efforts at self-help at a time when worsening term of trade and international payments balances are further eroding economic growth.

This program of integrated incentives to self-help is the strongest contribution that can be made to the pressing economic and social needs of the Caribbean Basin. I urge the Committee to move favorably and quickly on S.2237 avoiding restrictive and crippling amendments, as befits our national interest and our international interest.

<u>S.2237 is in the national interest of the United States, strategically, economically and commercially.</u>

The strategic importance of this region to the security interests of the United States is really not debatable. The stimulus of the trade and investment incentives will contribute to stronger economies in the region with long term economic and political benefits for the United States. Commercially, increased private enterprise participation, an integral part of the program, can mean increased U.S. exports as a larger share of growing markets in the Caribbean Basin.

Our Committee for 806.30 and 807, Inc. has members who already have plants assembling U.S. made components in at least thirteen of the more than twenty small nations in Central America and the Caribbean area. As this Subcommittee is aware, these plants process and assemble U.S. materials and components and utilize the special duty provisions of tariff items 806.30 and 807.00 upon return of the articles to the United States. In Central and South America, these assembly operations, for the most part, are designed to employ workers in labor intensive operations. The labor performed in these operations is unavailable in the United States or is not available in quantities and at costs which permit total U.S. manufacture at prices competitive with direct imports into the United States.

In operating these plants in the Caribbean we live with economic, social, and political conditions of the Caribbean Basin. We have become increasingly concerned at the decline in those conditions in recent years. They stand in stark contrast to the potentials for economic progress that could be realized through trade development.

We are very much aware that the great increase in the cost of oil beginning eight years ago has placed an enormous burden on most of the small economies. As participants in these economies, we are constantly reminded that earnings from traditional exports such as sugar, coffee, and bauxite have fallen. As needed imports have increased in price due to inflation in the industrialized countries, the result for the Caribbean Basin has been crippling balance of payment deficits and dangerously declining international reserves.

Our members daily observe the impact of high levels of inflation in these countries as the workers have to deal with declines in real income. High interest rates and the general lack of credit choke new investment opportunities and discourage economic growth.

These conditions our members see and experience first hand. Thus, we support the Administration's initiative to foster general economic progress and improvement in social conditions in the Caribbean Basin. But the question of political stability cannot be ignored. The strategic importance of the Caribbean-Central American area demands that the United States take every feasible measure to encourage economic growth in the context of private initiative and stable, responsive government.

The expanded access to the United States markets, coupled with the investment incentives through tax inducements, and further assurances of the bilateral investment treaties and investment assistance and insurance through the Overseas Private Investment Corporation, all combine to open up private enterprise opportunities in the Caribbean Basin. With imaginative support of medium-term credit or credit guarantees (possibly to indigenous commercial banks) by the Export Import Bank, the

Caribbean Basin Initiative can contribute to a dramatic turnaround in the area's economic decline. In short, this integrated program of self-help, emphasizing the role of private enterprise, provides an umbrella for more effective evolution of relations between the private sectors in the beneficiary countries and in the United States. It can restore confidence and become the engine for widespread economic development in the region.

In this overall effort we have the cooperation of Canada, Mexico, Colombia and Venezuela, each country having pledged to continue their own unique economic assistance programs in this area. Our European and Japanese trading partners have expressed support and promised assistance, where appropriate.

In overseas operations under tariff items 806.30 and 807.00, we have also seen the benefits that production sharing enterprises can bring to these small countries, in terms of increasing employment and incomes, upgrading labor skills, and creating a demand for auxiliary and support services.

The free trade area proposed in the Caribbean Basin Initiative would permit all imports from beneficiary countries to enter the U.S. free of duty, except for textiles and apparel articles subject to the Multifiber Arrangement (MFA) and the supporting bilateral agreements on textiles and apparel. The free trade area would be in effect for a period of twelve years

11-310 O—82——21

-- a necessary time requirement to initiate investment plans and realize investment returns.

U.S. imports from the twenty countries and semi-independent island nations were $10 billion in 1981, and of that total, $6 billion were U.S. imports from the Bahamas, Trinidad and Tobago, and the Netherland Antilles, mostly exports of crude petroleum and refined petroleum products. In total, 87 percent of the nonpetroleum imports from the Caribbean Basin countries currently are virtually duty-free. It is the potential represented by the 13 percent which makes the free trade area so vital to the countries of the Caribbean Basin.

The potential lies in the nontraditional exports of the traditionally underdeveloped economies, not raw material and tropical products, but manufactures and processed articles -- many of which are adaptable to production sharing arrangements. These non-traditional exports can increase needed foreign exchange earnings so essential to the economies of these small countries. Such export-led development can benefit U.S. industries and workers by expanding markets for U.S. exports. Where they are feasible, production sharing arrangements can increase competitive ability of U.S. goods in the domestic market and abroad. Attached to this statement is Table 1, showing total 1981 imports and free and dutiable imports from each country in the Caribbean Basin.

The Committee for 806.30 and 807, Inc. is very sensitive to allegations of injury to workers from imports, and in particular the charge that through offshore operations U.S. companies are exporting jobs. Every objective study in the past has indicated that the production sharing enterprises utilizing tariff items 806.30 and 807.00, on balance, actually maintains employment in the United States by making U.S. products involving assembly abroad more cost competitive with direct imports. Thus, we find that production sharing arrangements reduce costs, increase sales and market share which in turn increase domestic production and employment, or at the least, these arrangements minimize losses in sales and market share, and minimize domestic production declines and job losses. I would cite our own study, entitled, "Tariff Items 806.30/807 and Production Sharing, Making U.S. Products More Competitive in the Market Places of the World." It is attached as an appendix to this statement, and we have requested that it be included as a part of this hearing record.

There is no requirement for utilizing U.S. components in products manufactured in the Caribbean Basin to be granted duty-free treatment. European or Far Eastern enterprises also might be encouraged to establish manufacturing operations in Caribbean Basin countries to take advantage of the new duty-free access to the U.S. markets. The more limited duty-free treatment under the Generalized System of Preference (GSP) has not attracted any significant outside investment to the Caribbean Basin.

The Administration's proposal will require that there be a local value added of 25 percent for a product to qualify for the duty-free treatment in contrast to the 35 percent local value added required under GSP. Such a requirement is necessary to avoid "pass through" operations involving mere manipulation of foreign dutiable goods to qualify as a CBI origin product eligible for duty-free treatment. At the same time the 25 percent local value added should be the maximum requirement given the basic resource limit on potential local imputs. It is believed that the 25 percent local value added will bar the runaway plant possibility.

The governments of the beneficiary countries have a responsibility to take steps to assure themselves that the new enterprises attracted by the U.S. free trade area involve processing or manufacturing operations which do result in real benefits locally. Otherwise, the "pass through" possibilities could cause unnecessary objections and trade policy confrontations.

Beyond this, the Administration proposal recognizes that the trade created by the free trade area conceivably could have an impact on domestic workers and industries. Given the existing resource base and the size of the economies ($45 billion in gross domestic product and 39 million in population), it does not seem likely that serious injury to domestic producing interests could occur. However, in the event imports of a magnitude develop that threaten or cause serious injury to a domestic industry, the import relief provisions of U.S. trade law will be applicable. In the case of perishable commodities, emergency import relief could be made available. Since the free trade area is a unilateral action on the part of the United States, the willingness of the U.S. Government to employ temporary relief measures in cases of serious injury to domestic industries caused by such duty-free imports should be understood. On the basis of our own experience in production sharing and on the basis of these countries' experiences with the Generalized System of Preferences (GSP), the CBI free trade area concept presents U.S. industry and workers with major trade opportunities in the future.

It is on this experience that we base our opposition to the leather-good amendment. This amendment would exclude footwear and all types of consumer leather-goods from the Caribbean area free trade arrangment. It was added to H.R.5900, by the Trade Subcommittee of the House Ways and Means Committee. A similar amendment to S.2237 in pending in the Senate. This amendment will only encourage further product exclusions and negate the commercial thrust of the free trade area potential, without even modicum of proof of its necessity. We urge the

Finance Committee to reject this and similar restrictive amendments.

In the attached Table 2, imports under item 806.30 and 807.00 are shown, with details for developed and developing countries and for the countries of the Caribbean Basin. The statistics confirm that in trade involving duty-free treatment for the value of the U.S. materials used in the offshore assembly or processing, the value of the foreign content is a much lower percentage of the import value, 37 percent, than for all less developed countries, 50 percent, or for developed countries, 93 percent. These percentages both demonstrate the lack of indigenous resources in the Caribbean Basin, and the benefits to United States companies of production sharing. That is, 63 percent of the value of imports under tariff items 806.30 and 807.00 from Caribbean Basin countries are U.S. materials.

In utilizing these U.S. components, production sharing increases employment, adds to the skills of the workers, and contributes to the development of infrastructure so vital to further economic development. These arrangements are active examples of transferring technological know-how to the benefit of both production sharing countries. The whole range of electronic goods has labor intensive operations which lend themselves to production sharing. It well may be that the Caribbean Basin free trade area can attract offshore electronic manufacturing operations from the Far East from which direct imports presently pose a continuing competitive thrust.

Since it is well known that production sharing enterprises operate in the textile and apparel area, let me anticipate a question. Imports of apparel fabricated and assembled abroad and entered under item 807.00 are subject to the bilateral agreement restraints of the textile program even though U.S. textiles almost exclusively are utilized in such offshore operations. While many of our companies would prefer otherwise, present regulations require such treatment. Likewise, textile and apparel imports subject to the textile program will not be included in the Caribbean Basin free trade area. We hope that the U.S. Government's intent, as indicated in presenting the CBI, to allow more favorable access for Caribbean Basin (textile and apparel) products will be acted upon. We request the Committee, in its favorable report on the CBI legislation, to urge the Administration to allow more favorable import access to Caribbean Basin textile and apparel products, particularly in those countries where bilateral agreements already are restraining such trade. Textile and apparel trade is an important segment of development needs in the Caribbean Basin.

We have primarily addressed ourselves to that part of the Caribbean Basin Initiative to which we are most sensitive, the opportunity for production sharing which provides for the first two needs of any program of economic development: first, jobs and developing skills, and second, increasing foreign exchange earnings. The modest scale of potential development poses no

discernible domestic threats but opportunities for expanded nontraditional exports through production sharing arrangements. The other aspects of the program are equal parts of this skillfully integrated program aimed at private initiative self help. The fragile political stability in some countries and thus the entire Basin, make the concessional aid package essential, even without the immediate and pressing economic and financial needs of several countries.

Regarding concessional aid, we note that development assistance is to emphasize agricultural, health and population problems. Agriculture in these economies is a very slow means to development. Under current circumstances, we believe that development and economic support funds should focus on a strategy for developing nontraditional exports, to the extent feasible. The immediate payoff in increased foreign exchange earnings from nontraditional exports provides earlier overall stimulus to economic development than will the traditional assistance to agricultural activities. A creative approach used in an AID sponsored project in Costa Rica (BANEX) to finance non-traditional exports is a case in point.

It is important to reiterate that it is highly desirable that aid money be made available to finance programs that will complete the connection between production and marketing potentials in the Caribbean area with sourcing and purchasing potential in the United States and in other industrialized countries. Improved market access is a beginning, but it is only one part of the process of trade development which involves appropriate business climate, marketing knowhow, sourcing information and expertise in financial transactions. In a development atmosphere an aid financed program can be a necessary catalyst to commercial undertakings.

Thus, the investment climate must be improved if the opportunities presented by the free trade area are to be taken advantage of and if export market potentials in other countries are to be realized. Thus, the tax measures are necessary incentives to commitments by U.S. investors just as the bilateral investment treaties are commitments by the Caribbean Basin countries to development through creation of the necessary climate for private investment. However, these nations cannot through their own resources provide the spreading of the risk that the needed investment will require. Thus, the investments and investment insurance of the OPIC programs are a necessary element in the total program of private enterprise development. The Export Import Bank, the Inter-American Development Bank, and the World Bank hopefully will support joint ventures in their efforts toward development goals.

We urge the Finance Committee to favorably report the CBI legislation and, in doing so, to strongly endorse the total, integrated program of the CBI. To those of us on the Committee for 806.30 and 807, Inc., it truly represents an endorsement of the concept of the shared benefits of economic development in developing countries through production sharing.

It will soon be the 50th anniversary of President Roosevelt's Good Neighbor Policy. It has been two decades since President John F. Kennedy proposed the Alliance for Progress. These programs were well-founded in strategic concepts and well-intended in economic terms for forging mutual help and cooperation in the Western Hemisphere. The fact is that we can only celebrate their good intentions because the United States did not follow through on the implicit commitments of either plan. Other events in the world and at home seem to get in our way.

You have before you President Reagan's Caribbean Basin Initiative of 1982. By this hearing, Chairman Dole, you and the Committee on Finance, in face of a heavy legislative agenda, consciously have assigned the Caribbean Basin Initiative the priority it fully merits. I urge the Committee to fulfill the President's commitment to our close and deserving neighbors by completing action on S.2237 as quickly as possible.

Attachment

TABLE 1

U.S. Imports from Countries
of the Caribbean Basin,
Dutiable, Duty-free and Calculated Duty
as Percent of Dutiable Value

Countries	Total	Duty-free[1/]	Dutiable	Calculated duty and percent of dutiable value
	(millions of dollars)			(percent)
Guatemala	347	256	91	2.3
El Salvador	258	174	84	10.1
Honduras	431	330	101	7.3
Nicaragua	140	104	36	6.8
Costa Rica	365	233	132	11.1
Panama	297	231	66	2.0
Haiti	276	81	195	14.4
Dominican Republic	922	405	517	6.5
Belize	42	28	14	19.7
Bermuda	18	17	1	9.0
Bahamas	1,243	132	1,111[1/]	nil[2/]
Jamaica	357	331	26	21.3
Leeward & Windward Islands	32	19	13	20.6
Barbados	81	20	61	13.0
Trinadad and Tobago	2,215	108	2,107[1/]	nil[2/]
Netherland Antilles	2,599	138	2,461[1/]	nil[2/]
Guyana	104	97	7	19.5
Suriname	179	179	-	9.5
Total	9,906	2,883	7,023	8.7[3/]

1/ Imports of petroleum and petroleum products, primarily.

2/ Ad valorem equivalent of the duty in less than 0.5 percent.

3/ Excludes trade and calculated duties in petroleum and petroleum products.

Source: U.S. Department of Commerce.

TABLE 2

U.S. Imports under Tariff Items
806.30 and 807.00 from Countries
of the Caribbean Basin, 1980

Countries	Total	Duty-free[1/]	Dutiable
	(millions of dollars)		
All countries	14,000	3,742	10,258
Developed countries	7,661	579	7,092
Developing countries	6,339	3,163	3,176
Caribbean Basin countries	503	318	185
Haiti	154	105	49
El Salvador	89	51	38
Dominican Republic	98	66	32
Barbados	48	24	24
Costa Rica	45	30	15
Jamaica	15	10	5
Belize	11	7	4
Honduras	14	10	4
Leeward and Windward Islands	9	3	6
Guyana	3	2	1
Trinidad	1	2/	2/
French West Indies	3	2	1

* * *

Percent Distribution Between
Duty-free and Dutiable Imports

	Total	Duty-free	Dutiable
	Percent	Percent	Percent
Total All Countries	100	26	74
Developed	100	7	93
Developing	100	50	50
Caribbean Basin	100	63	37

1/ Value of U.S. material and parts sent abroad for processing or assembly.

2/ Duty-free imports .7 million and dutiable .4 million

Source: U.S. International Trade Commission.

STATEMENT OF
J.B. PENN
ECONOMIC PERSPECTIVES, INC.
MCLEAN, VIRGINIA
BEFORE THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
August 2, 1982

Mr. Chairman, I am J.B. Penn, an economist with Economic Perspectives, Inc., a consulting firm that specializes in food and agriculture economics. I appreciate the opportunity to appear before the Committee today to discuss the results of a study we have just completed that addresses some of the questions relevant to your deliberations on the proposed Caribbean Basin Initiative.

Perhaps the most important element of the proposed initiative is the establishment of a one-way free trade zone that would permit the duty-free entry into U.S. markets of most Caribbean Basin exports. Sugar is a major export commodity of the region, accounting for seven percent of the total annual export earnings over the last five years. Much of the intended benefits of the CBI would thus be expected to be realized through the sugar trade. Of the 27 countries included in the CBI, 15 are sugar producers and exporters. Collectively, they export about 2.3 million metric tons (mmt) annually (1979-81 average), accounting for twelve percent of the sugar freely traded (i.e., traded outside of special arrangements) in the world market. The United States is their most important market; about 65 percent of their exports traditionally go to this market, constituting about 38 percent of all the sugar that the United States imports.

Our study focused solely on the sugar commodity. It attempted to examine the magnitude of the benefits that might accrue to the CB countries from the preferential trade status being accorded them, the impacts this might have on their industry, and, finally, what this might portend in the future for the domestic sugar industry.

The CBI would exempt Caribbean Basin sugar entering the United States from the duty imposed under Headnote 2 of the Tariff Schedules of the United States (Trade Expansion Act of 1962). That duty is presently 2.8125 cents per pound ($62 per metric ton), set at that level on December 23, 1981 by Presidential Proclamation 4888.

Waiver of this duty means the CB countries may potentially realize $62 more from each ton of sugar sold in the United States than from sugar sold in the world market. I say "potentially realize" because the proportion of the $62 that is <u>actually</u> realized depends on whether the sellers discount the price in order to sell the sugar. When the U.S. market is not subject to quotas, such discounting frequently occurs with competitive marketing practices; before the present quotas were imposed in May of this year, discounting of 1.5 cents or more per pound ($33.07 per ton) of the 2.8125 cents per pound was reported to have frequently occurred. But, after each country received a quota allocation, this guaranteed their access to the U.S. market and made the discounting unnecessary. These countries may now realize the full amount of the duty waiver, and perhaps even more in the form of a price premium accuring from the U.S. markets.

Of the 27 designated countries, all except three already have preferential trade status (the duty waiver) under the Generalized System of Preferences (GSP). The other three--the Dominican Republic, Guatemala, and Panama--once had GSP status but lost it by exceeding the annual value limits on duty-free exports. The CBI would thus change only the status of those three by restoring their preferential status; the competitive position of the exports of the others would remain unchanged.

We attempted to determine the approximate magnitude of the benefits to the region from this extension of preferential trade status over the proposed twelve-year life of the CBI (1983-1994). But, to do this, one must know how the fundamental forces that characterize this industry will behave in the future--the trends in U.S. sweetener and sugar production and consumption that will determine future sugar import needs, the legislative future of the domestic sugar program, the amount of sugar that will be available for export from the Caribbean region, and, importantly, the price pattern of the world sugar market over the years. Since the future cannot be known with certainty, one must employ assumptions about these fundamental forces. Based on the information at hand, we think the following are reasonable assumptions:

- A continuation of the upward trend in per capita sweetener (caloric and noncaloric) consumption--from 133 pounds in 1981 to 140 pounds by 1994--but rising more slowly than in the past two decades.
- A continued decline in per capita sugar consumption from 79.4 pounds (refined) in 1981 to 65 pounds in 1994.
- A continued growth in corn sweetener consumption but at a slower rate than in the 1970s (about one-half the trend annual rate since 1970).
- A decline in the output of the domestic sugar industry from the level of recent years (around 5.7 mmt) to 5 mmt by 1994.

The sugar imports necessary to meet the needs of the domestic market are then derived as the difference between the consumption requirement and domestic production. This, in turn, becomes the U.S. quota when applicable.

These trends imply that the needed sugar imports (and the national quota) will continue to decline between now and 1994.

The amount of sugar the Caribbean region countries will have available for export is dependent not only on the quantity they produce but also on the amount that is consumed in the region. During the 1970s, consumption rose very rapidly in the region. However, we conservatively estimated that the per capita consumption to 1994 will only slightly exceed the rate of population growth. But, this is likely to be faster than the rate of growth in sugar production, barring the emergence of unusual incentives for investment in the production and processing sectors. This would suggest that, if present trends continue, the amount of sugar available for export by 1994 will actually be less than it is today.

Perhaps the biggest unknown of all is the future behavior of the world sugar market. While it is highly volatile and erratic in the short run, it is also characterized by a cyclical behavior over the long term--short periods of a year or so of very high prices followed by several years of low prices. At the present time, the world sugar market is near the bottom of such a cycle. Prices can be expected to remain low until the excess supplies are gradually worked off and producers adjust production to the low prices. Then, prices can be expected to return to much higher levels. While the exact timing of the price turns cannot be accurately predicted, a pattern over the next twelve years that contains a few years of slowly rising prices, a peak in about 1990, and a decline thereafter would be consistent with the historical cyclical behavior. This, in essence, allows examining the CBI through one complete price cycle.

As far as a domestic program is concerned, we assumed the world price is sufficiently high in 1986 through 1989 that there would be no domestic program or, if one, the support levels would be well below the world price. The assumed world price then falls in 1990 to levels that would likely cause activation of the program. It is assumed to remain in effect through 1994.

While we think these assumptions are reasonable, one could justifiably argue for a somewhat different set. But, by using the same set for the examination of the several alternative ways in which the CBI might be operated in conjunction with a domestic sugar program, the results involving the comparisons from one to another are not affected.

Using the assumptions noted above, we examined five different situations. These are:

(I) No CBI--a domestic sugar program with duty and fees.

(II) No CBI--a domestic program with duty, fees, and quotas.

(III) CBI--a domestic program with duty, fees, and quotas.

(IV) CBI--a domestic program with duty, quotas, and no fees.

(V) CBI--a domestic program with duty, fees, and no quotas.

The first situation (I) corresponds to that which prevailed prior to the imposition of quotas on May 11, 1982--a domestic sugar program operated with the duty and fees but no quotas. Over the twelve-year life of the CBI beginning in 1983, we estimate the CB countries would export an average of 2.125 mmt each year, with 66 percent of that coming to the U.S. market and the remainder to the world markets. All the countries except three would continue to have the duty waiver under GSP, and would continue to discount some significant proportion of it away. The three (the Dominican Republic, Guatemala, and Panama) would have no preferential status in the U.S. market and would likely have to discount the price somewhat to compete with all GSP countries selling in the U.S. market. The average value of the region's exports would be $991 million, with $654 million of that from sales in the

11-310 O—82——22

United States. Over the twelve years, the region would cumulatively earn $11.9 billion from its sugar exports.

The second situation (II) corresponds to the situation now existing--a domestic program with duty, fees, and quotas, but no CBI. The quotas assigned to the CB countries reduce the amount of sugar they can sell in the United States--we estimate by about 14 percent each year over the next twelve years. About 200,000 tons that would have come to the U.S. market must now be diverted to the world markets (and it is assumed to be sold at the world market price). But, the effective price realized for the sugar that is sold in the U.S. market is significantly higher with quotas (discounting is unnecessary). While the quantity sold in the U.S. market under quotas is smaller and the total revenues from these sales somewhat lower, this is offset by revenues from that sugar diverted to the world market. Thus, the average annual proceeds to the CB countries with the quotas they now have would average slightly higher than without quotas (about $16 million annually). The twelve-year cumulative value of the sugar exports is estimated at $12.1 billion versus $11.9 without quotas, a difference of $196 million.

The third situation (III) assumes the sugar program continues to be operated with the duty, fees, and quotas, and that the CBI is implemented at the beginning of 1983. This would extend the duty waiver to the three non-GSP countries (the Dominican Republic, Guatemala, and Panama)--the competitive position of the other countries remains unchanged. The allocation of exports between the U.S. and world markets would remain unchanged--the major difference that the CBI brings is a higher realized price and larger revenues to the three countries for sugar sold in the United States.

The average annual value of the exports is estimated at $1.03 billion, $20.3 million (two percent) more than the present situation. Thus, the CBI is estimated to increase average annual revenues to the region (really to the three non-GSP countries) by $20.3 million, $243 million over the twelve-year life of the CBI--about two percent more revenue from sugar than without the CBI.

The fourth situation (IV) assumes that, for the CBI countries, the Section 22 fee as well as the duty is waived, increasing the effective price and proceeds even more. In this case, the average annual revenues would be 5.3 percent higher than if only the duty is waived, and 7.4 percent higher than the current situation (quota but no CBI). The twelve-year cumulative revenues from the fee and duty waiver would be $654 million higher than from only the duty waiver, and $897 million higher than the current situation.

A question frequently raised after the imposition of the quotas earlier this year was the effect this would have on the proposed CBI. The fifth situation (V) assumes the CBI is in place, and that the domestic program is operated without quotas. This means the CB countries enjoy the price premium in the U.S. market, but have no guaranteed access. This also means the benefits are diluted somewhat, since some price discounting will occur, decreasing the revenues from their potential full amount. But, the remaining price premium would likely prove sufficient to encourage some increase in production. Since the premium accrues to the three non-GSP countries, it is these countries that would have the incentive to increase production and exports to the U.S. market. The other countries have had GSP status since the Sugar Act of 1949 expired in 1974 and seven of them have preferential status with the EEC (as ACP countries). But, this has apparently not proved to be sufficient incentive for them to even maintain their production; it actually declined by 200,000 mt (19 percent) since 1974 while total exports declined by 170,000 mt (to the U.S. market by 120,000 mt). Thus, the CBI would appear to be insufficient to induce any change in their industry. But, the three non-GSP countries could increase production. We estimate that an annual average increase of about 275,000 tons for export to the United States is reasonable. This is still less than the largest production these countries have achieved in the past, so an even greater increase is possible.

With five percent greater production and no quota restraint on U.S. imports, exports to the United States increased 23 percent. The average annual revenues are estimated to be 3.6 percent greater with the CBI and no quota than with the CBI and a quota. The twelve-year cumulative revenues would be $440 million higher, if production and total exports were actually about five percent greater. Revenues under this situation are estimated to be about 5.7 percent greater than under situation (II), the present situation of quotas but no CBI.

Some Observations

The results of the study suggest several observations concerning the CBI with respect to sugar and the relationship of the CBI to the domestic sugar industry.

(1) As far as sugar is concerned, the CBI is relatively narrow in its focus. Although there are 27 designated countries in the region and 15 of those produce and export sugar, the CBI would only provide benefits to three of those--the Dominican Republic which is the largest producer and exporter in the region by far (32 percent of production and 49 percent of the region's exports to the United States), Guatemala (14 percent of production and 14 percent of exports to the United States), and Panama (five percent of production and eight percent of exports to the United States). The

competitive position of the sugar exports of the other countries would remain unchanged.

(2) The magnitude of the benefits from the sugar trade to the CB region is relatively small. Annual revenues from exports would be increased by only two percent (with quotas on the U.S. market) or 5.7 percent (with no quotas). And, again, these revenues would accrue primarily to the three large producers and exporters.

(3) Several points are related to the question of the controversial quotas. First, ignoring the CBI for the moment, our results suggest that, contrary to what has been frequently stated, the CB countries would appear to fare slightly better with the quotas--guaranteed access to the U.S. market obviating the need for price discounting and perhaps providing some price premium above that--if they are able to sell the sugar displaced by the quota from the U.S. market in the world market, and the world market price is unaffected by the quota.

Second, with the CBI and no quota, the revenues to the region are greater. But, these revenues accrue to the three countries that do not have GSP status, and they come about from increased production and exports to the U.S. market. But, with no quota, the price discounting occurs--so the greater revenues are from a higher volume of exports but at a somewhat lower price because of the discounting. This then raises the question of how the other countries in the region fare. They would, without quotas, realize a lower price (the discounting) and lower revenues; since they would not likely produce more, as the CBI is unlikely to provide enough incentive for that, their volume exported would not increase. Thus, the CBI-no quota situation would be beneficial for the three non-GSP countries, but not for the other countries in the region.

(4) While the total annual value of the benefits to the region are not large, they would likely provide sufficient incentive to some of the countries--primarily the three that gain duty-free status--to increase the investment in sugar production and processing, and consequently their exports to the United States. This then raises the question of how this would affect the U.S. sugar industry.

First, it is obvious that if access to the U.S. market is controlled through quotas, the U.S. industry will be little affected by the CBI. The incentive for any expanded production in the region is partially negated if the additional sugar cannot be sold at a premium price in the U.S. market.

If the U.S. market is not protected by quotas, then at least the three non-GSP countries would attempt to increase their exports to the U.S. market up to the limit contained in the CBI. With no guaranteed access through quotas, they, and the others in the region, will likely discount the price. This, in turn, makes obtaining the market stabilization price associated with the price support program more difficult. For example, if the stabilization price were 21.41 cents per pound, and the CB countries discounted the price by an average of 1.5 cents, the dilution factor would be 0.57 cents (1.5 cents x 38 percent), meaning that the market price would be that much less than the stabilization price. (If the CBI is enacted, the addition of the three CB countries to those with GSP status already means that 51 percent of all imports will be eligible to enter duty free. The dilution factor would then be even greater.) The implication is, of course, that to offset this the fee would have to be higher, and in times of low world prices increasing the likelihood that the stabilization price could not be achieved and some sugar forfeited to the CCC.

A final observation concerns the economic environment in which capital investment and development in the CB region must occur. Both political and economic stability are widely held to be conducive to capital investment. But, it appears that considerable uncertainty can be expected to continue to surround the CBI, if it is enacted, as it relates to sugar. First, there is uncertainty as to how the domestic sugar program will be operated through 1986. While quotas are now in place, the Administration has stated it will remove them once the world price strengthens sufficiently to ensure that the duty and fees alone can protect the DMSP. At what specific price level this might be is unclear and when it might be reached is unknown. And, there continues to be attempts to modify the price support level in the present law. Beyond all that, the legislative future of the domestic program beyond its present authorization is uncertain. This continuing controversy about all aspects of the program and the uncertainty it creates is not conducive to planning and investment for either the Caribbean Basin countries or the domestic sugar industry.

FLORIDA HOUSE OF REPRESENTATIVES
Tallahassee

Reid Moore, Jr.
Representative, 81st District

Reply to:

☑ ~~850 Royal Palm Way~~
Post Office Box 2695
Palm Beach, Florida 33480
(305) 837-5304
Suncom 454-5304

☐ 306 Boca Plaza
3200 North Federal Highway
Boca Raton, Florida 33432
(305) 368-6960
Suncom 454-5205

☐ 26 House Office Building
Tallahassee, Florida 32301
(904) 488-4202

Committees:

Energy
Governmental Operations
Judiciary

Advisory Council on
Intergovernmental Relations

July 29, 1982

Hon. Robert E. Lighthiser, Chief Counsel
Senate Committee on Finance
Room 2227, Dirksen Senate Office Building
Washington, D.C. 20510

Dear Sir:

Per suggestion, this is to offer written testimony in favor of proposed legislation to implement the announced Carribbean Basin Initiative Policy of the current administration. My views are offered from the perspective of one who has represented some 700,000 citizens of South Florida in the Florida Legislature for four years, one who is a member of the Florida Council of International Development, and one who is a Republican candidate to serve in the next Congress from the newly-created 14th District, comprising the southeast portion of Palm Beach and the northwest portion of Broward Counties.

Let me, initially, confirm a number of the positive aspects of the CBI. The United States of America has for the first time exerted real initiative in a role of leadership for the area. The implementation of the CBI will build credibility and partnership, while the failure of the Congress to follow through will cause disillusionment and backlash. Externally speaking, the U.S.A. can use economic integration both to bind its relationship with the CB nations and to exclude the influence of certain other nations. Internally speaking, increased commerce and trade will both stabilize the CB nations and promote the export/import industry of the U.S.A., particularly Florida.

The main point of my testimony, however, is that implementation of the CBI will cause the great reduction, if not the elimination, of illegal immigrations into the U.S.A. and, again, particularly Florida. The state and local governments of Florida, and indeed the general population at large, have borne the brunt of illegal immigration from the CB nations long and painfully enough. The stress of providing the services demanded has been exacerbated by the tension between governmental levels over who is to perform what function and whose revenues are to be used. The greatest problem of all, however, like the proverbial lower portion of the iceberg, is the relation of illegal immigration to community health.

Thus far, the matter of threat to health to South Florida has been the Haitians. In times to come, without implementation of the CBI, the threat could be from a number of places. CBI carried out would go a long way to remove the problem and the threat.

In the last several years many thousands of Haitian refugees have entered South Florida. Unlike the Cubans, who arrived in relatively good health, the Haitians brought a number of medical problems primarily related to the stresses of poverty, malnutrition, overcrowded substandard housing conditions, poor sanitary hygiene, lack of health knowledge or an adequate health care system.

The types of diseases prevelent in the Haitian immigrants have been varied. The most significant communicable disease of concern has been pulmonary tuberculosis. The rate of incidence has been approximately 40 times the rate of the general residential population. About one in 125 has active pulmonary TB. One in five has positive serology for veneral disease. Some have active syphilis, some may have positive serology due to the nonveneral disease of yaws which is endemic in Haiti. Many have lymphogranuloma venereum or chancroid.

One-half of the Haitians immigrating to Florida have intestinal roundworms and about 10% are infested with giardia. Several cases of Hausen's disease have been found. Between 5 and 10% of Haitians tested have been found to have the parasite Wucheria Bancrofti, which causes filarasis.

The majority of the Haitian women who have immigrated to Florida have been pregnant. These women have generally been unwilling or unable to understand or adopt basic hygiene in child care or to undergo preventive care such as immunizations. It is basic U.S.A. policy to treat childhood illnesses on a crisis basis.

Known Haitian immigrants are screened for TB, VD, and other diseases. Communication is at best difficult because of the language barrier. Haitians generally resist treatment not only because of their lack of understanding of disease as such, but also because of their belief in voodooism as the best method of treating medical problems.

While it can be said the local health authorities have been able to contain the threat to community health thus far, the existent possibility of spread of communicable diseases is real indeed. Moreoever, with the recent Federal Court order requiring release of the Haitians from Krome, there may be a surge of further immigration with known or new diseases.

In conclusion, from a South Florida perspective there is every reason for the U.S. Congress to move forward to implement the CBI of the administration. Development of a set of new trading partners to the benefit of all, and the strengthening of the pan U.S.A. economic world to the exclusion of those powers adverse to our way of life more than justify U.S.A. commitment of time and money. Most importantly, however, is the removal of the threat to our national health of unknown description and proportions. All these things can be accomplished through the implementation of the CBI.

Respectfully submitted,

Reid Moore

Reid Moore

RM/cb

Florida Citrus Mutual

TELEPHONE (813) 682-1111 · P O BOX 89 · LAKELAND, FLORIDA 33802

BOBBY F. McKOWN
EXECUTIVE VICE PRESIDENT

Statement of

BOBBY F. McKOWN
Executive Vice President and General Manager
Florida Citrus Mutual

United States Senate
Committee on Finance
2221 Dirksen Senate Office Building
Washington, D. C.
1:00 p.m.
August 6, 1982

Good afternoon, Mr. Chairman and members of the Committee.

My name is James H. Lundquist.
I am with the firm of Barnes, Richardson & Colburn and I am offering this statement today on behalf of Mr. Bobby F. McKown, Executive Vice President and General Manager of Florida Citrus Mutual, a voluntary cooperative trade association whose membership consists of more than 13,288 active Florida citrus growers, with headquarters at Lakeland, Florida. The State of Florida, Department of Citrus and the Florida Citrus Packers support the position as set forth in this statement; a brief description of these organizations is attached.

We understand the general thrust of the Caribbean Basin Initiative as developed and recommended by President Reagan and we further understand that the basin includes some two dozen small developing nations in Central America, the Caribbean and northern South America. Florida Citrus Mutual and the Florida citrus industry sincerely believe that certain assistance might be warranted for those specific nations; however, it is essential to this industry's well-being that certain safeguards be built into any plan which the Congress approves. Citrus has been judged to be import sensitive by the U.S. Government, international trade councils, and it has continued to be reaffirmed by the U.S. International Trade Commission, Kennedy Round, etc.

Mr. Chairman and members of the Committee, the Florida citrus industry is the second largest industry in the State of Florida and provides significant stability to its economy. Florida's climate is similar to that of the countries of the Caribbean Basin Initiative and we believe that Florida and California could be adversely impacted more than other states because of their tropical agriculture should fresh citrus and processed citrus products be allowed to enter under a reduced tariff or duty free. For every $1.00 in revenue lost in the production of citrus, the loss to Florida's economy would be $2.67 based on multiplier developed by the University of Florida.

We know that many of the Caribbean Basin Initiative countries have serious problems with disease and insects, such as Caribbean fruit fly, Mexican and Mediterranean fruit flies, citrus canker, etc. which could be devastating to the Florida citrus industry, particularly if we have any greater exposure via expanded imports. Increased shipments coming into Florida and the United States from those countries would substantially increase our grower members' risk of infestation by those insects and/or contracting some of those dreaded diseases. Florida Citrus Mutual respectfully requests that the Animal and Plant Health Inspection Service of the U.S. Department of Agriculture be invited to participate in the formulation of any possible implementation so that proper inspection safeguards would be included. Any increase in shipments would mandate increased inspection at ports of entry, customs, etc. and not less, as has been promoted by the Administration's red door/green door policy. Adequate prevention is the best cure.

American farm income has continued to decline during the past three years and 1982 does not offer any hope for a turnaround in this regard. We believe that precautions must be taken to ensure that these countries do not ship large quantities of fresh citrus fruits and processed citrus products into the U.S. domestic market, thereby disrupting our markets. For every one million gallon increase in imports, total revenue for the Florida citrus industry would be reduced by $4 million at the FOB level. These countries do not have the stringent government regulations of the U.S. fresh fruit maturity standards, USDA grade standards for fresh citrus and processed citrus products, nor are they subjected to the EPA pesticide limitations as are our growers.

We believe that the CBI countries do not need nor require duty free entry to the U.S. market as their costs are less than ours and on a duty paid basis they still maintain a competitive advantage.

Florida Citrus Mutual believes and advances its belief that the Congress should build in adequate safeguards to prevent these countries from being used as a conduit by some of their neighbors to the south and/or other parts of the citrus producing world. For example, Brazil or Surinam could circumvent the U.S. tariff by exporting through certain countries with the Caribbean Basin, thereby gaining reduced tariffs or duty-free access to U.S. markets. We suggest that a certificate of origin be required in order to negate this transshipment possibility. If this loophole is not closed, then it would violate the intent and congressional purpose of the Tariff Act of 1930 as amended; furthermore, it would severely adversely impact on our domestic market for fresh and processed citrus products which our industry has developed without federal government subsidy or tax benefits. We strongly support the amendment as supported by U.S. Customs and the Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, wherein the bill would disallow and prohibit duty free treatment for product which is the result of simple combining or packaging operations, or mere dilution with water, or mere dilution with another substance which does not materially alter the characteristics of the article. The amendment referred to reads as follows:

> The Secretary of the Treasury shall prescribe such regulations as may be necessary to carry out this subsection <u>including, but not limited to, regulations providing that, in order to be eligible for duty-free treatment under this title, an article must be wholly the growth, product, or manufacture of a beneficiary country, or must be a new or different article of commerce which has been grown, produced, or manufactured in the beneficiary country; but no article or material of a beneficiary country shall be eligible for such treatment by virtue of having merely undergone</u>--
> <u>(A) simple combining or packaging operations, or</u>
> <u>(B) mere dilution with water or mere dilution with another substance that does not materially alter the characteristics of the article.</u>

We also urgently request that any agreement the United States consummates with these countries should only be based on two-way trade. If we are going to open up our borders to them for citrus, they should be required to open their borders to us. This is and has not been true of most of our past trade agreements.

It is our understanding that certain products and goods are exempt from the proposed Caribbean Basin Initiative and we respectfully request that fresh citrus fruits, and processed citrus products (concentrated and not concentrated), sections and salads, essential oils be exempt as they are very sensitive to import competition.

We strongly believe and respectfully request that the U.S. tariff schedules for all citrus and citrus products remain in place and be excepted from any bilateral or multilateral negotiations, treaty or other U.S. government initiatives in order that we as an industry can continue our job of producing U.S. citrus and citrus products at a reasonable price for the consumer. The current tariff structure is performing and performing well.

The U.S. tariff rate on citrus juices, not concentrated is 20¢ per single strength gallon; frozen concentrated orange juice is 35¢ per equivalent single strength gallon, and these tariff rates have not prevented imports from coming into this country when needed, tariff paid. Brazil and Mexico are the largest suppliers; however, Belize and other smaller citrus producing countries within the basin have also shipped limited quantities into the U.S., tariff paid, without adverse impact upon them. I call your attention to the fact that imports under our citrus juices (not concentrated) tariff classification have increased substantially since 1977 as follows:

1978:	148,099	gallons	(single	strength)
1979:	221,796	"	"	"
1980:	1,008,211	"	"	"
1981:	10,096,688	"	"	"

The value of those same imports in dollars has increased from $547,081 in 1978 to over $15 million in 1981, according to U.S. Department of Commerce statistics.

Imports of frozen concentrated orange juice have also shown dramatic increases; for example: in 1981 there were 217.6 million gallons (single strength equivalent) as compared to 31.4 million gallons (single strength equivalent) in 1976, all tariff paid.

These data vividly point out that imports, duty-paid, of orange juice and orange concentrate coming into the United States in large quantities are not being deterred by the U.S. tariff. More importantly, the tariff structure is certainly not causing any adverse economic impact upon the U.S. consumer.

Research indicates that grapefruit juice prices in real terms have declined. Orange juice (concentrate, chilled and canned) real term prices have also declined relative to the price of all other consumer items. These real term price declines have occurred even though Florida encountered a number of severe freezes in 1977, 1980, 1981 and 1982. For example, in 1971-72 the frozen concentrated orange juice price was $1.88 per dozen 6 oz. cans, and in real terms the 1980-81 price was only $1.79 per dozen 6 oz. cans.

We believe it important to recognize that a large number of our processed products constitute a closely related group of citrus articles, all of which are essential food products for human consumption. This closely related group of processed citrus products is highly important to our industry and makes up a major segment of our citrus industry's products.

Frozen concentrated orange juice is being used more and more in other orange juice products because of economics of transportation, technological advances, improved processing techniques and improved distribution of our products in the U.S. markets.

Any reduction in our current rate of duty, and certainly allowing duty-free entry, would adversely impact upon the economic stability of our industry. A reduction in tariff or duty-free or preferential treatment would further increase citrus supplies and destructively reduce citrus prices short term. In the long run, lowered tariffs on citrus would result in curtailed Florida production because of unfavorable cost-price relationships; the ultimate outcome being reductions in citrus related employment.

Currently, average citrus prices are only 64% of parity in the case of grapefruit; and 46% of parity for oranges, per the USDA September 1981 Agricultural Prices Report.

The long term impact on the U.S. consumer, however would be increased prices resulting from reduced Florida supply - OJ OPEC.

We also know that no foreign supplier's quality control program equates to our continuous Federal-State inspection which our industry has so strenuously followed in order to maintain and insure U.S. consumers' confidence in Florida processed citrus products.

Therefore, the U.S. consumer, after gaining reduced prices for a short term period, would subsequently endure higher prices for lower quality for a relatively long period.

It takes a long time - 25 years - for a citrus tree to reach maximum production. Obviously, once a transition begins, an immediate reversal is not possible.

It should be pointed out that our industry is a free enterprise industry. It is an industry whose growers over the last ten years have invested almost $300 million of their own money to create and develop and expand our U.S. domestic and export markets; thereby contributing positively to our balance of payments. Today, we are fighting tariff barriers and value-added taxes in certain foreign countries which are deterrents to our growth oppportunities abroad. We ask your consideration and assistance in this area, and point out that this situation should be borne in mind also.

Our industry is not price supported nor government subsidized. We are an industry that has developed its own marketing techniques and improved its own processing techniques; an industry which has shared its technology with other citrus producing countries; an industry which represents a strong base to the overall economy of our state as well as our country. We employ some 86,000 people directly. Indirectly, we create another 87,000 jobs within our state. The Florida and U.S. citrus industry is labor intensive - production through distribution.

The foreign supplier, including the basin countries, who wishes to move into this market that has been created by our growers, in general enjoys a cost of production advantage, due primarily to lower wage rates and fewer governmental requirements which protect the consumer and the environment. Additionally, government subsidies for exports of many other citrus producing countries are, in many cases, quite liberal.

I respectfully request that you particularly review one page of highlights (as reproduced from the FAS February, 1980 report) included in our brief regarding Mexican citrus producers. Particularly interesting is the headline of the story, and I quote: "Mexican Producers Look To U.S. Market to Absorb Bigger Output." I quote the first paragraph, "Mexico's citrus industry already largely dependent on the U.S. market for much of its export sales is increasing production and is looking to the United States to absorb much of its expanded output, both fresh and processed."

In another paragraph, and I quote: "Because of the belief that U.S. orange juice demand will remain strong and Mexican orange production will climb, Mexican orange producers are increasing the number of processing plants from existing nine, six of which produce juice concentrate, to 15 by 1981-82." The additional plants will in effect enable the industry to double its overall juice processing and evaporation capacity. Yes, we recognize that Mexico is supporting the Caribbean Basin Initiative, but we have strong reason to believe that they, too, will soon petition for preferential treatment.

To ask us to share a market duty-free which we have developed with Florida growers' money, with other citrus producing countries whose competitive advantages far outstrip our ability to compete, is asking and inviting a viable U.S. industry to compete at an unfair disadvantage. We believe that the magnitude of the Caribbean proposal to reduce the tariff on Florida citrus fruit and citrus products is very serious.

We have seen another country, Brazil, build an entire export industry based upon a Florida freeze. We have seen them build an industry that is now approaching the size of ours, yet an industry that utilizes none of its products for home consumption. By that I mean Brazilian frozen concentrated orange juice is not consumed in any quantity in Brazil, and yet they are producing almost as much processed citrus as we are in the United States. Their entire industry is built for export purposes, and it is built to move into our already grower-developed markets, competing with unfair competitive advantages which we have already presented.

Florida Citrus Mutual respectfully requests that the country of Cuba be deleted as a potential participant in the CBI inasmuch as Cuba is a mature citrus producing entity. It is our understanding that they currently have approximately 500,000 acres of citrus. As you know, they are classified as a communist country and thereby would be exempt under the current proposal; however, we believe and recommend that notwithstanding this classification, a mature citrus producing industry of the acreage magnitude as set forth above should not be included in the CBI.

Additionally, we strongly encourage that an additional safety mechanism be provided to the U.S. citrus industry wherein we could have faster action by the U.S. Government should we be potentially and/or partially damaged because of imports duty-free through the CBI program. In other words, we support an amendment wherein within a 90-day time frame final action could be taken upon a petition by our industry wherein we prove that any damage is sustained by our industry because of imports of citrus.

In summary, Florida citrus products are very sensitive to import competition at home and export competition abroad. Reduction of the U.S. tariff would impact negatively on U.S. consumers, citrus processors, citrus packers and citrus growers.

Safeguards must be put in place to prevent these countries from being used as a conduit for others. We strongly set forth that if any trade liberalization should be negotiated between this country and citrus producing countries of the Caribbean Basin Initiative, our government should recognize and take into account those citrus items that are price sensitive and that they should not be included in the final proposal.

We sincerely request that this committee find, after reviewing our statement, that citrus fruit and citrus products should be excepted from any tariff reduction during the course of any international trade negotiations and development of the Caribbean Basin Initiative. We believe that we have amply supplied sufficient justification with supporting data for this decision. In addition to my statement today, I plan to provide a more detailed brief for your full review.

Thank you for allowing Florida Citrus Mutual an opportunity to present our statement in opposing any change in tariff rates for citrus. If you have need for any additional data, we stand ready to supply same.

Respectfully submitted,

Bobby F. McKown
Executive Vice President
Florida Citrus Mutual

McK:vb
Attachments

FLORIDA CITRUS MUTUAL, LAKELAND FLORIDA

Florida Citrus Mutual is now in its 35th year as a Lakeland-based service and informational entity for more than 13,288 citrus grower members banded together as a voluntary, private, nonprofit organization.

Its operations cover a broad spectrum of activities, all interrelated and with one purpose in mind -- representation of the best interests of grower-members.

One of Mutual's main information services is daily market information upon which the grower can make his decisions concerning the marketing of his fruit. Along with market information, routine activities range from consumer demand studies, to efforts in seeing the development of the best possible advertising programs, improvement of quality of all citrus products, development of new products, maintenance of an adequate tariff structure, seeking standards of identity for citrus products, taking a direct hand in research and development of a workable mechanical harvesting system, achieving a theft and vandalism protection program and serving the growers' needs in such areas as pollution, taxation, water management, property rights, and also supporting with grower funds development of new markets for citrus products.

Basically, Florida Citrus Mutual deals in all those forces brought into play in production, distribution and marketing of citrus and citrus products.

Florida Citrus Mutual is governed by a 21-member Board of Directors elected annually by the membership.

Mr. Bobby F. McKown
Executive Vice President
Florida Citrus Mutual
Post Office Box 89
Lakeland, Florida 33802
813/682-1111

FLORIDA DEPARTMENT OF CITRUS, LAKELAND, FLORIDA

The Florida Department of Citrus, formerly known as the Florida Citrus Commission, is a full-fledged department of the Executive Branch of State Government. It was established in 1935 to protect the health and welfare and to stabilize and protect the Florida citrus industry. It is headed by a board of twelve growers appointed to staggered 3-year terms by the Governor and confirmed by the State Senate. The board is known as the Florida Citrus Commission.

The Department is charged with the administration of the State Citrus Fruit Laws and under those laws it has broad regulatory and police powers with respect to packing, processing, labeling, and quality standards, etc., of Florida citrus fruit and products, and the licensing of those who deal with them. Also, the Department conducts extensive advertising and promotion programs and carries on continuing broad-scale scientific, economic, and marketing research activities, all in behalf of the Florida citrus industry. Current annual expenditures are approximately $32,000,000 funded exclusively from special excise taxes assessed on each box of citrus grown in the State of Florida.

A primary concern of the Department is the protection and enhancement of the quality and reputation of Florida citrus fruit and products.

Dr. W. Bernard Lester
Executive Director
Florida Department of Citrus
Post Office Box 148
Lakeland, Florida 33802
813/682-0171

FLORIDA CITRUS PACKERS, LAKELAND, FLORIDA

Florida Citrus Packers is an organization representing 86 fresh fruit packers and shippers who account for over 90% of all fresh citrus shipped out of Florida annually, to domestic and export markets.

Florida Citrus Packers was formed to promote, foster and encourage the business of marketing fresh Florida citrus and to assist in addressing -- cooperatively and collectively -- the common problems of its members, including, but not limited to:

Marketing, research, quality regulation, transportation, legislative matters involving the citrus industry, insurance, labor, etc.

Mr. James E. Emerson
Executive Vice President
Florida Citrus Packers
Post Office Box 1113
Lakeland, Florida 33802
813/682-0151

Mexican Citrus Producers Look to U.S. Market To Absorb Bigger Output

By John H. Wilson

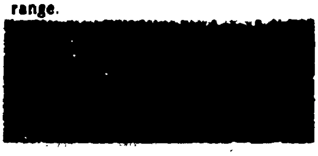
Foreign Agriculture/February 1980

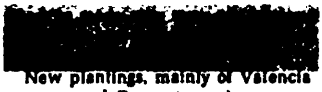
Mexico's exports of fresh oranges and tangerines to the United States in 1978/79 were considerably larger than in the previous year, despite the drought in 1977 and severe freezes in December 1978 that lowered production.

The drought affected all of Mexico's producing regions but was most damaging in the States of Nuevo Leon, Tamaulipas, and San Luis Potosi. The freeze was primarily concentrated in the Montemorelos-Linares citrus region of Nuevo Leon, and caused output in this area to fall from the 1977/78 level by one-third. The three drought-affected States, plus Veracruz and Tabasco in the south, and Colima and Michoacan—Mexico's major lime producing States—account for the bulk of Mexico's citrus production.

Mexico's latest official production figures are for 1977 and show citrus production of about 2.48 million metric tons: 1.86 million tons of oranges, 58,200 tons of tangerines, 112,100 tons of grapefruit, and 444,640 tons of limes.

Trade sources agree with these Secretaria de Agricultura figures, except they believe tangerine production was in the 125,000-130,000-ton range.





New plantings, mainly of Valencia oranges and Dancy tangerines, were high in 1977/78 and 1978/79, encompassing areas from the southern tip of Tamaulipas State to the southwest coastal regions of the Yucatan Peninsula. Apparently, there is little room for expansion in traditional citrus area in Nuevo Leon.

Grapefruit and lime trees were least affected by the adverse weather because of their southerly location. About three-fourths of the grapefruit trees are in Veracruz and Tabasco, and the bulk of the lime trees are in Colima and Michoacan.

The rate of grapefruit tree plantings has been high since the early 1970's and production is expected to rise 50 percent from 1977 levels to about 170,000-175,000 tons by 1985. However, some industry sources have indicated that grapefruit tree plantings may be reduced substantially next season because of producer fear that a worldwide glut and a lessening of demand in the domestic market will cause market prices to fall.

A common concern among Mexican producers is the huge expansion of grapefruit plantings in Cuba. While the United States banned all imports from Cuba in 1962, Mexico is fearful that—if the ban is lifted—it may lose a share of the U.S. market.

Mexican lime production has stabilized during the past few years. The crop is divided between Key lime varieties (95 percent of output) and Persian varieties (5 percent).

All Mexican fresh citrus fruit exports pass through packing houses, of which there are 31. Twenty-six of these are located in Nuevo Leon and are members of the Mexican Association of Citrus Packers. The organization was established in 1964 to promote citrus production in Mexico and to improve quality and marketing opportunities for its members.

The fresh export market takes 1-3 percent of the country's oranges, 20-25 percent of its tangerines, 10-15 percent of its grapefruit, and about 1 percent of its limes. About 80 percent of Mexico's orange exports go to the United States and all of its tangerine shipments are to the United States and Canada.

Tangerine shipments are more or less limited to these countries because the fruit is susceptible to decay and peel injury brought on by excessive handling.

U.S. imports of fresh Mexican oranges and tangerines in the 1978/79 season (November-October) amounted to 46,096 metric tons—48 percent of the total were tangerines and 52 percent were oranges. This is a 70-percent gain over imports in the previous season.

Largely responsible for this increase were the short 1978/79 citrus crops in California and Arizona. Mexican shipments to the United States, especially of oranges, fluctuate considerably from year to year, mainly because of changes in U.S. demand and to a lesser degree because of shortfalls in Mexican production owing to frosts or droughts in Mexico's most important growing areas.

After the United States, the German Democratic Republic (GDR) is Mexico's most important orange export market. Latest official Mexican trade data (1977) show orange exports to the United States and the GDR were about evenly split at some 17,000 tons each.

Small amounts of oranges also go to the Netherlands. Mexican exporters normally ship as much fruit to the United States and Canada as they can and the balance to Europe, a market they are especially interested in enlarging.

Mexico's fresh grapefruit exports have doubled in the past few years, with the major markets being the United States, Western Europe (primarily the Netherlands and France), and, most recently, Japan. Shipments to Japan climbed from 90 tons in 1971 to 3,200 tons in 1978, exceeding the calendar 1978 U.S. import level of 1,200 tons.

Because of the early harvest in Veracruz, Mexican grapefruit hits the U.S. market 2-3 weeks before the U.S. shipping season gets underway. This gives Mexico a competitive advantage in some of its foreign markets.

Mexico hopes that, despite the anticipated larger world supplies of grapefruit, it will be able to keep its present share of the U.S. and West European markets, and increase its exports to Japan in the early part of the marketing year.

U.S. imports of Mexican limes have trended upward from 3,000 tons in 1974 to a record 12,330 in 1978. The increase is attributed to larger Mexican supplies of Persian variety limes, coupled with a drop in U.S. output, which fell from about 40,000 tons in 1974/75 (April 1-March 31) to 19,000 tons in 1978/79.

U.S. lime imports from Mexico continued at a relatively high level in the first 11 months of calendar 1979 (11,642 tons compared with 10,351 tons during the same period in 1978).

[illegible]

[illegible]

U.S. demand for imported orange juice has been particularly strong in the past few years because the Florida freeze of 1977 pushed up prices for domestic juice. However, Mexico was unable to take full advantage of the market possibilities, largely because of a lack of processing capacity.

[illegible]

It believes that U.S. population growth and the downward trend in Florida's orange-bearing area—which dropped from 660,000 acres in 1970/71 to 579,000 in 1977/78—will leave ample room for expansion of Mexican juice shipments.

[illegible]

Reportedly, in 1978/79 the Mexican industry has been operating at close to capacity, largely because of the strong U.S. demand for sectioned fruit. But, since Florida's production has been declining in recent years, the new Mexican plant is expected to make more sectioned fruit (canned and chilled) available for export to the United States.

[illegible]

Mexico also is the world's leading producer of lime oil and juice and its oil exports take care of about 80 percent of global export requirements. Roughly three-fourths of Mexico's lime oil is exported and two-thirds of U.S. requirements come from Mexico. The United Kingdom also takes a sizable volume of Mexico's lime oil.

Most of Mexico's lime juice exports are in concentrated form. Two-thirds go to the United Kingdom, and about one-third is shipped to the United States. This country took 390,000 gallons (single-strength equivalent) of Mexican concentrated lime juice in 1978.

Since Mexico's lime production has stabilized, no significant near-term expansion is anticipated in the export of lime products. It is also likely the United States and the United Kingdom will continue to be Mexico's leading markets for lime oil and juices. ☐

BEST AVAILABLE COPY

A STATEMENT ON THE
CARIBBEAN BASIN INITIATIVE PROPOSAL
TO THE
SENATE FINANCE COMMITTEE

SUBMITTED BY:
DENNIS E. EMERSON, ASSISTANT TO PRESIDENT
FLORIDA FARM BUREAU FEDERATION
P. O. BOX 730
GAINESVILLE, FLORIDA 32602

THANK YOU, MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, FOR THE OPPORTUNITY TO EXPRESS OUR CONCERNS OVER THE CARIBBEAN BASIN INITIATIVE PROPOSAL FROM A FLORIDA AGRICULTURAL VIEWPOINT. MY NAME IS DENNIS E. EMERSON, ASSISTANT TO THE PRESIDENT OF THE FLORIDA FARM BUREAU FEDERATION.

THE FLORIDA FARM BUREAU FEDERATION IS A VOLUNTARY FARM ORGANIZATION, REPRESENTING MORE THAN 93,000 MEMBER FAMILIES AND 95% OF ALL FARMERS AND RANCHERS IN FLORIDA. OUR GROWER MEMBERS PRODUCE VIRTUALLY EVERY TYPE AGRICULTURAL COMMODITY GROWN COMMERCIALLY IN OUR GREAT STATE. WE ARE GREATLY CONCERNED OVER THE CARIBBEAN BASIN INITIATIVE PROPOSAL AS IT RELATES TO FLORIDA AGRICULTURE.

I PREFACE MY REMARKS BY SAYING THAT THE <u>CONCEPT</u> OF THE CARIBBEAN BASIN INITIATIVE PROPOSAL IS ADMIRABLE AND IT'S

OBVIOUS THAT THE DEVELOPING COUNTRIES IN THE BASIN AREA NEED ECONOMIC AND TECHNOLOGICAL ASSISTANCE TO BOOST THEIR STRIFE TORN ECONOMIES, BUT OUR ORGANIZATION CERTAINLY DOESN'T WANT FLORIDA AGRICULTURE SACRIFICED IN ORDER TO ACCOMPLISH THIS END.

MY CONCERN IS NOT WITH ANY IMMEDIATE, SHORT-TERM IMPACT ON OUR INDUSTRY BECAUSE APPROXIMATELY 87% OF THEIR EXPORTED PRODUCT ALREADY ENTERS U. S. PORTS DUTY FREE. IT'S THE LARGE, BUILDUP POTENTIAL THAT KNOTS THE STOMACH OF FLORIDA PRODUCERS. A BUILDUP, CERTAINLY TO COME AS A RESULT OF THE PROPOSAL'S TAX INCENTIVES, INVESTMENT CREDITS FOR U. S. INVESTORS AS WELL AS THE MANY GOVERNMENT GRANTS AND LOANS TO BE MADE AVAILABLE. THIS, ALL IN ADDITION TO THE 12 YEARS OF DUTY FREE AND TARIFF FREE TREATMENT ON EXPORTED PRODUCT FROM THE CARIBBEAN BASIN INITIATIVE, WILL HAVE A GREAT ADVERSE IMPACT ON FLORIDA AGRICULTURE.

I REALIZE THAT OUR POSTURE ON THIS PROPOSAL IS THE MINORITY ONE, AND WE SINCERELY DISLIKE HAVING TO TAKE THE ADVERSARY ROLE, BUT THE FUTURE OF FLORIDA AGRICULTURE IS BEING THREATENED. THIS IS TRUE BECAUSE NO ONE HAS AS MUCH TO LOSE AS DOES FLORIDA AGRICULTURE. THE MID-WEST CERTAINLY WILL BE PROPONENTS BECAUSE THEY CURRENTLY SHIP APPROXIMATELY $2 BILLION WORTH OF WHEAT, CORN, SOYBEANS AND SOYBEAN PRODUCTS TO THE CARIBBEAN BASIN NOW AND IMPORT NOTHING; ANY ADVANCE IN CARIBBEAN BASIN ECONOMY RECOVERY WILL ONLY ENHANCE THEIR EXPORT POSITION.

THE FLORIDA PORT AUTHORITY AND OTHERS WELCOME THE NEWS BECAUSE THEY SEE THE POTENTIAL INCREASED TRAFFIC FLOW AS A BONANZA. ALMOST EVERY INDUSTRY SEEKS TO GAIN FROM THIS NEW PROPOSAL ... EVERY INDUSTRY EXCEPT FLORIDA AGRICULTURE.

AGAIN, IT'S UNFORTUNATE THAT FLORIDA AGRICULTURE HAS TO PLAY AN ADVERSARY ROLE IN THE PROPOSAL, BUT WHEN YOUR VERY LIVELIHOOD IS IN THE BALANCE, ONE HAS TO DRAW THE LINE.

I THINK WE NEED TO REMIND OURSELVES OF THE IMPORTANCE OF FLORIDA AGRICULTURE TO THE ECONOMY OF OUR STATE AND NATION BEFORE DECISIONS ARE MADE THAT MAY FATALLY WOUND IT.

FLORIDA AGRICULTURE FACTS

- CASH RECEIPTS PLUS AGRICULTURAL PURCHASES CONTRIBUTED $11 BILLION TO THE ECONOMY OF FLORIDA.
- ONE-FOURTH (25%) OF FLORIDA'S TOTAL WORK FORCE IS EMPLOYED DIRECTLY OR INDIRECTLY BY AGRICULTURAL CONCERNS.
- 95% OF THE NATION'S ORANGE CONCENTRATE IS GROWN AND PROCESSED IN FLORIDA.
- FLORIDA IS THE NATION'S LEADING PRODUCER OF SNAPBEANS, TOMATOES, SWEET CORN, WATERMELONS, CABBAGE, CUCUMBERS, EGGPLANTS, GREEN PEPPERS, ESCAROLE, QUARTER HORSES, HONEY AND SUGARCANE.
- 70% OF OUR STATE'S LAND AREA IS USED FOR AGRICULTURAL PURPOSES.

- FLORIDA RANKS SECOND AND THIRD NATIONALLY ON MANY, MANY OTHER COMMODITIES.
- FLORIDA COMMERCIALLY PRODUCES OVER 240 COMMODITIES (MOST STATES RAISE ABOUT 15).

FLORIDA AGRICULTURE IS A HIGH LABOR INTENSIVE INDUSTRY; ALSO ONE WHICH REQUIRES A TREMENDOUSLY LARGE CAPITAL INVESTMENT. IT IS A VERY SENSITIVE INDUSTRY, ONE WHICH REACTS VERY RAPIDLY TO DISRUPTION OF THE MARKETPLACE ... THIS RESPONSE OFTEN IS IN THE FORM OF LIQUIDATION ... I.E.; WE CURRENTLY HAVE LESS THAN HALF THE TOMATO PRODUCERS TODAY THAN WE HAD BEFORE MEXICO BEGAN FLOODING OUR MARKET. WE CURRENTLY HAVE NO SHADE TOBACCO GROWN IN THE ONCE LARGE PRODUCING SECTION OF QUINCY, FLORIDA (FOREIGN IMPORT CAPTURED THE TOTAL MARKET). SANFORD, ONCE THE CELERY CAPITOL OF THE WORLD, PRODUCES VERY LITTLE CELERY TODAY BECAUSE OF IMPORTS. THESE ARE JUST A FEW OF THE MANY EXAMPLES THAT ILLUSTRATE THE RAMIFICATIONS OF FOREIGN IMPORTS ON FLORIDA AGRICULTURE.

FLORIDA AGRICULTURE HAS EVERYTHING TO LOSE AND NOTHING TO GAIN ON THE CARIBBEAN BASIN INITIATIVE PROPOSAL. THE TWENTY-FOUR COUNTRIES WITHIN THE BASIN PRODUCE BASICALLY THE SAME COMMODITIES AS WE; I.E., SUGAR, BEEF, TOMATOES, GREEN PEPPERS, CUCUMBERS, CUT FLOWERS, FRESH AND PROCESSED CITRUS, EGGPLANT, SQUASH, MELONS, LIMES, MANGOS, ETC. MANY OF THESE COMMODITIES ARE HARVESTED SEVERAL WEEKS BEFORE DOMESTIC CROPS.

THE ECONOMIES OF CARIBBEAN BASIN COUNTRIES ARE PRIMARILY AGRICULTURAL. THEIR EXPORT TO THE UNITED STATES LAST YEAR APPROACHED $2 BILLION. IF LARGE U. S. CONGLOMERATES SATURATED THIS AREA, AGAIN USING (1) TAX CREDITS AND INCENTIVES, (2) GOVERNMENT LOANS, AND (3) DUTY FREE TREATMENT OF PRODUCTS PRODUCED THERE, THEIR EXPORT FIGURES COULD EASILY INCREASE FOUR TO FIVE FOLD, THUS ELIMINATING ANY MARKET FOR FLORIDA PRODUCERS.

IT MAKES COMPETITION INEQUITABLE WHEN ONE HAS TO COMPETE AGAINST TAX CREDITS, CHEAP LAND, CHEAP LABOR ... COUNTRIES WHICH <u>DO NOT</u> HAVE THE MYRIAD OF COSTLY GOVERNMENT RULES AND REGULATIONS; I.E., E.P.A., O.S.H.A., SOCIAL SECURITY, WORKER'S COMPENSATION, F.L.C.R.A., F.D.A., D.O.L., ETC. MANY OF THESE COUNTRIES ALSO USE PESTICIDES LONG BANNED IN THE UNITED STATES.

THE U. S. PER CAPITA CONSUMPTION OF PRODUCE (GROWN BY BOTH CARIBBEAN BASIN COUNTRIES AND UNITED STATES) HAS SHOWN LITTLE CHANGE OVER THE PAST FEW YEARS, AND THE DEMAND FOR THESE PRODUCTS IS MORE THAN ADEQUATELY BEING MET BY CURRENT DOMESTIC AND FOREIGN IMPORTS. <u>ANY ADDITIONAL IMPORTS WILL ONLY SERVE TO EXPEDITE THE ALREADY DECREASING SHARE FOR OUR DOMESTIC PRODUCERS.</u>

<u>THE FLORIDA PRODUCERS' SHARE OF THE FRESH FRUIT AND VEGETABLE MARKET HAS DRASTICALLY DECLINED</u> OVER THE YEARS DUE TO LARGE IMPORTS FROM MEXICO AND OTHERS. ONE WOULD THINK THE PRICE TO CONSUMERS WOULD DECLINE COMMENSURATE WITH THE LARGE

SUPPLY OF IMPORTS, BUT, IN REALITY, THE CONSUMER PRICE HAS REMAINED STATIC OR, IN SOME INSTANCES, ACTUALLY INCREASED DUE TO THE LOSS OF COMPETITIVE POSITION BY DOMESTIC PRODUCERS.

THE ONLY CONSISTENT THING TO DECLINE OVER THE YEARS HAS BEEN (1) TOTAL NUMBER OF FLORIDA FARMERS, (2) THEIR SHARE OF THE U. S. FRUIT AND VEGETABLE MARKET, AND (3) THEIR PLANTED ACREAGE.

BRIEF EXAMPLE: FLORIDA PLANTED ACREAGE

A. FRESH CUCUMBERS ...... 1965 (17,000 ACRES) .. 1980 (15,400)

B. TOMATOES .... 1965 (53,800 ACRES) .. 1980 (42,900)

OTHER CROPS FOLLOW THE BASIC SAME DOWNWARD PATTERN.

WHEN THE FLORIDA PRODUCERS' SHARE OF THE MARKET DECLINES, THEY ADJUST BY (1) GOING OUT OF BUSINESS, OR (2) DECREASING ACREAGE, THUS REDUCING QUANTITY OF PRODUCT WHICH LEADS TO MORE DEPENDENCE UPON A FOREIGN SOURCE FOR SUPPLY. WE SHOULD HAVE LEARNED FROM OPEC THE CONSEQUENCES OF DEPENDING UPON A FOREIGN SOURCE FOR SUPPLY. FLORIDA FARMERS OFTEN HAVE TO ADJUST EVEN AFTER A CROP HAS BEEN PRODUCED; I.E., A LARGE SUPPLY OF FOREIGN PRODUCE IS OFTEN INTRODUCED INTO THE DOMESTIC MARKET ... THIS QUICKLY DEPRESSES THE PRICE AND IT BECOMES UNPROFITABLE FOR FLORIDA PRODUCERS TO BEGIN HARVEST OR FINISH HARVESTING. THE ECONOMIC HARDSHIPS AND LOSSES IMPOSED IN THESE EXPERIENCES ARE OFTEN IRREVERSIBLE.

AGRICULTURE IS A HIGHLY COMPETITIVE INDUSTRY, PARTICULARLY WITH THE LARGE INFLUX OF COMMODITIES FROM MEXICO .. THE EFFECT OF ADDITIONAL COMPETING PRODUCE WOULD UNEQUIVOCALLY DEPRESS THE MARKET EVEN FURTHER AND PRESENT GRAVE ADVERSE ECONOMIC INFLUENCE UPON FLORIDA PRODUCERS. FLORIDA FRUIT AND VEGETABLE PRODUCERS ARE CURRENTLY IN A TREMENDOUS COST-PRICE SQUEEZE DUE TO (1) ADVERSE GROWING CONDITIONS THE PAST FOUR YEARS, (2) HEAVY COMPETITION FROM MEXICO AND OTHER FOREIGN SOURCES, AND (3) UNPRECEDENTED RISE IN INTEREST RATES, AD VALOREM TAXES, LABOR COSTS, GOVERNMENT REGULATIONS, LAND RENTALS, URBAN ENCROACHMENT, INCREASED COST OF PRODUCTION REQUISITES AND MANY OTHER FACTORS WHICH MAKE IT EXTREMELY DIFFICULT TO CONTINUE PRODUCING FOR A PROFIT.

AGAIN, I CANNOT OVEREMPHASIZE THE IMPORTANCE OF KEEPING FLORIDA AGRICULTURE HEALTHY. IF THE FLORIDA FARMER IS FORCED TO GO OUT OF BUSINESS, THE DOMINO EFFECT INFLUENCES UNEMPLOYMENT (25% OF FLORIDA'S WORKFORCE), AD VALOREM TAX LOSS, LOSS OF A MARKETABLE PRODUCT, DEPENDENCE UPON FOREIGN SUPPLY, LOSS OF AGRICULTURAL SUPPORT AND RELATED ENTERPRISES (FARM EQUIPMENT-MACHINERY DEALERS, FEED, SEED, FERTILIZER, CHEMICAL COMPANIES, ETC.).

ANOTHER AREA OF SERIOUS CONCERN TO US IS THE TRANSSHIPMENT ASPECT. I RECENTLY VISITED WITH RICHARD SMITH, ADMINISTRATOR OF FOREIGN AGRICULTURE SERVICE (FAS) ON THIS ISSUE. SMITH DID NOT SATISFY ME THAT THEY HAVE THE CAPABILITIES TO PREVENT

TRANSSHIPMENT FROM COUNTRIES OUTSIDE THE CARIBBEAN BASIN INITIATIVE PROPOSAL. WE HAVE REAL CONCERN THAT THESE COUNTRIES MIGHT BECOME A CONDUIT TO THE UNITED STATES FOR OTHER CITRUS AND VEGETABLE PRODUCING COUNTRIES; I.E., BRAZIL. ALSO, NOTHING IS TO PREVENT BRAZIL OR OTHERS FROM DEVELOPING LARGE PLANTS IN THE CARIBBEAN BASIN REGION AND ORGANIZING THE PLANT STRUCTURE SO THEY MAY SHIP CITRUS PRODUCT DUTY FREE TO UNITED STATES.

THE PRESIDENT, IN ANNOUNCING THE CARIBBEAN BASIN INITIATIVE PROPOSAL, STATED THAT DOMESTIC GROWERS WILL HAVE "ALL THE PROTECTION NOW AVAILABLE TO U. S. AGRICULTURE AGAINST DISRUPTIVE IMPORTS." THAT IS EXACTLY WHAT WE ARE AFRAID OF BECAUSE WHAT WE HAVE NOW IS MEANINGLESS. WE CURRENTLY ARE IN OUR THIRD YEAR OF LITIGATION AGAINST MEXICO ON A DUMPING ISSUE AND WE'RE NO CLOSER TO RESOLUTION THAN THE DAY THE SUIT WAS FILED. AGRICULTURE REQUIRES REMEDIAL ACTION IN TERMS OF <u>DAYS</u>, NOT YEARS, BECAUSE YOU'RE DEALING WITH A HIGHLY PERISHABLE CROP AND SHORT TERM MARKET.

IF THE CARIBBEAN BASIN INITIATIVE IS INEVITABLE, WE WOULD SINCERELY REQUEST THAT THE MINIMUM FOLLOWING SAFEGUARDS BE IMPOSED:

(1) ENSURE THE INTEGRITY OF THE DOMESTIC SUGAR PROGRAM AND PROHIBIT DUTY FREE IMPORTS OF SUGAR UNDER THE CARIBBEAN BASIN INITIATIVE PLAN OR ANY INCREASES IN QUOTA,

(2) ENSURE QUICK RELIEF IN AREAS WHERE FRESH FRUIT AND VEGETABLE IMPORTS ARE HAVING SERIOUS IMPACT ON U.S. PRODUCERS. THIS RELIEF SHOULD BE GRANTED WITHOUT THE NECESSITY OF U.S. GROWERS HAVING TO FOLLOW THROUGH TO SUSTAIN THE PRESIDENT'S ACTION WITH EXPENSIVE AND TIME-CONSUMING PETITIONS UNDER SECTION 201(B) OF THE TRADE ACT OF 1974,

(3) PROVIDE ADEQUATE SAFEGUARDS AGAINST TRANS-SHIPMENTS OF AGRICULTURAL COMMODITIES AND PRODUCTS BY COUNTRIES OUTSIDE THE CARIBBEAN BASIN REGION INTO THE U.S. MARKET VIA THE CARIBBEAN BASIN COUNTRIES,

(4) PROVIDE ADEQUATE SAFEGUARDS AGAINST FOREIGN TOBACCO IMPORTS INTO THE CARIBBEAN BASIN COUNTRIES FOR SEMI-PROCESSING THAT WOULD RESULT IN SO-CALLED "SCRAP" TOBACCO THAT COULD THEN BE IMPORTED INTO THE U. S. DUTY FREE,

(5) PROVIDE SAFEGUARDS AGAINST FOREIGN CONCENTRATED ORANGE JUICE IMPORTS INTO THE CARIBBEAN BASIN COUNTRIES FOR CONVERSION TO SINGLE STRENGTH ORANGE JUICE THAT COULD THEN BE IMPORTED INTO THE U.S. DUTY FREE, AND

(6) PROVIDE THAT THE ANNUAL INCREASE IN QUANTITY

OF IMPORTS FROM A COUNTRY BE LIMITED TO 5 - 10%.

IN CLOSING, ALLOW ME TO SAY THAT FLORIDA AGRICULTURE HAS MORE TO LOSE ON THE CARIBBEAN BASIN INITIATIVE PROPOSAL THAN ANY OTHER INDUSTRY OR STATE, NATIONWIDE. THERE WILL BE FEW ALLIES FOR THIS POSTURE, BECAUSE UNLESS YOU'RE DIRECTLY EFFECTED, CARIBBEAN BASIN INITIATIVE SOUNDS LIKE THE HUMANITARIAN AND MORAL THING TO DO. THE ONLY FALLACY WITH THIS IS THAT FLORIDA AGRICULTURE WILL BE SACRIFICED IN ORDER TO ACCOMPLISH ITS GOAL ... AND THERE'S NOTHING MORAL OR HUMANE ABOUT THAT. MANY ATTEMPT TO REASON THAT ALL THE AGRICULTURE <u>CURRENTLY</u> IN CARIBBEAN BASIN, PUT TOGETHER, WOULD NOT HAVE A GREAT IMPACT. IF ANYONE CAN RECALL, SOME SAID THE SAME THING ABOUT BRAZIL AND MEXICO JUST A FEW YEARS AGO AND NOW THEY ARE INTERNATIONAL COMPETITORS. AGAIN, OUR CONCERN IS NOT THE IMMEDIATE, BUT THE DEVELOPMENT IN YEARS TO COME.

ANOTHER GREAT AREA OF CONCERN IS THE REAL POTENTIAL FOR INTRODUCTION OF NEW PLANT PESTS, INSECTS AND PLANT DISEASES COMING FROM THIS AREA. WE CERTAINLY DON'T WANT OUR AGRICULTURAL PRODUCTS PLACED IN A VULNERABLE POSITION WITH EXOTIC PESTS AND DISEASES; I.E., CARIBBEAN FRUIT FLY, CITRUS CANKER, ETC. AND OTHER KNOWN AND UNKNOWN INSECTS AND DISEASES.

IT'S OUR OPINION THAT IF THE CARIBBEAN BASIN INITIATIVE PASSES AS CURRENTLY OUTLINED, WE CAN BEGIN PREPARING THE EULOGY FOR FLORIDA AGRICULTURE. I ONLY HOPE WE'RE PREPARED TO DEAL WITH THE ECONOMIC CHAOS THAT WILL RESULT WHEN THIS OCCURS.

THANK YOU.

TESTIMONY GIVEN BY PETER G. WHELPTON ON BEHALF OF THE FLORIDA-CARIBBEAN CRUISE ASSOCIATION AND FLORIDA ASSOCIATION OF MARINE INDUSTRIES, INC.

I am testifying in support of S-2237. This legislation is very necessary to assist in the development of the Caribbean basin nations, since they are tied so closely to the United States, both politically and economically.

The largest source of income for these nearby, friendly nations is derived from American tourists who frequent these countries both by air and cruise vessels. The major industry in most of the Caribbean basin nations is Tourism, as many of them do not have any other industries and do not have any significant agriculture, as well. This means that 75¢-80¢ of every dollar that is spent in the Caribbean basin ultimately returns to the U. S. economy, since a large majority of these nations import food, clothing, equipment, and technology from the United States.

Speaking on behalf of the South Florida cruise industry, and representing the Florida-Caribbean Cruise Association (11 cruise lines with 22 cruise vessels), as well as the Florida Association of Marine Industries, Inc., encompassing 22 members of the maritime industry state-wide, we are in complete support of this legislation and amendments.

The cruise ship industry is responsible for the Caribbean basin nations receiving a large amount of their Tourism income. In addition to the 22 cruise vessels, there are several other part-time vessels sailing to the Caribbean carrying American passengers. We estimate that these passengers spend several hundred million dollars annually in the Caribbean basin nations. The economic ripple affect to the Caribbean is very difficult to calculate, but we estimate that the average cruise passenger will spend approximately $35-$50 each at each port they visit in taxi fares, tours, meals, beverages, and purchases. You can quickly see that this is a major input into the economic well-being of the Caribbean nations. My company, Royal Caribbean Cruise Line, alone, calculates that we will spend in the next year $6 million in port expenses for labor, tugs, harbour dues, etc. The passengers that we take to our Caribbean ports of call will spend another $15 million in the area.

Another interesting aspect is that these cruise vessels are a source of job opportunities for the very vast Caribbean basin labor force. We estimate that the Caribbean basin nations supply approximately 40% of the cruise personnel, the majority of whom are well protected by very strong International Union agreements. For example, a Caribbean crew member who might earn as low as 50¢ a day in his home nation for performing a menial task, on many of the cruise vessels sailing from South

Florida ports is guaranteed to earn not less than an average of $550 U. S. per month in base wages. Furthermore, the majority of the hotel service positions onboard are guaranteed monthly amounts as high as $1,100 U. S.

Considering all of the afore-mentioned, one could almost say that the cruise industry, in fact, is supplying its own "Caribbean Basin Initiative Program". In this regard, it is not logical that convention tax restrictions should be placed on these cruise vessels. When Congress gives to the Caribbean with one hand (reference S-2237) they, in fact, take away with the other hand by placing restrictive legislation (reference Section 4 of PL96-608) which permits meetings to be held without restriction in Canada and Mexico, but forbids any tax deduction for meetings held aboard cruise ships. This legislation is discriminatory and has hurt the cruise industry's business badly, as we estimate approximately 15% of our load factors were supplied by these associations and conferences, and if we do not receive this business, then it follows that the Caribbean basin nations also suffer by reducing tourist spending. Therefore, we urge your support of amending S-2237 to repeal this discriminatory legislation and exempt cruise ships sailing to the Caribbean from these tax regulations.

The Caribbean basin area is one of the few areas in the world where American tourists can vacation in ideal weather conditions year 'round, in countries that are safe and friendly, and nearby the United States, and who then return a large amount of the money to the U. S. economy in the way of purchases. We are constantly reminded of how important this industry is to the economic well-being of the Caribbean nations since we are visited annually by these countries who are constantly seeking cruise ship calls for their ports.

The cruise industry it has been argued is a "rich man's" vacation. This statement is inaccurate, as the entire industry, since its inception 20 years ago, has always appealed to the volume economy segment (middle class) America. Cruise vacations on a per diem basis are far less expensive in the Caribbean basin area than similar vacations in most other areas of the world.

We thank the Finance Committee for allowing us to appear and give testimony on behalf of S-2237 and we sincerely urge the passage of this very vital and necessary legislation for the Caribbean basin nations.

SUMMARY

- Testifying in favor of S-2237 ~~with amendment~~
- Caribbean basin nations tied closely to U. S., politically and economically.
- Largest source of income is from American tourists brought in by air and cruise vessels.
- Major industry is Tourism.
- 75¢-80¢ of every dollar spent in the Caribbean returns to the U. S. economy.
- Cruise industry is responsible for large amount of tourism dollars to the Caribbean basin nations.
- U. S. cruise passengers spend several hundred billion dollars in the Caribbean basin nations annually.
- Cruise vessels provide jobs--approximately 40% of hotel crew are from Caribbean nations--protected by strong International Union agreements.
- The passage of Section 4 of PL96-608 disallows tax exemptions for conventions on foreign flag cruise ships and has hurt their business badly--lost approximately 15% of their load factor.
- Caribbean basin nations are nearby, friendly, safe vacation areas for American tourists and return much of the money to the U. S. economy.
- American cruise tourists are vital to the economy of the Caribbean.
- Cruise vacations appeal to middle America and are not a "Rich Man's" vacation, as many would believe.
- We urge support of ~~the amendment to~~ amending S-2237 ~~which would~~ to repeal this discriminatory tax legislation and exempt ships sailing to the Caribbean from these tax regulations.

HAWAII MACADAMIA NUT ASSOCIATION
Star Route Box 25
Captain Cook, Hawaii 96704
Telephone (808) 328-2435

TESTIMONY

IN OPPOSITION TO TITLE I -- DUTY-FREE TREATMENT, OF THE CARIBBEAN BASIN INITIATIVE.

INTRODUCTION

The Hawaii Macadamia Nut Association (HMNA) is an organization which represents the interests of both growers and processors of macadamia nuts in Hawaii. The larger processors are also involved in retail sales.

The macadamia nut industry in Hawaii presently has a total of 13,700 acres planted to macadamia with 10,000 of those acres bearing nuts. The 1981-82 production of in-shell nuts was 33.4 million pounds which brought $26.4 million to the growers. The retail value of the 1981-82 crop is estimated at $67 million.

MACADAMIA NUT PRODUCTION IN HAWAII

Macadamia is a slow-growing orchard crop requiring patience and significant front-end investment to develop fully. It is seven years from planting before macadamia trees begin bearing nuts and another eight-to-ten years before achieving full production. Trees planted in the mid-1960's, which account for approximately half of today's orchards, are just now reaching mature production.

With the exception of two corporate farms, farm size is less than 500 acres. The majority of farms are in the five-to-ten acre range. Farming is accomplished on uneven, sloping terrain. Most farming operations are mechanized to a certain degree; however, harvesting continues to be accomplished primarily by hand.

Substantial capital investment in plant and equipment is required to husk, crack, sort, grade, process and bulk-package macadamia nuts. For example, the current cost of constructing a medium-capacity plant to process 10 million pounds of in-husk nuts annually is $3.75 million. The cost of creating a retail product are in addition and vary considerably, depending upon the approach.

Macadamia nuts are marketed in several product forms. At retail levels, they are sold as whole nuts in jars or tins, as macadamia nut brittle, chocolate-covered candy, flavor-treated nuts, and in bits for home cooking purposes. They are also supplied to commercial users for products such as ice cream, candy, cakes and pastries.

MACADAMIA NUTS AS A DEVELOPING AGRICULTURAL INDUSTRY IN HAWAII

Historically, Hawaii has had two major agricultural export products -- sugar and pineapple. Macadamia has grown rapidly to rank as the State's third largest export crop and, as a result, plays an increasingly important role in diversifying Hawaii's agricultural character. This has the effect of easing the negative economic impact that foreign competitors and resultant price fluctuations have had on the other two products.

Although macadamia nuts are indigenous to Australia, the commercial development of the nuts was initiated and advanced in Hawaii beginning in the early 1920's. The success of Hawaii's industry in developing the macadamia as a commercial crop over the past 60 years is attributable to significant financial investment and allocation of effort by the private sector as well as invaluable crop research and varietal development by the University of Hawaii.

Technological and horticultural innovations, and the success they engendered, have encouraged other foreign countries such as Australia, Guatemala, Kenya and South Africa to enter into large-scale macadamia production.

However, even though Hawaii has been producing and marketing macadamia nuts commercially since the 1930's, it has not been until the last few years that macadamia has made substantial progress toward diversifying the State's agricultural economy and generating significant returns to growers.

The industry now is on the threshold of becoming a major factor in Hawaii's economy. Both large growers and small independent farmers are expanding their orchard acreages or starting new farms. In 1960, 3,820 acres were in macadamia nut culture. This acreage has since increased to 13,700 acres, of which 10,000 acres presently are bearing. Additional acreage increases of 1,000 acres per year are expected over the next three to four years, and perhaps beyond.

An important industry consideration in this period of expansion are the high long-term start-up costs and attendant risks that are involved. It is a tenuous thread by which investors' confidence hangs, a thread easily snapped by undue economic pressures. In Hawaii, the cost of establishing an orchard and carrying it through to the seventh year when the first commercial harvest generally occurs, is approximately $9,500 per acre. This does not include cost of the agricultural land itself, which in Hawaii is valued at a minimum of $12,000 per acre.

The break-even point for macadamia growers -- that is, the time they first realize a return on their investment -- does not occur until the sixteenth year, which is a measure of Hawaii macadamia nut growers' patience.

DOMESTIC MARKET FOR MACADAMIA NUTS

The United States, where most of the macadamia nut products were sold in 1981, is the world's leading consuming nation of macadamia nuts for two reasons. First, its relatively high standard of living makes this premium nut product affordable to more consumers. Secondly, availability was made easier by the fact that Hawaii pioneered the industry and developed the markets.

In previous years, the industry's marketing efforts were concentrated in several distinct geographic areas beginning with Hawaii, which represented a major consumer market. Remaining major market areas include the West Coast -- principally Los Angeles, San Francisco, Seattle and Portland; and the East Coast -- principally the northeast corridor and Miami. South, Central and Midwest population centers such as Chicago, Detroit, Denver, Atlanta, Cleveland, Dallas, Houston and New Orleans are other major market areas.

Presently, the Hawaii market is absorbing considerably less product than it has in past years. This is apparently the result of a recessionary economy and the reduction in tourist trade. The diversion of product from the Hawaii market into mainland U.S. markets along with additional product generated by annual crop increases has put severe pressure on existing U.S. mainland markets.

The pressure is on to build new markets, and efforts are being concentrated within the mainland U.S. for the following reasons. First, the Hawaii market is depressed as previously mentioned. Secondly, the strengthening U.S. dollar is hurting efforts to export macadamia products to potential markets in Europe, Japan, and Canada. Finally, a generally depressed U.S. economy is slowing sales in established U.S. mainland markets.

In view of the present market situation, it would be extremely detrimental to the Hawaiian macadamia nut industry and to the economy of the State of Hawaii to allow duty-free treatment of Caribbean Basin countries on imports of macadamia nuts.

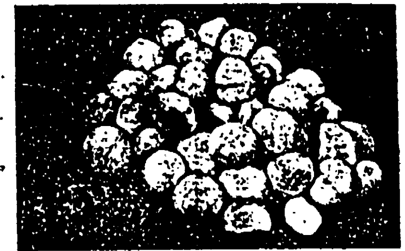
RECOMMENDATION

The HMNA respectfully recommends that macadamia nut imports from Caribbean Basin countries be exempt from duty-free treatment as outlined in Title I of the Caribbean Basin initiative.

* * * *

Honeymoon's Over

Macadamia Firms Scurry



Star-Bulletin
The Thursday Report
Section B
Honolulu July 15, 1982

By J.D. Sylvester
Star-Bulletin Writer

Hawaii's macadamia nut industry, a shining star in the push to diversify the state's agricultural base, has reached a historic turning point in its development.

After years — indeed, decades — of undiminished demand for macadamia nut products, the industry finds itself scrambling to find additional outlets to absorb increased supplies, according to a number of industry sources.

The Hawaii market, in particular, appears to be saturated, and many producers and processers are hurrying to develop Mainland and foreign markets.

WHERE ONCE macadamia nuts often were parceled out on an allocation basis to commercial users and retailers, supply has caught up with and, in some cases, exceeded demand.

With the new harvesting season slated to begin in the next month or so, some companies still are carrying substantial inventory and others are anticipating a plentiful harvest and seeking outlets for it.

In general, the macadamia nut market is broken into two broad categories — bulk raw kernels sold wholesale to commercial users such as candy manufacturers and bakeries, and finished retail products found in grocery stores and other outlets.

Consensus in the industry is that increased supplies compounded by a flat tourism economy locally and a recessionary economy generally are stymieing demand.

ONE SPOKESMAN said macadamia nut products are seen as luxury items and that consumers strapped by the recession aren't as likely to spend their dollars on such products, contributing to the soft demand.

Another industry source said macadamia nut prices have an impact on demand and feels that "if the market won't support current prices, we will see a reduction."

"Greater market development" on the Mainland and elsewhere seems to be a rallying cry echoed by virtually all industry people.

"The pressure is on to build new markets," said A.A. Yort Jr., chairman of Mauna Loa Macadamia Nut Co., a recognized industry leader. Good crops the last few years plus growing foreign production have contributed to increased supplies both locally and internationally, he said.

"We have to push fast on the Mainland," said David Rietow, vice president of Mac Farms of Hawaii.

"We must develop the Mainland market to its potential," Bill Koepke, manager of the Kona Farmers Co-op, asserted.

MACADAMIA NUTS "need to be promoted better on the Mainland," according to Dick Yoda, vice president of Hawaiian Host.

These spokesmen and others all view the oversupply situation as temporary, an aberration that will be corrected as more aggressive marketing strategies come into play.

"We have doubled our number of Mainland food brokers from 35 to more than 70," said Mauna Loa's Yort, in an effort to penetrate more markets. In addition, Mauna Loa late last year established an exclusive contract with Suntory Ltd. to distribute its products in Japan, Yort said.

Expansion in Europe, though, is very difficult owing to a combination of high import tariffs, value-added taxes and a strong U.S. dollar, he said.

Mauna Loa president Paul Bennett observed that while the conventional macadamia market in Hawaii may have "matured," he feels there are "opportunities for what we call 'flanker products,' new types of macadamia nut products," as well as room for growth in the food service sector, selling more to restaurants and hotels.

HAWAIIAN HOLIDAY, another major macadamia nut marketer, has expanded its marketing strategy and now is selling its finished products to food retailers, according to Richard Schnitzler, director of factory operations at the company's plant in Honokaa.

Previously, Hawaiian Holiday had sold its wide range of products only at its own retail stores in Hawaii and Hong Kong.

Schnitzler said the company's wholesale markets primarily were on the Mainland and in Japan, the Philippines and Hong Kong. The company's president, Paul DeDomenico, currently is on a sales trip to Europe to drum up new business.

Like other Hawaii macadamia nut companies, Hawaiian Holiday is considering expansion in production by establishing orchards in other countries.

The Overseas Private Investment Corp. recently reported that Hawaiian Holiday will undertake a feasibility study with an Egyptian company to determine the potential for growing macadamias in Egypt.

If proved successful, the report said, "Hawaiian Holiday will establish a joint venture for a 1,000- to 2,000-acre macadamia nut tree farm in Egypt."

OTHER COMPANIES with overseas interests include Mauna Loa, with orchards in Guatemala, and Hawaiian Host, with acreage in Brazil.

Hawaiian Host's Yoda said his company has about eight to 10 months worth of macadamia kernel inventory and that it has increased spending on advertising and promotion to stimulate demand.

Yoda said the company, whose main product is chocolate-covered macadamias, established a 40,000-square-foot plant in Los Angeles about a year and a half ago in an effort to tap the Mainland market.

But he said demand still is lagging because "they don't know about macadamia nuts on the Mainland." Yoda said he felt a "good promotional effort" by the Hawaii industry was called for to broaden the market.

He said his company also sells some nuts in the Orient, primarily in duty-free outlets in Japan, Hong Kong, Singapore and Taiwan.

Hawaiian Host gets much of its raw macadamia nuts from the Hilo Macadamia Nut Growers Association. Randy Abuna, president of the 50-member cooperative, said the growers are "very concerned about present market conditions. We see the Hawaii market saturated and feel more has to be done to sell more product on the Mainland."

ON THE OTHER SIDE of the Big Island in South Kona, Rietow said his company, Mac Farms of Hawaii, experienced a dramatic turnaround in supply and demand. "Last year when we shut down our factory in May, we had zero inventory," he said. "By October, the whole picture turned around and we were generating more (macadamia nut) kernels than orders."

Mac Farms, a 3,300-acre producer acquired last year by CSR Ltd. of Australia, deals solely in the bulk raw kernel wholesale market, selling its product to small processors, primarily on the Mainland. Rietow said that, while the company has no specific plans to change its strategy, "we're looking at anything that'll sell kernel product."

Nearby, the Kona Farmers Co-op is taking a decidedly new direction to cope with the softened Hawaii macadamia market.

MANAGER KOEPKE said that at the end of this month, the 225-member cooperative is ending its contract with Hawaiian Host, to which it has been selling bulk raw kernels, and joining with a Mainland marketing cooperative to produce and sell retail product.

"We feel the Hawaii market is saturated at the present time and we want to develop a Mainland market to maintain the (macadamia) price for our members," Koepke said.

The Kona group's new association is with Lindsay International, which also markets California olives and Oregon cherries. Koepke said his cooperative will shell and dry the macadamia kernels in Kona and ship them to California for roasting and packaging. They will be sold as dry-roasted salted or unsalted macadamia nuts in 8.5-ounce glass jars.

376

STATEMENT OF JACK K. SUWA
CHAIRMAN, BOARD OF AGRICULTURE, STATE OF HAWAII
IN OPPOSITION TO
S. 2237, A BILL TO PROMOTE ECONOMIC REVITALIZATION AND
FACILITATE EXPANSION OF ECONOMIC OPPORTUNITY IN THE
CARIBBEAN BASIN REGION

Agriculture ranks third in economic importance among the major industries of Hawaii. The contribution of agriculture to Hawaii's economy including the processed value of sugarcane, pineapple and government payments was $738.4 million, down 26 percent from the 1980 level.

The highlight of Hawaii's agriculture in 1981 was the low price of sugar. Worldwide overproduction sent raw sugar prices plummeting to 11 cents per pound, well below Hawaii's production cost of 23 cents per pound.

Worldwide production of pineapple also increased in 1981 and this oversupply created marketing difficulties for Hawaiian pineapple companies. Processed pineapple tonnage in 1981 was down seven percent over the previous year.

Although sugar suffered the greatest loss in 1981, other agricultural commodities experienced losses or slowdown in their growth rate. For example, the flower and foliage industry in recent years has shown the highest sales growth rate of all diversified agricultural products; however, floriculture faltered in relation to its past trends and chalked up only a seven percent gain in 1981. This was less than half the long-term growth rate for the industry. Anthurium cut flower sales declined for the first time since 1969. The 23 percent drop in sales was attributed to production problems and a weaker European market.

The first half of 1982 did not show an improvement over the 1981 trend. Sugar prices remained low, with some plantations shutting down temporarily and one announcing permanent cessation of operations. Foreign produced processed pineapple continued to make gains in the United States market resulting in our pineapple industry (1) reducing its cannery work force, (2) reducing cannery operation time, (3) leaving fruit earmarked for canning to rot in the field, and (4) reducing the acreage planned for new plantings.

S. 2237 seeks to promote economic revitalization and to facilitate expansion of economic opportunity in the Caribbean Basin region. Although we share the concerns expressed by President Reagan in his speech before the Organization of American States on the economic and political crisis in the Caribbean region, the similarity of agricultural products produced in Hawaii and in that region is a matter of serious consequence to us. For example, Hawaii produced 96,000 metric tons of raw sugar in 1980. Sugar imported into the U.S. from 13 countries, listed as eligible under S. 2237, amounted to 1,429,000 metric tons in 1980, thirty-two percent more than produced in Hawaii.

Pineapple products imported into the U.S. from the Caribbean Basin countries in 1980 totalled 67,939,936 pounds, of which 66,188,965 pounds were fresh pineapple. Hawaii's production of pineapple for fresh sales during that period totalled 234,000,000 pounds. Since our fresh pineapple market is in the U.S. this means that the Caribbean Basin countries already provide approximately 23 percent of the fresh pineapple sold in the U.S.

Papaya, ranked fourth in crop value in Hawaii, will be competing against imports from these countries which totalled 1,775,770 pounds in 1980.

Potted foliage plants, ranked fifth in crop sales in Hawaii, have seen imports from these countries surpass 100,000,000 pounds in each of the last three years.

Ginger root shows good potential as an export crop. Hawaii produced 1.6 million pounds in 1980. U.S. imports from the Caribbean countries totalled 1.5 million pounds or almost equal to our total production.

Guava growers in Hawaii produced 7.5 million pounds of fruit in 1980 and found themselves in an oversupply situation. During this same period U.S. buyers imported 4.5 million pounds of guava products.

Macadamia nuts, ranked third in crop value in Hawaii, may be competing with imports from Guatemala and Costa Rica where an estimated 3,000 acres have been planted in macadamia nuts.

A provision in S. 2237 allows for duty-free entry of commodities produced in the Caribbean region. For years, we have recommended denial of all requests from foreign countries for duty-free entry of agricultural products that directly compete with our products. Our feelings remain unchanged.

S. 2237 also provides federal agricultural and forestry research extension and training services to Caribbean countries.

We seriously question the wisdom of the federal government providing technical assistance which may enhance the competitive capacity of foreign nations at the expense of the growth and stability of the agricultural industry of Hawaii, Puerto Rico, and other sugar-producing areas of our country.

With Hawaii's agricultural farm value dropping to one of the lowest points in recent years, we can ill afford to be undercut at the market place by duty-free import of agricultural products. We strongly believe that the federal government's efforts to assist our Latin American neighbors must be balanced by a sensitivity to, and appreciation of, the interests and concerns of its member states and territories.

We, therefore, recommend against the passage of S. 2237.

Jack K. Suwa

Jack K. Suwa, Chairman
Board of Agriculture
1428 S. King St.
Honolulu, Hawaii 96814

August 9, 1982

STATEMENT BY COUNCILMAN TAKASHI DOMINGO, PRESIDENT
HAWAII STATE ASSOCATION OF COUNTIES

SENATE FINANCE COMMITTEE HEARING ON S.2237,
LEGISLATION TO IMPLEMENT THE CARIBBEAN BASIN INITIATIVE

August 11, 1982

As President of the Hawaii State Association of Counties (HSAC), may I take this means to express to the Senate Finance Committee HSAC's position regarding President Ronald Reagan's Caribbean Basin Initiative (CBI).

While we appreciate Mr. Reagan's desire to help the 22 million people in 33 Caribbean countries using trade preference, investment incentives and $350 million in emergency aid, we have reservations concerning duty-free entry of Caribbean imports to the United States. To be specific, although we understand the CBI includes safeguard provisions to protect domestic agricultural industries, and also that the imports in question would be subject to a quota system, it is vital for us that Congress corroborate that the safeguards are adequate, and that the quotas be determined in line with Hawaii's economic and agricultural realities.

Hawaii, the only island state in the United States, has an economy not very different from the Caribbean countries. Not only are we also dependent upon tourism, but when the visitor industry experiences a slump, we too must fall back on revenues derived from agricultural production. Unlike the

11-310 O—82——25

Caribbean nations, however, we also have depended on revenues from federal expenditures in our state, which have been especially helpful when tourism was "slow." Such expenditures, however, are now being reduced across the board as part of federal policy.

According to the First Hawaiian Bank's April 1982 "Economic Indicator," Hawaii in 1981 experienced its poorest economic performance since statehood in 1959. This was, in part, due to a sluggish year for tourism and problems encountered by our major agricultural industries.

> "The decline in tourism that was registered in 1980 was arrested in 1981 with a miniscule gain of 119 to 3,934,623 visitors. Visitor expenditures as estimated by the Hawaii Visitors Bureau experienced an inflationary gain, from $2.9 billion in 1980 to $3.2 billion. West-bound visitors numbered 2,974,791 -- 71,341 less than in 1980, but eastbound visitors made that up with a gain of 71,460 to 959,832. Foreign visitor markets were strong last year, up 16 percent with the exception of Canada which fell 12 percent, while U.S. traffic was weak, down 6 percent. Oahu fared well last year, but Hawaii and Kauai counties suffered their third consecutive declines in visitor arrivals and Maui County recorded its second consecutive loss. We see the probability of at least a moderate increase in visitor arrivals in 1982. . .

> In 1981 the sugar industry suffered the worst reversal in its history with an $83.5 million pre-tax loss. Revenues from sugar and molasses amounted to only $325 million, compared with $631 million in 1980. . . The primary cause of the massive losses was the extremely depressed sugar price level. . .
>
> The pineapple industry, after almost a decade of increasing revenues, suffered a decline in 1981 due to a world oversupply. The value of 1981 production amounted to $220.6 million, a 3.8 percent slippage from $229.2 million in 1980. Revenues for processed pineapple products dropped 10.9 percent. . . Revenues for processed products are expected to be down in 1982 for the second consecutive year. . . 1/

Additionally, papaya suffered losses due to marketing obstacles in California and Japan, and also to fungus related problems. Only diversified agriculture (macadamia nuts, fruit, vegetables, coffee, ornamental flowers), our newest and, in reality, a small and not yet truly established industry, registered significant growth.

Overall, First Hawaiian predicts 1982 will be another flat year for agriculture and forecasts a sluggish visitor industry and further reduction of federal expenditures in Hawaii.

1/ "Economic Indicators," First Hawaiian Bank, April 1982.

Since the inception of the CBI, HSAC has been diligently seeking to protect domestic agricultural products. On January 19, 1982, the Executive Committee unanimously adopted the enclosed resolution requesting President Reagan and Congress to deny duty-free status to those Caribbean imports that would adversely compete with domestically produced products. Subsequently, on April 30, 1982 a similar HSAC-sponsored resolution requesting the National Association of Counties (NACo) to oppose duty-free entry of certain Caribbean imports was adopted by NACo's Western Interstate Region. This resolution was in turn approved as a NACo resolution, at the annual meeting of NACo on July 13, 1982.

May I reiterate that HSAC applauds the Administration's wish to aid the Caribbean nations. We believe, however, that adequate safeguard provisions for domestic agriculture must be included, and that the quota system must be such that the domestic industries of Hawaii, as well as the other 49 states are protected.

Thank you very much for this opportunity to express HSAC's views on the CBI and I ask for your favorable consideration of our concern.

o0o

Hawaii State Association of Counties

Counties of Kauai, Maui and Hawaii, City & County of Honolulu

RECEIVED
FEB 25 11 30 AM '82

CITY COUNCIL
HONOLULU, HAWAII

R E S O L U T I O N

WHEREAS, Agriculture is the second largest industry in the State of Hawaii, generating more than $369 million in sales annually and employing more than 11,000 residents; and

WHEREAS, during 1981, Hawaii's top three agricultural industries experienced one of their worst years ever with:

1) Sugar sustaining huge financial losses due to the dumping of excess sugar on the world market by foreign countries;

2) Pineapple curtailing production because of a flood of imported foreign pineapple products in the United States;

3) Papaya experiencing a devastating year due to import restrictions placed by California and Japan on fumigated papayas; and

WHEREAS, the United States Government is presently considering a proposal that emerged from a conference of Caribbean Basin countries held last year and which calls for the establishment of a one-way free trade zone to permit duty-free entry of Caribbean imports into the United States; and

WHEREAS, such duty-free imports would include many of the agricultural products presently produced in Hawaii and would provide these imports with a competitive advantage because of their lower labor-related costs;

NOW, THEREFORE, BE IT RESOLVED by the HAWAII STATE ASSOCIATION OF COUNTIES that it respectfully requests President Reagan and the United States Congress to oppose granting duty-free status to imports that will adversely compete with domestically produced products;

Hawaii State Association of Counties

Counties of Kauai, Maui and Hawaii, City & County of Honolulu

BE IT FURTHER RESOLVED that true copies of this Resolution be transmitted to the Honorable Ronald Reagan, President of the United States; the Honorable Howard Baker, President of the United States Senate; the Honorable Tip O'Neal, Speaker of the United States House of Representatives; and Hawaii Members of the United States Congress.

Dated at Honolulu, State of Hawaii, this 19th day of January 1982.

GORO HOKAMA, President

HOWARD S. KIHUNE, Vice President

RUDY PACARRO, Vice President

FRANK DeLUZ III, Vice President

JEROME HEW, Vice President

LINDA LINGLE, Secretary-Treasurer

ROBERT K. YOTSUDA, Immediate Past Pres.

GEORGE R. AKAHANE, WIR President and NACo. Board Member

DANIEL CLEMENT, JR., NACo. Board Member

ICIA

INTERNATIONAL CONFERENCE INDUSTRY ASSOCIATION

August 13, 1982

Senator Bob Dole
Chairman
Committee on Finance
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

Thank you for the opportunity to submit comments for the record on S. 2237, legislation to implement the Caribbean Basin Initiative.

Our organization, the International Conference Industry Association, is composed of cruise ship lines, hotels, airlines, travel agencies, convention destinations, and American corporations and associations interested in the reduction and elimination of barriers to international meetings and travel.

We are concerned that S. 2237 does not address one of the major segments of the economy of the Caribbean nations, travel and tourism. Most of these nations are heavily dependent upon travel dollars. For example, more than 70 percent of the gross national product of the Bahamas comes from travel.

However, while the Administration is attempting, through the Caribbean Basin Initiative, to assist these nations through aid, investment, and trade, we have legislation on the books that effectively serves to deny them U.S. business in their already-developed travel industry.

2121 "O" STREET, N.W., WASHINGTON, DC 20037, TELEPHONE 202/775-9309

Public Law 96-608, as enacted by Congress in December, 1980, completely changed the post-1976 rules that governed tax treatment of attendance at meetings and conventions held outside the Unted States.

The Act includes the following provisions:

1. Meetings held in Canada and Mexico are exempted from coverage, and will be treated in the same fashion as domestic meetings.

2. No deductions may be taken for "conventions, seminars, or other meetings" held aboard ship.

3. Meetings held elsewhere in the world will be governed by an "as reasonable" clause. In order to deduct the expenses of the meeting, it will be necessary for taxpayers to establish that it was "as reasonable" to hold the meeting at the given location as it would have been to hold it in North America. Factors to be used in establishing reasonability include "the purpose of the meeting and the activities at such meeting; the purposes and activities of the sponsoring organization; the residences of active members of the sponsoring organization and places at which other meetings of the sponsoring organization have been held or will be held; and such other relevant factors as the taxpayer may present."

Despite the subjective nature of the "as reasonable" test, it is plain that Congress intended that meetings held at a technological or educational center abroad, or meetings held with foreign counterpart groups, or meetings held at sites related to export-import activities would qualify for deductions.

However, the Caribbean is lacking in technological, manufacturing or educational centers, counterpart organization, and export commodities. Consequently, it is extremely difficult under the law to justify any meeting held in this region.

But in addition to the "as reasonable" test, the law places an added burden on Caribbean nations. In order to book U.S. business meetings, they must compete with Mexico and Jamaica, which have been exempted from coverage under 274(h).

The Caribbean is heavily dependent on U.S. travel business. But the travel dollars flow both ways. When an American attends a business meeting in the Caribbean, in most cases he or she will fly on a U.S. airline, stay at a U.S.-owned hotel, and eat food imported from the U.S.

At a time when this nation is attempting to expand United States influence in the Caribbean and Central America, we believe it makes no sense to deny these nations the revenue from business travel on which many of their economies are dependent, particularly when this revenue creates taxable income for many U.S. businesses.

Further, the Treasury would suffer no revenue loss through the repeal of these provisions. In testimony before the Subcommittee on Tourism and Sugar on July 20, 1979, the Treasury witness stated (pp. 91-92) "We have always said that the revenue in this particular provision is negligible."

ICIA believes that removal of the restrictions would actually enhance revenue. For example, cruise ships operating out of Florida and other ports have lost millions of dollars in revenue and are losing millions in unrealized sales because of the prohibition on deductions for meetings held aboard ship. This means a loss of corresponding revenue of approximately $250 million annually that would have been paid to American companies for food, supplies, air transportation, advertising, and commissions on tickets.

ICIA believes that the most logical approach to this problem is that taken by the Honorable Guy Vander Jagt, who has introduced H.R. 6140, a bill which addresses the issue of tax deductions for business meetings held outside the United States.

In his introductory remarks on April 20, 1982, Mr. Vander Jagt said:

"The bill attempts to inject some reason into the determination of what meeting and convention expenses would be deductible, in contrast to the arbitrary rules and exemptions in the current Tax Code which are based primarily on artificial geographical considerations. I have consistently maintained that the test for deducting business convention expenses should be based on what goes on at the meetings, not where they are held.

I have no intention of opening the door for taxpayers to claim deductions for the cost of exotic "junket" vacations, disguised as a "convention" of some sort, and my bill contains language limiting deductions to legitimate business conventions. To qualify as a deductible expense under the terms of my bill, the purpose of a convention must be directly related to the active conduct of a taxpayer's trade or business, and the time spent at the convention must be primarily devoted to business-related activities, rather than social, leisure or recreational activities.

Only business-related expenses would be eligible for a deduction, and no deduction would be permitted for the cost of personal activities (such as social entertaining, sightseeing, or recreation) incidental to a business convention. No deduction would be permitted for expenses that are considered lavish or extravagant.

If the purpose of restrictions on deductions for foreign conventions is to eliminate abusive write-offs for pleasure junkets, then the language of the Tax Code should be so directed. However, the current restrictions, adopted in 1980, permit deductions for conventions held in the United States, it possessions, Mexico, Canada, and now Jamaica (through a Tax Treaty agreement rather than a normal change in the Tax Code via an Act of Congress). No expenses for conventions held in other countries are deductible under Section 274(h) unless that it can be determined that it is "as reasonable" for the meeting to be held outside the North American area as within it. Such geographical factors have nothing to do with the nature of business conducted at a convention, and are quite arbitrary.

It seems obvious to me that an abusive "junket convention" can be held in Las Vegas, Atlantic Cith, Miami or Acapulco just as easily as other locations not on the approved "North American" list. It is ironic that a taxpayer could be denied a deduction for attending a hard-working, legitimate business meeting in London or Bermuda and receive one for attending a leisurely convention in Mexico, Palm Springs or Jamaica.

The denial of deductions for meetings and conventions held aboard cruise ships also appears to be misdirected. Most organizers of business meetings from whom I have heard agree that a meeting aboard a ship is far more conducive to conducting legitimate business than most locations on land. Those attending a meeting on a ship are essentially captive, and are far more likely to attend the meetings, seminars, ect. than they would be if they could wander off to the golf course or on a shopping trip.

The Committee on Ways and Means Subcommittee on Select Revenue Measures recently examined the convention issue during consideration of a bill offered by my colleague from New Jersey (Mr. Guarini) to permit deductions for conventions held on board U.S.

flag cruise ships, H. R. 3191. While the bill is perhaps a step in the right direction in eliminating the current restrictions, it does point to the irrationality of permitting deductions for identical activities held somewhere else. Allowing a deduction for a convention on a U.S. cruise ship but not on a foreign flag ship operating in generally the same waters is clearly discriminatory, and could be considered a protectionist subsidy.

The U.S. travel and tourism industry generally does not want such protection, and the organizations who have contacted me support eliminating the geographical restrictions on convention deductions. In fact, concern has been expressed by some international organizations that other nations, particularly in Europe, might consider limiting the ability of their citizens to claim deductions for business conventions held in the U.S., in retaliation for the restriction we have enacted. In the interest of preserving free and open trade, our income tax laws should not include the discriminatory restrictions now contained in Section 274(h).

I want to point out that President Reagan expressed similar sentiments in a November, 1980 letter to the editor of <u>Travel Trade</u> magazine. In that letter, the President said, in part:

> 'With respect to proposals intended to discourage American corporations from holding conventions outside the United States, my general approach is that such decisions should be left in the hands of business groups and companies themselves. Punitive taxes to restrict legitimate business expenses serve

no useful purpose and constitute unwarrented interference by government into the decision-making prerogatives of the private sector.'

In summary, there are many valid reasons for changing the Section 274(h) restrictions on deductions for foreign convention expenses. The restrictions do nothing to eliminate deductions for "junket" conventions, an abuse that we all want to prohibit. They are arbitary and discriminatory, based on artificial geographical factors. By discriminating against conventions held abroad, our Tax Code might be construed as contrary to principles of free trade, possibly in violation of our multi-lateral trade agreements. President Reagan has indicated his opposition to such restrictions on business activities.

It is my hope that this bill will serve as a vehicle for considering this issue, and I look forward to a more thorough and rational examination of the foreign convention deduction issue in the Committee on Ways and Means."

The International Conference Industry Association would like to urge the Committee on Finance to consider similar legislation. We believe that such legislation will not only benefit the Caribbean, but would remove a discriminatory restriction which has irritated many of our other friends and trading partners.

The concept of non-discrimination, equal treatment of all countries and equal access to world markets has always been a cornerstone of U.S. trade policy. We believe it should be reaffirmed in the area of international meetings and conventions.

Respectfully,

John C. Vickerman
President

Before the
Committee on Finance
U. S. Senate

STATEMENT OF

SOL C. CHAIKIN, PRESIDENT

INTERNATIONAL LADIES' GARMENT WORKERS' UNION, AFL-CIO

ON

S. 2237, THE CARIBBEAN BASIN ECONOMIC RECOVERY ACT

August 10, 1982

This statement is submitted by the International Ladies' Garment Workers' Union, AFL-CIO, and its 300,000 members who produce women's and children's apparel and accessories.

The importance of the Caribbean region to the well-being and security of the United States is well established. Our nation has a special relationship with our neighbors to the south. The members of our union have an even closer relationship. Many come from these lands; many still have families there. It is only natural that we should feel a special kinship for the Caribbean and its people.

Our concern for the Caribbean and its people demands that any remedial programs our nation develops for assistance to this area be carefully designed. The program must inure to the benefit of workers as well as business and must lead to permanent economic growth in these lands.

We are also concerned that gains in the Caribbean not be at the expense of our domestic industry and its workers, including those in Puerto Rico and the Virgin Islands. It is with these thoughts in mind that we have examined the Administration's Caribbean initiative as embodied in S. 2237 and in related statements.

TITLE 1 -- DUTY-FREE TREATMENT

The bill would permit the President to designate Caribbean countries or territories as "beneficiary countries" from which products could enter the United States duty-free. We are opposed to this section as drafted. First, the President is given one-sided authority to exclude countries where investments of United States entrepreneurs might be jeopardized. No corresponding authority is given for the witholding of duty-free status in order to protect the rights of Caribbean workers or to protect industries and workers in the United States.

At present, merchandise shipments from the Caribbean are subject to extremely small amounts of duty. In calendar 1981, duty-free shipments amounted to 29 percent of total shipments. Of the remaining 71 percent subject to duty, the actual duty paid amounted to less than 2 percent of the value of the goods. Clearly, making all goods duty-free would do little to enhance the trading position of the area. What it would do, however, is to by-pass the existing General System of Preferences provided for in the Trade Act of 1974. The legislation contains safeguards, even if only minimal, to domestic industry by providing a mechanism for challenging duty free status when harm may result, as well as automatic cut-offs when duty-free imports of given products exceed specific limits.

We also believe that the rules of origin embodied in Section 103 (a) (2) of the bill are much too liberal and open to abuse. These rules would permit duty-free status on merchandise where the value originating in the Caribbean (including any combination of countries and including Puerto Rico and the Virgin Islands) is at least 25 percent of the total. This small amount will surely lead to abuse of the provision. Goods produced elsewhere and brought into the beneficiary countries can easily be illegally re-labelled for transhipment or minor amounts of work or material added to qualify for the duty-free exception.

Experience in the Virgin Islands, where a similar, but higher, percentage of native value rule exists, demonstrates the potential for abuse. For years, watch movements have been imported through the Virgin Islands without duty payment, even though little or no work was being done in the Islands. The same kind of duty avoidance took place by subjecting fabrics to "cravenetting" or other water repellant processes. The duty-free exemption did little or nothing to enhance industrialization in the Virgin Islands, but did permit injury to U.S. enterprises.

Similar circumstances may occur if the provisions of the bill were enacted. A flood of foreign merchandise will be permitted to funnel through the Caribbean area and enter the United States duty-free. Even if they would not enter the U.S. duty-free, as in the case of much textile and apparel, the potential for transhipment to avoid quotas imposed on other countries is much too real a possibility to be ignored. The history of illegal transhipment in the Far East clearly suggests that a similar situation can an may well develop in the Caribbean.

The bill recognizes the special nature of the U.S. textile and apparel industries by excluding from duty-free status such products "subject to textile agreements". While on the surface this may appear to be all encompassing, in fact it is not. Textile agreements only cover products made of cotton, wool and man-made fibers; those of silk, linen or other materials are not covered.

In addition, an open question exists as to whether cotton, wool or man-made fiber products classified as "handloomed or folklore products" are covered by the agreements. Despite our contentions that they are covered, the General Counsel of the International Trade Commission in a case involving Guatemala, one of the potential beneficiaries of this legislation, ruled that they were not. Were this bill to be enacted, the potential remains for substantial amounts of textile and clothing to enter the United States duty-free. This loophole should be eliminated by excluding all textile and clothing from duty-free eligibility.

The inclusion of Puerto Rico and the Virgin Islands in the Caribbean insofar as rules of origin are concerned is also misleading. It would appear to offer these areas of the United States an opportunity to produce and sell more goods. But this would not in fact happen. These outlying areas of our nation do not produce in any significant degree the raw materials or intermediate products that would be transformed by other Caribbean areas into finished products. Our areas offer the same kinds of workers, prepared to engage in labor intensive work, that the rest of the area offers. As a matter of fact, this kind of work has been leaving Puerto Rico and going elsewhere in the Caribbean because of the substantially lower wages and anti-union atmosphere these countries offer.

ADMINISTRATION PROPOSALS NOT EMBODIED IN S. 2237

In announcing its Caribbean initiative, the Administration has indicated that, while textiles and apparel subject to agreements would not enter the U.S. duty-free, an attempt would be made to increase shipments of these products from this area. Such an increase in textile or apparel imports could have serious consequences for the United States industry and its workers unless tight controls are in place.

Our industry has been one of those hardest hit by imports. Twenty-five years ago, in 1957, only 4 garments were imported for every 100 made in the United States. Today we import more than 50 for every 100 made here. With apparel consumption growing at the rate of only 1½ percent per year on average, the result of the flood of imports has been the decimination of our domestic industry and the closing of company after company. From its peak in 1973, through 1981, employment in the manufacture of apparel has dropped by over 200,000 workers or by 17 percent. A further decline is taking place in 1982.

If shipments from our neighbors in the Caribbean are to increase, there must be a corresponding decrease in imports from other areas so that overall imports do not grow at a faster pace than our domestic consumption. It was contemplated that such a development would take place when the Multi-fiber Arrangement was renewed this past December. Before increased apparel imports from the Caribbean can be permitted, offsetting quota arrangements must be negotiated with the major shippers such as Hong Kong, Korea and Taiwan.

TITLE II -- EMERGENCY ECONOMIC ASSISTANCE

The bill would provide a supplemental appropriation of $350,000,000 for direct economic assistance to Caribbean Basin countries. This is a worthwhile proposal. It would assist the countries involved without causing injury to United States industry and its workers. We have no reservations in urging adoption of the package.

TITLE III -- TAX PROVISIONS

This portion of the bill would provide tax incentives for the placement of plant and machinery in the Caribbean basin. We are unalterably opposed to this irresponsible provision. Such tax benefits would lead to the U.S. taxpayer financing runaway industry. It would not lead to permanent economic development in the Caribbean.

The General Motors' and IBM's of our nation will not be induced by such a scheme to expand their operations in these areas. What will happen is that a limited number of marginal firms seeking tax dodges will locate operations outside the United States for just as long as it pays them to do so. Once it no longer pays, or they receive a better offer elsewhere, they will fold their tents and leave the Caribbean country high and dry.

We have concentrated in our testimony essentially on the impact of the Caribbean Basin Initiative on our own industry. In broader terms, we wish to associate ourselves with the statement submitted by the AFL-CIO, particularly as it relates to the matter of tax incentives.

In summary, the ILGWU finds that the Caribbean Basin proposal, as embodied in S. 2237 and Administration statements, needs a thorough reworking before it can accomplish its avowed purpose -- aiding our Caribbean neighbors without causing permanent injury to domestic U.S. industry and workers.

POSITION STATEMENT OF THE INDEPENDENT REFINERS ASSOCIATION OF AMERICA ON THE CARIBBEAN BASIN INITIATIVE -- SUBMITTED IN CONNECTION WITH HEARINGS ON S.2237 HELD BY THE SENATE FINANCE COMMITTEE'S SUBCOMMITTEE ON INTERNATIONAL TRADE ON AUGUST 2, 6, 1982

The Independent Refiners Association of America (IRAA) is an organization which represents a score of small and independent refiners throughout the country. IRAA's members have long been productive and efficient members of this country's domestic refining sector. IRAA is pleased to have this opportunity to present to this Committee its views on the Caribbean Basin Initiative (CBI).

IRAA supports the basic purposes of the CBI which are to encourage economic growth and political stability in the Caribbean Basin. However, IRAA is concerned that in the absence of further reflection on the impact that the CBI, in its present form, will have on the domestic refining sector, unnecessary damage will be done to refiners throughout the nation. The centerpiece of the CBI program is a proposal which will eliminate existing duties and tariffs on those products of the Caribbean Basin* that are exported to the U.S. IRAA is convinced that the lifting of duties on refined products imported from the Caribbean Basin to the U.S. does not produce benefits that outweigh the costs that such action will impose on domestic refiners.

*The countries included within the CBI are El Salvador, Costa Rica, Honduras, Jamaica, Dominican Republic, Belize, Haiti, Guatemala, East Caribbean (island mini-states), Surinam, Barbados, Trinidad and Tobogo, Turks and Caicos, Cayman Island and Netherland Antilles.

IRAA has long been concerned about the cost advantages enjoyed by Caribbean refiners and the impact of those advantages on domestic refiners. Even those domestic refiners who do not compete directly with Caribbean refiners can be adversely affected by the ripple effect of lower petroleum prices through the national market. If these cost advantages stemmed from the greater efficiency of Caribbean refiners, the adverse impact on domestic refiners would simply be a necessary cost of free and fair competition. However, the cost advantages are not the product of operating efficiency but instead result from the fact that Caribbean refiners are not subject to U.S. health, safety, and environmental regulations, nor are they obligated to ship their refined products on U.S. flag vessels. Consequently, the cost advantages enjoyed by Caribbean refiners are the result of their exemption from various U.S. government policies.

The entire domestic refining sector would be adversely affected by the substantial cost advantages provided to Caribbean refiners by the CBI in its present form. Among domestic refiners, the independent refiners have even greater difficulty than integrated firms in coping with this threat. Accordingly, IRAA and some of its key members were quite active in the formation of the "Domestic Refining Group" in mid-1977 when President Carter proposed a crude oil equalization tax which threatened to raise domestic crude oil costs to world market levels overnight, even as the price of such oil remained subject to price controls. In addition to IRAA, the Domestic Refining Group also included certain domestically-oriented majors, most notably Sun Oil and Standard of Indiana.

Both prior to and subsequent to the crude oil equalization tax proposal, several official studies were undertaken and numerous D.O.E. hearings were held to determine the magnitude of the Caribbean cost advantage and the size of a tariff necessary to compensate for that cost advantage. Throughout this period, IRAA was an extremely active participant on behalf of the independent refiners and was quite involved in the various investigations on the Caribbean refiner issue.

With the decontrol of crude oil and petroleum product prices in January, 1981, enormous changes affected the domestic crude oil and refined product markets. Continuing flux and evolution in the last year-and-a-half have served to mask the impact of the Caribbean refiners' cost advantage. Throughout this period, the duties on imported petroleum products have remained in force. Yet the underlying cost advantage continues to exist and it could now be substantially aggravated if the CBI moves forward without special attention being given to the needs of domestic refiners.

S.2237, like its House counterpart H.R.5900, would allow products which have at least 25% of total product value added in the Caribbean Basin to be exported to the U.S. duty free for 12 years. Duties were paid on slightly less than 40% of the $10.4 billion of products imported to the U.S. in 1980 from Caribbean Basin countries. Of this 40%, more than two-thirds of the dollar value added of such goods consisted of crude oil and petroleum products. Prevailing duties are 5.25 cents per barrel of crude, distillate, and residual fuel oils listing under 25° API gravity and 10.5 cents per barrel for those with 25° API gravity or more. Existing duties on other petroleum products are 52.5 cents per barrel for motor gasoline and jet fuel and 84 cents per barrel for lubricating oil.

Because Caribbean refiners are not subject to U.S. health, safety, and environmental regulations and are not subject to rules regarding shipment of refined products on U.S. flag vessels, available studies indicate that the Caribbean refiners have a substantial cost advantage over both U.S. and Puerto Rico refiners. The current cushion of domestic refiners against Caribbean refiners (to compensate for the latter's lower costs) amounts to 42 cents per barrel for motor gasoline and jet fuel, a far lower figure than calculated in the previous studies on the subject. Yet even this small cost advantage will be eliminated if the CBI is enacted in the form in which it has been proposed.

The elimination of prevailing duties would be significant enough in itself to cause substantial adverse impact to domestic refiners. But the damage will be compounded by the existence of the 25% value added rule. There is the dangerous possibility that Caribbean refiners could be used as a conduit for non-Caribbean crude, as long as that crude was mixed or minimally processed with Caribbean crude. The refined products produced through this process could then be exported to the U.S. duty free. This major loophole not only does violence to the basic concept of the CBI, but also poses grave threats to domestic refiners.

IRAA is concerned that the special problems posed by the CBI for domestic refiners have not been sufficiently considered in the context of the CBI. IRAA is especially concerned that the careful prior reviews of a potentially serious problem flowing from trade with the Caribbean should now be ignored through the adoption of a far-reaching decision taken without regard to those studies or the specifics of the threat posed to domestic refiners.

IRAA is aware that the Administration has already agreed to exclude textiles from the duty free privilege and will grant relief for American sugar producers. IRAA urges this Committee to consider carefully the impact of the CBI on domestic refiners before approving an initiative that would cause such substantial damage, damage that is inimical to this country's national energy security. IRAA urges that petroleum products be exempted from the duty free privileges of the CBI.

BEFORE THE INTERNATIONAL TRADE SUBCOMMITTEE

OF THE SENATE FINANCE COMMITTEE

STATEMENT

OF

FELIPE J. VICINI

ON BEHALF OF

THE INTERNATIONAL SUGAR POLICY COORDINATING COMMISSION

OF THE DOMINICAN REPUBLIC

August 11, 1982

The International Sugar Policy Coordinating Commission of the Dominican Republic supports the provisions of the proposed Caribbean Basin Economic Recovery Act that relate to sugar. In the Dominican Republic the legislation is seen as a landmark in the evolution of the relations that should exist between industrialized and developing neighbors.

The International Sugar Policy Coordinating Commission is a government agency comprised of both public and private sector members. Felipe J. Vicini is President of a Dominican sugar company and is a private sector member of the Commission.

The Dominican Republic and the United States share an interest in the political stability of the Caribbean Basin. The preservation of the democratic institutions of the region from destabilizing outside influences depends to a very great extent on maintaining an adequate rate of economic growth. After a decade of fair success in this respect, our country is now coping valiantly with the staggering economic problems inflicted by lower prices for our exports, including sugar, and the higher prices for the essential imported products we need to survive.

The Dominican Republic is an exporter of mostly agricultural and mineral commodities, which by and large already enter the United States duty-free. The most important exception applies to our major export product, sugar. Therefore, the provisions in the bill that would have the most immediate and meaningful impact on the economy of the Dominican Republic are those relating to sugar.

By way of introduction we would like to outline for you the importance and the problems of the sugar industry in the Dominican Republic.

The Dominican Republic is a small tropical nation, about the size of Vermont and New Hampshire combined. It has a population of five and a half million and a GNP of about 5.2 billion dollars. Contrary to popular impression, climate - not land - is our primary agricultural resource. Our fundamental problem is that of using generally poor soils in ways that productively employ our population and generate badly-needed foreign exchange.

Sugar cane is eminently well suited for this purpose. It is cultivated mostly in the Southeastern coastal plain, in poor soils, which are not irrigated and for which the only feasible alternative is pasture for cattle grazing. Even at currently depressed sugar prices, sugar cane produces ten times the income and employment that could be achieved from the use of these lands in cattle production.

The sugar industry is the nation's largest employer. One out of every ten Dominicans derives his daily livelihood from the sugar industry, which includes more than 8,000 independent cane farmers.

Sugar industry exports provide upward of 35 percent of the nation's foreign exchange receipts, needed to pay for the many imported products we require, and which we cannot viably produce domestically. These include manufactured items largely imported from the United States, and virtually 100 percent of our energy requirements at OPEC prices.

Sugar, therefore, still occupies a central role in the Dominican economy, notwithstanding the notable advances achieved in recent years in diversifying our external trade sector. It is the policy of the Dominican government to encourage further diversification. However, our options in this matter are severely limited at our present stage of development and will continue to be so for many years. Clearly, then, the failure of the Dominican sugar industry during this period would not only greatly impoverish the country, but would also thwart any prospects for further diversification. As has been already pointed out, any substitute activity in the use of the resources presently employed by the sugar industry would necessarily entail a loss of income and employment. Furthermore, the country would lose the major source of foreign exchange needed to finance the capital goods of new industries.

The bulk of our sugar exports is shipped to the United States. These shipments averaged about 730,000 metric tons yearly in the period 1975-1981.

Until import quotas were adopted by the United States on May 5, 1982 all Dominican sugar exports (about 80 percent of production), including exports to the United States, were sold under free market conditions. We are more dependent on the volatile free sugar market than any other sugar producing nation.

Since early 1981, prices in the free sugar market have fallen progressively under the pressure of the enormous volume of subsidized surpluses "dumped" on the market by the EEC. In order to insulate U.S. sugar producers from the effects of this practice, the U.S. government has taken increasingly stringent measures to restrict sugar imports. In December of last year, when free market prices were about 13.5 ¢/lb, the President increased the duty from 0.62 ¢ to its maximum rate of 2.81 ¢ per pound and established an import fee, originally set at 2.14 ¢/lb. Subsequently, the fee was increased to 4.07 ¢ but even at that level it was ineffective in sustaining U.S. sugar prices at the domestic price objective. Therefore, on May 5 of this year, the President adopted an allocated import quota system under which sugar imports from the Dominican Republic would be limited next-year to about 527,000 metric tons, namely to a figure more than 200,000 metric tons below our traditional level of exports to the United States.

These restrictive measures have contributed to the continued decline of free market prices to their present level of about 7.5 ¢/lb.

The situation we are facing is an extremely serious one, and, therefore, we are encouraged by the fact that the United States is considering granting some measure of relief to an industry that is so vital to the stability of the Dominican Republic and to its future development prospects, by exempting our sugar exports to the United States from the 2.81 cents per pound duty. However, even though the import fee were eliminated, the duty exemption would not be sufficient to raise the average price of our sugar exports above the level of 13.5 ¢ per pound which was obtainable from the free market prior to the adoption of the duty increase in December of 1981, while our exports to the United States are restricted to 527,000 metric tons. In other words, the effectiveness of the duty exemption is strongly reduced for the Dominican Republic by the present method of quota allocation.

In summary, Mr. Chairman, we support the legislation you are considering for the reasons we have stated. Congress, nevertheless, may wish to take in consideration the effects of actions taken subsequent to the submission of the Bill.

I thank you

Felipe J. Vicini

TESTIMONY OF
INTERNATIONAL TRADE MART
BEFORE THE FINANCE COMMITTEE
OF THE UNITED STATES SENATE

C. Alvin Bertel, Jr.
President
International Trade Mart
2 Canal Street
New Orleans, La. 70130
(504) 529-1601

August 10, 1982
New Orleans, Louisiana

International Trade Mart, dedicated to world peace, trade and understanding, was founded in New Orleans, Louisiana in 1945 by a group of civic-minded business leaders as a private, non-profit international trade association. Today it has grown to be an internationally recognized organization comprised of 1,700 corporations and individuals engaged in foreign trade and commerce. Every important phase of international business activity in the Central Gulf States region, whether it be goods or services, is represented in the membership of International Trade Mart. Among the two hundred offices located in the 33-story International Trade Mart Building are 27 foreign consulates and trade commissions, the New Orleans Port Authority, the area offices of the United States Department of Commerce and the United States Maritime Administration, as well as other United States Government agencies. Also in that number are included numerous freight forwarders, export-import companies, steamship lines and other organizations engaged in some phase of international commerce. International Trade Mart is, indeed, an international trade center in every sense of the word.

A substantial number of our members have constant business contacts with the Caribbean Basin. The interest of International Trade Mart in President Reagan's Caribbean Basin Initiative springs in part from a keen awareness of the vital role that the Caribbean Basin plays in the overall economy of this nation, which in turn springs from the actual firsthand experiences of its members.

The interest of International Trade Mart in the Caribbean Basin Initiative is not an isolated occurrence. In fact, our organization has a long history of cooperating with various federal, state and local agencies in furtherance of policies promoting the private sector's interest in international trade. As an outstanding current example of that, International Trade Mart is now exploring the feasibility of staffing and coordinating a first-of-its-kind international trade center at the 1984 World's Fair to be held in New Orleans on a site within walking distance of the Trade Mart. The theme of the 1984 World's Fair, "The World of Rivers -- Fresh Water as a Source of Life," in fact recognizes the very strategic role that New Orleans plays in international commerce. We visualize a cooperative effort between the United States Department of Commerce, the Louisiana Department of Commerce and Industry and the New Orleans Port Authority, which would facilitate and make possible business representatives from all over the world doing business with one another in one central location at the Fair.

Naturally, much of International Trade Mart's traditional activity centers around the Port of New Orleans. The Port is the gateway to some 19,000 miles of navigable waterways in the heartland of our country, linking more than twenty states to the markets of the world. This region currently produces 60% of the nation's agricultural products, half of all its manufactured goods, and 90% of its machinery and transportation equipment.

In 1981, trade with Caribbean Basin countries passing through the Port of New Orleans approximated 2.1 million tons of imports valued at $391 million, and 1.4 million tons of exports valued at $655 million.

The foregoing has briefly identified International Trade Mart and outlined its interest and experience in the Caribbean Basin, and that area's connection, through the Port of New Orleans, to America's heartland. But the essential importance of the Caribbean Basin to the United States is national, not regional. By reasons of its sovereignty over Puerto Rico and the Virgin Islands, the United States is itself a member of the Caribbean Basin community. That region is also now the main source of immigration to this country.

Strategically, one-half of all United States trade, two-thirds of our imported oil, and many strategic minerals pass through the Gulf of Mexico, the Caribbean and the Panama Canal.

Mineral imports from the Caribbean are substantial and contribute significantly to the economic security of the United States. The Bahamas, the Netherland Antilles and Trinidad and Tobago supply us with about 500,000 barrels of oil per day. The United States imports about 90% of its bauxite and alumina, and about half of these imports come from Jamaica and Surinam. The Caribbean also supplies a substantial amount of primary nickel, with the Dominican Republic alone furnishing one-twelfth of all the United States' requirements.

Clearly, these sea lanes must be kept open; and their best defense lies in surrounding them with free and properous countries.

United States trade with Caribbean Basin nations is as large or larger than that with many European countries which have much bigger economies. For example, in 1979 the value of trade with Jamaica was about the same as our trade with Austria; trade with the Dominican Republic almost doubled that with Austria. Imports from Haiti were greater than those from Greece. And imports from Trinidad and Tobago exceeded in value those from Greece, Portugal, Denmark and Ireland combined.

For the past decade, the two dozen countries of the Caribbean Basin have suffered, like all of us, from inflation. And the escalating price of imported oil coupled with declining prices for their major agricultural exports has resulted in serious unemployment, balance-of-payments deficits and liquidity problems. They are close to economic disaster.

The Caribbean Basin Initiative is designed to supply immediate emergency aid in cooperation with Mexico, Canada, Venezuela and Colombia. At the same time, long-range growth is to be seeded by free trade for Caribbean products entering the United States, and by tax incentives and investment treaties to attract United States private funds to the region.

The Caribbean Basin Initiative involves the principle of hegemonic sharing which was so successfully used in 1977. A consortium of aid-giving and aid-receiving governments and financial institutions called the Caribbean Group for Cooperation in Economic Development was formed under the leadership of the United States and the World Bank. This idea was especially attractive to Caribbean governments because it diversified their sources of capital and left it up to them to negotiate financing for particular projects. Under this consortium the flow of resources to the region tripled while United States costs were contained. It demonstrated very clearly that the "West" had more resources to offer and allowed greater discretion in using such resources than did Cuba and the Soviet Union.

Another example of the ideas behind the Caribbean Basin Initiative is the recent United States-Jamaica barter agreement. Jamaica will furnish 1.6 million tons of bauxite to the United States' strategic stockpile in return for $39 million in foreign exchange plus $13 million in dried milk products. Additionally, just last week, it was announced that the Jamaican government and General Motors Corporation have reached a counter-trade agreement under which the company's motor cars and other vehicles will be bartered for bauxite sold to U.S. metal companies. Thus, Jamaica's private sector is encouraged and stimulated, but by trade not aid.

Fears expressed in some quarters that this program will adversely affect United States businesses and cost our citizens jobs are exaggerated. If we can help provide our neighbors to the south with a stable economic environment in which they can release and excercise their own business and other abilities, the result will be the creation of new wealth and new jobs - not only in the Caribbean Basin, but in the United States as well.

The members of International Trade Mart strongly urge the enactment of the Caribbean Economic Recovery Act as presented by President Reagan.

Respectfully submitted,

G. Alvin Bertel, Jr.
President
International Trade Mart

August 10, 1982
New Orleans, Louisiana

IN THE SENATE
OF THE UNITED STATES

IN RE:

A BILL TO PROMOTE ECONOMIC REVITALIZATION AND FACILITATE EXPANSION OF ECONOMIC OPPORTUNITY IN THE CARIBBEAN BASIN REGION	:	S. 2237

HEARINGS AND INVESTIGATION BY THE
SENATE FINANCE COMMITTEE

POSITION PAPER OF THE
NATIONAL ASSOCIATION OF BEVERAGE IMPORTERS, INC.

August 10, 1982

Of Counsel:

Thomas E. O'Neill, Esq.

Rex D. Davis, President
National Association of
Beverage Importers, Inc.
1025 Vermont Avenue, N.W.
Suite 1205
Washington, D.C. 20005

NABI SUBMISSION CONCERNING CARIBBEAN BASIN INITIATIVE

BACKGROUND

In regard to S. 2237, the Caribbean Basin Bill, we are addressing you on behalf of the members of the National Association of Beverage Importers in general support of the Caribbean Basin Economic Recovery Act.

The National Association of Beverage Importers, hereinafter NABI, is the national trade association comprising in its membership over 120 importers of wine, spirits and beer. Together, this membership is responsible for the importation of somewhere over 80% of the distilled spirits imports into the United States. Since NABI stands for the principle of free trade, it expresses its general support of Title 1 of S. 2237 which proposes duty-free treatment to the products of beneficiary countries. NABI's specific interest under this Section is the prospective granting of duty-free treatment to rum.

INEQUITABLE DUTY ON RUM

Elimination of duties on imports of Caribbean rum would do much to correct a long-standing inequity. Duties on imported rum have remained at relatively high levels for 30 years. The following table showing import duties on bottled distilled spirits since Repeal indicates that rum duties in 1952 were higher than any other distilled spirits import duties. This situation has continued to the present day, with the exception of certain penalty rates on bottled tequila and imported brandy and vodka with certain value designations. These were imposed under the Distilled Spirits Tax Revision Act of 1979. Currently in 1982, the rum duty is roughly three times the average duty on other major categories of imported spirits.

Basic Import Duties on Bottled Distilled Spirits Since Repeal 1/

	1933	1943	1952	1963	1972	1982	1987
Canadian Whisky	$5.00	$2.50	$1.25	$1.25	$ .62	$ .48	$ .25
Scotch & Irish Whisky ...	5.00	2.50	1.50	1.02	.51	.39	.20
Rum	5.00	2.50	1.75	1.75	1.75	1.62	1.40
Gin	5.00	2.50	1.25	1.00	.50	.50	.50
Brandy	5.00	2.50	1.25	1.25	.62	.97	.50
Cordials & Liqueurs	5.00	2.50	1.25	1.00	.50	.50	.50
Tequila	5.00	2.50	1.25	1.25	1.25	2.27	2.27
Vodka	5.00	2.50	1.25	1.25	1.25	.97	.50

The only relief given to imported rums since 1952 has been a 20% duty reduction, staged over 8 years, as a result of the so-called Tokyo Round. Reproduced below are the staged rates of duty for rum between 1979 and 1987:

RUM:	1979	1980	1981	1982	1983	1984	1985	1986	1987
Bottled	$1.75	1.70	1.66	1.62	1.57	1.53	1.48	1.44	1.40
Bulk	$1.75	1.70	1.66	1.62	1.57	1.53	1.48	1.44	1.40

Even after the full implementation of the 20% reduction of the duty on rum, rum would still bear a duty of 700% of the Scotch Whisky duty and nearly 300% of the basic duty on gin, brandy, cordials and vodka.

OPPONENTS OF DUTY-FREE TREATMENT FOR RUM

Duty-free treatment for rum is one of the most important aspects of the Caribbean Basin Initiative. Opponents of duty-free treatment for rum are principally the Governments of Puerto Rico and the Virgin Islands, together with certain rum producers and importers.

It is understandable that these parties are concerned over the prospective reduction of the imported rum duty of $1.62 per proof gallon to zero. However, this would be merely giving equal treatment in the marketplace to all Caribbean rums, since neither Puerto Rican rum nor Virgin Islands rum currently

1/ The table is illustrative of the broad duty situation on spirits. Being incomplete, it does not show all categories of distilled spirits, nor bulk rate, nor "penalty rates" on such items as brandy, vodka, etc.

bears any import duty. Self-serving protests against equal treatment must be carefully weighed against the benefits of equality.

ECONOMIC CONDITIONS

The fundamental purpose of the CBI is to aid the "underdeveloped" and "third world" countries in the Caribbean. A current perspective on the general situation is contained in a recently released Annual Report of the United Nations Conference on Trade and Development. According to this report the third world is currently in dire straits. One of the conclusions is that "the development process in the Third World has come virtually to a stop and its countries are facing their gravest economic crisis since the Great Depression."

The political implications of this present economic situation are well-known to the Senate Finance Committee.

COMPETITIVE SITUATION

The current competitive situation between duty-paid imports of rum and shipments of rum to the United States from Puerto Rico and the Virgin Islands is quite one-sided. Total rum shipments from Puerto Rico and the Virgin Islands in 1981 amounted to 24.3 million proof gallons. This is further broken-out as 21.2 million gallons from Puerto Rico and 3.1 million gallons from the Virgin Islands. During this same year, total shipments of duty-paid imports of rum from all other countries amounted to about 1 million gallons. In terms of competitive position, this shows Puerto Rican and Virgin Islands rum with 96% of the market and all other rum constituting 4% of the market.

The Governor of Puerto Rico, Carlos Romero, presented a statement to the Senate Finance Committee on August 2, 1982 in which he stated: S. 2237 does pose some potential problems for Puerto Rico; problems which could arise from increased foreign competition -- particularly in the rum and tuna industries -- and which must be addressed in order to prevent granting unfair competitive advantages to others at serious cost and injury to ourselves . . ."

On the same day, the Honorable Juan Luis, Governor of the U.S. Virgin Islands presented a similar statement expressing grave alarm on behalf of the Virgin Islands government against prospective duty-free treatment of Caribbean rum. The Governor pointed out that "permitting duty-free access to competing

Caribbean rums will destroy our rum industry and the jobs and revenues it provides." He also stated that "once the duty is eliminated the market for Virgin Islands rum is likely to shift to distillers from other countries which can use low-cost labor and which is not subject to U.S. environmental and regulatory laws."

THE BILL GIVES FULL PROTECTION TO THE PUERTO RICAN AND VIRGIN ISLANDS RUM INDUSTRY

In actuality the bill would give Puerto Rico and the Virgin Islands full protection from incursions against P.R. and V.I. rum. Under Sec. 104(b) of the bill, if there were a reduction of excise tax repayments "then the President. . . may withdraw the duty-free treatment on rum provided by this title."

This is completely superior to the general import protection for mainland U.S. industries against imports. Where merchandise is being "dumped" -- meaning sold at lower prices in the U.S. than in the country of origin -- or is the subject of a subsidy in the country of origin, there can be a proceeding before the United States International Trade Commission. Such a proceeding would determine whether there was "material" injury to a U.S. industry.

If this statutory test were applied to the Puerto Rican or Virgin Islands rum industry, there could be no relief.

An import penetration level of 4% can not be considered significant in terms of potential harm to the Puerto Rican and Virgin Islands industry. This is particularly true where we do not have a dumping situation, where we do not have a subsidy or countervailing situation, but only have a situation where the various rums would be competing on equal tariff footing.

To illustrate further, it would interesting for a moment to assume that Caribbean rums were allegedly being "dumped" into the United States market and/or these rums were the subject of a subsidy, and that the current statutory test for U.S. industries applied to Puerto Rican and Virgin Islands rum. If procedures were initiated under Sec. 702 or Sec. 732 of the Tariff Act of 1930, as amended by the Trade Agreements Act of 1979, the International Trade Commission would have to investigate to determine whether "an industry is materially injured or threatened with material injury or the establishment of an industry in the United States is materially retarded by reason of imports of such merchandise." By virtue of the 4% penetration level, there would be no grounds for imposing either a countervailing duty or an antidumping duty.

Beyond this, there is even a further competitive protection to Puerto Rican and Virgin Islands rums than is generally granted to U.S. industries. S. 2237 gives protection to rum as a separate category of distilled spirits. Were there to be an investigation of "material injury" by the International Trade Commission regarding a complaint by a U.S. distiller, there would have to be a determination of the "relevant market" for distilled spirits, in terms of cross-competition between the various categories. The primary competitive market as between Puerto Rican rum, Virgin Islands rum, and other Caribbean rums, would be the rum market as such. There is, however, an overlap in competition within the entire spectrum of the beverage alcohol market. Thus, to a greater or lesser extent the broad category of rum competes currently most closely with the broad category of vodka, and there is also cross-competition of rum between whiskies, brandy, gin, and other categories of distilled spirits. Beyond this, rum is in competition for the consumer's palate with wines and beers.

The foregoing shows that under the bill Puerto Rican and Virgin Islands rum would be accorded protection vastly superior to that of a domestic distiller if such distiller were to seek redress against imports.

PUERTO RICO AND THE VIRGIN ISLANDS WOULD RECEIVE FINANCIAL REMUNERATION

Under Section 301 of the bill, Puerto Rico and the U.S. Virgin Islands would receive a windfall through the passage of the CBI. The excise taxes on Caribbean rum imported into the United States would be paid -- not to the United States Treasury, but into the treasuries of Puerto Rico and the Virgin Islands.

This situation is somewhat ludicrous when the offsetting compensation is substantially more than the value of the merchandise. In 1981 the total amount of "imported" rum entering the United States was 968,803 gallons. Of this amount, 880,364 gallons were imported from the Caribbean countries. The total value of this rum was $3,785,786 or $4.30 per gallon.

If the CBI is implemented under the terms of S. 2237, the excise taxes on Caribbean rum would be paid over to Puerto Rico and the Virgin Islands. Excise taxes are assessed at $10.50 per gallon. This means that Puerto Rico and the Virgin Islands would share over $9 million in excise tax repayments on merchandise valued at less than $4 million. This is a bounty of 244% over the merchandise value.

SUMMARY

1. There is a social, political and economic need for aid to the Caribbean countries.

2. Rum duties are the highest of any alcoholic beverage category.

3. The CBI would only create competitive equality for Caribbean rum.

4. Caribbean rum imports constitute less than 4% of the market.

5. Puerto Rican and Virgin Islands rums are fully protected by the bill.

August 10, 1982

Puerto Rico Manufacturers Association

Ave. Ponce de León 420 - Hato Rey, P.R. 00918 - Aptdo. 777, Hato Rey, P.R. 00919 - Tel. (809) 759-9445

FRANCISCO M. REXACH, JR.
Presidente

LCDO. HECTOR JIMENEZ JUARBE
Vice Presidente Ejecutivo

STATEMENT OF THE

PUERTO RICO MANUFACTURERS ASSOCIATION

ON H.B. 5900 AND S.B. 2237

"THE CARIBBEAN BASIN ECONOMIC RECOVERY ACT"

I. INTRODUCTION

The Puerto Rico Manufacturers Association (PRMA) is a non-profit entity, organized since 1928 under the laws of the Commonwealth of Puerto Rico. Its membership stands at 1,058 member companies. Its regular members (70% of the membership) are companies engaged in various types of manufacturing operations and the remaining 30% of its members are commercial and service companies with specific interests in the manufacturing sector of our economy.

PRMA believes that the proposed bill under consideration, the way it is currently structured, affects adversely the best interests of the Puerto Rican manufacturing community our economy and has the potential of affecting the best interests of U.S. manufacturing firms, many of which have substantial interests in Puerto Rico. Accordingly, the statements that follow are made with the unequivocal intention of safeguarding those interests and inviting Congress' attention to the possible detrimental effects that the present CBI structure presents.

The Puerto Rico Manufacturers Association is in agreement with the principle contained in President Reagan statements when he said: "The program I am presenting to Congress today is integrated and designed to improve the lives of the people of the Caribbean Basin by enabling them to earn their own way to a better future". That is precisely what we in Puerto Rico have done over the past 40 years, also with the assistance of the United States. However, our economy still has a long way to go before we achieve even the lowest of the stateside standards and should the CBI program proceed as it now stands, the remarkable but unfinished progress the people of Puerto Rico have achieved will be severely damaged. Just as it happened in the case of Section 936 of the United States Internal Revenue Code - the backbone of our industrial development program. Our economy is weak and cannot affort another setback.

II. THE ECONOMY OF PUERTO RICO

During the past 40 years, Puerto Rico has lifted itself up by the bootstraps and turned around its economic base from an agricultural to an industrial one. Once the poorhouse of the Caribbean, Puerto Rico today has the most advanced socioeconomic condition anywhere in the Caribbean. We have done precisely what the CBI proposes to do for the entire region and naturally we do not object to that principle.

In spite of such progress, Puerto Rico still has a long way to go before we overcome some of the ills that beleaguer our economic growth. The economy of Puerto Rico is experiencing a devastating setback (See Exhibit I). Our G.N.P. is showing a significant slide-back and F.Y. 1982 will for the first time in our modern economic history, show a of minus 4.5%.

Unemployment officially stands at 23.5% and a level of 25-30% is unfortunately possible in the months to come (See Exhibit II). Sixty percent of our unemployed are at the critica age of 16-24 years old. Crime incidence is accelerating at an unbearable rate with its damaging effects on our socioeconomic stability.

Section 936 of the IRS Code, the backbone of our Industrial Incentives Program, is on the verge of being severely gutted. In spite of President Reagan's and Secretary's Regan efforts to protect the program, the present revenue needs in Washington will lend a deaf ear to Puerto Rico's plight for an unscathed Section 936, thus launching a new period of economic uncertainty and turnmoil for our economy.

Federal Transfer Payments to Puerto Rico have been reduced substantially and 26,000 jobs have been lost in a four-month period this year due to elimination of the CETA program.

Our industrial promotion program has been severely hampered by economic conditions in the mainland. Our rate of plant openings is stagnant (See Exhibit III) while at the same time, plant closings are increasing (See Exhibit IV). New jobs generated by manufacturing during the last three years stood at 5,375, while jobs lost due to plant closings were 9,805. Meanwhile, during that period of time 22,000 persons entered the labor force and 15,000 jobs were lost in the construction industry due to a total stagnation of that crucial sector of our economy.

It is then no surprise that migration of U.S. citizens from Puerto Rico to the mainland has started once again in substantial numbers: 49,000 in 1981. Many of these were technicians and professionals seeking better job opportunities abroad. Others have moved to the United States for one simple reason: to avoid being geographically discriminated by reason of living in Puerto Rico. As United States citizens, these persons have a right to social and welfare benefits programs enacted by the Federal Government. If they were to reside in any state of the Union, they would get 100% of the benefits. Because they now live in Puerto Rico, they only get a portion of that because Puerto Rico receives only part of the benefits of those programs. So it is quite simple to improve their take-home benefits by simply flying and residing up North. There they are entitled to full-fledged benefits.

III. POSSIBLE EFFECTS OF CBI ON PUERTO RICO

The Caribbean Basin Initiative comes at an extremely crucial and unfavorable time for Puerto Rico. We have already seen the precarious condition our economy is in. In addition, several other important events are about to take place.

1. Section 936, our backbone to the island's industrialization program is about to be intentionally gutted.
2. The proposed Enterprise Zones legislation, a mix of federal, state and local tax concessions and special incentives, threatens to diminish substantially the appeal of Puerto Rico's industrial and service incentives.
3. Discussions are underway to deregulate some maritime shipping activities, which would most likely increase ocean transportation to and from the island.
4. The New Federalism is reducing funds available to Puerto Rico in many importante sectors.
5. Capital investment in Puerto Rico is declining and personal savings is negative (See Exhibit V).
6. Stateside and foreign competition for the investment dollar is at a crescendo with many areas offering significant incentive packages which we cannot always meet due to limitations imposed by our special relationship with the United States.

The backbone of the CBI plan is the duty-free entrance of foreign-made products from the area to the United States. Heretofore that relationship has been reserved exclusively to U.S. territories and possessions. Precisely, because it was determined that such condition would help the areas concerned to improve themselves. In the case of Puerto Rico and the U.S. Virgin Islands, the opening of the U.S. borders to foreign imports also opens this territory's frontier to foreign-made products from the Caribbean. Yet products made in Puerto Rico and the U.S. Virgin Islands cannot enter duty-free to the countries that CBI is so graciously courting to. In fact, most of the CBI countries have duties and tariff barriers that make it uneconomical or impossible for Puerto Rican made products to enter their markets.

Proponents of CBI say that currently 87% of the products made in the Caribbean countries already enter the U.S. market. Assuming the figure to be correct (although we question it) that pertains to those products NOW being manufactured there. But, does not the program propose to have new and more manufacturing activities come into the area? Then proponents of CBI would say: YES, but there's the matter of the 25% added-on value provision. Here we also question the reasonableness of the 25% value added-on measure or its effectiveness as a control measure.

We must conclude that CBI products will adversely affect industry in Puerto Rico and will also affect US corporations in the United States. An example proves the point: Japanese cars currently being assembled in Trinidad and are in the 13% of products currently excluded from entering the United States. The value of the added-on work done in Trinidad and a few gadgets made in the area could easily bring about the 25% value added requirement. Should CBI be approved, could "Japanese cars made in Trinidad" enter the United States duty-free? If so, what then happens to the weak US auto, steel and auto accesories industries in the United States? Take electronic industries as another example. What is happening now to IBM could also be happening to other electronic manufacturers? Who knows? In Puerto Rico we now have approximately 250 electronic plants that could, as well as their state-side counterpart, be seriously affected by the "Japanese Caribbean Basin Initiative". Exhibit VI shows that Barbados, Costa Rica, Dominican Republic, El Salvador, Haiti, Netherlands Antilles and Panamá (crossroad of the Caribbean) are already supplying electronic components, parts and/or accessories to the U.S. market. In 1980, this group exported approximately 180,781,000 million of electrical products to the stateside market. That was from only eight of the twenty five countries covered by CBI (excluding communist oriented ones).

Because Puerto Rico is part of the United States, it must comply with specific rules and regulations which do not apply to countries within CBI. Among these are: (1) Federal Minimum Wages; (2) OSHA; (3) EPA; (4) MENSHA; (5) The Jones Act; (6) USDA; (7) EEOC; (8) FDA; and others. All of these regulations, in addition to having a specific safeguard purpose (not comparable in the CBI foreign countries) carry an economic burden to those manufacturing concerns regulated by them. Oftentimes, quite a high price.

Consequently, CBI countries will be competing with american business with a different set of rules that manufacturers in Puerto Rico and in the United States have to comply with. In other words, American business is penalized or handicapped by a set of federal standards and regulations while its CBI competition has a "carte blanche" to operate freely.

One of the highest burdens that a manufacturer in Puerto Rico has to contend with is the cost of electricity. Our cost of energy is extremely high (See Exhibit VII) and compares unfavorably with stateside areas and CBI countries. In terms of manufacturing, this is a strong disadvantage. If we couple that with higher-than-CBI-countries, cost of labor (See Exhibit VIII) for Puerto Rico, then the chips could be stacked against us in Puerto Rico. One must also keep in mind that Mexico and Venezuela have offered special incentives to CBI countries, at very attractive prices and terms of sale, for their purchase of petroleum for their development needs. (See Exhibit IX). Puerto Rico does not have that opportunity on the one hand and has an average labor cost in manufacturing of $4.49 an hour.

Puerto Rico's rum and tuna industry are two very significant segments of our manufacturing community. In 1981, our Treasury received over $227,000,000 in taxes from rum sales made in the United States and over $26,000,000 in taxes from rum sales made in Puerto Rico. These sums of monies represent approximately 12% of Puerto Rico's operating budget. In addition, our rum industry generates over $100,000,000 yearly in salary, wages, purchase of raw materials, services, etc. (See Exhibit X).

Several amendments have been submitted by Mr. Gibbons' SubCommittee on Trade, which attemps to protect Puerto Rico and the U.S. Virgin Islands rum industry from CBI competition. While these improve HR 5900, they still do not fully protect, in our opinion the threat contingent upon our rum industry. Full protection can only be achieved by excluding rum as a duty-free import products.

The Subcommittee on Trade's proposed amendment No. 7 (See Exhibit XI), requesting exemption of effluent discharge from Virgin Islands rum manufactured from federal water pollution control regulations clearly illustrates a point previously raised in this report: the cost of federal regulations. This year Puerto Rico's largest rum manufacturer had to spend over 17 million dollars to install an effluent treatment plant. Said investment does not necessarily add to the productivity of said manufacturer. He does have an added financial burden to carry. CBI countries are not subject to federal pollution controls, thus they can operate facilities uncontrolled at lower investment costs. An advantage we do not have.

Our tuna industry employs approximately 6,000 persons. Competition from Panamá and Costa Rica is expected will force tuna plant shutdown in Puerto Rico. The same threat overhangs the tuna industry in the State of California. Tuna plants in Puerto Rico are owned by U.S. investors. No action has been undertaken to protect this vital american industry.

It would be unfair if in this report we failed to mention some of the positive aspects which the CBI plan could have for Puerto Rico. Among these are:

1. Puerto Rico could become a trade and transportation center for the Caribbean as economic activity there develops. However, one must bear in mind that all cargo movement from the mainland to Puerto Rico is done in US flag ships. If we then redistribute to Caribbean ports the high U.S. flag ships cost must be overcomed. As a matter of reality, although geographically further away from the area, Florida is currently in a better position to augment trade with CBI countries. It is now doing a substantial trade.

2. Because Puerto Rico is more advanced in several aspects (education, health, economic) than most of the CBI countries, we can contribute significantly in areas such as Vocational Training, technology, health training and education, agricultural knowledge and the like. Puerto Rican can play a leading role in terms of the implementation of economic, social, educational and health programs.

3. In the long run, if the CBI plan contributes significantly to the economic wellbeing of the Caribbean nations, then presumably, their purchasing power is strenghtened and Puerto Rico could develop more trade and exports in the area. We say "could" because economic development of the area will not automatically mean more business opportunity for Puerto Rican businessmen. One must keep in mind that our products do not have free access to CARICOM countries. That there are artificial trade barriers to the entry of our products into CBI markets. There is no guarantee that as new products are manufactured in CBI countries, these same protective barriers are not implanted to prevent entry of Puerto Rican made products in the area.

4. The program offers some manufacturing opportunities under what has been labelled the "Twin Plant Concept": a program whereby a labor intensive manufacturing operation would be carried out in a CBI country and a higher value, hi-tech operation would be finished in Puerto Rico. There are some such cases currently in process with Haity and the Dominican Republic.

While we can appreciate the merits of this program -- in operations -- we doubt it will be of significant, long-lasting impact to the manufacturing sector and our economy.

5. There are several other areas, or aspects, in which some sectors of our economy could benefit because of an increase in economic activity in CBI countries. Among these are banking, education, health, engineering, construction and various service-oriented activities. Private educational institutions in Puerto Rico could be available for specialized training, as well as medical facilities here could be incorporated into a Caribbean Medical Program.

IV. CONCLUSIONS AND RECOMMENDATIONS

A. Conclusions

We recognize without reservations, that the principle of helping less developed countries, particularly our neighbors, is one to be pursued ardously and in good faith. Promoting democracy and the free enterprise system in developing countries should also deserve top priority. These precepts we do not argue with.

We do take exception to the proposed mechanism by which the above worthwhile objectives are being sought. We believe it will create substantial dislocations to a well-balanced system. We also consider it our duty to protect the best interests of our membership, the Puerto Rican industry, and that of the people of Puerto Rico. Likewise, it is also our responsibility to bring to the attention of Congress and the Administration the negative effects that the proposed measure could have as presently structured.

In view of the above, the Puerto Rico Manufacturers Association does not support the proposed Caribbean Basin Economic Recovery Act (HB 5900 and SB 2237). The implementation of said bill, as it now stands, will adversely affect the best interests of the manufacturing community in Puerto Rico and in the United States.

Recommendations

In order to harmonize the laudable objective of the Caribbean Basin Economic Recovery Act with the interests and needs of Puerto Rico, and other less developed areas in the mainland; we respectfully submit the following recommendations for your consideration:

1. Emergency economic aid should be provided to the Basin countries as the Administration and/or Congress may determine worthy.
2. Duty-free treatment of imports from the Caribbean should be granted by industry sectors and only after it is demonstrated, by a complete industry sector study, that such action will not have a harmful effect to the industrial development of Puerto Rico, and other less developed areas in the mainland.
3. Rum and canned tuna must be excluded from the duty-free treatment.
4. Tax incentives for U.S. equity investment in industrial activities of the Caribbean countries should only be granted to industrial sectors which will not harm the industrial development of Puerto Rico, and other less developed areas in the mainland. (As demonstrated by the complete study of recommendation No. 2).

EXHIBIT I

PUERTO RICAN ECONOMY
(Millions of Dollars)

	1977-78	1978-79	1979-80	1979-81	1981-82*
Gross Products					
(constant 1954 dollars)	3,826.8	4,052.3	4,146.0	4,173.6	4,032.9
Rate of growth(%)	4.8	5.9	2.3	0.7	-3.4

Net Income for Some Industrial Sectors

Manufacturing	3,268	3,783	4,312	4,454	4,601
Construction	307	334	345	343	319
Services	987	1,079	1,191	1,291	1,408
Government	1,573	1,713	1,897	2,038	1,858

*Eco-News Forecasts

EXHIBIT II

PUERTO RICO UNEMPLOYMENT RATE

YEARS 1940-1982

YEAR	UNEMPLOYMENT RATE
1940	10.9
1950	12.9
1960	13.2
1965	11.6
1970	10.7
1971	11.6
1972	11.9
1973	11.6
1974	13.2
1975	18.1
1976	19.5
1977	19.9
1978	18.1
1979	17.0
1980	17.1
1981	19.9
1982	
January	22.4
February	22.1
March	21.9
April	22.6
May	22.7
June	23.5

Source of Information: 1940 - Population Census
Other information from Bureau of Labor Statistics - Department of Labor and Human Resources.

EXHIBIT III

PLANT OPENINGS, PUERTO RICO - FISCAL YEARS

1979-80, 1980-81, 1981-82

Years	Number of Plants	Employment
1979-80	110	1,482
1980-81	117	1,795
1981-82	118	2,098

-------------------------0-------------------------------

EXHIBIT IV

PLANT CLOSINGS, PUERTO RICO - FISCAL YEARS

1979-80, 1980-81, 1981-82

Years	Numbers of Plants	Employment
1979-80	73	3,566
1980-81	86	2,540
1981-82	97	2,979

EXHIBIT V

INVESTMENT IN PUERTO RICO

(Millions of Dollars)

	Gross Domestic Fixed Investment [a]	Machinery and Equipment	Personal Savings [a]	Gross Domestic Fixed Investment [b]
	(current dollars)			(constant 1954 dollars)
1972	$1761	$476	($433)	$975
1973	1603	486	(373)	851
1974	1677	396	(348)	786
1975	1907	426	N/A	768
1976	1784	489	N/A	704
1977	1536	532	N/A	594
1978	1735	601	N/A	616
1979	1881	681	N/A	616
1980	2030	728	N/A	605

Notes: a ( ) indicates negative
b Construction plus Machinery and Equipment
N/A No data available

Source: Puerto Rico Planning Board, Economic Report for Governor, 1980

EXHIBIT VI

OTHER EXPORTS TO U.S.

BAHAMAS Total Exports 1980:		$1,381,791,725
Lube Oils & Grease	$331,330,570	
Medicinal & Pharmac. Prod.	22,904,721	
Cement & Concrete Mixture	12,088,121	
Tube & Fitting	4,169,298	
BARBADOS Total Exports 1980:		$ 95,591,533
Electrical Mach. & Equip.	$ 23,707,257	
Wear Apparel & Acces.	15,847,201	
Office & Data Procc. Equip.	8,545,942	
COSTA RICA Total Exports 1980:		$ 356,412,927
Undergarment	$ 20,924,742	
Outwear apparel	11,323,546	
Elect.Equip.,Resistors	5,896,049	
DOMINICAN REPUBLIC Total Exports 1980:		$ 785,869,735
Wear apparel & Acces.	$ 85,946,836	
Vegetable & Fruits	25,434,515	
Electrical Mach. & Equip.	12,955,027	
Luggage, hand bags	8,479,662	
Papers & Products	5,756,795	
EL SALVADOR Total Exports 1980:		$ 427,257,271
Electronic Components	$ 42,682,197	
Shellfish Mach.	18,354,929	
Electrical Mach.	15,732,117	
Calculating Mach.	6,996,081	

EXHIBIT VI (CONT.)

OTHER EXPORT TO U. S.

HAITI	Total Exports 1980:		$ 251,691,110
Wear apparel, acces.		$ 60,218,021	
Electrical Machine		37,592,282	
Sporting Goods Equip.		31,786,335	
Yarns, Fabric, Textiles Art.		13,718,215	
Toys, Games, Christ. Orn.		10,175,041	
Telecommunications Equip.		8,269,436	
Office Mach. Parts		4,058,517	
HONDURAS	Total Exports 1980:		$ 418,783,506
Wood Manufacturers		$ 9,429,115	
Undergarment, Knit		7,948,111	
Furnitures, Parts, Etc.		3,042,038	
JAMAICA	Total Exports 1980:		$ 383,043,931
Alcoholic Beverages		$ 13,807,586	
Wear Apparel & Acces.		13,420,684	
Cigars & Cheroots		7,491,804	
NETHERLANDS ANTILLES	-Total Exports 1980:		$2,563,635,371
Asphalt, Bitumn		$ 67,219,347	
Fish		14,430,666	
Sodium Chloride (Salt)		2,030,988	
Electrical Distribution Equip.		1,871,303	
Electrical cables		1,871,303	

EXHIBIT VI (CONT.)

OTHER EXPORTS TO U. S.

PANAMA Total Exports 1980:		$ 329,512,690
Shellfish	$ 49,841,313	
Fish	21,070,175	
Fruits & Nuts	17,315,744	
Fuel oils	6,057,670	
Phono, Sound Equip.	2,338,861	
TRINIDAD Total Exports 1980:		$2,378,279,232
Inorganic Chemicals	$ 40,270,042	
Organic Chemicals	7,378,630	
Fertilizers	5,265,028	
Orthopedic Art, Hearing aids	1,158,249	

Source: FT 155/Year 1980. U. S. General Imports - U.S. Dept. of Commerce

EXHIBIT VII

COMPARISON OF COSTS OF ELECTRIC POWER FOR INDUSTRIAL USERS, JANUARY 1981

	U.S. dollars per kWh
Florida	$.068
Georgia	.061
North Carolina	.045
United States	.070
PUERTO RICO	.114
Costa Rica	.040

Note:

Assumes use of 30,000 kWh per year at 150.kW

Sources:

Typical Electrical Bills, January 1, 1981, DOE/EIA-0040(81) (Washington, D.C.: United States Department of Energy, 1981).

EXHIBIT VIII

AVERAGE HOURLY EARNINGS 1978
MANUFACTURING - ALL INDUSTRIES

	U.S. Dollars per Hour
Costa Rica	$1.26
Dominican Republic	.95
Guatemala	.60
Guyana (1977)	.51
Honduras	.73
Nicaragua	.95
Panamá	1.19
PUERTO RICO	3.36
United States	6.17

Notes:

1. Data converted from local currency to U.S. dollars using IMF exchange rates.

2. Where wages were weekly, the average of 37.9 hours paid per week in Puerto Rico was assumed, except for Guyana for which available data show 46.3 paid hours per week. Four weeks per month were assumed.

Sources:

International Labour Office, Year Book of Labour Statistics. 1980, 40th Issue, Table 18.

International Monetary Fund, International Financial Statistics Yearbook, 1980

EXHIBIT IX

REDUCTION IN PRICE OF PETROLEUM FROM
MEXICO AND VENEZUELA TO CARIBBEAN BASIN NATIONS

	Ten-Year Credit Interest at 4.0% per Annum		Twenty-Year Credit Interest at 2.0% per Annum	
	Principal Due at End of 10 years	Principal and Interest at constant Amount	Principal Due At End of 10 Years	Principal and Interest at constant Amount
Effective Price	88.9%	93.1%	79.6%	86.2%
Discount	11.1%	6.9%	20.4%	13.8%

EXHIBIT X

IMPACT OF THE CARIBBEAN BASIN INITIATIVE ON THE PUERTO RICAN RUM INDUSTRY

EXHIBIT X

Virtually all of the Caribbean nations expected to benefit from the initiative, are rum producing countries of varying importance and competitive potential. Several of them, operating under favorable outside circumstances, could present formidable competition to the Puerto Rican Rum Industry, and, in a reasonable period of time, could obtain for themselves a very high -- or at least a very important -- share of the United States and even the local Puerto Rican rum market. This is so since they enjoy very significant advantages in cost of production derived from lower costs of raw materials, labor, fuel, services and other production items, as well as in transportation rates.

The determinant importance of the Puerto Rican Rum Industry to the economy of the island and the well being of its people is an established fact. The public treasury receives annually over $200,000,000 from excise taxes of rum distilled in Puerto Rico and shipped to the U.S. mainland, either bottled or in bulk (over $202,000,000 in calendar year 1980 and over $227,000,000 in calendar year 1981). In addition, excise taxes on local rum sales amount to over $25,000,000 yearly (over $27,000,000 in calendar year 1980 and over $26,000,000 in calendar year 1981). These two income items correspond to around 11%-12% of the Puerto Rican operating budget. Further, the Puerto Rican Rum Industry contributes to the island economy an additional amount well in excess of $100,000,000 per year in salaries and wages, purchase of raw materials, fuel, services, packaging materials, property and income taxes, advertising, promotion and other selling expenses, vehicles, maintenance and new constructions, interests and other overhead expenses. Rum constitues one of the few intrinsically local products manufactured in the island and shipped to the U.S. and, to a lesser extent, exported to foreign countries. The preeminent position traditionally enjoyed by Puerto Rican rums in the U.S. rum market is determinant for the survival and stability of our rum industry. The export of rum to Caribbean countries is virtually non existent due to the unsurmountable tariff and non-tariff barriers that have prevailed in those countries in the past and continue to prevail at present.

It is pertinent to indicate at this point that the contribution of the rum industry of the U.S. Virgin Islands to the economy and well being of that domestic region is as important as our rum industry is to Puerto Rico.

The possibility of entering the U.S. rum market has been and continues to be the most earnestly sought objective by part of the rum industry of foreign Caribbean countries. Up to 1979 the prevailing U.S. tariff of $1.75 per proof gallon of rum — or per wine gallon if imported at an alcoholic strength below 100°Proof — added to the regulatory disposition which required that the excise taxes on imported rums were based on wine gallons if the alcoholic strength was below 100° Proof, permitted the Puerto Rican Rum Industry to compete with imported rums, produced at a lower cost, and to achieve a prominent position in the

U.S. rum market. Incidentally, these tariff and non-tariff barriers were modest in comparison to those prevailing in the Caribbean countries for Puerto Rican rum.

However, the reduction in the tariff and non-tariff barriers adopted for imported rum by the U.S. as a result of the Multilateral Trade Negotiations sustained under the Trade Act of 1974, has already commenced to show its beneficial effect to imported rums, which come virtually all from Caribbean countries into the U.S. rum market. While in 1979 a total of 732,354 tax gallons of imported rum entered the U.S. market, equivalent to a share of 2.8% of said rum market, in calendar year 1981 that figure raised to 968,803 tax gallons, equivalent to a 3.8% share of the U.S. rum market. This increase in the share of imported rums in the U.S. rum market — from 2.8% to 3.8% in two years, or a 35.7% increase — clearly indicates that should the proposed advantages contained in the Caribbean Basin Initiative for imported Caribbean rums materialize, which involves a virtual unilateral elimination of all remaining tariff and non-tariff barriers on Caribbean rums, the gain in the share of imported rums in the U.S. rum market will increase exponentially for many years, with the corresponding decrease in market share by part of Puerto Rican rums. This will be so in spite of the quality image of Puerto Rican rums and the well advanced rum technology available in our island, since other Caribbean countries would count with formidable economic advantages that will permit them to gradually overcome the advantages derived from the quality image presently recognized in Puerto Rican rums.

The economic advantages enjoyed by imported rum from Caribbean countries over our local Puerto Rican rum are varied and cover a number of very important items.

In the first place, apart from generally having ample supply of sugarcane molasses, which is the basic raw material for the manufacture of rum, the Caribbean rum producing countries pay a much lower price for this item than the Puerto Rican Rum Industry.

Around 2.8 gallons of molasses are required to produce a standard case of rum at 80° Proof. While Puerto Rico pays at present around 55 cents per gallon of molasses, many other countries like Santo Domingo, Jamaica, Bahamas and even the US Virgin Islands, enjoy government subsidies which result in prices of the order of 16 to 20 cents per gallon. Accordingly, the most potentially competitive countries provide such a subsidy to their rum industries. This item by itself could represent a difference in cost of up to $1.00 per standard case of rum.

It is a well known fact that salaries and wages are much higher in Puerto Rico than in other Caribbean countries. While our rum industry pays around $7.00 an hour to an unskilled laborer, including payroll and other fringe benefits, many Caribbean countries does not even pay that amount for a day of work to their laborers. It should be remembered that federal minimum wages are applicable in Puerto Rico, as well as other payroll taxes. Federal regulatory laws such as EPA, OSHA and others are fully applicable in Puerto Rico. It can be shown that complying just with EPA requirements may cost to a medium size distillery in Puerto Rico, around $1.00 per case or more. The cost of complying with OSHA and other regulatory laws and dispositions represent an additional expense.

The cost of marine transportation is much higher to the Puerto Rican rum industry than to competitive rum industries in Caribbean countries. According to our applicable statutes, Puerto Rico must utilize domestic shiplines to send its rum to the U.S. In many cases this requirement may represent a significant difference in the cost of shipping rum from Puerto Rico to the U.S. as compared to the shipping cost for rum produced in other Caribbean countries.

The cost of packaging materials, equipment, plant materials for repair, maintenance, new construction for expansions, etc. is much higher in Puerto Rico than in other Caribbean countries.

All these items combined do represent a very significant difference in production and shipping costs between Puerto Rican rum and rum produced in other Caribbean countries. Undoubtedly this economic advantage places imported rum in a much better competitive position in the U.S. market.

This economic advantage could be even more dramatic if imported rums are allowed to enter the U.S. market in bulk. In that case the competitive Caribbean rum industry will combine the economic advantages available for the production of rum at their respective countries and the lower cost of bottling that can be achieved in the U.S. It is true that the Puerto Rican rum industry could resort to bottling in the U.S. market. However, that is not a very attractive solution since such a step could represent an increase in the already frightening unemployment figures prevailing in our island.

We endorse without reserve any measure to help and assist in the development of needed countries. However we feel that it should be done in a manner that does not aggravate the very precarious economic situation prevailing in the poorest domestic areas of the U.S. such as Puerto Rico and the US Virgin Islands.

The fact that Puerto Rican rum is considered a domestic product prevents our industry from designating our rums as "Imported". This certainly has a significant effect in the marketing and potential image development of imported rums as compared to Puerto Rican rums.

But even further, due to the same reason expressed above, that is to say, that Puerto Rican rums are not imported rums, our industry has another economic disadvantage. While Puerto Rican rum has to pay before being shipped the corresponding excise tax, which represents around $23.10 per standard case of rum shipped to the U.S., rum produced in other Caribbean countries enter the U.S. in bond and the corresponding excise tax is not paid until the product is shipped from importer warehouses to wholesalers and regional distributors. It is recognized that rum shipped in bulk from Puerto Rico to the U.S. doesn't pay excise tax before leaving Puerto Rico. However it do pays the corresponding excise tax when it is shipped from the producing plant to distributing warehouses.

The scarcity of locally produced sugarcane molasses and the dependance of the Puerto Rican Rum Industry on purchasing molasses from foreign countries, mostly Caribbean countries, represents a very delicate and potentially dangerous situation to the survival of the Puerto Rican rum industry, should imported rums from the Caribbean grow to a significant extent, as it is projected, and become a strong competitor with the Puerto Rican Rum Industry. It is a fact that since 1975 persons related to the rum industry of various Caribbean countries have indicated that they don't see why other Caribbean countries should be supplying molasses to Puerto Rico to sustain the preeminent position that the Puerto Rican Rum Industry enjoys in the U.S. market, thus reducing the opportunities of the rum industries of other Caribbean countries of gaining a substantial share of said U.S. rum market. In fact, an important and influential newspaper in Santo Domingo, which is a potentially strong competitor for the U.S. rum market, have subtly suggested that those countries should examine the prevailing situation in relation to the supply of molasses to the Puerto Rican Rum Industry, which represents the most important and stronger competitor to their rum industry. What we are saying is that should Caribbean imported rum become an important competitor to the Puerto Rican rum industry for the U.S. rum market, our industry cannot expect to maintain a reliable source of supply of molasses in such competitive countries. The instability of the molasses market and its increased use for the production of gasohol represents a very real and tremendously dangerous situation to the Puerto Rican rum industry and, thus, to the Puerto Rican economy and the well being of its people.

In view of what has been expressed above, we are convinced that it is of the utmost importance that the U.S. be very cautious in providing advantages and facilitating the entrance of imported rums from the Caribbean into the U.S. rum market.

There is one additional point which, so far, to the best of our knowledge, has been given very little consideration. Facilitating the entering of imported rum from Caribbean countries into the U.S. market also represents facilitating the entering of said rums into Puerto Rico. Tariff and non-tariff barriers have to be uniform all through the U.S. Puerto Rico is a domestic area of the U.S. Accordingly, the proposed measures not only endanger the preeminence and stability of Puerto Rican rums in the U.S. rum market, but may also present a real possibility of facilitating the development of very strong competition for the local Puerto Rican rum market. Keeping in mind the economic situation prevailing in our island and the fact that such economic situation results in that price is an extremely sensitive element in the local rum market, it could be concluded that the presence of well-known rums from Caribbean countries, exhibiting the "Imported" designation in their labels, being adequately supported with advertising and marketing techniques, and offered at a lower price than the local rum, could produce disastrous results to the Puerto Rican Rum Industry in our own local market.

It should be recalled that the proposed liberalization of tariff and non-tariff barriers contained in the Caribbean Basin Initiative do not require reciprocity by other Caribbean rum consuming countries. This implies that while we could be opening the Puerto Rican rum market to the rum industry of Caribbean countries, which are well known rum producing regions, the possibility of Puerto Rican rums of entering such markets would not improve at all. It has been said before that due to the tariff and non-tariff barriers prevailing in said countries, the sales of Puerto Rican rum in those markets is virtually nil.

Consequently, the Caribbean Basin Initiative should contain a number of measures to protect and insure the survival of the Puerto Rican Rum Industry which is so important to the people of Puerto Rico.

In the first place, the reduction of tariffs should be moderate. It should not position imported rum from the Caribbean in a price level that would allow them to compete with extreme advantage over Puerto Rican rum.

Any concessions regarding tariff and non-tariff barriers should be conditioned to the establishing of exactly equal tariff and non-tariff barriers in any Caribbean country that wants to take advantage of the offering of the U.S. in this respect.

The concession of reduced tariff and non-tariff barriers should also be conditioned to the prohibition of unfairly restricting the availability of sugarcane molasses for purchase by the Puerto Rican Rum Industry.

The payment of the corresponding excise tax in the U.S. market should be made in the same terms and conditions for Puerto Rican rums and for rums imported from Caribbean countries.

Tariff and non-tariff concessions for imported rums from the Caribbean, if established, should be limited to bottled rum. Importing Caribbean rum in bulk should be prohibited or extremely limited. Otherwise the competitive position of imported rums vis-a-vis Puerto Rican rums would be extremely favorable to the Caribbean countries.

It has been indicated that the U.S. is willing to return to the Puerto Rican government the excise taxes corresponding to the sales of imported rums from the Caribbean in the U.S. market with the purpose of counterbalancing any detrimental impact as a result of a significant increase in the sales of imported rums in the U.S. at the expense of Puerto Rican rum. We fully endorse such a measure for what it represents to the Puerto Rican people. However, it should be recognized that such a measure does not help the industry itself and that it could not compensate for the adverse competitive position in which the Caribbean Basin Initiative will place the Puerto Rican Rum Industry.

Finally, if any measure is adopted to assist the rum industry of Caribbean countries in gaining a substantial share of the U.S. rum market, there are certain measures that the Government of Puerto Rico itself should take to partially offset the disadvantageous competitive position in which the Puerto Rican rum industry will be placed.

At present, according to statutary dispositions, the Government of Puerto Rico is supposed to expend in the advertising and promotion of rum in the U.S. market 10% of the excise taxes returned to the local government by the U.S. It is a fact that up to this moment the expenditures of the Puerto Rican government in supporting the rum industry in the U.S. are well below the figure established by law. If the Caribbean Basin Initiative materializes substantially in the form that it has been proposed in regard to the rum industry, the Puerto Rican government should make sure that it spends annually a full 10% of all excise taxes returned by the U.S. corresponding to Puerto Rican rum or to imported rum, to support the extraordinary efforts that the Puerto Rican Rum Industry will have to make in the U.S. market to prevent a rapid deterioration of its position in said market.

In addition, the Puerto Rican government should revise the minimum age requirements existing for rums shipped to the U.S. in order to put our rum industry in competitive conditions similar to those existing for rums from Caribbean countries. No minimum age requirements exist, to the best of our knowledge, in the Caribbean countries for rum exported to the U.S. market.

We feel that the measures that we have indicated in the preceding paragraphs constitute the minimum that can be done by the U.S. and the Puerto Rican government to protect the Puerto Rican Rum Industry, thus contributing to prevent the collapse or emigration of this industry, which would produce disastrous results to the well being of the people of Puerto Rico.

EXHIBIT XI

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES

WASHINGTON, D.C. 20515

SUBCOMMITTEE ON TRADE

May 11, 1982

Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
1102 Longworth House Office Building
Washington, D. C. 20515

Dear Mr. Chairman:

The Subcommittee on trade in markup session on May 5 ordered Title I of H.R. 5900, the Caribbean Basin Economic Recovery Act, reported by voice vote with nine amendments for favorable consideration by the full Committee on Ways and Means. This legislation was transmitted to the Congress by the President on March 17 to address economic development needs of the Caribbean Basin through an integrated program of trade, financial assistance, and investment measures.

Title I authorizes the President to establish a one-way free-trade area with countries of the Caribbean Basin for a period of up to 12 years. Various criteria are proposed for designation of beneficiary countries. Product eligibility is subject to specific rule of origin requirements with certain products (textiles and apparel) excluded or subject to certain limitations (sugar and rum) on duty-free treatment. Measures are included to safeguard domestic industries and to reduce any potential adverse impact on Puerto Rico and the Virgin Islands.

The Subcommittee adopted the following nine amendments in Title I of H.R. 5900 as introduced:

1. By voice vote, amendments to section 103(a) and section 102(c) to clarify and tighten the rule-of-origin requirements for duty-free treatment and to add the willingness of a country to cooperate in administering such provisions as a consideration for its designation.

2. By roll-call vote of 7 yeas-5 noes, an amendment to section 103(b) to exempt from duty-free treatment footwear, handbags, luggage, flat goods, work gloves, and leather wearing apparel not eligible for the Generalized System of Preferences.

3. By voice vote, an amendment of section 103(c) to ensure that sugar quotas established under the bill are superceded by more restrictive quotas proclaimed by the President under other law.

4. By roll-call vote of 7 yeas-5 noes, a new section 103(d) to protect the Puerto Rico and Virgin Island rum industries by establishing a tariff-rate quota on duty-free entry of Caribbean rum.

5. By voice vote, a new section 104(a) to liberalize the foreign content limitations on duty-free treatment of imports from the U.S. insular possessions.

6. By voice vote, an amendment of section 104(c) to require consideration of compensatory measures if rum excise tax rebates to either Puerto Rico or the Virgin Islands, rather than the two combined, are reduced.

7. By voice vote, a new section 104(b) exempting effluent discharge from Virgin Island rum manufacture from Federal water pollution control regulations if certain conditions are met.

8. By voice vote, a new section 105 requiring annual economic impact studies of Titles I and III by the International Trade Commission.

9. By voice vote, an amendment in section 105 to provide Title I effective date of October 1, 1982 to comply with the Congressional Budget Act.

Transmitted herein, in accordance with the rules of the Committee are copies of Title I of H.R. 5900 as amended, together with a report containing a description of the background and purpose of the bill; a summary of Title I; a section-by-section analysis, justification, and comparison with present law; and a preliminary estimate of the effect of Title I on revenue. Also included is a summary of testimony received by the Subcommittee on Title I of the original bill.

I request that consideration by the Committee on Ways and Means of Title I, as amended, as well as the tax provisions under Title III of H.R. 5900, be scheduled as soon as possible.

Sincerely,

Sam M. Gibbons

Sam M. Gibbons
Chairman

SMG/mJma

Statement of Carmen J. Lunetta, Director
of the Port of Miami before the Committee
on Finance, U.S. Senate
August 2, 1982
on
S. 2237

Mr. Chairman: My name is Carmen J. Lunetta. I currently serve as Director of the Port of Miami (Dade County Seaport Department). I am also President of the Florida Ports Council and Vice President of the South Atlantic and Caribbean Ports Association.

My purpose in testifying before the Committee on Finance today is to express my support and that of South Florida's bilateral maritime industries, for the Caribbean Basin Initiative as proposed by President Reagan.

Mr. Chairman, I have been associated with the Port of Miami since 1959. In the ensuing 23 years I have witnessed a virtual explosion in the development of trade and commerce between the emerging nations of the Caribbean basin. This economic development has been initiated and enhanced as the Port of Miami has grown. Twenty years ago, our port existed on 23 acres of land in downtown Miami and processed general cargo with a few of the closer states of the Caribbean. Our cruise fleet was small and certainly in its infant stages.

Today, the Port of Miami is 600 acres in size and has the most frequent service of any port to the most ports of the Caribbean basin and Latin America. Indeed, last year more than 2.7 million tons of clean cargo, valued at almost 7 billion dollars, crossed our docks, as did almost 1.6 million cruise passengers who sailed aboard a passenger cruise fleet that comprises more than one-third of the free world's total cruise ship fleet. The economic impact of the Port of Miami's operations on the economy of South Florida approached $1.8 billion in 1981, with more than 25,000 South Floridians employed in port-related activities.

These facts, pertaining to the greater Miami community, are multiplied several times over in terms of their relevance to the island-nations of the Caribbean basin. Tourism, though it remains the single most important industry of the Caribbean, is rapidly being matched by other industries that offer the promise of sustained economic growth for the region.

The Caribbean Basin Initiative as proposed by the Administration is a timely and significant program that will tremendously enhance not only economic development in the Caribbean, but social and democratic political development as well. All these components of the President's program are worthy of immediate implementation.

In the first instance, the President proposes the addition of $350 million in emergency aid to the most critically needy nations of the region. These funds, if approved by the Congress, as we believe they should be, are desperately needed to improve living conditions and provide much needed general assistance. Such an expenditure would achieve much:

- Improve living standards, provide food and medical care;
- Make possible a better-trained work force;
- Assist in stemming the flood of refugees seeking improved economic conditions and jobs from the Caribbean basin to South Florida.

The President also proposes one-way free trade that would allow duty-free entry of most Caribbean products into the U.S. for twelve years. This is an important component of the plan, because the Free Trade Area will allow for:

11-310 O—82——30

- New products to automatically enter the U.S. duty free; as well as make possible the entry of goods that are not now permitted, under the Generalized System of Preferences.

In encouraging the export of additional and new goods, we are making possible the creation of new and additional jobs. Greater employment will add to the economic base of the nations of the Caribbean. New jobs will also be created because the additional shipping of Caribbean exports will require additional manpower by freight forwarders, dock workers, etc., in the islands.

The President has also called for increased tax incentives to span U.S. investment in the Caribbean. We urge the Congress to adopt this portion of the Caribbean Basin Initiative as well. Such tax incentives will also create new jobs in the Caribbean, thus broadening economic opportunity, and again, aiding in cutting the flow of Caribbean refugees to the United States.

Additional tax incentives would also provide new jobs in the U.S.; thus, the Caribbean Basin Initiative provides a useful tool for improving economic conditions in the Caribbean as well as at home.

From another perspective, the Caribbean Basin Initiative can be viewed as a cost-effective program. Today, between 75¢-80¢ of every dollar spent in the Caribbean basin returns to the U.S. economy in terms of imported raw materials for manufacturing, food, clothing, and technology.

As I indicated earlier, tourism remains the single most important industry in the Caribbean basin. Last year, U.S. tourism expenditures in the Caribbean region were $1.13 billion. Not taken into account by the Administration is the impact of the passenger cruise industry. Our Florida-based cruise industry has determined that the average passenger spends between $35-$50 at each port of call in the Caribbean on such items as taxis, tours, meals, beverages and purchases. The sum-total of these expenditures are conservatively estimated at $60-$75 million annually. Add to this the expenditure of tens of millions of dollars by the cruise lines on items such as tugs, labor, harbor fees and bunkering.

Moreover, the Caribbean nations provide as much as 40 percent of the personnel aboard our cruise fleet. The majority of hotel workers aboard the cruise vessels earn in excess of $1100 US per month as opposed to a mere 50¢ per hour at home for menial labor. Very clearly, the Florida-based cruise industry is a major contributor to the economic viability and stabilization of the Caribbean basin.

In addition to the already high economic impact of the cruise industry on the Caribbean basin, there remain additional steps that can be taken to increase this impact by the cruise industry. Specifically, I urge the Committee on Finance to approve an amendment to S. 2237 which would negate the provisions of Public Law 96-608, Section Four, dealing with the elimination of tax deductions for conventions and seminars held on cruise ships.

Briefly, Mr. Chairman, in 1976, Congress approved the Tax Reform Act, Section 602 of which limited deductions for business conventions held outside the United States. Congress reasoned, at the time, that such deductions amounted to little more than taxpayer subsidized vacations. At the time the legislation was enacted, Congress refused to grant exceptions to the law sought by tourism officials in Canada.

Yet, in 1980, Congress approved legislation that continued the policy of limiting tax deductions for conventions held abroad and included cruise vessels. At the same time, Congress voted to exempt Canada and Mexico from the stringent tax provisions.

The net result of this action has been a clear-cut Congressional policy of discrimination that has seriously and negatively affected the U.S. passenger cruise industry, and more importantly, has dealt a serious setback to the tourism industry of the Caribbean basin.

Prior to the enactment of this legislation, the cruise industry had been investing heavily in new equipment and programs designed to accommodate conventions and seminars. Indeed, at the time Congress changed the tax laws, some 15-20 percent of bookings aboard cruise vessels were for conventions, and the prospects were very bright for the cruise lines to increase their share of this important travel market.

Today, the provisions of these laws are acutely felt by our cruise lines. Not only have local jobs been eliminated, but the economic impact of this convention business on South Florida and the nations of the Caribbean basin has been vastly reduced.

It is incomprehensible to me that the criteria imposed by the actions of Congress in 1976 and 1980 concern the location of a convention, rather than the legitimacy of the business deduction.

By virtually all accounts, cruise vessels are far more conducive to convention and seminars because the vessel limits, in a strict sense, the ability of the convention delegate to divert his attention to other, more pleasurable pursuits normally found at land-side resorts.

Legislation has been introduced in the House of Representatives by Congressman Dick Schulze and cosponsored by Congressmen Holland, Fowler, Hance, Duncan and Bafalis which would permit deductions for business seminars and convention expenses if conducted on a cruise ship travelling to Caribbean Basin countries.

Further, President Reagan, during his election campaign in 1980, expressed his view that the 1976 tax legislation on conventions should be abolished. He stated, in a letter to Joel M. Abels, editor and publisher of Travel Trade Magazine:

"With respect to proposals intended to discourage American corporations from holding conventions outside the United States, my general approach is that such decisions as to locations for such gatherings should be left in the hands of business groups and companies themselves. Punitive taxes to restrict legitimate business travel and legitimate business expenses serve no useful purpose and constitute unwarranted interference by government into the decision-making prerogatives of the private sector."

Mr. Chairman, I urge the Senate Committee on Finance to incorporate the legislation recently introduced by Congressman Schulze into S. 2237. Such a change in the tax law would allow for greater expansion of facilities and services by our cruise industry and would enhance, in a significant manner, the Caribbean Basin Initiative's goal of greater economic viability and strength among the nations of the region.

In summary, please accept my deep appreciation for the opportunity to share my views on the Caribbean Basin Initiative with the Committee on Finance.

At a time when it is in our national interests to encourage economic, political and social progress amongst the nations of the Caribbean region, President Reagan is to be highly complimented for a bold and courageous leap forward as embodied by the Caribbean Basin Initiative. My twenty-three years in the port industry and my knowledge of business and tourism activity in the Caribbean region leave no doubt whatsoever in my mind that the Caribbean Basin Initiative will, if enacted, accomplish the goals the President has set for the program as well as the aspirations of the people of the region. American international interests and our commitment to greater freedoms--economic, social and political--will be greatly enhanced with the passage of this legislation, including provisions that permit lawful tax deductions for conventions held aboard cruise vessels. I urge the Committee on Finance to complete consideration of this bill and recommend adoption of the Caribbean Basin Initiative by the Congress.

Thank you.

BEFORE THE COMMITTEE ON FINANCE OF THE UNITED STATES SENATE

SUMMARY OF TESTIMONY OF THE FOOTWEAR DIVISION
RUBBER MANUFACTURERS ASSOCIATION

ON THE ONE-WAY DUTY-FREE TRADE PROVISION OF THE
CARIBBEAN BASIN INITIATIVE

The duties on waterproof footwear and rubber-soled footwear with fabric uppers range from 20% to 67%, and -- with one minor exception -- were not reduced in the Kennedy or Tokyo Round. This footwear is excepted by statute from GSP duty reductions.

Imports take in excess of 60% of the industry's market.

Currently some 90% of rubber footwear imports come from Taiwan, Korea and the People's Republic of China, but the capacity and skills for rubber footwear manufacture exist in the Caribbean Basin, where there is the added advantage of closer proximity to the American marketplace.

The bill's escape clause provision does not alleviate the industry's problem. The Government already has all relevant information regarding import injury and the danger of additional injury to this industry, and the industry should not be asked to bear the burden and expense of making a self-evident case. This is particularly true since the President would have the right to overrule an ITC finding.

The industry endorses the amendment to this bill which would exclude one-way duty-free treatment for all footwear and leather products.

BEFORE THE COMMITTEE ON FINANCE OF THE UNITED STATES SENATE

TESTIMONY OF THE FOOTWEAR DIVISION,
RUBBER MANUFACTURERS ASSOCIATION

ON THE ONE-WAY DUTY-FREE TRADE PROVISION OF THE
CARIBBEAN BASIN INITIATIVE

Mr. Chairman and Members of the Committee: My name is Mitchell Cooper and I am testifying as counsel for the Footwear Division of the Rubber Manufacturers Association. The companies in this Division, whose names appear on Attachment #1 to this testimony, account for most of the waterproof footwear and rubber-soled footwear with fabric uppers produced in this country. I should note that one of these companies, NIKE, Inc., imports a large share of the rubber footwear it sells in this country and has asked that it not be associated with this testimony. The duties on these types of footwear vary from 20% to 67%. With one very minor exception these duties were not cut in either the Kennedy Round or the Tokyo Round of Multilateral Trade Negotiations. Moreover, both waterproof and fabric-upper rubber-soled footwear are excepted by statute from GSP duty reductions.

Rubber footwear is a labor-intensive, import-sensitive industry. It has had the attention and concern of many Government agencies. In September, 1981, the Department of Defense examined into the capability of the waterproof segment of this industry to meet defense requirements and concluded that "...loss of one or two of our current major suppliers would seriously jeopardize our ability to meet military requirements under surge/mobilization conditions". In June, 1981, the Department of Commerce issued a report on the rubber footwear industry which objectively describes the severe import penetration suffered by this industry.

I think it particularly relevant to the subject matter of these hearings that you have an awareness of what has happened to domestic shipments and imports of these high-duty items, and I am appending as Attachment #2 a copy of the table which appears on page 13 of the Commerce Department's report. You will note the steady decline in domestic shipments and the steady increase in imports of rubber-soled footwear with fabric uppers between 1964 and 1980. In 1980 imports took 60.6% of our domestic market. For 1981 the figure is in excess of 65%.

In recent years close to 90% of the imports of rubber footwear have come from the low-wage countries of the Far East, notably Taiwan and Korea, and more recently the People's Republic of China. Attachment #3 to this testimony, which is also taken from the Commerce Department report, shows hourly compensation for rubber footwear workers in Korea, Taiwan, and the United States. In 1979, the last year for which comparative data are available, the figure for Korea was between 80 and 83 cents and for Taiwan was between 87 and 91 cents, whereas in the United States hourly compensation was $5.90. According to the Commerce Department, footwear workers in the People's Republic of China are paid an estimated 20 cents an hour. China has become the third largest exporter of rubber footwear to this country, sending about 12 million pairs in 1981.

Bear in mind that this large volume of imported rubber footwear comes to this country from thousands of miles away at high rates of duty. There are today rubber footwear capacity and skills in the Caribbean Basin, notably in the Dominican Republic. If the 20-67% duties on rubber footwear are eliminated for this area of the world, what is left of this domestic industry will indeed be in jeopardy. Plants in such states as Maine and Pennsylvania will have a great incentive to shift their production to this low-wage, duty-free area, and importers from the Far East will readily shift gears to take advantage of this new duty-free source of supply. The competitive advantage that importers already have over their domestic counterparts will prove devastating.

Nor is the concern of this industry alleviated by the provision in the bill before you which calls for expeditious action by the International Trade Commission on a petition alleging import injury or the threat of import injury. There is no relevant information on the question of import injury to the rubber footwear industry which the Government does not already have. It would be an unconscionable burden on such a small industry to require it to go to the expense of making a self-evident case based on data with which Government agencies are thoroughly familiar. And given the right of the President to overrule an ITC finding on grounds other than economic injury, I think you can understand the lack of confidence the rubber footwear industry has in the so-called escape clause procedure.

We fully appreciate the urgency of some kind of "Marshall Plan" approach to the critical economic problems of our neighbors to the south, but the burden of assistance should not be borne by the companies and workers of an industry such as rubber footwear where high-duty low-wage imports have already taken some two-thirds of our domestic market.

The President has seen fit to exempt textiles and apparel from the free-trade provision of this bill. I submit to you that the claims of the rubber footwear industry for an exemption are at least as valid as those of the textile and apparel industry.

There is pending before the Committee an amendment which would exempt footwear and leather products from one-way duty-free trade. This amendment encompasses the products of the rubber footwear industry, and the Footwear Division of the Rubber Manufacturers Association enthusiastically endorses it.

Attachment No. 1

MEMBERS OF FOOTWEAR DIVISION OF THE RUBBER MANUFACTURERS ASSOCIATION

Bata Shoe Company	Belcamp, Maryland
Converse Rubber Company	Wilmington, Massachusetts
Etonic, Inc.	Brockton, Massachusetts
Gold Seal Rubber Company	Boston, Massachusetts
Hyde-Spotbilt Athletic Footwear - Saucony	Cambridge, Massachusetts
Kaysam Corporation of America	Paterson, New Jersey
LaCrosse Rubber Mills Company	LaCrosse, Wisconsin
New Balance Athletic Shoes USA	Boston, Massachusetts
NIKE, Inc.	Beaverton, Oregon
Prevue Products Company	Manchester, New Hampshire
Tingley Rubber Corporation	S. Plainfield, New Jersey

Attachment #2

Rubber-Soled Canvas-Upper Footwear:
U.S. Shipments, Imports, Exports, Apparent Consumption

Quantity (1,000 pairs)

Year	Shipments 1/	Imports	Exports	Apparent Consumption	Ratio Imports to Consumption
1964	162,151	29,061	255	190,989	15.2
1965	165,741	33,363	195	198,909	16.8
1966	157,491	35,060	167	192,384	18.2
1967	153,656	44,659	211	198,104	22.5
1968	158,451	49,200	239	207,412	23.7
1969	142,295	44,463	195	186,563	23.8
1970	144,276	49,726	129	193,873	25.6
1971	156,489	62,872	112	219,249	28.7
1972	159,239	58,020	105	217,154	26.7
1973	153,551	66,291	29	219,813	30.2
1974	144,496	67,352	1010	210,838	31.9
1975	132,876	73,083	564	205,395	35.6
1976	119,771	115,355	733	234,393	49.2
1977	88,691	106,012	780	193,923	54.7
1978	81,627	172,706 2/	644	253,689	68.1
1979	83,214	111,392	1218	193,388	57.6
1980	80,283	120,801	1694	199,390	60.6
Averages:					
1971-75	149,330	65,524	364	214,490	30.5
1976-80	90,717	125,253	1014	214,956	58.3

Source: Official Statistics of U.S. Department of Commerce

1/ Production data, 1970-80:

1970 - 137,194
1971 - 157,603
1972 - 153,621
1973 - 150,654
1974 - 146,500
1975 - 131,155
1976 - 115,354
1977 - 88,213
1978 - 79,278
1979 - 78,130
1980 - 72,537

2/ Includes large quantity of footwear designed to meet "rubber" footwear specifications in order to overcome limitations of Orderly Marketing Agreements with Taiwan and Korea on nonrubber footwear.

Attachment #3

Average Hourly Wages and Estimated Hourly Compensation for Workers Producing Rubber and Plastic Footwear in Korea, Taiwan and the United States
(in U.S. dollars)

Published Average Hourly Earnings

Year	Korea	Taiwan	United States
1972	.16	NA	2.82
1973	.16	.38	2.99
1974	.22	.35	3.17
1975	.25	.40	3.35
1976	.32	.52	3.49
1977	.43	.63	3.64
1978	.55	.71	3.80
1979	.69	.75	4.12

Estimated Total Hourly Compensation

Year	Korea	Taiwan	United States
1972	.18-.19	NA	NA
1973	.18-.19	.44-.46	NA
1974	.26-.27	.41-.48	NA
1975	.29-.31	.46-.48	4.55
1976	.36-.38	.60-.62	4.82
1977	.49-.51	.72-.75	5.11
1978	.63-.66	.82-.85	5.42
1979	.80-.83	.87-.91	5.90

Source: Data on Korea and Taiwan extracted from a table prepared by the U.S. Department of Labor, Bureau of Labor Statistics, Office of Productivity and Technology, March 1980; data on United States from U.S. Department of Labor, Bureau of Labor Statistics, Employment and Earnings.

TESTIMONY OF

ALEXANDER M. PETERS

ON BEHALF OF

ROBSUTT, LTD.

BEFORE THE

FINANCE COMMITTEE OF THE

UNITED STATES SENATE

SUBJECT:

THE CARIBBEAN BASIN INITIATIVE

HEARING DATE:

AUGUST 2, 1982

TESTIMONY OF
ALEXANDER M. PETERS
ON BEHALF OF ROBSUTT, LTD.
BEFORE THE FINANCE COMMITTEE OF THE
UNITED STATES SENATE

AUGUST 11, 1982

This written testimony is submitted on behalf of Robsutt, Limited (Robsutt), a Bahamian corporation owned entirely by American interests. Robsutt owns the Xanadu Princess Hotel in Freeport, Grand Bahamas, Bahamas. Testimony is submitted in order to urge this Honorable Committee to include a provision in the President's Caribbean Basin Initiative (CBI) which would permit a tax deduction for American organizations that hold business conventions, meetings and seminars, etc. (hereinafter "conventions") in the Bahamas.

STATUS OF CURRENT LAW

Pursuant to the applicable section of the Internal Revenue Code, 26 U.S.C. Sec. 274(h), few if any tax deductions are allowed for business conventions held outside of North America, defined in the statute as Mexico; Canada; the United States, its possessions, and the Trust Territory of the Pacific Islands; and Jamaica (added by treaty), unless it is "as reasonable" to hold the convention outside of North America as within North America. Robsutt believes that the Internal Revenue Service and the Treasury Department will strictly construe this tax provision excluding the Bahamian Islands from any significant American business convention traffic.

THE CBI AND CASE FOR THE BAHAMAS

The CBI is designed to economically strengthen the nations of the Caribbean, thereby assisting hopefully friendly nations, by lowering certain trade barriers between the U.S. and its Caribbean neighbors, providing tax benefits for American investments in those nations, and outright doles from the American Treasury. Not a single provision of the CBI would provide direct "trade barrier" tax relief for the Bahamas.

There is simply no logical reason for excluding the Bahamas from the comprehensive relief CBI provides other nations in the

Caribbean area. Robsutt advocates, therefore, an amendment to the CBI which would redefine North America in 26 U.S.C. Sec. 274(h) to include the Commonwealth of the Bahamas.

Redefining North America to include the Bahamas significantly enhances the interests of American businessmen there, as well as generating domestic jobs and U.S. tax revenues. The aforementioned statement has 2 components: first, the more money American business interests earn in the Bahamas, the more income taxes generated for the U.S. Treasury by those earnings. Second, since the Bahamas has no agricultural, manufacturing or industrial capacity (except for an American owned oil refinery that produces little domestic revenue), all items consumed there are imported. The United States provides the lion's share of those imports. Thus, an increased demand for goods in the Bahamas has a direct and beneficial effect on the American economy in the form of more U.S. jobs and more revenues generated for domestic business concerns. The increased employment and increased revenues likewise provide more U.S. tax dollars. On the other hand, Mexico, Jamaica, and Canada, in varying degrees, all have agricultural, industrial, and manufacturing capacities. American dollars spent in those nations will subsidize, to a degree, those domestic manufacturing, agricultural and industrial interests. Therefore, a smaller proportion of the American dollars spent in those countries is respent in the United States.

A. The Benefit to American Business Interests in The Bahamas

American business investment in the Bahamas is substantial. A proposal which permits tax deductions for business conventions in the Bahamas generates income to those business interests and therefore tax revenues.

Please note the following data:

> Three-quarters of all the hotel rooms in the Bahamas are owned, either beneficially or outright, by American interests;
>
> American business investment in the Bahamas equals $1.5 billion;
>
> In an era where United States air carriers are under severe economic strains, any proposal which encourages air traffic helps a teetering industry without direct financial aid from the American taxpayer. Thus, Delta, Air Florida, Eastern Airlines, and American Airlines stand to gain by any proposal that encourages air traffic to areas they serve;
>
> Of the 1.7 million people that visit the Bahamas annually, 1.2 million are Americans;
>
> For every American dollar spent in the Bahamas, at least 70 cents is repatriated; and
>
> The Bahamas import almost every item used on the Islands from the United States.

B. More U.S. jobs and tax revenues are generated by visits to the Bahamas than are generated by visits to Mexico, Canada or Jamaica

The American and Bahamian economies are so intertwined that the Bahamas takes on the character, economically, of a 51st state. The Bahamas has no industrial, agricultural or manufacturing capacity whatsoever. In short, the Bahamians import every single item needed and consumed there. The vast majority of those imports come from the country in closest geographical proximity, the United States. U.S. imports are estimated to equal 80% to 90% of all goods imported and consumed. These goods include, for example, food, fuel, construction material, clothing, jewelery and cars, to just name a few.

The other countries included in the definition of North America do not import U.S. made goods in such a large percentage. Each country has agricultural, industrial and manufacturing capabities. Canada and Mexico, obviously, have far greater capabilities than does Jamaica. Jamaica, however, has an agricultural capability and a fairly sophisticated industrial capacity. All three countries possess a mineral wealth the Bahamas does not possess. Canada and Mexico have substantial oil, gas and mineral wealth. Likewise, Jamaica possesses some mineral wealth such as bauxite. The domestic production capabilities of these nations means <u>their</u> domestically produced goods are available for sale and purchased by foreign visitors like American conventioneers. American dollars spent on goods produced in those countries (including food, and fuel as well as souvenirs) results in jobs and tax revenues for those nations. */ The point: a greater percentage of the American dollars spent in Jamaica, Mexico, and Canada remain in those countries to the economic advantage of merchants and businessmen there. Money spent on those goods enriches their business interests, and fills the coffers of their treasuries. The opposite is true in the Bahamas where more American conventions there mean more advantages to American business interests because consumer demand increases and dollars spent there find their way back here.

Since an increased demand for goods in the Bahamas is of greater economic benefit to American businesses than is an increased demand for goods in Mexico, Canada or Jamaica, the ramifications of a demand increase in the Bahamas results in more U.S. jobs; more U.S. exports, with positive trade balance

*/ To be sure, Canada, Jamaica and Mexico import from the United States. None of the aforementioned countries import the percentage of goods from the U.S. that the Bahamas import.

ramifications _*_/; and because of increased U.S. employment and increasd U.S. business, increased tax revenues. Robsutt respect-

* / - At first blush the balance of trade figures between the Bahamas and the U.S. appear heavily tiled in favor of the Bahamas. The figures, however, are extremely deceptive inasmuch as a U.S. owned refinery is located on the Island. This refinery processes oil for importation to the United States primarily from the oil producing nations of Nigeria, Venezuela and the United Kingdom. The proceeds derived from the sale of the refined product do not remain in the Bahamas. The proceeds instead, are returned to the country of the oil's production. The major, if not the only, economic benefit to the Bahamians themselves derives from wages earned at the refinery by Bahamian nationals.

Since the refinery proceeds do not remain in the Bahamas, the chart below sets forth a calculation wherein those proceeds are removed from total U.S. imports. Once the oil revenues are removed, a truly accurate picture of the trade balance between the nations can be determined.

The chart below is based on figures all of which were supplied by the Department of Commerce and are in thousands of dollars.

Year	Bahamian Imports	U.S. Imports From the Bahamas	Crude Oil and Crude Oil Product Imports	U.S. Imports Less Crude Oil Imports
1979	330,070	1,601,907	1,458,098	143,809
1980	391,329	1,373,473	1,243,300	130,173
1981	434,540	1,243,169	1,144,544	98,625

Once the crude oil and crude oil product imports are removed from the total amount of Bahamian imports, the trade balance tilts at an average ratio of $3 to $1 in favor of the United States, demonstrating the vast Bahamian dependence on American produced goods. The figures further demonstrate that the Bahamians import from the U.S. far more than they export to it; and, concommitantly, the figures support the notion that an increase in American visitors to the Bahamas would further tilt the trade balance in favor of the United States.

fully urges this Committee to closely examine this economic intertwining because the ramifications of granting the tax relief requested will provide a substantial benefit to an American economy in the throws of a deep recession. (Robsutt, of course, recognizes that this proposal will not cure the nation's recession, but this proposal will increase U.S. business activity.)

To be sure Robsutt does not advocate eliminating the tax deduction for business conventions in the other "North American" nations. Rather, it seeks to advance the President's notion of providing economic assistance to nations of the Caribbean through tax benefits. Since the Bahamas neither produces nor manufactures anything, the only "trade barrier" that can be removed is the current proscription against tax deductions for American business conventions held there.

C. The Bahamas has been a loyal American ally

Since 1945, American military installations have existed on the Bahamas.

Bahamian law enforcement authorities work closely with agents of the Drug Enforcement Administration in order to apprehend drug smugglers and prevent drug smuggling into the United States.

Lastly, American satellite tracking stations are located in the Bahamas which assist the American space program.

Robsutt respectfully submits to this Committee that the data in sections A, B and C of this testimony merit an amendment to the CBI extending the tax deduction for business conventions to the Commonwealth of the Bahamas.

PROPOSED AMENDMENT TO 26 U.S.C. §274(h)

Specifically, Robsutt recommends amending 26 U.S.C. 274(h)(3) (by including the underscored language) to read as follows:

> "(3) Definitions - For purposes of this subsection -(A) North American Area - The term 'North American Area' means the United States, its possessions, and the Trust Territory of Pacific islands, and Canada, and Mexico and the Commonwealth of the Bahamas."

CONCLUSION

The Commonwealth of the Bahamas has been a loyal friend and ally to the Government of the United States. Bahamian economic interests closely parallel those of the United States inasmuch as increased demand for goods in the Bahamas directly translates into American jobs and increased American tax revenues more so than American dollars spent in the other "North American" countries.

The CBI seeks to expand free trade among our Caribbean Basin neighbors. The proposal advocated by Robsutt seeks to do precisely that, eliminating an artificial trade barrier between the Bahamas and the United States. Robsutt believes that its proposal is consistent with the President's purposes in proposing the CBI and urges its adoption.

Respectfully submitted,

Alexander M. Peters

Alexander M. Peters
Pearce & Gallagher
Suite 1200
1000 Connecticut Avenue, NW
Washington, DC 20036
Attorney for Robsutt, Ltd.

STATEMENT OF MILTON B. SEASONWEIN, ESQ.
SECRETARY-GENERAL RESIDENT COUNSEL
OF SCHENLEY INDUSTRIES, INC.

BEFORE THE SENATE FINANCE COMMITTEE

AUGUST 6, 1982

My name is Milton B. Seasonwein. I am Secretary-General Resident Counsel of Schenley Industries, Inc. My address is 888 Seventh Avenue, New York, New York 10106.

This statement is submitted on behalf of an industry which contributes significantly to the economic well-being of the Virgin Islands of the United States. As introduced in mid-March, legislation implementing the Caribbean Basin Initiative singles out the Virgin Islands rum industry for particularized and needless injury. This harm can be substantially alleviated by the adoption of certain amendments which would enable Virgin Islands rum producers to compete on an equal basis with foreign Caribbean rum producers while allowing generous and expanding duty-free treatment for foreign Caribbean rum.

By far the largest manufacturer of rum in the Virgin Islands is Virgin Islands Rum Industries, Ltd. -- known by the acronym "VIRIL." VIRIL, a wholly-owned subsidiary of Schenley Industries, Inc., operates a distillery on the island of St. Croix. VIRIL supplies approximately 95% of the Virgin Islands rum sold in the United States. Historically, rum and tourism have been the two most important sources of income for the Virgin Islands economy. The rum industry provides approximately 3% of the total manufacturing employment in the Virgin Islands. Most importantly, excise taxes collected in the United States on Virgin Islands rum are rebated to the Virgin Islands government after collection costs are subtracted. These rebates now represent from 15% to 18% of the annual gross revenues of the Virgin Islands Government. This excise tax rebate mechanism provides the single largest source of revenue for the Virgin Islands, apart from income tax payments.

In order to fully appreciate the impact which the proposed CBI will have on VIRIL and on the Virgin Islands, it is important to understand the market conditions under which Virgin Islands rum is sold. More than 80% of the product which VIRIL ships to the U.S. is transported unaged and in bulk. This rum is then marketed by a large variety of purchasers -- many of which are small corporations -- that bottle and sell rum under private, unadvertised brand names at a price significantly below that of aged, advertised brand name rums. The rum VIRIL ships to the United States is also used in pre-mixed cocktails and, in addition, some rum is bottled and sold under VIRIL's brand name -- "Cruzan" -- a brand name Schenley has been endeavoring to develop in the U.S. market. VIRIL's product is thus extremely price-sensitive in that purchasers of unaged, bulk rum will readily turn to an alternate source of rum should that source have rum available at lower prices. In sum, VIRIL's bulk rum is in the nature of a commodity to its purchasers. This situation is in contrast to that involving Puerto Rican rum, which is aged and primarily marketed under brand names. Thus, Puerto Rican rums are more sheltered from price competition. Since Virgin Islands rum does not enjoy the brand loyalty enjoyed by such Puerto Rican rums as Bacardi and Ronrico, VIRIL would be particularly affected by increasing levels of unaged, bulk rum imports from foreign Caribbean nations.

At the present time, the tariff levied on foreign rum entering the United States -- $1.62 per proof gallon in 1982 -- effectively protects VIRIL's share of the American rum market. Elimination of the rum tariff, however, would lead U.S. purchasers of Virgin Islands rum to turn to alternative rum suppliers in the non-U.S. Caribbean. Since many other Caribbean countries already have lower wage rates, have molasses locally available, may transport goods in non-U.S. vessels, and do not impose the substantial environmental and other regulatory burdens now applicable in the Virgin Islands, the competitive position of rum production in the Virgin Islands would clearly be adversely affected. Schenley wants to see the economy of the Virgin Islands continue to grow and prosper. However, without a U.S. tariff on foreign rum, and in light of the present competitive disadvantages just listed, expanding or even maintaining a rum distillery there is brought into serious question.

Furthermore, there is no question that Caribbean rum producers, some of them the very same companies with rum distilleries or rum-producing affiliates in Puerto Rico,1/ are ready to take immediate advantage of tariff elimination. In recent years, over 85% of the foreign rums entering U.S. trade channels have come from Caribbean Basin countries, 65-75% of the total from Jamaica alone. Most of this Caribbean Basin rum is shipped to the United States in bulk.

In addition, VIRIL has been unable to develop a broad export market for its rum outside the United States because of tariff and non-tariff barriers in other world rum markets. The EEC, for example, allows rum from many Caribbean nations to be imported duty-free, subject to certain quota levels. Since the Virgin Islands is a U.S. possession, however, rum from the Virgin Islands is not afforded such duty-free treatment. With the market for unaged bulk rum so sensitive to price, the Virgin Islands is thus effectively foreclosed from competing in European markets. Similarly, while a high tariff keeps Virgin Islands rum out of Canada, the Commonwealth countries of the Caribbean have long enjoyed preferential access to the Canadian rum market.

The lifting of U.S. tariffs on all shipments of Caribbean bulk rum would have serious competitive consequences.

1/ Seagram, which owns Puerto Rico Distillers, Inc., also owns the Myers Rum distillery in Jamaica. Bacardi has distilleries on Martinique and in the Bahamas. Even the small Brugal distillery on St. Croix, which now produces for the U.S. market, might be replaced by production from Brugal's distillery in the Dominican Republic.

While most foreign Caribbean rum producers would be able to export rum duty-free to European, Canadian, and United States markets, VIRIL would remain effectively shut out of all but the last and with greatly reduced capacity to compete effectively even at home. Caribbean bulk rum made at lower cost on neighboring islands would replace an increasing amount of Virgin Islands rum in the United States, and Virgin Islands rum would continue to be subject to prohibitive tariffs levied by the EEC countries and Canada. The same situation would probably prevail as to markets in Mexico, Colombia, and Venezuela, with whom the U.S. is cooperating in the CBI.

It is important to recognize that granting unlimited duty-free treatment to products of foreign Caribbean nations simply makes no sense when it comes to Virgin Islands rum. Compare the overall benefit that this policy will produce on other Caribbean islands to the harm visited on the workers and people of the Virgin Islands and the V.I. Government. It is not likely that new rum distilleries will be built or new workers employed in Caribbean Basin countries. More probable is the scenario in which existing distilleries in the Caribbean Basin (some of which are owned by multinational corporations[2] headquartered outside the Caribbean), would simply expand their production by operating more days per

---

2/ E.g., Myers rum of Jamaica is owned by Seagram, a Canadian corporation; Pott rum of St. Maarten is owned by a German corporation.

year. Therefore, the extent to which additional rum operations will spur the economies of Caribbean Basin countries is limited at best. This benefit, when weighed against the damage which will be caused in the Virgin Islands by the elimination of all duties on foreign Caribbean rum, demonstrates the lack of wisdom behind that proposal. It is simply illogical to jeopardize a vital sector of the economy of the Virgin Islands in return for such a small potential benefit among CBI beneficiary countries.

Let me address just briefly the supposed safeguard mechanism in the CBI in instances of injury to domestic industry -- resort to the International Trade Commission. The analogue of this mechanism now embodied in Sections 201 and 203 of the Trade Act of 1974 has proven a cumbersome and unwieldy device indeed. When invoked, it demands a very heavy burden of proof on the part of the domestic petitioner and, even if the ITC finds in the petitioner's behalf, relief is still in the President's discretion. Accordingly, the mechanism proposed in the bill before the Committee is far too time-consuming, expensive, and uncertain a route to relief to assuage our concerns. By the time we could present our case to the ITC and persuade the President that relief should be granted (even assuming the latter did not conflict with Executive Branch foreign policy concerns -- regarding Jamaica, for example), our markets could be lost irreversably.

Thus far, I have told you why we think immediate removal of the tariff on foreign Caribbean rum is not a sound policy. I want to make crystal clear VIRIL's preference that the existing tariff on rum be maintained. But if the Congress, in its wisdom, determines that some tariff relief for foreign Caribbean rums is necessary and appropriate, there are ways to structure such relief which would be less devastating to VIRIL than the sweeping proposal introduced in March.

One such relief mechanism would be to authorize the President to remove the tariff on rum imported into the U.S. in bottles (i.e. TSUS 169.13), but retain the tariff on rum in bulk containers (i.e. TSUS 169.14). This regime would preserve a price advantage for domestic bulk rum, the most vulnerable and price-sensitive segment of the domestic rum industry. At the same time, it would encourage Caribbean Basin rum producers to expand and concentrate their operations in bottled rum, the most labor intensive phase of rum production. Another approach would be for the Congress to provide for gradually increasing entry of limited amounts of duty-free Caribbean rum while at the same time augmenting VIRIL's capacity to compete effectively with foreign producers.

Apart from its concerns with respect to the continued existence of a tariff on foreign Caribbean rum, VIRIL needs regulatory relief under the Clean Water Act if it is to stand any chance of competing successfully with bulk rum producers elsewhere in the Caribbean. The biodegradable effluent produced by VIRIL's rum distilling operations is currently discharged through an outfall into the oxygen-rich waters of the Caribbean Sea off the south shore of St. Croix. Despite a general consensus by local environmental authorities and island residents that the quality of these waters is not being harmed by VIRIL's discharges, the Environmental Protection Agency has insisted on the construction of a sophisticated waste treatment facility at a cost of $4 million or more. While doing nothing to enhance water quality, this facility would cost at least $1 million per year to operate and would itself contribute to air pollution and possibly even create a solid waste disposal problem.

The cost of constructing and operating such a treatment facility would be crippling to VIRIL, while the facility would produce no real environmental benefit. In fact, the cost of simply building the facility required by EPA would <u>exceed</u> the current book value of VIRIL's fixed assets. This is far and away VIRIL's greatest regulatory burden, and it is one our foreign competitors do not face, though they discharge their distillery wastes into the very same body of water. Even without a tariff reduction, this regulatory requirement, pointless as far as water quality interests are concerned, severely jeopardizes VIRIL's capacity to compete successfully in a price-sensitive market. Certainly the combination of the elimination of the rum tariff and the imposition of EPA's regulatory requirements would prevent VIRIL from competing on an equal footing with other rum producers.

During its consideration of the Caribbean Basin Initiative this spring, the Trade Subcommittee of the House Ways and Means Committee adopted two amendments to the CBI which would alleviate the potential harm to VIRIL and to the Virgin Islands economy posed by the CBI as it was originally introduced. A copy of each amendment is attached to this statement. The first amendment addresses the environmental issue, and essentially places regulation of rum effluent discharges in the hands of the Virgin Islands Government. Discharges of rum effluent occurring at least 1500 feet offshore would not be subject to certain restrictive provisions of the Federal Water Pollution Control Act so long as the Governor of the Virgin Islands determines that the discharges will not damage water quality, endanger human health or marine life, or unreasonably limit water uses. This amendment allows for consideration of observable environmental conditions in determining appropriate treatment levels rather than the application of an abstract environmental concept which would require the construction of unnecessary treatment facilities.

The environmental amendment adopted by the Trade Subcommittee recognizes the unique position of the Virgin Islands as a United States possession where environmental factors are different from those in the mainland United States. It allows the Virgin Islands Government to consider environmental and economic conditions which the drafters of the Clean Water Act did not contemplate. The Virgin Islands Government has a vested interest in maintaining a clean and healthy environment because of the Islands' flourishing tourist industry. Placing regulation of the Virgin Islands rum industry in the hands of Virgin Islanders, the only people whose environment the discharge could conceivably affect, is a sensible approach to the environmental issue, as it ensures that treatment costs and environmental benefit will be appropriately balanced. During a hearing on the CBI held by this Committee on August 2, 1982, Deputy U.S. Trade Representative David Macdonald stated that the Administration supports the environmental regulatory relief amendment adopted by the Trade Subcommittee.

The second amendment adopted by the Trade Subcommittee to help protect the Virgin Islands rum industry is a tariff-rate quota on foreign Caribbean rum entering the United States. While the total quantity of foreign Caribbean rum imported into the United States would not be limited in any way, a limit on the amount of foreign Caribbean rum that can be imported duty-free would be established by the tariff-rate quota. Furthermore, the amount of foreign Caribbean rum eligible for duty-free treatment would increase in an orderly manner without jeopardizing the economic health of the Virgin Islands rum industry and the fiscal stability of the Virgin Islands Government.

Thus, means exist by which the U.S. rum market can be substantially opened to foreign Caribbean rum producers without irreparably compromising VIRIL's competitive position.

But enactment of a tariff-rate quota without environmental regulatory relief, or vice versa, will fall far short of the task. All we are asking, and I want to stress this, is the chance to compete with foreign producers on equal terms in the marketplace, free of undue and unnecessary regulatory burdens which they do not bear.

Schenley and VIRIL recognize the importance of an economically prosperous Caribbean. We have worked together with the residents of the United States Virgin Islands -- the Americans of the Caribbean -- to help bring prosperity to the area. We are prepared to make more than our share of the sacrifices necessary to spread prosperity to other neighboring countries throughout the Caribbean Basin. All we ask is that the sacrifices be limited to what is reasonable and truly likely to help those countries rather than unnecessarily burdensome and harsh in their consequences. VIRIL is prepared to compete with foreign producers in the U.S. and other markets, and we are confident that, given an equal chance, VIRIL can do so successfully.

We also believe, however, that unless modifications such as those adopted by the Trade Subcommittee are made to the original CBI proposal so as to reduce the adverse impacts on Virgin Islands rum, the CBI will deliver to the people of the Region a most unfortunate message about U.S. treatment of those who rely on this country's policies for their economic well-being. Such a short-sighted approach ill-serves us all. What the Caribbean needs, and the situation with rum is in some respects a microcosm of this, is not a dramatic sweep of the hand, but a carefully thought out trade policy which will enable our neighbors to enjoy a fair share of U.S. markets and, at the same time, retain existing trade opportunities in the U.S. market for the business community established in the Virgin Islands.

Summary of Principal Points of Statement

Legislation introduced in mid-March implementing the Caribbean Basin Initiative poses a threat of substantial harm to the Virgin Islands rum industry, a vital sector of the Virgin Islands economy. The major producer of Virgin Islands rum, Virgin Islands Rum Industries, Ltd. (VIRIL), would be placed at a severe competitive disadvantage if the present U.S. rum tariff is removed with respect to foreign Caribbean rum. In addition, the imposition of costly and unjustified environmental regulatory requirements creates a substantial competitive burden for VIRIL.

If Congress determines that the present rum tariff structure should in fact be altered, the retention of the U.S. tariff on bulk shipments of foreign Caribbean rum is one option that should be considered. In the alternative, Congress could provide for gradually increasing entry of limited amounts of duty-free Caribbean rum while at the same time augmenting VIRIL's capacity to compete effectively with foreign producers. This is the approach taken by the Trade Subcommittee of the House Ways and Means Committee, which adopted a tariff-rate quota on foreign Caribbean rum entering the United States and an amendment placing regulation of rum effluent discharges in the hands of the Virgin Islands Government.

The means exist by which the U.S. rum market can be substantially opened to foreign Caribbean rum producers without irreparably compromising VIRIL's competitive position. If both a tariff-rate quota and environmental regulatory relief are enacted, VIRIL will have the chance to compete with foreign producers on equal terms in the marketplace, free of undue and unnecessary regulatory burdens which they do not bear. In this context, VIRIL is confident of its ability to compete successfully and to continue in its essential role in the economy of the Virgin Islands.

(d)(1) For purposes of this subsection, the term "entered" means entered, or withdrawn from warehouse for consumption, within the customs territory of the United States.

(2) Except as provided in paragraph (3), duty-free treatment provided under this title during any calendar year after 1982 to rum that is the product of a beneficiary country shall terminate for such portion of that year that remains after the quantity of such rum which is entered during that year exceeds whichever of the following quota amounts is greater:

(A) An amount, as determined by the President, equal to 110 percent of the total amount of rum that

was the product of that beneficiary country and was entered during 1981; or

(B) 10,000 proof gallons.

(3) If the President determines, with respect to calendar year 1983 or any year thereafter, that—

(A) the total quantity of rum produced in the United States Virgin Islands and exported to the United States during that year equalled at least 95 percent of the total quantity of rum that was produced in that insular possession and exported to the United States in 1981; and

(B) the total quantity of rum produced in Puerto Rico and exported to the United States during that year equalled at least 95 percent of the total quantity of rum that was produced in that commonwealth and exported to the United States in 1981;

then for purposes of applying paragraph (2) during the year after the year for which such determination was made, the President may increase the quota amounts in subparagraphs (A) and (B) of such paragraph to amounts that do not exceed by more than 10 percent the quota amounts that were applied under such subparagraphs during the year for which such determination was made.

(4) If an increase is made pursuant to paragraph (3) in the quota amounts in subparagraphs (A) and (B) of paragraph (2) for any year—

(A) the percentage of such increase shall be the same for both quota amounts; and

(B) the quota amounts, as so increased—

(i) shall be applicable to all beneficiary countries, and

(ii) shall apply for purposes of paragraph (2) until the next year, if any, for which a further increase in such amounts is made pursuant to paragraph (3).

(g) Any discharge from a point source in the United States Virgin Islands in existence on the date of the enactment of this subsection which discharge is attributable to the manufacture of rum (as defined in paragraph (2) of section 7652(c) of the Internal Revenue Code of 1954, as added by section 302 of this Act) shall not be subject to the requirements of section 301 (other than toxic pollutant discharges), section 306 or of section 403 of the Federal Water Pollution Control Act if—

(1) such discharge occurs at least 1,500 feet into the territorial sea from the line of ordinary low water from that portion of the coast which is in direct contact with the sea, and

(2) the Governor of the United States Virgin Islands determines that such discharge will not interfere with the attainment or maintenance of that water quality which shall assure protection of public water supplies, and the protection and propagation of a balanced population of shellfish, fish, and wildlife, and allow recreational activities, in and on the water and such modification will not result in the discharge of pollutants in quantities which may reasonably be anticipated

to pose an unacceptable risk to human health or the environment because of bioaccumulation, persistency in the environment, acute toxicity, chronic toxicity (including carcinogenicity, mutagenicity, or teratogenicity), or synergistic propensities.

STATEMENT OF
DAVID G. BURNEY, COUNSEL
UNITED STATES TUNA FOUNDATION
BEFORE THE SENATE FINANCE COMMITTEE
AUGUST 2, 1982

Mr. Chairman and members of the Senate Committee on Finance, the United States tuna industry welcomes this opportunity to comment on S.2377, the Caribbean Basin Economic Recovery Act (CBERA). Of particular interest and concern to the tuna industry is the proposed creation of a one-way free trade zone which would allow eligible Caribbean nations to develop industries for the duty-free import of certain products to the United States.

For those of you not familiar with the United States Tuna Foundation, it is a non-profit mutual benefit corporation representing each of the elements of the United States tuna industry, including tuna vessel owners and operators, tuna vessel crew members, tuna processors, and cannery workers.

The United States tuna industry requests that you delete canned tuna from the list of products eligible for the one-way free trade zone contemplated by the CBERA. The inclusion of canned tuna as a product eligible for duty-free treatment will have a devastating effect on the United States tuna industry at all levels. Inclusion will have a broad and adverse effect upon the economies of Puerto Rico, American Samoa, Hawaii and southern California.

While the overall concept of the CBERA is defensible, the Administration must assess the adverse impact it will have on an industry such as the tuna industry that cannot compete with imports originating in nations not subject to the same labor and environmental standards that exist in the United States, the Commonwealth of Puerto Rico and the insular possession of American Samoa. Both Puerto Rico and American Samoa depend heavily upon tuna processing for their private sector employment.

Representatives of Puerto Rico and American Samoa have conveyed their concerns to this Committee outlining the unique importance of tuna processing to their economic well-being. This can be illustrated in many ways - three of which are:

(1) In recent years, about 55 percent of all U.S. domestic canned tuna has been produced in the islands of Puerto Rico, American Samoa, and Hawaii. (See publications: Canned Fishery Products, Annual Summary 1978, 1979 and 1980 - Department of Commerce, National Marine Fisheries Service, Resource Statistics Division)

(2) Of the nearly 1500 line items representing shipments from Puerto Rico in 1980, canned fish (tuna) 1122500 is the largest single

line item in value. Tuna by-products such as petfood are also important (1848034-1848032-1845700). (See publication: U.S. Trade with Puerto Rico and U.S. Possessions - FT800 - Annual 1980 - Table 3)

(3) Canned tuna and related products represent about 99 percent of the value of all shipments by American Samoa to the United States. (See publication: U.S. Trade with Puerto Rico and U.S. Possessions - FT800 - Annual 1980 - Table 4)

The investment by the tuna industry and the concurrent growth in tuna production have combined to advance the economic interests of Puerto Rico and American Samoa. The mutuality of interest has resulted in the following developments:

(1) The establishment of tuna processing facilities in Puerto Rico was a major impetus to the development and an increase utilization of tuna fisheries of the Atlantic Ocean - an ongoing process.

(2) The establishment of tuna processing facilities in American Samoa was a major factor in an extension of tuna fisheries in the Pacific Ocean to the south Pacific as well as, in very recent times, the central and western Pacific - an ongoing process.

(3) The establishment of tuna processing facilities in Puerto Rico and American Samoa created an offset to chronic unemployment through provision of job opportunities and training.

Tuna processing plants in Puerto Rico, American Samoa, and on the mainland operate under U.S. government regulations administered by the Department of Agriculture, Food & Drug Administration, Department of Labor, Environmental Protection Agency, and OSHA. Employees are supported by wage and hour laws and similar standards. This full range of regulatory standards is not imposed by or on CBERA eligible countries. Obviously, this provides a substantial cost advantage to tuna processors which locate in CBERA countries.

A recent example of regulatory enforcement impacting on tuna processors is - in 1977, three plants located in Puerto Rico were required to build a $1 million waste treatment facility. Moreover, these companies pay over $500,000 annually to operate the facility. There are no similar requirements for industries located in CBERA eligible countries.

While we support the Administration's policy to assist in upgrading the economies of our neighboring Caribbean Basin countries, it should not be done at the expense of the United States work force. If the Administration continues to support the multitude of labor, environmental and other regulations which impact U.S. industries, it must offer some protection from foreign competition.

It is our belief that the one-way free trade zone will stimulate a shift of tuna production from the United States to CBERA countries, thus creating an adverse affect on tuna related employment in the United States, Puerto Rico and American Samoa. While unemployment is at record levels on the United States mainland, it is presently running in excess of 22 percent in Puerto Rico. In American Samoa, tuna processing provides the largest private sector employment. (See Department of Labor Wages and House Division reports)

The CBERA in many ways is contrary to the commitment made by the United States when it adopted the Trade Reform Act of 1974. With that Act, the Congress made a commitment not only to foster economic growth in the United States, but also to protect and expand domestic employment.

With specific reference to Puerto Rico and American Samoa, the United States Senate Finance Committee in its report on the Trade Reform Act of 1974, stated:

> "The Committee believes that products which are produced in the Commonwealth of Puerto Rico or in the insular possessions of the United States in significant quantities for export to the United States should be excluded from receiving GSP preferences, if the grant of such preferences would have a detrimental effect on the economies of Puerto Rico or the territories."

As recently as May 20, 1981, the Trade Policy Staff Committee, Division of the Trade Representatives' office, after full hearings, denied a GSP petition from Malaysia and Morocco to reduce or eliminate the duty on processed tuna (46 Federal Register 287779). This was a reaffirmation of the United States' policy to protect the trade and economies of our territories and possessions and was also a recognition that removal of the duty on processed tuna would jeopardize one of our nation's most valued and successful seafood industries.

The United States balance of trade would be adversely affected by a shift of tuna production from our Islands and the Continental United States to foreign nations as set forth below:

> In 1979 the United States merchandise trade deficit was $24.7 billion. The fishery products deficit (net imports over exports) was at $2.7 billion, representing 10.9% of the total deficit.
>
> In 1980 the merchandise trade deficit narrowed to $20.2 billion. (Statistical Abstract of the United States 1981 TAble 1508). The fishery products deficit narrowed slightly to $2.6 billion but represented a larger - 13.1% - of the U.S. merchandise trade deficit.

In 1981 no overall U.S. figures have been printed. However the fishery products deficit increased to a new annual record of $3 billion.

Since tuna in all forms represents 14 percent of the fishery product imports (valued in 1981 at $589 million), the CBERA will only increase the fishery products deficit.

The Administration has stated that current imports of canned tuna from the Caribbean Basin are negligible and only El Salvador, Costa Rica, and Panama have the potential for a tuna industry. Based on this, they conclude that there is very little threat of injury to the U.S. tuna industry. This completely ignores the fact that the Act provides for the creation of joint ventures with only a percentage of the imported product having to be completed in the CBERA eligible country.

The tuna industry, through the Department of State, is aware of discussions which have taken place between CBERA eligible countries and outside countries aimed at creating joint ventures to establish tuna processing facilities that can take advantage of the one-way free trade zone.

If the CBERA is enacted, the U.S. tuna processors will be put in the unenviable position of either transferring their processing equipment from Puerto Rico, American Samoa and the United States mainland to CBERA countries or face the distinct possibility of irreparable economic loss. Transfers although expensive are quite possible and will result in the loss of thousands of jobs in areas that cannot afford further unemployment. If transfers take place, the United States high seas tuna fishermen who remain will not have domestic tuna processing facilities for unloading and will be subject to the whims of foreign processors. All in all, it is a nightmare.

During recent tuna conservation treaty negotiations with Costa Rica, Panama, and Mexico, the subject of duty-free treatment of processed tuna into the United States was discussed. In each instance, the concept was rejected by representatives of the U.S. Department of State as being outside the scope of the negotiatons concerning tuna conservation and management. The CBERA suggests that the United States is willing to undercut the U.S. negotiating position on tuna conservation and management, which we trust is not true.

The United States has developed the harvesting technology, processing technology and marketing capability to make canned tuna the valued consumer product in this country it is today. (It represents two-thirds of all U.S. canned fish consumption.) We possess the largest market for canned tuna in the world. Why in the world would we give this away to foreign importers? The United States should not encourage U.S. food industries to relocate in foreign countries at a time when nutritional food products are becoming increasingly more scarce.

The Administration concedes that some U.S. industries may be adversely impacted by the CBERA but argues that there is a "safeguard mechanism" to offset possible injury. We do not believe that a safeguard mechanism that comes into effect after injury occurs is practical or effective. Should an eligible country, relying on the proposed Act, expend substantial funds to build a tuna processing facility, it would be extremely unlikely the U.S. would then deny them access to our market. A denial of access at that point in time would completely negate the spirit of the Act. Vulnerable U.S. industries should be excluded from the Act now.

Given the depressed and fragile condition of the U.S. economy and, in particular, the economies of Puerto Rico and American Samoa, it is nonsensical to transfer tuna processing employment to areas outside the United States. The U.S. tuna processors cannot be competitive with tuna processors that are not subject to the same labor, environmental and other standards maintained by the U.S. government. It was for this reason that tariffs were placed on processed tuna in the first place.

For the reasons given we ask that this Committee exclude canned tuna from the provisions of the CBERA.

U.S. Council for an Open World Economy

INCORPORATED

7216 Stafford Road, Alexandria, Virginia 22307

(202) 785-3772

Statement submitted by David J. Steinberg, President, U.S. Council for an Open World Economy, on trade-policy aspects of the Administration's Caribbean Basin Initiative, in hearings before the trade subcommittee of the Senate Committee on Finance, August 9, 1982

(The U.S. Council for an Open World Economy is a private, non-profit organization engaged in research and public education on the merits and problems of developing an open international economic system in the overall public interest. The Council does not act on behalf of any private interests.)

<u>Summary</u>

This statement applauds the Administration's concern with the economic well-being, political stability and national security of the countries of the Caribbean Basin, and commends the Administration for the general thrust of its Caribbean Basin Initiative (CBI). However, the trade-policy aspects are less than they can and should be in both foreign-economic and domestic-economic terms. The rest of the Third World will encounter pro-Caribbean discrimination which a waiver from the General Agreement on Tariffs and Trade, if obtained, will not adequately assuage. The Administration's assertion that protection available against disruptive imports remains at the disposal of U.S. industry and labor is not dependable assurance that the interests of vulnerable U.S. industries, workers and communities will be adequately protected. A more far-reaching domestic-policy backstop for the CBI is needed both to ensure the effectiveness of this foreign-policy initiative and to advance the best interests of all sectors of the U.S. economy.

BOLD, BUT NOT BOLD ENOUGH

The President's commendable declaration of a U.S. initiative to help the peoples of the Caribbean Basin refers to "a crisis of unprecedented proportions." The President states that the economic well-being and security of the peoples of the area are threatened, and that "economic disaster" is threatening even the most established democracies. The United States, he asserts, is prepared "to act boldly" in responding to this emergency. However, the trade aspects (perhaps other aspects) of the CBI do not measure up to the best efforts which this description of the emergency ought to evoke. The initiative is not bold enough.

The trade-policy segment would provide duty-free, unrestricted

11-310 O—82——33

access to the U.S. market for all Caribbean Basin exports for 12 years -- with certain product exemptions or reservations: textiles and apparel, sugar, and products covered by current U.S. import-relief actions. Such concessions to Caribbean countries amount to discrimination against comparable exports from other underdeveloped countries. A waiver from the rules of the General Agreement on Tariffs and Trade would be necessary, posing problems for U.S. relations with underdeveloped countries outside the Caribbean Basin. The waiver, even if obtained, would not resolve these broader issues. The initiative the United States should be developing with respect to underdeveloped countries should encompass all such countries, many of which outside the Caribbean area are threatened with crises comparable with those in the Caribbean Basin, and merit similar boldness in our response.

The time-span of the trade concessions we provide, even for the CBI alone, should be indefinite (not limited to 12 years), subject to possible suspension, temporarily, to deal with unforeseen hardship which U.S. industries competing with these imports may encounter. The standards for suspension should be very strict.

No product should be permanently exempt. The timetable for providing free access to our domestic market might be slowed somewhat for some products in order to buy adjustment time for weak industries requiring special assistance. Such differentials in the timetable need not undermine the credibility of the U.S. initiative. Announced determination to remove import impediments on all products, with deliberate speed, would itself contribute immeasurably to the spirit and credibility of a new U.S. commitment to help the peoples of the underdeveloped countries.

One-way free trade of this scope (equivalent reciprocity cannot be expected until some distant millennium) can be made economically viable and politically palatable if it is backstopped in our domestic policies with an adjustment, economic-development strategy that rejects simplistic recourse to import restriction and, instead, addresses the real problems and needs of vulnerable U.S. industries, workers and communities and helps them constructively, in the overall public interest, over a transition period of adjustment to new realities. A full-employment policy is an essential component of such a strategy. Coherent industry-redevelopment strategies would tend to accelerate removal of any import restraints found to be essential for effective transition in industrial redevelopment.

Much more can and should be done to reassure industries, workers and communities whose products are not now exempt from the free-trade measures of the CBI policy but who fear the consequences of such access to the U.S. market. This should be done in the interests of both the Caribbean initiative and the health of the U.S. economy. The President has said: "Every protection available to U.S. industry and labor against disruptive imports will remain." The protection now available under the import-relief provisions of the Trade Act is import restriction for an entire industry that has been seriously injured by imports or is threatened with such injury, and adjustment assistance for firms, workers and communities suffering such hardship. Not only have adjustment assistance appropriations been cut; there is no assurance of suitable job relocation for workers who have been retrained for other employment. Import restriction itself, as currently structured, has serious shortcomings as an instrument of government assistance. Firms that may not need help secure windfall gains, while firms that do need help may not receive the help they need, and may find competition from the stronger members of the industry more severe behind the new import control. The law does not require a coherent industry-redevelopment strategy as the framework for whatever aid is given to an industry that merits assistance. The trade legislation should be reformed to correct this shortcoming. No such reform is in the offing.

Even if an industry can make a good case for government help under the current escape clause, and the International Trade Commission recommends import restraint, there is a real possibility that the President may, at least in some cases, reject import restraint for foreign-policy reasons related to the effectiveness and credibility of the Caribbean Basin program. What if adjustment assistance to individual firms, workers and communities isn't adequate as an alternative? Is the government prepared for new initiatives in domestic adjustment? In addition to stating that every protection available to U.S. industry and labor against disruptive imports will remain, the President should have pledged government consultation with vulnerable U.S. industries, workers and communities on ways government may help forestall possible injury without suspending free access for the products involved. Alternatives to import restriction where injury has occurred or is threatened would also be explored. Reassessment of statutes and regulations materially affecting these industries, to identify and correct any inequities, is one course of action deserving attention in this regard.

Such assurances of government interest in the problems and needs of our weaker industries, and of government determination to help find solutions consistent with the total national interest, would help make the CBI policy more credible for both the Caribbean countries and for U.S. interests that may fear the policy's effects on certain sectors of the U.S. economy. The Administration should have said something along these lines in its testimony in both the House and Senate hearings. It did not do so.

The Administration has revealed little sensitivity to the possibility that imports of various products competing with U.S. industries may, in significant measure, be re-programmed (with certain changes in processing) for shipment from non-Caribbean countries via Caribbean countries to acquire enough Caribbean "value added" to qualify for duty-free entry into the U.S. The CBI bill sets the Caribbean "value added" minimum at 25 percent of the appraised value of the item at time of entry into the U.S. (that is, the sum of (a) the cost or value of the materials produced in a beneficiary country or two or more beneficiary countries, plus (b) the direct costs of processing operations performed in such beneficiary country or countries, must be not less than 25 percent of the U.S. import value). This minimum seems too low, certainly in the absence of the U.S. domestic-policy backstop I have advocated.

The Administration's claim that fear of disruptive imports is not justified (arguing that imports of affected products from the Caribbean area are only a tiny fraction of total U.S. imports, even of total imports in the respective categories) neglects the possibly adverse impact on some of the weaker sectors of our economy. It neglects as well the political pressures which have already added significant product exemptions to the CBI bill that cleared as liberal-trade-oriented a committee as the Subcommittee on Trade of the House Committee on Ways and Means.

Back to the Drawing Board

While the Administration's concern with the economic and security problems of the Caribbean Basin is most commendable, the countries of the region, and possible U.S. investors, have cause for apprehension over how much they will really benefit from the CBI's trade measures if there are notable product exemptions and if success in capitalizing on the duty-free status allowed leads to U.S. import restrictions to protect U.S. industries that do not effectively cope with this import expansion. Some U.S. industries, workers and communities, on the other hand, have cause for apprehension over the extent of their government's interest in the domestic dislocation that may result from these trade measures. Will some of these industries, workers, and communities be sacrificed on the altar of U.S. foreign-policy imperatives in an area so near our shores and whose security is so important to our own? If import restraint is not a desirable remedy, what is and is the government prepared for it? The rest of the Third World, for its part, has cause for concern over the extent of U.S. interest in the well-being and security of those countries compared with the countries of the Caribbean Basin.

The CBI strategy needs to be upgraded to cover the whole Third World, to involve all the industrialized countries (thus, among other purposes, diversifying the export-market impact of expanding Caribbean and total Third World exports through programming free access for Third World goods to all these advanced economies), and to ensure the ability of the American economy -- indeed every state in the Union -- to adjust most effectively to the freest access to our market for all types of Caribbean and other Third World exports. The Caribbean Basin Initiative is a step forward in a policy area that demands but is not getting our best efforts. Although the CBI initiative is clearly more politically palatable in the U.S. than an overall free-trade strategy affecting all underdeveloped countries, this more limited project is likely to be so truncated by exemptions and by withdrawals of duty-free status as to weaken seriously its impact on the Caribbean countries and on U.S. foreign-policy and national-security interests. Only the kind of domestic-adjustment strategy that an overall free-trade policy would impel is capable of ensuring the free-trade entry to the U.S. that is so essential to Caribbean economic progress.

Even as limited to the Caribbean area alone, the CBI is not as well-planned an initiative as it could and should have been. The trade component, possibly the entire project, should be sent back to the Administration drawing board for substantial redesign even if confined to the Caribbean Basin.

STATEMENT FOR THE RECORD

of

THE WEST INDIES RUM AND SPIRITS PRODUCERS ASSOCIATION

By Douglas P. Wachholz, Counsel

before the

COMMITTEE ON FINANCE

UNITED STATES SENATE

on

THE CARIBBEAN BASIN ECONOMIC RECOVERY ACT

October 22, 1982
(Revised Version)

The West Indies Rum and Spirits Producers Association ("WIRSPA"), a Caribbean-wide trade association with central offices in Bridgetown, Barbados, represents the interests of national associations of largely private sector rum and spirits producers in the Caribbean, currently consisting of associations from Antigua and Barbuda, The Bahamas, Barbados, Guyana, Jamaica, and Trinidad and Tobago.

WIRSPA supports the U.S. Caribbean Basin Initiative ("CBI") and the present bill (S.2237) to implement the CBI as a worthwhile effort to assist the countries of the Caribbean region through the vigorous promotion of vitally-needed economic development. The three components of the legislation -- trade, investment and concessional aid -- are the proper ingredients for enhancing the economic viability of the Caribbean region.

The Association believes that the bill's provision for duty-free treatment of Caribbean exports is a very effective vehicle for accellerating economic growth and for encouraging each country's private sector to play a lead role in the process. This is especially true with regard to the rum industries.

Presently, full duty charges of $1.62 per gallon are levied on Caribbean rum imports as compared to $.50 for gin, $.48 for Canadian whiskey, $.39 for Scotch whiskey, and no duty on Puerto Rican and Virgin Islands rum. The existing duty on Caribbean rum makes it virtually non-competitive in the U.S., and, consequently, the total rum imports from the WIRSPA countries amounted to only 3.3% of all rum brought into the U.S. in 1981 as compared to the Virgin Islands' share of 12.7% and Puerto Rico's 83.6% share of the 27 million gallon U.S. market. Indeed, because of the high U.S. duty, Barbados, the second-largest producing country, only sends 10% of its exported rum to the U.S., despite the fact that most of its other markets are farther away and involve higher shipping charges.

It should be noted that the rum industry is a particularly important intended beneficiary under the CBI bill because of its pivotal role in the economies of Caribbean exporting countries. Increased rum exports are an immediate direct source of desperately-needed foreign exchange and tax revenues for the governments of these countries. Prime Minister Edward Seaga, who has been actively attempting to improve Jamaica's economy, primarily by rejuvenating the domestic private sector's efforts, believes that additional rum exports to the U.S. will make a difference in his struggle to earn for Jamaica more foreign exchange.

Caribbean rum distillers also provide jobs in countries where massive unemployment causes suffering and leads to possible social and political unrest. Additionally, the employment benefits the rum industry provides are not limited only to the jobs associated with rum distillation. The large and important sugar industries in these countries depend on the growth and stability of the rum industries. Mollasses, an important by-product of sugar production, is the main feedstock in rum production. The demand for rum exports, thus, is a critical determinant of the economic viability of the fragile sugar industries in the rum-producing Caribbean countries. Both Caribbean rum and sugar industries, therefore, will be made more competitive if rum is granted duty-free access to the U.S. market as is envisioned in the present bill.

The Caribbean rum industries also contribute to raising the standard of living of their respective countries by paying high wages. Indeed, workers in rum production earn some of the highest wage rates in the Caribbean. In Jamaica, which is the largest Caribbean rum exporter, the average wage in the aging and distillation process is $210 per week, which is higher than that paid in the bauxite, tourism or agribusiness industries in that country.

An additional positive aspect of allowing Caribbean rum to compete on a duty-free basis is that it involves Caribbean-owned productive capacity to a very large degree. Of the six distilleries in Jamaica -- the largest Caribbean producer -- only one has some foreign ownership. All of the distilleries in Antigua, Barbados and Guyana are locally owned and operated. Distilleries in Trinidad and Tobago are both locally and foreign owned, and foreign investors own the distillery in The Bahamas.

The Association, therefore, embraces S.2237 as announced by President Reagan, and strongly recommends that it be passed without amendment by the Senate Finance Committee and the full Senate of the United States. It is necessary, however, to express WIRSPA's concern that an amendment, introduced by the Delegate of the Virgin Islands, Mr. Ron De Lugo, and adopted in the Subcommittee on Trade of the House Ways and Means Committee, would deny the critical trade opportunity benefits of the bill not only to WIRSPA's private members, but to the governments and people of the rum exporting countries of the Caribbean. It is hoped and believed that the full House Ways and Means Committee will overturn this amendment and restore the original Section 103 to the bill. WIRSPA must also anticipate that an attempt may be made to amend S.2237 in the Committee on Finance to similarly try to deny or limit to Caribbean rum imports the duty-free provision of Section 103. The Association believes this would seriously undermine one of the main purposes of the bill and would harm both U.S. and Caribbean economic and security interests in the region.

The De Lugo Amendment to section 103 adopted by the Subcommittee on Trade, in essence imposes a quota restriction in the form of a limitation on the annual growth rate for duty-free imports to 10%; imports in excess of this rate would be subject to full tariff duty. Moreover, the granting of a 10% annual increase in duty-free volumes of rum is to be predicated on the maintenance of exports to the United States by both Puerto Rico and the Virgin Islands at the level of at least 95% of their respective 1981 export volumes.

The De Lugo Amendment would perpetuate the unfair duty treatment of Caribbean rum producers by restricting volumes of duty-free rum to a 10% annual growth rate which is, in turn, dependent on the continued dominance of the U.S. rum market by the Virgin Islands and Puerto Rico. Such a restriction will ensure that the Caribbean rum producers will continue to be denied real access to the U.S. market.

The particularly discouraging aspect of the Amendment is that it is not needed to protect the continued growth of Virgin Islands and Puerto Rican rum exports. According to the definitive industry trade publication The Liquor Handbook (1982 Edition), the U.S. rum market will continue to grow at an 11% annual rate through 1991. If the Caribbean rums are allowed to compete for a small portion of this rapidly-expanding market, they will be able to take up some of the increasing "growth area", and not in any way threaten present Virgin Islands or Puerto Rican exports. In a rapidly-expanding market, there will be sufficient flexibility to absorb the increased rum volumes entering the U.S. from Caribbean producers without any adverse impact on the Virgin Islands or Puerto Rico. The Caribbean rum producers are simply seeking to share in this bigger market on an equitable basis.

The bill itself has ample and effective safeguards to protect, and even enhance, the interests of the Virgin Islands and Puerto Rico with regard to rum imports. First, Section 302 provides that all excise taxes collected on Caribbean rums will be given as a bonus to the treasuries of the Virgin Islands and Puerto Rico. These amounts will be in addition to the excise taxes collected on Virgin Islands and Puerto Rican rums which are now covered into their treasuries. The second safeguard, under Section 103, allows Virgin Islands industries to bring actions for import relief before the International Trade Commission under the Trade Act of 1974 for any injury caused by increased imports from Caribbean countries. Thirdly, under Section 104, the President may withdraw duty-free treatment on rum if he determines that excise tax revenues given to the Virgin Islands and Puerto Rico fall below the amount that they would otherwise be at had the Caribbean rums been manufactured in the Virgin Islands and Puerto Rico. This last safeguard provides against a potential future lowering of the excise tax rate for Caribbean rums.

It is, therefore, very difficult to imagine any rational argument contending that the bill will hurt the Virgin Islands and Puerto Rico, or their rum industries.

In conclusion, WIRSPA believes that the real access to the U.S. rum market afforded by S.2237 is a matter of vital importance to the rum industries in the Caribbean. With the unfettered duty-free entry of their products into the dynamic U.S. market, they can much more effectively contribute toward solving the region's terrible foreign exchange, revenue and unemployment problems. The Association urges this Committee to pass S.2237 without any limitation on the duty-free entry of rum and to strongly recommend to the Senate to vote for and maintain this position. It would be very damaging to legitimate and long-term U.S. interests to overprotect the Virgin Islands and Puerto Rican rum industries at the expense of helping to alleviate immediate and serious Caribbean needs.

○