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FACT SHEET

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THE CARIBBEAN BASIN INITIATIVE

This DSG Fact Sheet deals with H.R. 2769, Caribbean Basin Economic Recovery Act. The bill is scheduled for House consideration on Wednesday. The key provision in this package of tax and trade incentives is the suspension of U.S. tariffs on some Caribbean products.

Controversy centers on an effort to amend the bill in order to address the concerns of organized labor and others about the bill's impact on American jobs. The Rules Committee has recommended a closed rule permitting only committee amendments to the bill. Rep. Oberstar will lead an effort to defeat the rule and make in order an Oberstar/Gephardt amendment supported by organized labor.

The bill is supported by the Administration and various business groups, and is opposed by major labor unions (see page 5 for a list of group positions). Groups opposing the measure will support the bill if the Oberstar/Gephardt amendment is adopted.

This DSG Fact Sheet contains the following sections:

Section I

BACKGROUND & SUMMARY

The 28 nations of the Caribbean basin are suffering rising balance-of-payment deficits, very high unemployment, strained government services, deteriorating living standards, and a severe foreign debt crisis. The region has been caught between rising prices for the products and energy these nations import and falling prices for the products they export. The political instability of the region, and the armed struggles in Central America have focused greater U.S. attention on the area's economic troubles.

President Reagan proposed a package of assistance, known as the Caribbean Basin Initiative (CBI), early last year. The Administration proposal included increased economic aid for the region and tariff concessions for Caribbean countries. The Administration maintained that CBI was needed to address both the immediate problems of the Caribbean region and the long-term difficulties of accelerating economic development in the area.

The economic aid portion of the Administration's CBI plan has been relatively noncontroversial since first proposed. Instead, opposition has centered instead on the proposed suspension of U.S. tariffs on many products imported into the United States from certain Caribbean countries. American labor unions, while supporting increased economic aid for the Caribbean, believe that the tariff concessions would eliminate American jobs by helping Caribbean industries compete against U.S. firms. The sensitivity of American labor to the jobs dimension of the CBI proposal has been greatly increased by the large number of unemployed American workers -- still more than 11 million despite signs of an economic recovery -- and the opposition of the Administration to most efforts to create U.S. jobs and alleviate the effects of the worst recession since the 1930s.

Supporters of the bill contend that it will promote economic growth and political stability in the strategically vital Caribbean area. They argue that encouraging new Caribbean industries will ultimately create new jobs in the United States by expanding the American export market. Proponents maintain that the bill is unlikely to have any adverse effect on American workers, pointing out that the Caribbean accounted for just over 3% of all U.S. imports last year, and that the legislation will not affect 90% of those imports.

Opponents argue that unless the bill is amended on the Floor it will result in the loss of American jobs. Rep. Oberstar is leading an effort to defeat the rule, which permits only Ways and Means Committee amendments, in order to secure a new rule allowing consideration of an amendment by Rep. Oberstar or Rep. Gephardt. The Oberstar/Gephardt amendment, strongly supported by organized labor, addresses the concerns of the bill's opponents regarding the duty-free importation of certain Caribbean products and other matters. Major labor unions and congressional opponents of the bill as reported from the committee have stated that they would support passage of the measure if the Oberstar/Gephardt amendment were adopted.

SUMMARY

The bill authorizes the President to grant 12 years' duty-free treatment on U.S. imports of certain articles from 28 Caribbean Basin countries and territories. It stipulates six conditions that disqualify a country or territory from duty-free status, but authorizes the President to waive certain of these conditions if such waiver would be in the economic or security interest of the United States.

The bill stipulates that, to be eligible for duty-free treatment, an article must be imported directly from one of the designated countries, contain a minimum of 35% Caribbean content, and be entirely produced or substantially remade in the beneficiary country. The bill exempts certain import-sensitive products from duty-free treatment. It makes sugar eligible for duty-free treatment, but limits this eligibility according to U.S. market conditions. Additionally, the measure allows deductions for business expenses incurred while attending conventions and meetings in Caribbean Basin countries (and Bermuda) that meet certain criteria.

The Oberstar/Gephardt amendment, which is <u>not</u> in order under the rule recommended by the Rules Committee, would provide for the human rights of Caribbean workers, tighten the Caribbean local content requirements, eliminate additional Caribbean products from duty-free treatment, and remove Taiwan, Korea, and Hong Kong from duty-free treatment under the Generalized System of Preferences.

RULE & PARLIAMENTARY SITUATION

The Ways and Means Committee reported the bill by voice vote (H.Rept. 98-226). The Rules Committee has recommended a modified closed rule with two hours of general debate. The rule only permits Committee amendments which may not be amended.

GROUP POSITIONS

The bill is supported by the U.S. Chamber of Commerce, Association of American Chambers of Commerce in Latin America, Emergency Committee for American Trade, Council of the Americas, and Caribbean Central American Action. The bill is opposed by the AFL-CIO, the Steelworkers, UAW, CWA, International Ladies Garment Workers Union, Service Employees International Union, United Food and Commercial Workers International Union, International Association of Machinists and Aerospace Workers, Amalgamated Clothing and Textile Workers Union, Bricklayers, International Union of Electronics, International Union of Electrical, Radio, and Machine Workers, the Stone, Glass and Clay Coordinating Committee (AFL-CIO), Seafarers Union, Maritime Trades Department (AFL-CIO), International Brotherhood of Electrical Workers, Operating Engineers Union, Laborers Union, and American Federation of Teachers.

The Oberstar/Gephardt amendment is supported by all of the above groups which oppose the bill. These organizations have stated that they would support the bill if the Oberstar/Gephardt amendment were adopted. The amendment is opposed by the Emergency Committee for American Trade, and Caribbean Central American Action.

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Section II

BASIC PROVISONS

This section summarizes the major provisions of H.R. 2769, Caribbean Basin Economic Recovery Act. The bill authorizes the President to grant 12 years' duty-free treatment on U.S. imports of certain articles from 28 Caribbean Basin countries and territories. The duty-free authorization would end on September 30, 1995.

The bill lists the following countries and territories as eligible for the President's designation of duty-free status:

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

The measure disqualifies any of the above countries or territories from duty-free status if it:

* Has a communist government;
* Fails to meet certain criteria regarding nationalized or expropriated U.S. property;
* Fails to recognize awards arbitrated in favor of U.S. citizens;
* Gives tariff preferences to products of other developed countries that could harm U.S. commerce;
* Broadcasts U.S. copyrighted material without the owners' consent; and
* Has not signed an extradition treaty with the U.S.

The legislation authorizes the President to waive any of the first three conditions if he determines that designation of the country in question would be in the national economic or security interest of the United States. Such a determination must first be reported to Congress. The bill also sets out certain discretionary factors the President must consider before designating a country for duty-free treatment.

To be eligible for duty-free treatment, an article must meet three "rule of origin" requirements. It must:

1) Be imported directly from a beneficiary country;

2) Contain a minimum of 35% local content from one or more of the designated countries (up to 15% of the total value of the article from U.S.-made materials may count toward the 35% requirement);

3) Be entirely produced by the beneficiary country, or, if it contains foreign materials, be substantially remade in the Caribbean into a new or different product.

The bill exempts the following products from duty-free treatment: textile and apparel, footwear, handbags, luggage, flat goods (such as wallets, change purses, key cases, and eyeglass cases), work gloves, leather wearing apparel, canned tuna, and petroleum products.

The measure makes sugar eligible for duty-free treatment, but limits this eligibility according to U.S. market conditions. Duty-free sugar imports from beneficiary countries are limited if the imports would interfere with the U.S. price support program for sugar. At such times, all beneficiary countries (except the Dominican Republic, Guatemala, and Panama) would be subject to the quantitative limits of the GSP or quotas negotiated by the President. The three exempted countries are the largest suppliers and would be limited by absolute quotas, with these quantities receiving duty-free treatment. The bill permits the President to adjust all limits at his discretion according to U.S. market conditions.

The bill requires all designated countries that want duty-free treatment for sugar and beef to submit a "stable food production plan" within three months of their designation as eligible for duty-free status. The plan should contain, among other data, information on current levels of food production, the nutritional health of the population, and production and export levels of sugar and beef. The President may suspend duty-free treatment for sugar and beef if he determines that a country is not adequately protecting basic food production.

The legislation permits the President to suspend duty-free treatment under the import relief provisions of the Trade Act of 1974 or under national security provisions. It also establishes an emergency relief procedure for perishable agricultural products.

The measure provides preferential treatment for certain imports from Puerto Rico, the Virgin Islands, and other U.S. possessions. It also requires that all excise taxes collected on foreign rum imported into the U.S., whether or not from Caribbean countries, be paid to the treasuries of Puerto Rico and the Virgin Islands. Under present law, only U.S. excise taxes paid on rum made in Puerto Rico and the Virgin Islands and brought into the United States are transferred to the treasury of the island where the rum was made.

Finally, the bill allows deductions for business expenses incurred while attending conventions and meetings in Caribbean Basin countries (and Bermuda) that meet certain criteria. The Internal Revenue Code generally does not now allow deductions for business expenses incurred while attending a convention held outside the North American area unless the taxpayer establishes that it is as reasonable to hold the meeting outside the North American area as within it. An exception is an income tax treaty with Jamaica that permits deductions for attending business conventions held in Jamaica.

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Section III

AMENDMENTS

Under the rule recommended by the Rules Committee, only amendments offered by the Ways and Means Committee are in order. An effort will be made to defeat the rule and seek a new rule from the Rules Committee that would permit the consideration of an amendment offered by Rep. Oberstar or Rep. Gephardt.

This section summarizes the Ways and Means Committee amendments and the amendment that will be offered by Rep. Oberstar or Rep. Gephardt should the rule be defeated and a new rule adopted. In addition, this section summarizes arguments being made for and against the Oberstar/Gephardt amendment (see note at end of section).

WAYS AND MEANS COMMITTEE AMENDMENTS

The Ways and Means Committee will offer amendments that would do the following:

* Disqualify any country from duty-free status if it has nationalized or expropriated any intellectual property (patents, copyrights, and trademarks, for example) of U.S. corporations or citizens;

* Require the President, in determining whether a country should qualify for duty-free status, to take into account whether its laws give foreign nationals intellectual property rights;

* Eliminate the exemption from the Federal Water Pollution Control Act, which the bill gives to rum distilleries located in the U.S. Virgin Islands;

* Require the Labor Department to report annually to Congress on the effect of the bill's duty-free provisions on U.S. labor; and

* Require the Treasury Department to report to Congress, within 90 days of the bill's enactment, on Caribbean Basin tax havens and their effect on U.S. tax collections.

OBERSTAR/GEPHARDT AMENDMENT

If the rule is defeated and a new rule adopted that makes in order additional amendments, Rep Oberstar or Rep Gephardt will offer an amendment that would do the following:

* Require eligible Caribbean countries to afford their people basic human rights and provide basic protections to labor, including safety in the workplace and the right to organize and bargain collectively. The President could waive this requirement on the grounds of national economic or security interests, but a joint congressional resolution approving such a waiver would be required;

* Allow member countries of the Caribbean Common Market (CARICOM) -- all island nations in the Caribbean -- to combine local content in order to satisfy the bill's 35% local content requirement. The amendment would not permit Central American countries and Haiti to combine local content to meet the bill's requirement. The amendment eliminates the bill's provisions which allow U.S.-made materials to account for up to 15% of the Caribbean content requirement. Finally, the amendment would not include, as the bill does, Puerto Rico and the U.S. Virgin Islands as CBI countries for purposes of determining Caribbean local content;

* Exempt from the bill's duty-free treatment certain import-sensitive items (watches, electronic and steel articles, and semi-manufactured and manufactured glass products);

* Remove three countries -- Taiwan, Korea, and Hong Kong -- from duty-free treatment under the Generalized System of Preferences (GSP).

Arguments For the Amendment -- Supporters of the amendment argue that it would enhance the bill by protecting the jobs of workers in both the Caribbean Basin and the United States. This amendment represents a constructive compromise that would benefit Caribbean Basin countries without jeopardizing the American worker.

The amendment compensates for the bill's weak protection for import-sensitive products. Products such as watches, electronic and steel articles, and semi-manufactured and manufactured glass are not eligible for duty-free treatment under the Generalized System of Preferences (GSP) because they are produced by endangered U.S. industries and are therefore import sensitive. Yet the bill permits unlimited quantities of these import-sensitive products to be shipped into the U.S. duty-free through the Caribbean. By failing to adopt the GSP exemptions regarding duty-free treatment, the bill invites multinational corporations to evade existing GSP exemptions for these products by shipping them through the Caribbean area. The amendment preserves the major intent of the bill, to give Caribbean countries distinctly advantageous trading terms, while protecting U.S. industries by using the GSP "import-sensitive" standard. For example, the amendment does not subject Caribbean countries to the GSP "competitive need" formula that limits the volume of a product that can enter the U.S. duty-free.

Under the provisions of the bill, it would be difficult to ensure that the benfits of duty-free entry into the American market will go to the Caribbean countries intended by the legislation. The bill makes it virtually impossible to effectively monitor the Caribbean local content provision by extending the right to combine local content to such non-CARICOM countries as Cuba, Nicaragua, Guatemala, El Salvador, and Haiti. The non-CARICOM countries included in the bill have a total population of about 33 million, compared to the 5 million people of the CARICOM countries. This unwieldy situation would give yet another incentive to multinational companies to evade American tariffs by funneling products into the U.S. through the Caribbean region without actually creating jobs in the Caribbean. The amendment corrects this problem by limiting the right to combine local content to CARICOM countries, just as the GSP now does.

The bill's exceptions to the Caribbean local content requirement make any increase in Caribbean jobs unlikely. The amendment would close a large loophole by eliminating the bill's language that permits some U.S. imput to count toward the Caribbean local content requirement, and by removing Puerto Rico and the U.S. Virgin Islands from the bill's list of Caribbean countries for the purpose of determining Caribbean local content.

The bill contains no human rights provisions. Its weak recommendation that the President merely "take into account" whether "reasonable workplace conditions and the right to organize and bargain collectively" are afforded Caribbean workers effectively dismisses pleas for help from the millions of people of Central America. It is essential to ensure protection of basic human rights if the bill's potential benefits are to reach workers in Caribbean and Central American countries. Human rights, safety in the workplace, and the right to organize and bargain collectively, must be made preconditions for a country's receiving trade benefits. The amendment's human rights provisions will further the real purpose of the bill -- encouraging new investment in the Caribbean -- by assuring that the construction of new plants and the purchase of new equipment will not result in creating sweatshops that exploit Caribbean labor. The amendment does not set up new human rights standards because it adopts verbatim the definition of human rights used by the State Department in its recent human rights report to Congress. It also allows a presidential waiver of these standards if both Houses of Congress agree.

Finally, the amendment addresses an important anomaly of U.S. trade with other countries -- continued preferential treatment accorded the thriving economies of Taiwan, Korea, and Hong Kong. These three countries are strong, self-sufficient trading partners which can trade with us on the same terms as other developed nations. There is no longer any justification for their qualifying for benefits under the GSP. Last year, these countries enjoyed a $9 BILLION trade surplus with the United States while at the same time accounting for about half of the total value of U.S. imports from countries with GSP preferences. This amendment ends the eligiblity of these three countries for GSP benefits, thereby recognizing the strength of their economies and giving Caribbean nations a better chance to compete for a share of the American market.

Arguments Against the Amendment -- Opponents of the amendment maintain that its adoption would constitute a cruel hoax on the people of the Caribbean by rendering the bill meaningless. The bill represents a carefully balanced attempt to provide real benefits for the Caribbean and safeguards for U.S. industries. The concerns of American labor were fully considered in drafting this legislation. In fact, this amendment would actually hurt American industry. The amendment would destroy the incentive to sell more in the U.S. market and earn vital foreign exchange, and thereby force the people of the Caribbean, who are now carrying a huge foreign debt, to buy fewer American products. Since the Caribbean nations buy most of their imports from the U.S. -- their combined trade deficit (excluding petroleum) with the U.S. was $2.9 BIL-LION last year -- the ultimate victim would be American industry and American workers.

This bill includes every reasonable precaution to assure that its duty-free provisions have no domestic impact. Where a case could be made that duty-free treatment would stimulate fast-increasing imports and injure domestic industry, those products -- such as textiles, tuna, and leather products -- were exempt from duty-free status. These exemptions represent the only categories in which the Caribbean countries have the level of technology, the investment capital, and the established industry to play a significant role in the U.S. market. In the context of Caribbean trade, there is no evidence that the additional products for which exemptions are sought in the amendment are of sufficient value and development to be import-sensitive. On the contrary, the Caribbean share of U.S. consumption of most of these high-technology products is less than 1% -- and, in some cases, less than one-tenth of 1%. For the products barred from duty-free status by the amendment, the production potential of the Caribbean is very limited and its role in the U.S. market will almost certainly remain insignificant. Furthermore, the bill provides adequate oversight to monitor imports and make adjustments if the import-sensitivity of a product should increase.

The bill achieves far more than the amendment on the subject of local content because its provisions are tough, yet are more favorable to the Caribbean nations than is the Generalized System of Preferences (GSP). The amendment gives these countries no more favorable treatment than does the GSP. In addition to the 35% local content requirement, the bill's strict "rule of origin" will prevent "pass-through" operations that are merely tariff avoidance schemes geared to take advantage of the bill's trade benefits. The pass-through rules, which apply to all products, prohibit operations that do not constitute a product's meaningful assembly in the Caribbean and do not, therefore, help the local economy. The U.S. Customs Service has given assurance that it can enforce this strict rule of origin and will do so, if necessary, through on-site inspection of Caribbean operations. By including up to 15% U.S. input in the Caribbean local content requirement, the bill increases incentive for U.S. exports. Caribbean nations must get their raw materials from other sources, and this provision encourages economic integration between the United States and the Caribbean.

The human rights provision of the amendment is, in effect, an effort to remove these countries from the bill and not a sincere attempt to improve workers' conditions. There is no way that these developing countries can guarantee their workers the minimum conditions required by U.S. occupational health and safety legislation. This is an unfair standard for struggling countries. By making human rights a factor for presidential discretion, the bill gives these nations a chance to work up to higher standards rather than summarily eliminating them from trade benefits because they do not equal American protections for human rights.

This legislation is an inappropriate vehicle for considering changes in the GSP. The argument that the graduation of Korea, Taiwan, and Hong Kong from the GSP would benefit Caribbean nations is purely speculative and is a confusing intermingling of two very distinct issues. Issues involving GSP preferences will be deliberated in their proper context when the entire GSP program expires at the end of next yer and the Ways and Means Committee considers changes as part of reauthorizing legislation. To undertake changes in this complex program on a stopgap basis without benefit of appropriate hearings and documentation would be a grave disservice to all GSP nations.

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NOTE: The arguments presented in this section are not DSG's arguments nor do they represent a DSG evaluation of the Oberstar/Gephardt amendment. As indicated, they are the arguments that supporters are making on behalf of the amendment and that opponents are making against it. DSG attempts to summarize the arguments on both sides as strongly and cogently as possible.

Section IV

ARGUMENTS FOR AND AGAINST THE BILL

This section summarizes the major arguments being made for and against the bill as reported by the Ways and Means Committee (see note at end of section). Under the rule recommended by the Rules Committee, no amendments are in order except for committee amendments (see Section III for arguments for and against the amendment Rep. Oberstar or Rep. Gephardt will offer if the rule is defeated and another rule is adopted that permits consideration of the amendment).

Following are the arguments being made for and against the bill as reported by the Ways and Means Committee.

Arguments For the Bill -- Supporters of the bill argue that the countries of the Caribbean region need the economic help provided by this bill because they are under economic siege. The price of their imported oil skyrocketed in the last decade, while the prices they received for their exported goods, such as sugar, coffee, fruits and vegetables, fell.

The situation in the Caribbean Basin cannot be dismissed as a matter of pure economics. Economic stagnation in this region foments political instability, a clear threat to the well-being of the United States. Even in the relatively stable country of Costa Rica there is now evidence of guerilla activity. This bill, therefore, makes good economic sense and is smart foreign policy.

We must give this market-oriented approach to the economic problems of the Caribbean region a chance to work. Most of the countries that have successfully developed over the past 30 years have done so on the strength of market-oriented policies and strong participation in the international economy. Aid is essential, but it must be complemented by trade and investment. It is time for these hard-pressed countries to be afforded trade liberalization measures that will give them a secure place in the international marketplace.

This bill will have a decided psychological effect on the Caribbean region. Since the 1978 revolution in Nicaragua, the private sector has feared that its investments were threatened by political instability. As a result, capital has been flowing out of the region.

This bill could reverse this trend. Because the United States has never before offered a preferential trading arrangement to any region, the bill strongly demonstrates this nation's long-term economic commitment to the Caribbean and its high level of concern for its peoples.

The adverse effects of the bill on the U.S. economy have been exaggerated. U.S. imports from the Caribbean region in 1982 accounted for only 3.3% of total U.S. imports -- or $8.1 BILLION of $244.0 BILLION. Of this $8.1 BILLION, about 90% would not be affected by this bill because they are already duty-free or exempt from duty-free treatment under the bill. This leaves only $800 million in imports -- or about three-tenths of 1% of total U.S. imports -- that would receive duty-free status under the bill. This bill, with its very small impact on U.S. imports, does not pose a threat to American jobs. Further, as effects of the bill stimulate Caribbean trade, the region will need to import great amounts of machinery, construction materials and technology -- much of which will be produced by U.S. manufacturers and workers. In the end, the bill should mean more jobs for U.S. workers.

Arguments Against the Bill -- *Opponents of the bill argue that it will export U.S. jobs and capital to the countries of the Caribbean Basin when 11 million Americans are without jobs.*

It is hypocritical for the Administration to express concern for the lack of economic development and high unemployment in the Caribbean region while the U.S. unemployment level is still so high. It is hard to believe that the Administration could be so insensitive as to push a trade and tax program that would help Caribbean companies compete against American workers while the Administration has resisted all but the most meager initiatives for jobless American workers in desperate need of new skills.

This bill contains a built-in contradiction. By exporting U.S. industry and jobs, it would worsen this nation's still-depressed economy, thus making us less able to help the people of the Caribbean Basin. At the very time when the U.S. needs to build its basic industries, the bill encourages U.S. firms to locate their future industries and products in other countries. It will, therefore, prompt the export of U.S. jobs, the closing down of U.S. operations, and the further erosion of the U.S. industrial base, while providing no real benefits to the working people of the Caribbean region.

In particular, this bill will hit hard at certain U.S. industries now struggling to recover from the recession. It will hurt certain agricultural industries, for example, that are now threatened not only by the continued agricultural depression but also by competition from imports that are subsidized by foreign governments.

Non-Caribbean exporting countries, including the Soviet Union, will profit from the windfall benefits provided in the bill by channeling products through the Caribbean region to the United States. The suspension of U.S. tariffs for 12 years for Caribbean goods is a violation of the General Agreement on Tariffs and Trade (GATT). For a multinational corporation from any part of the world to receive the benefit of these zero tariffs, it need only demonstrate that 20% of the product (in addition to 15% U.S. input) originated in the Caribbean Basin region, or in the U.S. insular possessions. These corporations, therefore, will reap much of the benefits of this bill, while the Caribbean countries would receive few long-term benefits and the American economy receives yet another blow to recovery.

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