S. Hrg. 98-277

CARIBBEAN BASIN INITIATIVE—1983

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

FIRST SESSION

ON

S. 544

APRIL 13, 1983

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE

21-491 O WASHINGTON : 1983

S361-59

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CONTENTS

Administration Witnesses

Public Witnesses

Additional Information

COMMUNICATIONS

CARIBBEAN BASIN INITIATIVE—1983

WEDNESDAY, APRIL 13, 1983

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

The committee met, pursuant to notice, at 9:34 a.m., in room SD-215, Dirksen Senate Office Building, Hon. Robert Dole (chairman) presiding.

Present: Senators Dole, Long, Bentsen, Moynihan, Mitchell, Bradley, Matsunaga, Roth, Danforth, Symms, Chafee, and Grassley.

[The press release announcing the hearing, the prepared statements of Senators Symms and Baucus, and the description of S. 544 by the Joint Committees on Taxation follow:]

[Press Release No. 83-117]

FINANCE COMMITTEE SETS HEARING ON CARIBBEAN BASIN INITIATIVE

Senator Robert J. Dole (R., Kansas), chairman of the Senate Finance Committee, announced today that the committee will hold a hearing Wednesday, April 13, 1983, on S. 544, legislation to implement the administration's Caribbean Basin Initiative. Witnesses from the administration and the private sector are expected to testify.

The hearing will commence at 9:30 a.m. in room SD-215 (formerly room 2221) of the Dirksen Senate Office Building.

Further background.—S. 544 would provide for the duty-free entry of articles from qualifying beneficiary countries of the Caribbean Sea and Central America. This treatment would be for 12 years only, and it would not apply to a number of articles. The bill further provides several benefits to Puerto Rico and the Virgin Islands. Finally, the bill would extend "North American convention" tax status to beneficiary nations that agree to exchange-of-information arrangements regarding enforcement of the tax law.

S. 544 is substantially similar to H.R. 7397, approved by the House of Representatives and the Senate Finance Committee in the 97th Congress.

STATEMENT BY SENATOR STEVE SYMMS, SENATE FINANCE COMMITTEE, CARIBBEAN BASIN INITIATIVE

Mr. Chairman, I am very pleased that we are again addressing the Caribbean Basin Initiative Legislation in this committee because I believe it is a program, although substantially modified, which will help the nations of the Caribbean Basin face the challenges threatening their economic and political survival.

Through this program, the United States will take action to fulfill its joint commitment with Canada, Venezuela, Colombia, and Mexico to put into effect new mechanisms for aiding this area.

The U.S. plan includes several measures proposed by the administration to promote Caribbean development through increased trade, financial aid, and private investment. This in turn will create new sources of employment, reduce foreign exchange deficits, and strengthen the economic and political institutions which these countries require in order to build democratic and prosperous nations.

The CBI is not a traditional "give-away" aid program. It will put into effect U.S. Government programs to bring together the private sector resources. It is programed on the premise of production and self-help and emphasizes economic opportunity based on free enterprise, anticipating that the need for direct aid will eventually diminish as private investment finds a favorable climate for growth.

The CBI offers an opening for these nations to be able to build upon their democratic values and local enterprise in order to guarantee their future. It accepts the fact that the United States, as well as the rest of the American Continent, has a vital stake in a successful economic and political process in the Caribbean Basin.

I am hopeful that this committee will move expeditiously on this legislation because the long-term interest of the people of the United States rests with our friends and neighbors to the south.

Statement by Senator Max Baucus on S. 544, the Caribbean Basin Initiative

The United States shares special ties with the countries of the Caribbean. We share a common history and common economic interests. And many U.S. citizens were born in the Caribbean or have relatives there.

These special ties make us specially concerned about the severe economic problems besetting the Caribbean—problems like deteriorating trade balances, skyrocketing debt-service costs, and declining growth rates. These problems have exacerbated Caribbean poverty, and that poverty creates human misery and encourages the kind of violence that has turned the Caribbean into a political tinderbox.

Given the seriousness of the Caribbean's economic problems, I applaud the administration for proposing the CBI. The concept underlying CBI—of promoting development by increasing trade—is basically sound.

However, I remain concerned about several provisions in S. 544.

First, I remain concerned about whether the CBI will unjustifiably eliminate U.S. jobs. Therefore, I believe that this committee should closely examine S. 544's list of exemptions and "escape clause" to determine whether they will be effective.

Second, I am concerned about whether the CBI will become a conduit for duty-free imports from non-Caribbean countries. Therefore, I believe that this committee must closely examine S. 544's "local content" provision to determine whether it will be effective.

Third, I am concerned about whether CBI adequately protects the rights and interests of Caribbean citizens and workers. Therefore, I believe this committee should closely examine S. 544's two-tier eligibility system to determine whether it will accomplish this.

Mr. Chairman, I welcome this hearing. I hope it enables us to address these issues. And I hope it helps us produce a bill that begins to provide the kind of assistance the Caribbean so desperately needs.

DESCRIPTION OF TAX PROVISIONS OF S. 544

(THE CARIBBEAN BASIN ECONOMIC RECOVERY ACT)

Prepared for the Use of the

COMMITTEE ON FINANCE

BY THE STAFF OF THE

JOINT COMMITTEE ON TAXATION

INTRODUCTION

The Senate Committee on Finance has scheduled a public hearing on April 13, 1983, on S. 544, the Caribbean Basin Economic Recovery Act (introduced by Senators Dole, Baker, Percy, Danforth, Heinz, Symms, and Wallop). This bill embodies the tax and trade portions of the Administration's Caribbean Basin Initiative, and would provide economic benefits to certain Caribbean Basin countries through trade assistance (including discretionary tariff reductions) and through tax incentives for business conventions. The bill would also transfer to Puerto Rico and the U.S. Virgin Islands the excise tax revenues from all rum imported into the United States. The House passed a similar bill late in the 97th Congress.

This pamphlet, prepared in connection with the hearing on S. 544, contains a description of the tax provisions of the bill (Title II). This pamphlet does not describe the bill's trade assistance provisions (in Title I).

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

I. SUMMARY OF THE BILL'S TAX PROVISIONS

Rum excise taxes

Under present law, the United States imposes an excise tax of $10.50 per proof gallon on all distilled spirits, including rum, manufactured in or imported into the United States. The excise taxes paid on rum made in Puerto Rico or the U.S. Virgin Islands and brought into the United States are transferred to the Treasury of the possession where the rum was made. The bill would require that all excise taxes collected on other rum brought into the United States (whether or not from Caribbean countries) be transferred to the Treasuries of Puerto Rico and the Virgin Islands, under a formula to be prescribed by the Secretary of the Treasury. This provision would apply to rum imported into the United States after June 30, 1983.

Convention expense deductions and exchange of tax information

The Internal Revenue Code generally disallows deductions for business expenses incurred while attending a convention held outside the North American area (the United States, the U.S. possessions, the Trust Territory of the Pacific Islands, Canada, and Mexico), unless the taxpayer can show that it is as reasonable to hold the convention outside the North American area as within it. In addition, the income tax treaty with Jamaica treats specified business deductions incurred while attending a convention held in Jamaica as though the convention were held in the United States. The bill would allow business expense deductions for attending conventions held in a Caribbean country that is a "beneficiary country," as defined in section 102 of the bill (with the addition of Bermuda), that has in effect an agreement with the United States to exchange tax information, and that does not discriminate against U.S. convention sites in its tax law. The provision would apply to conventions beginning after June 30, 1983, in countries with which such agreements are in effect.

II. DESCRIPTION OF THE TAX PROVISIONS OF S. 544

(The Caribbean Basin Economic Recovery Act)

A. Present Law

Rum excise taxes

An excise tax of $10.50 per proof gallon is imposed on distilled spirits (including rum) produced in or imported into the United States (Code sec. 5001). The tax is imposed on the manufacturer or on the importer of the distilled spirits and is payable at the time the spirits are removed for consumption or sale from the distillery, or from customs custody in the case of imported spirits. Generally, merchandise manufactured in Puerto Rico and brought into the United States for consumption or sale or merchandise coming into the United States from the U.S. Virgin Islands is subject to a tax equal to the tax imposed in the United States upon similar merchandise of domestic manufacture (sec. 7652).

All taxes collected under the Internal Revenue Code on articles produced in Puerto Rico and transported to the United States (less the estimated amount necessary for payment of refunds and drawbacks), or consumed on the island, are deposited into the Treasury of Puerto Rico. Internal revenue collections (less certain amounts deposited to the U.S. Treasury as miscellaneous receipts) on articles produced in the Virgin Islands and transported to the United States are paid to the Treasury of the Virgin Islands.

The Virgin Islands Government may spend the money received under this provision during a fiscal year only for emergency relief and essential public projects. It may carry no more than $5 million of such receipts forward from one year to the next; the excess is returned to the U.S. Treasury.

Business expense deduction for conventions in certain countries

A deduction is allowed for the ordinary and necessary expenses of carrying on a trade or business or income-producing activity, including transportation expenses and amounts expended for meals and lodging while away from home in pursuit of a trade or business or income-producing activity (Code sec. 162). Only such traveling expenses as are reasonable and necessary in the conduct of the taxpayer's business and directly attributable to it may be deducted. Fees charged for admission to a convention or other meeting generally are deductible if there is a sufficient relationship between the taxpayer's trade or business or income-seeking activity and attendance at the convention or other meeting. Therefore, generally, a deduction is allowed for the costs of attending a convention or seminar in pursuit of a trade or business or income-producing activity.

A special rule (Code sec. 274(h)) applies to expenses for attendance at conventions, seminars, or similar meetings if held outside the United States, its possessions, Canada, Mexico, or the Trust Territory of the Pacific Islands (the "North American area"). (Conventions, etc., held outside the North American area commonly are referred to as "foreign conventions.") No deduction is allowed for the expenses of attending a foreign convention unless the taxpayer establishes that the cost is directly related to the active conduct of a trade or business or income-producing activity and that it is as reasonable to hold the meeting outside the North American area as within it (sec. 274(h)(1)).[1] This rule applies both to the expenses paid by individuals attending such conventions and to expenses paid by employers of such individuals.

A deduction is allowed for up to $2,000 of the expenses of attending a business convention or similar meeting held on a U.S. flag cruise ship if the ship calls on ports only in the United States and the U.S. possessions (sec. 274(h)(2)).

Exchange of tax information

Under current law, the United States has difficulty in obtaining information to enforce its tax laws when transactions occur (or when information is located) overseas. The United States has entered into income tax treaties that provide for exchanges of information to enable the United States and its treaty partner to enforce the tax laws which are covered by the treaty. However, the operation of exchange of information articles in some treaties is not satisfactory, because the other country may not disclose certain kinds of information, such as information regarding the ownership of bank accounts or the beneficial ownership of trusts or corporations. Moreover, the United States has treaties with few Caribbean countries, in part because some of those countries do not generally impose income taxes.

B. Explanation of Tax Provisions

1. Rum excise taxes

All distilled spirits excise taxes collected (under section 5001(a)(1) of the Internal Revenue Code) on rum imported into the United States from outside the country,[2] whether or not from a Caribbean Basin country, would be paid over to the treasuries of Puerto Rico and the Virgin Islands.[3]

These payments would be reduced by the estimated amount necessary for payment of refunds and drawbacks. The bill would not impose restrictions on the uses to which the Government of the Virgin Islands or the Government of Puerto Rico put the revenues they received under this provision.

[1] Under the United States-Jamaican income tax treaty, deductions are permitted for certain expenses of attending a convention in Jamaica (Art. 25(7)). This treaty does not provide for reciprocal treatment by Jamaica of U.S. conventions. As part of the agreement granting favorable convention treatment to Jamaica, Jamaica made substantial concessions on the issues of treaty use by third-country persons and exchanges of tax information.

[2] No possession other than the Virgin Islands and Puerto Rico now produces rum for sale in the United States. The bill would treat rum produced by other possessions like rum produced by foreign countries.

[3] Jamaica accounted for over 64 percent of all rum imported for consumption in the United States in 1982 from foreign countries; Barbados for over 11 percent. No other country accounted for as much as 6 percent of imports. U.S. Department of Commerce, *U.S. General Imports and Imports for Consumption December 1982,* 2-26 (issued March 1983).

The Secretary of the Treasury would prescribe by regulation a formula for the division of tax collections between Puerto Rico and the Virgin Islands. The Secretary could change this formula from time to time.

Rum would be defined by reference to the Tariff Schedules of the United States, 19 U.S.C. 1201, so as to include *cana paraguaya.*

Effective date.—This provision would apply to rum imported into the United States after June 30, 1983.

2. Convention deductions and exchange of tax information

The bill would allow deductions for the ordinary and necessary expenses (in pursuit of a trade or business or income-producing activity) of attending conventions and similar meetings in those countries among the Caribbean Basin countries and Bermuda that meet three criteria discussed below. The taxpayer would not have to establish that holding a convention in a country meeting these criteria was as reasonable as holding it in another location.

First, the only countries that could qualify for this convention treatment would be beneficiary countries, as defined in section 102(a)(1)(A) of Title I of the bill, and Bermuda. Beneficiary countries are those among certain enumerated countries and territories,[4] including Guyana, Surinam, and countries located in the Caribbean and Central America, that the President designates as beneficiaries of the bill.

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 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 six 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, countries that favor products of other developed countries over U.S. products, countries that violate U.S. copyrights, and countries that are not parties to a treaty regarding the extradition of U.S. citizens.

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

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[4] 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 Christopher-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.

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.

Second, deductions would be available only for expenses of attending conventions held in countries with which an agreement with the United States to exchange tax information was in force at the time the convention began. The bill would authorize the Secretary of the Treasury to negotiate and conclude such agreements, which may be bilateral or multilateral. Such an agreement would provide, on a reciprocal basis, for information relating to U.S. tax matters to be made available to persons or authorities (including courts and administrative bodies) involved in the administration of U.S. taxes (including assessment and collection of taxes and enforcement and prosecution in respect of taxes) or oversight of the administration of such taxes (a role of the Senate Committee on Finance, the House Committee on Ways and Means, the Joint Committee on Taxation, and the General Accounting Office), or in the determination of appeals in respect of such taxes.

The exchange of information agreement would have to apply to and include provisions relating to both civil and criminal tax matters within the U.S. meaning of those concepts. While the bill would accord the Secretary discretion regarding what kinds of information would be included within the scope of the exchange of information provisions, it would provide certain standards for such agreements. The agreement would have to apply to information relevant to tax matters of the United States or of the beneficiary country whether or not that information concerned nationals or residents of the United States or the beneficiary country.

The bill would mandate that the agreement require production of information notwithstanding local rules requiring secrecy about such information as the ownership of bank accounts, trusts or bearer shares. In this respect, the agreements contemplated by the bill may go beyond the exchange of information articles of some U.S. tax treaties, which may defer to local secrecy laws. The agreement would impose on the officials of each country a duty not to disclose this information to persons other than those involved in its tax administration. The provision would make it clear that exchange of information agreements would be treated as income tax conventions for the purpose of the Code rule that allows U.S. tax officials to disclose tax information to foreign tax officials pursuant to such conventions (sec. 6103(k)(4)).

The information to be exchanged under the agreement would not be limited to information about any particular class of transactions. The bill would require the exchange of such information as may be necessary or appropriate to carry out U.S. or foreign tax laws.

The exchange of information agreements would generally become effective on signature. The text of the agreements would have to be transmitted to Congress no later than sixty days after the agreement had been signed, in accordance with the Case Act (1 U.S.C. section 112b).

Any exchange of information agreements would be terminable by either country on reasonable notice. No deductions would be allowed for business expenses of conventions or similar meetings begun in a country after termination of the exchange of information agreement. Termination should occur if, for example, the other country were not abiding by its obligations under the agreement to supply information or to maintain confidentiality. Termination would occur in the manner set forth in the agreement.

Third, deductions would not be available for conventions in any country that began after publication in the Federal Register of a finding by the Secretary that that country discriminated in its tax laws against conventions and similar meetings held in the United States or the U.S. possessions. The Secretary could withdraw such a finding by a subsequent announcement in the Federal Register.

Effective date.—This provision would apply to conventions beginning after June 30, 1983, but only if an exchange of information agreement were in effect on the day the convention began.

C. Prior Congressional Consideration

S. 544 generally embodies tax provisions that (together with nontax portions of the Caribbean Basin Initiative) passed the House of Representatives on December 17, 1982, as H.R. 7397.[5] The Senate Committee on Finance ordered that bill reported on December 20, 1982,[6] with modifications to certain nontax provisions of the bill but without modifications to the tax provisions, by a vote of 11 to 5. The Senate did not consider the reported bill before adjournment sine die of the 97th Congress.

S. 544 differs from the tax portion of H.R. 7397 only as to effective dates: under H.R. 7397, excise taxes collected on all rum imported into the United States on or after January 1, 1983 would have been transferred to Puerto Rico and the Virgin Islands. The corresponding date in S. 544 is June 30, 1983. Under H.R. 7397, convention deductions would have been available for conventions beginning after December 31, 1982. The corresponding date in S. 544 is June 30, 1983.

D. Issues

The tax provisions of the bill (Title II) present the following issues:

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

(2) If excise tax revenues on all imported rum are paid to Puerto Rico and the Virgin Islands, should Congress prescribe the formula for division of revenues between Puerto Rico and the Virgin Islands or delegate division of revenues to the Secretary of the Treasury?

(3) Should Congress allow deductions for conventions in certain countries that have agreed to exchange tax information with United States?

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[5] See also report of the Committee on Ways and Means (H. Rep. No. 97-958, December 10, 1982; House Calendar 602).

[6] The bill was reported on December 21, 1982; however, no written report was filed by the Committee on Finance (see Senate Calendar 1031).

III. REVENUE EFFECT

It is estimated that the provision transferring rum exise tax revenues to Puerto Rico and the Virgin Islands would reduce fiscal year receipts by $2 million in 1983, and by about $10 million annually during the period 1984–88. This estimate does not take into account behavorial change that may result because of enactment of the proposal. Consequently, it should be regarded as a minimum estimate.

It is estimated that the provision allowing deductions for certain business conventions and similar meetings in Caribbean countries and Bermuda would reduce fiscal year receipts by less than $5 million per year.

The CHAIRMAN. There will be other Senators here. I know everybody has a busy schedule, so we will start almost on time. I have a statement which I would like to be made a part of the record. I would also like to introduce a number of distinguished guests. Ambassador Lake, Ambassador of Antigua and Barbuda. Is Ambassador Lake here?

Ambassador LAKE. Yes.

The CHAIRMAN. Ambassador of Barbados, Ambassador Skeete; Ambassador of Guatemala, Ambassador Zelaya; Ambassador of Guyana, Ambassador Grant; Ambassador of Haiti, Ambassador Cineas. Either I missed the pronunciation or he is not here yet. Ambassador of Honduras, Ambassador Ewing; Ambassador of Jamaica, Ambassador Johnson; Ambassador of Panama, Ambassador Boyd; Ambassador Lewis of Trinidad and Tobago; and Ambassador Despradel from the Dominican Republic.

We are very happy to have the Ambassadors present this morning to indicate their interest. In addition I have a letter from the Ambassadors which I would like to make a part of the record at this time. It's an indication of strong support for the Caribbean Basin Initiative. They say:

> It represents a significant opportunity for our nations to promote domestic as well as foreign investment, principally through private initiatives, supplementing the traditional forms of aid which, though necessary in the short run, cannot by themselves promote long-term development.

They also address a point which I think will be of interest and be touched on later today.

> We are aware the Congress of the United States has a responsibility to represent the concerns of U.S. workers. Labor unions in your country have argued the Caribbean Basin Initiative would be very costly in terms of lost job opportunities. On the contrary, we are of the conviction that the economic activity that we expect will be generated as a result of the passage of the CBI legislation will benefit the United States both directly and indirectly, and enhance the prospects for your own stability and economic growth in the future, in which we as your neighbors have the most profound interest.

They urge that we move quickly on this legislation, and I am hopeful that we can. I will make the entire letter a part of the record, as well as my statement.

[The opening statement of Senator Bob Dole and a letter from Ambassadors Lake, Skeete, Zelaya, Grant, Cineas, Ewing, Johnson, Boyd, Lewis, and Despradel follow:]

STATEMENT OF SENATOR BOB DOLE ON THE CARIBBEAN BASIN INITIATIVE

Before we begin, I wish to recognize several distinguished ambassadors from Caribbean countries who are visiting us today they are:

Edmund Hawkins Lake, Ambassador of Antigua and Barbuda; Charles A. T. Skeete, Ambassador of Barbados; Jorge L. Zelaya, Ambassador of Guatemala; Dr. Cedric Hilbur Grant, Ambassador of Guyana; Fritz Cineas, Ambassador of Haiti; Juan Agurcia Ewing, Ambassador of Honduras; Keith Johnson, Ambassador of Jamaica; Aquilino E. Boyd, Ambassador of Panama; James O'Neil Lewis, Ambassador of Trinidad and Tobago; and Carlos Despradel, Ambassador of the Dominican Republic.

I would like also to introduce for the record a letter from the ambassadors in which they eloquently and persuasively make the case for supporting the CBI. In essence, they tell us a little incentive will go a long, long way.

Our distinguished witnesses here today will tell us whether this is so, as the committee renews its consideration of the President's Caribbean Basin Initiative. Last year the CBI passed the House of Representatives and this committee, but we were unable to complete action on the program. I introduced S. 544 on behalf of the President this year, with several of my colleagues, because I continue to believe that the CBI represents an important program, but only for its beneficiary countries, but also for advancing important U.S. interests.

The United States indeed has a profound stake in the Caribbean Basin. The area forms our southern border, and straddles sealanes through which a substantial portion of U.S. trade must transit. The recent leftist takeovers in Nicaragua and Grenada, following the Cuban example, undeniably pose a threat to our national security if repeated throughout the region. It is the President's hope, as it is mine, that economic growth fostered by the CBI will contribute to political stability in these democratically fragile nations.

Security interests aside, it is important to note that the CBI is first and foremost a development program for a region offering major potential markets for U.S. products and with which we have strong social ties. The United States is the chief supplier of agricultural and manufactured products to the beneficiary countires. We export significant amounts of textiles, apparel, electrical products, automobiles, machines, and agricultural commodities to them. The region is an important source of strategic materials for us, and the United States offers the best chance for these small countries to develop other exports. Only through economic development can these struggling, friendly governments offer some hope of employment for their massive numbers of unemployed citizens. Over 200,000 immigrants come to the United States each year from the Carribbean Basin seeking political and economic emancipation. We must offer them some way to retain hope of remaining at home and providing for themselves and their families.

The Caribbean Basin initiative appears unlikely to have any significant adverse effect on U.S. industries. On the contrary, given the U.S. position as the largest supplier to these countires, the CBI stands to create jobs for Americans through the greater exports we can expect as these countries develop. The bill excludes from its duty-free provisions those import-sensitive industries that were concerned last year about possible injurious competition from the beneficiary nations. With this protection for our workers, and the opportunities that will open for our firms because of the bill, it seems to me that the sole remaining issue is whether we in the Congress can rise to the challenge before us. I believe that we can.

WASHINGTON, D.C. *April 7, 1983.*

Hon. ROBERT J. DOLE,
Chairman, Senate Finance Committee,
U.S. Congress, Washington, D.C.

DEAR SENATOR DOLE: The undersigned representatives of Central American and Caribbean nations to the United States of America wish to reriterate for you and your distinguished colleagues the great importance attached to the proposed Caribbean Basin Economic Recovery Act by the goverments and peoples of our region.

The Caribbean Basin Initiative (CBI) represents a significant opportunity for our nations to promote domestic as well as foreign investment, principally through private initiative, supplementing the traditional forms of aid which, though necessary in the short run, cannot by themselves promote long-term development.

We are therefore, convinced that the economic activity which may be promoted by this act would constitute a significant impetus to our ecomomies at a time when this is urgently required. However, we recognize that this in itself will not represent a solution to all the serious economic problems that beset the region, since the solutions to most of these problems must be based on our own efforts and on our determination to overcome the obstacles to our development.

It should be noted that we represent nations with relatively limited domestic markets, both in terms of population and of purchasing power, and therefore our economic development must increasingly depend on the foreign markets for our production of goods and services, and more specifically upon the expanded concept of economic interdependence that many outstanding leaders regard as the future of international economic relations.

Based on these considerations, our governments have been promoting closer commerical ties with all the countries of the world. However, it is a reality that the United Statets is our natural trading partner, by virtue of its proximity, its advanced economic development and its traditional commerical ties with the Caribbean Basin region. Therefore there is a genuine desire in our countries to further increase economic relations with the United States, and in this regard the provisions included in the CBI represent a viable foundation for these mutually desirable and necessary relations.

Historically, the commerical links between the Caribbean Basin countries and the United States have been of considerable magnitude. In effect around 51 percent of all exports from Caribbean Basin nations are destined for the United States. These exports are mostly strategic minerals, basic raw materials and semifinished goods for U.S. industry, as well as agricultural commodities not produced in the United States, such as coffee and cocoa.

At the same time, U.S. exports to Caribbean Basin nations amount to approximately $6.5 billion annually, contributing to the creation of jobs in your country. To the extent that our economies are able to develop and, through our own export activity, generate the necessary foreign exchange, the region will be in a position to buy even more commodities from the United States. In this way, the positive effects on employment promise to extend to both sides.

In addition, the economic prosperity which may derive from the CBI, and the political stability that this could bring, would create an incentive for young people to remain in our countries instead of searching for opportunities in more developed nations, with all the negative consequences that this situation implies for all concerned.

We are aware that the Congress of the United States has a responsibility to represent the concerns of U.S. workers. Labor unions in your country have argued that the Caribbean Basin Initiative would be very costly in terms of lost job opportunities. On the contrary, we are of the conviction that the economic activity that we expect will be generated as a result of the passage of the CBI legislation will benefit the United States both directly and indirectly, and enhance the prospects for your own stability and economic growth in the future, in which we as your neighbors have the most profound interest.

We are certain that the U.S. industries which for many years have been facing strong competition from imports originating in the Far East will, through the incentives prescribed in the CBI, find new opportunities to develop production sharing with Caribbean Basin countries, and this can only have a positive effect on employment in the United States. This would certainly contribute to the establishment of a true partnership between the United States and the nations of the Caribbean region, with much potential for mutual benefits.

It should be emphasized that the influence of the Initiative cannot be analyzed or measured solely in numerical terms, and that its symbolic element should also be taken into consideration, since very often attitudes and motivations are as important as any tangible benefits. In this sense, the CBI has created heightened expectations in the private sectors of our respective countries and these expectations contribute to the motivation of investment in our region. On the other hand, we are acutely aware of the possible implications for further investment should the CBI legislation not be enacted. Indeed this might produce an opposite reaction, with the creation of uncertainty in our private sectors as to the ways by which we will arrive at solutions to our problems.

It is recognized that the United States has a legitimate interest in the economic prosperity and stability of the region, if only because of the implications for the future of U.S. trade into and through the region. For example, 50 percent of U.S. oil imports passes through Central America and the Caribbean. Consequently, any perceived cost to the United States which might be incurred by the passage of the CBI must be measured against all these considerations. While we are concerned that the original concept of the Legislation has been modified and others matters not strictly relevant to it have been included we, nevertheless, remain resolute in our support.

Therefore we urge you and the honorable members of your Committee to support the Caribbean Basin Initiative, based not only on the legitimate arguments we have set forth, but also in the spirit of cooperation between neighbours, in the assurance that this promising initiative will serve to further strengthen the economic and policitical ties between the United States and the nations of the Caribbean region.

Sincerely yours,

Edmund Hawkins Lake, Ambassador of Antigua and Barbuda; Charles A. T. Skeete, Ambassador of Barbados; Robert Anthony Leslie, Chargé d'Affaires of Belize; Fernando Soto Harrison, Ambassador of Costa Rica; Carlos Despradel, Ambassador of the Dominican Republic; Ernesto Rivas-Gallont, Ambassador of El Salvador; Jorge L. Zelaya, Ambassador of Guatemala; Dr. Cedric Hilburn Grant, Ambassador of Guyana; Fritz Cineas, Ambassador of Haiti; Juan Agurcia Ewing, Ambassador of Honduras; Keith Johnson, Ambassador of Jamaica; Aquilino E. Boyd, Ambassador of Panama; and James O'Neil Lewis, Ambassador of Trinidad and Tobago.

The CHAIRMAN. I believe that we should move quickly on the CBI legislation this year. Last year it was passed by the House. The Senate failed to act. It's my hope that by moving early in this session that if there are concerns in the Senate they can be addressed and we can move very quickly on the legislation.

The Caribbean Basin Initiative appears unlikely to have any significant adverse effects on U.S. industry. On the contrary, given the U.S. position as the largest supplier to these countries, the CBI should create jobs for Americans through the greater exports we can expect as these countries develop.

The bill excludes from its duty-free provisions those import-sensitive industries that were concerned last year about possible injurious competition from the beneficiary nations. With this protection for our workers and the opportunities it will open for our firms because of the bill, it seems to me that the sole remaining issue is whether we in the Congress can rise to the challenge before us. As I have indicated, I believe that we can.

We have a number of distinguished witnesses today. So without any further delay, I will make my full statement a part of the record. I assume other Senators will want to make their statements part of the record when they arrive.

Senator Chiles was to be here with the first panel, along with Congressmen Corrada from Puerto Rico, Ron de Lugo from the Virgin Islands, and Juan Luis, Governor of the Virgin Islands.

Ron, do you want to start off?

Mr. DE LUGO. I will be happy to, Mr. Chairman.

STATEMENT OF HON. RON de LUGO, A U.S. REPRESENTATIVE FROM THE U.S. VIRGIN ISLANDS

Mr. DE LUGO. Mr. Chairman, I want to thank you very much for this opportunity to appear before your committee this morning. We are very sensitive to the time constraints.

Mr. Chairman, S. 544, the Caribbean Basin Initiative, as submitted in the 98th Congress, includes, as introduced, certain very important provisions that we were able to, first, have adopted as amendments supported by the administration in the Subcommittee on Trade last year. Those provisions include an increase in the head note 3(a) ceiling on Virgin Islands products, and a regulatory easement for one of our most important industries.

Last week I testified before Senator Chafee in hearings of his subcommittee explaining in detail the need for this easement, and addressing the jurisdictional concerns that he raised last year. That detailed statement is submitted at this time along with a detailed statement on support of the CBI and addressing our concerns regarding certain provisions of the CBI, and I would ask unanimous consent that it be included in the record.

The CHAIRMAN. It will be included in the record.

Mr. DE LUGO. Thank you very much, Mr. Chairman.

[The prepared statements from Hon. Ron de Lugo follow:]

STATEMENT BY THE HONORABLE RON DE LUGO
BEFORE THE

SENATE FINANCE COMMITTEE HEARING ON C.B.I.

MR. CHAIRMAN:

SINCE THE SPRI OF 1981, WHEN PLANS FOR THE DEVELOPMENT OF A NEW CARIBBEAN BASIN NITIATIVE WERE FIRST ANNOUNCED, THE U.S. VIRGIN ISLANDS HAS CONSISTENTLY COMMENDED THE PRESIDENT FOR ADDRESSING THE LONG-NEGLECTED PROBLEMS OF THIS AREA OF THE WORLD. HOWEVER, THE U.S. VIRGIN ISLANDS HAS ALSO CONSISTENTLY EXPRESSED ITS CONCERN AS TO THE IMPACT OF THE CBI ON THE INSULAR POSSESSIONS. SPECIFICALLY THOSE CONCERNS FALL INTO TWO CATEGORIES.

FIRST, WE ARE CONCERNED THAT ANY TRADE AND TAX BENEFITS EXTENDED TO FOREIGN COUNTRIES UNDER CBI NOT ERODE THE DELICATE ECONOMIC BASE THAT THE CONGRESS OF THE UNITED STATES HAS CAREFULLY CONSTRUCTED OVER THREE DECADES TO STABLIZE THE INSULAR POSSESSIONS ECONOMICALLY AND POLITICALLY.

SECOND, WE EXPRESSED OUR CONCERN THAT THE INSULAR POSSESSIONS IN THE CARIBBEAN NOT BE EXCLUDED FROM PLAYING AN ACTIVE ROLE IN THE IMPLEMENTATION OF THE CARIBBEAN BASIN INITIATIVE.

THESE ISLANDS IN THE EASTERN CARIBBEAN ARE CLOSELY TIED TO THE U.S. VIRGIN ISLANDS. WE SHARE A COMMON HISTORY AND CULTURE. FULLY HALF OF THE ENTIRE POPULATION OF THE U.S. VIRGIN ISLANDS IS FROM THIS AREA. HALF OF OUR STUDENTS ARE CHILDREN OF NON-U.S. CITIZENS. OUR SCHOOL POPULATION NOW IS EQUIVALENT TO OUR ENTIRE POPULATION OF TWO DECADES AGO.

A VERY LARGE PERCENTAGE OF OUR WORKFORCE IS FROM DOWN-ISLAND, AND MONIES SENT "BACK HOME" FROM EMPLOYMENT IN OUR ISLANDS REPRESENT MAJOR REVENUES TO OUR NEIGHBORS AND PROVIDE, EVEN NOW, A STABILITY THAT WOULD NOT OTHERWISE EXIST.

OUR MEDIA REACHES ALL THE WAY DOWN IN THE ISLAND CHAIN, AND WITH FAMILIES AND BUSINESSES SO INTERWOVEN, TELEPHONE COMMUNICATION IS CONSTANT. THE COLLEGE OF THE VIRGIN ISLANDS, WHICH WE ESTABLISHED FIFTEEN YEARS AGO, IS A CENTER FOR HIGHER EDUCATION AND THE EXCHANGE OF IDEAS IN THE REGION, AND NEARLY FORTY PERCENT OF ITS STUDENTS ARE FROM OUR NEIGHBORING ISLANDS.

ALL OF THIS PLACES A SIGNIFICANT FINANCIAL BURDEN ON THE TERRITORY, WHICH WE HAVE WILLINGLY AND PROUDLY SHOULDERED. FOR OUR NEIGHBORING ISLANDS, THE U.S. VIRGIN ISLANDS IS THE UNITED STATES, AND U.S. POLICIES ARE PERCEIVED THROUGH US. IT IS IN THE VERY BEST INTERESTS OF THE UNITED STATES THAT THE U.S. VIRGIN ISLANDS REMAIN THE HEALTHY, DEVELOPING ISLANDS THEY ARE TODAY.

IN RESPONDING TO OUR CONCERNS ON JANUARY 25, 1982, THE PRESIDENT STATED THAT "..THE INITIATIVE SHOULD BE STRUCTURED SO AS TO REINFORCE AND CONTINUE THE IMPRESSIVE ECONOMIC GAINS ACHIEVED BY THE VIRGIN ISLANDS AND PUERTO RICO." AND ON MARCH 17, 1982, IN HIS TRANSMITTAL STATEMENT TO THE CONGRESS ON CBI, THE PRESIDENT STATED: "PUERTO RICO AND THE VIRGIN ISLANDS HAVE A LONGSTANDING SPECIAL RELATIONSHIP WITH THE UNITED STATES. THEIR DEVELOPMENT MUST BE ENHANCED BY OUR POLICY TO THE REST OF THE REGION."

MR. CHAIRMAN; RATHER THAN "ENHANCE", THE LEGISLATION ON CBI AS INTRODUCED LAST YEAR WOULD HAVE SERIOUSLY IMPAIRED OUR ECONOMIES. WE WERE ABLE TO HAVE ADOTED IN THE TRADE SUBCOMMITTEE LAST YEAR CERTAIN AMENDMENTS WHICH WOULD HAVE GIVEN US SOME OF THE SAFEGUARDS WE NEEDED. WE ARE PLEASED THAT TWO OF THOSE HAVE BEEN INCLUDED IN S.544 AND WOULD URGE THE COMMITTEE THAT THESE BE MAINTAINED.

ONE OF THESE PROVISIONS INCREASES THE CEILING UNDER HEADNOTE 3A ON VIRGIN ISLANDS PRODUCTS FROM THE CURRENT 50% TO 70%. THIS IS AN EQUITABLE COUNTERBALANCE TO THE ENTRY BENEFITS EXTENDED TO ELIGIBLE COUNTRIES UNDER CBI WHICH WILL ENABLE US TO REMAIN COMPETITIVE FOR NEW INDUSTRY. WE WERE PLEASED THAT THE ADMINISTRATION SUPPORTED THIS PROVISION LAST YEAR, AND THAT IT HAS INCLUDED IT IN ITS PROPOSED LEGISLATION THIS YEAR. WE URGE THE COMMITTEE TO RETAIN THIS IMPORTANT PROVISION IN S. 544.

S. 544 ALSO CONTAINS A PROVISION THAT WOULD ALLOW THE GOVERNOR OF THE VIRGIN ISLANDS TO MAKE REGULATORY DETERMINATIONS ON THE EFFLUENT INVOLVED IN RUM PRODUCTION. THE ADMINISTRATION SUPPORTED THIS PROVISION WHEN IT WAS OFFERED AS AN AMENDMENT LAST YEAR, AND THEY CONTINUE TO SUPPORT THIS PROVISION HAVING INCLUDED IT IN THEIR PROPOSAL THIS YEAR. I RECOGNIZE THAT JURISDICTIONAL CONCERNS WERE RAISED WITH THIS PROVISION LAST YEAR. HOWEVER, I WOULD LIKE TO POINT OUT THAT JURISDICTION WAS WAIVED IN THE HOUSE BY THE CHAIRMEN, AND RANKING MEMBERS OF BOTH PARTIES ON THE PUBLIC WORKS COMMITTEE AND THE WATER RESOURCES SUBCOMMITTEE BOTH OF WHICH I SERVE ON. I ALSO TESTIFIED BEFORE SENATOR CHAFEE'S SUBCOMMITTEE ON WATER POLLUTION ON THIS ISSUE LAST WEEK. MY TESTIMONY, WHICH COVERS THE MERITS OF OUR CASE AND ALSO ADDRESSES THE JURISDICTIONAL MATTER, IS ATTACHED. WE URGE THE COMMITTEE THAT BOTH THESE CRUCIAL PROVISIONS BE MAINTAINED.

WHILE WE WERE PLEASED THAT THOSE PROVISIONS HAVE BEEN INCLUDED, MR.CHAIRMAN, WE ARE GREATLY CONCERNED WITH TWO OTHER MATTERS WHICH, IF UNRESOLVED, WILL MAKE CBI EXTREMELY DETRIMENTAL TO THE FUTURE ECONOMIC, SOCIAL AND POLITICAL STABILITY OF THE U.S. VIRGIN ISLANDS.

THE ECONOMY OF THE U.S. VIRGIN ISLANDS IS BASED ON TWO MAIN SUPPORTS: THE REBATED EXCISE TAXES COLLECTED ON OUR RUM EXPORTS TO THE MAINLAND; AND TOURISM. S.544 WOULD UNDERMINE BOTH THOSE SUPPORTS.

I WILL SPEAK FIRST ON THE ISSUE OF RUM.

IN 1954, THE CONGRESS, WHICH HAS FULL PLENARY AUTHORITY OVER THE TERRITORIES, SOUGHT TO PROVIDE A MECHANISM THAT WOULD BRING DEVELOPMENT AND STABILITY TO PUERTO RICO AND THE U.S. VIRGIN ISLANDS. PROVISIONS WERE ADOPTED THAT REBATED TO THOSE TWO POSSESSIONS THE EXCISE TAXES COLLECTED ON THEIR RESPECTIVE RUM IMPORTS INTO THE UNITED STATES. IN 1954, THIS MEANT ABOUT ONE MILLION DOLLARS TO THE VIRGIN ISLANDS, AND OVER THE YEARS THIS FUND HAS GROWN TO A HIGH OF NEARLY $40 MILLION.

WE CALL THESE MONIES OUR MATCHING FUND. IT IS, IN ESSENCE OUR ONLY CAPITAL IMPROVEMENTS BUDGET AND IT HAS BEEN USED TO MATCH FEDERAL FUNDS FOR SCHOOLS, ROADS, INFRASTRUCTURE, ALL THE APPERTENANCES WE NEEDED TO MOVE FROM THE VERY POOR, UNDERDEVELOPED, ECONOMICALLY SHAKY TERRITORY WE WERE IN 1954, INTO THE THRIVING AND STABLE SOCIETY WE ARE TODAY. THE UNITED STATES SHOULD BE RIGHTLY PROUD, AS WE ARE, OF THIS ACCOMPLISHMENT.

CLEARLY IT WAS THE RUM EXCISE TAX FUND THAT DID IT. THAT FUND REPRESENTS NOW NEARLY 20% OF OUR TOTAL OPERATING BUDGET, AND ANYTHING THAT THREATENS THAT FUND THREATENS OUR VERY EXISTENCE, LET ALONE OUR FUTURE.

THE RUM PRODUCT OF THE U.S. VIRGIN ISLANDS IS BASICALLY A COMMODITY. IT IS BULK RUM: UNLABELLED RUM SHIPPED TO THE UNITED STATES IN CONTAINERS OF A GALLON OR MORE, WHICH RUM IS USED IN PRE-MIXED PACKAGED DRINKS, OR RE-PACKAGED FOR HOUSE LABELS. IT IS AT THE CHEAP END OF THE RUM LINE, AND IT IS EXTREMELY PRICE SENSITIVE.

REMOVAL OF THE $1.60 PER GALLON TARIFF ON FOREIGN BULK RUM, WILL RENDER US UNABLE TO COMPETE IN THIS MARKET WHERE PENNIES MAKE A DIFFERENCE. PRODUCTION COSTS ARE FAR LOWER IN THESE OTHER RUM-PRODUCING ISLANDS, MOST OF WHICH GROW THEIR OWN SUGAR, THE BASE OF RUM, WHICH WE MUST IMPORT. WAGES ARE SUBSTANTIALLY LOWER, AS THE ATTACHED FACT SHEET CLEARLY DEMONSTRATES. AND FOREIGN PRODUCERS ARE NOT SUBJECT TO THE MINIMUM WAGE, EPA, OSHA, OR OTHER COSTLY FEDERAL CONTROLS.

A LARGE PERCENTAGE OF FOREIGN RUM PRODUCTION IN THE CARIBBEAN IS OWNED BY MULTI-NATIONAL CORPORATIONS, AND ALL RUM-PRODUCING COUNTRIES SUBSIDIZE THEIR INDUSTRIES IN SOME FORM OR ANOTHER. MOST OF THESE FIRMS ENJOY DUTY-FREE ACCESS TO CANADA AND COUNTRIES OF THE EEC, WHEREAS U.S. VIRGIN ISLANDS RUM IMPORTS ARE SUBJECT TO TARIFFS OF $1.50 PER PROOF GALLON IN CANADA, AND APPROXIMATELY $1.73 PER PROOF GALLON IN THE EEC.

ADDITIONALLY, IT IS INTERESTING TO NOTE THAT ELIGIBLE CBI COUNTRIES WHICH PRODUCE RUM HAVE EXTREMELY HIGH IMPORT TARIFFS, AND IN SOME CASES, PROHIBITIONS, ON THE IMPORT OF U.S. VIRGIN ISLANDS RUM. IN JAMAICA, TARIFFS ARE $59 (U.S.) PER GALLON ON 80 PROOF OR LESS RUM, AND $71 PER GALLON ON HIGHER PROOFS, WITH THE ADDED RESTRICTION THAT NO PRODUCT CAN BE IMPORTED IF THERE IS SUFFICIENT LOCAL PRODUCTION. THE DOMINICAN REPUBLIC HAS A DUTY OF $4.92 (U.S.) PER GALLON FOR RUM IMPORTS OF OVER 65 PROOF, WITH A SURCHARGE OF 50 TO 200%.

THERE IS, MR. CHAIRMAN, NOTHING SACRED ABOUT RUM. IT IS A COMMODITY LIKE ANY OTHER COMMODITY. NOR IS IT ANY MORE SACRED TO ONE COUNTRY OR ANOTHER THAN IT IS TO US. WE HAVE BEEN PRODUCING RUM SINCE THE AMERICAN REVOLUTION, AND EVEN BEFORE THAT, WHEN THE UNITED STATES WAS ITSELF A TERRITORY OF ANOTHER NATION.

OUR CURRENT SHARE OF THE U.S. MARKET, WHICH IS VIRTUALLY OUR ONLY MARKET, IS NOW APPROXIMATELY 10%, AND FULLY 97% OF OUR EXPORTS FALL INTO THE CATEGORY OF BULK RUM. CLEARLY, THE ADMINISTRATION IS COGNIZANT OF THE DAMAGE THAT LIFTING THE DUTY ON FOREIGN RUM WILL DO TO OUR INDUSTRY. WHY ELSE WOULD THE ADMINISTRATION HAVE INCLUDED IN ITS CBI PACKAGE A PROVISION TO REBATE TO PUERTO RICO AND THE U.S. VIRGIN ISLANDS THE EXCISE TAXES COLLECTED ON FOREIGN RUMS? THIS IS OBVIOUSLY AN INJURY PAYMENT.

MR. CHAIRMAN, THERE IS SIMPLY NO WAY THAT THE U.S. VIRGIN ISLANDS CAN WITHSTAND THE LOSS OR EVEN A REDUCTION IN OUR CURRENT LEVEL OF RUM EXCISE TAX REBATES. IT IS OUR SECOND LARGEST REVENUE SOURCE, AFTER INCOME TAXES. WHILE OUR RUM INDUSTRY HAS APPROXIMATELY 100 DIRECT EMPLOYEES, LOSS OF THE EXCISE TAX REBATES WOULD TRANSLATE INTO THE LOSS OF THOUSANDS OF JOBS. AN INJURY PAYMENT THAT COULD BE RESCINDED AT ANY TIME IS NO SECURITY AT ALL. OUR ECONOMY IS PARTIALLY GROUNDED ON THE INTEGRAL RELATIONSHIP BETWEEN GOVERNMENT AND OUR RUM INDUSTRY, AND THIS RELATIONSHIP, WHICH HAS PROVEN VERY SUCCESSFUL FOR THE PAST THIRTY YEARS, HAS BEEN THE KEY FACTOR IN THE DEVELOPMENT OF THE U.S. VIRGIN ISLANDS. FAR PREFERABLE TO THE PROPOSED INJURY PAYMENTS, MR. CHAIRMAN, WOULD BE MAINTENANCE OF THE INDUSTRY.

THE U.S. VIRGIN ISLANDS AND PUERTO RICO HAVE BEEN STUDYING THIS RUM ISSUE FOR A LONG TIME, AND WE HAVE A PLAN WHICH WILL NOT ONLY ALLOW US TO REMAIN COMPETITIVE, BUT WILL MAKE THE CBI A FAR MORE EFFECTIVE AND SUCCESSFUL FOREIGN POLICY TOOL THAN IT IS NOW. A DETAILED ANALYSIS OF THE PROPOSAL IS ATTACHED TO THIS STATEMENT. IN BRIEF, THE PROPOSAL WOULD KEEP THE DUTY ON BULK RUM, THE PRICE SENSITIVE END OF THE BUSINESS, AND OUR MAJOR PRODUCT. THE DUTY ON BOTTLED RUM HOWEVER, WOULD BE LIFTED COMPLETELY.

WE DO NOT BELIEVE THAT EXPANSION OF BULK RUM PRODUCTION WOULD RESOLVE THE ECONOMIC PROBLEMS OF THE AREA. IT IS BOTTLED RUM THAT IS THE LABOR INTENSIVE END OF THE INDUSTRY. FURTHERMORE, WE ESTIMATE THAT EVEN IF THE ENTIRE BULK RUM MARKET OF THE U.S. VIRGIN ISLANDS IS TAKEN OVER BY OUR FOREIGN COMPETITORS, THE TOTAL AMOUNT OF INCOME TAXES THAT COULD BE GENERATED ON THAT INCREASED PRODUCTION WOULD BE LESS THAN ONE MILLION DOLLARS. AND THIS WOULD ONLY BE REALIZED IF THE FULL U.S. CORPORATE RATE WERE APPLIED, WHICH HISTORICALLY HAS NOT BEEN THE CASE. THIS MIGHT BE OF SUBSTANTIAL BENEFIT TO THE MULTI-NATIONALS WHICH OWN MUCH OF THE FOREIGN RUM PRODUCTION, BUT OF LITTLE DISCERNIBLE BENEFIT TO THE PEOPLE OF THOSE ISLANDS.

IT IS THE SAME ISLANDS OF THE EASTERN CARIBBEAN CHAIN, EXCLUDING JAMAICA, HAITI AND THE DOMINICAN REPUBLIC, WHICH STAND TO BENEFIT THE LEAST UNDER CBI APPROPRIATIONS. OF THE FY 1983 APPROPRIATIONS OF $350 MILLION, THE MAJOR PART WENT TO CENTRAL AMERICA, $10 MILLION TO HAITI, $40 MILLION TO THE DOMINICAN REPUBLIC, AND $50 MILLION TO JAMAICA. THE REMAINING TWELVE ELIGIBLE ISLANDS OF THE EASTERN CARIBBEAN CHAIN SHARED A TOTAL OF ONLY $20 MILLION. THESE ARE THE ISLANDS WHICH ARE VERY FRIENDLY TO THE UNITED STATES, AND WHICH ARE EQUALLY IN NEED OF ASSISTANCE FOR SCHOOLS, HEALTH CARE FACILITIES AND INFRASTRUCTURE.

CONSEQUENTLY, IF THE DUTY IS MAINTAINED ON FOREIGN BULK RUM SHIPMENTS, WE PROPOSE ESTABLISHING WITH THE EXCISE TAXES COLLECTED ON FOREIGN RUM SHIPMENTS A SPECIAL CARIBBEAN REGIONAL DEVELOPMENT FUND FOR BOTH THE RUM AND NON-RUM PRODUCING ISLANDS. THE FUND WOULD BE EARMARKED FOR THOSE CRITICALLY NEEDED ITEMS. THE DETAILS OF THE DISTRIBUTION AND THE CAP ON THE FUND ARE CONTAINED IN THE ATTACHED ANALYSIS, BUT I WOULD LIKE TO EMPHASIZE HERE THAT THE FUND WOULD NEITHER SUBSTITUTE FOR OTHER FOREIGN AID APPROPRIATIONS, NOR WOULD

IT CONSTITUE ANY INCREASE IN COST UNDER THE CBI PROPOSAL AS IT NOW STANDS. RATHER, THE FUND WOULD OFFER TO OUR NEIGHBORS THE SAME RELIABLE REVENUE SOURCE THAT ENABLED PUERTO RICO AND THE U.S. VIRGIN ISLANDS TO DEVELOP INTO ECONOMICALLY AND POLITICALLY STABLE SOCIETIES.

OUR OTHER CONCERN, MR. CHAIRMAN, IS THE IMPACT OF THAT PROVISION OF THE CBI WHICH EXTENDS THE CONVENTION TAX BENEFITS TO ELIGIBLE COUNTRIES ON OUR TOURISM INDUSTRY. TOURISM IS OUR SINGLE LARGEST INDUSTRY AND REPRESENTS APPROXIMATELY 40% OF OUR GROSS TERRITORIAL PRODUCT. TOURISM ACCOUNTS FOR ONE-THIRD OF ALL EMPLOYMENT IN THE VIRGIN ISLANDS AND ONE-HALF OF ALL PRIVATE SECTOR EMPLOYMENT. OUR ENTIRE ECONOMY IS GEARED TO TOURISM, AND WE HAVE ALREADY WITHSTOOD SUBSTANTIAL DECREASES OVER THE PAST THREE YEARS DUE TO THE MAINLAND RECESSION.

THE NEIGHBORING ISLANDS OF THE EASTERN CARIBBEAN REPRESENT OUR DIRECT COMPETITION IN TOURISM. THESE ISLANDS ARE EXTREMELY PRICE-COMPETITIVE DUE TO THEIR LOWER WAGE STRUCTURES AND ABSENCE OF COSTLY FEDERAL REGULATIONS ON INDUSTRY COMPONENTS. MANY ALREADY ENJOY AN AIRFARE PRICE ADVANTAGE OVER THE U.S. VIRGIN ISLANDS DUE TO THE INADEQUACIES OF OUR RUNWAY LENGTHS WHICH DO NOT ENABLE US TO BRING IN LARGER, FUEL-EFFICIENT AIRCRAFT, AND WHICH PREVENT US FROM TAPPING THE LUCRATIVE EUROPEAN MARKET. ONLY THREE OF OUR SMALLEST NEIGHBORING ISLANDS HAVE A RUNWAY AS SHORT AS THE ONE ON ST. THOMAS, OUR PRIMARY TOURIST DESTINATION.

EXTENSION OF THE CONVENTION TAX BENEFIT TO OUR TOURISM COMPETITION UNDOUBTEDLY WOULD PLACE THE U.S. VIRGIN ISLANDS AT AN ADDED DISADVANTAGE IN THAT CRUCIAL INDUSTRY. AT THE SAME TIME, THE CBI EXTENDS TRADE BENEFITS TO THESE ISLANDS THAT WILL RESTRICT OUR ABILITY TO ATTRACT NEW INDUSTRY AND DIVERSIFY OUR TOURISM-BASED ECONOMY.

We are particularly disturbed that these convention tax credits have been included in the CBI, since in September of 1981, when that benefit was extended to Jamaica by tax treaty, commitments were made by the Administration before the Senate Committee on Foreign Relations that no further extension of the credit would be sought.

Basically, Mr. Chairman, it is evident that Puerto Rico and the U.S. Virgin Islands are being asked to shoulder the financial burden of the CBI. We have two major economic supports: tourism and rum excise tax rebates, and both of them will be seriously eroded by the CBI. No other jurisdiction under the American flag stands to be so uniquely and negatively impacted.

Our Secretary of State, George Schulz, in a recent address before the Southern Center for International Studies in Atlanta on February 24, 1983 said that the CBI will cost each citizen in the United State $3.84. Mr. Chairman, we contend that it will cost the American citizens of the U.S. territories in the Caribbean far, far more, and will in fact threaten our very economic existence.

We must, at the very least, have the protections we seek for that crucial component of our economy: our rum excise taxes. The proposal we have developed will not only accomplish that goal, but will make the CBI a far more effective foreign policy vehicle. Under our proposal, the small islands of the Eastern Caribbean will have much greater opportunities to develop, and to develop in such a way that every man, woman and child in those islands will benefit.

Expectations in those islands are running high, Mr. Chairman, I know because I live right down there. Unless the CBI can effectively improve the quality of life and benefit, not a handful of multi-national companies, but the people of those islands, it will not succeed. For it is the people the body politic, who are the final arbiters.

I urge this committee to adopt our proposal.

PUERTO RICO/VIRGIN ISLANDS PROPOSAL FOR DEVELOPMENT OF CARIBBEAN ISLANDS

EXECUTIVE SUMMARY

As an alternative to granting blanket duty-free treatment to foreign Caribbean rum pursuant to the Caribbean Basin Initiative (CBI), Puerto Rico and the Virgin Islands propose the establishment of an Eastern Caribbean Regional Development Fund, to be administered by the United States Agency for International Development. Duty-free treatment would be granted to foreign Caribbean bottled rum. However, the existing tariff on bulk rum produced in beneficiary countries would be retained and these tariff revenues, along with excise taxes collected on all rum imported into the U.S. from beneficiary countries, would be devoted to the Fund up to certain pre-determined levels. Disbursements from the Fund would be made for the development of infrastructure in island beneficiary countries, with a specified portion of the Fund earmarked for the use of rum producing islands.

This proposal would provide essential safeguards for the more price-sensitive segments of the U.S. Territories' rum industry, while granting the governments of designated beneficiary countries additional revenue to be used for local development. The program would cost the United States Treasury less than the blanket duty-free treatment proposal. The Puerto Rico/Virgin Islands proposal furthers the goals of the CBI without jeopardizing the future economic and fiscal health of Puerto Rico and the Virgin Islands.

A PROPOSAL BY PUERTO RICO AND THE UNITED STATES VIRGIN ISLANDS FOR PROMOTING THE DEVELOPMENT OF CARIBBEAN ISLAND NATIONS UNDER THE CARIBBEAN BASIN INITIATIVE

INTRODUCTION

On February 24, 1982, President Reagan outlined a major new program for the economic development of the Caribbean Basin, known as the Caribbean Basin Initiative (CBI). The people of Puerto Rico and the Virgin Islands realize that their economic and domestic security, as well as that of the United States, are enhanced by political stability and economic progress in Caribbean Basin countries. The development of the island nations and territories of the Caribbean with which they are linked through ethnic, cultural, familial and economic ties is of particular interest to the citizens of our Flag Territories. Puerto Rico and the Virgin Islands therefore support the major objectives of the CBI in the hope the program will lead to an easing of the economic difficulties historically confronting those island communities.

DUTY-FREE TREATMENT FOR RUM WILL NOT ACHIEVE CBI OBJECTIVES

One component of the CBI as it was proposed in 1982 was to allow rum produced in CBI beneficiary countries unlimited duty-free entry into the United States. It was argued that rum was a product of great symbolic significance in the Caribbean and that increased production of rum in beneficiary countries would generate additional employment and industrial development. It was urged, moreover, that duty-free treatment for foreign Caribbean rum would allow beneficiary countries to share in the growth of the U.S. rum market without harming the rum industry presently in place in Puerto Rico and the Virgin Islands.

A closer examination of this matter, however, reveals several serious deficiencies in the proposal to grant blanket duty-free treatment to foreign Caribbean rum. First, the proposal would do little to stimulate development in smaller beneficiary countries which currently export little or no rum and where, for a variety of reasons, rum production in competition with existing producers would not be commercially viable. Second, in beneficiary countries that now export significant quantities of rum to the U.S., distilleries are operating significantly below their productive capacity. An increase in rum production in these beneficiary countries would require little, if any, additional capital investment and would generate few additional jobs. The economic benefits to the countries and people involved of simply increasing rum production would, therefore, be marginal. Third, there is no guarantee that rum distillers in beneficiary countries, a number of whom are (or are owned by) large, multinational corporations, would use the increased revenues resulting from duty-free treatment of their foreign rum in a manner that would enhance local economic development. Indeed, experience in similar situations teaches exactly the contrary -- private wealth generated from Less-Developed Country ("LDC") sales tends to be invested in developed countries rather than being used to build up the local infrastructure.

These are some of the reasons duty-free treatment of foreign Caribbean rum will do little to further the real goals of the CBI. In addition, the people and governments of Puerto Rico and the Virgin Islands are seriously concerned that granting duty-free treatment to rum produced in beneficiary countries will undermine the rum industry in Puerto Rico and the Virgin Islands, one of the few industries that has historically been sustained in those Territories and one which now generates nearly twenty percent of the revenues available to the Virgin Islands and ten percent of the revenues available to the Goverment of Puerto Rico. Unlike rum producers in Puerto Rico, Virgin Islands rum producers ship most of their rum to the United States unaged and in bulk, while Puerto Rico ships most of their rum in bulk and aged. Unaged rum is in the nature of a commodity, as it is generally marketed under private labels or incorporated into pre-mixed cocktails. It is therefore extremely sensitive to price competition. Since foreign Caribbean rum producers -- most of whom have preferred access to EEC and Canadian rum markets -- do not have to comply with United States minimum wage, environmental, or occupational health and safety standards, have access to local molasses supplies and have lower transportation costs, these producers could easily distill and market unaged, bulk rum at prices below those charged by Virgin Islands rum producers and cause serious, if not fatal damage to the Virgin Islands rum industry. Puerto Rico's rum industry could be similarly damaged.

THE PUERTO RICO/VIRGIN ISLANDS PROPOSAL

Puerto Rico and the Virgin Islands would like to propose an alternative to across-the-board duty-free treatment for rum produced in beneficiary countries, an alternative that would further the goals of the CBI without jeopardizing the economic stability of Puerto Rico and the Virgin Islands. One of the major impediments common to the development of most of the island nations and territories of the Caribbean is the lack of an adequate physical and educational infrastructure. Transportation facilities, utility services and other physical prerequisites of development must be put in place or improved, while the skills and basic abilities of the local work force are enhanced. Creation and improvement of this infrastructure, essential to the development needs of these island communities, requires a continued flow of capital specifically targeted to deserving development projects. Accordingly, Puerto Rico and the Virgin Islands propose that an Eastern Caribbean Regional Development Fund ("the Fund") be established within the context of the CBI for the purpose of financing specific physical infrastructure development, manpower training and basic educational institutions in designated island beneficiary countries. The Fund would be administered by the United States Agency for International Development (AID) and would be funded by revenues generated from excise taxes collected on both bulk and bottled rum, as well as duties levied on bulk rum from CBI beneficiary countries.

A. Private Sector Incentives

Under the Puerto Rico/Virgin Islands proposal, all bottled rum produced in beneficiary countries would enter the United States duty-free. This is a substantial liberalization of the status quo, in which all foreign rum, whether bulk or bottled, is subject to a duty in 1983 of $1.57 per proof gallon. Duty-free treatment for bottled rum will encourage local bottling operations, which would create two to three times more jobs (since bottling is the most labor intensive aspect of rum production) than would even a large increase in bulk gallonage shipped to the U.S.

While bottled rum produced in beneficiary countries would enter the United States duty-free under the Puerto Rico/Virgin Islands proposal, the existing tariff on bulk rum from foreign Caribbean producers would be retained. This would encourage the development of name brand foreign rums by allowing producers substantial price flexibility for bottled rums, thereby freeing up funds for advertising. At the same time, it would help ensure that the U.S. Territories' rum industry is not damaged by dramatically increased shipments to the U.S. of unaged, bulk rum from beneficiary countries. This limited duty-free treatment of foreign Caribbean rum responds to the perceived symbolic importance of rum production in the Caribbean while providing adequate safeguards for the U.S. Territories' rum industry.

B. Source of the Fund

Federal excise taxes collected on bulk and bottled rum and duties levied on bulk rum from CBI beneficiary countries would go into the Fund. In 1980, 1,077,932 proof gallons of rum from countries and territories eligible for designation as CBI beneficiary countries entered United States trade channels, 109,297 proof gallons of which were bottled. This importation level and mix of bottled and bulk rum would generate $11,318,286 in excise tax collections (at $10.50 per proof gallon) and $1,520,757 in duties (at $1.57 per proof gallon of bulk rum), or a total of $12,839,043. Similarly, in 1981, the importation level and mix of bottled and bulk rum would have generated $9,243,822 in excise tax collections and $1,205,203 in duties, or a total of $10,449,025 for the Fund. While figures for 1982 are not yet available, judging by figures for the first ten months of the year, it is fair to say that the 1982 importation level and mix of bottled and bulk rum from potential beneficiary countries would generate at least $7,000,000.

It will be noted, of course, that the amount of rum from potential beneficiary countries entering trade channels in the United States has dropped since 1980. There are two points to be made in this regard. First, a large amount of foreign Caribbean rum is currently in storage in bonded warehouses in the United States. Once this rum is withdrawn from warehouses for consumption and the applicable excise taxes and tariffs (if any) are paid, these moneys will be available for the Fund. Second, those arguing in favor of blanket duty-free treatment for foreign Caribbean rum have asserted that the historical growth in rum consumption in the United States will continue. In this event, shipments of foreign Caribbean rum will increase (especially if duty-free treatment is granted to bottled rum), as will moneys available for the Fund.

Puerto Rico and the Virgin Islands recognize that it is prudent for budgetary reasons to impose some limit on the amount of money that can flow to the Fund in a given year.* It is therefore proposed that an annual cap be placed on the amount of excise tax and tariff payments that can go into the Fund. this cap would be $10 million in the first year of the program, and would increase by $1 million per year for five years to a final cap of $15 million per year. Thus, if the sum of excise tax and tariff payments on rum imported from beneficiary countries exceeds $10 million in the first year of the program, any excess would be covered over into the Treasuries of the Virgin Islands and Puerto Rico. Once the cap reached $15 million, it would stay at that level for the duration of the CBI program unless the federal excise tax on distilled spirits is increased, in which case the cap would rise proportionately.

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*The existence of such a limitation would also ensure that the existence of the Fund does not encourage subsidization of rum production in beneficiary countries.

C. Projects Financed by the Fund

The Fund's resources would be allocated for use by designated beneficiary countries in accordance with a formula to be established by AID. Only island beneficiary countries would be eligible for assistance from the Fund.* While at least 30% of the moneys disbursed by the Fund would be earmarked for rum-producing beneficiary countries, there would be no direct link between rum production and Fund payments. Instead, development projects proposed by island governments would be evaluated on the basis of local need, with projects of major significance to an island or to a large number of people receiving first priority.

ADVANTAGES OF THE PROPOSAL

The Puerto Rico/Virgin Islands proposal has several significant advantages. First, the proposal would allow unlimited duty-free entry to all bottled rum produced in beneficiary countries, encouraging real employment opportunities through the stimulation of bottling operations. Second, the Fund would benefit both rum and non-rum producing beneficiary countries. Third, Fund moneys would go directly to the governments of the designated islands for the benefit of their people. Governments would not have to depend upon the investment decisions of multinational or local rum distillers in order to benefit from the trade provisions of the CBI. Fourth, the Fund represents a continuing source of foreign aid capital which will not be subject to the uncertainties of the appropriation process. Excise taxes and tariff payments automatically will be devoted to the Fund (up to the level of the cap), and island governments can depend upon the availability of these moneys.

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*More specifically, the following countries and territories would be eligible for Fund assistance once they are designated by the President to be "beneficiary countries" under the CBI:

Anguilla	Jamaica
Antigua and Barbuda	Saint Lucia
The Bahamas	St. Vincent and the Grenadines
Barbados	Trinidad and Tobago
Cuba	Cayman Islands
Dominica	Montserrat
Dominican Republic	Netherlands Antilles
Grenada	Saint Christopher-Nevis
Haiti	Turks and Caicos Islands
	British Virgin Islands

Puerto Rico and the Virgin Islands also benefit from the Fund program, although indirectly. The program, with its retention of the present tariff on foreign shipments of bulk rum, would provide a basic safeguard for the U.S. Territories' rum industry. In addition, Puerto Rico and the Virgin Islands would benefit from infrastructure development in the region as a whole as overall economic activity increases.

The Puerto Rico/Virgin Islands proposal also features benefits for the United States Treasury when compared with the proposal to grant blanket duty-free treatment to foreign Caribbean rum. Under the original CBI proposal, the Treasury would have retained none of the excise taxes collected on foreign rum, wherever produced. Under the Puerto Rico/Virgin Islands proposal, all excise taxes collected on rum produced in countries that are not CBI beneficiaries would be retained by the Treasury. Since under the original CBI proposal the Treasury would have paid excise tax payments on all foreign rum, both Caribbean and non-Caribbean, to Puerto Rico and the Virgin Islands, and the existing tariff on all rum produced in beneficiary countries would have been removed, the Puerto Rico/ Virgin Islands proposal would cost the United States Treasury less than the original CBI proposal, while providing tangible assitance to beneficiary countries. Puerto Rico and the Virgin Islands would receive a smaller federal tax rebate than under the original Administration proposal, but their rum industries would remain reasonably protected.

The Puerto Rico/Virgin Islands proposal is in some respects a form of revenue sharing, with federal revenues going to certain CBI beneficiary countries instead of to states and local governments. Puerto Rico and the Virgin Islands provide a dramatic example of how sharing revenues can benefit an island community: historically, the Territories have been using funds so generated to finance local development. There is no reason why neighboring Caribbean islands cannot use the share of the Fund for similar ends. In order to enhance the economic and political stability of these islands, the people of Puerto Rico and the Virgin Islands are willing to forego their share of the excise taxes collected on foreign rum that would have gone to the two U.S. Territories under the original CBI proposal. The development needs of our Caribbean neighbors are that important to us. The Puerto Rico/Virgin Islands proposal will protect the legitimate interests of United States citizens living in the Caribbean while enhancing the economic future of all Caribbean people.

Mr. DE LUGO. However, I am greatly disappointed that S. 544 still fails to provide a logical resolution to the rum issue for the U.S. territories in the Caribbean. And at this point, let me say, Mr. Chairman, that after the CBI failed to get through the last Congress, the Governor and I sat down and we worked on an amendment that would address our concerns, but at the same time, in our judgment, actually improve the CBI package as presented by the administration in that it would, first of all, protect the industries in the U.S. territories of Puerto Rico and the Virgin Islands, but that it would also give larger benefits to the Caribbean nations, and that it would at the same time have no additional economic impact on the Treasury of the United States beyond that already contained in the President's package.

Now that sounds like quite a trick, and it is. But let me tell you that this is a good amendment. I am a child of the Caribbean. I have lived all my life in the Caribbean. My family has been in the Caribbean since the 1800's. We are of the Caribbean. These are our neighbors that we speak of. And for many the United States in the Caribbean is the Virgin Islands and Puerto Rico. More than half of our population in the Virgin Islands comes from these islands. More than half of our college students come from these islands. And we are in constant communication by telephone and through other means.

In the interest of time, I am going to yield my time to the Governor of the Virgin Islands so that he can explain to you this provision because I think it is of such importance to the Caribbean Basin Initiative.

The CHAIRMAN. Senator Chiles is here, and I know he has a Budget Committee meeting. I wonder if we might recognize Senator Chiles. Is that all right, Lawton?

Senator CHILES. Yes.

The CHAIRMAN. Lawton, why don't you go ahead. I know you have another committee meeting. We want you to get the budget fixed up.

STATEMENT OF HON. LAWTON CHILES, A U.S. SENATOR FROM THE STATE OF FLORIDA

Senator CHILES. Mr. Chairman, thank you. Your fellow chairman, Mr. Domenici, only gave me a 3-minute excuse so I appreciate this very much. And, Governor, thank you for letting me go ahead of you here.

I listened with interest that the Virgin Islands more than any other place has a real interest in the health and prosperity of the Caribbean. That's my statement—that Florida has the same interest. So I guess many of us feel that.

But certainly our geographic location makes a close association and interaction with the region mandatory, and injects Florida into most of the social, political, and economic realities of the area. And from our standpoint, this is both a blessing, and it is also a problem.

Florida, today, benefits greatly from the trading activity and position and is a major supplier of the Basin. We are also fortunate to have a rich cultural association. We are proud to count among our most prominent citizens thousands of individuals and families whose roots trace directly to these countries. On the other hand, we are affected greatly by the Basin's problems.

The Caribbean Basin is an area groping for economic and political stability. And the economic and political conditions that currently exist are just the type that provide the fertile field for the kind of destabilizing actions that are now being spread by Castro's Cuba. Unquestionably, we have a responsibility to do what we can to prevent that sort of action. It's both in our national security and economic interest to see that the Basin becomes stable. Until then, I'm afraid we will continue to see a flood of illegal aliens coming to our shores looking for that better life, and we will continue to experience trade and business associations far below what they could be.

And toward that goal of regional security and economic vitality, I wholeheartedly support the legislation. We are greatly concerned that unless carefully crafted, the legislation could pose serious problems for our agricultural interest. Our previous experience with the Mexicans—fresh fruit and vegetables—is certainly enough for us to recommend caution. And while many improvements have been made in the bill, there still exists a great cause for concern over potential market disruptions due to the importation of fresh and especially processed citrus products.

For this reason I would urge the committee to seriously consider exemption of all citrus products from the bill. You may be aware that citrus and especially the processed product is extremely sensitive to import competition. Any substantial movement of imported products into the domestic market could have a drastic effect on our producers. Citrus is a $2.6 million concern to Florida. And the health of our State's economy is just irrevocably tied to that. I don't believe, therefore, we can afford to risk permanent damage to any industry so vital to Florida's economic health.

Failing this, I believe it's essential for the committee to provide processed citrus products the same kind of fast track safeguard provisions that are now available to the perishable product.

Importation of processed citrus products has been and will continue to be of great concern to Florida's producers. Part of our concern, as you know, is that the product will be transshipped, processed or something into the Caribbean and then come in—Brazilian fruit or a product coming from even outside of the region. And what that would do would be a disastrous effect to us.

I believe for this legislation to be fair and equitable, we should provide to domestic producers of processed products the same kind of relief mechanisms that are going to protect the perishable product from sudden market disruption.

I am greatly concerned the legislation leaves open the possibility at a future date that Cuba can be entitled to benefits under the bill. I understand the current bill gives the President discretionary authority to so include Cuba. I don't believe that in legislation designed to help secure economic and political stability to the Caribbean area it is proper to give that kind of discretion without Congress being able to look at that, and being able to determine, you know, has there been some real change or is there a reason for doing that. I'm not exactly thinking that this President would do that, but this legislation is going to go beyond that, and it would seem like to me that that would be something better to not have in and allow Congress to be able to speak to that.

Finally, the question of transshipment of citrus products through the Caribbean, which I mentioned earlier, remains of tremendous concern to many interests. I think improvements have been made in this regard, but I would urge the committee to continue its awareness of this issue. I believe that we need to know exactly how we are going to monitor the rules of origin and other provisions regarding import regulations.

Mr. Chairman, I especially appreciate your courtesy in allowing me to appear, and allowing representatives from the citrus industry to be before you. And I want to thank you again for allowing me to slip in here.

The CHAIRMAN. Thank you, Senator Chiles.

[The prepared statement of Senator Chiles follows:]

OFFICE OF SENATOR LAWTON CHILES
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Contact: Jack Pridgen

Statement

before the

SENATE FINANCE COMMITTEE

April 13, 1983

Thank you, Mr. Chairman. I appreciate the opportunity to appear before the Committee today to very briefly outline my views on the Caribbean Basin Initiative.

Probably more than any other state, Florida has a very real interest in the health and prosperity of the Caribbean area. Our geographic location makes close association and interaction with the region mandatory and injects Florida into most of the social, political and economic realities of the area. From our standpoint, this is both a blessing and a problem. Florida today benefits greatly from its trading activity and position as a major supplier of the Basin. We also are fortunate to have a rich cultural association. We are proud to count among our most prominent citizens, thousands of individuals and families whose roots trace directly to these countries. On the other hand, we are affected by many of the Basin's problems. The Caribbean Basin is an area groping for economic and political stability. Economic and political conditions that currently exist are just the type that provide fertile field for the kind of destablizing action now being spread by Castro's Cuba. Unquestionably we have a responsibility to do what we can to prevent this sort of action. It is in both our national security and economic interest to see that the Caribbean Basin becomes stable. Until then, I'm afraid we will continue to see a flood of illegal aliens coming to our shores looking for a better life and we will continue to experience trade and business associations far below what they could be. Toward this goal of regional security and economic vitality, I wholeheartedly support this legislation.

I am, however, concerned that unless carefully crafted, this legislation could pose serious problems for Florida's agricutlrual interests. Our previous experience with Mexican fresh fruit and vegetable imports is enough to recommend caution. While many improvements have been made in this bill, there still exists cause for concern over potential market disruptions due to the importation of fresh and especially processed citrus product. For this reason I would urge the Committee to seriously consider exemption of all citrus products from the bill. You may be aware that citrus and especially the processed product is extremely sensitive to import competiton. Any substantial movement of imported product into the domestic market could have a disasterous effect on our producers. Citrus is a $2.6 billion concern in Florida and the health of our State's economy is closely tied to this industry. I do not believe, therefore, we can afford to risk permanent damage to an industry so vital to Florida's economic health.

Failing this, I believe it is absolutely essential for this Committee to provide processed citrus product the same kind of fast-track safeguard provisions now available to perishable product. Importation of processed citrus product has been and will continue to be of great concern to Florida's producers. I believe for this legislation to be fair and equitable, we should provide to domestic producers of processed product the same relief mechanisms that will protect perishable product from sudden market disruptions.

Also, I am greatly concerned that this legislation leaves open the possibility that at some future date, Cuba could be included among the nations eligible for benefits under this bill. I understand that the current bill gives the President the discretionary authority to so include Cuba. I do not believe that in legislation deisgned to help secure the economic and political stability of the Caribbean region, it is proper to potentially hold open the door of economic opportunity to the very country that is sworn and determined to undermine its neighbors. I think this is an outrageous provision and I would urge the Committee to delete it during the markup process.

Finally, the question of trans-shipment of citrus product through the Caribbean Basin remains of concern to many Florida interests. I realize that improvements have been made in this regard but I would urge the Committee to continue its awareness of this issue. I believe we need to know exactly how we are going to monitor the rule of origin and other provisions regarding import regulations.

Mr. Chairman, I appreciate the opportunity to appear before the Committee today. I look forward to working with you to help address the very real concerns Florida's citrus industry has with the bill as drafted.

STATEMENT OF HON. JUAN LUIS, GOVERNOR, U.S. VIRGIN ISLANDS

The CHAIRMAN. Governor.

Mr. LUIS. Mr. Chairman, distinguished members of the committee, thank you for this opportunity to present the views of the U.S. Virgin Islands regarding the President's proposed Caribbean Basin Initiative.

Last year I urged this committee to adopt certain amendments to the CBI which would maintain and improve the ability of the Virgin Islands to continue to develop its economy in the context of the far-reaching, free-trade provisions. Primary among these amendments was a provision that would have limited the amount of duty-free rum that could enter the United States from the non-U.S. Caribbean.

I am here today to present a new rum proposal which we believe offers substantially greater benefits to the Caribbean region than the administration proposal, while providing legitimate protection for the Virgin Islands bulk-rum industry, the most price-sensitive and import-sensitive segment of the U.S. rum market. Our new proposal will generate more jobs and more government revenues for the foreign Caribbean than the administration proposal. It deserves the serious attention of this committee.

Protection of the Virgin Islands bulk-rum industry is essential to the long-term financial stability of the Virgin Islands Government, as well as the long-term survival of the territory's rum industry. Because for 30 years Congress has returned to the Virgin Islands the excise taxes on Virgin Islands rum sold in the United States, the rum industry provides the territory with approximately $35 million per year, about 15 percent of the Virgin Islands annual budget. These funds are used to finance the construction of sorely needed capital projects which provide jobs and improve infrastructure such as reliable supplies of water and power, improved roads and schools, et cetera. These in turn are urgently needed to attract new private investment and more jobs.

About 97 percent of the rum produced in the Virgin Islands and sold in the U.S. markets is shipped in bulk. Bulk rum is a price-sensitive and import-sensitive commodity. It is used in premixed cocktails and food preparation and is bottled under various private labels. Purchasers of bulk rum are most interested in obtaining the least expensive product available. Bottled rum, on the other hand, is sold as a name brand product and, thus, is not as sensitive to competition from lower cost products.

The administration's CBI bill recognizes that the Virgin Islands and Puerto Rico stands to lose rum sales to low priced foreign Caribbean nations once the tariff is removed due to the very low wage rates, and to the lack of environmental and occupational regulations in these countries. Under the administration's CBI, the Virgin Islands and Puerto Rico would receive, in addition to the excise taxes imposed on their rums, the excise taxes imposed on foreign rums as well. While this provision provides some immediate protection against loss of revenue due to displacement of Virgin Islands and Puerto Rico's domestic rum by rum manufactured in the foreign Caribbean, it does nothing to protect the industries themselves in the long run.

Under the administration's CBI bill, the Virgin Islands bulk rum industry would soon disappear and the excise tax revenues returned to the Virgin Islands for capital projects, then no longer bearing any relation to rum production in the territory, would be placed in jeopardy.

The Virgin Islands and Puerto Rico have developed an alternative which would not only protect our domestic bulk rum industries, but would also provide duty-free access to the United States for bottled rum produced in CBI countries. However, unlike the previous proposed amendment, our present alternative takes the foreign rum excise taxes that would have been returned to the Virgin Islands and Puerto Rico under the administration plan and deposit them into a special Caribbean regional development fund. This fund would be used to finance planned infrastructure development of island beneficiary countries in the Caribbean.

Under our proposal, the eastern Caribbean countries would receive an additional $50 million, and the Caribbean island nations as a whole, an additional $165 million over the 12 years of the CBI. These funds would be provided at no additional cost to the Treasury than under the administration's plan.

In comparison, we have shared our proposal with the Caribbean island nations. The Organization of Eastern Caribbean States [OECS] has prepared an economic report on the Virgin Islands-Puerto Rico proposal, which we understand reaches a positive conclusion about the relative economic benefits of the proposal as compared to the administration bill. Our proposal is being actively considered by the OECS member states, and we understand that the report and the proposal is now being reviewed by the ministers of these states.

The U.S. Commerce Department sponsored Puerto Rico-Virgin Islands District Export Council, a group representing the private sector, is expected to endorse the Virgin Islands-Puerto Rico rum proposal in the near future.

The Virgin Islands has consistently supported the concept of the CBI as a recognition by the U.S. Government of the importance of our region. But, clearly, the legislation implementing CBI must be structured to avoid damage to the already strained economy of the U.S. Virgin Islands, now bearing the severe impact of Federal budget and tax cuts and recent industrial lay-offs, together with insufficient infrastructure and limited capital resources.

The proposal developed by the Virgin Islands and Puerto Rico would not only accomplish this objective, but it will also provide additional benefits to the foreign countries in the region without additional Federal expenditure. I strongly urge this committee's support.

Thank you very much.

The CHAIRMAN. Thank you.

[The prepared statement of Governor Juan Luis follows:]

STATEMENT OF

HONORABLE JUAN LUIS, GOVERNOR

UNITED STATES VIRGIN ISLANDS

BEFORE THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

April 13, 1983

Mr. Chairman, distinguished Members of the Committee, thank you for this opportunity to present the views of the United States Virgin Islands regarding the President's proposed Caribbean Basin Initiative (CBI).

Last year I urged this Committee to adopt certain amendments to the CBI which would maintain and improve the ability of the Virgin Islands to continue to develop its economy in the context of the far-reaching free trade provisions which form the "centerpiece" of the CBI plan. Primary among these amendments was a provision that would have limited the amount of duty-free rum that could enter the United States from the non-U.S. Caribbean.

I am here today to present a new rum proposal which we believe offers substantially greater benefits to the Caribbean region than the Administration proposal, while providing legitimate protection for the Virgin Islands bulk rum industry -- the most price sensitive and import sensitive segment of the U.S. rum market. We believe that our new proposal, which will generate more jobs and more government revenues for the foreign Caribbean than the Administration proposal, deserves the serious attention of this Committee.

Some protection of the Virgin Islands bulk rum industry is essential to the long-term financial stability of the Virgin Islands Government, as well as the long-term survival of the Territory's rum industry. Because of the 30-year-old Congressional policy of returning to the Virgin Islands Treasury the excise taxes on Virgin Islands rum sold in the United States, the rum industry provides the Territory with approximately 35 million dollars per year, which is about 15% of the Virgin Islands annual budget. These funds are primarily used to finance the construction of sorely-needed capital projects which provide jobs and improved infrastructure such as reliable supplies of water and power, improved roads and schools, etc. These in turn are urgently needed to attract new private investment and more jobs.

About 97% of the rum produced in the Virgin Islands and sold in the U.S. market is shipped in bulk. Bulk rum is sold and marketed as a commodity. It is price-sensitive and import-sensitive. It is used in pre-mixed cocktails and food preparation and is bottled under various private labels. Purchasers of bulk rum are most interested in obtaining the least expensive product available.

Bottled rum on the other hand is sold as a name brand product and thus is not as sensitive to competition from lower cost products.

The Administration CBI bill recognizes that the Virgin Islands and Puerto Rico stand to lose rum sales to low-priced foreign Caribbean nations once the tariff is removed, due to the very low wage rates and to the lack of environmental and occupational safety and health regulations in these countries. Under the Administration CBI, the Virgin Islands and Puerto Rico would receive, in addition to the excise taxes imposed on their own rums, the excise taxes imposed on foreign rums as well. While this provision would provide some immediate protection against loss of revenue due to displacement of V.I. and Puerto Rico domestic rum by rum of foreign manufacture, it does nothing to protect the industries themselves in the long run. Under the Administration CBI bill, the Virgin

Islands bulk rum industry would soon disappear and the excise tax revenues returned to the Virgin Islands for capital projects, then no longer bearing any relation to rum production in the Territory, would be put in jeopardy.

The Virgin Islands and Puerto Rico have developed an alternative which would not only protect our domestic bulk rum industries, but would also provide duty-free access to the United States for bottled rum produced in CBI countries. However, unlike the previous proposed amendment narrowly defeated on the floor of the House in the 97th Congress, our present alternative takes the foreign rum excise taxes that would have been returned to the V.I. and Puerto Rico under the Administration's plan and deposits them into a special Caribbean Regional Development Fund. This fund would be used to finance planned infrastructure development of island beneficiary countries in the Caribbean. Under the original CBI only $20 million was provided to the small countries in the Eastern Caribbean; under our proposal the Eastern Caribbean countries would receive about $50 million dollars and the Caribbean island-nations as a whole $165 million dollars over the 12-years of the CBI. These funds are not intended as a substitute for other foreign aid appropriations and they would be provided at no additional cost to the Treasury than under the Administration's plan.

Our proposal, by eliminating the duty on bottled rum, also provides an incentive for Caribbean countries to bottle their own rum. Because bottling is the labor intensive part of the rum industry our proposal would thus encourage job creation in the region. In addition to jobs in bottling, the expenditures from the regional development fund would be used for capital projects, and through their multiplier effects, would benefit directly the island governments and people.

In comparison, the Administration proposal would only create an insignificant number of jobs in the bulk rum industry. It is important to note that many of the multi-national companies that own the larger rum distilleries in the non-U.S. Caribbean presently have unused capacity at these distilleries, so additional bulk rum production will not necessarily result in additional jobs. What it will result in is increased profits for multinational companies at the expense of the well being of the U.S. Territories in the region. Interestingly, it will also not result in any significant increase in revenues to Caribbean governments, whereas the V.I./Puerto Rico proposal provides these governments with about $10-15 million dollars per year in direct revenues.

We have shared our proposal with the Caribbean island-nations. The Organization of Eastern Caribbean States (OECS) has prepared an economic report on the V.I./Puerto Rico proposal which we understand reaches a positive conclusion about the relative economic benefits of the proposal as compared to the Administration bill. Our proposal is being actively considered by the OECS member-states and we understand that the report on the proposal is now being reviewed by the ministers of these states.

We have also shared our proposal with the U.S. Commerce Department-sponsored Puerto Rico-Virgin Islands District Export

Council, a group representing the private sector. The Council, which supports the CBI in general, is expected to endorse the V.I.-Puerto Rico rum proposal in the near future.

I wish to comment briefly on two other sections of the CBI legislation. First, the House of Representatives last year adopted a provision to exempt the existing Virgin Islands rum distillery from EPA discharge requirements provided the Governor of the Virgin Islands determines that the exemption will not adversely affect water quality. The Administration has included this exemption in this year's version of the CBI. I wish to express my appreciation to the House Ways and Means Committee and the Administration for adding this provision which is quite justified in light of the Virgin Islands offshore location amid strong ocean currents that quickly disperse discharges. It will be of significant assistance to our local rum industry should the industry be allowed to continue to prosper under an amended CBI. The provision deserves this Committee's support.

Second, the House and the Administration have added a new provision to the CBI legislation to permit U.S. taxpayers to deduct the cost of attendance at foreign conventions in CBI countries. The Virgin Islands opposes this additional tax benefit because of the adverse impact it will have on tourism to the Virgin Islands and Puerto Rico. Visitor air arrivals to the Virgin Islands have declined by about 25% from 1979 to 1982. A provision such as this can only serve to impede progress toward recovery of the Virgin Islands tourism industry. Tourism, of course, is the one industry

21-491 O—83——4

which has the greatest effect on our depressed Territorial economy. I urge this Committee to delete this provision from the CBI legislation.

In the nearly two years since its inception, the Virgin Islands has consistently taken the position of supporting the concept of the CBI. We welcome and favor the CBI as a recognition by the U.S. Government of the importance of our region. But clearly, the legislation implementing CBI must be structured to avoid damage to the already strained economy of the U.S. Virgin Islands, now bearing the severe impact of federal budget and tax cuts and recent industrial layoffs, together with insufficient infrastructure and limited capital resources. The proposal developed by the Virgin Islands and Puerto Rico will not only accomplish this objective but it will also provide additional benefits to the foreign countries in the region without additional federal expenditures. I strongly urge this Committee's support. Thank you.

STATEMENT OF HON. BALTASAR CORRADA, U.S. REPRESENTATIVE FROM PUERTO RICO

The CHAIRMAN. Congressman Corrada.

Mr. CORRADA. Thank you, Mr. Chairman.

I am pleased to appear again before this committee to testify in support of the Caribbean Basin Initiative. During the extensive debates and consideration by Congress of the CBI last year, ample evidence and testimony was presented about the need for this initiative in the region, and at the same time, the importance of insuring the continued economic vitality of the domestic areas of the United States, including its important possessions in the Caribbean.

Those two objectives remain the driving force behind the consideration of this legislation. At this time I do not wish to go over the various arguments that were made in support of the CBI. It is important, however, that we again take notice of the raised expectations of the countries in the region toward this program. That interest has not been diminished by the passage of time since President Reagan first announced the idea early last year. If anything, the countries are anxious to have the tools provided in this bill to allow them to carry on their own economic development program.

Puerto Rico, Mr. Chairman, stands ready, willing, and prepared to engage in close collaboration with the countries in the Caribbean Basin. We have already started some of those contacts; particularly, with Jamaica and the Dominican Republic. We wish to extend those contacts with others.

Not only, Mr. Chairman, under the specific provisions of the CBI legislation, but also in all kinds of government to government technical assistance and cooperation, as well as people to people contacts and businessmen and entrepreneurs from Puerto Rico engaging in contacts with their counterparts in the countries of Central America and the Caribbean.

The legislation introduced this year includes a provision to retain duties for imports on canned tuna products. This protection for the U.S. tuna industry is vital to Puerto Rico, California, Hawaii, and American Samoa. We fought hard during consideration of the legislation last year in the Ways and Means Committee for protection of the domestic tuna canning industry. I would like to urge this committee to make sure that the tuna retention already contained in the bill as introduced by Senator Dole this year remains in the bill throughout its congressional consideration. The retention of that provision in the bill, and I am pleased that you saw fit to incorporate it in the bill as introduced, is vital to Puerto Rico.

In connection with rum, I would like to point out that Puerto Rico has been in consultation with the U.S. Virgin Islands. Our Governors, Governor Romero and Governor Juan Luis, have discussed this matter. I have discussed the matter also with Governor Juan Luis and my colleague in the House, Ron de Lugo, and, of course, Puerto Rico is supportive of the proposal that Governor Juan Luis described a short while ago.

However, I am encouraged by the provision of section 104(c), which I also believe is vital for you to retain, which gives the President the authority to withdraw duty-free treatment on rum if the sum of the amount of taxes covered to the treasuries of Puerto Rico or the U.S. Virgin Islands is reduced below the amount that would have been covered if the imported rum had been produced in Puerto Rico or the U.S. Virgin Islands.

The importance of this provision must be underscored; particularly, the need to be on the alert for any indication of detrimental effects on our rum industry. In this regard, Mr. Chairman, I would appreciate the committee's assistance in urging the Office of the Special Trade Representative to negotiate with foreign countries the elimination of barriers and tariffs to imports of Puerto Rico and Virgin Islands rum. Particularly, to Europe, Canada, and the Caribbean Basin area. It is only fair that at a time when we are removing their barriers to entry of rum into the United States we also seek to expand sales of our domestic rum into other markets.

Furthermore, the production of rum in Puerto Rico is very much dependent on the importation of molasses, mainly from the Dominican Republic. It is important, therefore, that we insure that a reliable source of supplies be maintained to enable us to continue producing rum. Since our primary sources of molasses are in the Caribbean, it would be appropriate for the USTR to assist us in securing our access to these molasses.

The third and final point of concern is the need to protect our agricultural products. The bill has detailed language regarding an accelerated section 201 petition which is very important to prevent injury to our agricultural industry.

Again, I would like to stress the importance of closely monitoring our domestic agricultural production, and avoiding an invasion of foreign farm products in our market to prevent injury to our farmers and workers.

In closing, Mr. Chairman and members of the committee, I want to restate the support and commitment of both Governor Romero-Barcelo and myself toward the approval and successful implementation of the Caribbean Basin Initiative. I urge all of you to take prompt action toward that end, and I look forward to a strengthening of the ties of friendship and economic development that bind our country to our neighbors in the Caribbean Basin.

Thank you, Mr. Chairman.

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

TESTIMONY OF THE HON. BALTASAR CORRADA

ON S.544
THE CARIBBEAN BASIN ECONOMIC RECOVERY ACT

BEFORE THE SENATE COMMITTEE ON FINANCE

APRIL 13, 1983

Mr. Chairman, Members of the Committee.

I am pleased to appear again before this Committee to testify in support of the Caribbean Basin Initiative. During the extensive debate and consideration by the Congress of the CBI last year, ample evidence and testimony was presented about the need for this initiative in the region and at the same time the importance of ensuring the continued economic vitality of the domestic areas of the United States, including its important possessions in the Caribbean. Those two objectives remain the driving force behind the consideration of this legislation.

At this time, I do not wish to go over the various arguments that were made in support of the CBI. It is important, however, that we again take notice of the raised expectations of the countries in the region toward this program. That interest has not been diminished by the passage of time since President Reagan first enunciated the idea early last year. If anything, the countries are anxious to have the tools provided in this bill to allow them to carry on their own economic development programs.

The legislation introduced this year includes the retention of duties for imports of canned tuna products. This protection for the U.S. tuna industry is vital to Puerto Rico, California, Hawaii and American Samoa. We fought hard during consideration of the legislation last year in the Ways and Means Committee for protection of the domestic tuna canning industry. In Puerto Rico alone, our production accounts for 40 percent of the tuna consumed in the United States, and is responsible for 13,000 direct and indirect jobs. Tuna canning is a highly mobile industry that would be susceptible to relocation in Caribbean Basin countries if duties were removed. The inclusion of canned tuna products under the exemption provision of the Title I duty-free treatment of S. 544 is extremely important to Puerto Rico and the other tuna canning areas of our country and I urge you not to delete that important feature from your bill.

The protection of the rum industry of Puerto Rico and the U.S. Virgin Islands also continues to be of concern to us. As it stands, the legislation does include some protection for rum, although less than we would have wished.

For 1981, the collection of excise taxes on rum produced in Puerto Rico, which are then rebated to the Treasury of Puerto Rico, accounted for $250 million which is about 11 percent of the Island's operating budget. Although the legislation also provides for the rebate to Puerto Rico and the Virgin Islands of the excise taxes collected on imports of foreign rum, we remain concerned about the future impact on our rum industry of the removal of tariffs because the bill, as drafted, protects the revenue but not the industry. I am encouraged, however, by the provision of Sec. 104(c) which gives the President the authority to withdraw duty-free treatment on rum "if the sum of the amounts of taxes covered '` the treasuries of Puerto Rico or the United States ... is reduced below the amount that would have been covered over if the imported rum had been produced in Puerto Rico or the U.S. Virgin Islands..." The importance of this provision must be underscored, particularly the need to be on the alert for any indication of detrimental effects on our rum industry.

In this regard, I would appreciate the Committee's assistance in urging the Office of the Special Trade Representative to negotiate with foreign countries the elimination of barriers to imports of Puerto Rican and Virgin Islands rum into Europe, Canada and the Caribbean Basin area. It is only fair that at a time when we are removing barriers to entry of rum into the United States, we also seek to expand sales of our domestic rum into other markets.

Furthermore, the production of rum in Puerto Rico is very much dependent on the importation of molasses. It is important, therefore, that we ensure that a reliable source of supplies be maintained to enable us to continue producing rum. Since our primary sources of molasses are in the Caribbean, it is appropriate for the STR to assist us in securing our access to these molasses.

A third, and final point of concern is the need to protect our agricultural products. The bill has detailed language regarding an accelerated Sec. 201 petition which is very important to prevent injury to our agricultural industry. Again, I would like to stress the importance of closely monitoring our domestic agricultural production and avoiding an inundation of foreign farm products in our market to prevent injury to our farmers and workers.

In closing, I want to restate the support and commitment of both Governor Romero-Barceló and myself toward the approval and successful implementation of the Caribbean Basin Initiative. I urge all of you to take prompt action toward that end and I look forward to a strengthening of the ties of friendship and economic development that bind our country to our neighbors in the Caribbean Basin.

The CHAIRMAN. Senator Danforth.

Senator DANFORTH. No questions.

The CHAIRMAN. Senator Long.

Senator LONG. No questions.

The CHAIRMAN. Well, I want to thank the panel very much. I think you have addressed the primary concerns, and we will be asking the Secretary and Mr. Brock if they support the so-called rum provision that you referred to in your testimony, the Virgin Islands-Puerto Rico provision.

And I assume as we proceed on this legislation you will be available to counsel and otherwise assist us.

Mr. CORRADA. At all times.

The CHAIRMAN. Thank you very much.

Mr. DE LUGO. Thank you.

Mr. LUIS. Thank you.

Mr. CORRADA. Thank you.

The CHAIRMAN. As I understand, Mr. Secretary, you and Ambassador Brock will proceed, to be followed by Secretary Chapoton.

We are pleased to have you before our committee, Mr. Secretary. We don't have this privilege very often, and we will try to stick to the issue at hand. That is the Caribbean Basin Initiative. There may be a few wild shots fired.

You may proceed in any way you wish. Your entire statements will be made a part of the record. We are happy to have you here this morning.

Do you want to go first, Mr. Secretary?

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

Secretary SHULTZ. Thank you, Mr. Chairman.

I appreciate the opportunity to appear again before this committee. It is sort of old home week for me, having been here so many times. And I especially appreciate the chance to testify on this subject because I think it is inherently very important in and of itself. And I think it is important for all sorts of other things it is connected to, having to do with the interest of the United States.

I welcome this opportunity to continue our dialog on the Caribbean region, and specifically, the Caribbean Basin Economic Recovery Act. The legislation we have proposed is a far-sighted response to a deepening economic and social crisis troubling some of our closest neighbors. It deserves to become law this year—the sooner this year, the better.

Let me begin by reviewing our own vital interest in the Caribbean Basin. The Caribbean is an unfenced neighborhood that we share with 27 island and coastal nations. Their security and economic well-being have a direct impact on our own strategic and economic interests.

We do not have to go to Miami to come in daily contact with people born in the Caribbean region or to appreciate the rapid impact of turmoil there on our own society. In fact, our country has become a safe haven for thousands upon thousands of Caribbean citizens who pin their hopes for a better life on a dangerous, uncertain, and clandestine migration to this country. As a result, the Basin area is now the second largest source of illegal immigration to the United States. This situation will not improve until the nations of the Caribbean Basin are better able to offer their people opportunities to build secure, productive lives at home.

Economically, the Caribbean Basin region is a vital strategic and commercial artery for the United States. Nearly half our trade, three-quarters of our imported oil, and over half of our imported strategic minerals pass through the Panama Canal or the Gulf of Mexico. If this region should become prey to social and economic upheaval, and dominated by regimes hostile to us, the consequences for our security would be immediate and far-reaching.

The health of the Caribbean economies also affects our economy. The area is now a $7 billion market for U.S. exports. Thousands of American jobs were lost when our exports to the region fell $150 million last year as income in the region declined. A large portion of the debt of Caribbean countries is owed to banks in this country. At the end of 1981, U.S. direct investment in the region was approximately $8 billion.

The Caribbean Basin Economic Recovery Act is the cornerstone of our effort to come to grips with these issues. This legislation recognizes the critical relationship between economic development and political stability. It is designed to promote self-sustaining economic growth, to enable countries in the region to strengthen democratic institutions and to implement political, social, and economic reforms. Ultimately, its purpose is to help restore the faith of people in the region in their countries ability to offer them hope for a better future.

The societies of the Caribbean Basin republics are undergoing inevitable change that puts them under considerable stress. Declining employment in agriculture, high birth rates, and slow creation of urban jobs have diminished hopes for combating poverty, and caused appalling rates of unemployment, especially among the young. Youth unemployment in Jamaica, for example, is estimated to be about half. Without dramatic increases in investment to improve living standards and to create jobs, rising crime and urban instability will create a downward spiral of social disintegration. And because the Caribbean economies are so small, new investment, domestic as well as foreign, will not take place without assured access to outside markets. This is a very important point, Mr. Chairman, that I don't think has been fully understood. The dependence of a small country on outside markets and foreign trade that comes from the need for economies of scale that determine efficiency in production.

The diminutive size of individual Caribbean markets, averaging just 1½ million people, with 16 countries under half a million, makes them uniquely dependent on the outside world in ways we can only dimly imagine. The national incomes for most Caribbean Basin countries are less than that of a U.S. metropolitan area of 300,000 people, such as Omaha, Nebr., or Charlotte, N.C. Dominica, for example, with a population of only 80,000 is the least developed country in the eastern Caribbean. It is also one of the most democratic and prowestern. If small, vulnerable economies like Dominica are to be at all viable, they must have access to bigger markets. In Central America where the economies tend to be a bit larger, the disruptions in recent years of the Central American Common Market have made economies such as Costa Rica much more dependent on markets outside its region. As long as they are limited to production for their small and poor domestic markets, the small economies of the Caribbean Basin cannot diversify their economies. Nor can they develop the expertise and efficiency needed to become prosperous international traders.

We recognize, Mr. Chairman, that the Caribbean Basin economies will always be dependent to some degree on markets outside the region. But developments of the past few years have had a devastating impact. Prices of the nonoil commodities the Caribbean Basin republics export—sugar, coffee, bananas, bauxite—have fallen drastically. And this is at a time when they are still struggling to cope with the massive increases of the 1970's in the price of their most basic import—oil. Recession in the United States has caused a steep drop in revenue from tourism. Foreign debt has mounted to increasingly burdensome levels. The withering of government revenues has stopped or delayed development projects. Real per capita incomes have declined throughout most of the Basin region.

All this adds up to a massive problem. The governments of the Caribbean Basin republics must find ways to assure socio-political stability and revive economic growth while also accommodating rapid internal change. Their success or failure in meeting this challenge will greatly affect the environment in which we live.

The United States thus has a vital stake in helping its Caribbean Basin neighbors pursue their goal of open societies and growing economies through productive exchange with us and the rest of the world. The administration has approached this task with full recognition that we have great assets and advantages when it comes to supporting democratic government.

This becomes most clear when we look at the alternatives.

One alternative is the closed solution. The society which, while not a viable economy, turns in on itself and enforces by fiat the distribution of the limited economic benefits a small economy can generate itself or receive in aid.

This is a recipe for totalitarian force, because people will not take it willingly, and economic stagnation. It is the Cuban solution. It poses continuing threats to our interests in this hemisphere which we have had to counter for the last 20 years.

A second alternative is decline of the population to the level which a small economy can support on its own. With the young populations and high birth rates of these countries, this alternative entails massive emigration from the Caribbean Basin region. Our country is inevitably the preferred destination. As much as we welcome the rich contribution of the region's immigrants to our own life, massive immigration is not what we want. Nor is it what the countries of the region want. That is not at issue. Nor is it the only reason we care.

The President's proposed legislation supports a third alternative—democratic development. This is the only alternative that meets our vital self interests and our Nation's long tradition as a source of progress and hope in the world. Politically, the people of these societies have shown they want a voice in their own fate, and they reject totalitarian formulas. Two-thirds of the governments of the region have democratically elected governments. Significant progress toward democracy is occurring in others as well, despite the obstacles. Democracy represents a set of values that virtually all the peoples of the region see as sympathetic to their own aspirations. The Cuban and now Nicaraguan models stand as clear demonstrations of both political repression and economic failure.

Economically, we have the assets that can be ultimately decisive in the orientation of Caribbean Basin development. We represent a market economy that works, a natural market for Caribbean Basin exports, the major source of private investment in the region and the management and technology that come with it.

The Caribbean Basin Initiative of the administration is an imaginative and comprehensive approach to bringing these assets to bear on the problems of our Caribbean Basin neighbors. It is a forward looking effort to boost both development and stability. Because it builds on private resources and enterprise, it has the potential to deal with their deep economic plight in a fundamental way. Because it can help to ease delicate social and political transitions before they create security problems of an international dimension, it is a program to get ahead of history, instead of just countering its unwelcome effects.

Our program is part of a major multilateral effort. Other higher income countries of the region are also increasing their efforts significantly. I think this is also a very important point here.

Canada has embarked on a 5-year program for the area providing over $500 million. Canada currently provides duty-free treatment or preferential access for 98 percent of its imports from the Caribbean Basin. Mexico and Venezuela, despite their own financial difficulties, are continuing concessional credits to the region through their oil facility. Venezuelan financial support has been over $2.5 billion in the last 5 years. Colombia is initiating technical assistance of up to $50 million, new credit lines of $10 million per country, and additional balance-of-payments financing and a trust fund for the less developed countries of the eastern Caribbean.

The collective efforts of these democracies are a strong encouragement to open societies and democratic development in the region. But success will be imperiled without us. Our full participation is vitally needed.

The U.S. contribution integrates three types of mutually reinforcing economic measures—trade opportunities, tax incentives, and aid. The program has been developed in continuing consultation with the governments and the private sectors of the regions. It reflects their own priorities and assessment of their needs.

As you know, we were able to make a start on our Caribbean Basin economic initiatives last summer, when the Congress approved an emergency supplemental aid package of $350 million, a key element in the President's original Caribbean Basin program. Our aid requests for both fiscal 1983 and fiscal 1984 reflect the new higher priority we have given to the Caribbean Basin area in the allocation of our scarce economic assistance resources. As a percentage of our overall economic assistance budget, assistance to the Caribbean Basin region will double in fiscal 1983 and 1984 over fiscal 1980, from 6.6 percent authorized in 1980, to 13.6 percent proposed in fiscal 1984.

Most of the $350 million appropriated last year has been obligated for use by the private sector in those countries with the most serious financial problems. This assistance has helped many established, productive private firms continue to obtain needed raw materials and equipment from the United States. In addition, it has provided critical support for balance of payments problems and infrastructure projects in the small, least developed countries.

We have also been able to use a portion of these funds to support training and scholarship opportunities for individuals in the Caribbean Basin region with leadership potential. These opportunities support our goal of transferring knowledge and skills, enhancing economic cooperation among nations of the region and strengthening political ties between recipient countries and the United States. We are currently offering 1,300 scholarships each year. As new money is available, the number of scholarship recipients will continue to increase. These programs have high development, economic and political impact, and are a key element in our assistance to the Caribbean Basin region.

But as the President said when he requested that emergency CBI appropriation, financial assistance is only a short-term remedy. Indeed, financial assistance and development projects will be wasted if the development process is not a broad-based and integrated process. We believe that such development can only be achieved through a strategy which encourages private initiative and investment.

The key to new production and employment in the Caribbean Basin is assured access to its natural market in this country. Suppliers in the Caribbean Basin need help to get started in the competition with larger, more experienced, and established producers elsewhere. That suggests a bold solution that reinforces the natural pole of attraction of the U.S. market.

The President's proposal to grant duty-free entry to Caribbean Basin products for a 12-year period is the centerpiece of the Caribbean Basin Initiative. It can provide a decisive boost to Caribbean Basin development. The proposal is dramatic and simple. It offers the long-term economic benefits of free trade and the immediate impact of a major political commitment to the region. By assuring duty-free access to the vast U.S. market, this measure will provide strong and continuing incentives for investment, innovation and risk-taking in Caribbean Basin countries.

As I have pointed out, Mr. Chairman, the domestic economies of most Caribbean Basin nations are simply too small to permit the diversification essential for noninflationary growth. An opening of the U.S. market to the nontraditional products of these countries will provide important opportunities to develop new production, and an incentive to produce more efficiently. Increased and diversified production will mean higher wages, a strengthened middle class, more resources available for education and health, and more demand for raw materials, equipment and finished goods from the United States.

I recognize, Mr. Chairman, that these are difficult economic times in our own country. Understandably, there is concern over the impact this legislation will have on workers in the United States. I am convinced that the impact on our economy will be positive. Because the Caribbean Basin countries are so closely linked to our economy, our sales to them will grow apace with their economies. It's worth remembering that if you exclude petroleum trade, we have a $2 billion trade surplus with the Caribbean Basin, and are already the major trade partner of most countries there.

A stronger Caribbean Basin will be an even better and more reliable customer for U.S. products. As countries in this region produce more, they will import more. American workers will share in the fruits of that growth.

The Caribbean Basin economies are equal to only 2 percent of our GNP. Take them all together—2 percent. And our imports from the region are less than 4 percent of our total imports. Imports not already entering duty-free are an even smaller percentage. Therefore, even a significant increase in Caribbean Basin production and exports will not have a significant negative impact on our economy. And if American industries are injured by Caribbean Basin imports, they have the remedy of seeking relief under the safeguard provisions of the 1974 Trade Act, which I well remember discussing with this committee many times at the time.

The United States is the world's most open major market. A large share of the Caribbean Basin's exports to the United States already enter duty-free. Petroleum accounts for almost 60 percent of our imports from the region. In 1982, 70 percent of our nonpetroleum imports from the Caribbean Basin entered duty-free and 16 percent of these nonpetroleum imports entered under the GSP. But the GSP is due to expire next year. While the administration strongly supports the extension of GSP, it contains competitive need restrictions and product exclusions which limit its usefulness as a stimulus to broad-based recovery by the small Caribbean Basin countries. The products that would be extended duty-free entry as a result of the proposed CBI legislation comprised only one-quarter of 1 percent of U.S. imports in 1982—0.26 percent. Yet these products represent an important area of potential new production for the Caribbean Basin countries.

I would like to mention briefly, Mr. Chairman, a section of this bill that was not included when I addressed this committee last August on this legislation. I refer to the convention tax deduction. This provision recognizes the vital importance of tourism and travel to the economies of many Caribbean Basin nations. I should emphasize that this provision would simply grant Caribbean Basin conventions tax status equal to that presently enjoyed by Mexico, Canada, and Jamaica. In our consultations with Caribbean Basin business and Government leaders, they have frequently cited the disadvantageous present tax treatment of Caribbean Basin conventions as being an obstacle to the recovery of their travel industries. We should also keep in mind that many American travel dollars spent in the Caribbean Basin come back via U.S.-owned airlines, hotels, and recreation facilities.

Let me reiterate, Mr. Chairman, the important role that Puerto Rico and the U.S. Virgin Islands have in the Caribbean Basin Initiative. Since the early days of this administration, we have consulted closely with the governments of Puerto Rico and the U.S. Virgin Islands to fashion the initiative in a way that would foster the development of the U.S. Caribbean. The legislation reflects that in several ways. It liberalizes duty-free imports into the United States from insular possessions. It explicitly permits industries in Puerto Rico and the U.S. territories to petition for relief under the safeguard provisions of U.S. trade law. It also modifies environmental restrictions on the U.S. Virgin Islands rum industry, and constructs the rules of origin requirements to encourage the use of products of Puerto Rico and the U.S. Virgin Islands. That's in the local origin percentage provision. An important provision would transfer excise taxes on all imported rum to the treasuries of Puerto Rico and the U.S. Virgin Islands. In sum, the facilities, skills, and people of Puerto Rico and the U.S. Virgin Islands are a major component of our development cooperation efforts elsewhere in the Caribbean Basin.

The political dimension of Caribbean Basin progress is of great and ultimate importance to us. We do not seek clients, Mr. Chairman. Our goal is a region of independent countries in which people can choose their leaders and their own path to economic and social progress. We are confident that will produce societies and regimes which are not hostile to us. That same belief underlies the strong commitment of the other democracies in the region to the Caribbean Basin Initiative. Together with Mexico, Venezuela, Colombia, Canada, and the region's other democratic governments, we seek to encourage economic and social reforms which address the real grievances of various sectors of the population of Central America and the Caribbean countries.

Stability in societies based on free association rather than coercion must depend on addressing people's right to own their own land. They must be able to organize in cooperatives and unions to promote their economic interests. And they must be able to exercise their political rights, free of intimidation. That is the course we encourage through our support in the Caribbean Basin region. That is also the course which the peoples in the region seek—as they have shown repeatedly in their political life.

The Caribbean Basin Initiative is solidly grounded in the traditions and values of both this country and the Caribbean Basin region. It is a strong and multilateral effort in which the U.S. Government has cooperated and consulted with the Governments of Canada, Venezuela, Mexico, and Colombia, with the other donor countries, and with the international financial institutions. The proposals before this committee are the result of extensive discussions with business and government leaders in the Caribbean Basin region about the obstacles to their own economic revival. The focus of our efforts is on the private sector, which must be the engine of a lasting economic growth.

The nations of the Caribbean Basin are counting on us. It is now over a year since President Reagan outlined his Caribbean Basin Initiative proposals before the OAS. Those proposals were warmly, even enthusiastically received by most government, labor, and private sector leaders in the region. For those in the Caribbean Basin countries who believe in cooperation with the United States, in pluralistic democracy and private enterprise, the announcement of the initiative demonstrated that the United States realizes the importance of urgent and far-reaching action to promote the region's prosperity. They were bitterly disappointed that this legislation did not reach the Senate floor during the last Congress. If we fail to act now, our inaction will be interpreted as lack of interest and a broken promise. It would undercut moderate leaders in the region who have geared their policies to cooperation with the United States, and to serious efforts for economic development and democracy. It would extinguish the hopes that have been raised in the region that the United States is willing to give significant help to foster economic and social progress in the Caribbean Basin.

I am confident, Mr. Chairman, that after careful examination, this committee and the Senate will recognize that this legislation is important to the interests of the United States and the Caribbean Basin countries. I strongly urge favorable action.

I thank you, Mr. Chairman, for hearing me out. I appreciate it very much.

The Chairman. Thank you, Mr. Secretary.

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

Statement by

The Honorable George P. Shultz

on

The Caribbean Basin Recovery Act

before the

Senate Finance Committee

United States Senate

April 13, 1983

Embargoed until
time of delivery
April 13, 1983 9:30 a.m.

Thank you Mr. Chairman.

I welcome this opportunity to continue our dialogue on the Caribbean region and specifically the Caribbean Basin Economic Recovery Act. The legislation we have proposed is a far-sighted response to a deepening economic and social crisis troubling some of our closest neighbors. It deserves to become law this year -- the sooner this year, the better.

Our Vital Interests

Let me begin by reviewing our own vital interests in the Caribbean Basin. The Caribbean is an unfenced neighborhood that we share with 27 island and coastal nations. Their security and economic well-being have a direct impact on our own strategic and economic interests.

We do not have to go to Miami to come in daily contact with people born in the Caribbean region or to appreciate the rapid impact of turmoil there on our own society. In fact, our country has become a safehaven for thousands upon thousands of Caribbean citizens who pin their hopes for a better life on a dangerous, uncertain and clandestine migration to this country. As a result, the Basin area is now the second largest source of illegal immigration to the United States.

This situation will not improve until the nations of the Caribbean Basin are better able to offer their people opportunities to build secure, productive lives at home.

Economically, the Caribbean Basin region is a vital strategic and commercial artery for the United States. Nearly half our trade, three quarters of our imported oil, and over half our imported strategic minerals pass through the Panama Canal or the Gulf of Mexico. If this region should become prey to social and economic upheaval, and dominated by regimes hostile to us, the consequences for our security would be immediate and far-reaching.

The health of the Caribbean economies also affects our economy. The area is now a $7 billion market for U.S. exports. Thousands of American jobs were lost when our exports to the region fell $150 million last year as income in the region declined. A large portion of the debt of Caribbean countries is owed to banks in this country. At the end of 1981, U.S. direct investment in the region was approximately $8 billion.

The Caribbean Basin Economic Recovery Act is the cornerstone of our effort to come to grips with these issues. This legislation recognizes the critical relationship between economic development and political stability.

It is designed to promote self-sustaining economic growth, to enable countries in the region to strengthen democratic institutions and to implement political, social and economic reforms. Ultimately, its purpose is to help restore the faith of people of the region in their countries' ability to offer them hope for a better future.

Economic Problems

The societies of the Caribbean Basin republics are undergoing inevitable change that puts them under considerable stress. Declining employment in agriculture, high birth rates and slow creation of urban jobs have diminished hopes for combatting poverty and caused appalling rates of unemployment, especially among the young. Youth unemployment in Jamaica, for example, is estimated to be 50%. Without dramatic increases in investment to improve living standards and to create jobs, rising crime and urban instability will create a downward spiral of social disintegration. And because the Caribbean economies are so small, new investment, domestic as well as foreign, will not take place without assured access to outside markets.

The diminutive size of individual Caribbean markets -- averaging just one and a half million people, with 16 countries under a half million -- makes them uniquely dependent on the outside world in ways we can only dimly imagine.

The national incomes of most Caribbean Basin countries are less than that of a U.S. metropolitan area of 300,000 people, such as Omaha, Nebraska or Charlotte, North Carolina. Dominica, for example, with a population of only 80,000, is the least developed country in the Eastern Caribbean. It is also one of the most democratic and pro-Western. If small, vulnerable economies like Dominica are to be at all viable, they must have access to bigger markets. In Central America where the economies tend to be a bit larger, the disruptions in recent years of the Central American common market have made economies such as Costa Rica much more dependent on markets outside its region. As long as they are limited to production for their small and poor domestic markets, the small economies of the Caribbean Basin cannot diversify their economies. Nor can they develop the expertise and efficiency needed to become prosperous international traders.

We recognize, Mr. Chairman, that the Caribbean Basin economies will always be dependent to some degree on markets outside the region. But developments of the past few years have had a devastating impact. Prices of the non-oil commodities the Caribbean republics export -- sugar, coffee, bananas, bauxite -- have fallen drastically. And this is at a time when they are still struggling to cope with the massive increases of the 1970s in the price of their most basic import: oil. Recession in the United States has caused a steep drop in revenue from tourism.

Foreign debt has mounted to increasingly burdensome levels. The withering of government revenues has stopped or delayed development projects. Real per capita incomes have declined throughout most of the Basin region.

All this adds up to a massive problem: the governments of the Caribbean republics must find ways to assure socio-political stability and revive economic growth while also accommodating rapid internal change. Their success or failure in meeting this challenge will greatly affect the environment in which we live.

The Challenge/The Alternatives

The United States thus has a vital stake in helping its Caribbean neighbors pursue their goal of open societies and growing economies through productive exchange with us and the rest of the world. The Administration has approached this task with full recognition that we have great assets and advantages when it comes to supporting democratic development.

This becomes most clear when we look at the alternatives.

One alternative is the closed solution: the society which, while not a viable economy, turns in on itself and enforces by fiat the distribution of the limited economic benefits a small economy can generate itself or receive in aid.

This is a recipe for totalitarian force -- because people will not take it willingly -- and economic stagnation. It is the Cuban solution. It poses continuing threats to our interests in this hemisphere which we have had to counter for the last 20 years.

A second alternative is decline of the population to the level which a small economy can support on its own. With the young populations and high birthrates of these countries, this alternative entails massive emigration from the Caribbean Basin region. Our country is inevitably the preferred destination. As much as we welcome the rich contribution of the region's immigrants to our own life, massive immigration is not what we want. Nor is it what the countries of the region want. That is not at issue. Nor is it the only reason we care.

The President's proposed legislation supports a third alternative, democratic development. This is the only alternative that meets our vital self interests and our nation's long tradition as a source of progress and hope in the world. Politically, the people of these societies have shown they want a voice in their own fate and that they reject totalitarian formulas. Two-thirds of the governments of the region have democratically elected governments. Significant progress toward democracy is occurring in others as well, despite the obstacles.

Democracy represents a set of values that virtually all the peoples of the region see as sympathetic to their own aspirations. The Cuban and now Nicaraguan models stand as clear demonstrations of both political repression and economic failure.

Economically we have the assets that can be ultimately decisive in the orientation of Caribbean development. We represent a market economy that works, a natural market for Caribbean exports, the major source of private investment in the region and the management and technology that come with it.

The Caribbean initiative of the Administration is an imaginative and comprehensive approach to bringing these assets to bear on the problems of our Caribbean neighbors. It is a forward-looking effort to boost both development and stability. Because it builds on private resources and enterprise, it has the potential to deal with their deep economic plight in a fundamental way. Because it can help to ease delicate social and political transitions before they create security problems of an international dimension, it is a program to get ahead of history, instead of just countering its unwelcome effects.

<u>The Caribbean Basin Program</u>

Our program is part of a major multilateral effort. Other higher income countries of the region are also increasing their efforts significantly.

Canada has embarked on a 5-year program for the area providing over $500 million. Canada currently provides duty-free treatment or preferential access for 98 per cent of its imports from the Caribbean Basin. Mexico and Venezuela, despite their own financial difficulties, are continuing concessional credits to the region through their oil facility. Venezuelan financial support has been over $2.5 billion in the last 5 years. Colombia is initiating technical assistance of up to $50 million, new credit lines of $10 million per country and additional balance of payments financing and a trust fund for less developed countries of the Eastern Caribbean.

The collective efforts of these democracies are a strong encouragement to open societies and democratic development in the region. But success would be imperiled without us. Our full participation is vitally needed.

The U.S. contribution integrates three types of mutually reinforcing economic measures -- trade opportunities, tax incentives and aid. The program has been developed in continuing consultation with the governments and the private sectors of the regions. It reflects their own priorities and assessment of their needs.

As you know, we were able to make a start on our Caribbean economic initiatives last summer, when the Congress approved an emergency supplemental aid package of $350 million -- a key element in the President's original Caribbean Basin program. Our aid requests for both FY 83 and FY 84 reflect the new higher priority we have given to the Caribbean Basin area in the allocation of our scarce economic assistance resources. As a percentage of our overall economic assistance budget, assistance to the Caribbean region will double in FY 83 and 84, over FY 80, from 6.6% authorized in 1980, to 13.6% proposed in FY 84.

Most of the $350 million appropriated last year has been obligated for use by the private sector in those countries with the most serious financial problems. This assistance has helped many established, productive private firms continue to obtain needed raw materials and equipment from the United States. In addition, it has provided critical support for balance of payments problems and infrastructure projects in the small, least developed countries.

We have also been able to use a portion of these funds to support training and scholarship opportunities for individuals from the Caribbean region with leadership potential.

These opportunities support our goal of transferring knowledge and skills, enhancing economic cooperation among nations of the region and strengthening political ties between recipient countries and the United States. We are currently offering 1300 scholarships each year. As new money is available, the number of scholarship recipients will continue to increase. These programs have high development, economic and political impact and are a key element in our assistance to the Caribbean Basin region.

But as the President said when he requested that emergency CBI appropriation, financial assistance is only a short-term remedy. Indeed, financial assistance and development projects will be wasted if the development process is not a broad-based and integrated process. We believe that such development can only be achieved through a strategy which encourages private initiative and investment.

The U.S. Market

The key to new production and employment in the Caribbean is assured access to its natural market in this country. Suppliers in the Caribbean need help to get started in the competition with larger more experienced and established producers elsewhere. That suggests a bold solution that reinforces the natural pole of attraction of the U.S. market.

The President's proposal to grant duty-free entry to Caribbean Basin products for a 12-year period is the center piece of the Caribbean Basin Initiative. It can provide a decisive boost to Caribbean development. The proposal is dramatic and simple. It offers long-term economic benefits of free trade and the immediate impact of a major political commitment to the region. By assuring duty-free access to the vast U.S. market, this measure will provide strong and continuing incentives for investment, innovation and risk-taking in Caribbean countries.

As I have pointed out, Mr. Chairman, the domestic economies of most Caribbean Basin nations are simply too small to permit the diversification essential for non-inflationary growth. An opening of the U.S. market to the non-traditional products of these countries will provide important opportunities to develop new production and an incentive to produce more efficiently. Increased and diversified production will mean higher wages, a strengthened middle class, more resources available for education and health -- and more demand for raw materials, equipment and finished goods from the United States.

I recognize, Mr. Chairman, that these are difficult economic times in our own country. Understandably, there is concern over the impact this legislation will have on workers in the United States.

I am convinced that the impact on our economy will be positive. Because the Caribbean countries are so closely linked to our economy, our sales to them will grow apace with their economies. Excluding petroleum trade, we have a $2 billion trade surplus with the Caribbean Basin, and are already the major trade partner of most countries there. A stronger Caribbean Basin will be an even better and more reliable customer for U.S. products. As countries in the region produce more, they will import more. American workers will share in the fruits of that growth.

The Caribbean Basin economies are equal to only 2 percent of our GNP, and our imports from the region are less than 4 percent of our total imports. Imports not already entering duty-free are an even smaller percentage. Therefore, even a significant increase in Caribbean Basin production and exports will not have a significant negative impact on our economy. And if American industries are injured by Caribbean imports, they have the remedy of seeking relief under the safeguard provisions of the 1974 Trade Act.

The United States is the world's most open major market. A large share of the Caribbean Basin's exports to the U.S. already enter duty-free. Petroleum accounts for almost 60 percent of our imports from the region. In 1982, 70 percent of our non-petroleum imports from the Caribbean Basin entered duty-free.

Sixteen percent of these non-petroleum imports entered under GSP. But GSP is due to expire next year. While the Administration strongly supports the extension of GSP, it contains competitive need restrictions, and product exclusions which limit its usefulness as a stimulus to broad-based recovery by the small Caribbean Basin countries. The products that would be extended duty-free entry as a result of the proposed CBI legislation comprised only one-quarter of one percent of U.S. imports in 1982. Yet these products represent an important area of potential new production for the Caribbean Basin countries.

I would like to mention briefly, Mr. Chairman, a section of this bill that was not included when I addressed this Committee last August on this legislation. I refer to the convention tax deduction. This provision recognizes the vital importance of tourism and travel to the economies of many Caribbean nations. I should emphasize that this provision would simply grant Caribbean Basin conventions tax status equal to that presently enjoyed by Mexico, Canada, and Jamaica. In our consultations with Caribbean Basin business and government leaders, they have frequently cited the disadvantageous present tax treatment of Caribbean conventions as being an obstacle to the recovery of their travel industries. We should also keep in mind that many American travel dollars spent in the Caribbean come back via U.S.-owned airlines, hotels and recreation facilities.

Let me reiterate, Mr. Chairman, the important role that Puerto Rico and the U.S. Virgin Islands have in the Caribbean Basin Initiative. Since the earliest days of this Administration, we have consulted closely with the governments of Puerto Rico and the U.S. Virgin Islands to fashion the Initiative in a way that would foster the development of the U.S. Caribbean. The legislation reflects that in several ways. It liberalizes duty-free imports into the United States from insular possessions. It explicitly permits industries in Puerto Rico and United States territories to petition for relief under the safeguard provisions of United States trade law. It also modifies environmental restrictions on the U.S. Virgin Islands rum industry and constructs the rules-of-origin requirements to encourage the use of products of Puerto Rico and the U.S. Virgin Islands. An important provision would transfer excise taxes on all imported rum to the treasuries of Puerto Rico and the U.S. Virgin Islands. In sum, the facilities, skills, and people of Puerto Rico and the U.S. Virgin Islands are a major component of our development cooperation efforts elsewhere in the Caribbean.

The Political Dimension

The political dimension of Caribbean progress is of great and ultimate importance to us. We do not seek clients, Mr. Chairman.

Our goal is a region of independent countries in which people can choose their leaders and their own path to economic and social progress. We are confident that will produce societies and regimes which are not hostile to us. That same belief underlies the strong commitment of the other democracies in the region to the Caribbean Initiative. Together with Mexico, Venezuela, Colombia and the region's other democratic governments, we seek to encourage economic and social reforms which address the real grievances of various sectors of the population of Central America and Caribbean countries.

Stability in societies based on free association rather than coercion must depend on addressing people's right to own their own land. They must be able to organize in cooperatives and unions to promote their economic interests. And they must be able to exercise their political rights, free of intimidation. That is the course we encourage through our support in the Caribbean Basin region. That is also the course which the peoples of the region seek -- as they have shown repeatedly in their own political life.

Conclusion

The Caribbean Basin Initiative is solidly grounded in the tradition and values of both this country and the Caribbean region.

It is a strong and multilateral effort in which the United States government has cooperated and consulted with the governments of Canada, Venezuela, Mexico, and Colombia, with other donor countries and with the international financial institutions. The proposals before this Committee are the result of extensive discussions with business and government leaders in the Caribbean Basin region about the obstacles to their economic revival. The focus of our efforts is on the private sector, which must be the engine of a lasting economic growth.

The nations of the Caribbean Basin are counting on us. It is now over a year since President Reagan outlined his Caribbean Basin Initiative proposals before the O.A.S. Those proposals were warmly, even enthusiastically received by most government, labor, and private sector leaders in the region. For those in the Caribbean Basin countries who believe in cooperation with the United States, in pluralistic democracy and private enterprise, the announcement of the Initiative demonstrated that the United States realizes the importance of urgent and far-reaching action to promote the region's prosperity. They were bitterly disappointed that this legislation did not reach the Senate floor during the last Congress. If we fail to act now, our inaction will be interpreted as lack of interest and a broken promise.

It would undercut moderate leaders in the region who have geared their policies to cooperation with the United States and to serious efforts for economic development and democracy. It would extinguish the hopes that have been raised in the region that the United States is willing to give significant help to foster economic and social progress in the Caribbean Basin.

I am confident, Mr. Chairman, that after careful examination, this Committee and the Senate will recognize that this legislation is important to the interests of the United States and the Caribbean Basin countries. I strongly urge favorable action.

The CHAIRMAN. If it is satisfactory, Mr. Secretary, we would like to hear from Ambassador Brock and Secretary Chapoton, if you have that much time.

Secretary SHULTZ. Fine.

The CHAIRMAN. Ambassador Brock.

STATEMENT OF AMBASSADOR WILLIAM E. BROCK, U.S. TRADE REPRESENTATIVE

Ambassador BROCK. Thank you, Mr. Chairman.

I first of all appreciate the interest of this committee on the subject, and the willingness to provide this kind of consideration. Perhaps I speak from a biased point of view, but I don't believe there is a more thoughtful committee in the Congress than this one, and one that is more economically well-rooted. And that's the essence of our message on this particular initiative.

I also am grateful for the chance to reiterate the Department's commitment to fostering development in a region which has experienced more than its share of economic distress and hardship in the past decade. I think it's important to notice that the consideration of the Congress in this matter has been most helpful because it has allowed it to put our concern for the economic and political turmoil we are all observing in the Caribbean into clear focus.

Mr. Chairman, today and in the days immediately following this hearing, I hope that we will be able to complete our work on this legislation, and that you will join with us in implementing the Caribbean Basin Economic Recovery Act.

You will recall that my office presented testimony on the Caribbean Basin Initiative last August. I appeared again before this committee last November and again in December during the special session. Our presentations always return to the question of how the Caribbean Basin Initiative would advance our own national interests as well as the interests of the potential beneficiaries.

We began our testimony last August by saying that the Caribbean Basin Initiative would help to alleviate the root causes of human misery, the kind of misery which has stimulated a major and sustained flow of people from the Caribbean Basin into the United States. We recalled the importance of the initiative as the most effective means of promoting long-term self-sustaining economic growth, growth which would reduce the need for future assistance from the United States, and which would let us expand our sales of U.S. manufactured and agricultural products in a region hungry for the goods and services of their industrial neighbors; primarily, the United States.

The initiative was still a promise during the year of 1982, a year in which 3 to 6 million people living in the Caribbean Basin were living on family incomes at or below the level we would call "minimum subsistence"; a year in which regional economic activity continued to decline, so much so that we believe there was a net disinvestment in manufacturing enterprises among the 28 potential beneficiaries; a year in which the region's most important export earning commodities faired poorly in world markets, leaving many of our Caribbean neighbors with staggering rates of rural unemployment and an all but moribund agribusiness sector.

The administration had estimated a balance of payment shortfall for this region of $800 million in 1982. The actual shortfall was $1 billion. For 1983, we are estimating a shortfall of $1.2 billion. The debt-ridden of this group was $22 billion at the end of 1982, with debt-service amounting to $2.5 billion annually or more than 25 percent of their total export earnings.

Because of the accelerating decline in business activity in the Caribbean Basin during 1982, marked as it was by the staggering decline in sales to the United States of $700 million, U.S. exports to the region dropped by $155 million. Mr. Chairman, this is a most disturbing statistic because the Caribbean Basin has demonstrated preference for U.S. goods. But scarce foreign exchange can nullify the benefits of favorable access no matter how competitive are one's industries.

Let me conclude this profile of Caribbean economic performance by noting that we estimate that illegal immigration from the Caribbean within the last 3 years imposed a financial and structural burden on the U.S. economy, which, if quantified, would amount to well in excess of $1 billion

The economic situation, then, continues to deteriorate in the area. And this cannot but have a measurable negative effect on the economic performance of this Nation, our own Nation, during the next 12 months and into the 1980's. While recovery in our own country is underway, I am concerned that there remain global drags on the pace of recovery. Business investment in the Americas should be viewed in this country with the same seriousness as our European friends view investment in the Mediterranean Basin, or the Japanese view their investment in the Pacific rim. It should not be forgotten that the future economic dynamism of the United States is and must be a part of a global dynamism. Slow or negative growth in a region which is in so many respects tied to our economic, social and political environment will prevent us from reaching our maximum potential.

As the committee is aware, the CBI grew out of a multilateral commitment to give special attention to the problems of this region. At this time, I cannot emphasize enough the importance of the CBI to the process of strengthening and expanding regional cooperation. The CBI was constructed with particular attention on the principle and positive practical and political effect of multilateral burden sharing among our fellow regional donor countries of Mexico, Canada, Venezuela, and Colombia, and among the developed major donors which include the European community and Japan. The realities of burden sharing sometimes involve difficult political and economic decisions. Mexico and Venezuela, for example, continue, despite their own adversity, to provide the Caribbean Basin with very attractive concessional financing under their San Jose oil facility, at the same time that they are implementing stiff austerity measures at home.

Mr. Chairman, we have lost valuable time in the implementation of the CBI. It has been estimated that investment decisions amounting to the equivalent of $40 to $50 billion were made by firms with headquarters in one of the OECD countries last year. A quarter of this total has been earmarked for investment in one or another of the developing countries. The capital-starved nations of the Caribbean are acutely aware that their opportunity to compete for this investment is closely linked to perceptions of how serious is our national commitment to an improved economic partnership with them.

The opportunities offered by the CBI to many different types of investors have naturally broadened the scope of commercial interest in the region. The Commerce Department estimates that at least 50 percent of business inquiries received since the establishment of the Caribbean Basin Information Center are from potential investors who became interested in the region because of the unmistakable priority which the President of the United States has attached to building a more substantial long-term economic partnership with these nations. If the interest that has been generated over the past 12-months is to be translated into firm commitments for investment in the region, it is essential that Congressional concern for this region and its problems be translated into legislative action. We have achieved part of our purpose—a more serious commercial attention to the opportunities in the Caribbean. Now we must catalyze capital flow to the Caribbean region by implementing the trade and tax elements of the initiative on the basis of bipartisan action and approval by the Congress. The 12 year term of the CBI's trade benefits were selected because it conforms to the average payback period for the types of investments which can be implemented in these small economies.

The first signs of revitalized economic activity in the region will be new orders for machinery and other producer goods, which must be imported into the region to put new or expanding enterprises into an internationally competitive position. Now, Mr. Chairman and gentlemen, those are going to be by and large American produced goods.

Annual U.S. shipments of capital goods to the Caribbean region have run as high as $2.5 billion in recent years. On a per capita basis, the Caribbean Basin nations import more machinery and capital goods from the United States than does any other developing country region. This brings me back to the point I made earlier about the relationship between economic activity in this country and the health of the Caribbean Basin countries. The under-capitalized, structurally primitive economies of the Caribbean look northward for the tools of economic revitalization, and we will rob ourselves of vital new export orders if our approach to the Caribbean Basin is bereft of any recognition for our immediate commercial stake in their economic recovery.

Increased duty-free treatment will provide tangible benefits for products engineered and produced by our high technology industries. These industries have had a successful experience in the Caribbean, which has yielded benefits to all those who depend upon their earning power in this country. The CBI rules of origin proposed by the House Ways and Means Committee and incorporated in the present proposal, offer benefits to our high technology industries and the beneficiaries, since it recognizes that the high-value material inputs sources in the United States make it difficult for the Caribbean to meet a 35-percent direct processing requirement. Under the new rule, U.S. inputs can be counted toward meeting the requirement, but only up to 15 percent of the value criteria. We believe this is a simple but direct means of advancing a synergistic relationship between the private sectors of the beneficiaries and the United States.

The integrated measures of the Caribbean Basin Initiative are directed toward what both donors and beneficiaries mutually believe to be the medium- and long-term needs of the Caribbean. They are measures which will facilitate the basin playing a broader role in the inter-American trading system. They are measures which promote a self-help outlook for a region that repeatedly has made it known that it seeks to build its way back to a brighter future on the basis of a meaningful economic partnership with its neighbors in the Americas, and in particular, with the United States.

Thank you.

The CHAIRMAN. Ambassador Brock, thank you.

[The prepared statement of Ambassador William E. Brock follows:]

STATEMENT OF AMBASSADOR WILLIAM E. BROCK
UNITED STATES TRADE REPRESENTATIVE
BEFORE THE
SENATE COMMITTEE ON FINANCE
APRIL 13, 1983

CHAIRMAN DOLE AND MEMBERS OF THE COMMITTEE:

ON BEHALF OF THE PRESIDENT, WHO HAS SOUGHT YOUR SUPPORT FOR A PROGRAM OF SUBSTANTIVE, FUTURE-ORIENTED MEASURES, I WISH TO THANK YOU FOR THIS OPPORTUNITY TO REINFORCE THE ADMINISTRATION'S DEDICATION TO ALLEVIATING THE PROBLEMS OF ECONOMIC DEVELOPMENT IN A REGION WHICH HAS EXPERIENCED MORE THAN ITS SHARE OF ECONOMIC DISTRESS FOR MORE THAN A DECADE. CONGRESSIONAL CONSIDERATION HAS BEEN MOST USEFUL BECAUSE IT HAS ALLOWED US TO PUT OUR CONCERN FOR THE ECONOMIC AND POLITICAL TURMOIL THAT WE ARE ALL OBSERVING IN THE CARIBBEAN INTO CLEARER FOCUS. MR. CHAIRMAN, TODAY AND IN THE DAYS IMMEDIATELY FOLLOWING THIS HEARING, I HOPE THAT WE WILL BE ABLE TO CONCLUDE OUR WORK ON THIS LEGISLATION, AND THAT YOU WILL JOIN WITH US IN IMPLEMENTING THE CARIBBEAN BASIN ECONOMIC RECOVERY ACT.

YOU WILL RECALL THAT MY OFFICE PRESENTED TESTIMONY ON THE CARIBBEAN BASIN ECONOMIC RECOVERY ACT LAST AUGUST 2 AND I APPEARED BEFORE THIS COMMITTEE ON THIS LEGISLATION LAST NOVEMBER, AND AGAIN IN DECEMBER, DURING THE SPECIAL SESSION. OUR PRESENTATIONS ALWAYS RETURN TO THE QUESTION OF HOW THE CARIBBEAN BASIN INITIATIVE WOULD ADVANCE OUR NATIONAL INTERESTS AND THE INTERESTS OF THE POTENTIAL BENEFICIARIES.

WE BEGAN OUR TESTIMONY LAST AUGUST BY SAYING THAT THE CARIBBEAN BASIN INITIATIVE WOULD HELP TO ALLEVIATE THE ROOT CAUSES OF HUMAN MISERY - THE KIND OF MISERY WHICH HAS STIMULATED A MAJOR AND SUSTAINED FLOW OF PEOPLE FROM THE CARIBBEAN BASIN INTO THE UNITED STATES. WE RECALLED THE IMPORTANCE OF THE INITIATIVE AS THE MOST EFFECTIVE MEANS OF PROMOTING LONG-TERM SELF-SUSTAINING ECONOMIC GROWTH: GROWTH WHICH WOULD REDUCE THE NEED FOR FUTURE ASSISTANCE FROM THE UNITED STATES; AND WHICH WOULD LET US EXPAND OUR SALES OF U.S. MANUFACTURED AND AGRICULTURAL PRODUCTS IN A REGION HUNGRY FOR THE GOODS AND SERVICES OF THEIR INDUSTRIAL NEIGHBORS.

THE INITIATIVE WAS STILL A PROMISE DURING THE YEAR OF 1982. A YEAR IN WHICH THREE TO SIX MILLION PEOPLE LIVING IN THE CARIBBEAN BASIN WERE LIVING ON FAMILY INCOMES AT OR BELOW THE LEVEL WE WOULD CALL "MINIMUM SUBSISTENCE;" A YEAR IN WHICH REGIONAL ECONOMIC ACTIVITY CONTINUED TO DECLINE, SO MUCH SO THAT WE BELIEVE THERE WAS A NET DISINVESTMENT IN MANUFACTURING ENTERPRISES AMONG THE 28 POTENTIAL BENEFICIARIES; A YEAR IN WHICH THE REGION'S MOST IMPORTANT EXPORT-EARNING COMMODITIES FAIRED POORLY IN WORLD MARKETS, LEAVING MANY OF OUR CARIBBEAN NEIGHBORS WITH STAGGERING RATES OF RURAL UNEMPLOYMENT AND AN ALL BUT MORIBUND AGRIBUSINESS SECTOR.

The Administration had estimated a balance-of-payments shortfall for this region of $800 million in 1982. The actual shortfall was $1.0 billion. For 1983, we are estimating a shortfall of $1.2 billion. The debt-burden of this group was $22 billion at the end of 1982, with debt-service amounting to $2.5 billion, or more than 25 percent of the region's export earnings.

Because of the accelerating decline in business activity in the Caribbean Basin during 1982, marked as it was by the staggering decline in sales to the United States of $700 million, U.S. exports to the region dropped by $155 million. Mr. Chairman, this is a most disturbing statistic because of the Caribbean Basin's demonstrated preference for U.S. goods. But scarce foreign exchange can nullify the benefits of favorable access, no matter how competitive are one's industries.

Let me conclude this profile of Caribbean economic performance by noting that we estimate that illegal immigration from the Caribbean within the last three years imposed a financial and structural burden on the U.S. economy, which, if quantified, amounted to well in excess of $1 billion.

The economic situation in the Caribbean continues to detiorate, and this cannot but have a measurable negative effect on the economic performance of this nation during the next twelve

MONTHS, AND INTO THE 80'S. WHILE RECOVERY IN THIS NATION IS UNDERWAY, I AM CONCERNED THAT THERE REMAIN GLOBAL "DRAGS" ON THE PACE OF RECOVERY. BUSINESS INVESTMENT IN THE AMERICAS SHOULD BE VIEWED IN THIS COUNTRY WITH THE SAME SERIOUSNESS AS OUR EUROPEAN FRIENDS VIEW INVESTMENT IN THE MEDITERRANEAN BASIN, OR AS OUR JAPANESE FRIENDS REGARD THE PACE OF INVESTMENT ALONG THE PACIFIC RIM. IT SHOULD NOT BE FORGOTTEN THAT THE FUTURE ECONOMIC DYNAMISM OF THE UNITED STATES IS AND MUST BE A GLOBAL DYNAMISM. SLOW OR NEGATIVE GROWTH IN A REGION WHICH IS IN SO MANY RESPECTS TIED TO OUR ECONOMIC, SOCIAL, AND POLITICAL ENVIRONMENT WILL PREVENT US FROM REACHING OUR MAXIMUM POTENTIAL.

AS THE COMMITTEE IS AWARE, THE CBI GREW OUT OF A MULTILATERAL COMMITMENT TO GIVE SPECIAL ATTENTION TO THE PROBLEMS OF THIS REGION. AT THIS TIME, I CANNOT EMPHASIZE ENOUGH THE IMPORTANCE OF THE CBI TO THE PROCESS OF STRENGTHENING AND EXPANDING REGIONAL COOPERATION. THE CBI WAS CONSTRUCTED WITH PARTICULAR ATTENTION TO THE PRINCIPLE AND POSITIVE PRACTICAL EFFECTS OF MULTILATERAL BURDEN SHARING - AMONG OUR FELLOW REGIONAL DONOR COUNTRIES OF MEXICO, CANADA, VENEZUELA, COLOMBIA - AND AMONG THE DEVELOPED COUNTRY DONORS GROUP WHICH INCLUDES THE EUROPEAN COMMUNITY AND JAPAN. THE REALITIES OF BURDEN SHARING SOMETIMES INVOLVE DIFFICULT POLITICAL DECISIONS. MEXICO AND VENEZUELA, FOR EXAMPLE, CONTINUE TO PROVIDE THE CARIBBEAN BASIN WITH VERY

ATTRACTIVE CONCESSIONAL FINANCING UNDER THEIR "SAN JOSE" OIL FACILITY, AT THE SAME TIME THAT THEY ARE IMPLEMENTING STIFF AUSTERITY MEASURES AT HOME.

MR. CHAIRMAN, WE'VE LOST VALUABLE TIME IN THE IMPLEMENTATION OF THE CBI. IT HAS BEEN ESTIMATED THAT INVESTMENT DECISIONS AMOUNTING TO THE EQUIVALENT OF $40-50 BILLION WERE MADE BY FIRMS WITH HEADQUARTERS IN ONE OF THE OECD COUNTRIES LAST YEAR. A QUARTER OF THIS TOTAL HAS BEEN EARMARKED FOR INVESTMENT IN ONE OR ANOTHER DEVELOPING COUNTRY. THE CAPITAL-STARVED NATIONS OF THE CARIBBEAN ARE ACUTELY AWARE THAT THEIR OPPORTUNITY TO COMPETE FOR THIS INVESTMENT IS CLOSELY LINKED TO PERCEPTIONS OF HOW SERIOUS IS OUR NATIONAL COMMITMENT TO AN IMPROVED ECONOMIC PARTNERSHIP.

THE OPPORTUNITIES OFFERED BY THE CBI TO MANY DIFFERENT TYPES OF INVESTORS HAVE NATURALLY BROADENED THE SCOPE OF COMMERCIAL INTEREST IN THE REGION. THE COMMERCE DEPARTMENT ESTIMATES THAT AT LEAST 50 PERCENT OF BUSINESS INQUIRIES RECEIVED SINCE THE ESTABLISHMENT OF THE CARIBBEAN BASIN INFORMATION CENTER ARE FROM POTENTIAL INVESTORS WHO BECAME INTERESTED IN THE REGION BECAUSE OF THE UNMISTAKABLE PRIORITY WHICH THE PRESIDENT OF THE UNITED STATES HAS ATTACHED TO BUILDING A MORE SUBSTANTIAL LONG-TERM ECONOMIC PARTNERSHIP WITH THE CARIBBEAN BASIN NATIONS. IF THE INTEREST THAT HAS BEEN GENERATED OVER THE PAST TWELVE

MONTHS IS TO BE TRANSLATED INTO FIRM COMMITMENTS FOR INVESTMENT IN THE REGION, IT IS ESSENTIAL THAT CONGRESSIONAL CONCERN FOR THIS REGION AND ITS PROBLEMS BE TRANSLATED INTO LEGISLATIVE ACTION. WE HAVE ACHIEVED PART OF OUR PURPOSE - A MORE SERIOUS COMMERCIAL ATTENTION TO OPPORTUNITIES IN THE CARIBBEAN. NOW WE MUST CATALYZE CAPITAL FLOW TO THE CARIBBEAN REGION BY IMPLEMENTING THE TRADE AND TAX ELEMENTS OF THE INITIATIVE, ON THE BASIS OF BIPARTISAN APPROVAL BY THE CONGRESS. THE TWELVE-YEAR TERM OF THE CBI'S TRADE BENEFITS WAS SELECTED BECAUSE IT CONFORMS TO THE AVERAGE PAYBACK PERIOD FOR THE TYPE OF INVESTMENTS WHICH CAN BE IMPLANTED IN THESE SMALL ECONOMIES.

THE FIRST SIGNS OF REVITALIZED ECONOMIC ACTIVITY IN THE REGION WILL BE NEW ORDERS FOR MACHINERY AND OTHER PRODUCER GOODS, WHICH MUST BE IMPORTED INTO THE REGION TO PUT NEW OR EXPANDING ENTERPRISES INTO AN INTERNATIONALLY COMPETITIVE POSITION. ANNUAL U.S. SHIPMENTS OF CAPITAL GOODS TO THE CARIBBEAN REGION HAVE RUN AS HIGH AS $2.5 BILLION IN RECENT YEARS. ON A PER CAPITA BASIS, THE CARIBBEAN BASIN NATIONS IMPORT MORE MACHINERY AND CAPITAL GOODS FROM THE UNITED STATES THAN DOES ANY OTHER DEVELOPING COUNTRY REGION. THIS BRINGS ME BACK TO THE POINT I MADE EARLIER ABOUT THE RELATIONSHIP BETWEEN ECONOMIC ACTIVITY IN THIS COUNTRY AND THE HEALTH OF THE CARIBBEAN BASIN ECONOMIES. THE UNDER-CAPITALIZED, STRUCTURALLY PRIMITIVE ECONOMIES OF THE CARIBBEAN LOOK NORTHWARD FOR THE TOOLS OF ECONOMIC REVITALIZATION, AND WE WILL ROB OURSELVES OF VITAL NEW EXPORT ORDERS

IF OUR APPROACH TO THE CARIBBEAN BASIN IS BEREFT OF ANY RECOGNITION FOR OUR IMMEDIATE COMMERCIAL STAKE IN THEIR ECONOMIC RECOVERY.

INCREASED DUTY-FREE TREATMENT WILL PROVIDE TANGIBLE BENEFITS FOR PRODUCTS ENGINEERED AND PRODUCED BY OUR HIGH TECHNOLOGY INDUSTRIES. THESE INDUSTRIES HAVE HAD A SUCCESSFUL EXPERIENCE IN THE CARIBBEAN, WHICH HAS YIELDED BENEFITS TO ALL THOSE WHO DEPEND UPON THEIR EARNING POWER IN THIS COUNTRY. THE CBI RULES-OF-ORIGIN PROPOSED BY THE HOUSE WAYS AND MEANS COMMITTEE AND INCORPORATED IN THE PRESENT PROPOSAL, OFFER BENEFITS TO OUR HIGH-TECHNOLOGY INDUSTRIES AND THE BENEFICIARIES, SINCE IT RECOGNIZES THAT THE HIGH-VALUE MATERIAL INPUTS SOURCED IN THE UNITED STATES MAKE IT DIFFICULT FOR THE CARIBBEAN TO MEET A 35 PERCENT DIRECT PROCESSING REQUIREMENT. UNDER THE NEW RULE, U.S. INPUTS CAN BE COUNTED TOWARD MEETING THE REQUIREMENT, BUT ONLY UP TO 15 PERCENT OF THE VALUE CRITERIA. WE BELIEVE THIS IS A SIMPLE BUT DIRECT MEANS OF ADVANCING A SYNERGISTIC RELATIONSHIP BETWEEN THE PRIVATE SECTORS OF THE BENEFICIARIES AND THE UNITED STATES.

THE INTEGRATED MEASURES OF THE CARIBBEAN BASIN INITIATIVE ARE DIRECTED TOWARD WHAT BOTH DONORS AND BENEFICIARIES MUTUALLY BELIEVE TO BE THE MEDIUM- AND LONG-TERM NEEDS OF THE CARIBBEAN. THEY ARE MEASURES WHICH WILL FACILITATE THE CARIBBEAN BASIN PLAYING A BROADER ROLE IN THE INTER-AMERICAN TRADING SYSTEM. THEY ARE MEASURES WHICH PROMOTE A SELF-HELP OUTLOOK FOR A REGION THAT REPEATEDLY HAS MADE IT KNOWN THAT IT SEEKS TO BUILD ITS WAY BACK TO A BRIGHTER FUTURE, ON THE BASIS OF A MEANINGFUL ECONOMIC PARTNERSHIP WITH ITS NEIGHBORS IN THE AMERICAS.

The CHAIRMAN. Secretary Chapoton has a brief statement on the tax side, and then we will have questions.
Secretary Chapoton?

STATEMENT OF THE HON. JOHN E. CHAPOTON, ASSISTANT SECRETARY OF THE TREASURY FOR TAX POLICY

Secretary CHAPOTON. I am pleased to have the opportunity to present the Treasury Department's views in support of this important piece of legislation. I will address my remarks only to the tax provisions of title II of the bill.

The tax component of the legislation, as has been mentioned, provides favorable tax treatment for business expenses incurred in attending a convention, seminar, or similar meeting in a Caribbean Basin country, including Bermuda, if the country satisfies certain conditions with respect to the exchange of tax information with the United States.

The bill also contains a provision to insure that the proposed tariff reductions on rum will not adversely affect the revenue sources of Puerto Rico and the Virgin Islands.

More specifically, the bill would cause Caribbean Basin countries designated by the President as eligible for the benefits of the act and Bermuda to be treated as part of the North American area for the purpose of allowing deductions for ordinary and necessary business expenses of attending conventions and similar meetings held in those countries, provided the exchange of information requirements of the bill are satisfied.

While we and some members of this committee have previously questioned a series of proposals which would further relax the rules for deducting expenses relating to foreign conventions, the Treasury Department strongly supports these provisions of the bill for two principal reasons.

First, the legislation is a carefully crafted package which addresses the problem of overriding national interest described by Secretary Shultz. There is an economic crisis in the region. Tourism is an important source of foreign exchange, and it has suffered along with other portions of the economies of the region. The foreign convention provision of the bill directly addresses this problem.

The second reason for our strong support is the bill's provision requiring agreements for reciprocal exchange of tax information as a condition to foreign convention deduction treatment to insure that the U.S. tax system will be strengthened and not weakened by the passage of the legislation.

My statement goes into some detail about these provisions, Mr. Chairman. Let me just pass over that, and also mention the provisions relating to the Virgin Islands and Puerto Rico.

Under present law, the Internal Revenue Code imposes an excise tax on rum. All U.S. excise taxes collected on rum produced in Puerto Rico and the Virgin Islands that are transported from Puerto Rico and Virgin Islands and consumed here are paid over to Puerto Rico and the Virgin Islands. These U.S. excise taxes supply about 10 percent of Puerto Rico's annual government budget, and about 20 percent of the annual budget of the Virgin Islands.

In order to maintain this revenue source for Puerto Rico and the Virgin Islands after import duties on rum from the Caribbean countries are removed, the legislation provides that all excise taxes collected on rum imported into the United States from any country, whether from the Caribbean region or elsewhere, will be paid over to the treasuries of Puerto Rico and the Virgin Islands. The Secretary of the Treasury is supposed to design a formula for effecting this, and is given the discretion to do so in the legislation.

Thank you.

The CHAIRMAN. Thank you very much, Secretary Chapoton. Your entire statement will be made a part of the record.

[The prepared statement of Hon. John E. Chapoton follows:]

<u>For Release Upon Delivery</u>
Expected at 10:00 a.m. EST
Wednesday, April 13, 1983

STATEMENT OF
THE HONORABLE JOHN E. CHAPOTON
ASSISTANT SECRETARY (TAX POLICY)
DEPARTMENT OF THE TREASURY
BEFORE THE SENATE COMMITTEE ON FINANCE

Mr. Chairman and Members of the Committee:

I am pleased to have the opportunity to appear before your Committee in support of the Caribbean Basin Economic Recovery Act, introduced as S. 544. S. 544 contains the trade and tax portions of the President's Caribbean Basin Initiative (CBI). The CBI represents an important commitment by the United States to the economic development of the countries of the Caribbean Basin, which include Guyana, Surinam, the countries of Central America and the island nations of the Caribbean.

I will address my remarks only to the tax provisions in Title II of the bill. The tax component of the legislation provides favorable tax treatment for business expenses incurred in attending a convention, seminar or similar meeting in a Caribbean Basin country, including Bermuda, if the country satisfies certain conditions that I will describe below. The bill also contains a provision to ensure that the proposed tariff reductions on rum will not adversely affect the revenue sources of Puerto Rico and the Virgin Islands.

Mr. Chairman, this Committee previously considered the tax provisions of this bill in December of last year. On December 20, 1982, this Committee ordered H.R. 7397 reported to the full Senate. The tax provisions of H.R. 7397 were substantially identical to those in S. 544, except that the effective dates for these provisions have been changed from December 31, 1982 to June 30, 1983.

Deductions for Business Expenses Incurred Attending Conventions in Qualifying Countries

The bill would cause Caribbean Basin countries designated by the President as eligible for the benefits of the Act, and Bermuda, to be treated as part of the "North American area" for the purpose of allowing deductions for ordinary and necessary business expenses of attending conventions and similar meetings held in these countries if the country where the meeting is held has entered into an executive agreement to exchange tax information with the United States and does not discriminate under its tax laws against conventions held in the United States (a "qualifying country"). While I have previously testified against a series of proposals which would further relax the rules for deducting expenses related to foreign conventions, there are two reasons why the Treasury Department supports S. 544.

First, this legislation is a carefully crafted package which addresses a problem of overriding national interest. As Secretary Shultz pointed out in his testimony before this Committee last August, there is an economic crisis in the Caribbean region that threatens our well-being. The world economic slowdown of the last few years has severely affected these countries, reducing demand for and prices of the exports they must sell to purchase imports such as oil and other essential products. Tourism, an important source of foreign exchange, has also suffered. The foreign convention provisions of this bill directly address this problem. A strong tourism industry will not only help alleviate the current economic crisis but will also finance the investment that is crucial for stable, long run economic growth.

The second reason for Treasury's support is that the bill's provisions requiring agreements for reciprocal exchange of tax information as a condition of the foreign convention deduction ensure that the U.S. tax system will be strengthened, not weakened, by passage of this legislation. It is in this context that Treasury supports this legislation.

The Exchange of Information Agreements

S. 544 authorizes the Secretary of the Treasury to negotiate and conclude the exchange of information agreements. While the Secretary is accorded discretion regarding what kinds of information will be included within the scope of the exchange of information provisions, the Act imposes certain minimum standards for such agreements.

The exchange of information provisions in the agreements must include within their scope tax information pertaining to "third-country persons," that is, nationals or residents of countries other than the United States or the qualifying country that is a party to the agreement. The agreement would of course also apply to information pertaining to citizens, residents and corporations from the United States and the country that is party to the agreement. Under this bill a jurisdiction with restrictions on disclosure of information regarding such third country persons would be required to modify such restrictions. The bill would also require that the same principle apply with respect to disclosure of information regarding bank account information or share ownership.

The exchange of information agreements will be terminable on reasonable notice by either party. Deductions would not be allowed for business conventions or similar meetings begun after the termination of an exchange of information agreement.

The Secretary may incorporate by reference in an exchange of information agreement the exchange of information provisions of an existing income tax treaty with a country, provided such treaty provisions otherwise satisfy the requirements of the statute. The recently ratified treaty with Jamaica, for instance, will satisfy such standards, based on assurances given the United States in the negotiation of a 1981 Protocol to the treaty regarding Jamaican tax authorities' power to obtain bank account information under the treaty. However, it should be clearly understood that exchange of information agreements may be entered into with a country whether or not the country has a tax treaty with the United States.

It is expected that the exchange of information agreements will generally become effective on signature. The text of the agreements will be transmitted to Congress not later than sixty days after the agreement has been signed in accordance with the prescriptions of the Case Act (1 U.S.C. section 112b).

Exchange of tax information assists the administration of the tax laws of both the United States and the qualifying country. The tax administrators of qualifying countries will have access to information from the Internal Revenue Service regarding their taxpayers who engage in economic activities in the United States and thereby should strengthen their own tax administration. This self-help aspect of the measure is consistent with the overall concept of the Caribbean Basin Initiative.

Our concerns are not limited to tax havens. As international economic transactions increase so does the importance of international cooperation in tax administration and cooperation.

The Need for International Exchange of Tax Information

As you are aware, the United States uses a self-assessment system in its collection of taxes. Each taxpayer files a return and pays the amount due on the return without governmental assessment. This is unlike the procedure in many foreign countries where the government sends each taxpayer an assessment of tax due.

Our self-assessment system relies in significant part on the perception by taxpayers that the tax system is equitable and that each person is paying his fair share. This Committee recognized that noncompliance undermines the perceived and actual equity of our tax system in its work on the Tax Equity and Fiscal Responsibility Act of 1982 ("TEFRA").

The enforcement of our self-assessment system relies on a carefully targeted audit and examination program and, in appropriate cases, on application of criminal enforcement sanctions. A key to an effective examination program is access to information. Information allows our examiners to confirm the information reported on a return and to ferret out those who would evade paying their share of taxes. This is as true for international transactions as it is for purely domestic transactions.

The United States' tax interest under the Internal Revenue Code (the "Code") extends beyond its borders. Under the subpart F, foreign personal holding company and foreign investment company provisions of the Code, a U.S. shareholder in a foreign corporation that is more than fifty percent owned by U.S. persons may be subject to tax on income measured by the earnings of the foreign corporation, even though it may not conduct any business in the United States. In addition, the Internal Revenue Service has broad powers under section 482 of the Code to reallocate income, deductions or credits of two or more businesses owned or controlled directly or indirectly by the same interests in international as well as domestic transactions. Administration

21-491 O—83——7

of these provisions requires that the United States be able to obtain information with respect to international transactions.

The need for international exchange of tax information also extends to information which may be used in criminal tax cases. The Permanent Subcommittee On Investigations, under the chairmanship of Senator Roth, has recently held hearings on the use of offshore banks and companies to evade tax on legally earned income as well as to launder profits from illegal activities. In most international transactions it would be impossible to uncover unreported income without the assistance of the foreign country in obtaining information which permits tracing funds earned in the transaction.

The ability of the United States to obtain documents or testimony for tax purposes from foreign countries is limited by the jurisdictional reach of U.S. laws. However, information may be obtained under our bilateral income tax treaties. The United States enters into tax treaties with countries which impose income taxes. These countries are generally cooperative in exchanging tax information of all kinds with the United States. In the case of exceptions, we carefully evaluate whether the benefits obtained by the United States under the treaty outweigh our concerns regarding cooperation in matters of tax administration and enforcement. It is appropriate to consider the importance of exchange of information in light of overall U.S. policy goals.

The exchange of information agreements provided for in S. 544 would require that we obtain more information than we presently receive under the exchange of information provisions of some of our tax treaties. One reason for this is that the foreign convention deduction provided by S. 544 represents the unilateral extension of a tax incentive by the United States. In that regard, countries that receive the benefit of U.S. tax incentives should generally be asked to cooperate in matters of tax administration and enforcement. This is necessary to preserve the integrity of the U.S. tax system.

The exchange of information provisions required by this legislation are broad. We do not, however, ask other countries to do more for us than we would do for them.

Puerto Rico and the U.S. Virgin Islands

As an essential counterpart to the proposals to assist Caribbean Basin countries, the Act includes an important revenue measure for Puerto Rico and the U.S. Virgin Islands.

This measure will ensure that the development of the rum industry in the Caribbean Basin induced by the Initiative does not reduce a major source of revenues to Puerto Rico and the Virgin Islands.

Under present law, the Internal Revenue Code imposes an excise tax on rum. All U.S. excise taxes collected on rum produced in Puerto Rico or the Virgin Islands and transported to the United States (less the estimated amount necessary for payment of refunds and drawbacks) are paid to Puerto Rico and the Virgin Islands, respectively. These U.S. excise taxes supply about 10 percent of Puerto Rico's annual government budget, and about 20 percent of the annual budget of the Virgin Islands.

In order to maintain this revenue source for Puerto Rico and the Virgin Islands, the legislation provides that all excise taxes collected on rum imported into the United States from any country (less the estimated amount necessary for payment of refunds and drawbacks) will be paid over to the treasuries of Puerto Rico and the Virgin Islands. The legislation further provides that the Secretary of the Treasury will prescribe by regulation a formula for the division of these tax collections between Puerto Rico and the Virgin Islands.

It is the Treasury Department's view that the formula to be prescribed should protect the revenues of Puerto Rico and the Virgin Islands without regard to future levels of rum production. The formula for division would therefore be based on Puerto Rico's and the Virgin Islands' 1982 share of the U.S. rum market.

The estimated revenue cost of the transfer to Puerto Rico and the Virgin Islands of the tax collections on imported rum is about $10 million in fiscal year 1984.

Conclusion

I thank you, Mr. Chairman and Members of the Committee for the opportunity to testify in support of this important legislation.

I would be pleased to entertain any questions you might have at this time.

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The CHAIRMAN. We will follow the early-bird rule this morning.

I would again welcome to the committee hearing a number of Ambassadors from the Caribbean area. The Ambassador of Antigua and Barbuda, the Ambassadors from Barbados, Guatemala, Haiti, Honduras, Jamaica, Panama, Trinidad, and the Dominic Republic. And we also welcome the Governor of the Virgin Islands and representatives from the Virgin Islands and Puerto Rico who testified earlier. I think this is an indication of their support for this very important measure. I've also had an opportunity to discuss personally this legislation with some of the Ambassadors from those countries, and we appreciate their attendance this morning.

Mr. Chapoton, just to nail down the one area that you stress, according to your testimony North American convention tax status for CBI countries will be extended only to those countries who agree to exchange information to enforce our tax laws. I think that is something we want to nail down, to make certain that we have that kind of agreement.

Secretary CHAPOTON. Mr. Chairman, I think that is nailed down in the legislation quite clearly. The Secretary is given discretion on the specifics of the agreement, but there are minimum requirements specifically dealing with bank secrecy and bearer share provisions of the internal law of the country who would be a party to the exchange of information agreement.

The CHAIRMAN. Then I think either Mr. Secretary or Mr. Ambassador—to be eligible for CBI benefits countries must be abiding by international law in resolving expropriation disputes. There was some concern last year that Panama would not qualify because of two outstanding disputes with the United States investors.

I wonder if we might have for the record, if you don't have it available, the status of those two cases. And then secondly, are there any other expropriation problems involving any of the countries?

Secretary SHULTZ. There are some problems around in the different countries, and I can submit for the record the status of the cases that you referred to with Panama.

I think the expropriation without compensation issue is a very important issue, and we have to be firm about it.

The CHAIRMAN. Yes, if you would furnish that.

[The information from Secretary Shultz follows:]

U.S. DEPARTMENT OF STATE,
Washington, D.C.

Hon. ROBERT DOLE,
U.S. Senate.

DEAR SENATOR DOLE: In your mark-up of the Caribbean Basin Initiative legislation, the question of outstanding investment disputes was raised and the Department of State promised to provide the Committee with a letter clarifying how the CBI legislation might help us resolve outstanding disputes.

The Administration has acted strongly to encourage a settlement of US citizen claims in the Boston Panama and Citricos de Chiriqui, S., A. cases. In the Boston-Panama case, Department of State officials obtained commitments at the highest level from the Panamanian Government that they would proceed to settle the claim. Although the Government of Panama has not yet settled the matter as promised, it has established a commission to review the case.

While awaiting the results of the review, we continue to express high-level interest in all outstanding cases and have linked these outstanding investment disputes to the bilateral investment treaty, to the designation process in the Caribbean Basin Initiative legislation and to other issues.

As soon as the CBI legislation is passed, the Department will send a high-level team to each country to discuss the designation process. First on the agenda of the team to visit Panama will be discussion of all outstanding investment disputes. We will advise the Panamanians that should it be established that the properties were nationalized, expropriated or otherwise seized, and if good faith efforts to resolve these disputes as they promised can no longer be expected, then we would not recommend to the President that he grant a waiver under 102 (b).

Sincerely,

JAMES H. MICHEL,
Deputy Assistant Secretary for Inter-American Affairs.

Secretary SHULTZ. And I might say that I think it's in the interest of the countries involved that we are firm about it because if they don't have a firm environment and commitment to treat investment properly, they won't get it. So I think we do them a favor by standing up on this issue. I've always felt that way, as you probably remember from the last time I was around here.

The CHAIRMAN. And I think that view is shared by the USTR, too.

Ambassador BROCK. Absolutely.

The CHAIRMAN. Now section 102(b) prevents designation of "Communist countries." Which countries would not be designated under this provision?

Secretary SHULTZ. Well, surely Cuba; probably Nicaragua. Grenada has said that it isn't interested so it won't be a problem. But right now I think those are our problem countries.

The CHAIRMAN. And section 102(b) also bars the designation of countries, the governments of which broadcast copyrighted material without the consent of the owners. I understand this is addressed primarily to a situation involving Jamaica. And it is a matter of great concern to Jamaica. They are very hopeful that we might eliminate this provision from the bill. I wonder if the administration supports this provision.

It was included in the Senate bill this year. It wasn't included last year. The same conduct occurs in other countries though perhaps it is not Government sponsored. I guess that is the first question. Does the administration support this provision?

Secretary SHULTZ. We'd like to negotiate this problem out with Jamaica, but as of now we haven't been able to. I don't think it's a practice that we can stand still for so if we aren't able to negotiate it out, we will support the provision.

The CHAIRMAN. Then the President has discretion to waive the bar for Communist countries or for those which expropriate U.S. property, but not in a situation that is much less clear—the obligations of Jamaica in this situation. There may be some area there that we might address to resolve the problem. It is a matter of concern. It has been brought to our attention by representatives of that country.

There is also some concern, addressed by both the Secretary and the Ambassador with the domestic effects of imports. I understand organized labor may have a substitute still. Of course, their primary concern is jobs. I think you have stressed what you believe is the strength of the import relief provision in your statement. Is there anything you wish to add at this point? If not, maybe it is sufficiently well underscored in your statements.

Secretary SHULTZ. Well, I think, Mr. Chairman, that this is a jobs bill for the United States. That's the burden of our statement, that you are going to generate more jobs as a result of it. And probably that process will be front-end loaded for reasons that Ambassador Brock brought out. So I think it's a projobs bill. That doesn't mean that there isn't some netting out process. But the overall, we benefit.

Ambassador BROCK. I think enough Members of Congress, both in this body and in the other body, have been to these countries to realize that we are the overwhelmingly preferred supplier of all of these countries. The overwhelming bulk of their purchases are from the United States and will continue to be. Every single improvement that they have in their economic circumstance will improve exports from the United States. It is, in effect, a substantial opportunity for us to improve job creation here. And I think that has simply got to be stressed ~~time and again~~.

May I say that I personally am delighted that a number of leaders of the organized labor movement in this country have decided to support an initiative in the region. We do have some differences on the precise language. And you simply cannot pass legislation that would do less than we do now with our GSP program. That would be the concern.

But the fact is that I think organized labor realizes that we as a country have a vital interest in this region; in the well-being of those people. Labor has done a good job of creating and strengthening an organized labor movement in those countries, a free labor movement. I commend that. Our legislation is directed toward that central purpose of improving that free process of institution building. And I think precisely the same purposes apply in both cases. I think we will create jobs here. We will also create stronger, healthier, freer countries down there.

The CHAIRMAN. I assume there is some negotiation going on in your departments with the concerns expressed or which will be expressed later by the representative of the AFL-CIO.

Ambassador BROCK. We had discussions throughout last year, Mr. Chairman. And I think we accommodated as much as we could while maintaining a program that would benefit both the Caribbean and this country in the legislation that was finally agreed upon in the House.

The CHAIRMAN. All right. The Secretary noted correctly that it did not get through the Senate last year. I think it came so late in the session, frankly, that we just couldn't do it. And there was strong opposition. Some who were opposed to doing it in that short timeframe perhaps have had their problems resolved. We may find out as we proceed with questions.

Ambassador BROCK. I hope so.

The CHAIRMAN. Senator Danforth, I think, was the first one here and then Senator Long.

Senator DANFORTH. Mr. Chairman, thank you very much.

Mr. Secretary, Mr. Ambassador, you have each stated your view that this is a very important legislative initiative; very significant for the Caribbean region. The President has also stated that position publicly and privately that he feels very, very strongly about this bill.

It's clear that the terms of the bill have been changed significantly since it was first introduced over a year ago with respect to tax incentives. The tax portion is now simply an extension of the deduction for conventions. With respect to the trade section of the bill, it would provide for the extension of duty-free status to about 10 percent of our imports from the Caribbean Basin, even slightly less than 10 percent.

Despite the fact that the bill is considerably weaker than it was a year ago, for political reasons—I mean it doesn't do any good to have a great bill if you can't get it through the Congress. But despite that, I take it both of you feel that this is still an important initiative. And my question to you is: Can there be anything done that is politically possible that you can think of to make the bill better, and to make it more attractive insofar as helping the Caribbean Basin?

Ambassador BROCK. First of all, I think it is really not true to say that the bill is substantially weaker. There were additions to the exemption list in the lettered area that do diminish somewhat the breath of their investment potential. But in the tax area, I think Buck Chapoton would agree, our calculations indicated that the convention tax treatment would yield more net benefit to the Caribbean than would the original proposal of a 10-percent investment tax credit extension in terms of quantified economic benefit.

But let me make the point more importantly on the statement that you made that 10 percent of their products will be given a duty-free entry that don't have it now. That's true, but that is only on the presumption that this bill will only affect those goods now being traded. The whole purpose of the Caribbean Basin Initiative, the reason for its 12-year duration, is to create a magnet process whereby these countries become attractive for investment from this country and other countries to create more economic jobs, more productivity, more growth so that (a) they become a better market for our products, (b) they have a market opportunity. By giving them duty-free access to this country almost across the board, we assure potential investors that they have a market for certainly in the next 12 years that they might not otherwise have.

I think the drawing down to a focus of that investment interest can have more effect than all the rest of the bill put together. And I think that is the central component of it. So I think, frankly, we have a remarkedly good piece of legislation. I'm sure we would welcome suggestions for strengthening or improving it. But I don't think we would welcome, in all candor, any further weakening. We did that in the House. We made our compromises, some that may be slightly more than we had hoped to do. But I'm not sure we are in the mood to give up much more because the worse thing in the world, Senator, would be to pass a bill that appears good on paper and doesn't work. And if you do that, then you have created an opportunity for disenchancement that would do harm to our relationship and their well-being.

Senator DANFORTH. If you have any suggestions as to how to make the bill better, I, for one, would appreciate hearing them.

Ambassador BROCK. Thank you.

Senator DANFORTH. Mr. Chairman, I have some questions which I would like to submit to Secretary Shultz for the record relating to the impact of this legislation on domestic food production in the Caribbean Basin.

[The questions from Senator Danforth follow:]

QUESTIONS ON S. 544, THE CARIBBEAN BASIN INITIATIVE AND ITS POTENTIAL IMPACT ON DOMESTIC FOOD PRODUCTION AND EXPORTS IN THE REGION: SUBMITTED BY SENATOR JOHN C. DANFORTH TO SECRETARY SHULTZ

At present, many of the countries in the Caribbean and Central American regions rely on export of agricultural commodities for the major part of their foreign exchange earnings; however, at the same time, hunger and malnutrition remain as serious problems in many of the same countries, and this is an important underlying factor in the economic and social problems that the Caribbean Basin Initiative seeks to address. The legislation under consideration today contains a provision that recognizes the potential adverse effect that the proposed export trade incentives for the region could have on domestic food production. In order to safeguard food production in these countries, S. 544 contains a staple food protection plan requirement for those nations receiving duty-free treatment for sugar and beef products—major exports in the region. The questions presented below address this concern with domestic food production; they explore in a general way the impact of the export trade and investment policies promoted by the Caribbean Basin Initiative on domestic food production and hunger in the affected countries of the region.

1. What are the current levels of malnutrition and infant mortality in the "beneficiary" countries of the Caribbean Basin Initiative?

2. Would domestic food production in these countries be adversely affected as a result of the changes brought about by the trade provisions of the Caribbean Basin Initiative?

3. What are the current levels and ~~projected levels of P.L.~~ 480 shipments to the "beneficiary" nations?

4. What are the current levels of food imports for the beneficiary nations and how much foreign exchange do these countries expend on imported food?

5. What are the current levels of all agricultural exports from Caribbean and Central American nations, and what are the current levels of such exports to the United States?

6. What is the estimated impact of the CBI proposal on the agricultural export production of the "beneficiary" nations?

7. What is the current balance between land used for export agriculture and land used for domestic food production in these beneficiary nations, and how will this balance be affected by increased levels of exports?

8. What is the state of current production for each of the beneficiary nations' three largest agricultural commodity exports and what is the capacity for increased production?

Senator LONG. I think my turn is next. First, Mr. Brock and Mr. Chapoton, Senator Moynihan left a question with regard to the Puerto Rican rum problem, and I would like to submit that question and ask the two of you to respond to it in writing as soon as you can.

Secretary CHAPOTON. Fine.

Ambassador BROCK. That will be fine.

[The question from Senator Moynihan follows:]

QUESTION BY SENATOR DANIEL PATRICK MOYNIHAN TO U.S. TRADE REPRESENTATIVE WILLIAM BROCK

Mr. Ambassor, the administration's Caribbean Basin Initiative bill (S. 544) would extend duty-free treatment to Caribbean bulk and bottled rum. The excise taxes collected on these foreign rums would be distributed to Puerto Rico and the Virgin Islands as a method of compensating them for any damage done to those countries' rum industries.

The governments of Puerto Rico and the Virgin Islands have advanced a somewhat different proposal. They would grant duty-free treatment to Caribbean bottled rum but would keep the tariffs on bulk rum. However, the excise taxes on all rum imported into the United States from Caribbean nations would be devoted to the establishment of an Eastern Caribbean Regional Development Fund, to be administered by the U.S. Agency for International Development. This Fund would be dedicated to the development of physical infrastructure in Caribbean nations.

The Virgin Islands-Puerto Rico proposal seems to me to have great merit. Might the administration give this serious consideration?

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

Dear Senator Dole:

In response to questions raised by members of the Finance Committee at the April 13, 1983 hearing on the CBI legislation, I am pleased to submit the enclosed answers. The questions relate to the impact of the CBI legislation on Puerto Rico and the U.S. Virgin Islands. We believe that the revenue and trade measures for Puerto Rico and the U.S. Virgin Islands in the CBI legislation, together with the tax measures for these islands presently in place, ensure that Puerto Rico and the U.S. Virgin Islands will obtain their full and fair share of future development in the Caribbean Basin.

Sincerely,

/s/ John E. Chapoton

John E. Chapoton
Assistant Secretary
(Tax Policy)

The Honorable
Robert J. Dole
United States Senate
Washington, D.C. 20510

Enclosures

Question by Senator Moynihan (attached), regarding the Administration position on the alternative rum proposal advanced by the Governments of the U.S. Virgin Islands and Puerto Rico.

Answer: The Administration recognizes the importance of the rum issue to the U.S. Virgin Islands and Puerto Rico. We have studied closely the alternative rum proposal submitted to us by the Government of the Virgin Islands. We concluded that the proposal raised significant technical and policy problems, and that it would not be preferable to the CBI provisions now before Congress.

The V.I. proposal would remove bulk rum from the items eligible for duty-free treatment in Title I of the CBI legislation. To offset the loss to Caribbean rum-producing countries, the V.I. proposal would earmark for an Eastern Caribbean Regional Development Fund the U.S. excise taxes collected on bulk and bottled rum imported into the United States from Caribbean Basin countries. Under the Administration proposal, these taxes would have been paid over to the treasuries of Puerto Rico and the U.S. Virgin Islands.

The Administration believes that the allocation of the proposed Eastern Caribbean Regional Development Fund among Caribbean Basin countries could present serious problems. If much of the assistance were used for non-rum-exporting countries, the rum-exporting countries could charge that they were being denied a benefit intended to compensate for the loss of duty-free treatment on bulk rum. The burden would fall largely on Jamaica, which supplies over 70 percent of U.S. bulk rum imports. On the other hand, we do not find a correlation between rum exports and need for assistance. For example, the assistance needs of Barbados, the number two rum producer, are in some ways less than those of other Windward Islands which are not significant rum producers.

In addition to our concern regarding the allocation of the proposed development fund, the Administration is concerned that the V.I. proposal would weaken the CBI. The CBI is a program to stimulate economic development primarily through private sector trade and investment rather than through traditional public sector assistance and planning. The V.I. proposal would tend to do the opposite. It would limit the growth of the Caribbean bulk rum industries in favor of increased official development assistance. Rum is the only manufactured product imported into the United States primarily from the Caribbean. Secretary Shultz recently received a joint letter from six Caribbean ambassadors that stresses the importance that those governments place on duty-free access for rum as an element of the CBI.

Having said the above, I wish to reiterate this Administration's strong support for provisions to ensure that the treasuries of the U.S. Virgin Islands and Puerto Rico not lose revenues as a result of duty-free treatment of Caribbean Basin rum. We support the provision to pay over U.S. excise taxes on all imported rum to the U.S. Virgin Islands and Puerto Rico. This provision will preserve and increase the rum excise taxes received by the U.S. Virgin Islands and Puerto Rico.

As a further protection, the CBI legislation provides that if at some future time there is an amendment to the provision in this legislation for the payment to Puerto Rico and the Virgin Islands of the U.S. excise taxes on imported rum, the President shall consider compensation measures for Puerto Rico and the Virgin Islands. Among the measures the President is authorized to take is the withdrawal of the duty free treatment of rum. The President is required to report to the Congress any action he takes.

The CBI legislation provides that the Secretary of the Treasury will prescribe by regulation a formula for the division of the tax collections on imported rum between Puerto Rico and the Virgin Islands. As I noted in my April 13 testimony to the Senate Committee on Finance, it is the Treasury Department's view that the formula to be prescribed should protect the revenues of Puerto Rico and the Virgin Islands without regard to future levels of rum production. The formula for division would therefore be based on Puerto Rico's and the Virgin Islands' 1982 shares of the U.S. rum market.

Senator LONG. Mr. Secretary—I'm speaking to Mr. Brock—the provision in here dealing with sugar would be very helpful to those countries which produce a lot of sugar and have quotas with the United States. Now that situation is one in which we give those countries a trade preference. They are selling their sugar to us at more than twice what the Japanese are paying, I should think. I know it's more than twice the price at which the Europeans are dumping their sugar on the market. I would think that right now these sugar sales are pretty much of a mainstay to their economy, as far as the Dominican Republic and the various other countries who sell us a lot of sugar are concerned.

Up to this point, I don't think those countries would have objected at all to a request that they offer us a similar advantage in our selling them the machinery that they use in processing that sugar. In years gone by, I have had people from the Caribbean area indicate to me that they felt that if we were buying sugar from them at a favored price, that the least they could do would be to buy equipment from us.

I'm concerned that while we would have no problem as far as they are concerned in getting a reciprocal agreement, because we would just be asking them to do what they are doing anyway, that there is an area where I wouldn't be surprised to see us lose out to the Japanese just like we are losing out to the Japanese in automobiles and a lot of other areas.

Do you see some possibility that we might manage to work into this proposal something in the way of reciprocity, where we are going to give them an advantage and they are going to give us one?

Ambassador BROCK. We have a very sizable advantage now, Senator, as the Secretary of State mentioned. We have a very strong, favorable balance of trade with these countries at the present time. And every prospect of that continuing.

I would be a little cautious. I certainly understand the congressional intent on the subject. You and I have talked about the subject before, and I appreciate your interest. And I do not disagree with that interest. We have to be very careful about what we put into legislative language, in all honesty, because we do have to submit this to the GATT for a waiver. It is one of those categories of trade arrangements that is required to be approved by all the other parties in that organization. And there is a provision in the GATT that absolutely prevents a mandatory—what is the word I am reaching for? A reversed preference. So if I may, I would like to take your comments as a good clear indication—and the legislative history would give us that. The intent of Congress—every effort be made to insure that the benefits are reciprocal of nature and that both sides do understand that kind of synergistic relationship. I think that would be a good step forward.

Senator LONG. Well, we have already got an $18 billion deficit trading with Japan. I don't see any particular point in us giving additional favorable trade concessions on a unilateral basis where a phase of it would be to make our deficit with the Japanese even worse.

Now to me, when we are talking about the GATT—about trade with Japan—it gets to be kind of a joke. My impression is that if this nation wants to do something about American industries that are going out of business because of our trade relationships with the Japanese, it will have to be done right here in Washington. The decision will have to be made here, and the Government of Japan can either go along with it or else we will take effective action.

If, on the other hand, we are not going to do anything about it, then we will send our American firms over there to Geneva to talk to the GATT. We will see them back a few years later when they are out of business, and it doesn't make much difference what we do thereafter because we are not going to do anything to help them.

I would hope that you would study this matter further and see if we can do something in the way of seeing that there is some reciprocity in this proposal. I'm not too much worried about the GATT part of it. Those European countries have a way of managing that situation if they have to.

Let me ask Secretary Shultz about this matter. The President said in his American Legion convention speech on February 22, "Developing countries need to be encouraged to experiment with the growing variety of arrangements for profit sharing and expanded capital ownership that can bring economic betterment to their people." That sounded great, Mr. Secretary. Do you have any idea of how this might be implemented in connection with the Caribbean Basin Initiative?

Secretary SHULTZ. Well, I always figured the first thing to do was to come around and talk to you about it. You are very big on that subject and have pushed on it.

But I think it is part of an effort to do things that will give people a stake in their society. Ownership—either owning the land you work or owning a piece of an organization you work in—has always appealed to me as I know it has to you, as an important element in the picture. So I think it's something that we ought to push. I don't know that you can just force it on people. But certainly some of the things that are done here in that regard might be helpful and we can talk about them.

Senator LONG. May I ask just one further question, Mr. Chairman?

The CHAIRMAN. Yes.

Senator LONG. I am pleased that we are apparently providing scholarships to 1,300 students from the area. I would like to see that number increase. Do you have any idea how we might go about trying to assure that there are jobs for those people in their countries after they get that education? I'm worried about the possibility of the average student coming up here, getting the education, and wanting to stay here because he doesn't feel that there is an opportunity for him in his own country. Do you have any further ideas? Does anybody have any suggestions on how we might further implement that program to try to assure that these people who come from for an education achieve the things we want for them, and that there will then be an opportunity back home for them—rather than to have them apply for residence in the United States?

Secretary SHULTZ. I think it's a very thoughtful question. And at least to my way of thinking, that's what this bill is really about. It is to help them create activities there that will challenge a higher level of education and, therefore, make labor more productive and in a sense, more valuable. And if these economies can be encouraged to progress, they will have the job opportunities for people that obtain higher levels of education in the sectors that are turning out direct goods and services, but also, of course, in the educational programs of those countries. You expect people who obtain something here to go back and be part of the educational programs directly as well.

Ambassador BROCK. Can I talk outside of the Caribbean Basin Initiative? Because you have touched on something I think is awfully important to this country's well-being worldwide.

The CHAIRMAN. Certainly.

Ambassador BROCK. Senator, in the last 10 years—and I have forgotten the precise number of years, but it is somewhere in that range—we have cut student support programs to get young people to get an education here in this country by about 80 percent. We've reduced by about that much in terms of our programs just in the Latin American area. I think that is awfully dangerous for us as a country. I think that every step that we can take to encourage and support those young people to come and get an education here will establish relationships that will last a lifetime, and are fundamentally important to us in economic relationships, trade relationships, political relationships. Our national security, in my judgment, is involved. And I hope that we will take a good look at that and see if maybe we can't do better.

We tried in the last year under AID to improve the scholarship program. I think we have added about 1,000 man years of scholarship support or 1,300, whatever the number is, this past year. But I wonder if that isn't just the tip of the iceberg, if maybe we shouldn't work more on that area.

Senator LONG. Thank you very much.

The CHAIRMAN. Senator Bentsen.

Senator BENTSEN. Thank you very much, Mr. Chairman. Mr. Chairman, over the years, I have been in practically every one of these countries and on these islands, and I have a personal knowledge of the economic problems. And I generally support this initiative because I think this is not only our sphere of influence, to a degree it's our sphere of responsibility.

And what deeply disturbs me is that if we don't solve that problem in those countries, we will have to solve it here. No one can have seen the photographs of the bodies washed ashore on the coast of Florida without having a wave of emotion and compassion about those people who are ready to risk their lives to try to escape some kind of economic deprivation.

And with the kinds of people we have unemployed in our own country—millions of people unemployed here—the problem is going to be complicated unless we try to address it in those islands themselves. So I support the initiative and think we have to do something to raise the economic standards of those people in those countries.

But there are some aspects of it that trouble me. When we get into this situation, we are going back to the old substitute of prayed for foreign aid—would agree. And I listen to Senator Long and his concerns, and I share some of those concerns. I don't look at these countries as a major challenge to us because I don't think you see the economies of size, Mr. Secretary, that you alluded to. You made that point.

But I don't see it as that kind of a serious threat. And I think we can get with it from that standpoint insofar as our own economic self-interest. But I do get deeply concerned insofar as trade worldwide and the questions of the European Common Market. And Japan, as referred to by Senator Long. And I think sometimes in this country we are a captive of our own ideology and of our past rhetoric when we talk about free trade because it has gone far past that insofar as our competition. And our companies are not just competing against the companies of Europe, they are competing against those countries for subsidized products and all.

And we have seen the International Trade Commission time and time again with its recommendations and no one paying attention to it with a recent exception, I was delighted to see.

But I think it's time we quit apologizing for the commercial interest of our own country, and that we do everything we can to increase the exports and the trade of our country. And I look at the CBI and I understand that we have a balance of trade there of some $2 billion. And I do believe in that instance that we can make the investment in trade there, and that we will, in turn, help our own country as we help solve the problems of those countries.

But let me ask you specifically about one element of those things that have to be agreed to before GSP is provided. And I suppose that would come under section 102.

And the chairman alluded to some of them. But I understand that one of the requirements that is not included for duty preferences is that the country take adequate steps to cooperate with the United States to prevent narcotic drugs and other control substances from entering the United States. Now if I have been provided the correct information, that is amazing. And I don't understand why that would not be on that list. And that we be accorded that kind of cooperation.

Why would the administration want those countries—why wouldn't they want them excluded from the benefits based on those grounds?

Ambassador BROCK. I don't think we would have any problem with that, Senator. There are a lot of things that we are going to be negotiating on. Each deal will be negotiated bilaterally, country to country, as we sign them over to the program.

Senator BENTSEN. Well, I can't understand why that wouldn't be just a mandated response. That they cooperate in that regard. You have a Federal problem with the traffic and drugs coming into this country.

Ambassador BROCK. I'm one that shares that concern. I don't have any problem with that at all.

Secretary SHULTZ. I think it's always a question of words. I have forgotten what it was you read exactly, but I think the word "adequate" or something like that was in there, and you have to interpret that. I completely agree. It's a major problem. We are working on it hard. And the more forceful we can be about it, the better. I have no problems with that at all. I don't like to get caught up in something—where there is a word that might lead somebody to say that the word wasn't interpreted properly, and then we have some litigation about whether or not something or other should have happened. That kind of thing.

But, basically, I agree with Ambassador Brock. We support that. And I think probably that could be worked out, and we wouldn't have a problem with it.

Senator BENTSEN. Yeah, well, we already have it in the law in GSP. And I just want to be sure that it is applied to the Caribbean Basin. I can't imagine why it would not be.

May I ask just one more question?

The CHAIRMAN. Certainly.

Senator BENTSEN. And I would like to address this to Ambassador Brock. We have this provision of the 35 percent add-on in value, as I recall. And we also have a problem with some of our Customs' people in looking beyond the certificate for the allegation. I would like to see if we can't expand on the authority of the Customs. When they feel that that certificate may not be valid, for them to look beyond that certificate to try to get the verification. Do you see any problem with supporting some effort in that regard?

Ambassador BROCK. No. We have had to develop a very good level of competence in the Customs Service to deal with the problem because it also applies to the same numbers used, as you know, in a GSP program. And we simply do not have any intention of providing an incentive for repackaging operations—taking the product and just changing the box and putting a new ribbon on it.

So any area to insure that we enforce that in this and any other administration would be no problem for us as long as it is a doable thing. We, I think, are getting pretty good at tracking these things back. But I would welcome your attention to the subject. And if you want to look at it, fine.

Senator BENTSEN. Mr. Chairman, I have a series of questions I would like to submit in writing for the Secretary, the Ambassador, and for Secretary Chapoton. And I have some concerning Puerto Rico where I am concerned about what is going to happen there in the way of competition and the job problem of Puerto Rico.

[Questions from Senator Bentsen follow:]

Question of Senator Bentsen. "I understand that the government of Puerto Rico has a continuing concern that our efforts with the CBI may have some adverse effects on the investment climate of Puerto Rico. Do you think that there might be some merit in providing limited but additional incentives for American business to invest in Puerto Rico as a way of offsetting these potential adverse effects?"

Answer. Since the earliest planning stages of the CBI, the Administration has recognized the importance of structuring the program so as to ensure a positive effect on Puerto Rico. The legislation addresses Puerto Rico's concerns in several ways. It sets aside U.S. excise taxes on imported rum for Puerto Rico and the U.S. Virgin Islands, and it provides that tariff duties imposed by the Legislature of Puerto Rico on coffee imported into Puerto Rico will not be affected by the CBI legislation.

The Administration is committed to fostering economic growth in Puerto Rico through tax incentives, as well. Last year we worked hard, in cooperation with representatives of Puerto Rico, to improve the existing tax incentives for investment in Puerto Rico under section 936 of the Internal Revenue Code. Those efforts culminated in the development of two safe haven transfer pricing proposals for "section 936" corporation, which are U.S. corporations operating primarily in Puerto Rico that are effectively exempt from U.S. tax on their possession source income. These safe haven proposals, enacted as part of the Tax Equity and Fiscal Responsibility Act of

1982, provide a very significant incentive to investment in Puerto Rico. They provide that a group of affiliated corporations which manufacturers a product primarily within Puerto Rico but performs research, marketing, distribution, and other functions outside Puerto Rico, may allocate to the tax-exempt affiliate in Puerto Rico at least 50 percent of its combined income with respect to that product. We will continue to study the effect of the tax incentives in Puerto Rico and, if and when it is appropriate, recommend changes.

We believe that the attractive package of tax and revenue measures for Puerto Rico will ensure that Puerto Rico obtains its full share of future economic development in the Caribbean Basin region.

The CHAIRMAN. Senator Symms.

Senator SYMMS. Thank you, Mr. Chairman. Mr. Ambassador and Mr. Secretary, we welcome you here this morning. And, Mr. Chairman, I would just like to ask unanimous consent to submit my opening statement in the record at the proper place. It won't be necessary to state it.

I support the initiative, too. And I appreciate some of the comments that Senator Bentsen made. And I think along that line if we aren't successful right here close to home, we are going to have many, many problems. It will be much worse in the very, very near future. We are not looking down the road 10 years. We are looking to the next 2 or 3 years in my opinion with respect to Central America and the entire region in the Basin. So I am glad that you are here and that we are bringing this up again. And I hope this year we will be successful.

This measure, however, is somewhat modified from what we were talking about last year. It has been scaled downward. Isn't that correct?

Ambassador BROCK. Not too much. We changed the tax treatment, as you know, from the investment tax credit which was originally proposed to the convention tax treatment. My own judgment is that the economic benefits are going to be slightly larger for the Caribbean than they would have been under the original proposal.

A couple of product areas were added for exclusion; primarily, in the leather category, which we had not originally proposed. But other than that, the bill is a good strong bill. And, frankly, is a very effective approach, I think.

Senator SYMMS. Well, I share that. I believe we have to do this. But it is part of the entire package. One thing that does concern me, and when I visited that region in the general area—there always seems to be a flight of capital to the United States anytime any economy or political government becomes destablized. Do you have any numbers—maybe Secretary Chapoton has numbers—of how much money is actually part of this imbalance, capital that is fleeing to the United States looking for a safe haven?

Secretary CHAPOTON. I do not have numbers available, Senator Symms. I'm sure those numbers are available, and we could supply them.

Senator SYMMS. Secretary Shultz?

Secretary SHULTZ. I think it is noteworthy that the amount of U.S. origin investment in the region is in the neighborhood of $8 billion so that represents money that has been put there by investors here, and represents a measure of some confidence. I don't have the amount of U.S. credit that has been extended to the region, but it's quite substantial. Maybe Secretary Chapoton does have that number—it is a substantial number.

So those are evidences of confidence. But it's certainly true, in a broad in a general way, that one of the compliments to our country these days, but which also represents a problem, is the fact that we are the safe haven for capital from all over the world. Senator Long was talking about some of our trade problems in his questioning. I think that they go back to a very considerable extent to the value of the dollar. The value of the dollar basically represents market forces, and those market forces are generated to some extent by trade accounts, but to a major extent also by this flow of capital.

Senator SYMMS. Well, I think, Mr. Secretary, you are really making the rather philosophical linkage point that I wanted to get at. That for all of our efforts, if we do all the things that we think we should do, I don't believe that market decisions will be to go invest in a region if it is viewed that the United States is not going to be successful in places like El Salvador, for example. If it appears that the Marxists are going to be successful, well, then capital simply will flee away from that area and not toward it, and compound our problems. Because the people who have money there will do anything they can to get across the border or get it out of the country, convert it into something that is liquid.

It just seems to me that our efforts in Central America will have a big determination of whether we can be successful in our economic efforts. And I think that we can't ever get away from that. And I have said this to you privately, but I think we absolutely have to be successful at whatever cost in Central America. And I think that in order to have the Caribbean Basin Initiative be successful so that we can encourage people to go down and invest and provide a growing economy and development as the President wants to do it, I think that is all tied to it.

If there is a perception on the part of investors that the area is unstable—we will do this much, pass the law and put up $350 million or whatever it is, and some tax advantages and nobody will take advantage of it if it is viewed as unstable.

Secretary SHULTZ. I agree with your comment, and I welcome it.

Senator SYMMS. Thank you.

Senator ROTH. Senator Mitchell.

Senator MITCHELL. Mr. Secretary, Senator Dole asked earlier about the copyright provisions. I just wanted to ask you whether or not in your judgment this violates a basic international legal principle, which is that a nation's laws do not have extraterritorial effect. Does not this provision represent an attempt to impose American copyright law on other sovereign nations?

Secretary SHULTZ. Well, it is a statement that certain things that we do will not happen if they do certain things. So it isn't an effort to impose something on somebody in a kind of cavalier fashion. We are just saying if we are going to work together, there are certain rules and regulations that are going to go with that.

I've been struggling with this issue lately quite a lot. And some of my friends in the legal community tell me that I should stop using the word "extraterritoriality" because it contains within it a conclusion. And that it is better to talk about conflict of jurisdiction.

Senator MITCHELL. Well, listen to the lawyers, I always say. [Laughter.]

Secretary SHULTZ. We don't have any alternative.

Senator MITCHELL. I want to refer to a specific portion of your statement on page 13 in which you state that the GSP contains competitive need restrictions and product exclusions which limit its usefulness as a stimulus to broad-based recovery by the small Caribbean Basin countries. Since that appears to be the crux of this proposal, that the GSP is inadequate or insufficient to provide the necessary stimulus, would you be more specific as to which competitive need restrictions and which product exclusions you are referring to? And precisely in what manner is their usefulness limited?

Secretary SHULTZ. Well, I'm going to ask those who are better versed in this than I to be very specific with you. But I think the general problem is that in GSP you are designing a system that has worldwide scope. And it needs to have conditions that reflect the great variety you see around the world. Whereas, in this bill, we are aiming at a particular region that has certain characteristics and so the program specially designed for it. But maybe Ambassador Brock could elaborate a little bit.

Ambassador BROCK. Two very brief points. The sugar area would be one area where you exceed the competitive need formulation. But that's not as large a problem as the future problem that I think we are trying to deal with.

The basic difficulty with GSP is not its coverage, but its duration and predictability. There is a very strong attack being made on that entire program in this country, as there is in others. And we simply don't know how to get investment into the Caribbean countries without some assurance of a long-term economic market opportunity here. So the predicate of the program is 12 years worth of market access on this mutually agreed upon bilateral designation. And with that, we think you have dealt with the uncertainty problem, and with some of the specific components. The GSP I would mention as only one example.

What if a country—Haiti or the Dominican Republic—was producing what is virtually a unique product? They would quickly go over the 50-percent share of U.S. imports. And they would be denied GSP.

We might not have any competitive product here at all, but we still would be denying them that opportunity of access, and putting them at a tariff level of—whatever the tariff was. This would eliminate that problem, and allow us to deal with them in a fashion that gives them some long-term investment magnet opportunity. That's basically the purpose.

Senator MITCHELL. Now let me just make a couple of comments.

First, I thought both the Secretary and the Ambassador made eloquent statements regarding the scholarship programs in the Caribbean. I would ask you, Mr. Ambassador, if you could provide us with some written specifics on what proposals, which have been made by this administration, there have been regarding such exchanges internationally. I think that you will find that they fall into the category which you had described here earlier today.

Finally, I just don't want my silence to deem acquiescence. You may agree with the statement made by Senator Symms, but not everybody here does. This is not the proper place to debate our policy in El Salvador, obviously. But if it is your position that this won't do any good unless we do the right thing in El Salvador, you are not going to gain votes here, you are going to lose them because then the argument would be, well, why don't we wait and see what happens there before we pass this.

I don't mean to suggest that you tie the two that closely together. But this stands on its own in my judgment as a positive thing for the U.S. Government to do, and does not in any way justify acquiescence in any particular policy in El Salvador.

Secretary SHULTZ. Your silence—or now not silence—I certainly realize doesn't mean assent. And I have been exposed to enough argument in congressional hearings to realize that not everybody thinks the same way on this issue.

I do think the point, however, is a generally valid one. In a country where you have violence and physical disruption, it's unlikely that you can have investment and orderly economic activities. The two things don't go together. You have to obtain some degree of political stability.

And in the case of this bill, as in the case of other programs connected with various countries, it is the position of the administration that economic support is an essential ingredient in any strategy. It's necessary. If there is violence, somehow, some shield against that violence is needed. And that's the situation, as we see it, in El Salvador. But we don't want to argue that here, I know.

Senator MITCHELL. Certainly I do not disagree with what you have just said. And I don't think anyone here disagrees with that. The question is that you have stated an objective. The disagreeing is over the means to that effect. Certainly, the ending of violence anywhere is an objective, and we all recognize the need to do that in connection with the economic improvement.

My time is up. Thank you.

Ambassador BROCK. Can I just pitch the logic of this bill? What I think you were addressing goes to the question of would we be having this difficulty in El Salvador had we done something as forthcoming as this 10 years ago. And I think the answer is that you might, but you would have less of a prospect of that if we had created a stronger economic base for the maintenance of political stability in this region.

Senator MITCHELL. Well, the Secretary made the point precisely when he said to Senator Long that when people own something and they have a stake in a society then they are more likely to be committed to it. And the problem in El Salvador has its roots in precisely the lack of that in that country there.

The CHAIRMAN. Senator Roth.

Senator ROTH. Thank you, Mr. Chairman.

Mr. Secretary, as chairman of the Permanent Investigation Subcommittee we have held numerous hearings on the problems of drugs, offshore banking, tax havens. And we have found in those hearings that the glue or a key component of the illegal drug business is the use of laundering this corrupt money through offshore banking. I'm concerned that in this legislation that while we provide in section 202 that a country to be a beneficiary country and get the benefit of the convention treatment that agreement has to be entered to exchange information on banking, I wonder why, however, this was not included as a condition for any of the benefits. In other words, I think it is critically important to this country both from the standpoint of attacking the illegal drug business, which amounts to billions of dollars, as well as the fact we have found that a lot of people are avoiding taxes through these tax-haven countries that we get cooperation from this region, from this area, in exchange of information of people who are illegally laundering money.

Would you be agreeable to making the section (a) part of the title I providing that you could not be a beneficiary country unless they had entered into such an exchange of information?

Secretary SHULTZ. Maybe you had better speak on that.

Secretary CHAPOTON. Senator Roth, if I could speak to that. That question has come up before. The information, though, is primarily tax information. It does involve illegal money and illegal activity, but we try to always negotiate agreements with respect to tax matters, and tax information separately from countries than other exchanges of benefits and concessions.

If we started down the track of saying that we would require tax information for other benefits, I think we would be departing significantly in this area from past practice——

Senator ROTH. Let me disagree. This is really much more, much more, than a question of tax information. The fact is that this illicit drug business, much of it coming from Latin America up here, and then the laundering of the money into the offshore banking, is the key of this whole illegal operation. And we are talking about a $75 or $80 billion business according to some people—illegal business. And one of the reasons that they succeed is that they are able to launder this money through the offshore banking. I think it's a very, very critical problem if we are going to be successful in our attack on illegal drug dealings.

And what I am really saying is to attack that. And it does involve also the taxpayers who are sending money out to avoid paying taxes. It's critically important that this government be able to get full information on those that are utilizing these offshore banking areas.

Secretary CHAPOTON. Well, I certainly don't disagree with that, but I would point out that this tax provision—the ability to take the deduction for tax conventions—is a very powerful pull on this question. The information, while you are right—it will develop information other than just tax information—the primary thrust is tax that will be——

Senator ROTH. I'm disagreeing with that, Mr. Secretary, because it's a critical component of the illegal drug business.

Let me ask the Secretary, if I could, this question.

Secretary SHULTZ. Could I just interject something on this?

Senator ROTH. Yes.

Secretary SHULTZ. I think in our colloquy with Senator Bentsen we identified a provision taken from the GSP legislation that could be put in here that calls for an adequate program to deal with the drug problem. I've forgotten just exactly how he phrased it. We discussed that a little bit. But it may be that that will be of interest to you in considering your attitude toward this matter.

Senator ROTH. Well, I'm generally favorable toward the legislation, I want to say, Mr. Secretary. But as in many situations, there are other factors, and I think a very serious one are these offshore banks that are used improperly for any number of purposes. One is to avoid paying taxes, but the other is that illegal criminal organizations is using it as a means of laundering their ill-gotten gain. So I think this is something we ought to address in this legislation. And I would like to work with——

May I ask one more question, Mr. Chairman?

The CHAIRMAN. Yes.

Senator ROTH. As I say, I am generally favorable. But one of my concerns is that even though this is overall maybe not that important in our trade picture, the fact is that wherever you go everybody is looking to the American market as helping pull them out of their current difficulties. I had the opportunity to go to several Latin American countries a few weeks ago—Mexico, Brazil, as well as Peru. They are all looking to our market and exports to our market as a means of working their way out of their very difficult economic problems. And I understand and support that.

But at the same time trade does have to be a two-way street. And one of my concerns is that each of these countries and each of these areas understand that if they are going to sell to our market that we have to have equal opportunity, which brings me to my question. Some time ago with your predecessor I asked that he take measures to insure that our Ambassadors abroad and other members of American Embassies abroad take active measures to promote the export of American made goods and products. I would ask that you might follow through on that because I think it's critically important. I must say I was very pleased with some of the information I got in Latin America. I think some of our Ambassadors are doing an excellent job.

But I would urge you that if we are going to open up our markets our diplomats abroad understand that as far as you are concerned a key part of their job is to promote the sale, the export of American made goods. I wonder if you would be willing to send a letter.

Secretary SHULTZ. I agree wholeheartedly with you, Senator. And I think U.S. diplomats must have export promotion on their minds. It may be interesting for you to know that the first message I sent out after becoming Secretary of State—a general message to every post—was precisely on this point. That promotion of U.S. exports was important and was in the interest of the United States; and I expect that every post will look to this subject.

I have found that this is taken very seriously now by everybody. And as a person who has traveled around a lot over quite a period of time, including as a private businessman, I think it's a fair statement that our offices abroad have had this subject increasingly in their consciousness and readiness to work on it.

Senator ROTH. I'm very pleased to hear that. I think it's critically important, and I congratulate you for taking that action.

Thank you.

The CHAIRMAN. Senator Chafee.

Senator CHAFEE. Thank you very much, Mr. Chairman.

I think any bill to encourage trade is a jobs bill, and I think this is correctly labeled as that by Secretary Shultz.

My concerns go to the problem that was voiced earlier by Senator Danforth. And that is does this bill do much or is it really cosmetic? And will it have the effect of raising expectations but not meeting them? And I just wonder if we have really taken much of a step forward here.

Secretary SHULTZ. Well, we have taken, I think, a significant step. Not a magic step. It is essentially the offer of an opportunity, namely, the access to the world's biggest and most dynamic market on a special basis. We think that the conditions are such that enterprises and investors, local investors as well as joint ventures with people from our own country, will see that opportunity, and move into it.

It won't happen overnight, but it's an important opportunity. I think the point that Ambassador Brock made earlier is very significant. Namely, the notion of a 12-year period so that people have a longer planning horizon, and they can think in longer terms. And thereby justify the investment of effort and training and money and resources.

Senator CHAFEE. Well, I think that that is important. However, as has been pointed out, the GSP applies to practically all these nations. And I think the illustration that Ambassador Brock used of the possibility of some country exceeding the 50-percent limitation and then losing its GSP is an interesting one, but probably inapplicable to most of the countries in the area. And has rarely risen—well, I won't say it's rarely—has arisen with other nations that enjoy the GSP outside of this area. I doubt if it has ever risen with one of the countries in the area. Has it, Mr. Ambassador, that you know of?

Ambassador BROCK. No.

Senator CHAFEE. So I guess really my question is when you accept the fact that these countries have the GSP are we making much of a step forward? And I am prepared to accept the views of you, Mr. Secretary, and the Ambassador that we have made a step forward obviously. Otherwise, you wouldn't be here.

But this has been cut down from what was originally introduced. And it seems to me there is a host of exemptions under it. Is that not correct, Mr. Ambassador?

Ambassador BROCK. There are some. Our view is that the basic function of creating a magnet process to draw investment in for new productive facilities, new employment down there will be far more important to them than the occasions of the exceptions that have been made.

As you know, the administration proposed virtually no exception other than textiles where we were covered by the multifiber agreement, and sugar which was covered by the quota legislation which the Congress passed under the farm bill.

But in all honesty, I think we have got a remarkably good bill. We would be delighted to see enacted into law the House-passed version as it was passed. And we think that would offer a remarkably strong, sustainable economic opportunity for these countries and for the United States because it is a jobs bill. Both sides will benefit.

Senator CHAFEE. Well, I think you have a very strong case. And in just looking at the statistics that were given by you and by the Secretary—excluding petroleum trade, there's a $2 billion surplus with that area—are very significant and that translates into lots of jobs. We use the statistic around here that of four out of every five new manufacturing jobs in the United States come from exports. And that hasn't been challenged.

I would ask this: Others have touched obliquely, Mr. Secretary, on the Jamaica broadcasting situation, and while I am not familiar with it, as the chairman pointed out, that's been brought to our attention, and it does seem to me that there are problems with that. And as I understood your answer, you have been negotiating on this? The question was a little confused here. Is this what your answer was to Senator Mitchell? That you have been working on this?

Secretary SHULTZ. Our answer was that we have been working on it; we would like to negotiate it out. But we recognize that if that doesn't happen, the provision is going to be in the bill and we accept that fact.

Senator CHAFEE. Well, I think it's a pretty tough provision to have in a bill. And I certainly think that the legislation ought to include a waiver for the President which I understand is given for other exclusionary conditions. What would be your answer to that, if the President had waiver power?

Secretary SHULTZ. I think that would be constructive.

Senator CHAFEE. Certainly, I don't think the President should be deprived of that ability under this legislation.

Mr. Chairman, may I ask one more question of Mr. Chapoton?

The CHAIRMAN. Sure.

Senator CHAFEE. As has been pointed out, the tax conditions have been changed. The existing conditions, I believe, deal with tax credits for the construction of the— —

Secretary CHAPOTON. The original proposal was for an investment tax credit for new investment in property and equipment.

Senator CHAFEE. Now you have changed the deductibility?

Secretary CHAPOTON. No. Now the change is an entire change to the deductibility of convention emphasis, it has nothing to do with investment.

Senator CHAFEE. Deductibility for those who attend the conventions?

Secretary CHAPOTON. Correct.

Senator CHAFEE. And I would suspect that that is probably a better provision as far as attracting tourism to the areas.

Secretary CHAPOTON. Senator, that is what they wanted. They think it's a better provision. And, indeed, up front, it certainly will probably have a much greater impact than the investment tax credit would have had.

Secretary SHULTZ. I might just say, Senator, that we would be glad to have both if we thought we could get them, but the judgment is that we aren't getting anywhere on the investment tax credit.

Senator CHAFEE. Well, I think the deductibility is a very potent weapon to attract people to take this type of trip.

Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. We might couple it with withholding, something that would make it exciting. [Laughter.]

Senator Bradley.

Senator BRADLEY. Thank you very much, Mr. Chairman.

Let me confirm what I think is the theory behind this approach. And that is to try to create economic stability in the region, and, therefore, political stability. And to do this by essentially encouraging the countries to maximize their own comparative advantage, and in the process promote economic growth and political stability. Is that it?

Ambassador BROCK. Exactly. Stated as a good economist.

Senator BRADLEY. Could you tell me why have you excluded from the CBI tuna?

Ambassador BROCK. As I think you know, Senator, we did not propose or support any exclusions other than those mandated virtually by international rules, such as the multifiber agreement. That was imposed by the House in its final action. And we simply said we will accept the House bill as is in order to expedite passage. We did that in order to try to see if we could pass the bill in the Senate in the special session.

Senator BRADLEY. So it is not related to the theory of the bill. It's related to the politics.

Ambassador BROCK. That's correct.

Senator BRADLEY. Why have you excluded petroleum?

Ambassador BROCK. Identically the same reason.

Senator BRADLEY. Why have you excluded textiles?

Ambassador BROCK. That was in the administration proposal. We did exclude textiles for the simple reason that we operate under the international multifiber agreement.

Senator BRADLEY. All right. And leather is the same reason?

Ambassador BROCK. No. Leather was imposed by a majority vote in the House Ways and Means Committee, and accepted on the floor.

Senator BRADLEY. And why have you given special treatment to citrus?

Ambassador BROCK. I'm not aware of that.

Senator BRADLEY. They don't have a special escape clause?

Ambassador Brock. On perishables, I'm sorry. On perishable commodities we did provide for an expedited action because they are, in fact, perishable. And what we provided is a special provision for expediting consideration. If a 201 is filed by a domestic producer of perishables pleading injury, the matter would not go to the ITC, but go to the Secretary of Agriculture for expedited consideration within 14 days. He would be required to judge whether or not injury had occurred. And if it was in prospect, he could reimpose the MFN rate.

Senator BRADLEY. All right. If you have excluded textiles and leather—textiles pursuant to the multifiber agreement—tuna, petroleum, leather, and citrus have been excluded for reasons other than international agreements or the theory of the bill. Why have you not also excluded items that are a part of the GSP exclusions, such as watches, steel products, and electronic articles?

Ambassador BROCK. Well, if we started going down the list—the argument we made against each of the exclusions that were proposed in the House, and those four that you have mentioned that were adopted—the argument we made in those cases was that once you start unraveling this weave, there is no end to it. Every producer can plead that they are threatened by this group of countries that constitute 2 percent of our imports. And I, frankly, think you will have no bill of any value if you go down an extended list.

We did not propose exclusions; do not propose exclusions.

Senator BRADLEY. So you just made a judgment to cut it off after a certain number of articles were excluded?

Ambassador BROCK. Well, we didn't have a whole lot of choice. We were defeated in the House, and we said, all right, we can live with that bill. The nations affected believe that they can live with it as it passed the House. But we, frankly, would resist further exclusions as we resisted those.

Senator BRADLEY. Would a looser sugar quota be consistent with the theory of the bill?

Ambassador BROCK. Sure.

Senator BRADLEY. But you have not supported that?

Ambassador BROCK. We are bound by the law, as passed by the Congress, and that put us in a pretty difficult position on the question of sugar. It has disrupted our own market situation, and made life very difficult for us with not only the Caribbean nations, but with a lot of other very friendly countries like the Philippines and Brazil.

Senator BRADLEY. All right. I have been given a document—I think it's from the USTR—that shows the effect of this liberalization on various countries in the Caribbean. And it ranges from 69 percent liberalization for Barbados to 41 percent liberalization for Nicaragua, to a 10-percent liberalization for the Dominican Republic, to a 2-percent liberalization for Jamaica.

How are we sure that we are going to get what we want with this kind of uneven effect of the liberalization across the region? Particularly, if the purpose is to promote economic growth, and more importantly, political stability.

Ambassador BROCK. Remember that the numbers we gave you were based upon the current product mix of their exports to the United States. Some countries export a fairly high percentage of dutiable items. Others provide a very high product mix of items that are MFN duty-free or covered by GSP. That's just the happenstance of the current situation of their domestic economy, and really is almost irrelevant to the purpose of this bill because what we hope to achieve with the bill, as you stated at the outset, is the process of drawing to these countries investment to produce a range of products, probably starting with agribusiness. But it will cover other areas very quickly—high technology and other products. That's because of the assured market access over a period of 12 years. And you can't make an economic investment on a 1- or 2- or 3-year basis, as we all know. We have to have the predictability of that market access.

I don't know what the mix will be 5 or 10 years from now. All we are saying is that we are going to give you full market access so that you can develop your economies in that fashion which greatest provides employment and growth for your own people. It's then their choice to seek whatever investments they can that best fit within their own desires.

Senator BRADLEY. But you expect them to expand their share of the United States market dramatically. Obviously, in Jamaica the purpose is to try to do that, isn't it?

Ambassador BROCK. I very much hope so.

Senator BRADLEY. And the Dominican Republic.

Ambassador BROCK. Clearly, it will expand their market here and our market there. Both of us will benefit. Let's be very frank that these are different types of countries, different leaderships. They will choose different methods. Some will succeed in greater degrees than others. There is no way to predict that. But what we have to do is to give them the opportunity. Otherwise, they may not have any hope at all.

Senator BRADLEY. Would you expect Nicaragua to expand its export?

Ambassador BROCK. Nicaragua will have the opportunity as will any other country to comply with the terms of the law. And if they do, we would welcome their establishment of democratic processes.

Senator BRADLEY. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Matsunaga.

Senator MATSUNAGA. Thank you very much, Mr. Chairman.

I don't believe any member of this committee would disagree with the panel as to its observation that it is to our own interest that we economically stabilize the Caribbean area, and also by economic stability bring political stability.

I was over in Taiwan back in 1964 where a group of eight other Members of the House—that was in 1964—and all nine of us agreed that it was utterly impossible for Taiwan ever to get from under our foreign aid mantle. And yet in 1967 when I revisited Taiwan, they had gotten off foreign aid from the United States and on that little island had performed a miracle. As you well know, today it is the second highest exporting country in that area next to Japan.

And I don't know whether we can learn anything from that lesson in Taiwan, and whether the administration has made any effort to learn from the experience of Taiwan. May I raise that initial question?

Secretary SHULTZ. I think we can all learn from that and similar experiences. Basically, that the process of economic development has to be done by the people of the country involved. It is fundamentally their problem. And they have to attain educational levels. They have to expend energy and exhibit a capacity to work and save. These are the ingredients that make for economic development. And it is precisely in this regard that the administration's program is designed so that there is a flow of aid for various infrastructure purposes to help access to financial markets by private enterprises, the educational purposes that have been referred to, but also—and this is the point of the bill before you—to set up the economic opportunities, you might say, that lead people to act for themselves and try to exploit those opportunities. And if they will do that, they will succeed. If they won't, they won't succeed.

Senator MATSUNAGA. The statement is only in writing so far, but this is a statement of Mr. Joseph Pelzman, associate professor of economics at the George Washington University who is scheduled to testify before this committee, and he makes this strong statement:

> The CBI as contained in the proposed Caribbean Basin Economic Recovery Act (S. 544) is fundamentally flawed and ill-conceived. It rests on the premise that the fundamental impediment to Caribbean development is high U.S. tariffs. At the same time it offers to eliminate tariffs on a select group of products which are not representative of the comparative advantage of these countries.

Now that is a very strong statement. He also raises two principle questions which I do hope the administration will address in trying to implement that act. It says:

> A true development oriented legislation should focus on two primary questions. First, how does one attract U.S. manufacturing firms away from Asia to the labor surplus, low wage countries of the Caribbean region?

And, second,

> How does one provide the proper environment for the formation of the necessary infrastructure, the training of skilled workers and the establishment of internal markets in the Caribbean region?

I think these are fundamental questions. Representing the state which will be most affected, coming from a tropical agricultural state, I think it is fundamental that we deal with these questions. And to see that the development within the Caribbean area is such that they deal not only with the United States but among themselves. That there be a collateraled interchange and development.

And, of course, we have the concerned governor calling me, and the concerned mayor of Honolulu calling me. The Governor is concerned that the CBI will bring about competition to Hawaii which is already suffering from high unemployment rates and deteriorating economy. And Mayor Anderson, of course, has called us with reference to the deteriorating sugar industry which might fold. And thanks to my good friend Bill Brandt, we have resolved a little of that by imposition of quotas. But sugar is fast fading away, and we are trying to substitute other agricultural products such as cut flowers. And then we permit cut flowers in duty-free, which would just nip the flower industry in the bud, so to speak, in Hawaii. And so I don't know. I agree with you, with the administration, that something needs to be done in this area for our own security. And we are willing to make sacrifices, but not to the extent we need to have soup kitchens and maybe have an exodus from Hawaii also because of lack of jobs.

Well, I have expressed my concern. If you have any words of wisdoms, any words of comfort, I would appreciate it.

Secretary SHULTZ. Well, I'm sure I don't have any words of wisdom and perhaps none of comfort.

Senator MATSUNAGA. None of comfort even. [Laughter.]

Secretary SHULTZ. To use the words of the statement you read, I think the statement itself is fundamentally flawed. There is no assumption that the United States is a high tariff country. It isn't a high tariff country. If we can give assurance to this struggling group of countries that their goods, with certain limited exemptions, are going to be able to enter this country, it will be a spur to them to undertake economic development. That's all. There is nothing very complicated about it. It is straightforward and, I think, sensible.

I do think, if I can try to say a word of comfort, that the fundamental problem in a lot of the critiques is that the assumption is made that we have here a zero sum gain. That is, if somebody gains, somebody else has to lose the same amount so that you come out with a zero outcome. The whole point of trade—and the reason why it has flourished and expanded, the reason why the United States as a country has had such flourishing economic development—is that everybody gains from trade. Nobody trades unless they gain something from it. So it's been part of the process of lifting ourselves up economically.

I don't mean by that that there aren't people who get hurt in a particular trade, but on balance it works to the general advantage. And that's the reason we encourage it. And I think that's comfort. Maybe not as much comfort as you would like, but I think in the history of our country it has been a mammoth piece of comfort.

Senator MATSUNAGA. Thank you very much.

Have you any words of comfort, Bill? [Laughter.]

Ambassador BROCK. First of all, Hawaii is one of the great trading states. I haven't seen it suffer at the hands of the Taiwanese as that recovery occurred. I think Hawaii has prospered as has Taiwan, as has the United States. We all benefit from an increase in trade because as George said, there is no zero sum here. Any business relationship will endure only if both sides profit from the relationship. Otherwise, it will not continue. I think that's the prospect we offer to ourselves and to these very impoverished countries at the moment in this legislation.

We are sensitive, Senator, to your particular concerns, both in the agricultural product area where we have tried to deal with it with the expedited consideration 14 days with the USDA, and with the convention question that you and I discussed, I think, the last time I was here in December.

But if you will look at some of the principal products that Hawaii has and is even more developing now—macadamia nuts, for example—less than 2 percent of our consumption came from this entire region. And it takes 7 years before you can even plant a tree and get it to fruit, so I don't see that as something you have to be concerned about. Papaya is less than 2 percent. Ginger root already comes in duty-free. Pineapple—you are talking less than 6 percent on the total pineapple tariff, pineapple juice. One-tenth of 1 percent of our imports came from the region. I just don't believe that these are problems of any magnitude to cause you concern. The contrary is true. I do think we, as a country, can benefit greatly by the jobs that are going to be created by this growth, by the exports that we will achieve. And the alternative of not dealing with the political and economic stability of these countries, and the possibility of expenditures in terms of humans for immigration or worse even for defense expenditures is so much higher that I think the logic of this case is compelling.

Senator MATSUNAGA. Thank you. My time is up.

The CHAIRMAN. Any other questions of this panel? We have got eight witnesses left.

Senator CHAFEE. I just want to ask a quick question, if I might. I see that the President shall not designate any country or beneficiary country if such country is a Communist country. Is the term "Communist" a word of art or who determines whether a country is a Communist country? Is that the State Department or who?

Ambassador BROCK. They do.

Senator CHAFEE. Who?

Ambassador BROCK. Basically, they do. [Laughter.]

A very small minority in their country usually.

Senator CHAFEE. They proclaim themselves a Communist country. Seriously, how do you tell whether a country is a Communist country?

Secretary SHULTZ. I think it's a question of that old statement—if you see that it quacks like a duck and walks like a duck, it's a duck.

Senator CHAFEE. I see. [Laughter.]

Secretary SHULTZ. In terms of the legislation, as I would understand it, it's up to the President to make a determination.

Senator CHAFEE. Does Grenada quack like a duck and act like a duck? [Laughter.]

Secretary SHULTZ. It's beginning to, yes.

Senator CHAFEE. It's in that duck-like state. I see. Fine. Thank you very much. [Laughter.]

The CHAIRMAN. Senator Bradley.

Senator BRADLEY. Mr. Chairman, just one quick question for the panel. Do they think that the bill goes far enough to prevent the Caribbean simply from being a processing area through which countries send goods, they are warehoused, and then they are assembled really in the area, but they are essentially foreign goods?

Ambassador BROCK. Yes, I do. I think the reason we chose the 35 percent value added formulation was because we have used it on GSP. When you consider that you are talking really fundamentally about wage and labor input to constitute that 35 percent, if you went any higher you would simply eliminate the opportunity to do any high value production at all.

And we have evolved this number over a period of years with the experience of GSP. And we did try to make an additional accommodation by allowing some U.S. value to be part of that.

Senator BRADLEY. Fifteen percent of the 35?

Ambassador BROCK. That's right. But we very clearly do not want a bill that either authorizes or supports a repackaging process. That's not the intention. And I think we can demonstrate by the history of the GSP approach that this particular number is about the closest we can come to a logical economic number.

Senator BRADLEY. Thank you.

The CHAIRMAN. Thank you very much. Let me just state that we will go to work immediately on trying to pull together any differences we may have, and we will be working with the administration. But, what we really need is some House-passed bill since this is a revenue measure. I understand that there will be some discussion among the chairman of the Ways and Means Committee, the House majority leader, and the Speaker sometime this week.

Ambassador BROCK. Hopefully this week.

The CHAIRMAN. So we are prepared. I'm not suggesting there is going to be total unanimity, but I do believe there is fairly substantial support for the bill. There may be some amendments necessary. But we will be consulting with you on anything of that nature.

Ambassador BROCK. Thank you.

Secretary SHULTZ. Thank you, Mr. Chairman. We appreciate the opportunity to appear before this committee. As always, the hearing is conducted in a very professional way, and you hone in on the subject that is before you. It's impressive and appreciated.

The CHAIRMAN. Thank you.

Secretary CHAPOTON. Thank you, Mr. Chairman.

The CHAIRMAN. We now have a panel of Mr. Cohen, representing the Emergency Committee for American Trade—Mr. McNeill could not be here—Mr. Kuehn, president and chief executive officer, New Orleans Cold Storage and Warehouse Co.; and Mr. Cooper, president, Geyco Corp. I would like to add to this panel Dr. Pelzman because I think Senator Long may have to leave. Maybe Dr. Pelzman could come on up.

Let's start with Mr. Cohen. And I might suggest, if you can summarize your statement, we will include the entire statement as part of the record. You have had an opportunity to hear the administration witnesses. Perhaps you would like to comment either in rebuttal or affirmation anything that may have been said by the administration.

STATEMENT BY CALMAN COHEN, EMERGENCY COMMITTEE FOR AMERICAN TRADE, WASHINGTON, D.C.

Mr. COHEN. Thank you, Mr. Chairman.

The 63 members of ECAT are large U.S. firms.

The CHAIRMAN. I can't hear a word you are saying.

Mr. COHEN. The 63 members of ECAT, large U.S. firms, have substantial overseas business interests. They, if I may summarize, support the proposed Caribbean Basin Economic Recovery Act. They believe that its 12-year grant of limited duty-free access to the U.S. market will help offset the disadvantages of the Caribbean regions small domestic market to efficient and diversified economic production.

They believe that the economic stimulus that duty-free access will provide will stimulate trade between the United States and Caribbean nations, thereby creating employment and enhanced economic stability. They also believe that any economic distress that may be caused in the United States attributable to duty-free access can be alleviated through provisions of the legislation extending safeguard statutes to the products concerned.

They also believe that extending the convention tax deduction to countries of the Caribbean will be of great benefit to the Caribbean tourist industries.

That is the summary of our statement.

If I just might add, commenting on the points raised by Senator Long and a number of the other members of the committee, we believe that as a result of the Caribbean Basin Initiative that there will be, hopefully, stronger economies in the Caribbean region. To us that means increased possibilities of exports of U.S. products to these Caribbean nations. In other words, we see a mutuality of economic benefits that is one of the underpinnings of the legislation, and is another reason why we are supportive of it.

[The prepared statement of Mr. Robert L. McNeill, executive vice chairman, Emergency Committee for American Trade (ECAT) follows:]

21-491 O—83——9

STATEMENT OF ROBERT L. McNEILL, EXECUTIVE VICE CHAIRMAN, EMERGENCY COMMITTEE FOR AMERICAN TRADE, BEFORE THE SENATE FINANCE COMMITTEE HEARING ON THE CARIBBEAN BASIN ECONOMIC RECOVERY ACT

S.544

Wednesday, April 13, 1983

Mr. Chairman, thank you for this opportunity to express the support of the Emergency Committee for American Trade (ECAT) for the Caribbean Basin Economic Recovery Act. We believe that enactment of this legislation would advance the economic interests of the Caribbean nations and would enhance the image and security interests of the United States in the Caribbean region.

The 63 members of ECAT are large United States firms with substantial overseas business interests. The 1981 worldwide sales of ECAT member companies totaled over $700 billion. In the same year, they employed over 5 million workers. While very little of their business is done in Caribbean nations, ECAT members nevertheless feel it important that the United States' role in the region be an understanding and a constructive one. The Caribbean has long been an area of strategic importance to the United States. A substantial portion of our international trade is shipped through either the Panama Canal or the Gulf of Mexico, including the bulk of our oil imports and a good portion of our strategic minerals. It is most important, therefore, that the United States maintain sound and friendly relations with our Caribbean neighbors.

The centerpiece of the Caribbean Basin Initiative is the proposed twelve-year grant of duty-free access to the United States market for a wide variety of items produced in the Caribbean nations. We support this for a number of reasons. Among them is our recognition that continued economic stagnation is likely to remain the rule unless real economic stimulus is provided the myriad economies of our regional neighbors. Duty-free access to our market is an innovative step that can provide that stimulus that hopefully will lead to sustained economic growth.

The Committee has heard from other witnesses of the economic distress of the countries in the Caribbean. Unemployment rates are staggeringly high. Balance of payments problems are severe. The economic future appears exceedingly bleak. Such conditions are the virus of discontent and provide fertile ground for mass revolt against what are largely representative democracies throughout the region.

Economic depression also encourages emigration from the region to the United States, which adds to the transfer payment problem from the federal, state, and municipal governments to those who are in need of economic sustenance. Indeed, it has been estimated that nearly 20 percent of all those living and born in the Caribbean are resident in the United States.

Opening the U.S. market to Caribbean producers will substantially alleviate the economic disincentive to efficient production caused by the small markets of each of the Caribbean nations. Preferred access to our market should encourage both foreign and domestic direct investment in productive facilities that will create jobs and also enhance domestic, social and political stability. This is obviously to be desired.

Such economic activity will be of benefit to the U.S. economy. U.S. exports to the region will increase. Excluding petroleum trade, the United States currently runs an approximate $2 billion surplus in trade with Caribbean nations.

Just as U.S. exports to the region could be expected to increase by enactment of the CBI legislation, so too will imports from the region. We are the natural market for Caribbean exports, which totaled just about $8 billion to the United States in 1982. U.S. imports from the Caribbean are less than 4 percent of total U.S. imports. If petroleum imports are excluded, then the percentage drops below 2 percent.

Of our roughly $8 billion in 1982 imports from the Caribbean, about $2.4 billion entered duty-free under either MFN or GSP-free rates. The duty-free access that would be covered by the CBI bill would add another $627 million to the duty-free rolls. This amount -- $627 million -- constitutes only about 0.25 percent of estimated 1982 U.S. imports.

We understand that some domestic workers and producers are concerned that the duty-free access that is proposed could lead to economic distress. This is a most legitimate concern. We are, therefore, pleased that the proposed legislation provides that the import safeguard provisions of domestic law shall be available, particularly Sections 201-203 of the Trade Act of 1974.

We in ECAT also welcome provisions of the legislation granting to Caribbean nations the same tax treatment as afforded Canada, Mexico and Jamaica concerning tax deductions for conventions. This seems particularly appropriate since tourism is an important source of income to the nations concerned.

In short, Mr. Chairman, the proposed "Caribbean Basin Economic Recovery Act" makes a lot of practical economic and political sense. It will assist the economic recovery and increase the diversification of the economies of a large number of our friends in the Caribbean through the stimulation of the private sector and private enterprise, which is the best possible engine for economic growth. The U.S. economy will also benefit through increased exports and investment. Growing economies benefit all. On that basis alone, we recommend your support of this legislation.

Again, thank you for this opportunity to appear before you.

STATEMENT OF PHILIP G. KUEHN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NEW ORLEANS COLD STORAGE & WAREHOUSE CO.

The CHAIRMAN. Mr. Kuehn.

Mr. KUEHN. While I am here as a private businessman, I am speaking on behalf of the Latin American Chamber of Commerce, which is a division of the New Orleans Chamber of Commerce, which is the sixth largest chamber in the United States.

Our basic position, of course, is wholehearted support of the Caribbean Basin Initiative. Our testimony will be backed up by further written statements from the International Trade Mart of New Orleans; the State of Louisiana; the Louisiana District Export Council; the Mississippi Department of Economic Development; and many other private and public entities in our region.

New Orleans will host the Louisiana World Exposition in 1984. We intend for that World Exposition to include a Caribbean pavilion, a joint exhibit to display and promote all of the nations of the Caribbean based on a joint basis which could not be afforded by the countries individually.

We firmly believe that the proposed Caribbean Basin Initiative is an example of American pragmaticism at its best. We believe that it will mean jobs for Americans as well as for the Caribbean Basin. We feel that the CBI will upgrade products shipped from the Caribbean Basin, and it also will increase the traffic of U.S. manufactured exports.

Some feel that the United States will be exporting jobs, but we believe that by helping to improve industrial growth and jobs in the Caribbean and Central American areas we automatically create a substantially larger demand for American goods and services of all kinds—industrial products, consumer goods, technical services, and many other items.

This leads to stimulation of American production for export. Thus, creating more jobs for American production and port related labor. This is what the CBI is all about.

We hope that one of the effects of the CBI will be increased job opportunities in the Caribbean Basin at the expense of Hong Kong and similar countries. CBI has the potential of moving some of those jobs from the Far East and other world manufacturing centers to Caribbean Basin countries.

The areas of the world likely to lose jobs to the Caribbean and Latin countries are those that are in the Far East and other exporting nations. The delay in improving capabilities of the CBI countries encourages embedded underemployment while encouraging illegal migration to the United States, thereby increasing our own unemployment rolls.

We especially support the CBI as a clear message to the Caribbean Basin of a commitment of the United States to the mutuality of interest in the Caribbean Basin.

The bill is a clear statement of our desire to develop democratic self-help solutions to the economic problems of the Caribbean Basin, one of our nearest national neighbors.

We hope that both houses of Congress will pass the CBI with substantial bipartisan majorities in order to galvanize the interest of the American people in the development of the markets and economies of the Caribbean Basin. We need to tell these nations that we want trade with them, and will give them open access to our markets. We don't want them in supplicant, subordinate roles. They are our necessary partners in the defense of the Caribbean Basin from economic and political domination by outside forces. All the people of the Caribbean Basin have experienced generations of domination and exploitation.

We believe that the proposed CBI can offer the hand of American friendship in the most meaningful possible manner. The best interests of America dictate that our friends have strong democratic economies and governments. Passage of the CBI would strengthen democratic institutions in those countries. America's democracy is the clear political choice of the peoples of the Caribbean Basin, just as goods made in America are their choice.

We feel that the Caribbean Economic Recovery Act will improve the supplies of some goods in the United States, but the real impact will be small. On the other hand, it certainly will increase the buying power of the Caribbean Basin nations and increase self respect among the people of that area. Thus, it can promote democracy and decrease the dependence of their governments on foreign aid that seldom ever accomplishes the purposes intended.

Trade, as we know, is always less expensive and more effective for the American people than is aid. However, trade and trade access is a two-way street. It is not given like aid with strings attached. So long as the program helps create productive jobs in the Caribbean Basin it will increase U.S. exports and U.S. jobs. We are the preferred suppliers to the entire region. They can only buy what they can afford. And every export for the Caribbean Basin means more ability to buy American products.

Of course, a program like this would increase the capability of Caribbean Basin countries to withstand pressure from third countries to enter into arrangements that discriminate against U.S. commerce. We hope that U.S. universities, hospitals, and research and development organizations will also be encouraged to help the Caribbean Basin people help themselves.

U.S. education has the best long-term effect in building friendships. The motto of the World Trade Centers Association is "world peace through trade and understanding." Understanding comes from knowledge, and we believe that increasing free trade develops a sound basis for understanding. And understanding is the only true basis for peace.

Thank you.

[The prepared statement of Mr. Kuehn follows:]

TESTIMONY BEFORE THE SENATE COMMITTEE ON FINANCE

BY PHILIP G. KUEHN,
CHAIRMAN OF THE CARIBBEAN BASIN PROJECT,
LATIN AMERICAN CHAMBER OF COMMERCE OF THE
CHAMBER, NEW ORLEANS AND THE RIVER REGION
AND PRESIDENT OF NEW ORLEANS COLD STORAGE
AND WAREHOUSE COMPANY.

APRIL 13, 1983

GENTLEMEN, I AM A PRIVATE BUSINESSMAN IN NEW ORLEANS, LOUISIANA AND TODAY REPRESENT THE CHAMBER, NEW ORLEANS AND THE RIVER REGION, THE SIXTH LARGEST CHAMBER OF COMMERCE IN THE COUNTRY. WE HAVE ESTABLISHED A CARIBBEAN BASIN PROJECT WITHIN OUR LATIN AMERICAN CHAMBER OF COMMERCE AND ARE WHOLEHEARTED SUPPORTERS OF THE CARIBBEAN BASIN INITIATIVE. OUR BASIC POSITION IS ENDORSED AND EXPANDED BY ADDITIONAL WRITTEN TESTIMONY FROM THE INTERNATIONAL TRADE MART OF NEW ORLEANS, THE LOUISIANA DISTRICT EXPORT COUNCIL, THE PORT OF NEW ORLEANS, THE STATE OF LOUISIANA, THE MISSISSIPPI DEPARTMENT OF ECONOMIC DEVELOPMENT AND MANY OTHER PRIVATE AND PUBLIC ENTITIES IN OUR REGION.

NEW ORLEANS WILL HOST THE LOUISIANA WORLD EXPOSITION IN 1984. WE INTEND FOR THAT WORLD EXPOSITION TO INCLUDE A CARIBBEAN PAVILLION - A JOINT EXHIBIT TO DISPLAY AND PROMOTE ALL OF THE NATIONS OF THE CARIBBEAN BASIN ON A JOINT BASIS WHICH COULD NOT BE AFFORDED BY THE COUNTRIES INDIVIDUALLY.

WE FIRMLY BELIEVE THAT THE PROPOSED CARIBBEAN BASIN INITIATIVE IS AN EXAMPLE OF AMERICAN PRAGMATISM AT ITS BEST. WE BELIEVE THAT IT WILL MEAN JOBS FOR AMERICA AS WELL AS FOR THE CARIBBEAN BASIN.

THROUGH THE PORT OF NEW ORLEANS THE U.S. DOES A BILLION DOLLARS A YEAR OF TRADE WITH THE COUNTRIES NOMINATED IN THE BILL S. 544. OF THAT BILLION DOLLARS, SIXTY PERCENT IS U.S. EXPORTS. THE IMPORTS ARE LARGELY BULK COMMODITIES OF LOW UNIT VALUE AND HAVE ONLY NOMINAL IMPACT ON OUR NATION'S ECONOMY. WE FEEL THAT THE CBI WILL UPGRADE PRODUCTS SHIPPED FROM THE CARIBBEAN BASIN AND THAT IT ALSO WILL INCREASE THE TRAFFIC OF U.S. MANUFACTURED EXPORTS. IT PROMISES GREAT BENEFIT TO THE CARIBBEAN BASIN.

SOME FEEL THAT THE U.S. WILL BE EXPORTING JOBS. BUT WE BELIEVE THAT BY HELPING TO IMPROVE INDUSTRIAL GROWTH AND JOBS IN THE CARIBBEAN AND CENTRAL AMERICAN AREAS, WE AUTOMATICALLY CREATE A SUBSTANTIALLY LARGER DEMAND FOR AMERICAN GOODS AND SERVICES OF ALL KINDS -- INDUSTRIAL PRODUCTS, CONSUMER GOODS, TECHNICAL SERVICES AND MANY OTHER ITEMS. THIS LEADS TO STIMULATION OF AMERICAN PRODUCTION FOR EXPORT, THUS CREATING MORE JOBS FOR AMERICAN PRODUCTION AND PORT RELATED LABOR. THIS IS WHAT THE CBI IS ALL ABOUT.

WE HOPE THAT ONE OF THE EFFECTS OF THE CBI WILL BE INCREASED JOB OPPORTUNITIES IN THE CARIBBEAN BASIN AT THE EXPENSE OF HONG KONG AND SIMILAR COUNTRIES. THE PRODUCTS NOW MADE AT LOWER COST IN THE FAR EAST FOR SALE IN THE U.S. COMPLEMENT DEMAND IN THE U.S. THE CBI HAS THE POTENTIAL OF MOVING SOME OF THOSE JOBS FROM THE FAR EAST AND OTHER MANUFACTURING CENTERS TO CARIBBEAN BASIN COUNTRIES. THE AREAS OF THE WORLD LIKELY TO LOSE JOBS TO THE CARIBBEAN AND LATIN COUNTRIES ARE THOSE IN THE FAR EAST. TO DELAY IMPROVING CAPABILITIES IN THE CBI COUNTRIES ENCOURAGES IMBEDDED

UNDEREMPLOYMENT WHILE ENCOURAGING ILLEGAL MIGRATION TO THE U.S., THEREBY INCREASING OUR OWN UNEMPLOYMENT ROLLS.

WE ESPECIALLY SUPPORT THE CBI AS A CLEAR MESSAGE TO THE CARIBBEAN BASIN OF THE COMMITMENT OF THE U.S., OUR GOVERNMENT AND OUR PEOPLE, TO THE MUTUALITY OF INTERESTS WITH THE CARIBBEAN BASIN. THE BILL IS A CLEAR STATEMENT OF OUR DESIRE TO DEVELOP DEMOCRATIC SELF-HELP SOLUTIONS TO THE ECONOMIC PROBLEMS OF THE CARIBBEAN BASIN, ONE OF OUR NEAREST NATIONAL NEIGHBORS. WE HOPE THAT BOTH HOUSES OF CONGRESS WILL PASS THE CBI WITH SUBSTANTIAL BI-PARTISAN MAJORITIES IN ORDER TO GALVANIZE THE INTEREST OF THE AMERICAN PEOPLE IN THE DEVELOPMENT OF THE MARKETS AND ECONOMIES OF THE CARIBBEAN BASIN. WE NEED TO TELL THESE NATIONS THAT WE WANT TRADE WITH THEM AND WILL GIVE THEM OPEN ACCESS TO OUR MARKETS. WE DO NOT WANT THEM IN SUPPLICANT, SUBORDINATE ROLES. THEY ARE OUR NECESSARY PARTNERS IN THE DEFENSE OF THE CARIBBEAN BASIN FROM ECONOMIC AND POLITICAL DOMINATION BY OUTSIDE FORCES. ALL OF THE PEOPLE OF THE CARIBBEAN BASIN HAVE EXPERIENCED GENERATIONS OF DOMINATION AND EXPLOITATION. WE BELIEVE THAT THE PROPOSED CBI CAN OFFER THE HAND OF AMERICAN FRIENDSHIP IN THE MOST MEANINGFUL POSSIBLE MANNER.

THE BEST INTERESTS OF AMERICA DICTATE THAT OUR FRIENDS HAVE STRONG, DEMOCRATIC ECONOMIES AND GOVERNMENTS. PASSAGE OF THE CBI WOULD STRENGTHEN DEMOCRATIC INSTITUTIONS IN THOSE COUNTRIES.

AMERICA'S DEMOCRACY IS THE CLEAR POLITICAL CHOICE OF THE PEOPLES OF THE CARIBBEAN BASIN JUST AS GOODS MADE IN AMERICA ARE THEIR CHOICE. WE FEEL THAT THE CARIBBEAN ECONOMIC RECOVERY ACT

WILL IMPROVE THE SUPPLIES OF SOME GOODS IN THE U.S. MARKET, BUT THE REAL IMPACT WILL BE SMALL. ON THE OTHER HAND IT CERTAINLY WILL INCREASE THE BUYING POWER OF THE CARIBBEAN BASIN NATIONS AND INCREASE SELF-RESPECT AMONG THE PEOPLE OF THE AREA. THUS, IT CAN PROMOTE DEMOCRACY AND DECREASE THE DEPENDENCE OF THEIR GOVERNMENTS ON FOREIGN AID THAT SELDOM EVER ACCOMPLISHES THE PURPOSES INTENDED. TRADE, AS WE KNOW, IS ALWAYS LESS EXPENSIVE AND MORE EFFECTIVE FOR THE AMERICAN PEOPLE THAN IS AID. HOWEVER, TRADE AND TRADE ACCESS IS A TWO-WAY STREET. IT IS NOT GIVEN LIKE AID -- WITH STRINGS ATTACHED.

INVESTMENT FROM OUTSIDE THE CARIBBEAN BASIN TO DEVELOP THE BASIC BUILDING BLOCKS OF MANUFACTURING ECONOMIES IN THE AREA IS IMPERATIVE. THE CBI WOULD ENCOURAGE SUCH INVESTMENT.

SO LONG AS THIS PROGRAM HELPS CREATE PRODUCTIVE JOBS IN THE CARIBBEAN BASIN IT WILL INCREASE U.S. EXPORTS AND U.S. JOBS. WE ARE THE PREFERRED SUPPLIERS FOR THE ENTIRE REGION. THEY CAN ONLY BUY WHAT THEY CAN AFFORD AND EVERY EXPORT FROM THE CARIBBEAN BASIN MEANS MORE ABILITY TO BUY U.S. PRODUCTS. OF COURSE, A PROGRAM LIKE THIS WOULD INCREASE THE CAPABILITY OF CARIBBEAN BASIN COUNTRIES TO WITHSTAND PRESSURE FROM THIRD COUNTRIES TO ENTER INTO ARRANGEMENTS THAT DISCRIMINATE AGAINST U.S. COMMERCE.

WE HOPE THAT U.S. UNIVERSITIES, HOSPITALS AND RESEARCH AND DEVELOPMENT ORGANIZATIONS WILL ALSO BE ENCOURAGED TO HELP THE CARIBBEAN BASIN PEOPLE HELP THEMSELVES. U.S. EDUCATION HAS THE BEST LONG-TERM EFFECT IN BUILDING FRIENDSHIPS.

THE MOTTO OF THE WORLD TRADE CENTERS ASSOCIATION IS: WORLD PEACE THROUGH TRADE AND UNDERSTANDING. UNDERSTANDING COMES FROM KNOWLEDGE AND WE BELIEVE THAT INCREASING FREE TRADE DEVELOPS A SOUND BASIS FOR UNDERSTANDING. AND, UNDERSTANDING IS THE ONLY TRUE BASIS FOR PEACE.

STATEMENT OF GLADSTONE A. COOPER, JR., PRESIDENT, GEYCO CORP., MIAMI, FLA.

The CHAIRMAN. Mr. Cooper.

Mr. COOPER. Mr. Chairman, distinguished members of the Senate Finance Committee, I am pleased to have the opportunity to appear before you today to speak in support of the Caribbean Basin Economic Recovery Act, bill S. 544.

I'm here on behalf of Geyco Corp., a trading company, presently engaged in the promotion and sale of U.S. manufactured products.

In addition, we are also engaged in identifying opportunities for investment in the Caribbean region, despite the adverse economic and political difficulties that exist in that region. However, from our vantage point with extensive interest in the Caribbean Basin, passage of the Caribbean Basin Initiative will provide the necessary incentive for new investments in the region. The result of the CBI would be a net benefit to the United States as well as to the host country. There will be an increase of U.S. exports of raw material, machinery and spare parts, with an increase in U.S. employment.

The CBI would add to the political and economic stability of the region, will result in increase in purchasing power, which stimulates exports of U.S. manufactured products. The CBI would provide the embryonic economies of the Caribbean Basin with their first real opportunity to develop a viable economic base.

Thank you.

[The prepared statement of Mr. Cooper follows:]

BEFORE THE SENATE FINANCE COMMITTEE

STATEMENT

OF

GLADSTONE A. COOPER, JR.
PRESIDENT AND CHIEF EXECUTIVE OFFICER
GEYCO INTERNATIONAL CORP.
MIAMI, FLORIDA

APRIL 13, 1983

MR. CHAIRMAN, DISTINGUISHED MEMBERS OF THE SENATE FINANCE COMMITTEE, I AM PLEASED TO HAVE THE OPPORTUNITY TO APPEAR TODAY TO SPEAK IN SUPPORT OF THE CARIBBEAN BASIN ECONOMIC RECOVERY ACT (S. 544) - GENERALLY REFERRED TO AS THE "CARIBBEAN BASIN INITIATIVE". MY NAME IS GLADSTONE A. COOPER, JR., I AM PRESIDENT AND CHIEF EXECUTIVE OFFICER, CO-FOUNDER AND PART OWNER OF GEYCO INTERNATIONAL CORP. OF MIAMI, A TRADING COMPANY, INCORPORATED OVER A YEAR AGO ORIGINALLY TO ENGAGE IN THE SALE AND PROMOTION OF UNITED STATES MANUFACTURED PRODUCTS. SINCE OUR FOUNDING WE HAVE SUCCESSFULLY MARKETED OUR PRODUCTS IN THE CARIBBEAN BASIN, WITH CONCENTRATION IN JAMAICA, BARBADOS AND TRINIDAD. WE HAVE FOUND MANY OPPORTUNITIES FOR INVESTMENT IN THE REGION BY SMALL AND MEDIUM-SIZED COMPANIES, LIKE OURSELVES, NOTWITHSTANDING THE ECONOMIC DIFFICULTIES THERE. PASSAGE OF THE C.B.I. WOULD PROVIDE THE NECESSARY INCENTIVE FOR THESE NEW INVESTMENTS TO BE MADE.

OUR INVOLVEMENT IN THE CARIBBEAN BASIN IN THE LAST YEAR HAS GROWN TO THE POINT WHERE WE HAVE BEEN ABLE TO FORM PARTNERSHIPS WITH SEVERAL OF OUR CARIBBEAN COLLEAGUES EITHER TO EXPAND OR CREATE NEW ENTITIES TO MANUFACTURE GOODS, PRINCIPALLY FOR EXPORT TO UNITED STATES MARKETS. THE ENACTMENT OF THE DUTY-FREE PROVISIONS IN THE C.B.I. WOULD ENABLE US TO MARKET THESE PRODUCTS ON A COMPETITIVE BASIS. FOR EXAMPLE, WE ARE PRESENTLY IN THE PROCESS OF COMPLETING

AN AGREEMENT WITH THE OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC) FOR THE ESTABLISHMENT OF A MANUFACTURING PLANT IN JAMAICA TO PRODUCE BOXED CONFECTIONERY USING TROPICAL FRUIT FLAVORS FOR EXPORT TO THE UNITED STATES AND SALE (IN THE LOCAL MARKET) TO THE TOURIST INDUSTRY. WE ARE ALSO NEARING CONCLUSION OF AN AGREEMENT TO ACQUIRE AN INTEREST IN AN EXISTING MANUFACTURING COMPANY IN JAMAICA FOR THE MANUFACTURE OF GOODS FOR EXPORT TO THE UNITED STATES.

SUCH ARRANGEMENTS YIELD A NET BENEFIT TO THE UNITED STATES AS WELL AS TO THE HOST COUNTRY. THE MACHINERY, SPARE PARTS AND RAW MATERIALS FOR OUR MANUFACTURING FACILITIES WOULD BE PURCHASED IN THE UNITED STATES. IN RETURN, THE U.S. CONSUMER OBTAINS AN AFFORDABLE PRODUCT OF GOOD QUALITY. FROM THE FOUR VENTURES THAT WE ARE PRESENTLY CONSIDERING, THE DOLLARS TO BE SPENT IN PROCURING THE MACHINERY, RAW MATERIALS, AND SPARE PARTS, AND IN THE DISTRIBUTION OF OUR PRODUCTS WOULD RESULT IN ADDITIONAL EMPLOYMENT IN THE UNITED STATES. I BELIEVE THAT PASSAGE OF THE C.B.I. LEGISLATION WOULD SPUR THE CREATION OF MANY MORE SMALL AND MEDIUM-SIZED INDUSTRIES IN OUR NEIGHBORING COUNTRIES, ADDING TO THEIR ECONOMIC AND POLITICAL STABILITY. IT WOULD ALSO ENHANCE THEIR PURCHASING POWER, WHICH ONLY MEANS ONE THING - INCREASED U.S. EXPORTS TO THE BASIN.

THE CARIBBEAN BASIN INITIATIVE WOULD PROVIDE THE EMBRYONIC ECONOMIES OF THE CARIBBEAN BASIN WITH PROBABLY THEIR FIRST REAL OPPORTUNITY TO DEVELOP A VIABLE ECONOMIC BASE. MOREOVER, THE CARIBBEAN BASIN INITIATIVE IS JUST AS SIGNIFICANT TO AMERICAN BUSINESS. IT SHOULD NOT BE VIEWED AS ANOTHER AID PROGRAM, BUT INSTEAD, IT SHOULD BE VIEWED AS THE CREATION OF OPPORTUNITIES FOR

AMERICAN BUSINESS AND PROVIDING OUR BASIN NEIGHBORS WITH A REASONABLE ASSURANCE OF ACHIEVING ECONOMIC MATURITY.

TO ACHIEVE THE OBJECTIVES OF THE C.B.I.: a) IN REMOVING TRADE BARRIERS, b) REDUCING INVESTMENT RISKS, AND (c) EXPANDING BUSINESS CREDIT, IT WILL BE REQUIRED THAT GOVERNMENT INSTITUTIONS CREATED TO FOSTER TRADE, INVESTMENT AND CREDIT, SUCH AS THE EXPORT-IMPORT BANK AND THE OVERSEAS PRIVATE INVESTMENT CORPORATION, BECOME MORE FLEXIBLE, SENSITIVE AND FAMILIAR WITH THE CARIBBEAN BASIN. IF IT WERE NOT FOR THE SENSITIVITY AND THE ASSISTANCE OF INSTITUTIONS SUCH AS THE FLORIDA NATIONAL BANK OF MIAMI, LLOYDS BANK INTERNATIONAL, FLORIDA INTERNATIONAL BANK, SOUTHEAST BANK, N.A., AND CONSOLIDATED BANK, A SMALL BUSINESS LIKE OURS WOULD NEVER HAVE HAD A CHANCE TO BE WHERE IT IS TODAY OR THE OPPORTUNITY TO APPEAR BEFORE YOU. HOWEVER, THESE INSTITUTIONS' WILLINGNESS TO ASSIST SMALL BUSINESSES ACTIVE IN THE CARIBBEAN BASIN COULD ONLY BE ENHANCED BY THE PASSAGE OF C.B.I. AND GREATER FLEXIBILITY BY INSTITUTIONS SUCH AS EXIMBANK AND O.P.I.C.

IN PARTING, I LEAVE YOU WITH THIS THOUGHT:

"IF SOMEONE HAD NOT GIVEN A HELPING HAND TO INSTITUTIONS LIKE XEROX, IBM, INTERNORTH, AND EASTMAN KODAK, THESE INSTITUTIONS WOULD NOT HAVE GROWN TO BE THE GIANTS THEY ARE TODAY."

IT IS WITH THIS THAT I URGE THE PASSAGE OF THE C.B.I., WHICH SHOULD BE CONSIDERED A HELPING HAND TO THE AMERICAN ENTREPRENEUR, THE AMERICAN CONSUMER, AND OUR NEIGHBORS IN THE CARIBBEAN BASIN.

STATEMENT OF DR. JOSEPH PELZMAN, ASSOCIATE PROFESSOR OF ECONOMICS, GEORGE WASHINGTON UNIVERSITY, WASHINGTON, D.C.

The CHAIRMAN. Dr. Pelzman.

Dr. PELZMAN. Mr. Chairman, and members of the committee, I thank you for your invitation to appear here to present my views on the administration's Caribbean Basin Recovery Act. I have prepared written testimony, which I would like to summarize on the assumption that my prepared statement will be entered into the record in its entirety.

The CHAIRMAN. That is correct. And all the statements will be made a part of the record in their entirety.

[The prepared statement of Dr. Pelzman follows:]

STATEMENT OF

JOSEPH PELZMAN

ASSOCIATE PROFESSOR OF ECONOMICS

THE GEORGE WASHINGTON UNIVERSITY

BEFORE THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

ON S.544

THE CARIBBEAN BASIN ECONOMIC RECOVERY ACT

APRIL 13, 1983

21-491 O—83——10

Mr. Chairman and Members of the Committee:

My name is Joseph Pelzman, I am an Associate Professor of Economics at the George Washington University.

I thank you for your invitation to appear here today to present my views on the Administration's "Caribbean Basin Economic Recovery Act," S.544. My testimony presented here is based on two reports which I completed under contract last year. The first study entitled, Effects on U.S. Trade and Employment of Tariff Elimination Among the Countries of North America and the Caribbean Basin, was written for the U.S. Department of Labor, Office of Foreign Economic Research. The second study entitled, The Impact of the Caribbean Basin Initiative on Caribbean Exports, was written for the World Bank, Latin American and Caribbean Country Department. The views presented here are my own and should not be attributed to these institutions.

* A Biographical note is attached at the end of this statement.

The Caribbean Basin Initiative (CBI) proposed by the Reagan Administration, in its present form is designed to foster economic development in the Caribbean Basin primarily through economic stimulus to the private sector. In order to promote private sector development and to expand the region's exports, the proposed Caribbean Basin Economic Recovery Act (S.544) contains two basic mechanisms: a one-way free trade arrangement (FTA) and a convention business tax credit. Under the FTA, countries in the Caribbean Basin would receive duty-free treatment on their exports (with major product exceptions) to the United States for twelve years. The proposed legislation will also extend "North American Convention" tax status to beneficiary nations that agree to exchange-of-information arrangements regarding enforcement of the tax laws.

The major impact of the proposed legislation will come from the duty free entry provision of the Act. For that reason my comments will be devoted to presenting estimates of the quantitative impact of this legislation on the Caribbean Basin countries. My results demonstrate that, as it now stands, the present initiative is <u>not</u> a development program and will therefore result in a <u>trivial</u> improvement in the level of development of the Caribbean Basin countries. In order to revise this package such that it does in fact represent a development program one would have to shift the focus of this legislation from providing tariff concessions where none are needed to providing material assistance in order to induce major structural changes primarily in the manufacturing and export related sectors of the Caribbean Basin Countries.

Before I present my estimates of the impact of the FTA on the Caribbean Basin Countries, a discussion of the pattern of Caribbean country trade is warranted. This is particularly important given the fact that the primary assumption of the proposed legislation is that tariff impediments are the real problem and that a duty reduction on a very limited set of goods will improve the level of development of the Caribbean Basin countries.

THE PATTERN OF U.S. - CARIBBEAN BASIN BILATERAL TRADE

The concept of a "Caribbean Basin" as a homogenous group of countries is for all practical purposes, artificial. Central America differs from most of the Caribbean islands in economic structure, availability of skilled labor, capital, infrastructure and above all in political institutions. While in much of the english speaking Caribbean countries political stability exists, thus assuring investor confidence, the requisite economic infrastructure is missing. On the other hand, while the economic infrastructure is present in Central America, the political status quo has been challenged, resulting in violence, chaos and consequently a loss of investor confidence. Given the political reality of the region it should be obvious that the present legislation as an economic measure has a better chance of success in the Caribbean islands rather than in Central America.

The countries making up this latter group (Antigua, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts-Nevis, St. Lucia, St. Vincent, Surinam, and Trinidad and Tobago) represent what the United Nations calls primary-producing middle or low income countries. Given this general classification, conventional wisdom would argue that these economies suffer from the same ills of other less developed countries, namely: a dependence on a small set of primary commodities; a high import content for all goods; limited capital formation; and a dependence on tourism as a major source of foreign-exchange earnings.

Despite this appearance of homogeneity, most economists would argue that the economic reality of each of these small Caribbean countries would support the view that these economies can not be viewed as a single country. In fact, most experts would argue that this region must be viewed as a grouping of diverse national entities, each with its own foreign exchange availability, import and export capacity and substantial capital and labor mobility. The one common characteristic of this group is that each of these economies is small and therefore by necessity an open economy. Consequently, a modified CBI package, one which would not only reduce tariffs but which would shift private investment to the region, may have its most pronounced effect on these small open economies.

Gustav Ranis in his report, Production and Export Incentives in the CARICOM Region, chooses a more useful grouping of these economies. He differentiates the CARICOM group into six homogenous components:

(1) The very small, natural resource rich, agrarian LDCs, which rely heavily on tourism, i.e., Antigua, Grenada, Montserrat and St. Lucia.

(2) The very small, natural resources rich, agrarian LDCs, which rely heavily on cash crops, i.e., Dominica, St. Kitts-Nevis and St. Vincent.

(3) The relatively large, natural and human resources rich, i.e., Jamaica.

(4) The intermediate-sized, natural resources rich - Trinidad and Tobago.

(5) The intermediate-sized, land and natural resource rich Guyana and Belize, and

(6) The small, primarily tourism-dependent - Barbados.

Given this division of the CARICOM countries in terms of differences in endowment, one could argue that the effectiveness of a full CBI program, without commodity exclusions, in the short run, will depend largely on its ability to induce an expansion of existing CARICOM country exports, based on present comparative advantage. In the long run, however, the success of any CBI program must rest on its ability to alter the relative endowments of the Caribbean countries, and subsequently their comparative advantage. The present legislation falls short on both counts. It does not provide duty free access for those goods where the CBI countries have comparative advantage and it does not provide any meaningful incentives for long term changes in infrastructure and the resulting changes in CBI country comparative advantage.

The proposed "one-way" free trade area would entail the elimination of U.S. tariffs on all Caribbean products entering the United States, with the exception of; textile and apparel articles subject to the Multifiber Agreement, footwear, handbags, luggage, flat goods, work gloves, and leather wearing apparel not currently eligible under the Generalized System of Preferences as well as tuna, petroleum and petroleum products.

In many respects the proposed FTA is somewhat similar to the U.S. Generalized System of Preferences (GSP). The GSP program extends duty-free status to selected items imported directly from developing countries. Currently, 2,850 product categories are eligible for the GSP program. The FTA part of the proposed CBI package would include all of these items and all other products with the major exceptions noted above.

One major difference between the FTA and the GSP program is that under the latter program "graduation" is possible. Under the proposed legislation no competitive need test exists. To receive GSP treatment, on the other hand, these countries must pass such a test. This competitive need test is adjusted annually, and consists of two parts, a value limit on total exports to the United States and a percent limit as a share of total U.S. imports for that product. In 1981, the total export value limit for each participating country was $50.9 million and the value of imports of an individual product could not exceed 50 percent of total U.S. imports in 1980. This second limitation could be waived if total U.S. imports of the product were less than $1.2 million in 1981. In 1982, the major beneficiaries of the U.S. GSP program among the smaller Caribbean countries were St. Kitts-Nevis, Guyana, Haiti, Dominica, Honduras, Costa Rica, Bahamas, Dominican Republic and Belize. For the entire Caribbean group, the share of GSP within total duty-free exports to the United States was 15 percent or a total of $397.55 million. (See Table 1).

The other major exception within the proposed CBI package is imports of sugars, sirups and molasses. At present, those Caribbean countries not receiving GSP on sugar products, primarily the Dominican Republic, Guatemala and Panama, will be subject to an absolute quota free of duty. The remaining countries will receive the same duty-free treatment for sugar products to the United States that they currently receive under the GSP program.

The extent to which this FTA portion of the proposed CBI package will affect Caribbean exports can be determined by a cursory review of the major Caribbean exports to the U.S. and their duty status in 1982. The data in Table 1 present total U.S. imports from the Caribbean countries during 1982 by duty status. As such, it outlines that portion of the trade which was dutiable under MFN, the duties collected, the portion of trade that was duty-free under MFN or GSP provisions, the dutiable value as a share of the customs value, and the ad-valorem equivalent tariff rate.* It is notable that, while, of the total Caribbean exports to the United States of $8.0 billion in 1982, approximately 67 percent, or $5.4 billion were dutiable, duties collected on these products were $135.34 million, an average rate of 2.5 percent. If the FTA were in existence during 1982 with no commodity specific exceptions, one could argue as a starting point that Caribbean exports could have expanded by the full amount of the duties collected, which amounted to $135.34 million.

If one includes the various exclusions contained in the proposed legislation this $135 million dollar estimate is reduced substantially. The three major categories which overwhelmingly make up Caribbean country exports to the United States are Textiles, Petroleum and Sugar. Textile and apparel exports represented 6.3% of total dutiable 1982 exports to the United States. Approximately 90% of this textile and apparel dutiable exports were brought in under 806/807 offshore provisions. Of even greater note is the fact that over 70% of total duties collected in 1982 were

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* The ad valorem equivalent tariff rate is calculated as the ratio of duties collected to dutiable value.

collected on imports of textile products. Consequently, the $135 million estimate can be reduced to $40 million by the exclusion of textile and apparel. On the other hand, one can argue that despite their relatively minor role in total Caribbean exports, textiles -- and in particular apparel products processed under 806/807 offshore provisions-- could, if they were included, be the major beneficiary of the proposed CBI program.

Another major item in Caribbean exports to the United States consisted of petroleum, which represented 57% of total Caribbean exports and 85% of dutiable exports in 1982. Despite its relative size, however, the only substantial exporters were Trinidad and Tobago with $1.5 billion and the Netherland Antilles with $2.0 billion in exports. It is noteworthy that for Trinidad and Tobago and the Netherland Antilles, petroleum and its by-products represented 95% and 97% respectively, of its total 1982 earnings.* For the Bahamas, petroleum exports represented 90% of its earnings.

Sugar exports representing the last major Caribbean exports, equalled $271.9 million in 1982, or approximately 5.0 percent of total dutiable Caribbean exports to the United States.

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* It should be noted that a substantial amount of these exports represented processing of OPEC crudes, thus overstating the value of exports of Caribbean origin.

Once textiles, petroleum and other exports are accounted for, the remaining dutiable products imported from the Caribbean, benefiting from the present legislation, drop to a total of $626.81 million or approximately 7.8% of total 1982 Caribbean exports to the U.S. The duties collected on these imports are less than $40 million. It becomes obvious, therefore, that given the proposed legislation with all the product exclusions in place, there is a limited quantity of trade which would benefit from duty free status. One could therefore conclude that given the priors in this bill, there is no major tariff impediment to Caribbean development.

In order to provide a more concrete estimate of the impact of the proposed CBI program on the individual economies of the region, with and without exclusions, we present in the next section a more thorough review. Our analysis focuses on the size of the tariff rate that is suspended, the share of those exports already entering duty free and the relative importance of each Caribbean country's exports in the U.S. market.

THE ECONOMIC IMPACT OF THE FTA ON CARIBBEAN EXPORTS

The basic economic policy question involved in an analysis of the impact of U.S. tariff elimination, under the proposed CBI package, on the exports of the Caribbean countries is -- How will the volume and composition of

Caribbean exports to the United States change? Attempts to provide empirical answers to policy questions of this kind are beset with methodological and data problems as well as with uncertainties associated with Caribbean country behavior. Before presenting our results, this section briefly discusses how these policy questions might be addressed and briefly presents the methodology used.

<u>Methodological Issues</u>

An elimination of U.S. tariffs on goods in the Caribbean region will, all other things held constant, cause U.S. imports from the region to increase as buyers substitute the now lower-priced Caribbean goods for: (1) domestic goods (trade creation); and (2) imports from other countries (trade diversion). The total expansion of U.S. imports from the Caribbean region would be the sum of the trade creation and trade diversion effects. Since our concern lies in determining changes in Caribbean dollar earnings from expanded exports to the United States, the total trade expansion is the appropriate measure.

The most commonly used method of measuring this trade expansion is the elasticity approach. This approach requires the use of U.S. import demand and Caribbean export supply elasticities to determine the responsiveness of U.S. buyers and Caribbean sellers to changes in U.S. import duties on goods imported from the Caribbean region. In addition to the appropriate elasticities, it is necessary to make assumptions or inferences about the potential price response by the Caribbean countries to a change in U.S. import duties. Subject to supply constraints, individual Caribbean suppliers may pass through all, some, or none of the duty reduction to U.S. buyers by maintaining export prices unchanged, raising them by a fraction of the tariff reduction, or raising them by the full amount of the tariff change. In sum, the total trade expansion will depend on the U.S. import demand elasticity, the export supply elasticity and pricing strategy of the Caribbean group, the magnitude of the change in U.S. tariffs, and the current volume of U.S. imports from the region.

Although the approach just outlined is conceptually fairly straightforward, attempts to implement it are clouded by a number of methodological and data problems. The most severe methodological constraint arises from the fact that despite a long trading relationship between the U.S. and the CBI region, this trade until recently has been very small and concentrated in only a few products. The elasticity approach, while it can be applied to any given historical pattern of U.S.- Caribbean trade, does not reflect the "normal" flows which would have existed if both partners were fully aware of the respective market conditions and trading opportunities. The elasticity approach can measure only one facet of the normalization process -- that part due to the reduction in tariffs. It can not measure the change in trade volume and composition which arises from greater information about the CBI region, nor from the introduction of new products.

Thus although the elasticity approach in principle can be used to answer the policy question posed earlier, in practice, the data and methodological problems are such as to introduce potentially wide margins of error into the analysis. Consequently, some modifications of the procedure are required.

The basic approach adopted in our study * to estimate the probable expansion of Caribbean exports to the United States due to the CBI program is a modified elasticity approach. In addition, each individual Caribbean country's export to the U.S. is projected without the tariff elimination to 1987. These latter projections should indicate where trade flows are expected to increase in future periods in the absence of the CBI incentives. This should provide some information as to where the effects of tariff elimination are likely to become more important in the future. This modified procedure should deal with most of the methodological and data problems referred to above.

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* A complete description of the methodology is presented in J. Pelzman, The Impact of the Caribbean Basin Initiative on Caribbean Exports, World Bank, 1982.

<u>Estimates of the Impact of the FTA</u>

This section presents our estimates of the impact of a complete tariff elimination under the proposed CBI program for each of the smaller Caribbean countries.* In order to avoid the impact of the recession on trade we have used 1981 rather than 1982 U.S.- Caribbean trade data. Finally, in order to better understand the impact of changes in U.S. demand on Caribbean exports (excluding tariff reductions) we have projected each country's exports to the United States to the year 1987 by detailed commodity groups.

The largest unknown in this exercise is the capacity of the CBI economies to expand their exports in response to new U.S. demand. As a result of this concern over Caribbean country capacity constraints, we estimate the impact of the FTA based on two extreme assumptions. Under the first assumption, Caribbean supply is assumed to be constrained at the present level of exports. Under the second assumption, Caribbean countries are allowed to expand their output without constraint. In this manner we provide both upper and lower bound estimates of the probable impact of the FTA on Caribbean exports to the United States.

If one assumes that Caribbean countries are unable to

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* Detailed product estimates are presented in J. Pelzman, op. cit..

expand their capacities then for 1982, an estimate of the aggregate change in Caribbean exports would simply be the duties collected, namely $135.3 million or approximately 1.6 percent increase over total 1982 Caribbean exports. For 1981 the increase would have been $87.1 million. The major category affected by this tariff elimination is apparel, which is excluded from the proposed legislation. Excluding apparel, footwear etc., the the 1982 increase in trade under this assumption will drop to less than $40 million.

Rather than assuming that Caribbean country supply is fixed, our second assumption allows the Caribbean countries to shift their exports to the U.S. market in response to easier access. This increased supply could come from both added capacity utilization and trade diverted from other markets. Table 2 presents the changes in Caribbean exports to the United States for 1981 due to the complete elimination of tariffs. Assuming that all tariffs are eliminated without exclusions, it would have resulted in an increase of $1.36 billion of exports or an approximately 32 percent increase over total Caribbean (excluding Central American) exports to the United States that same year. When we exclude textile and apparel, the major dutiable items, the estimated increase in Caribbean exports declines to $742.6 million. The major beneficiaries are Haiti and Trinidad and Tobago.

The results presented thus far are based on the hypothesis that the major expansionary impact will come from the tariff elimination under the FTA portion of the CBI program. Given the strong link between the Caribbean countries and the United States, it is highly probable that some expansion in Caribbean exports will occur simply because of increased U.S. demand over time.

Actual 1981 and projected 1987 U.S. imports from each of the Caribbean countries is shown in Table 3. It should be stressed that these projections do not consider the possibility of any structural changes in either the exports of the individual Caribbean countries nor in U.S. imports. This assumption is partly justified by the work of Gustav Ranis, who emphasizes that despite attempts made in some Caribbean countries to restructure their trade sectors, little has been accomplished. Consequently, given the short time horizon of our trade projections, it appears plausible that major changes will not take place. The total expansion in Caribbean exports to the U.S. in 1987 sum to $5.16 billion (1981 dollars) or approximately a 122 percent increase in Caribbean exports as compared to 1981.

It should be pointed out that, at the commodity level, these projections reinforce our earlier conclusions that, apart from the traditional exports, most of the expansion will occur in items specifically excluded from this proposed legislation. Consequently, unless these items are introduced into the CBI package, the benefits associated

21-491 O—83——11

with much of the FTA will be minimized.

The results presented thus far demonstrate that the focus of the Administration's program is in the wrong area. The existence of tariffs are not the problem in the limited set of goods included in the proposed legislation. If one were to include all items in this legislation, then it would be possible to discuss tariff impediments to Caribbean exports. Short of that, the appropriate question to be raised is how does one attract U.S. manufacturing firms away from Asia to the labor surplus, low wage countries of the Caribbean region? Apart from risk many firms would cite the two major considerations to be markets and cost of production. If we assume that the FTA portion will guarantee limited access to the U.S. market, then we are left with a series of cost factors as the primary variables determining the flow of new investment in the Caribbean region. Given that the major bulk of dutiable Caribbean exports consists of apparel and offshore processed products, labor costs are the crucial variables. In general labor costs have to be low enough to justify the high cost of transporting the parts to the foreign country and bringing back the finished product. In some of these economies, for a small scale plant, the annual transportation costs, for this two-way flow, may be greater than the total annual wage. After labor and transportation, other major tangible economic considerations include the cost of investment insurance, tax and duty incentives and financing. Added to these are a variety of intangibles that must be considered in determining a final economic price for an investment.

Economic Constraints

In general, the countries of the Caribbean provide a whole array of investment incentives and tax holidays designed to attract foreign direct investment. It is not for the lack of these incentives that they have failed to attract significant manufacturing facilities.

All of the Caribbean countries, beginning with Barbados and ending with Trinidad and Tobago, offer foreign manufacturers exemption from taxes, in some countries lasting up to a maximum of ten years. In other countries, exemptions are also offered from patent taxes, custom duties and related excise taxes for a limited period. In addition to incentives designed to increase manufacturing, some Caribbean countries, promoting tourism, have passed special laws which exempt income taxes, construction taxes, taxes levied on the formation of a company and exemption from import duties on materials needed for the tourist sector.

Despite all these attractive incentives, the Caribbean countries suffer from all the major difficulties and constraints associated with small size. These include the undiversified nature of their economies, the high import content of all goods and services and the lack of capital formation to undertake major public investment programs.

They also lack adequate internal or regional markets to absorb domestic production. At the same time, the lack of adequate infrastructure provides the proper disincentive for the formation of an active export sector. Added to these economic constraints are the socio-economic problems associated with a very small reservoir of skilled manpower to undertake and manage domestic manufacturing firms, coupled with a high and growing rate of unemployment. It is these latter problems which limit the extent of U.S. participation in the Caribbean, not high tariffs.

Non-Tangible Barriers

Beyond the specific cost factors that influence decisions on where to locate new manufacturing establishments are the intangible considerations that involve planning and allocation of funds, but which are not specifically enumerated. The intangibles can range from the political stability of the country to the availability of machine shops for making minor repairs.

The most often cited "intangibles" that are examined after an economic price has been determined are illustrative of the hidden costs of overseas investments. They are: political stability, which includes a prospective nation's solvency; labor availability; travel convenience; living accomodations for U.S. personnel; technical support, including the availability of machine shops for minor repairs; communications; transport reliability; labor unions; environmental risks, which include the frequency of hurricanes and earthquakes; management availability; mechanic availability; power outages, which can be significant in the Caribbean; and regulatory restrictions, which includes licensing, quotas, and similar regulations. In many cases it is the existence of these intangible factors which limit U.S. participation in the Caribbean.

Given the numerous constraints outlined above and the limited trade expansion due to the FTA portion of this proposed legislation, it should be obvious that the Caribbean Basin Economic Recovery Act as presented in S.544 is not an economic recovery measure.

POLICY RECOMMENDATIONS

The CBI initiative as contained in this legislation is fundamentally flawed and ill conceived. It rests on the premise that the fundamental impediment to Caribbean development is "high" U.S. tariffs. At the same time it offers to eliminate tariffs on a select group of products, which are not representative of the comparative advantage of these countries. While the Administration's objective is laudible, the present legislation does not go far enough to foster continued Caribbean development. The primary reason for this shortfall is that the Caribbean Basin Economic Recovery Act is based on an incorrect set of assumptions. Of even greater concern is the Administration's attempt to add yet another tier to our trading system without consideration of the overall impact of an additional preference mechanism.

The existence of tariffs are not the problem in the limited set of goods included in the proposed legislation. If one were to include all dutiable products in this legislation, then it would be possible to discuss tariff impediments to Caribbean development. In the present environment, however, a development oriented legislation should focus on two primary questions. First, how does one attract U.S. manufacturing firms away from Asia to the labor surplus, low wage countries of the Caribbean region? Secondly, how does one provide the proper environment for the formation of the necessary infrastructure, the training of skilled workers and the establishment of internal markets in the Caribbean region? Legislation which addresses these issues would go further than the proposed CBI package.

In order to convert the present legislation to a true development program a number of major modifications should be made. I would strongly recommend the following specific measures:

(1) The CBI program should encourage not only bilateral U.S. - Caribbean trade, but also intra-Caribbean trade and Caribbean - Latin American trade. In order to accomplish this the "value-added" of one or more beneficiary countries should be raised from 35% to 60%. This would encourage intra-Caribbean industrial formation rather than the

establishment of re-export facilities for (non-CBI) third countries. Raising the "value-added" requirement would encourage the formation of integrated production centers and would discourage the formation of identical facilities across all beneficiary countries and the formation of funneling operations.

(2) The CBI package must be viewed in a global context. Presently a preferential arrangement with developing countries already exists, namely the U.S. GSP program. The major beneficiaries of this program, with the exception of Mexico, are not the Caribbean countries. The addition of the CBI program as outlined in the proposed legislation will not provide the additional incentives to shift resources to the Caribbean. In order to shift these resources from Asia to the Caribbean one must also create disincentives for financial investment flows to Asia. That would imply that along with the CBI program the administration must also begin a more thorough graduation of Newly Industrialized Countries (NICs). Continued preferential treatment of NICs without regard to stage of development and international competitiveness would have "adverse" effects on the proposed legislation.

(3) Any tariff reduction as envisioned here should be coupled with a labor management program. This labor management program would involve the formation of training facilities and technical schools designed to train a skilled

labor pool. If this major problem of the unavailability of skilled labor force is not ameliorated, there is considerable doubt whether U.S. companies will shift resources into the Caribbean region.

The tariff concessions contained in this bill are not sufficient inducements to encourage this shift of resources.

TABLE 1

Total 1982 U.S. Imports from the Caribbean and Central American Countries
By Duty Status ($ million and percent)

Country	Total Imports	Dutiable Value	Calculated Duties Collected	Total Duty Free	GSP Duty Free	Dutiable Value as a Share of Total Imports	Ad Valorum Equivalent Tariff Rate
Antigua	4.89	4.48	1.41	0.41	0.00	91.6%	31.4%
Bahamas	1045.21	942.23	4.50	102.98	42.43	90.1	0.4
Barbados	106.63	79.02	8.96	27.61	8.54	74.1	11.3
Belize	38.46	7.41	1.97	31.05	15.97	19.2	26.5
British Virgin Islands	0.89	0.42	0.06	0.47	0.00	47.2	14.3
Cayman Islands	14.82	0.46	0.00	14.36	0.38	3.1	0.0
Costa Rica	358.12	118.31	15.87	239.81	36.58	33.0	13.4
Domininca	2.37	0.20	0.06	2.17	0.17	8.4	30.0
Dominican Republic	622.51	180.78	35.49	441.73	84.30	29.0	19.6
El Salvador	310.02	91.31	8.11	218.71	26.05	29.4	8.8
Grenada	0.40	0.04	0.00	0.36	0.00	10.0	0.0
Guatemala	330.14	64.54	1.82	265.60	23.33	19.5	2.8
Guyana	70.65	4.89	1.53	65.76	15.72	6.9	31.3
Haiti	309.85	111.60	27.09	198.25	39.28	36.0	24.3
Honduras	359.55	70.39	6.76	289.16	49.92	19.6	9.6
Jamaica	278.10	15.95	3.63	262.15	20.73	5.7	22.7
Montserrat	0.74	0.01	0.00	0.73	0.02	1.3	0.0
Netherlands Antilles	2106.74	2057.15	7.10	49.59	4.14	97.6	0.3
Nicaragua	86.87	36.28	1.18	50.59	16.98	41.7	3.2
Panama	250.76	33.54	1.64	217.22	5.40	13.4	4.9
St. Lucia	4.70	3.01	0.68	1.69	0.23	64.0	22.6
St. Vincent	1.39	1.13	0.34	0.26	0.01	81.3	30.1
St. Christopher-Nevis	11.55	4.22	0.99	7.33	4.39	36.5	23.4
Surinam	60.14	0.47	0.00	59.67	0.07	0.7	0.0
Trinidad & Tobago	1628.39	1561.18	6.15	67.21	2.91	95.8	0.4
Turks Islands	3.55	0.00	0.00	3.55	0.00	0.0	0.0
Total	8007.56	5389.14	135.34	2618.42	397.55	67.3%	2.5%

Source: Compiled form Official Statistics of the U.S. Department of Commerce.

TABLE 2

Changes in the Value of Caribbean Exports to the U.S. Due to Tariff Elimination, 1981. ($ million)

Country	Changes in Total Imports	Change in Textile and Apparel Imports
Antigua	7.77	7.74
Barbados	75.83	30.06
Belize	35.16	32.47
Dominica	0.00	---
Dominican Republic	392.76	311.60
Grenada	0.00	---
Guyana	12.57	11.30
Haiti	420.56	180.46
Jamaica	54.87	43.25
Montserrat	1.00	---
St. Kitts-Nevis	5.60	4.10
St. Lucia	2.90	1.30
St. Vincent	2.10	1.50
Surinam	0.30	0.00
Trinidad & Tobago	355.03	0.00
Total	1366.45	623.78

Source: Joseph Pelzman, The Impact of the Caribbean Basin Initiative on Caribbean Exports, The World Bank, June 1982.

TABLE 3

Actual and Projected U.S. Imports from the Caribbean Countries
($ million)

Country	Actual Imports 1981	Projected Imports 1987
Antigua	5.24	17.03
Barbados	80.69	289.35
Belize	42.19	150.20
Dominica	0.10	0.30
Dominican Republic	922.40	3386.19
Grenada	0.34	0.50
Guyana	104.08	351.93
Haiti	276.39	834.97
Jamaica	356.98	951.95
Montserrat	0.25	0.97
St. Kitts-Nevis	11.10	44.14
St. Lucia	12.79	25.27
St. Vincent	1.57	4.86
Surinam	179.37	592.88
Trinidad & Tobago	2214.91	2721.57
Total	4208.40	9371.57

Source: Joseph Pelzman, The Impact of the Caribbean Basin Initiative on Caribbean Exports, The World Bank, June 1982.

BIOGRAPHY

Joseph Pelzman is an Associate Professor of Economics at the George Washington University. He holds a Ph.D. in economics from Boston College, 1976. He has served as a Brookings Institution Economic Policy Fellow at the Office of Foreign Economic Research of the U.S. Dept. of Labor from May 1979 until Aug. 1980. He has served as a consultant to the World Bank, the U.S. Dept. of Labor and the National Academy of Sciences. He was a contributing author to the President's Report on U.S. Competitiveness. His recent publications on the Caribbean include: Effects on U.S. Trade and Employment of Tariff Elimination Among the Countries of North America and the Caribbean Basin, U.S. Department of Labor, 1982. and The Impact of the Caribbean Basin Initiative on Caribbean Exports, The World Bank, June 1982. He has published extensively on U.S. commercial policy with respect to the U.S. textile industry and U.S. - U.S.S.R. trade. His published articles have appeared in such journals as: The American Economic Review, Journal of Political Economy, European Economic Review, Southern Economic Journal, and the Welwirtschaftliches Archiv.

Dr. PELZMAN. My testimony is based on two studies that I performed last year under contract. The first for the Department of Labor estimates the impact on U.S. trade and employment of complete tariff elimination among countries within North America—both Canada and the United States, Mexico, Caribbean islands and Central America. The second study was performed for the World Bank, it estimates the effects of the CBI program, in particular looks at the impact of a complete tariff elimination on Caribbean exports.

I want to say that the views presented here are my own, and should not be attributed to these institutions.

The results of my studies lead me to conclude that this initiative, as contained in Senate bill 544, is fundamentally flawed, and ill-conceived. It rests on the premise that the fundamental impediment to Caribbean development is "high" U.S. tariffs. At the same time, it offers to eliminate tariffs on a select group of products which are not representative of the comparative advantage of these countries.

While the administration's objective is laudible, the present legislation does not go far enough to foster continued Caribbean development. The primary reason for this shortfall is that the Caribbean Basin Economic Recovery Act is based on an incorrect set of assumptions. Of even greater concern to myself is the administration's attempt to add yet another tier to our trading system without consideration of the overall impact of an additional preference mechanism.

Let me begin first with the basic assumption inherent in this bill. It is, very simply that by lowering U.S. tariffs the United States will encourage Caribbean development through an expansion of its export sector. Why is that assumption incorrect?

The extent to which the foreign trade arrangement portion of the CBI package will affect Caribbean exports depends on a number of variables. First, the degree to which U.S. consumers respond to a reduction in CBI export prices. That is both direct and substitution effects. Second, the degree to which the CBI country's supply responds to an increased demand on the part of the United States. Third, pricing strategy of CBI exporters. And above all, the magnitude of the change in the U.S. tariff.

The largest unknown among those variables is the ability of the CBI economies to expand their exports in response to new U.S. demand or increased U.S. demand. As a result of this concern over CBI capacity constraints, I basically performed three separate estimates. The first set of estimates were based on the assumption of complete constraint—no ability to expand CBI exports. The estimate for 1982 in terms of an expansion of existing trade, based on a complete tariff elimination, with no exclusions equals $135 million. If you exclude all the items that are in this bill, the estimated trade expansion drops to less than $40 million. For 1981, the numbers are even smaller. In 1981, if, in fact, the Caribbean countries couldn't expand capacity, the most they could gain from the CBI package is $87 million or approximately 2 percent of their trade. If you subtract only textiles and apparel products the estimated expansion in trade drops to $26 million.

If you make the other extreme assumption that the Caribbean countries can, in fact, expand their capacity completely in response to the CBI program, then the projected trade expansion would be a bit larger but not very much. The total number for 1981 was $1.36 billion. The majority of that would be textiles and apparel. If you subtract out textiles and apparel from the above estimate, the expansion in trade due to the CBI program would amount to $742 million shared by all the CBI countries. The major recipients would be Trinidad and Tobago and Haiti.

The third exercise was based on the assumption that if, in fact, tariff concessions are not the primary problem, then what would normal Caribbean exports to the United States look like in 10 years or in 5 years. In order to estimate that, I used the model which was used previously for the administration to estimate the impact of China trade when they were granted MFN status. The model is called the shift-share model. It basically assumes that U.S. demand is the driving force for Caribbean exports. Based on that assumption, I estimated Caribbean exports to the year 1987.

The increase in trade simply as a result of increased U.S. demand given no structural change was on the order of $5 billion. That's far greater than the increase that is attributable to a tariff reduction as included in the present bill.

With respect to my second point of establishing an additional tier to our trading system, it should be pointed out that a preference program for LDC's already exists. It is called the "GSP" program. In many respects, the FTA portion of the CBI program is similar to the GSP program with one major exception—namely—no competitive need tests.

Part of the inducement under the GSP program is duty-free access on approximately 2,850 items. Assuming, of course, that they fulfill the minimum local content provision of 35 percent as well as the competitive need tests.

Despite the existence of this program, the Caribbean countries were not major recipients of GSP privileges. For example, in 1982, total CBI country duty free GSP trade represented 4.7 percent of the entire duty free trade under the GSP program.

The question is why. Why is it, given the fact that they already have access to a preference arrangement that they have not taken advantage of it? Some of the reasons for this low participation are:

One, there is major competition from the newly industrialized countries who, in the opinion of many economists, no longer need GSP preferences. If you look at the numbers just for 1982—and the trend is similar in 1981, 1980, and 1979, et cetera—the top five recipients of GSP were Taiwan, Korea, Hong Kong, Mexico, and Brazil. They represent 63.8 percent of the total duty-free GSP trade. If you go down the line to the next five—Singapore, Israel, India, Yugoslavia, Argentina—they represent an additional 16 percent. If you go further down—Thailand, Chile, Philippines, Peru, Portugal—they represent another 8 percent.

The competition from these countries, in part, explains the lack of business from the Caribbean group.

The second part or the second explanation for this failure is the fact that the local content provision in both the GSP and in the present act is too small. Thirty-five percent induces the formation of funneling operations, and the formation of identical facilities across CBI countries. It does not foster the development of an integrated development sector in any of these countries.

A true development oriented program should focus primarily on development issues. It should not focus on issues like tariffs when tariffs are not the problem. I believe that if we do want—and I strongly agree with that—to develop the Caribbean region, what we should do is to encourage the flow of manufacturing investment into the Caribbean countries.

We should also encourage the formation of a better infrastructure, the training of skilled labor, and the development of entrepreneurial skills. Those are key factors which will encourage the development of this region. The same things that encouraged the development of Taiwan, and the rest of Asia.

I thank you. And I am open to questions.

The CHAIRMAN. Senator Long.

Senator LONG. I have read the statement that you submitted and I find it very interesting. I believe Senator Matsunaga raised a question of how we can go about attracting investment that otherwise would be in Asia or would go from Asia into the Caribbean. I notice you propose that in order to shift these resources from Asia to the Caribbean one must also create disincentives for financial flow into Asia.

I wish you would just give us some indication of how you think that could be done. How would you go about trying to manufacture some things in the Caribbean that at the present time you are importing from Asia?

Dr. PELZMAN. Senator, as an economist one of the things that troubles me about this program is that we are, in effect, creating an additional preference group to complete with another preference group. The final result is zero sum. It is not a positive sum gain. It's a zero sum gain.

To create the disincentives that are necessary for the CBI program to attract investment into the region one must come up with a consistent program to graduate newly industrialized countries from the GSP program, a consistent program that we haven't yet seen.

As I noted earlier, the Asian countries are the predominant beneficiaries of the Generalized System of Preferences [GSP]. By graduating them you provide one disincentive.

The other disincentive can be achieved by raising the value added component from 35 percent to something like 60 percent. This will encourage the development of the group as an entity for a number of reasons. First, you don't want to just encourage bilateral United States-Caribbean trade. You also want to encourage intra-Caribbean trade, and Caribbean-Latin American trade. In order to accomplish that, you have to develop the CBI group as an integrated group.

One way of doing that is to eliminate the possibility of this area from being used as a reexport center or a funneling agency. You must create the proper incentives for the Caribbean countries themselves to look over each other's shoulders to make sure that production is maintained in the group, that they are not used simply to process simple electronic items to ship to the United States.

I think that if in this particular bill the value added component is raised and raised substantially that will encourage development of the region. Along with this program the administration must establish a consistent program with respect to other countries—that is, if we are going to create preference areas, the preference areas should apply to true LDC's.

Senator LONG. You have some familiarity, I take it, with the situation that we had develop down in the Virgin Islands where we gave them a trade preference to bring in watches. They would bring in all the parts and have a small assembly operation in the Virgin Islands. Can you tell me how that worked out? Is it still going on down there?

Dr. PELZMAN. Yes, sir. One of the problems with the enforcement under the present legislation is that we really don't know what the domestic content is on some of these, basically, offshore operations. You, in effect, have to accept the word of the exporter unless there is some gross violation. So under the present package, if you allow 35 percent, of which 15 percent is United States, that leaves 20 percent for domestic producers. Under attractive business conditions that could be reduced to 8 to 7, to 5 percent and it will still get through our customs.

Senator LONG. Well, if all we are doing, in other words, is just fixing it so that someone ships the article from somewhere else, Asia or wherever, and they get it down there and just put a couple of things together and stick it in a package, if that is all they are doing, it's not going to do much good for the Caribbean, is it?

Dr. PELZMAN. No, sir.

Senator LONG. What you want to try to achieve is to have them make the parts and assemble the components in that area rather than to be sort of a glorified repackaging operation of something that is headed for the U.S. market anyway. That is what you think we ought to try to avoid.

Dr. PELZMAN. That's right. I don't think we are going to improve the development of the Caribbean region by allowing them to become centers of reprocessing. I think what we need to do is go to the heart of the problem. The heart of the problem is that they lack infrastructure. They lack skilled labor. They lack the fundamental skill of simple repair operations. When I had initially started doing my study for the World Bank, I had surveyed a number of businessmen who complained of very simple things like what happens when my sewing machine breaks down? Do I have to go and send for someone from Connecticut? What happens if, in fact, the roads aren't well built and I can't get the material in and it costs me a great deal of money? It's those things that will help the development of that region. They need things that have been excluded from this bill.

They need, in effect, a training program; they need aid. The foreign trade portion of this program is not going to do the trick.

Senator LONG. Thank you.

The CHAIRMAN. Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman.

I would like to say on behalf of one Senator anyway that I don't like this concept that in order to help the Caribbean we must take it from the Asian countries. That what we are trying to do is build up in the Caribbean a counterbalance or deprive the Asian countries, peripheral countries, of the trade that they enjoy with us now. I just don't accept that.

I know one of the prior witnesses indicated that what we are trying to do is get trade that we are currently doing with Taiwan, I presume—they don't mention Hong Kong and so forth—and the Caribbean will be the substitute. I reject that, and believe that we are not in, what Secretary Shultz said, a zero sum game. I think there is ability for the total pie to grow here.

Now are you suggesting that, for example, it would be better to stick with the investment tax credit that was in the original legislation as opposed, for example, to this deduction for the tourists that go there? Would that be more in line with what you are suggesting?

Dr. PELZMAN. Yes and no. Can I make one statement first, though?

Senator CHAFEE. Sure.

Dr. PELZMAN. I don't think by eliminating the GSP from the Asian countries or at least the top 5 or top 10 you are going to, in effect, create the disincentives for them to stop exporting. I don't think you are going to take away their comparative advantage. They already have comparative advantage in many of the GSP goods.

Senator CHAFEE. They have what?

Dr. PELZMAN. In other words, they already have comparative advantage with respect to the products they are exporting to the United States under the present GSP program. By eliminating GSP for those countries, you are not really going to harm them that much. The preference margins for the products that they are selling are approximately 4 percent.

With respect to your question, yes, I am more in favor of a tax credit. But a tax credit, in effect, that gets targeted; not a tax credit that can be basically used for extractive industries. You don't want it for extractive industries, you want it for manufacturing. If it's possible in some sense—and I'm not a politician—to write into the bill that you do have an investment tax credit if the additional capacity that is created is in the manufacturing sector, if, in addition to creating capacity, you also train entrepreneurs, if in addition to that, you also train skilled labor, I think that will go much farther than anything I have seen so far in the bill.

Senator CHAFEE. Well, I would just like to make a comment on the GSP. I think the GSP is deserving of being looked at because the nations that qualify under the GSP hardly are lesser developed countries, countries such as Taiwan, Korea, Israel, Hong Kong, and some of the other nations that currently benefit from GSP. But I think that's a separate subject from what we are dealing with here today.

I think the point you make is that—as I read your testimony and hear it—because GSP already exists for most of the countries, they are not gaining much. You indicate 4 percent. And so that is all you are giving them. You heard the testimony of Secretary Shultz and Ambassador Brock in response to that. Whether there is substance to it or not or whether you agree with it or not, I don't know. I presume you don't. That is the stability that comes with the 12-year period.

Dr. PELZMAN. There is no guarantee that the GSP program will die next year from what I understand.

Senator CHAFEE. I agree with that.

Dr. PELZMAN. I don't agree with the Secretary's statement that it was, in fact, the uncertainty of its dying that is creating the problem for the Caribbean.

Senator CHAFEE. And then you heard Ambassador Brock say that no nations have been impaled on the 50-percent problem—no nations from the Caribbean.

Dr. PELZMAN. In large part that's because they are not exporting anything. That 50 percent rule and the $50 million rule that was applied on the limit for 1981 doesn't apply to them. They are not selling that much. They are very, very minor.

Senator CHAFEE. Well, I think it's interesting to hear your comments because they are running a little bit against the tide, although I think Mr. Koplan might be on your team.

Thank you, Mr. Chairman.

The CHAIRMAN. Sparky.

Senator MATSUNAGA. Thank you, Mr. Chairman.

I want to express the appreciation of at least one Senator, and I believe I speak plurally, for the presentation of Messrs. McNeil, Cooper, Kuehn, and Dr. Pelzman and for having waited all this time. We are way past lunchtime. But let me assure you that your written testimonies are read by most of us, if not all of us, so that your statement here is just a small part of what the committee considers.

Now I may have taken the thunder away from you, Dr. Pelzman, but I was impressed by reading your testimony. And maybe I thought if I raised the question to the administration they might seek the answers to some of the questions you raised. And I'm inclined to agree with you that I think tax incentives would much more spur development of American industry of the Caribbean area than tariff reductions even down to zero because I recall when I was a member of the House of Representatives of the then territory of Hawaii Industry Representatives. As a matter of fact, those who were involved in the sugar industry came to the legislature and made inquiry as to whether we would be willing to give a tax moritorium for 8 years if they would agree to start a new industry. That is, the macadamia nut interest for it takes 8 years for the first crop to harvest.

And so we agreed. OK, go ahead. And my heavens from zero to today it is about a $27 million industry. And I think the same can be done in the Caribbean area.

I don't want to take anymore time. We are supposed to be at a caucus right now.

The CHAIRMAN. Just leave your proxy. [Laughter.]

Steve wants your proxy.

Well, I appreciate this very much. We appreciate the support. I think there is strong support for the initiative. Maybe some of the suggestions made by Dr. Pelzman could be incorporated because I don't think he is opposed to the idea. I think he is just opposed to the concept. And we will make your statements part of the record.

Our next witness will be Steve Koplan.

STATEMENT OF STEPHEN KOPLAN, LEGISLATIVE REPRESENTATIVE, AFL-CIO

Mr. KOPLAN. Mr. Chairman, I understand you have a time problem, and I wonder whether you want to proceed now or—I don't want to tie you up, but we feel very strongly about this.

The CHAIRMAN. I don't know how much time you will take, but although we still have two additional witnesses, I understand they are not going to take long. We have some time.

Mr. KOPLAN. Thank you.

Mr. Chairman, first I would like to introduce Elizabeth Jager who is with me, who is an economist in our Department of Economic Research. I would just like to take 1 second to say that this is the last time I am going to be able to say that because after 33 years of service to the American labor movement, the day after tomorrow, Elizabeth Jager is going to be retiring. I know that is going to be a loss for all of us, those who have agreed with our views and those who have not. So I just wanted to take this moment to acknowledge the loss to all of us on Friday. I'm still trying to convince her not to retire, but I'm losing ground on that.

The CHAIRMAN. We appreciate her work. This may be your last committee appearance, then?

Ms. JAGER. Yes, sir.

The CHAIRMAN. Well, we are glad you are before the Finance Committee. I regret that my colleagues all got hungry. They will be back.

Mr. KOPLAN. Thank you, Mr. Chairman.

First, just before getting into my prepared statement, I just want to make a couple of comments about what was said this morning. I heard the administration witnesses say that they were delighted that the AFL-CIO recognizes the need for an initiative in the Caribbean Basin. We have never, never said that something should not be done in the region. Our problems with this legislation have been very specific. And they are the same today as they were in the last Congress. So I don't want anyone to misunderstand us—the legislation, S. 544, as introduced gives us exactly the same problems, and we will make the same effort in opposition as we have in the past. When asked whether very many changes had been made in their legislation in the last Congress, I heard the administration witnesses say "Not too much." I would agree with that. There hasn't been very much that has been done with it in the last Congress.

I also heard the comment that we had been accommodated as much as possible. I certainly hope that's not true because we have made a very serious effort to try and construct the outline of an alternative that would possibly break the logjam. But if there is to be no dialog, why, of course, then we are back to square one.

Mr. Chairman, the AFL-CIO appreciates this opportunity to offer an alternative to the Reagan administration's Caribbean Basin Economic Recovery Act, S. 544. Time after time we have urged that the Congress send the legislation back to the drawing board to design a more thoughtful plan of assistance to that area.

We still reject using the U.S. trade and tax laws for a poorly constructed proposal touted to serve as a quick fix for the complex and serious problems of the region. We also question the advisability of lumping the Caribbean and Central American countries in one proposal, thus treating them as though their needs can all be satisfied with a single measure rather than a multifaceted program to expand the opportunities for the citizens of those countries. In many of those countries, any program for development must include land reform programs and a better means of encouraging internal self-development. We, too, have talked about such things as the need for roads and infrastructure and training and having skilled labor to do these things. If you don't have those things, we can pass any piece of legislation and they won't be able to advantage themselves whatever we do.

In discussions with many Members of Congress we have found that they share our same concerns. As a result, we believe that a restructuring of the legislation would meet its goals, and satisfy the major concerns expressed by Members of Congress, U.S. labor, and others concerned with achieving a solution to this problem.

Any legislation enacted by the Congress must have the assurance that the workers and people of each country become the chief beneficiaries. We have made an extensive examination of S. 544 and consulted at length with the trade unions of the Caribbean and Central American countries. We will continue that dialog on a frequent basis during the full course of congressional consideration of this legislation.

In the meantime, the AFL-CIO is attempting to address the diverse needs of all the countries that are potential beneficiaries of the U.S. program for development of their economies and salvage as much as possible of the legislation. It is our expectation that a bill embodying the concepts outlined here today will be offered as an alternative to the Caribbean Basin Initiative proposal before this committee.

We are convinced that any program for development must be based upon expanding the opportunities for the citizens of Caribbean and Central American countries. And that cannot be done merely by enabling multinational corporations to enhance their profits by using the region as a funnel for U.S. imports of duty-free manufactured products.

Our alternative will still provide duty-free treatment for the region, but seeks to create internal growth, accompanied by decent working conditions and basic human rights rather than greater exploitation of its workers through massive trade diversions. It puts multinational corporations on notice that they will not be encouraged to profit from existing human misery caused by wage exploitation and degrading work place conditions. It also enhances opportunities for the region beyond the Reagan administration's proposal by graduating certain areas of the world which now receive duty-free import privileges not enjoyed by other trading nations.

It is our primary duty in any such initiative to help assure human rights, and 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 with decent work place conditions.

Our suggestions are designed to correct those glaring omissions in S. 544. We recommend that the Congress be given oversight responsibility in specified situations of the administrative process of granting a country beneficiary status. As a first step, we and others we have discussed this program with, urge 6 years duty-free status to articles from eligible beneficiary countries.

Unlike S. 544, Cuba is not listed as a country eligible for such status. Let me say if the administration has testified this morning that they don't intend to designate Cuba, then take it out of the bill.

There would be exceptions for import-sensitive products voted by the House of Representatives last year. In addition, we would propose to exempt other import-sensitive manufactured products and components of products not currently eligible for duty-free treatment under the generalized system of preferences, such as watches, electronic products, certain steel products, semimanufactured and manufactured glass products—the administration's bill fails to carry over current law exemptions for such products from duty-free treatment. Let me say, Senator Bradley asked a question about citrus. Section 103(a)(ii)(b) of the bill does provide on page 10 that mere dilution with water or mere dilution with another substance that does not materially alter the characteristics of an article doesn't qualify that article for duty-free status. That takes out frozen citrus products. So there is in the eligibility section, language that would exempt products that Senator Bradley referred to today.

In addition, we recommend that duty-free treatment not be allowed for products or parts of products that are the subject of bilateral restraints between the United States and other countries, or that are the subject of voluntary export restraints by any foreign country to the United States or that receive nonreciprocal treatment by the beneficiary country. Findings of injury under U.S. fair and unfair trade statutes will also preclude duty-free treatment. These protections will safeguard those presently endangered U.S. industries against additional injury from duty-free imports. For example, the Japanese would not be able to use the region as a funnel for duty-free U.S. imports of auto parts.

We feel that any legislation should contain eligibility requirements for beneficiary status in addition to those contained in S. 544. For example, there should be requirements for basic human rights; safety in the work place and the right to organize and bargain collectively. Congress is provided—we are proposing these things—Congress is provided with oversight responsibility to assure that no administration may treat such preconditions as mere rhetoric. In addition, current law requirements contained in the generalized system of preferences denying countries eligibility status if they fail to cooperate with the United States to prevent drug traffickers from using us as a market for their unlawful activities is incorporated in our proposal; also incorporated is the GSP prohibition against countries that aid, abet, or grant sanctuary to international terrorists. We do not understand why such minimal requirements were never included in the administration's bill when they are specifically included in the Generalized System of Preferences.

Any meaningful legislation must include a local content provision that protects U.S. industries from assaults from multinational imports and specifically benefits the economies of the Caribbean. At a minimum, such a provision must provide that 35 percent of the appraised value of the article imported from a beneficiary country to the United States be produced in such beneficiary country. At the end of 2 years that sum should phase up from 35 percent to 50 percent. This content requirement, modest as it is, would assure that the people of the Caribbean Basin become the chief beneficiaries of development by expanded job opportunities created through internal market growth rather than minor assembly and sophisticated pass through arrangements.

Now let me say, Mr. Chairman, that although the generalized system of preferences has a 35 percent content requirement, the way it has been carried forward in the administration's bill with all the exceptions and the things that can be subtracted from it, it is not the same requirement that is in the GSP today.

The 98th Congress must come to grips with the future of the GSP program since it is due to expire next year. In the meantime, in order to assure that the Caribbean countries are major beneficiaries, any legislative proposal must contain a provision that certain GSP countries be graduated from duty-free treatment. These particular GSP countries are now self-sufficient trading partners who can trade on the same terms as all other nations. Thus, the special preference that has given them a special added benefit is no longer needed. This action will provide the Caribbean Basin nations with an added opportunity to develop their trading capability. For example, this year Taiwan, Korea, Hong Kong, Mexico, and Brazil could be graduated from the list of eligible countries for purposes of duty-free imports. Collectively, those five countries received a total share of about 64 percent of all GSP benefits in 1982.

In addition, other countries could be graduated in order of their use of GSP. By eventually graduating the industrialized countries that historically have monopolized the benefits derived from duty-free treatment under the generalized system of preferences, the countries of the Caribbean Basin would have an opportunity to compete for the lion's share of the benefits derived from preferential trade with the United States. By phasing in this graduation process, Congress is still afforded the opportunity to review the GSP program and take such additional corrective measures as it deems necessary in light of past and present domestic industry conditions in the United States. At the least, this provision will lay to rest some of the uncertainty and fear in the Caribbean Basin about the GSP program since it will give them an opportunity to advantage themselves of the U.S. market.

May I say to you, Mr. Chairman, that under the generalized system of preferences, every single country listed in this bill with the exception of Cuba, as I understand it, is eligible for duty-free status under the GSP. And, in fact, just some examples: Dominica—93 percent of its total imports to the United States last year came in duty-free under GSP. Jamaica—90 percent. Nicaragua—90 percent. The Cayman Islands—85 percent. El Salvador—95 percent.

So when Senator Chafee raised the question of whether perhaps we are raising the expectations of the Caribbean countries too high with this legislation, I would have to raise this question: Now there are 2,850 products that come in duty-free under the Generalized System of Preferences. I think that at the least there has got to be a requirement that a substantial amount of the product be manufactured in the Caribbean by the people of the Caribbean if they are going to benefit from this legislation. And if that does not happen, then I do not see them getting any further benefits than they get under GSP now.

We would urge a carryover from GSP of the competitive need limitations on preferential treatment. Questions were raised this morning about the competitive need limitation, and how that applies to the people of the Caribbean. As I look at the figures for last year, out of the 2,850 products that are eligible to come in now duty-free, there were collectively from all of the Caribbean countries perhaps a total of 10 products that were subject to the competitive need limitation which now has risen to $53.3 million on a product on exports to the United States.

Mr. Chairman, the AFL-CIO believes that the alternative which we have highlighted in our testimony is a better way to address the very real problems of the people of the Caribbean and Central American countries than what is proposed in S. 544, the bill before the committee.

The CHAIRMAN. Thank you very much, Mr. Koplan.

[The prepared statement of Mr. Koplan follows:]

83-33

STATEMENT OF STEPHEN KOPLAN
LEGISLATIVE REPRESENTATIVE, DEPARTMENT OF LEGISLATION,
AMERICAN FEDERATION OF LABOR & CONGRESS OF INDUSTRIAL ORGANIZATIONS
BEFORE THE SENATE FINANCE COMMITTEE ON THE
CARIBBEAN BASIN ECONOMIC RECOVERY ACT — S. 544

April 13, 1983

Mr. Chairman, the AFL-CIO appreciates this opportunity to offer an alternative to the Reagan Administration's "Caribbean Basin Economic Recovery Act," S. 544.

Time after time, we have urged that the Congress send the legislation back to the drawing board to design a more thoughtful plan of assistance to that area. We still reject using the U.S. trade and tax laws for a poorly constructed proposal touted to serve as a quick fix for the complex and serious problems of the region. We also question the advisability of lumping the Caribbean and Central American countries in one proposal thus treating them as though their needs can all be satisfied with a single measure rather than a multifaceted program to expand the opportunities for the citizens of those countries. In many of those countries, any program for development must include land reform programs and a better means of encouraging internal self-investment.

In discussions with many members of Congress, we have found that they share our same concerns. As a result, we believe that a restructuring of the legislation would meet its goals and satisfy the major concerns expressed by members of Congress, U.S. labor, and others concerned with achieving a solution to this problem.

Any legislation enacted by the Congress must have the assurance that the workers and people of each country become the chief beneficiaries. We have made an extensive examination of S. 544 and consulted at length with the trade unions of the Caribbean and Central American countries. We will continue that dialogue on a frequent basis during the full course of Congressional consideration of this legislation. In the meantime, the AFL-CIO is attempting to address the diverse needs of all the countries that are potential beneficiaries of the U.S. program for development of their economies and salvage as much as possible of the legislation. It is our expectation that a bill embodying the concepts outlined here today will be offered as an alternative to the Caribbean Basin Initiative proposal before this Committee.

We are convinced that any program for development must be based upon expanding the opportunities for the citizens of Caribbean and Central American countries, and that cannot be done merely by enabling multinational corporations to enhance their profits by using the region as a funnel for U.S. imports of duty-free manufactured products. Our alternative will still provide duty-free treatment for the region but seeks to create internal growth accompanied by decent working conditions and basic human rights rather than greater exploitation of its workers through massive trade diversions. It puts multinational corporations on notice that they will not be encouraged to profit from existing human misery caused by wage exploitation and degrading workplace conditions. It also enhances opportunities for the region beyond the Reagan Administration's proposal by "graduating" certain areas of the world which now receive duty-free import privileges not enjoyed by other trading nations.

It is our primary duty in any such initiative to help assure human rights and 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 with decent workplace conditions. Our suggestions are designed to correct those glaring omissions in S. 544. For example, we cannot ignore the fact that just last December, there took place the arrest, torture and murder of at least 15 Suriname citizens for opposing the dictatorship of Desire Bouterse. This is appalling evidence of totalitarian brutality toward which that country has been moving since February of 1982. We recommend that the Congress be given oversight responsibility in specified situations of the Administrative process of granting a country beneficiary status.

As a first step, we -- and others we have discussed this program with -- urge 6 years duty-free status to articles from eligible beneficiary countries. Unlike S. 544, Cuba is not listed as a country eligible for such status. There would be exceptions for import sensitive products voted by the House of Representatives last year such as textiles and apparel articles; footwear, handbags, luggage, flat goods, work gloves, and leather wearing apparel not currently eligible for duty-free treatment under the Generalized System of Preferences; tuna; and petroleum products.

In addition, we would propose to exempt other import-sensitive manufactured products and components of products not currently eligible for duty-free treatment under the Generalized System of Preferences, such as watches, electronic articles, certain steel articles, semimanufactured and manufactured glass products -- the Administration's bill fails to carry over current law exemptions for such products from duty-free treatment. In addition, we recommend that duty-free treatment not be allowed for products or parts of products that are the subject of bilateral restraints between the United States and other countries or that are subject to voluntary export restraints by any foreign country to the U.S. or that receive nonreciprocal treatment by the beneficiary country. Findings of injury under U.S. fair and unfair trade statutes will also preclude duty-free treatment. These protections will safeguard those presently endangered U.S. industries against additional injury from duty-free imports. For example, the Japanese would not be able to use the region as a funnel for duty-free U.S. imports of auto-parts.

We feel that any legislation should contain eligibility requirements for beneficiary status in addition to those contained in S. 544. For example, there are requirements for basic human rights; safety in the workplace and the right to organize and bargain collectively. Congress is provided with oversight responsibility to assure that no Administration may treat such preconditions as mere rhetoric. In addition, current law requirements contained in the Generalized System of Preferences denying countries eligibility status if they fail to cooperate with the U.S. to prevent drug traffickers from using us as a market for their unlawful activities is incorporated in our proposal; also incorporated is the GSP prohibition against countries that aid, abet or grant sanctuary to international terrorists. We do not understand why such minimal requirements were never included in the Administration's bill.

Any meaningful legislation must include a local content provision that protects U.S. industries from assaults from multinational imports and specifically benefits the economies of the Caribbean. At a minimum, such a provision must provide that 35 percent of the appraised value of the article imported from a beneficiary country to the United States be produced in such beneficiary country; at the end of two years that sum should phase up from 35 percent to 50 percent. This content requirement, modest as it is, would assure that the people of the Caribbean Basin become the chief beneficiaries of development by expanded job opportunities created through internal market growth rather than minor assembly and sophisticated pass through arrangements.

Last year, Ambassador William Brock told the House Subcommittee on International Trade of the House Ways and Means Committee that a basis for the Administration's proposal is because "there is uncertainty and fear in the Caribbean Basin about the future of the GSP program." The 98th Congress must come to grips with the future of that program since it is due to expire next year. In the meantime, in order to assure that Caribbean countries are major beneficiaries, any legislative proposal must contain a provision that certain GSP countries be graduated from duty-free treatment. These countries are now self-sufficient trading partners who can trade on the same terms as all other nations. Thus, the special preference that has given them a special added benefit is no longer needed. This action will provide the Caribbean Basin nations with an added opportunity to develop their trading capability. For example, this year Taiwan, Korea, Hong Kong, Mexico and Brazil could be graduated from the list of eligible countries for purposes of duty-free U.S. imports. Collectively, those 5 countries received a total share of about 64 percent of all GSP benefits in 1982. In addition, other countries could be graduated, in order of their use of GSP. By eventually graduating the industrialized countries that historically have monopolized the benefits derived from duty-free treatment under the Generalized System of Preferences, the countries of the Caribbean Basin would have an opportunity to compete for the lion's share of the benefits derived from preferential trade with the United States. By phasing in this graduation process, Congress is still afforded the opportunity to review the GSP program and take such additional corrective measures as it deems necessary in light of past and present domestic industry conditions in the United States. At the least, this provision will lay to rest some of the "uncertainty and fear in the Caribbean Basin" about the GSP program since it will give them an opportunity to advantage themselves of the U.S. market.

We would urge a carryover from GSP of the competitive need limitations on preferential treatment. This means that any beneficiary country that exports to the United States in a given year a quantity of an eligible article having an appraised value in excess of an amount which bears the same ratio to $25 million as the GNP of the U.S. for the preceding year, as determined by the Commerce Department, bears to GNP for 1974, or has exported to the U.S. 50 percent of the value of total imports of such article during any calendar year, than such country shall not receive duty-free treatment for such article unless the President certifies certain conditions have been met.

The AFL-CIO believes that the alternative which we have highlighted in our testimony is a better way to address the very real problems of the people of the Caribbean and Central American countries than what is proposed in the bill before the Committee.

The CHAIRMAN. Mr. Koplan, I understand you have visited with staff and they are working on some areas where we might find agreement on some of the positions that you have stated. However, I'm not certain that we could agree on the substitute. Would any CBI countries qualify for eligibility under your new eligibility standards? I understand that none would.

Mr. KOPLAN. Well, I beg to differ on that, Mr. Chairman. But I would be happy to pursue that in dialog with your staff and yourself. That was not our purpose.

The CHAIRMAN. If it is going to have any impact, somebody has to qualify; somebody has to be eligible.

Mr. KOPLAN. Well, let me say to you that in the administration's proposal there is no provision at all for the Congress to have any oversight over what the administration does. The President can waive any condition in this bill—and I'm talking about S. 544—if he deems that it is in the national economic and security interest of the United States. There is no provision that would cause any administration to have to come before the Congress and seek any kind of a waiver.

All we are suggesting, is that with regard to key areas—such as human rights, such as labor protections, and several others that we have listed—that if the President deems that it is in the national economic interest of the United States or in the national security interest of the United States to waiver certain preconditions that he give the Congress the opportunity to agree with him. And that is what we are suggesting. That doesn't exclude anybody. But what it says is that the Senate Finance Committee should maintain its oversight over this program, and that the House Ways and Means Committee should maintain its oversight over how this bill is to be administered. It should not simply give any administration a blank check. So if he wants to waive, if he feels that progress is being made, there is room to do so. But the point is that Congress should have the opportunity by majority vote to disagree. So we are not excluding anybody. We do exclude Cuba. We remove Cuba from the list. But the administration has said that it doesn't intend to give Cuba duty-free status.

Our alternative doesn't exclude anybody, but it gets the Congress into the process. And regardless of the administration, we would want the Congress to be in the process.

The CHAIRMAN. Is there any evidence to support the idea that industries would shift to CBI countries from the top GSP beneficiaries if the latter were graduated from GSP eligibility? You suggest there should be a graduation. Is there evidence to suggest that that might be helpful?

Mr. KOPLAN. Well, many people have talked today about the fact that there is not skilled labor in the Caribbean, the problem with roads, the problem with infrastructure. It is very difficult for truly underdeveloped countries to compete with those countries at the top of the GSP list that now are afforded preferential treatment. If those countries are graduated, and they are self-sufficient trading partners of the United States, if those countries are graduated from GSP status, it will have to give the Caribbean countries and other less developed countries a greater opportunity to compete for preferential treatment. There are many reasons why a company will not go into certain or many of the countries that are listed in this bill when they can get preferential treatment by locating in Taiwan and Hong Kong and Singapore and Mexico and Brazil.

When we made that suggestion, we made the suggestion in the hope that it would create greater opportunities for the people of that region.

The CHAIRMAN. Well, I think that is an issue we need to address. I'm not certain we would want to do it in this legislation, but we have to do it soon.

I appreciate very much your testimony. And I am sorry that we had to delay so much. The administration took a long time.

Mr. KOPLAN. I know.

The CHAIRMAN. Anything you would like to add? Any farewell message?

Ms. JAGER. Well, I don't want to take up much of your time, Senator. I do want to say that I appreciate all the courtesy that the committee has shown over the years. And I would like to make a couple of comments.

First of all, I was very disturbed at the administration's frame of reference here because the problems are always posed as if we are dealing with only a bilateral situation. And what happens effectively is that the United States is now being impacted from all the areas of the world where the same arguments have been used throughout my history of serving in the capacity of working on the problems. And so the Congress is given a distorted impression of the effect of the problem.

The second thing that bothered me tremendously was the consistent reference to the fact that there could be a deterrence to immigration. The same argument was used in the Mexican Border repeatedly when we opposed the program there on the grounds that they said it would stop immigration, and would help to develop Mexico, and that we were being unrealistic. That isn't true. It doesn't deter immigration. People are still flooding in from everywhere, and I think that is quite understandable.

The other thing that I find very disturbing in all of this is the concentration on what is going to happen in the other country on a purely hypothetical basis and a reassurance that we are going to be benefited in the United States because it's not a zero sum game, and everybody is going to get more jobs. That is simply not true. We are losing jobs because of all types of programs that are well intentioned and well motivated. And they may have the right foreign policy drives. But in terms of economics, and in terms of the American experience, we are losing because people tend to believe yesterday's ideology. And they believe that the jobs will be created because we will get more exports. We are losing the exports. We haven't done a thing to anybody. And this bill is not a free trade bill. It's a one-way bill. And, unfortunately, the definition of free trade turns out to be one-way open market into the United States and no attention to what is happening in other countries.

Mexico, for example, has shut us all off. They had to do it, I am sure. But the point is nobody seems to know that and they don't talk about it.

But I guess my main problem with the legislation as in most trade proposals to save the world is that I am not a Marxist, and I don't believe in economic determinacy as the solution to all these problems.

Thank you very much.

The CHAIRMAN. Well, thank you very much.

Steve, thank you.

Mr. KOPLAN. Thank you, Senator.

The CHAIRMAN. Our final two witnesses, Dr. Robert Pastor and Bobby McKown. I am going to suggest, since I am the only remaining member of the committee, that rather than you read me your statement, let me read it myself. Maybe you could summarize very briefly the highlights. And it will be made a part of the record.

We appreciate your indulgence and patience. Let's start with Dr. Pastor.

STATEMENT OF DR. ROBERT A. PASTOR, FACULTY RESEARCH ASSOCIATE, SCHOOL OF PUBLIC AFFAIRS, UNIVERSITY OF MARYLAND, COLLEGE PARK, MD.

Dr. PASTOR. Thank you, Mr. Chairman. I appreciate the opportunity to testify before you today. I do have a prepared statement and an article, in Foreign Affairs, "Sinking in the Caribbean Basin," which provides a more extensive analysis. And with your permission, I would gladly insert it in the record.

[The prepared statement and article from Dr. Pastor follow:]

Prepared Statement

Robert A. Pastor
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University of Maryland
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Before The

U.S. Senate Committee on Finance

April 13, 1983

The Caribbean Basin Initiative: An Analysis

Mr. Chairman, I appreciate the opportunity to testify before your Committee today.

As a word of introduction, I am currently on the Faculty at the School of Public Affairs, University of Maryland and am doing research on a wide range of Caribbean Basin issues -- from immigration policy and population, to trade and economic development, to national security and foreign policy. Before joining the faculty, I was a Guest Scholar at the Brookings Institution, and from 1977-81, I was the Senior Staff Member in charge of Latin American and Caribbean Affairs on the National Security Council.

I have a Ph.D. and a M.P.A. from Harvard University, and I am the author of Congress and the Politics of U.S. Foreign Economic Policy (University of California Press, paperback, 1982). Last summer, I published two articles, which bear on the work before the Committee today. In the July 1982 issue of The Atlantic Monthly, I wrote "Our Real National Interests in Central

America,"--which was an attempt to evaluate whether we should care about developments in the region, and what we should do about them. Secondly, and more pertinent is the article I wrote for Foreign Affairs (Summer 1982), entitled "Sinking In The Caribbean Basin." It provides an economic and political analysis of the Administration's Caribbean Basin Initiative. I would be happy to forward these articles to the Committee should you so request.

In my statement, I would like to address three questions: (1) What are U.S. interests and objectives in the Caribbean Basin? (2) What difference will the Caribbean Basin Initiative make if Congress passes it? and (3) How could Congress improve on the CBI?

U.S. Interests and Objectives

During the last two decades, the Caribbean Basin -- which I will define for the moment, as including all the nations in and around the Caribbean Sea -- has become the largest source of migration to the U.S. Through legal and illegal immigration, the Caribbean Basin has contributed to our nation approximately 8.5 million people -- about one-half of all those who have come to live in the U.S. during this period. This is the largest movement of people to the U.S. since the turn of the century.

If we had thought of ourselves as an Atlantic, or if you're from the West Coast, as a Pacific nation before, this new migration is helping the U.S. to become a Caribbean Basin nation. The new immigrants are enriching our nation as previous immigrants did, with new food, culture, and music from the region, and the migration helping our nation to feel more intensely -- though not necessarily to comprehend better -- the political convulsions, the military repression, the economic dislocations, and the social injustice in the region. And that is for the good.

These new bonds overlay our traditional strategic and economic interests and have given us a human stake in the region's economic development, social justice, and political autonomy. I underscore our nation's interest in the political autonomy of the nations in the region because we do not serve our friends or ourselves when we suggest that our neighbors have no greater destiny than to be our backyard, frontyard, or even third border.

But we do have real interests in assisting the countries in the region to develop self-sustaining economies and to help them create more jobs and opportunities. During the next two decades, the population of the region will nearly double again -- just as it has during the last two-three decades. The labor force will increase at the rate of 2-3%. The region faces two formidable challenges:

--to create meaningful employment for the youth coming into the labor market;

--and to create genuine opportunities for political participation for a better educated and more politically-aware population.

This second challenge translates differently in the region. In most of the Caribbean, the challenge is to sustain its very vibrant democracies, and perhaps the most important way to do that is through economic development. In most of Central America, the task is much more difficult; the channels of political participation are clogged by an oppressive oligarchy and a repressive military. The principal threat to democracy in Central America is not Communism; it is militarism, and it always has been -- whether of the anachronistic right or the populistic left.

If the nations of the region fail to meet these two challenges, the U.S. will share the consequences, and so we have a stake in helping them. The Caribbean Basin Initiative will not help very much in dealing with the political-military challenge in Central America, and I fear that the Administration's political-military strategy is not helping at all. Indeed, the Administration is contributing to the region's tragic polarization. But the CBI will help in addressing the first challenge -- to create jobs, to promote economic development, and for that reason, I appreciate the opportunity to testify on its behalf.

The Caribbean Basin Initiative: Two Perspectives

The Administration deserves much credit for the Caribbean Basin Initiative which President Reagan unveiled on February 24, 1982. The trade, tax, and aid provisions represented an impressive, innovative and important contribution in our nation's long-standing effort to assist the economic development of our friends in the Caribbean Basin.

Distinguished people have testified before your Committee that passage of the trade and tax provisions would be so effective as to jeopardize whole industries in the U.S. and threaten thousands of jobs. Others have argued that it would make so little difference that you may be left wondering why the Administration bothered and what all the controversy is about.

Let me first comment on each of these perspectives and then offer my own views.

The CBI, as originally announced, called for a free trade arrangement (FTA), which allowed the region's products -- except sugar and textiles -- to enter duty-free. The fears that an FTA, combined with tax incentives, would harm the U.S. economy are completely unwarranted for three reasons.

--First, the CBI only called for eliminating duties on about 7% of the region's current trade. 93% of the region's trade already enters duty-free or is sugar and textiles.

--Secondly, the nations, which would receive preferences, are quite small in size and population, poor in resources, and extremely dependent of and vulnerable to external forces. The entire Caribbean Basin population (excluding Mexico, Venezuela, and Colombia) -- scattered in some two dozen nations and dependencies -- is less than 40 million people. The total Gross Domestic Product of the region is $45 billion; the U.S. GNP is nearly 60 times larger.

--Third, while it is obvious that the U.S. economy is rich and powerful and the Caribbean economies are ~~neither,~~ it is also true that even a small economy can have a large and adverse impact on a small industry in the U.S. so I do not want to belittle the very real concerns of some businesses and labor unions. But there are more than enough safeguards in our trade laws to protect industries from serious injury, and such safeguards are used very effectively and frequently. Exemptions from the free trading arrangement are unnecessary and harmful to our national interests.

On the other side of the debate, some have argued that the CBI will have a negligible impact on the economies of the region. Professor Joseph Peltzman of George Washington University has done a study which estimates that the trade growth that could accrue to Caribbean Basin countries could range from a low of $87.1 million -- representing the duties on current products and assuming no growth in supply. Assuming that the region would expand its capacity to meet the demand in the U.S. for cheaper products, he estimates a high range of about $1.36 billion in 1981 or approximately 32% over existing exports. In another analysis, Richard Feinberg and Richard Newfarmer of the Overseas Development Council, in an article last summer in Foreign Policy, estimated that "under the most favorable conditions, the amount of new exports created by the Free Trade Arrangement in the first year, is unlikely to exceed $40 million." They estimate it could expand to only 2.5% or $250 million in the "next few years."

In the interest of symmetry, let me also offer three comments on this perspective.

--In his analysis, Professor Peltzman identifies the "methodological and data problems" associated with trying to estimate the growth in trade. Essentially, the models available project from past history -- on what the region has exported and how much it could expand those exports. These models are good at estimating the impact if the FTA came into effect last year or this year, and they are reasonably good for predicting next year. They are less effective looking further into the future. Such models, for example, could not have predicted thirty years ago that Central American trade would increase eighteen-fold by 1978. Nor would it have predicted the rapid growth in textile and other light manufacturing plants in Haiti, the Dominican Republic, or Barbados in the last decade. The problem is that we don't have a good way to measure which new businesses in which industries will choose to set up a plant in the area. And, of course, that is the real intent of the CBI -- to stimulate new investment. A static analysis cannot anticipate this potential for dynamic investment.

--Secondly, even if the figures for approximate trade growth are accurate, they are deceptive for they conceal the considerable and positive impact in a small country of even a small investment. When I was in Dominica, a small, extremely poor island of 79,000 in the eastern Caribbean last October, Prime Minister Eugenia Charles, one of the region's most competent and industrious leaders discussed with me the implications of her nation's serious unemployment problem --

about 21% of the labor force and growing. But that only amounts to about 5,000 people. She said: "You cannot solve your unemployment problem very easily, if at all, but you could help solve our's very easily." How many plants would it take to solve an unemployment problem of 5,000? The U.S. really doesn't have to do much to help, which brings me to my last comment.

--Thirdly, these analyses are most useful in identifying those areas which can grow fastest: rum, petroleum products, leather handbags, leather apparel, footwear, tobacco products, and electrical capacitors and resistors. Perhaps the most discouraging aspect of the bill before your Committee is that almost all of these products -- and others almost as important -- have been taken out of the CBI. This new bill has so gutted the original proposal that one really needs to ask whether the entire effort has lost its purpose and its promise. The Caribbean does not need any more hollow promises from the U.S., and the CBI as it is currently written is in danger of becoming that.

President Reagan and Ambassador Brock deserve considerable support for formulating this package but with the tax incentives deleted, and the trade portions gutted, and new conditions added that could make it difficult for countries to accept, it is worth asking whether the U.S. will pass the test of sustained interest and concern for the Caribbean Basin countries.

Recommendations

Like the ancient Greeks, I'm inclined to the view that the truth can often be detected near the golden mean -- between those who say the CBI will hurt the U.S. and those who say it won't help the Caribbean. The CBI will not instantly create new economic juggernauts where poor, small, and vulnerable economies now exist, but it can be helpful -- not in Central America today, but perhaps tomorrow. Today, it could help those countries at peace.

If the U.S. economy recovers, then that stimulus combined with the opportunities implicit in the original CBI package could be a significant impetus to greater economic growth in many of the countries of the region. And thus, the CBI will contribute to our own well-being directly -- through better and less expensive products -- and more importantly, indirectly -- by helping our neighbors to be more prosperous and stable.

But I urge you to return to the original CBI package of one-way free trade for all products with just two partial exceptions and for tax incentives for investment. The Administration has generously given Congress plenty of room to improve on that proposal, but that is not what has been done.

In my book, Congress and The Politics of U.S.Foreign Economic Policy, I contend after analyzing forty years of U.S. trade policy that Congress has played a constructive and positive role. This is not yet true for the case of the Caribbean Basin Initiative, but it can be. Let me just suggest a few places it can be changed and our economic strategy can be improved:

--First, scrape away the restrictionist barnacles -- the amendments deleting the following products from the free-trade arrangement: footwear, luggage, flatgoods, leatherwear apparel, canned tuna, petroleum products, and others.

--Second, Congress should encourage the Administration to give the benefit of the doubt to textile exporters from the Caribbean Basin if and when it feels compelled to negotiate quotas. But better still would be to preclude such negotiations.

--Third, the elimination of the sugar quota program would probably help create more jobs and promote growth faster than anything else the U.S. could do in the short-term. The program has already reduced sugar exports by about one-third, and it is particularly hurting friendly, democratic countries like the Dominican Republic. Moreover, the quota system has penalized those nations that have been the most productive in the last couple of years by using a formula based on a seven year average. And in many cases, the program has had the ironic effect of undermining the private sector since governments generally use the quota for their own sugar estates and mills. Recognizing the political sensitivity of this issue, let me suggest you consider the following alternatives:

a) If Congress just eliminated the duties on sugar from the Dominican Republic, Panama, and Guatemala, that would transfer an additional $40 million to those countries (based on 1981 and preliminary 1982 data).

b) If Congress eliminated the duties and fees for Caribbean Basin sugar, treating the region as it does U.S. producers except that it would still restrict the quantity of exports, therefore maintaining the price, that would allow the region to earn approximately $120 million more.

c) If Congress were to retain the quota for all nations except those in the Caribbean Basin, then the region would earn almost as much as it earned before the quota system came into effect.

--Fourth , the CBI will need to address the problems generated or not addressed by its precursor, Puerto Rico's Operation Bootstrap, if it is to succeed. Specifically, it should be revised to emphasize agricultural development, population control, and integrating new investments into the national economies. The original trade and tax provisions would encourage "enclave" industries, which import most or all of their raw materials and export their entire products. Moreover, the tax provisions are biased to encourage capital-intensive investments by wholey-owned foreign investors. The bill should be revised to encourage joint partnerships, to assist rather than crush the local private sector, to promote labor-intensive investments that create jobs, and to invite plants which will integrate themselves into the national fabric. For example, the U.S. ought to help the tourism industries to establish "backward" linkages to purchase food locally and "forward" linkages to handicraft industries.

The idea of trying to encourage greater agricultural self-sufficiency, as the "Bread for the World" provision is said to aim to do, is extremely important. But for the U.S. to contribute to solving the agricultural problems of the area, we need to work closely with the nations of the region, rather than just make demands on them. A more felicitous re-wording of this provision might correct this problem.

--Fifth, instead of undermining the Caribbean Development Bank, the U.S. ought to literally join the Bank, and instead of negotiating bilateral investment treaties and trade agreements, the U.S. ought to do everything to encourage regionalism.

--Sixth, building on the ingenious but risky new PDAP program of A.I.D. and Coopers and Lybrand, the U.S. should explore new ways to assist the private sector -- perhaps an "Adam Smith" Volunteer Program, whereby junior executives from various corporations would volunteer their services for say one year to help get local entrepeneurs started. But the Administration should be wary about concentrating exclusively on the private sector when so much remains to be done in the public sector.

--Seventh, the CBI will increase the region's economic dependence on the United States in ways which could eventually lead to political problems. To reduce dependence, the United States ought to encourage joint ventures with local entrepreneurs, promote investment from Europe and Japan, and encourage Mexico and Venezuela to open their markets to the region's products.

What is most important, however, is to set in motion a genuinely regional negotiating process -- not 24 or more separate negotiations -- for discussion and eventually seeking some consensus on the key issues of the Caribbean Basin. This should build on the Basin's subregional institutions -- clustered around the Central American Common Market and the Caribbean Community -- which are currently languishing, but have been among the most dynamic and productive in the developing world.

Given the obvious need for so many small nations to establish a common market and also the political and cultural difficulty of doing this, it is important for other countries like the United States, Venezuela, Colombia, Mexico, Japan and those in Europe to use their aid, advice and influence to encourage regional integration. Every six months, the Finance Ministers of the region should meet to discuss an agenda prepared by their secretariats of the subregional institutions. The Ministers should try to rejuvenate these institutions, mesh and rationalize national development plans to facilitate complementarity, coordinate services, encourage improvement in regional transportation and communications, and promote regional products. The U.S. should stand ready to help.

Finally, we need to focus on improving our understanding of the complex relationship between migration and development in the region, and on developing proposals -- both in development assistance and in the immmigration area -- which would multiply the positive impact of migration on development in the sending countries and minimize the costs of migration.

In conclusion, the Caribbean Basin Initiative, which President Reagan proposed on February 24, 1982, has come due, and I hope Congress will pass it in a form which is as close to the original proposal as possible. If the bill is watered down any more with product exemptions, or country conditions, it may very well sink in the Caribbean Basin. And there are many hopes and promises that would sink with it. Let's not let than happen.

Thank you.

Robert Pastor

SINKING IN THE CARIBBEAN BASIN

Reprinted From

FOREIGN AFFAIRS

AN AMERICAN QUARTERLY REVIEW

SUMMER 1982

FOREIGN AFFAIRS

SUMMER 1982

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Robert Pastor

SINKING IN THE CARIBBEAN BASIN

If someone asked about a "Caribbean Basin" 20 years ago, you might have referred him to a geographer or to a West Indian plumber. When President Ronald Reagan announced his Caribbean Basin Initiative on February 24, 1982, however, all the questions concerned the initiative. Apparently, everyone now knows where the Caribbean Basin is; indeed, there is a growing impression that we are sinking in it.

Deepening U.S. involvement in the conflict in El Salvador and the possibility that the conflict might spread are doubtless the principal reasons why Americans are beginning to get that sinking feeling about the Caribbean Basin, but hardly the only ones. Boatloads of Haitians and Cubans, Mexican pride and a porous border, a formidable narcotics traffic which eludes the U.S. Navy and Coast Guard, Nicaragua defiant, Cuba undaunted, Grenada oblivious—these are some other examples of why U.S. ability to influence, let alone control, developments in the region seems to be slipping.

Many of the problems facing the United States and other nations in the region precede the Reagan Administration and in part explain the initial appeal of the Administration's tough talk and aggressive posture. However, while the Reagan Administration's language is the most belligerent of any Administration since the United States traded in its big stick for dollar diplomacy, Washington still hasn't plugged the holes in the ship of state. It hasn't gained control of its southern border; it still hasn't cowed Castro or preserved pluralism for Nicaragua or saved El Salvador. Needless to say, this is not for want of trying.

In his speech to the Organization of American States (OAS), however, President Reagan unveiled a Caribbean Basin Initiative

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(CBI) aimed at promoting political stability and economic development in the region and at solving the underlying causes of illegal migration. The principal elements of the comprehensive CBI program are one-way free trade, investment incentives, increased economic and military aid, technical assistance to the private sector, and special help for Puerto Rico and the Virgin Islands. Separately, the Administration has been working with Congress on new legislation to address the problem of the uncontrolled and illegal flow of migrants and refugees to the United States. Will these proposals stop the sinking? Before analyzing them, let us first examine the premise underlying the Administration's CBI—that a Caribbean Basin, in fact, exists.

II

The very concept of a "Caribbean Basin" as a regional system was barely plausible two decades ago. Instead, there was Central America, a region of Spanish-speaking, mostly unstable, mostly banana republics; a polyglot Caribbean of European colonies and marginally viable island economies; and Mexico. Depending on the international crisis of the moment, the United States viewed itself as either an Atlantic or a Pacific nation, but even with two U.S. territories—Puerto Rico and the Virgin Islands—literally in the Caribbean, the United States never saw itself as a Caribbean nation, and until the 1970s neither did Venezuela.

The linguistic, cultural, historical, economic and political diversity was—and remains—more evident than any shared characteristics. Indeed, all that the nations in and around the Caribbean Sea seemed to have in common was a view of the United States as the "colossus of the north" and the U.S. view of them as a "backyard."

Of course, the views of many have not changed, but the region has. Twenty years ago, there were three independent nations in the Caribbean. Today, there are 15 (25 nations if we widen the circle to include the nations on the rim of the Caribbean and 35 including dependencies)—more, in short, than the rest of Latin America. Today, more than one-third of the members of the OAS are not Spanish-speaking.

Compared to 20 years ago, nations in the region today are much more jealous and assertive of their sovereignty, in part because many are insecure about their political identity and economic viability, particularly those smaller nations which have recently become independent, and also because citizens have come to expect more from their governments. Because of proximity to the United States, these nations are more sensitive than others to suggestions that they have no greater destiny than as our backyard.

Many concerned about Central America and the Caribbean are uncomfortable about the two regions being lumped together in a single Basin, but the differences within each region are at least as great as between them. In language and culture, the Caribbean contains French/Creole-speaking Haiti, and Spanish-, Dutch-, and English-speaking islands. Central American governments range across the political spectrum from a rightist military government in Guatemala to a leftist military government in Nicaragua; Caribbean governments range even more widely from Haiti to Cuba. As to stages of economic development, the Caribbean ranges from dirt-poor Haiti to oil-rich Trinidad; Central America, from Honduras to Costa Rica, which has more than three times its per capita income.

The real issue is not whether Central America and the Caribbean should be objects of separate policies (or, for that matter, that we should have separate policies for each nation), but, rather, in what ways does it make sense for us to view them as part of a Basin.

Although some leaders like former Costa Rican President Daniel Oduber have tried to bring the parliamentary democracies of the Caribbean closer to the authoritarian polities of Central America, hoping that the latter would benefit from the contact, the "Caribbean Basin," such as it is, has not sprung into existence because of such links, because these remain tenuous and embryonic. It is true that trade in goods, services, narcotics, politics, culture and, above all, people has increased within the region and especially with the United States. But the Basin exists for two other reasons: first, the similar character of the problems each nation in the region faces and the fact that solutions require both cooperation among nations and a recognition of the interrelationship of the problems; and second, the nature of the challenge which this changing region poses for the United States, which is itself changing as rapidly as the rest of the region and in a way which reflects the region.

Except the "donor" nations—the United States, Mexico, Venezuela, Colombia and oil-producing Trinidad—the nations of the Caribbean Basin are relatively small in size and population (ranging from 76,000 in Antigua to seven million in Guatemala). Most lack natural resources and are dependent on the production of a few basic commodities, although, as development has proceeded, the economies have become more diversified. The population of the region has doubled since 1950 and will double again by the end of the century. The labor force is expanding at annual rates of 2 to 3.5 percent—much faster than any of the economies can absorb—which results in chronic and dangerously high unemployment, a crisis barely below the surface. Scarce public resources are skewed toward dealing with the political and social consequences of the high unemployment and the high rate of urbanization rather than toward dealing with the causes. The cheapest short-term answer to these problems has been illegal migration.

Proximity to the world's largest and richest market offers the region both its greatest opportunity and its biggest problem. Advances in transportation and communications have increased the gravitational attraction of the United States. Advertising, which pushes products and commercial values and inflates expectations, also pulls people to the United States—not just the unemployed but also the best trained and the most upwardly mobile.

In 1973-74, when the first oil shock occurred, the prices of the region's export commodities—sugar, coffee and bauxite—were sufficiently high to cushion and mitigate the impact. In 1979 the commodity prices were down as sharply as oil was up, and the nations of the region were caught in a vise, unable to pay their bills. The economic downturn was exacerbated by natural disasters in the Caribbean and political earthquakes in Central America. Finally, the U.S. recession and high interest rates deepened the debt and halted growth; some countries fell backwards. In 1981 the Caribbean Basin countries needed $3.6 billion in net capital inflows just to stay afloat; a World Bank official estimated the gap at $4 billion in 1982.[1] Because of the economic and political crisis of 1979-80, the latent crisis in the region became manifest.

The United States has traditionally viewed Central America and the Caribbean as a unit for strategic reasons, but there are additional reasons for such a perspective today. First, the United States bears a large share of the social burden if the region's problems are not solved. The state of Florida, for example, spends more money on hospital services for Haitians who arrived illegally than the United States spends on foreign aid to Haiti and more

[1] Statistics cited by World Bank, International Monetary Fund sources. See Richard Feinberg and Richard Newfarmer, Testimony before the Senate Foreign Relations Committee on the Caribbean Basin Initiative, March 31, 1982.

than Florida can afford without shrinking its services for Floridians. Second, the United States is itself becoming a Caribbean nation, in part because of the largest wave of migration from a single source since Southern and Eastern Europeans arrived here at the turn of the century.

Ten to twenty percent of the population of several Caribbean Basin nations now live in the United States. Our communities and problems are becoming connected: just as Liberty City in Miami rioted to protest the influx of Cubans, we might see parallel riots in Barbados and in Brooklyn, in Mexico City and in Los Angeles to protest the closure of the U.S. labor market.

The outlines of a Caribbean Basin as a region are beginning to emerge. The problems of most of the small and vulnerable nations are similar, interrelated, and require some cooperation and integration to resolve. No one would suggest that the region is fully integrated or that any single overarching U.S. policy is sufficient to address the many economic, political and immigration problems in a way that would do them justice or reflect the uniqueness of each nation. But the Administration's Caribbean Basin Initiative represents the first recognition that the region's problems require a comprehensive response and that the United States has an important and direct stake in the region's future.

III

The Carter Administration started with an interest in promoting economic development in the Caribbean but eventually returned to a concern for national security; the Reagan Administration, reflecting a more traditional approach, made the same journey in the opposite direction. Historically, primary U.S. interest in the region has not stemmed from any desire to extract resources or to implant a political philosophy, although examples of both are plentiful. The United States has been motivated not so much to control the region as to keep out others viewed as hostile. While some see this as imperialistic or hegemonic, in fact, no nation is passive or indifferent to the possible establishment nearby of a regime that is hostile or tied to a powerful adversary.

If one of the problems inherent in the Carter Administration's approach to the region and the world was that ~~it tried to~~ balance too many national interests and values simultaneously, the Reagan Administration has not been similarly burdened. Indeed, it has not wavered in its singleminded policy of anti-communism. "If we do not act promptly and decisively in defense of freedom," President Reagan proclaimed in defense of his Caribbean Basin

Initiative, "new Cubas will arise from the ruins of today's conflicts. We will face more totalitarian regimes, more regimes tied militarily to the Soviet Union, more regimes exporting subversion, more regimes so incompetent yet so totalitarian .... "

The Reagan Administration ironically discovered the Caribbean Basin in El Salvador—the only nation in the region that doesn't touch the Caribbean. By drawing lines against communist aggression and expanding military aid and advice, the Administration sought to demonstrate our nation's new resolve and, by doing so, to reassure our friends and frighten our enemies. Unfortunately, its militant and Manichaean rhetoric had just about the opposite of its intended effect.

Reassured that their old enemy was back in all its imperial splendor, Marxist-Leninist guerrillas have tried to use Reagan's own rhetoric to assert their nationalistic credentials: if anything, guerrilla strength in Central America is greater today than two years ago. Similarly, the governments of Cuba, Nicaragua and Grenada were neither bluffed nor frightened into submission; quite the opposite. These governments have used U. S. hostility as an excuse to squash internal dissent and mobilize the people, and obtain and justify more armaments than all their immediate neighbors combined. Moreover, according to the Administration, Nicaragua and Cuba are still sending arms and providing support to the guerrillas in El Salvador.

As for our friends in Latin America and Western Europe, some were frightened that the Administration might really believe its own rhetoric, and make, in the words of Mexican President José López Portillo, "a gigantic historical error" by unilateral military intervention; others were just bewildered that the Administration could talk seriously about "imported terrorism" as the "source" of the problems in the region. Venezuelan President Luis Herrera Campíns postponed his state visit to the United States for six months because of the new Administration's militaristic approach to the region's problems, and subsequently took the unprecedented step of protesting NATO naval maneuvers in the Caribbean before the Organization of American States.[2]

In response to criticism by our friends that the Administration's view of the East-West struggle in the Basin was simplistic and ignored the long-term socioeconomic roots of the crisis, the Administration began consultations in the spring of 1981 with Canada, Mexico, Venezuela and later with Colombia on ways to

[2] Jackson Diehl, "Venezuelan Criticism: Leader Attacks U.S. Policy," *The Washington Post*, March 24, 1982, p. 1.

address the economic problems in the area. When the CBI was announced, however, it rested squarely on a national security rationale: "Make no mistake," President Reagan said, "the well-being and security of our neighbors in this region are in our own vital interest." The plan was developed to help the nations of the region cope with the economic crisis stemming from sharply deteriorating terms of trade, and a security crisis stemming from "imported terrorism . . . the expansion of Soviet-backed, Cuban-managed support for violent revolution in Central America."

As part of the program to enhance the security of the region, the Reagan Administration significantly increased military aid and training. Above the $50 million initially requested for Fiscal Year 1982, the Administration requested a supplemental of $60 million, and for FY 1983, $112 million. El Salvador would receive about 70 percent. Similarly, nations wracked by instability would receive balance-of-payments support to import critical materials. But to stabilize the security of Central America, a political-military strategy is far more important than the quantity of resources. In 1980, for example, the United States gave no lethal military equipment to El Salvador but used economic aid and the promise of military aid to influence the military to undertake agrarian and other reforms, and reduce repression. The government was stronger at the end of the year and the Left weaker than at the end of 1981 when over $50 million in military aid was delivered without extracting any meaningful promise for it.

Although the CBI may have been born of the struggle in Central America, the most significant trade and investment provisions will have the least impact on those countries with the most urgent need for political stability. Indeed, the Administration may have a difficult enough time just to keep the Export-Import Bank and the Overseas Private Investment Corporation—two U.S. agencies responsible for promoting U.S. trade and investment overseas—from deserting those countries altogether, since their legislative mandates limit their involvement in nations at risk.

IV

The CBI, however, will help develop the stable but economically strapped nations in the region—like Panama, Costa Rica, Jamaica—perhaps more than anything any previous Administration has proposed.

The "centerpiece" of the program is free trade for all Caribbean Basin products except textiles and apparel for a 12-year period. The one-way free trade concept represents a sharp break in U.S.

foreign economic policy—comparable in principle, if not in impact, to the shift in 1934 in the Reciprocal Trade Agreements Act, which tied the United States to the principle of reciprocity, most-favored nation (MFN) treatment and declining tariffs, and to the movement in 1947 to multilateralism and the General Agreement on Tariffs and Trade (GATT). Since World War II, the United States has been the leader in reducing barriers to world trade, and while condoning exceptions by our allies whether for economic integration—as with the European Community (EC)—or for fostering development—as with the Lomé Agreement between the EC and its former colonies—the United States has always resisted any temptation to replicate a regional approach to trade policy. Even in the mid-1960s, when some urged the U.S. government to develop a special trade arrangement for Latin America as the EC had done for its African, Caribbean and Pacific colonies, this proposal was rejected in favor of a global, generalized system of tariff preferences.

The Reagan Administration overrode the reservations of the economic globalists with the strategic argument that it was an essential element in a comprehensive strategy for countering the communist threat to the region. The economic arguments then easily reversed themselves: the CBI didn't represent a retreat for U.S. interests in a global trade policy but rather was an effort to increase the capacity of developing countries to participate in the global trading system. Moreover, the plan would help the region and U.S. consumers much more than it could possibly hurt those few producers who might be adversely affected by the competition. The problem of squaring the Initiative with GATT can be resolved by requesting a waiver.

Since about 87 percent of current Basin exports enter the United States duty free, and about another five percent will be excluded as textiles, several economists have estimated that the total increase in trade for the first year may be as little as $100 million, or one percent of the region's current trade.[8] However, the ferocity with which unions and industries representing leather and rubber footwear, rum, automobile parts, tuna, mushrooms and perishable farm products have lobbied Congress to exempt their products suggests that a static economic analysis of current exports may considerably underestimate its potential dynamic impact. The incentive for medium-sized investments in light manufactures and

[8] Albert Fishlow, Testimony before the Senate Foreign Relations Committee on the Caribbean Basin Initiative, March 31, 1982; see also Richard Feinberg's testimony.

horticultural products, which could create the most jobs and have the most beneficial economic impact on the small economies in the area, could be considerable, more so because of the liberalization of the "rules of origin" provisions, making it more profitable for foreign businesses to complete the assembly of their products there.

Trade has been the "engine of growth" in many small developing countries. Between 1950 and 1980, Central American trade increased eighteen-fold, stimulating the economies to an annual rate of growth of about five percent. The CBI could become a potent force for further economic diversification and expansion; one has only to consider the effect if just two or three medium-sized firms are encouraged to invest in one of the small eastern Caribbean nations. In the long term, one-way free trade is clearly the most important part of the program, although negotiations with Congress and governments in the region could delay its impact for a couple of years.

By eliminating the duty but not the fee on sugar imports from the region, the Administration proposed to give sugar producers a slight preference over other foreign exporters, but not so much as to compete equally with U.S. sugar growers. On May 4, 1982, however, President Reagan decided to raise the domestic price of sugar by establishing a global quota system with no preference for the Basin. This will reduce the amount of sugar Caribbean countries can sell to the United States by about one-third and leave several of the sugar producers considerably worse off than they were before the CBI was announced. Similarly, for fruits, vegetables and meat, the CBI eliminates the duty, but domestic programs can restrict the quantity of exports—duty-free but not free trade.

Had the President articulated a more comprehensive vision of the United States as a part of the Caribbean, it would have been logical to argue for either eliminating U.S. domestic agricultural support programs—e.g., sugar, vegetables, cotton and beef—or broadening them to include the Caribbean. Just as the U.S. government intervenes in the market to protect U.S. growers, it would do the same for those from the Basin.

Similarly, President Reagan pledged to extend more favorable treatment to Caribbean Basin textile exporters even while seeking tighter limits from all exporters. As with sugar, it would have been preferable not to limit textile exports from the region, but this is not politically feasible at this time. However, given the mobility of the textile industry and its sensitivity to labor cost differentials, it is quite possible that this marginal advantage might induce important new investments in the area.

While the Administration insists that it wants to discard the paternalism of the past, it suggests that each country will have to satisfy certain economic and political conditions before obtaining its benefits. Such negotiations cannot help but delay the program and be grossly unequal and paternalistic; undoubtedly, we will seek to extract economic pledges, which would be better sought by international institutions like the International Monetary Fund (IMF), and political conditions, which could very well dissipate the goodwill generated by the program. Rather than authorizing the President to take into account these economic and political factors before designating a beneficiary, Congress should simply legislate a single, uniform trade policy toward the region, much as it did in the generalized tariff preferences in 1974.

The second part of the program is to encourage U.S. investment in the area by applying the ten-percent domestic tax credit to new investments in the Basin. This has two problems. First, by providing a credit for new investments in plant and equipment, it is inherently biased toward encouraging capital-intensive investment whereas the region desperately needs labor-intensive investment. Second, the credit is biased against joint ventures since parent companies can only claim a credit proportionate to their share of the new investment.

Combined with the bilateral investment treaties and increased insurance from the Overseas Private Investment Corporation, the Administration is trying to reduce the political risk and increase the economic incentive to U.S. business to invest in the region. The investment program, however, might create as many problems if it succeeds as if it fails. Almost all of the nations are quite small. Large or numerous foreign investments could translate into disproportionate economic and political power, which in turn could lead to strident nationalistic reactions several years down the road. It would be better for all if U.S. investors would seek joint ventures with local entrepreneurs; this might lead to some added costs and temporary irritations, but it would be the best way to guarantee both investments and good relations in the long term and also help the local private sector. It would be preferable for all Caribbean Basin governments to join in mandating rules for joint ventures, but, as this is unlikely, Congress should do it.

The third element in Reagan's program, increased aid, represented a significant change from the Reagan Administration's own position of a year earlier. Since the 1973 Foreign Assistance

Act, which was intended to target U.S. aid to the poorest countries in the world (of which only Haiti is in the Basin), those in the U.S. government concerned about the Basin countries had to push uphill just to keep "middle-income countries" like Costa Rica, Panama and Jamaica from being phased out of the program. Nonetheless, the Carter Administration had been able to increase aid to the Caribbean to over $150 million in FY 1980—five times what it had been in FY 1975, and quadruple total aid to Central America to over $250 million in FY 1980.

Before the first consultative meeting with Venezuela, Mexico and Canada in Nassau in July 1981, U.S. Trade Representative William Brock, who coordinated economic policy toward the Basin, told reporters that the Administration's approach would stress private investment and not ask Congress for more aid money.[4] One measure of the evolution of the Administration's approach was that, despite the deepest budget cuts in recent U.S. history, it requested a supplemental of $350 million above the $475 million already budgeted for FY 1982 to the region. The Administration had obviously heeded the advice of friends in the area, including Antiguan Prime Minister Bird, who said that he agreed with the idea "that developing countries must pull themselves up by their own boot straps . . . but first we must have the straps by which to pull up the boot."

The $350-million supplemental, representing only ten percent of the region's total external capital needs in 1981, is insignificant compared to the size of the economic problems; it is insignificant compared to the Marshall Plan ($17 billion of mostly grants over four years); and it is less than ten percent of what the United States is giving each year to Israel and Egypt. But it is significant in the context of the rest of the Reagan budget, and represents nearly a doubling of U.S. aid to the region in a single year. Besides $128 million for the crisis in El Salvador (bringing the total 1982 aid to $232 million for that country), creditable amounts are also requested for democracies in the area whose crises are less immediate but just as important—countries like Costa Rica ($70 million); Honduras ($35 million); Jamaica ($50 million); and the Dominican Republic ($40 million). Equally important is the multi-year commitment for $664 million in FY 1983, although most of this is balance-of-payments support.

The emphasis of the Administration's aid program is to assist the private sector. Most foreign aid programs are unintentionally

[4] Juan DeOnis, "U.S. Caribbean Plan to Stress Private Investment," *The New York Times*, June 14, 1981, p. 23.

biased toward the public sector since the private sector is weak or nonexistent in most developing countries and only the governments can meet the nation's development needs. In small countries, the public sector grows so much faster than the private sector that public financing becomes tenuous, and governments have to rely increasingly on external support even for routine services. This is an especially acute problem in the Caribbean, where the nations are more like poor city-states, and so the Reagan Administration's emphasis on assisting the private sector makes sense, provided that a proper balance is maintained. This, however, does not appear to be the case. The Reagan Administration is showing the same reluctance as its predecessor to start up bilateral aid programs in the eastern Caribbean where important public projects—like airports, roads, ports—are prerequisites to private investment. And given the needs, the supplemental request of ten million dollars for the private sector is a veritable pittance.

The best way to multiply U.S. aid to the region, however, is by contributing to the international development banks, which loaned $1.6 billion to the region in just the last two years. Unfortunately, the Administration has reduced U.S. contributions to these institutions by 25 percent.

If Congress feels at all reticent about funding the program at the aid levels requested by the Administration, it ought to consider for a moment the magnitude of transfers from the Caribbean Basin to the United States each year. First, Latin America and the Caribbean are now repaying the United States for loans made during the Alliance for Progress at a level that exceeds new loans to the region from the United States. Second, the high interest rates in the United States, the political instability in the region, the strong dollar—all attract large volumes of capital from the region to the United States, estimated to exceed $500 million from Central America alone last year, 50 percent above the supplemental request. Third, most of the billions of dollars from narcotics trafficking passes through Miami banks for investment in the United States. Fourth, increasing numbers of people from the region visit Miami or the Southwest on extravagant shopping sprees. Finally, the region provides the United States with technical assistance at no charge, and at two levels. Some of those who legally migrate to the United States are professionals and managers, who have been trained in their own countries. (This "brain drain" was estimated by the U.N. Conference on Trade and Development to have cost all the developing countries $46 billion since 1961.) Second, each year the region supplies the

United States with nearly 500,000 low-skilled, inexpensive laborers, who do everything from serving in restaurants to child care.

The remainder of the program is technical assistance and training to the private sector, an expanded Peace Corps program, and additional benefits to Puerto Rico and the Virgin Islands.

The full importance of the CBI can only be understood by analyzing the implications of the CBI for Puerto Rico and the implications of Puerto Rico's development experience for the CBI.[5] By eliminating tariffs and granting tax credits to the rest of the Caribbean, the CBI, in effect, extends much of the economic benefits of investing in Puerto Rico to the rest of the Caribbean. As such, it not only denies to Puerto Rico the competitive advantage it once enjoyed over the rest of the Caribbean, but also places Puerto Rico at a competitive disadvantage since it will still have to adhere to minimum wage laws, environmental statutes, and occupational safety regulations which increase the cost of labor relative to the rest of the Caribbean. Moreover, as Rafael Hernandez Colón, the leader of Puerto Rico's pro-Commonwealth Popular Democractic Party (PDP), points out, the United States is not so much opening its market to Caribbean goods as it is opening Puerto Rico's market, whose agriculture and industry are much more vulnerable to import competition.

The Administration negotiated with Puerto Rican Governor Carlos Romero Barceló, the leader of the statehood party, a number of special arrangements to mitigate the effect of the CBI on Puerto Rico: excise taxes on all imported rum would be transferred to Puerto Rico (and the Virgin Islands); the accelerated cost recovery system and the full domestic investment tax credit will be extended to the islands; and other trade provisions will be modified to give them a slight break over the rest of the Caribbean. Instead of making Puerto Rico a little more like a state in the Union, as the Governor's package does, the PDP would like to obtain some of the attributes of sovereignty which the rest of the Caribbean enjoys, e.g., negotiating bilateral trade agreements, while suspending some of the U.S. laws which put them at a disadvantage.

Puerto Rico's development experience, Operation Bootstrap, which is essentially the same as the CBI, produced neither a miracle nor a basket case; however, a detailed survey of what went wrong and how it could be avoided should be a prerequisite before beginning the CBI. There are three obvious problems which should

[5] I am indebted to Maurice Ferre, Mayor of Miami, for first suggesting this point at a conference on the Caribbean sponsored by Seven Springs Center, March 1982.

be avoided. First, there is a tremendous need for a population program—even greater for the Caribbean, as the United States is very likely to begin to shut off the valve from that area just at the moment in the development process that large-scale emigration from Puerto Rico began. Second, important public investments in agriculture are essential. During "Bootstrap," Puerto Rico lost more jobs in agriculture than it gained in manufacturing. And third, new investors should be encouraged to look to the nation in which they are investing for raw materials and for markets rather than just to the United States; assembly operations alone not only foster dependence, they also miss valuable development opportunities to multiply investment.

The major Caribbean Basin issues of concern to the Administration—national security, economic development and immigration—are of course beyond the reach of the United States to solve by itself. Therefore, a major thrust of the program ought to be toward gaining regional cooperation; this is the most neglected element of the Administration's approach. Consultations with Mexico, Canada and Venezuela were used more as a multilateral gloss to disguise four separate "initiatives" than as a genuine attempt to develop a single regional program. In part, this is because the other governments are hesitant to identify with the political/military strategy of the Reagan Administration, and in part because the Administration apparently feels that its political leverage in the area is enhanced by a bilateral rather than a multilateral approach, but this is shortsighted.

Canada used the World Bank's Caribbean Group to announce a doubling of its aid to the region; the Reagan Administration has still failed to demonstrate its commitment to the Group, which was established under the World Bank's leadership in 1978 and now includes 31 nations and 15 institutions. It has coordinated and doubled aid to the region—from $467 million in FY 1978 to $1 billion in FY 1980—and has been multilateral at both ends—coordinating aid from donors and encouraging regional cooperation from recipients. In January 1982 the six Central American countries invited the Inter-American Development Bank to chair a consortium group similar to the Caribbean Group.

Also discouraging is the Administration's decision not to promote regional economic integration, an essential objective for the small economies in the Basin, as a part of the program. In attempting to force the Caribbean Development Bank last year to deny a loan to Grenada, the Administration showed an unfortunate readiness to risk weakening and dividing this key development institution. The members of the Bank, who share our lack of sympathy for the undemocratic government in Grenada, still saw a more important principle at stake, and rejected our efforts. The United States ought to literally join that Bank rather than fight it. When the Caribbean Community foreign ministers met in Belize on March 31, 1982, they welcomed the CBI, but with this incident in mind, they also expressed the hope that it wouldn't undermine regional integration.

Our political efforts in Central America also seem directed at dividing the region and excluding Nicaragua, rather than encouraging regional cooperation. If the six nations had additional resources to allocate for regional projects this would be an important incentive for Nicaragua to seek more cooperative relations with its neighbors. While Reagan insisted that we would exclude no one from the CBI, he also hinted that those who have "turned from their American neighbors and their heritage" would first have to return to these traditions before we would welcome them. This is curious language for the 1980s: What is this Caribbean Basin "heritage?" Ironically, in the interest of gaining negotiating room, the State Department might very well find itself in the unusual position of lobbying Congress not to exclude Nicaragua or Grenada.

Ambassador Brock did an exceptional job coordinating and developing this program, but there remain two key tests for it to pass. If the Administration is sincere in its commitment to the program rather than using it as a rationalization for its policy toward El Salvador, it would separate out that part of the program which relates to El Salvador, if it becomes too controversial. Second, the test of the program is not in its announcement but its passage through Congress, free of amendments which protectionists would like to attach to exclude products from the CBI.

The purpose of the CBI is to shore up the economies of the region to withstand the pressures of communist subversion, but the most profound elements in the program are not likely to begin having much of an impact until several years from now—perhaps after the immediate crisis has passed. Even then, it is extremely unlikely that U.S. or any business will invest where terrorism is prevalent. In politically stable areas, however, the CBI can have a very positive impact, particularly if the U.S. economy begins to recover. Investors will be attracted by the guarantee of duty-free access to the U.S. market. In nations where the economies are especially small, such investments can have a dramatic multiplier effect on the entire economy, creating jobs and local entrepreneurs.

V

The main problem with the Administration's Caribbean Basin Initiative is that it omits people. While the proposal concentrates on ways to lower barriers and facilitate the movement of goods, services, capital and technology, it fails to take account of the fact that the most dramatic movement within the region with the most far-reaching implications has been by people, and almost all of it occurs independent of government preferences or policies, and indeed much of it is outside the law. The flow of people has been in many directions—Grenadans to Trinidad, Colombians to Venezuela, Guatemalans to Mexico—but by far the largest movement has been from the entire region to the United States.

Before 1960, migration from the Caribbean Basin to the United States was relatively insignificant—about four percent of total immigration to the United States since 1820. During the last two decades, as a result of an exploding population in the region and a more liberal law in the United States permitting the most diverse flow of immigrants in U.S. history, the Caribbean Basin became the largest source of migration: nearly one-third of all legal U.S. immigrants; two-thirds of all political refugees (from 1961 to 1977); and nine-tenths of all undocumented workers—a total of about 8.5 million people.

Even a cursory analysis of the social and demographic, economic and political dynamics of the region suggests that the "push" factors will be stronger over the next two decades than they were over the last two, when they kept pushing even when the U.S. economy stopped pulling. Economic institutions in the area are not vital enough to employ the expanding labor force, which will almost double during this time; nor are political institutions flexible enough to channel the energies of a youthful and demanding population. All this will result in either large numbers of legal and illegal emigrants and refugees or more serious social and political tensions in these countries, or both.

"We have lost control of our borders," complains Attorney General William French Smith. U.S. immigration is "out of control," says Senator Alan Simpson, the Chairman of the Subcommittee on Immigration of the Senate Judiciary Committee. To start to remedy this, on March 17, 1982, after exhaustive hearings, numerous reports, and legislation introduced by two different administrations, Senator Simpson and his counterpart in the House, Representative Romano Mazzoli, introduced the Immigration Reform and Control Act to cope with the problem of illegal migration and asylum.[6]

Each year, about one million people are apprehended illegally trying to cross the southern border of the United States. It is estimated that another two and one-half million people elude the border patrol or enter the United States legally and overstay their visas; of these, most return after working for a few months, but approximately 500,000 stay. An estimated 90 percent come from the Caribbean Basin. Although Mexicans account for the largest single group, an increasing percentage come from other nations in the region. To cope with this problem, the Simpson-Mazzoli bill proposes to penalize employers who hire illegals; requires the President to develop and implement within three years a more secure workers' identification system; sets an immigration ceiling of 425,000 a year, excluding refugees; doubles admissions from Canada and Mexico to a combined total of 40,000; and grants permanent resident alien status to persons who entered the United States before January 1, 1978.

A second problem is the dramatic increase in the number of people who arrive in the United States and claim asylum. (In contrast, refugees are screened by U.S. officials outside of the country, and if judged to have a "well-founded fear of being persecuted" are granted refugee status to enter the United States.) The Immigration and Naturalization Service received 3,702 applications for asylum in 1978 and over 100,000 from 53 countries in 1980 (half were from the Cuban boatlift).[7] The process for deciding these cases is lengthy and complex and the Department of Justice requested a simpler and more direct procedure, which Simpson-Mazzoli modified slightly to ensure that the rights of the applicant are respected.

Congress, however, has been reluctant to approve the emergency interdiction authority which the President requested in order to prevent another Mariel-type boatlift, where 125,000 Cubans came to the United States illegally by private boats. This means that unless the Administration is willing to use force against Cuba and against Americans in small craft picking up their relatives, we remain as vulnerable today to another Mariel as when Fidel Castro "suspended" the operation in September 1980. The best

[6] For an excellent discussion of the political barriers to passage of legislation on illegal migration, and a review of the issue through the Reagan Administration's proposal in October 1981, see Sylvia Ann Hewlett, "Coping with Illegal Immigrants," *Foreign Affairs*, Winter 1981/82, pp. 358-78. Also see Michael Teitelbaum, "Right Versus Right: Immigration and Refugee Policy in the United States," *Foreign Affairs*, Fall 1980, pp. 21-59, for a comprehensive treatment of all the related issues.

[7] Statement of Alan C. Nelson, Immigration and Naturalization Service, before the Subcommittee on Immigration of the House Judiciary Committee, October 28, 1981.

way to deal with this problem is to negotiate an orderly emigration program with Cuba which includes their accepting the return of the 1,800 criminals sent on the Mariel boatlift.

Since the turn of the century, the United States has been preoccupied periodically with immigration issues and with the Caribbean Basin, but almost never at the same time, nor in a way that related one to the other. The 1980s are different. The Reagan Administration has invested a lot of time and effort in developing a new immigration policy and a new economic program for the Caribbean Basin; what remains to be done is to relate the one to the other. If the CBI's principal flaw is that it fails to take into account the immigration issue, a comparable problem of the Simpson-Mazzoli bill and the Administration's immigration proposal is that they do not adequately recognize the extent to which the immigration and asylum issues have become a Caribbean Basin phenomenon and that this will be even truer in the future.

If one or the other, but not both, programs pass, we might well exchange one end of the problem for the other. Though it is a modest program, if we reduced immigration but didn't assist in the development of the Caribbean, the pressures due to increased unemployment and returning workers would generate strong social and political tensions. If we helped in the development of the Caribbean Basin and didn't take steps to curb illegal migration, the flow would doubtless increase, perhaps dramatically. The assumption that more aid and development alleviates the causes of migration is incorrect. Indeed, most development strategies encourage migration by placing priority on industrialization and neglecting agriculture; internal migration to urban areas increases, and this is often just a prelude to international migration. This is especially the case in the Caribbean Basin because of the proximity to the United States.

Even if both programs passed, the underlying problems that prompted both proposals in the first place could very well worsen. The Caribbean Basin Initiative is likely to accelerate urbanization and the decline of agriculture, and, if the Puerto Rican model is an example, the pressures for migration will increase markedly; and yet with the Simpson-Mazzoli law, illegal migration would be reduced. Therefore, we will see increased internal pressures with less opportunity to escape.

It is essential to reexamine both the immigration proposals and the Caribbean Basin Initiative and modify them so that they complement rather than undermine the other. First, the Simpson-Mazzoli bill should be modified to extend the quota preference given to Mexico and Canada to the entire Caribbean Basin, in recognition that we are not only a North American nation but also a Caribbean nation. If a temporary workers program is inserted in the bill, as the Administration first proposed, then the entire Basin ought to receive first preference. Most important, while illegal migration must be made truly illegal, this should be phased in gradually with full understanding of its impact on the Basin nations. To take one example, remittances from Mexicans working in the United States are estimated at about three billion dollars or approximately what Mexico earns from tourism; if the valve is shut abruptly, many Mexican villages would have their "safety nets" cut out from under them, and the United States would share with Mexico the social and political consequences.

As to the CBI, the problem becomes one of expanding opportunities in the countries from which most migrants come so that they can cope more effectively with the consequences of a new U.S. immigration law. The development model implicit in the Caribbean Basin Initiative would create more migration problems than it would solve, but the nucleus of the program is sound; it just needs to be modified to mitigate the predictable effects and to multiply its more positive aspects.

To avoid the adverse effects of the Puerto Rican development experience, the countries of the Basin ought to accelerate population planning programs, increase investments in agriculture, particularly in small and medium-sized units, and concentrate on developing backward and forward linkages around new investments. For example, tourist facilities in the Caribbean are importing about 80 percent of their food from the United States; governments ought to encourage investors to use a percentage of their profits to invest in local agriculture and marketing projects that could make the tourist industry more self-sufficient.

The CBI will increase the region's economic dependence on the United States in ways which could eventually lead to political problems. To reduce dependence, the United States ought to encourage joint ventures with local entrepreneurs, promote investment from Europe and Japan, and encourage Mexico and Venezuela to open their markets to the region's products.

Much more emphasis needs to be placed on encouraging labor-intensive investments and identifying and eliminating disincentives in the local and U.S. fiscal systems—like the ten-percent tax credit—which are biased toward capital-intensive investment. In addition, research institutes and manpower training programs in the area and in the United States ought to focus more of their work on developing and utilizing labor-intensive technologies. Instead of reducing or eliminating fellowship programs for students from the area, such as the Humphrey North-South Fellowship Program, the Administration ought to be focusing its educational exchange budget on improving the middle and upper management skills of technicians from the area. This is one of the major problems impeding development in Jamaica, for example.

What is most important, however, is to set in motion a genuinely regional negotiating process—not 34 separate negotiations—for discussing and eventually seeking some consensus on the key issues of the Caribbean Basin. This should build on the Basin's subregional institutions—clustered around the Central American Common Market and the Caribbean Community—which are currently languishing, but have been among the most dynamic and productive in the developing world.

Given the obvious need for so many small nations to establish a common market and also the political and cultural difficulty of doing this, it is important for other countries like the United States, Venezuela, Colombia, Mexico, Japan and those in Europe to use their aid, advice and influence to encourage regional integration. Every six months, the finance ministers of the region should meet to discuss an agenda prepared by the secretariats of the subregional institutions. The ministers should try to rejuvenate these institutions, mesh and rationalize national development plans to facilitate complementarity, coordinate services, encourage improvement in regional transportation and communications, promote regional projects, rationalize the migration of people so as to minimize the "brain drain" and permit family reunifications. Perhaps a compact, or a broad regional development plan, could be negotiated in which Washington agreed to increase aid and trade opportunities and reduce the "brain drain" while the Basin countries agreed to invest these resources according to a strategy aimed at both the population and the migration problems.[8]

The United States should also demonstrate its integral relationship with the region by broadening a number of domestic policies to all the countries in the region—for example, the tax deduction on foreign conventions that originally applied to Mexico and Canada and was then extended to Jamaica should be broadened to the entire Caribbean Basin. Similarly, the United States ought

[8] See Robert A. Pastor, "Migration in the Caribbean Basin: The Need for an Approach as Dynamic as the Phenomenon," in M. M. Kritz, ed., *U.S. Immigration: Global Domestic Issues*, Lexington: D. C. Heath, forthcoming, 1983. Research for this chapter was supported by a grant from the Rockefeller Foundation.

to consider including the region in our agricultural support programs. Finally, it is worth exploring holding a summit of the region's leaders, perhaps every two years, to expedite and complete the negotiations conducted by trade or finance ministers. Such a mechanism could also be used to exchange views on the strategic issues in the region and to plan ahead for dealing with the implications of a changing demographic profile.

VI

We will not face an apocalypse if we fail to solve the problems of unemployment, migration, development and political change and security in the region, but the inability to deal with recurrent crises and long-standing problems in the area will leave us weakened and unsteady. While the Administration might view itself as charging up the San Juan Hill of the Caribbean Basin, we are actually sinking slowly under the cumulative weight of these individual problems.

The CBI, though no panacea, offers a rare opportunity to grasp the problems of the region more effectively, provided that we also replace a penchant for bilateralism with a commitment to a broader regional approach; balance our interest in promoting a private sector with our understanding of the need for a vigorous public sector; and shift the focus of our investments toward labor-intensive industries, toward agriculture, toward an integrated industrial strategy rather than just assembly plants.

We should also shift away from an exclusive preoccupation with anti-communism, confrontation and threats which help our enemies and alienate our friends, and begin to pursue the full range of U.S. humanitarian and economic interests. It is essential to recognize that the struggle against the Left in Central America cannot succeed until power shifts away from the Right, which represents a status quo which is neither equitable nor defensible. A perceived threat to U.S. security in the region has always brought out the worst and the best in the United States—a Bay of Pigs and an Alliance for Progress, intervention in the Dominican Republic and the Panama Canal Treaties. The Reagan Administration's approach to the Caribbean Basin continues this bifurcated legacy. One hopes that, rather than use the CBI to serve a bankrupt political-military strategy in the region, the Administration will apply the imagination and subtlety that went into the development of the CBI to forge a more effective approach to the security challenge.

Dr. PASTOR. I address three questions in my prepared statement. Let me summarize the answers.

The first is why we should care. We have heard a lot of reasons why we have a stake in the Caribbean Basin. We have heard a strong strategic argument made by the Secretary of State. He and others mentioned the migration argument; I would turn it around. Instead of arguing that the CBI will reduce the pressures for migration, I would argue that over the last two decades, migration from the Caribbean Basin has been so large and so important and has enriched our country so much that we have new human bonds that attach us to the region. And we have a stake in helping the nations of the region meet their economic and political challenges.

The CBI will not help them to meet their political and military challenge in Central America, but it could help to meet the economic challenge in the rest of the Caribbean. And for that reason, I welcome the opportunity to testify on its behalf.

The second question is whether it will make a difference. You've just heard two perspectives on that. One has suggested that the CBI will be so effective that it will jeopardize U.S. industries and threaten thousands of jobs. And we have also heard that it is so ineffective that it won't help the Caribbean.

Let me comment briefly on both perspectives. First, on the question of whether it would hurt the United States. I think it's obvious that the product coverage is so limited, down to 7 percent at the maximum, that the difference in size and population between the United States and the rest of the Caribbean Basin is so enormous that it is hard to believe our nation could be harmed. Indeed, I think a better case could be made that it would be helped. But I don't mean to belittle the concern about the possible loss of jobs. Only that I believe that there are more than adequate safeguards, not only built into this legislation, but built into the Trade Act of 1974.

Regarding the perspective of Dr. Pelzman that it won't really help the Caribbean Basin, I've looked at his analysis. I think it's a good analysis. I think he correctly identifies the data and methodological problems, which follow in part from the simple fact that he has to project from past history. By past history, as the Senator from Hawaii pointed out, we would not have predicted the tremendous export growth of Taiwan; we would not have predicted in 1950 that trade from Central America would have increased 18-fold, as it did; we would not have predicted in the last decade that Barbados and the Dominican Republic would have vigorous textile industries and light manufacturing.

Dr. Pelzman's analysis conceals the very large impact the CBI could have on very small countries such as Dominica which has a very large unemployment problem of 5,000. How many firms does it take to help solve this unemployment problem?

His analysis is most useful in pointing to those products which would achieve most rapid export growth. It is also useful in recognizing that development in the Caribbean Basin will require much more than just the trade initiative on the part of the United States.

The most discouraging thing I find with the current bill that has been reintroduced is quite simply it has deleted many of those items which Dr. Pelzman has identified as those products that are most likely to enjoy rapid growth at the very beginning. And I would encourage the Congress to try to return to the original bill.

In some ways, the new bill has so cut the original purpose, that I think one is almost led to ask whether the effort has lost its purpose and its promise. My own personal view is that I believe the truth can be detected between these two extreme perspectives. I think that the Caribbean Basin Initiative can make a positive difference to many of the countries, and it will not hurt the United States. And I would urge the Congress to pass it.

I would also urge the Congress to look for ways to improve it, if that can be done politically. I identify 10 specific recommendations in my statement so let me just conclude by saying that I think that the time has come for the Caribbean Basin Initiative to be passed. I think if the bill is watered down anymore with either product exemptions or country conditions, it may very well sink in the Caribbean Basin. And along with that, many promises as well as many hopes in the region would sink as well. So I encourage the committee and the Congress to pass the bill as close to the original bill as possible.

Thank you.

STATEMENT OF BOBBY F. McKOWN, EXECUTIVE VICE PRESIDENT, FLORIDA CITRUS MUTUAL, LAKELAND, FLA.

The CHAIRMAN. Mr. McKown.

Mr. McKOWN. Mr. Chairman, I will totally summarize my statement which has already been entered.

[The prepared statement of Mr. McKown follows:]

Statement of

BOBBY F. McKOWN
Executive Vice President and General Manager
Florida Citrus Mutual

United States Senate
Committee on Finance
SD-215 Dirksen Senate Office Building
Washington, D.C.
9:30 a.m.
April 13, 1983

Mr. Chairman and members of the Committee, my name is Bobby F. McKown, Executive Vice President and General Manager of Florida Citrus Mutual. Appearing with me are Jim Lundquist and Matthew McGrath, of the firm Barnes, Richardson & Colburn, counsel to FCM. Florida Citrus Mutual is a voluntary cooperative trade association whose membership consists of more than 13,300 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 support the Caribbean Basin Initiative as developed and recommended by President Reagan, and as amended. It is understood 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 and international trade councils, and it has continued to be reaffirmed by the U.S. International Trade Commission, the Trade Policy Staff Committee, and in connection with the Kennedy Round of GATT negotiations.

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 proposed to be covered by the Caribbean Basin Initiative. Should fresh citrus and processed citrus products be allowed to enter under a reduced tariff or duty free, we believe that Florida and California could be more adversely impacted than other states because of their tropical agriculture. For every $1.00 in revenue lost in the production of citrus, the loss to Florida's economy would be $3.06 based on a multiplier developed by the University of Florida.

We know that many of the Caribbean Basin 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 expanded imports increase our exposure to infestations. Increased shipments coming into Florida and other parts of the United States from those countries would substantially increase our grower members' risk of infestation by those insects and/or the likelihood of 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 should result in more thorough Customs and USDA inspection at ports of entry, rather than the decreased inspection 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 four years and 1983 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 rapidly ship large quantities of fresh citrus fruits and processed citrus products into the United States, thereby disrupting our domestic and international 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 regulation of the fresh fruit maturity standards, or USDA grade standards for fresh citrus and processed citrus products, which regulate the U.S. industry. Nor are they subjected to the EPA pesticide limitations with which our growers must comply.

We believe that the CBI countries do not need duty free entry for citrus products to the U.S. market, since their costs are considerably lower than ours, and even on a duty-paid basis, they still maintain a competitive advantage. Under such circumstances, we feel that the developmental purposes of the Initiative would not be served by elimination of the tariff.

Florida Citrus Mutual advances its belief that the Congress should build in adequate safeguards to prevent Caribbean beneficiary 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 within the Caribbean Basin, thereby gaining duty-free access to U.S. markets. We suggest that a certificate of origin be required in order to negate this transshipment possibility. In addition, we strongly support section 103(a)(2) of the bill, which was added to the CBI bill during the prior session of Congress and supported by the U.S. Customs Service. Under this provision, duty-free treatment would be disallowed for products which are the result of simple combining or packaging operations, or mere dilution with water or another substance which does not materially alter the characteristics of the article. This provision would assure that products from the CBI beneficiaries are truly indigenous in origin.

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 and essential oils be exempt, as they are very sensitive to import competition. If, however, they are not exempted from the Initiative, we 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 U.S. borders to Caribbean suppliers of citrus, these countries should be required to open their borders to us. This is and has not been true of most of the past trade agreements.

We strongly believe and respectfully request that the U.S. tariff structure for all citrus and citrus products should 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 cents per single strength gallon. The duty on frozen concentrated orange juice is 35 cents per equivalent single strength gallon. These tariff rates have not prevented imports from coming into this country when needed. 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 or detriment to their development. I call your attention to the fact that imports of citrus juices (not concentrated) have increased substantially since 1977, as follows:

1978:	148,099 gallons (single strength)
1979:	221,796 gallons (single strength)
1980:	1,008,211 gallons (single strength)
1981:	10,096,688 gallons (single strength)

The value of those same imports in dollars has increased from $547,081 in 1978 to over $16.6 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 1982 there were 396.1 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 1981-82 price was only $1.71 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 the 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 the provision of duty-free or preferential treatment, would further increase citrus supplies and destructively reduce citrus prices in the 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 28 percent of parity in the case of grapefruit; and 66 percent of parity for oranges, according to recent USDA Agricultural Prices Reports.

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 opportunities abroad. We ask your consideration and assistance in this area, and point out that this situation should also be borne in mind.

Our industry is not price-supported or 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 is increased through distribution.

The foreign supplier, including the Caribbean Basin countries which wish to move into this market created by our growers, generally enjoy a cost of production advantage, due primarily to lower wage rates and fewer governmental requirements which protect the consumer and the environment. Additionally, foreign government subsidies for exports from many other citrus-producing countries are quite liberal.

I respectfully request that you particularly review one page of highlights (as reproduced from a circular of the USDA Foreign Agriculture Service, February 1980 report) appended to this Statement, regarding Mexican citrus producers. Particularly interesting is the headline of the story: "Mexican Producers Look To U.S. Market to Absorb Bigger Output." The first paragraph states, "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."

The article further states: "Because of a belief that U.S. orange juice demand will remain strong and Mexican orange production will climb, Mexican orange juice processors are increasing the number of processing plants from the 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 who already have significant competitive advantages, 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 government-subsidized export industry in response to a Florida freeze. We have seen them build an industry that is now approaching the size of ours, yet utilizes none of its products for home consumption. Brazilian frozen concentrated orange juice is not consumed in any quantity in Brazil, yet they are producing almost as much processed citrus as we in the United States. Their entire industry is built for export purposes, and it is built to move into our already grower-developed markets, using 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 a communist country, Cuba would be exempt under section 102(b)(1) or (2) of the current proposal; however, we recommend that notwithstanding this provision, a mature citrus producing industry of the acreage magnitude of Cuba should be excluded from the list of potential beneficiary countries, in section 102(b).

Additionally, we strongly encourage that an additional safety mechanism be provided to the U.S. citrus industry whereby accelerated action would be undertaken by the U.S. Government should duty-free imports through the CBI program partially or potentially injure the domestic industry. We support the fast-track mechanism set forth in section 103(f), but we urge that it be expanded to cover citrus products, as well as fresh citrus, and include citrus juices (TSUS 165.30 and 165.35), orange peel (TSUS 152.14) and orange and grapefruit oils (TSUS 452.44 and 452.28).

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 the CBI countries from being used as a conduit for others. If any trade liberalization should be negotiated between this country and citrus producing countries of the Caribbean Basin, our government should recognize and take into account those citrus items that are price sensitive and 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 exempted from any tariff reduction during the course of any international trade negotiations and development of the Caribbean Basin Initiative legislation. We believe that we have amply supplied sufficient justification with supporting data for this decision.

Thank you for affording Florida Citrus Mutual an opportunity to present its statement. If you have need for any additional data, we stand ready to supply same, and I will be happy to answer any questions you may have.

Respectfully submitted,

Bobby F. McKown
Executive Vice President
Florida Citrus Mutual

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
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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
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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
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Mexican Citrus Producers Look to U.S. Market To Absorb Bigger Output

By John H. Wilson

Foreign Agriculture/February 1980

[redacted]

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.

[redacted]

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 1,260 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 3,080 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).

Because of a belief that U.S. orange juice demand will remain strong and Mexican orange production will climb, Mexican orange juice processors are increasing the number of processing plants from the existing nine—six of which produce juice concentrate—to 15 by 1981/82. Three of the new plants will be located in Veracruz and one each in Nuevo Leon, Tamaulipas, and Yucatan.

The additional plants will, in effect, enable the industry to double its overall juice processing and evaporating capacity. The existing plants have the capacity to remove [illegible] pounds of water per hour and have a total of 60 [illegible].

To improve its competitive position in relation to U.S. and [illegible] orange juice, one of the [illegible] Mexican plants at Montemorelos recently installed eight 100,000-gallon cold storage tanks to reduce its juice handling costs, insure uniform blend consistency, and facilitate bulk transfer. Similar tanks have been in existence in Florida for 5 years, but these are the first in Mexico.

By the middle of next season, this plant will begin to ship some of its output to the United States in bulk rather than in conventional 55-gallon drums. Frozen slush juice will be transported by truck in stainless steel tanks holding 20-22 tons at temperatures below freezing.

The juice will be reconstituted and/or packaged in a nearby U.S. state. By shipping such large quantities of juice for [illegible] distances involved, [illegible] savings in [illegible]

About 70 percent of Mexico's orange juice output [illegible] United States. [illegible] juice exports [illegible] Bahamas, and West Germany [illegible] other important buyers.

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.

U.S. orange juice imports have soared from [illegible] million gallons (single-strength equivalent) in calendar 1976 to [illegible] million gallons in 1978. Almost all of the increase came from Brazil, which is the world's No. 1 orange juice exporter [illegible] Mexico. [illegible] from Mexico amounted to [illegible] million gallons and those from Brazil [illegible] million gallons. [illegible]

[illegible] Mexican orange juice industry is optimistic that U.S. demand will continue strong during the next several years despite [illegible] fluctuations. 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.

There are four plants in Mexico that section citrus and other fruits, and [illegible] Nuevo Leon. About 90 percent of Mexico's output comes to the United States and about 10 percent is shipped to Canada.

In calendar 1978, the United States imported [illegible] Mexican prepared [illegible] oranges and grapefruit [illegible] valued at [illegible] million, and [illegible] Mexican prepared fruit mixtures worth [illegible] million. [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 60 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. □

Mr. McKown. Florida Citrus Mutual is a voluntary cooperative trade association representing more than 13,000 citrus growers in Florida. We support the Caribbean Initiative as developed and recommended by President Reagan, and as amended, which is before your committee at this time.

The economic assistance which would be provided by this program, we believe, would be helpful to the small developing countries and the nations in Central America, the Caribbean, and northern South America. We believe that this is warranted. We also believe that any program that the Congress approves should take into account the importance of the citrus industry to Florida and to the United States, the price and the import sensitivity of fresh citrus and citrus products.

Mr. Chairman, as you know, we employ directly in the State of Florida 86,000 people in the citrus industry and another 87,000 indirectly as a part of our $2.6 billion industry. We have developed our own advertising techniques, our own market development of the industry. And, in fact, we have spent over $300 million in the last 10 years of our growers money advertising Florida citrus products.

For every dollar that is generated in Florida and lost because of citrus, our State economy would suffer $3.06 because of the multiplier effect. Imports of citrus have increased during the past 5 years. Imports of citrus from other countries duty-free have increased as well.

I might point out, as you know, Mr. Chairman, we do not receive the benefit of any Government subsidization or price support system for citrus. Nor do we ask for that.

The current tariff structure permits the importation of citrus products when needed, and has not deterred the expansion of foreign citrus industries. We urge that in this proposal before your committee, being citrus is included in the legislation, Florida Citrus Mutual advances three positions that we would like you to consider.

That certain safeguards be maintained, as Senator Chiles set forth, to maintain the viability of the industry are essential. One, that Cuba be deleted from the proposal under section 102(b), subparagraphs 1 and 2. They have over 500,000 acres which would be a mature citrus industry, and we believe that they should not be given duty-free treatment.

Second of all, the USDA Animal and Health Plan Inspection Service should participate, we believe, in the implementation of any CBI program as it applies to citrus. Many Caribbean countries have serious problems with fruit flies and diseases. We believe that a further working relationship with AHPIS would be very helpful in not alllowing the introduction of any additional diseases into our country.

And then, third, country-of-origin requirements must be carefully enforced to assure the Caribbean countries do not become a conduit for citrus products or shipments from other developed producers, such as Brazil or Surinam. Origin certification is necessary, and we strongly support section 103(a) and (2) of the bill, which has been approved by the U.S. Customs Service during the last session of Congress, and which would disallow duty-free treatment for products which are the result of simple combining or packaging operations.

Mr. Chairman, we also would advance that the fast-track mechanism for processed citrus and citrus products be considered a part of section 103(f) for investigation of injury caused by imports coming into this country as a bypass of that.

We submit this for the record. And we thank you so much for giving us the opportunity to offer this.

The CHAIRMAN. Your statement will be made a part of the record. Again, I thank all the witnesses. And if there are others who would like to submit written statements who are not able to testify, the hearing record will remain open for a few days so if you would like to comment on anything that the administration witnesses may have offered or anyone else may have offered, the record is open for that purpose.

We will stand in recess. But it is our hope to start working on this legislation from the markup standpoint at the earliest opportunity.

Thank you very much.

[Whereupon, at 1:16 p.m., the hearing was concluded.]

[By direction of the chairman the following communications were made a part of the hearing record:]

PREPARED STATEMENT OF

PROFESSOR ROLAND A. ALUM, Jr.

BEFORE THE

FINANCE COMMITTEE

UNITED STATES SENATE

98th Congress

First Session

on

S.544

CARIBBEAN BASIN ECONOMIC RECOVERY ACT

(Caribbean Basin Initiative, Part II)

Hearing Date: April 13, 1983

SUMMARY OF STATEMENT

Based on my experience in and knowledge of the area, I am strongly in favor of the CARIBBEAN BASIN INITIATIVE. Along with many other scholars and specialists, I urge this body of honorable legislators to support and approve the bill. The tariff reductions and investment incentive measures contained in S.544 --together with the foreign aid already approved last year-- are in the best interest of the American people in more than one way. It is expected that the program in question will be an effective vehicle for the acceleration of economic growth, for the encouragement of native Caribbean and foreign private capital to play a significant role in the process of development, and for the institutionalization of the democratic, peaceful and progressive stability desired by our immediate neighbors to the south. R.A.A.

CONTENTS

BIOGRAPHICAL INFORMATION: Prof. ALUM is a specialist in Latin America and the Caribbean. A former Fulbright and OAS Scholar in the Dominican Republic, he received his graduate education in political anthropology and international studies at the Universities of Pennsylvania and Pittsburgh; he has taught at colleges and universities in P.Rico, Sto.Domingo, N.J., and at the State Univ. of N.Y. system, and has lectured and published widely, particularly about socio-economic development. He is currently on the faculty of John Jay College/CUNY, and is a consultant to various public and private organizations.

" The U.S. should give special preferential trade treatment to agricultural...and agro-industrial products from the countries of the Caribbean Basin, including elimination of tariffs. Even at full capacity the small outputs of these countries could not seriously affect North American agriculture industry. In fact, the effects would, in the long run, be beneficial to U.S. interests since these countries, with healthy economies, represent significant potentials for expanded U.S. exports."

York Report (1980), p.97. [1] *

I. INTRODUCTION

I would like to thank the Chairman of this Committee and its honorable Senators for the opportunity of presenting again my testimony regarding the CARIBBEAN BASIN INITIATIVE (CBI) proposal. I feel qualified to testify before you based on my background, education, specializations, and general research experience as per the Curriculum Vitae submitted to this Committee (see also "Biographical Information" section, above). Allow me to confess, parenthetically, that I feel particularly comfortable in this Committee in the presence of a Senator from my home state, Hon. Bradley (NJ); a Senator from the state where I teach college, Hon. Moynihan (NY); and a senator from the state where I pursued my professional studies, Hon. Heinz (Penna.), who was my Congressman when I was a graduate student at the University of Pittsburgh some years ago.

Without further delay I shall first outline the socio-economic and cultural conditions in the Caribbean/Central American

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* Notes and Bibliography follow text.

region and then attempt to assess Bill S.544, the "Caribbean Basin Economic Recovery Act," submitted to this session by Senators Dole (Chair), Baker, Percy, Danforth, Heinz, Symms, and Wallop. [2]

II. THE CARIBBEAN BASIN: CONDITIONS [3]

The continental Central American and insular Caribbean nations are our immediate neighbors to the south. These are countries full of paradoxes which are rooted in history. They have suffered civil wars and dictatorships as well as foreign invasions, domination and/or economic dependency from each other, as well as extra-continental powers. Their current liabilities are further visible in most of the social indicators, such as illiteracy, health and nutrition problems, poor distributions of wealth, absence of capital, fast growing populations, high unemployment and under-employment, emigration, and records of political instability. Despite these problems, many social-scientists are convinced that the future of these countries is promising, as long as their developmental strategies aim at obliterating the outstanding paradoxes --social, economic and political-- and provided that the United States delivers sincere cooperation.

We are discussing societies that are in the midst of rapid economic, social, technological, political, and cultural transition. Their main assets are their hard-working, resourceful and young people, their strategic location, their blessed climate, and their natural resources. [4] (For example, the Dominican Republic which is the country I am most familiar with, has the potential to feed the whole Caribbean population if its fertile land were properly developed).[5]

III. THE C.B.I.: AN EVALAUTION

The original CBI program consisted of 338 million dollars in initial direct aid to seven countries and 12 million dollars for regional development, totalling 350 million dollars. In addition, there are targeted reductions in tariffs and selected tax investment incentives. Some of you may be concerned about such a seemingly large assistance at a time when we have our own domestic economic crisis, but in reality it is a modest contribution considering the problems at stake and the potential rewards. Furthermore, it is still a smaller investment than the amount provided to countries far away from the Americas, some of whose allegiance and utilization of assistance funds have been called into question.[6] (Despite this comparison, the CBI should not be viewed as being in competition with other foreign aid programs). In any event, the first portion of the program --direct tranfer of funds-- was already approved by this body in the fall of 1982 (97th Congress); what remains under discussion is the second portion, i.e., tariff reduction and investment incentives.

Granted that the CBI is not the final solution to all the problems besetting the area; it is only a starting point. It is also true that some of the details have to be worked out to guarantee that our stated purposes are carried through. Notwithstanding, I have recently conferred with some of our former diplomats in the area and they all concur that without the kind of assistance to be provided by the CBI the problems of the Caribbean will escalate in a geometric progression. It has been proven that wide social and economic inequities erode the potential for the institutionalization of popularly elected democracy. It is in our self interest to promote a democratic stability anywhere in the world, as we have been doing for 200 years; but it is high time that we pay closer attention to our own neighborhood in the Americas. History teaches us that economic deterioration breeds totalitarianism --be it from the extreme right (largely identified in developing nations with the traditional military sector) or the extreme left (in these cases represented by guerrilla movements). [7]

Although some of my colleagues may disagree, US foreign aid policy, as that of any other world power, must accomodate (out of necessity) to the harsh realities of today's continental and global forces. To ignore or worse, to deny these facts is to act naïvely. Fortunately, we see positive signs in the horizon. Hon. Everett Briggs, our Ambassador to Panamá, stated last year that the US government is committed to a new partnership strategy toward Latin America and the Caribbean. [8] Such a strategy is concomitant with economic development and political stability through the democratic system, that would further reduce vulnerability to insurgency and to foreign intervention and exploitation. As has been reiterated by public figures and scholars, the forces of demagogic totalitarianism did not create the povery rampant in these countries, but those forces are apt to exploit the ugly conditions.

I would dare add that the real challenge --and perhaps even the test for our own political system-- is to produce more benefits and faster, and to thwart the discredited (yet often extolled and romanticized) totalitarian/authoritarian options. The dictatorial alternatives may be considered by some to be relatively effective, however, only temporarily so (if at all); it is in reality highly costly in economic and human terms, and therefore not a real solution to human problems. [9] These are not mere philosophical statements, but sound social-scientific facts reported by and large in the specialized literature. [10, 11]

Paraphrasing a Latin-Americanist colleague, the debate on the future of the Caribbean Basin --and for that matter, of Latin America in general-- should focus on how best to work with those elements in the region who have embraced both the representative democratic political process through the use of popular and free elections, and the undeniable socio-economic reforms that can create a viable foundation for a sound, prompt recovery and further development. [12] Moreover, a concern for <u>human rights</u> in this continent continues to be strong. Indeed, we must not abandon a genuine and consistent concern for human rights as part of our foreign policy. [13] No other country in the history of mankind has implemented such policy so overtly. True, the explanation may lie in one characteristic of ours: we constitute what the great German-British philosopher Sir Karl Pöpper called an "open society." Be that as it may, I find little wrong in wishing the same to our friends beyond the Río Grande.

Fortunately we are not alone in the CBI effort. We are counting on the cooperation of the governments of the countries involved, plus those of México, Venezuela, Colombia, the Antillean Anglophone (Commonwealth) democratic island-nations, Canada, the European Economic Community, and Japan, among allies and friends. We are also receiving the enthusiastic support of international private foundations and agencies, and voluntary organizations, including business associations, as expressed in the other testimonies presented here.

Leaving aside traditional nationalistic divisiveness and pending boundaries' disputes, five governments --Costa Rica, Honduras, El Salvador, and Guatemala-- have founded the Central American Democratic Community. The organization's avowed goals: peace and prosperity in the region; one cannot flourish without the other. That was precisely the theme so movingly advocated by Pope John Paul II in his recent visit to the region.

Perhaps this is the right opportunity to point two illuminating facts. Despite much publicity, misinterpretation, misinformation, half-truths, exaggerations, and the like, these states invest less of their resources in defense expenditures on a per capita basis than the rest of Latin America (and most other developing countries); moreover, the proportion of armed forces personnel to civilian population is just as low.[14] It should be observed that these military figures are low despite the sad fact that several of these nations are being affected by de facto civil wars.[15,16] It is further important to take into consideration that the whole CBI package does NOT carry any military dimension; it is strictly a socio-economic and trade program.

IV. OTHER CONSIDERATIONS

In his first testimony before this Committee during last August's hearings, Secretary of State George Shultz stated that your approval of the CBI program was needed in order to restore our credibility with friendly countries of Latin America after the unfortunate Falklands/Malvinas crisis. This is a sensitive but veritable aspect that needs no belaboring. On the balance sheet, time will tell whether the U.S. was among the greatest losers in the outcome of last year's South Atlantic hostilities. For sure, the war brought much confusion and unnecessary alienation throughout the continent, the full impact of which has not been completely realized. In any event, although conceived prior to the Britain-Argentina war, the CBI now becomes an integral part of our best effort to strengthen our partnership with the hemispheric allies. It is a matter that goes beyond international image, good will and moral commitment; it is for our own security.

A related aspect is the U.S. Latino population. Probably many of you have substantial numbers of Hispanic-American constittuents in your respective states; they are, in fact, the fastest growing demographic group in the country. Similar to other ethnic groups, they are expressing an increasing interest in the field of foreign policy, particularly in the efforts to foster development, human rights and the democratic system in the circum-Caribbean, where the cultural roots of the overwhelming majority of them lie.

In connection with the above is the question of immigration, a sensitive issue that has permeated the history of this bill. Many American voices, coming from all corners of the political and social spectra, have expressed their concern vis-à-vis increasing Latin American immigration patterns, both legal and undocumented, at a time when our unemployment rate at home is alarmingly high. Johns Hopkins University distinguished sociologist Alejandro Portes, among other researchers, has demonstrated in several writings the inter-relationships between development, political stability and immigration.[17] To put it simply, there are two basic ways to classify migrants, namely A) economic (the traditional migrant) and B) political (exiles/refugees), although the distinction between the two categories is at times demarcated by a fragile, thin line. But regardless of the classification, the net outcome is that economic underdevelopment fosters emigration in search for better opportunities, while political instability and undesirable régimes foster emigration in search for peace, civil liberties and political freedom.[18]

While expatriation is often conceived as a viable solution by the sending society in the short run, I am of the opinion that it turns out to be detrimental in the long run. As Nobel Laureate economist Theodore Schultz (1981) would put it, the best assets of any nation are its people, its human resources, of whom many undeveloped countries are being deprived by lack of economic opportunities, whimsical dictators or fraticidic bloodshed. It is hoped that the economic prosperity and political stability that are part and parcel of the CBI projections will arrest much of the brain, talent and workforce drains from the societies affected, and will, at the same time, ease the immigration pressure to the US. [19]

Although their economies are in bankruptcy --victims of world-wide crises-- and though many are beset by extremist violence, some of the countries in question have already demonstrated strong signs of vitality. For example, Costa Rica inaugurated last year a new administration headed by a president with an impeccable record of struggling for civil liberties and social justice. [20] Costa Rica is a country whose progress in the last two decades is unparalleled, although little attention has been paid abroad to its accomplishments. [21]

The Dominican Republic too inaugurated a new administration last year, after having passed a unique test in its republican history with the death of President Guzmán. This is another country that would have a hopeful future if the US fulfills its promised assistance. The Costa Rican and Dominican models are worthy of praise and emulation by the other countries. Let us not forget that the Dominican Republic suffered from many of the problems experienced today by El Salvador, although perhaps not with the same intensity and not for as long. But the Dominicans were able to overcome the lawlessness that besets much of Central America today. Optimistic indicators are also evident in Jamaica, Belize, Honduras, and the other countries affected by the Initiative. [22]

21-491 O—83——17

One last point deserves additional attention. As demonstrated in the Hearings of last August and today, there are some economic vested interests opposing the CBI, an opposition that is perhaps reinforced by a failure to fully comprehend the gravity of the situation and the importance of the bill. It appears that enough safeguards have been appended to the new bill to protect some of these interests, without seriously affecting the intent and impact of the CBI. A particular concern has been expressed in regard to the revenues the US Government may be losing because of preferential treatment (for some 12 years) under the proposed regulations. However, the full effect of the CBI trade provisions will merely amount to less than 3% of the US foreign commerce. [23] Moreover, when compared to our OVERALL gains, I am sure you will agree that the project is definitely worthwhile trying. In fact, the total cost to the US is minimal in contrast to the investments of the Soviet Union in the same region, as I am sure you are well aware of. [24]

In addition, we should not lose sight of one simple realistic fact: in plain dynamic, economic terms, if these countries cannot sell to us (because of tariffs and protectionism on our part), they will not have enough foreign exchange to buy from us. As a group, they constitute an important trading partner, as noted by the York Report of 1980. [25] In sum, the United States will be receiving far more than its relatively modest investment.

V. CONCLUSION

In closing, allow me to reiterate my gratitude for this opportunity to discuss the Caribbean Basin Initiative with you;

I am deeply honored. I have attempted to explain the reasons why I favor the proposal, based on my own knowledge and expertise. This country has pledged a commitment to the rest of the continent, and the whole world is watching us now. The Caribbean and Central American sister republics need assistance now in order to promote economic development and a fair social system, and to ensure the institutionalization of peace and a pluralistic democracy. Our country has been ignoring its immediate neighbors for too long, while the old and new enemies of the US have been taking advantage of undeniably precarious conditions. It is our responsibility to pave the way for the generations to come --for a progressive, developed, healthy, and educated "Mediterranean of the Americas" at our doorstep.

Honorable Senators, I am strongly in f a v o r of this proposal. Along with many other scholars and specialists, I urge you to support, expedite and approve it. Above all, it is clearly in the best interest of the American people in many ways.

Your approval of the first portion of the CBI was a good decision. It is essential that you pass the second and more important portion. Our meridional partners do not seek handouts; they are in need of capital investments to modernize their economies, and they wish to further trade their products with us. Geographical proximity provides natural markets with inexpensive transportation for each other's goods. I realize that although the CBI provisions may not go far enough to rememdy the present precarious situation, I am confident that it will be sufficient to alleviate it, stimulating the respective economies noticeably. For sure, jobs will be created, free-market competition will be promoted, and savings --the catalyst factor for a solid development-- will be spurred.

As has been gathered from reading the four previous sections of this Statement, I am not limiting myself to an assessment of the specific tariff exemptions and incentive provisions of S.544. I have attempted to relate this bill not only to the whole CBI package, but also to regional, continental, hemispheric, and even global implications. Furthermore, as an inter-disciplinarian social-scientist, I am interested in the potentials for socio-economic development and modernization together with a democratizing stability. We must be aware, however, that in every society --ours included-- there usually exists vocal counter-modernizing forces, some of which are even masqueraded as "progressive." However, as exemplified by some of the other witnesses before this Committee, pessimism abounds. But the pessimists fail to take into account what the Dutch historian Jan Romein called the "leap of the retarded," or the noted sociologist Thorstein Veblen referred to as "the advantage of coming late." Adapting to our specific case the propositions of the eminent contemporary sociologist Peter Berger (1973), while there is ground for cautious skepticism, given the chance and assistance, the less developed societies --in this case the Caribbean states-- will be in a position to benefit from our mistakes, from our political, economic and technological experience. We are not talking about a messianic utopia, but of a social-scientific possibility. Out historical duty then --moral and otherwise-- is not to abandon our friends in times of need.

Indeed, there are reasons for optimism in Latin America. Despite the many serious problems we recognize, I do not share the persistent pessimism of a few contemporary "prophets of doom" found especially among North American academicians. As I express in another writing, and agreeing with the eminent US politologist and economist Robert J. Alexander (Rutgers Univ.), the political future of the Caribbean region --and by extension of the rest of the hemisphere-- may appear foggy at times, but is far from hopeless. I realize that it may be a question of personal values, but my first-hand experience tells me that, as in the cases of the Dominican Republic, Costa Rica, Venezuela, and Jamaica, our other neighbors prefer a path embracing development through freedom. This is a right they have earned throughout a five-century saga in the pursuit of independence, democracy and liberty. As President Reagan has expressed, this is the time for action. I would only add that our inaction today will be irreversible tomorrow.

There is, unfortunately, much doubting nowadays about the transferability of the binomial development-with-democracy. The published reports about the less developed countries, both journalistic and academic, emphasize the most negative predictions. I wish to depart from those positions which evidently have paternalistic and ethnocentric taints. Instead, allow me to close quoting the observations of Hugh Thomas --the British historian, author of the famous The Spanish Civil War and Cuba, The Pursuit of Freedom (and who is a personal friend of some of you). At a recent conference on Western security that was attended by notable US and European experts, policy-makers and scholars, Thomas remarked:

> " It is striking to me, really, that none of us is prepared to say that our form of society, democratic society, is exportable to the so-called Third World. The lesson of history, it seems to me, is that a society which is not interested in exporting itself --which says, in effect, the Zimbabweans are't ready for it, or the Brazilians are too many for it-- is soon likely to lose confidence in its own values." [26]

I thank you gentlemen for your consideration.

R.A.A.

NOTES

[1] See Note 25, below.

[2] Acknowledgements: I have benefited for this Testimony from fruitful conversations with other specialists, particularly with former US Diplomats in the Caribbean. Exceptional expressions of gratitude go to Dr. Mauricio Solaún (former US Ambassador to Central America, now at the Univ. of Illinois), Mr. Maynard Dixon, Esq. (ICC), and

Drs. John Belcher (U.-Georgia), Jack Hopkins (Indiana U.), Enrique León, Esq. (Pace U.), Mario Rivera (Barry U.), and Roland Perusse (Inter-American Institute), as well as to the staff of the Finance Committee (particularly Ms. S. Barker). Notwithstanding, I am solely responsible for the conclusions drawn here.

[3] I am drawing freely from my previous Statement, prepared for the August 2, 1982 Hearing, 97th Congress, 2nd Session, on S.2237 Caribbean Basin Initiative (I).

[4] See the sections on the relevant Caribbean nations in: Deadline Data on World Affairs; G. Delury, Encyclopedia of Political Systems; Facts-on-File; M. Horowitz, Peoples and Cultures of the Caribbean; G. Kurrian, Encyclopedia of the Third World; C. Thompson, Current History Encyclopedia (pp.283-328).*

[5] R.Alum, "The Dominican Republic," in Current History Encyclopedia...

[6] A. Crittenden, "In foreign aid, the poor grow poorer."

[7] Vid. I.L. Horowitz, Latin American Radicalism; R.Alum, "Review of Revolution and Structural Change..."

[8] UPI Cable (1982). President Reagan's recent visit to Latin America was considered also a positive sign of good will.

[9] See, for example, D. Butterworth, The People of Buena Ventura; R. Alum, "La Vida in Cuba...;" A. Cuzán & R. Heggen, "A micro-political explanation of the...Nicaraguan Revolution;" R. Gastil, Freedom in the World; M. Halperin, The Taming of F. Castro; I.L. Horowitz, "The Cuba lobby;" and H. Thomas, The Revolution on Balance. One of my latest studies ("The political system of Equatorial Guinea") focuses on the disastrous effects of F. Macías' dictatorship in Equatorial Guinea, a nascent West African country.

[10] As vividly stated by Dr. M. Horowitz, a leading development anthro-

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* Vid. Bibliography, below.

pologist and a professor at S.U.N.Y.-Binghmapton, a number of us in the social sciences (and humanities) reject the "notion that there is an inherent incompatibility between economic growth and social equity" and that freedom "is only a luxury of rich countries." In fact, he adds, "genuine economic growth is facilitated by equity" (in that it stimulates competition), and freedom "is a necessity for all people." ("Remarks from the President of IDA"). See also the report by G. Goodell, a Harvard anthropologist, on agrarian reform in the Philippines ("What life after land reform").

[11] On the other hand, for recent, more sympathetic views of Cuba's experiment by North Americans, see S. Eckstein, "Capitalist constraints on Cuban socialist development," and M. Weinstein, Revolutionary Cuba...

[12] R. Araujo, "Congress and aid to El Salvador."

[13] Human rights has become a highly sensitive topic. As H. Wiarda (presently with A.E.I.) has said, a curious fact is that "Latin America has been the special focus on human rights policy. Probably because Latin America "is 'Western' (as compared with Iran or Uganda,let us say), we expect more from it...," or because we believe "we can carry our experiments [here]...without fear of retribution or retaliation (as contrasted with what could be done in the Soviet Union)..." [Human Rights...and US...Policy...].

[14] In contrast, the two highest in the region on both military accounts are Cuba and Nicaragua --which together with Chile and Argentina are the highest militarized states in Latin America (A. Cuzán & R. Heggen, "A micro-political explanation of the...Nicaraguan Revolution;" T. Dupuy, Almanac of World Military Power; R. Gastil, Freedom...).

[15] An objective, first-hand study of the Salvadorean crisis by a respected US politologist is El Salvador in Transition, by Dr. Enrique Baloyra, a Univ. of No. Carolina professor.

[16] Incidentally, the presence of foreign elements in the Central American crisis --including Cuban, Soviet and P.L.O.-- has been

reported in the specialized literature; see for example: R. Reed, "Nicaraguan...Operations;" E. Ulibarri, US Options; and the USDOS, Cuba's Renewed Efforts... Of ancillary interest are the paper by two Israeli scholars, Y. Shapira & E. Kaufman, "Cuba's Israel policy," and the book by a respected American scholar who took self-exile for years in the Soviet Union and Cuba, and now teaches in Canada, M. Halperin, The Taming of F. Castro (especially Chapters 29 & 30: "Castro and the Jews: I-Before / II-After...the break with Israel...," pp.237-55).

17 Dr. A. Portes, "International labor migration and national development."

18 Let me clarify that I have worked as a volunteer with refugees, and have conducted research on migration, in fact, with the purpose of testing some of Dr. Moynihan's hypotheses concerning assimilation to American life (vid., J. Moreno & R. Alum, "On the Dominican Diaspora;" R.Alum & F. Manteiga, "Hispanic and 'American' values;" R. & L.Alum, "The Assimilation of Cuban exiles in NJ;" inter alia).

19 See the à propos remarks by Mr. Chairman, Sen. Dole, at the 8/2/82 Hearing: "The peoples of the Caribbean...do not want to leave their homelands to find...liberty" (p.3).

20 Dr. Juan del Águila, an outstanding political scientist at Emory Univ., provides an excellent assessment of Costa Rica's conditions, "The limits of reform development..."

21 For a native Central American evaluation of each country's conditions, see US Options in Central America, by E. Ulibarri, Editor of the daily La Nación of San José, Costa Rica.

22 See the periodic reports in Freedom in the World, prepared by Dr. R. Gastil, who is an anthropologist with the New York-based Freedom House (a reputable organization that includes Hon. Moynihan in its Board of Trustees).

[23] Personal Communications, Dr. Enrique León (NYC) and Mr. Bennett Marsh (Office of the US Trade Representative).

[24] In the words of Dr. J. Kirkpatrick, our UN Ambassador, the US offers "nothing like the fellowships and other programs provided by the Soviet Union;" she wondered further why Castro's "Cubans should be relied upon to bring literacy to Central America" (interview by B. Weinraub, New York Times, 3/6/83).

[25] In the spring of 1980, then-President J. Carter commissioned the Presidential Mission on Agricultural Development in Central America and the Caribbean, headed by Dr. E. York, Chancellor Emeritus of the State Univ. System of Florida. The final product, known as The York Report, was precisely quoted at the beginning of this Testimony (above). The Mission recommended, among other things, "a major U.S. commitment to that region," especially tariff reductions and tax incentives for American capital investment.

[26] Lord Thomas' quotation is taken from a review-article, "Western approaches," by G. Fossedal (p.75).

American Farm Bureau Federation

WASHINGTON OFFICE
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WASHINGTON, D.C. 20024
AREA CODE 202 - 484-2222

March 11, 1983

Honorable Robert Dole, Chairman
Committee on Finance
United States Senate
Washington, D.C. 20515

Dear Senator Dole:

The American Farm Bureau Federation, representing over three million member families, is pleased to comment on S. 544, legislation to implement the Administration's Caribbean Basin Initiative. We understand the government's desire to promote economic revitalization of the Caribbean Basin region. However, the Caribbean Basin Initiative presents certain problems of considerable magnitude for U.S. farmers unless effective safeguards or exemptions are incorporated in the legislation to adequately protect their interests.

Farm Bureau cannot support the Caribbean Basin Initiative unless safeguards are established or exemptions included in the legislation to:

(1) Ensure the integrity of the domestic sugar program and oppose proposals for duty free imports of sugar under the Caribbean Basin legislation or any increases in quotas.

(2) Ensure quick relief, if needed, from any surge of fresh fruit, vegetable and other horticultural imports that might seriously impact on U.S. producers. Unless studies of the effect of the CBI on the U.S. vegetable industry show that there would be no adverse effects, we ask that the vegetable industry be exempted from the CBI.

In the past, U.S. growers have found that cases brought under Section 201(b) of the Trade Act of 1974, are expensive; and seldom have such cases resulted in needed relief. Therefore, we would like to see the President quickly grant relief on the recommendation of the Secretary of Agriculture when domestic prices decline because of imports (as in the CBI proposal). However, 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 transshipments of agricultural commodities and products by countries outside the Caribbean Basin region into the U.S. market via the Caribbean Basin countries.

(4) Provide an exemption for tobacco imports from the CBI since such imports into the Caribbean Basin countries for semi-processing would result in so-called scrap tobacco that could then be imported into the United States duty free.

This could result in effective elimination of all duties on the bulk of the tobacco imported into the United States by routing most U.S. imports of tobacco through Caribbean Basin countries for semi-processing in order to gain duty free entry into the United States. Not only would this be injurious to domestic tobacco producers but it would also deny to the U.S. Treasury the tariff revenue, which is now applicable to tobacco imports.

(5) Provide safeguards against foreign concentrated orange juice imports into the Caribbean Basin countries for conversion to single strengthened orange juice that could then be imported into the United States duty free. For example, concentrated Brazilian orange juice would be a candidate for such treatment.

(6) Provide that the annual increase in quantity of imports from a country be limited to 5 percent - 10 percent.

Resolution of most of the above considerations, especially points (4) and (5), could be accomplished by extending to all agricultural products and commodities the exclusion from duty free treatment now applicable to textiles and apparel articles.

Mr. Chairman, we appreciate consideration of our views as the Caribbean Basin Initiative legislation is discussed and marked up in your committee.

Sincerely,

John C. Datt
Secretary and Director
Washington Office

cc: Committee Members

American Iron and Steel Institute

STATEMENT OF

AMERICAN IRON AND STEEL INSTITUTE

SUBMITTED FOR THE RECORD

OF THE HEARING HELD BY THE

COMMITTEE ON FINANCE

OF THE

UNITED STATES SENATE

ON

APRIL 13, 1983

IN RESPECT OF

S. 544, THE CARIBBEAN BASIN INITIATIVE

4/19/83

American Iron and Steel Institute

Caribbean Basin Initiative (CBI)

Policy Statement

The American Iron and Steel Institute (AISI) is the trade association for the steel industry. Its membership includes 63 domestic steel companies accounting for approximately 90 percent of the raw steel produced in the United States.

AISI supports the Administration's concept of attempting to encourage the development of free market economies in the Caribbean Basin. In his announcement of the CBI on February 24, 1982, President Reagan excluded textiles and apparel from the list of products which would enter the U.S. duty free under the CBI program. The reason given was that these industries have been covered by separate international agreements. The agreements in question (the Multifiber Arrangement) recognize the inherent import sensitivity of these industries.

In the Senate version of the legislation introduced on February 22, 1983 (S.544), the list of excluded products has been expanded to include other "import sensitive" items such as handbags, luggage, flat goods, workgloves, leather-wearing apparel, canned tuna, petroleum, or petroleum products and to some degree, sugars, syrups, molasses, beef and and veal.

We believe that the steel industry is clearly at least as import sensitive an industry as those proposed to be excluded from duty free treatment. Thus, while the U.S. steel industry does not request additional relief from import competition (with regard to CBI), we do request that existing tariffs not be lowered or eliminated as would occur under the presently proposed CBI provisions.

In a December 22, 1981 letter to the United States Trade Representative (USTR) and Department of Commerce from the Industry Sector Advisory Committee (ISAC 7), members of the American steel industry expressed their concern that duty free treatment in the CBI not be extended to import sensitive industries. The reason is the same used by the U.S. Government for not extending Generalized System of Preference (GSP) benefits to LDCs in respect to steel mill products: new steel facilities in LDCs are built with state of the art technologies, and, as world class low-cost facilities, are not in need of additional benefits to compete in world markets. Indeed, extending duty free status under the GSP program or CBI would be inconsistent with Administration policy, which is to stimulate the production of the domestic steel industry.

In this regard the Trinidad and Tobago government-owned Iron and Steel Company of Trinidad and Tobago (ISCOTT) is a clear example of a Caribbean Basin company not in need of additional benefits to become internationally competitive. ISCOTT plans to export one-half of its 600,000 tons per year of wire rod capacity (when full production is reached in three years) to "North American markets" from a brand new, internationally competitive production facility. ISCOTT's plans were made prior to the announcement of CBI. If duty free status is now afforded wire rod from this plant, exports to the U.S. could be even higher. We do not believe that special treatment is required for ISCOTT to be competitive in our markets.

That wire rod is an import sensitive steel mill product is amply evidenced by the fact that extensive unfair trade petitions have been upheld in respect to this product and that wire rod products were included in the EC/US Arrangement. Moreover, an antidumping complaint was filed in September 1982 against wire rod imports from Trinidad and Tobago. On November 15, the ITC ruled in its preliminary injury determination that imports of these products are causing material injury to the domestic wire rod industry.

Another aspect of the proposed CBI of great concern to the U.S. steel industry is that it would create a loophole by which steel mill products produced outside the Basin could be fabricated in the Basin and shipped in to the U.S. duty free. Duty free treatment for CBI countries requires 35% value added in the CB. As a result, it is conceivable that major steel exporting countries could circumvent not only tariffs but also quotas, and final dumping or countervailing duties by processing steel mill products in the CB. Moreover, the true level of steel exports and resultant injury caused by the actual exporter to the U.S. could be masked. Wire nails and industrial fasteners - two industries severely injured by unfair trade practices - are two reasonable examples of low-cost fabricating operations that could be set up in the CB for this purpose.

It is obvious from the CBI proposal, that import sensitivity was a special criterion for exemption from the duty free provisons of the bill. As a result, many products were exempted. This was done despite the fact that the CBI proposal does not abrogate any of the United States' trade laws.

Thus, we believe that steel products are demonstrably as import sensitive (if not more so) as the products already given an exemption; and, as such, should be added to that list.

4/19/83

The American Legion

★ WASHINGTON OFFICE ★ 1608 "K" STREET, N.W. ★ WASHINGTON, D.C. 20006 ★
(202) 861-2700 ★

For God and Country

April 12, 1983

Honorable Robert Dole, Chairman
Senate Finance Committee
SD-221 Dirksen Senate Office Bldg.
Washington, D.C. 20510

Dear Chairman Dole:

As you begin consideration of the Administration's Caribbean Basin Initiative, The American Legion would like to share with you its views on this issue. These views are based primarily on the report of our Western Hemisphere Task Force which has extensively researched the importance of this strategically located region.

The initiative (S. 544), currently before your Committee, addresses the much needed duty-free treatment of certain imported articles from the Caribbean. These nations have suffered severely in recent years due to reduced demand for their exports (generally agricultural and raw products), continuing high prices for oil, and high interest rates. Also, El Salvador and Guatemala have suffered disruption of their economies by guerrillas. Duty-free treatment would serve as at least a minor stimulus to help revive these depressed nations.

The United States must establish and maintain a special relationship with the nations of the Caribbean. We should demonstrate our determination to help them overcome the deep recession affecting their economies, thereby helping to create conditions conducive to political stability and the spread and strengthening of democracy in the region.

Additionally, The American Legion supports enlargement of the Caribbean Basin Initiative into a true "Marshall-type Plan". Attached is an excerpt from the Legion's Western Hemisphere Task Force report which clearly discusses our support and reasoning for this proposal. A copy of Foreign Relations resolution 484, adopted by our membership, is also enclosed so that you may throughly understand the Legion's position.

As always, your consideration of the views of The American Legion is greatly appreciated. We also request that this letter and the attached materials be made a part of the record of these preceedings.

Sincerely,

E. Philip Riggin

E. Philip Riggin, Director
National Legislative Commission

Enclosures

In the economic field, the United States could adopt a comprehensive, long-term approach to assisting the development of a free, prosperous Caribbean Basin by enlarging the Caribbean Basin Initiative into a true "Marshall-type Plan" resembling the Marshall Plan of 1947 which led to European economic recovery following World War II. The Critical features of the Marshall Plan were:

- Conduct of a region-wide conference to plan and coordinate economic development by the recipient nations (this was the Conference on European Economic Cooperation, convened in Paris during July 1947).
- Development of a coodinated, region-wide, multi-year economic development plan (this was the 1947-1951 European Economic Recovery program).
- Establishment of a region-wide mechanism to coordinate efforts (this was the Organization for European Economic Cooperation).
- Provision of adequate funds (this time, other developed nations could share the burden with the United States).
- Provision of technical training, assistance, and advice in addition to provision of capital goods.
- At the outset, provision of humanitarian aid (food, medical supplies).
- Subsequent development of national infrastructures (hospitals, schools, power plants, roads, bridges, airfields, etc.).
- Provisions to ensure that U.S. and other aid benefits all levels of society.

Two particular Caribbean Basin circumstances must be recognized. First, the area's long-term economic viability can only be reasonably assured by either (1) encouraging countries to diversify their economies, reducing dependence on one, or a few, agricultural products or mineral exports, or (2) establishing some mechanism to assure more stable, relatively higher prices for such "single crop economy exports." The latter method should be a last resort since it requires, in effect, creation of a partial cartel for particular products. Second, we should seek to revive the Central American Common Market, which at one time was working toward integration and industrial diversification of the Central American regional economy. In devising a Marshall Plan for the Caribbean Basin (which probably would have two subcomponents for the Caribbean Islands and Central America), we would do well to recall, and heed, General Marshall's advice in 1947 to devise "a cure rather than a palliative." His summary could well serve as our guide today:

> It is logical that the United States should do whatever it is able to do to assist in the return of normal economic health in the world without which there can be no political stability and no assured peace. Our policy is directed not against any country or doctrine but against hunger, poverty, desperation, and chaos....It would be neither fitting nor efficacious for this government to draw up unilaterally a program designed to place Europe on its feet economically. That is the business of the Europeans. The initiative, I think must come from Europe. The role of this country should consist of friendly aid in the drafting of a European program and of later support so far as it may be practical for us to do so. The program should be a joint one, agreed to by a number of, if not all, European nations.

64th NATIONAL CONVENTION OF THE AMERICAN LEGION
HELD IN CHICAGO, ILLINOIS
August 24-26, 1982

RESOLUTION 484

COMMITTEE: Foreign Relations

SUBJECT: CARIBBEAN BASIN

WHEREAS, Soviet-Cuban aggression continues to increase in the Caribbean Basin; and

WHEREAS, the Soviet Union is supporting a massive buildup of communist military forces and bases in Cuba, Grenada and Nicaragua; and

WHEREAS, the Caribbean Basin nations continue to suffer underdevelopment and economic chaos; and

WHEREAS, the Government of the United States now has properly recognized vital U.S. interests in the Caribbean Basin, the communist threat, and the area's serious economic plight; and

WHEREAS, the Government of the United States has started to enunciate a more comprehensive policy based on the Caribbean Basin Initiative and increased military assistance; now, therefore be it

RESOLVED, by The American Legion in National Convention assembled in Chicago, Illinois, August 24, 25, 26, 1982, that the Administration be urged to enlarge the Caribbean Basin Initiative into a true "Marshall-type-Plan" for the area, including greatly increased funding over a number of years; and, be it further

RESOLVED, that the U.S. Government be urged to develop adequate military and intelligence capabilities to accomplish its objectives in the Caribbean Basin; and, be it further

RESOLVED, that the U.S. Government be urged to support increased educational exchanges between the United States and the Caribbean Basin nations; and, be it finally

RESOLVED, that The American Legion should inform (through The American Legion Magazine, other Legion publications, and other means of communication) the American public and Congress of vital U.S. interests in the Caribbean Basin and the need to pursue them vigorously.

AACCLA

ASSOCIATION OF AMERICAN CHAMBERS OF COMMERCE IN LATIN AMERICA

1615 H St N W / Washington, D C 20062 (202) 463-5485 COCUSA Telex RCA 248302

President
Alexander Perry, Jr

Vice Presidents
David A Wicker
Thomas L Hughes
Robert W Chandler Jr
Richard Johnson

Treasurer
J R Downey

Executive Secretary
Keith L Miceli

April 18, 1983

FOLLOWING IS AN OPEN LETTER TO THE SENATE FINANCE COMMITTEE:

The Association of American Chambers of Commerce in Latin America (AACCLA), whose 21 American Chambers of Commerce members represent 18,000 U.S. and local firms and businessmen throughout the region, urgently requests passage of the trade and investment incentives of the Caribbean Basin Initiative program early in the 98th Congress.

AACCLA is extremely concerned about the economic situation in Central America and the Caribbean and the detrimental effect upon U.S. national interests if economic conditions continue to deteriorate. While the emergency foreign assistance to this region approved in the last Congress was most welcome, AACCLA believes that the trade and investment incentives of the CBI will complement this assistance and have an even greater impact encouraging the private sector to act as the engine of economic development.

The CBI countries are important markets for U.S. manufactured goods and services. To help strengthen their economies is to increase their purchasing capability; and since U.S. companies are their main suppliers, these have much to gain.

AACCLA seeks your support in helping the region help itself. American Chambers of Commerce in the region have requested me to transmit the attached telexed letters to you urging passage of the CBI trade and investment incentives as a solution.

Sincerely,

Alexander Perry Jr.

Alexander Perry, Jr.
President

Regional Vice Presidents Larry Liebenow, Mexico, R Bruce Cuthbertson, Central America, Charles A. Francik, Brazil and Paraguay, A W Von Hartz, Bolivia, Chile Colombia, Ecuador Peru and Venezuela, Stanley A Brons, Argentina and Uruguay, Patrick N Hughson Caribbean

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KEITH L. MICELI
AACCLA - WASHINGTON

APRIL 8/1983

OPEN LETTER TO FINANCE COMMITTEE MEMBERS

THE HAITIAN-AMERICAN CHAMBER OF COMMERCE AND INDUSTRY STRONGLY URGES THE PASSAGE OF THE CBI BILL (S544) WHICH INCLUDES THE 12 YEAR DUTY FREE IMPORT AND THE BUSINESS-EXPENSE DEDUCTION FOR CONVENTIONS IN THE REGION.

AS THE LEADING PRIVATE SECTOR ASSOCIATION IN HAITI, WE FELL THAT THE PASSAGE OF THIS BILL WILL GREATLY ENHANCE THE REGION AND HAITI IN PARTICULAR, TO ATTRACT NEW INVESTMENS, CREATE JOBS, AND THEREFORE ACCELERATE OUR ECONOMIC DEVZLOPMENT.

JEAN-PIERRE MANGONES,
EXCUTIVE DIRECTOR HAMCHAM

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248302 CCUS UR

APR 13/83

KEITH MICELI
AACCLA WASHINGTON

TLX 248302 CCUS UR

OPEN LETTER TO SENATE FINANCE COMMITTEE MEMBERS

THE AMERICAN CHAMBER OF COMMERCE OF THE DOMINICAN REPUBLIC STRONGLY SUPPORTS THE PASSAGE OF THE CBI AS MOST ESSENTIAL FOR CARIBBEAN COUNTRIES SUCH AS THIS THAT ARE PRIME TARGETS FOR ANTI DEMOCRATIC PROCESS LIES IN THE GENERATION OF NEW BUSINESS IN EXPORT MANUFACTURE AND TOURISM. FAILURE OF THE PRIVATE SECTOR TO PROVIDE EMPLOYMENT COULD CAUSE GRAVE CONSEQUENCES.

PLEASE GIVE THIS YOUR STRONG CONSIDERATION AS THIS AMCHAM IS CONVINCED THAT THE UNITED STATES NEEDS CARIBBEAN SUPPORT ABOVE AND BEYOND OTHER DOMESTIC INTERESTS THAT MIGHT OR MIGHT NOT BE AFFECTED. IT IS THIS CHAMBER BELIEF THAT IN THE LONG TIME UNITED STATES INTERESTS WILL BE BETTER SERVED BY SUPPORT OF CBI.

RESPECTFULLY,

MARCELINO SAN MIGUEL II
PRESIDENT
AMCHAM DOMINICAN REPUBLIC."

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APRIL 11 1983

MR. KEITH MICELI
WASHINGTON

THE FOLLOWING IS OPEN LETTER TO SENATE FINANCE COMMITTEE:

''THE AMERICAN CHAMBER OF COMMERCE OF EL SALVADOR URGE THE PROMPT PASSAGE OF S 544, THE CARIBBEAN BASIN INITIATIVE. THIS LEGISLATIVE HAS VAST UNDERLINING BENEFITS TO THE REGION AND TO THE UNITED STATES TRADE AND SECURITY POSTURE. THE REGION SUFFERING FROM MANY SERIOUS PROBLEMS IS IN GREAT NEED FOR THIS PROGRAM TO STIMULATE ECONOMIC DEVELOPMENT WHICH IN TURN WILL BRING MUCH NEEDED SOCIAL AND POLITICAL STABILITY AND PROGRESS. THE U.S. WITH THIS PROGRAM WILL FURTHER ENHANCE ITS TRADE OPPORTUNITIES IN INCREASING EXPORTS OF U.S. GOODS, SERVICES AND TECHNOLOGY TO THIS HIGHLY POTENTIAL AREA.

IN SUMMARY THE CBI IS AN ENLIGHTING FOREIGN POLICY INITIATIVE WHICH BRINGS TOGETHER OUR UNSELFISH DESIRE TO DEVELOPE OUR NEIGHBORS TO OUR STANDARD OF LIVING WHILE PROVIDING OUR NATION ASSURANCE OF HAVING THEM FOLLOW THE ROADS OF DEMOCRACY AND SOCIAL EQUALITY WHICH IS FOR OBVIOUS REASONS SO VERY IMPORTANT TO OUR NATIONAL INTEREST.-

WE FULLY SUPPORT THIS PROGRAM AND ANTICIPATE YOUR WISDOM IN SUPPORTING IT AS WELL.-

HARLOW F. NEWTON, PRESIDENT
AMERICAN CHAMBER OF COMMERCE OF EL SALVADOR''

---END OF OPEN LETTER--

REGARDS,

HARLOW/AMCHAMA
248302 CCLE UR...

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*ADMITTED IN FLORIDA ONLY, FEDERAL MATTERS ONLY

GEORGE R BROWNELL
OF COUNSEL
MEMBER NEW YORK BAR
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April 20, 1983

The Honorable Robert Dole
Chairman
Senate Finance Committee
2227 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Dole:

Re: Government of Bermuda
S. 544, A Bill Entitled The
Caribbean Basin Economic Recovery Act

Although Bermuda is not part of the Caribbean Basin, the Government of Bermuda extends its appreciation for being included as a beneficiary country with regard to the treatment of Caribbean conventions as set forth in Section 202 of S. 544, the Caribbean Basin Economic Recovery Act. As your Committee is well aware, Bermuda's tourist industry has been seriously affected since the current restrictions, set forth in Section 274(h) of the Internal Revenue Code, were enacted in 1976. Tourism has traditionally accounted for 75 percent of Bermuda's gross national product. Until 1976 the convention business, primarily from the United States, accounted for about 30 percent of that total tourist revenue.

This document was prepared by the firm of Ragan & Mason which is registered with the Department of Justice under the Foreign Agent Registration Act, 22 U.S.C. §611 *et seq.* as agent for the Government of Bermuda. Registration does not represent approval by the United States Government of statements made herein.

The Government of Bermuda believes its being included within Section 202 of S. 544 is a significant step which will help reinvigorate and maintain Bermuda's tourist industry. The grant of North American area status to Bermuda is recognition which Bermuda has sought since 1976. We appreciate the inclusion.

Having said that, however, Bermuda would also note that the restrictions set forth in Section 202, primarily relating to the necessity of a Mutual Exchange of Information Agreement, are somewhat vague as they would be applied to Bermuda. Paragraph (5)(C) of Section 202(a) of S. 544 requires exchange of information agreements as may be necessary or appropriate to carry out and enforce the tax laws of the United States and the beneficiary country, here Bermuda. Bermuda has no income tax.

A review of recent bilateral tax agreements between the United States and other countries indicates that the exchange of information provisions in these agreements envision information which relate to the tax laws of <u>both</u> countries. These agreements set forth relatively specific guidelines on the types of information which may be provided to each country. It is noted that these guidelines are much more specific than those set forth in Section 202, which provides a very general outline of information to be included in any applicable agreement. Indeed, it would appear that to impose a greater burden on a country such as Bermuda than is being imposed currently on countries such as Egypt, Morocco, Malta and the Philippines, would be unfair.

The above comments are submitted only in the sense of goodwill and the desire on the part of the Government of Bermuda to work out a mutually agreeable solution to the problems facing both countries. Bermuda recognizes the need of the United States to enforce its tax laws, and Bermuda certainly has suffered disruptions because of its inability to attract convention business, due to the current status of the United States foreign convention tax laws.

Bermuda must stress its close ties with the United States which few, if any other, countries affected by the Caribbean Basin legislation can claim. Bermuda's cooperation with United States law enforcement agencies, particularly the Department of Justice, has been excellent.

On numerous occasions the Government of Bermuda has been recognized positively as having fully cooperated in various investigations which were of vital importance to the United States. These commendations can be made available.

Although Bermuda has legal requirements which must be followed to provide information to the United States, these requirements have protected Bermuda, the United States, and their respective citizens. These limited, legal requirements in Bermuda have certainly not proved to be onerous. Bermuda submits that it is possible that a formal Exchange of Information Agreement between the United States and Bermuda could result in a more legalistic, onerous burden to both countries than the standards which are currently in effect and are working very well. The current success is based on the premises of mutual cooperation and comity between both countries.

Additionally, Bermuda would point out that the United States has, rent free, 10 percent of Bermuda's land under U.S. flag at the United States Naval Air Station at St. George's Island on the eastern end of Bermuda. It is doubtful whether any other country in the world has provided to the United States such a large proportion of its land area at no cost. Ninety percent of Bermuda's imports come from the United States, and many of its residents are educated there. The Bermuda currency is now "pegged" to the United States dollar.

In summary, Bermuda again states its appreciation for being included as a beneficiary country under Section 202 of the Caribbean Basin Economic Recovery Act and looks forward to a mutually satisfactory resolution.

Very truly yours,

RAGAN & MASON

William F. Ragan

bread for the world
a christian citizens' movement in the usa

STATEMENT OF BREAD FOR THE WORLD

BEFORE THE COMMITTEE ON FINANCE

ON

SECTION 103 (c) OF

THE CARIBBEAN BASIN ECONOMIC

RECOVERY ACT

Prepared by
John P. Olinger, Issue Analyst
April 15, 1983

6411 chillum place n.w., washington, d.c. 20012 202-722-4100

Bread for the World, a Christian citizen's movement that supports government policies concerned with world hunger, appreciates the opportunity to submit this statement to the Committee on Finance.

The Caribbean Basin Economic Recovery Act (S 544) represents an important step in the U.S. approach to the economic problems of developing countries. This initiative recognizes the necessity of pursuing a policy linking trade and development programs. Bread for the World has actively supported U.S. development assistance programs which are designed to meet the basic needs of poor and hungry people in developing countries. The same concern that has led Bread for the World to examine the effects of U.S. aid policies on poor and hungry people also leads us to look at U.S. trade policies toward developing countries. In this respect we have paid particular attention to the Caribbean Basin Initiative since it was first introduced by President Reagan last year.

There can be no doubt that the countries in the Caribbean region face a severe economic crisis. This is seen most dramatically in the sharply increasing international debt of the countries. It has been estimated that the region will need $4 billion - almost 10% of the region's gross domestic product - to meet its debt payments alone.

Most of the countries are heavily dependent on exports of agricultural commodities such as sugar, coffee, beef and fruit to the more developed countries. The earnings from this agricultural trade have been used to finance economic development programs as well as the wide range of manufactured imports that the countries need. Some countries, such as Trinidad and Tobago, Guyana and Jamaica, have exploited mineral resources, but there has been little industrial development in the region.

In the 1970's, the world market for many of these agricultural commodities was unstable, while at the same time the world price for oil and for manufactured goods from industrialized countries increased sharply.

When the prices of agricultural commodities declined, or increased less rapidly than the prices of oil or manufactured goods, the Caribbean countries had to produce and export more commodities just to maintain the ability to pay for existing levels of imports. Any possibility of expanding efforts for economic development had to be reconsidered in the light of the unfavorable world market for export crops.

The economic stagnation that began in the 1970's brought to the surface tensions arising from the more fundamental social and economic problems in the region. Many countries face social problems such as widespread poverty, malnutrition, high infant mortality and illiteracy. Economic problems include inequitable land distribution and heavy dependence on exports of primary commodities.

A large portion of the population in the region receives incomes below the absolute poverty level. The World Bank has defined the absolute poverty level as the income level below which a person can not afford a minimal nutritionally adequate diet and essential non-food items such as clothing and shelter.

Not surprisingly, this poverty is accompanied by high levels of malnutrition. The Group of Experts convened by the Caribbean Council of Ministers estimated that 44% of the Caribbean population do not obtain the minimum recommended levels of protein and 56% do not obtain the minimum recommended calorie requirements.

Poverty and malnutrition in the area are rooted in the unequal distribution of resources, in particular land. In the rural areas many people have no access to land or have access to only small amounts of land that are insufficient in either size or quality to meet their needs.

A Cornell University study in 1978 estimated that in Guatemala 85% of rural households were either landless or had inadequate land resources. In El Salvador the comparable figure was 80%, in the Dominican Republic 68% and in Costa Rica 55%.

In the eight countries in the region for which data are available, farms of 125 acres and larger represent only 2.2% of the total number of farms, yet account for 62.3% or all farmland. Because these societies are based primarily on agricultural activity, such inequalities in land ownership seriously undermine the prospect for equitable economic growth and the reduction of hunger.

Unfortunately, there has been a tendency to overlook the potential effects of the Caribbean Basin Initiative on agricultural production, and in particular local food production in the Caribbean region.

As originally drafted, the Caribbean Basin legislation's trade provisions had the potential to reinforce the already strong orientation towards export crop production of the economies in the region, thus reducing the resources available for domestic food production. The possible diversion of productive resources, especially land, to cattle and sugar production could have serious adverse effects on the poor and hungry people in the region.

For this reason, Bread for the World strongly supported the efforts of Representative Thomas Downey to address the problems of domestic food production when the House Ways and Means Committee considered this legislation last year. Representative Downey's Land for Food amendment was included in the version of the bill passed by the House in December. This provision now appears as Section 103 (c) of S 544.

Section 103 (c) makes duty free treatment for sugar and beef products conditional on the recipient country's implementation of a Stable Food Production Plan. The intent of the plan is to ensure that increased production of sugar and beef in response to the CBI's tariff incentives does not occur at the expense of current levels of food production or the nutritional health of the population.

Within ninety days of receiving duty free treatment, the recipient country would have to implement a Stable Food Production Plan that would include the following points:

i current levels of food production and nutrition among the population;

ii current levels of production and export of beef and sugar;

iii projected increases in production and export of beef and sugar;

iv measures to be taken to ensure that expanded production of these products in response to duty free treatment does not occur at the expense of food production; and

v a proposed system to monitor the impact of duty free access on food production and land use and land ownership.

The President would monitor the plan and its implementation and would suspend duty free treatment if the country does not produce an acceptable plan within ninety days, or if the President determines that the country is not making a good faith effort to implement the plan, or if the proposed plan is not achieving its purpose. If the country takes remedial action, the President does not have to suspend duty free treatment. Finally, the President will report to Congress on the implementation of Section 103 (c) every two years.

The Caribbean Basin countries are already increasing their imports of agricultural products, mostly basic foodstuffs, to make up for shortfalls in domestic staple food production. These imports consume a large part of the scarce foreign exchange available to them. In 1980 the Caribbean region imported $736 million worth of food from the U.S., which accounted for over half of the region's current account deficit of $1.4 billion. Food imports in the Caribbean are projected to double by 1985. In 1980 Central American countries imported over $400 million in foodstuffs, and food imports are projected to triple by 1985. Unless current levels of food production are maintained, the situation could become much worse.

Representative George Brown highlighted this problem last August in his statement at the joint hearings on "Agricultural Development in the Caribbean and Central America" before the Subcommittee on Inter-American Affairs and the Subcommittee on Department Operations, Research, and Foreign Agriculture:

> Many countries in the Caribbean and Central America have made a transition from being net exporters of food to becoming major importers of basic staples. This is not a reflection of any kind of economic comparative advantage, and it would be terribly short-sighted to view this development as a plus for the United States on account of our increased farm exports to the region. It is instead a reflection of a stagnant or declining agricultural sector, as evidenced by mounting foreign debts that they cannot begin to service.

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There is evidence that in recent years local lands have been taken out of food production and replaced by sugar or cattle production. In the Dominican Republic during the sugar boom of the mid 1970's, small farmers and contract sugar growers began to plant sugar on marginal land previously used to grow food crops, in order to take advantage of high sugar prices. Despite the fact that sugar prices are no longer favorable and that there is a glut on the world sugar market, many of these farmers have not abandoned sugar production largely because support services such as marketing, storage and credit are not as well developed for other crops, particularly food crops.

In southern Honduras, large-scale cattle ranching has steadily expanded at the expense of small farmers growing staple food crops. These small farmers have been pushed onto marginal land which they have cleared and farmed. As cattle raising expanded further, in response to a growing U.S. market, this newly cleared land was put into pasture and the farmers were forced to move on. Despite an agrarian reform program, little has been done to aid these farmers by providing them with support services such as credit. Yet increased credit to the cattle industry has aided the expansion of cattle raising.

Bread for the World does not oppose the production of export crops across the board. It does feel that the situation in each country must be evaluated on its own merits. Factors that need to be weighed are the prevalence of hunger and malnutrition, the staple food production capacity of the economy and land distribution. Expansion of export crops may pose no problem in countries with an adequately fed population and equitable land distribution. The determining factor ought to be how many people are being adequately fed.

Section 103 (c) addresses these problems in a flexible manner. Without safeguards for domestic food production, the duty free treatment for sugar and beef could have the effect of shifting more land from local food production to production of beef and sugar for export. This would have a serious effect on the available food supply for the local population who would become increasingly reliant on imported food. It would also place a serious strain in the foreign exchange situation of these countries.

Bread for the World feels that Section 103 (c) is consistent with the spirit of President Reagan's Caribbean Basin Initiative. It uses duty free treatment and increased access to the U.S. marketplace as an incentive to encourage countries to protect and develcp their domestic food economies. When President Reagan introduced his initiative he said "Before granting duty free treatment, we shall discuss with each country its own self-help measures." Bread for the World feels that it is important to include provisions to protect staple food production in these self-help measures. We urge the Senate to retain Section 103 (c) when it considers S 544.

STATEMENT IN SUPPORT OF S.544

THE ADMINISTRATION'S

CARIBBEAN BASIN ECONOMIC RECOVERY ACT

BEFORE THE

COMMITTEE ON FINANCE

U.S. SENATE

APRIL 13, 1983

by

Cameron Clark, Jr., President

Committee for 806.30 and 807, Inc.

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 hearing on S.544, 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.544, the Caribbean Basin Economic Recovery Act.

The Committee for 806.30 and 807, Inc. is a Washington-based organization which supports the principles 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.

While the Committee for 806.30 and 807, Inc., has previously indicated its support for legislation implementing the President's Caribbean Basin Initiative, we wish to reiterate that support and stress the urgent need for action. The development needs of this region have become all the more critical since the President first unveiled his proposal February 24, 1982. Final Congressional action on legislation which will create substantially increased and tariff-free market opportunities for Caribbean Basin exports and investment incentives to further assist private sector development in the area is needed now. Further delay will only raise the specter of yet another fizzled and failed effort by the United States to help its good neighbors to the South in an economic alliance for progress that has never really developed.

Such a failure to follow through can have unfortunate consequences far beyond the Caribbean Basin.

For the area itself delay on enactment of this legislation, S.544, will discourage self-help efforts at a time when unfavorable trade balances and growing foreign indebtedness are turning hope for economic growth to actual economic decline and further eroding political stability.

I urge the Committee to avoid adding any restrictive or crippling amendments in favorably reporting S.544 and to obtain timely enactment of this bill as befits our national interest and our international interest.

S.544 is in the national interest of the United States, strategically, economically and commercially.

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 1982 U.S. imports from Caribbean basin countries under these tariff provision totaled $605 million, of which as estimated two-thirds was the value of U.S. materials and components. In Central America and the Caribbean, 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 worsening of 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 continue to place 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 stagnated. As needed imports have increased in price due to inflation in the industrialized countries and devalued currencies in some of these countries, the result for the Caribbean Basin has been crippling balance of payment deficits and dangerously expanding international liabilities.

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 appropriate 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 can combine to open up private enterprise opportunities in the Caribbean Basin. I would urge this Committee to restore the investment tax credit incentives contained in the Administration's original proposal in the last Congress. U.S. investment tax stimulus coupled with complementary indigenous tax policies and investment assurances are necessary to obtain the attention of potential investors.

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 turn-around 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 developement 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 operarions 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 which are subject to textile agreements, certain footwear and articles of leather and canned tuna.

The free trade area would be in effect for a period of twelve years -- a necessary time requirement to initiate investment plans and realize investment returns.

U.S. imports from Caribbean Basin countries totaled $8.0 billion in 1982. Of this total $1,866 million are statutorily free of duty; thus, their dutiable status will not be affected by enactment of S.554. In addition, imports of the products exempted from the free trade area (petroleum, textiles and apparel, etc.) amounted to $4,961 million. On this basis, $6,827 million out of $8 billion in 1982 imports will not be affected by the Caribbean Basin free trade area.

Imports which will become free of duty under this legislation amounted to $627 million in 1982. Additionally, $554 million in duty free imports under the Generalized System of Preference (GSP) will no longer be subject to the competitive need limitation of the GSP program. Thus, a total of $1,181 million in terms of 1982 imports will be eligible for duty-free entry under S.544. In addition, there is an unknown and yet unexplored import potential in articles not now traded because of no preexisting capability to produce and compete in export markets. These are the categories of trade that will be encouraged by (1) the tariff preference over other suppliers and (2) the duty free access afforded by the free trade area for a period of 12 years.

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 1982 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. At the least, these arrangements reduce losses in sales and market share, and minimize decline in domestic production and job losses.

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. It should be noted, however, that treatment under the Generalized System of Preference (GSP) has not attracted any significant outside investment to the Caribbean Basin.

The requirement that there be a local value added of 35 percent for a product to qualify for the duty-free treatment 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 provision permitting 15 percent of total value to be U.S. origin is a welcome improvement in the local content rquirement. It is firmly believed that the 35 percent local value added requirement will bar runaway plant possibility, and the 15 percent U.S. value inclusion will improve potential U.S. benefits.

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 addition of leather goods to the articles excluded from the free trade area. This addition will 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 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 for Caribbean Basin countries, 35 percent, than for all less developed countries, 50 percent, or for developed countries, 92 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, 65 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.

Production sharing enterprises operating in the textile and apparel area, are an important part of U.S. production sharing operation in the Caribbean Basin. 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. Further, as has been indicated, textile and apparel imports subject to the textile program will not be included in the Caribbean Basin free trade area. We hope that U.S. Government's intent, as indicated in presenting the CBI, to allow more favorable access for Caribbean Basin textile and apparel exports will be acted upon. We request the Committee, in its favorable report on the S.544 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 is an AID sponsored project in Costa Rica (BANEX) to finance non-traditional exports is a case 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 know-how, sourcing information and expertise in financial transactions. In a development atmosphere an aid financed program can be a necessary catalyst to commercial undertakings.

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. The tax measures previously cited 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. We reiterate our recommendation to include the original investment tax credit provision in S.544.

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.

TABLE 1

U.S. Imports for Consumption from
Caribbean Basin Countries, 1982
Dutiable, Duty-free and Calculated Duty
as Percent Dutiable Value

Country	Total	Duty-free	Dutiable	Calculated duty and percent of dutiable Value
		(million of dollars)		(percent)
Guatemala	330	249	82	2.2
El Salvador	310	218	92	8.8
Honduras	360	278	82	8.3
Nicaragua	87	49	38	3.2
Costa Rica	358	234	124	12.8
Panama	251	204	47	3.5
Haiti	310	102	208	13.0
Dominican Republic	622	330	292	12.2
Belize	39	30	9	22.9
Bermuda	12	11	1	10.6
Bahamas	1,045	115	930 1/	2/
Jamaica	278	260	18	20.5
Leeward & Windward Islands	27	10	17	21.5
Barbados	107	12	95	9.4
Trinidad and Tobago	1,628	83	1,545 1/	2/
Netherland Antilles	2,107	148	1,959 1/	2/
Guyana	71	62	9	17.7
Suriname	60	60	-	-
Total	8,002	2,454	5,548	12.4 3/

1/ Import of petroleum included with dutiable imports.

2/ Ad valorem equivalent of the duty in less than 0.5 percent.

3/ Excludes trade and calculated duties in petroleum and petroleum products.

TABLE 2

U.S. Imports under Tariff Items
806.30 and 807.00 from Countries
of the Caribbean Basin, 1981

	Total	Duty-free[1/]	Dutiable
		(million of dollars)	
All countries	15,924.0	4,270.3	11,653.7
Developed countries	8,733.8	690.1	8,043.6
Developing countries	7,174.0	3,576.1	3,597.8
Caribbean Basin countries	546.8	354.6	192.3
Haiti	171.3	117.1	54.2
El Salvador	72.5	41.2	31.3
Dominican Republic	119.7	78.6	41.1
Barbados	53.2	32.5	20.7
Costa Rica	53.3	37.6	15.7
Jamaica	17.1	7.8	9.3
Nicaragua	9.3	6.0	3.4
Belize	9.0	5.9	3.2
Honduras	22.6	15.7	6.9
Leeward and Woodward Islands	11.7	7.8	3.9
Guyana	3.7	2.2	1.5
Trinidad and Tobago	1.0	1.6	.4
French West Indies	2.3	1.6	.7

* * *

Percent Distribution Between
Duty-free and Dutiable Imports

	Total	Duty-free	Dutiable
	Percent	Percent	Percent
Total All Countries	100	26.8	73.2
Developed	100	7.9	92.1
Developing	100	49.8	50.1
Caribbean Basin	100	64.9	35.1

1/ Value of U.S. material and parts sent abroad for processing or assembly.

Source: U.S. International Trade Commission.

Before the Senate Finance Committee

STATEMENT OF
THE CIGAR ASSOCIATION OF AMERICA, INC.
IN SUPPORT OF S. 544
(CARIBBEAN BASIN ECONOMIC RECOVERY ACT)

April 20, 1983

The Cigar Association of America believes that enactment of S. 544 - the Caribbean Basin Economic Recovery Act - is in the national interest and therefore hopes that the bill will be favorably reported by the Senate Finance Committee. We see this legislation as a much-needed program to promote economic development and political stability among our neighbors in the Caribbean and in Central America, and to strengthen U.S. relationships in the area. We believe the legislation would also benefit the U.S. economy by expanding the regional market for U.S. exports and by reducing the cost of regional inputs in U.S. manufactured products.

Under the trade provisions of the bill, duty-free treatment would be extended to most of the products grown or manufactured in Caribbean Basin beneficiary countries. These would include cigar tobaccos and cigars provided for in Schedule 1, Part 13 of the Tariff Schedules of the United States, as follows: cigar wrapper tobacco (TSUS items 170.10 and 170.15), cigar filler tobacco (TSUS

The Cigar Association of America is a non-profit organization representing domestic cigar manufacturers, as well as suppliers, importers and distributors in the cigar business, accounting for more than 90% of the large cigars sold at retail in the United States. Large cigars are defined as those weighing more than three pounds per thousand.

items 170.20, 170.25, 170.40 and 170.45), cigar scrap tobacco (TSUS item 170.60), and cigars and cheroots (TSUS items 170.68 through 170.72).

The nations of the Caribbean Basin are important sources of supply for premium cigars and cigar tobaccos for the U.S. cigar industry. Most of the premium cigars imported from that region come from Jamaica, the Dominican Republic, Honduras, Costa Rica and Nicaragua. Wrapper tobacco imported from the region comes mostly from Central America. Such wrapper tobacco is used primarily by U.S. premium cigar manufacturers which are concentrated in the area of Tampa, Florida. Cigar filler tobaccos are grown both in Central America and the island nations of the Caribbean. Such tobaccos are imported by U.S. cigar manufacturers for blending with different varieties of filler tobaccos from foreign and domestic sources for use in cigars. At the present time about 20% of all cigar tobaccos imported come from Caribbean Basin sources.

Cuban premium cigars have had an unmatched reputation in world markets for many years. However, the traditional Cuban dominance in hand-made cigars is not inviolate, nor should it be. Since the Castro takeover in Cuba there are many Cuban expatriate cigar-makers now working in the Southeastern United States, in Central America, and in the Caribbean. Moreover, the making of hand-made cigars and cigar usage have strong roots in many of those areas. In our view, there is a real potential that premium cigars made in the Southeastern United States and in friendly Caribbean Basin countries can supplant Cuba as the premier producer of hand-made cigars in the world. Passage of S. 544 would contribute significantly to the realization of that potential by increasing the international competitiveness of premium cigars manufactured in the region. This would be beneficial not only to our trading partners in the Caribbean Basin, but also to the United States.

It should be noted that S. 544 contains certain restrictions designed to foreclose certain minor operations which have little economic value for the beneficiary countries and are essentially duty avoidance devices. It is our understanding that an article which is altered within the meaning of TSUS item 806.20 would not qualify for duty-free treatment under the bill since such an alteration would not result in a new and different article of commerce. Thus, the stemming of cigar wrapper tobacco, which has consistently been held to be an alteration within the meaning of item 806.20, would be excluded as such a minor operation because stemming merely changes the tobacco from one unmanufactured form to another.*

Duty-free treatment for cigars would help U.S. cigar companies which have operations in Caribbean Basin countries. Duty-free treatment for wrapper tobacco, cigar filler tobacco and cigar scrap tobacco would lower the cost of raw materials for cigars manufactured in the United States. In each case the savings would be significant because the column 1 duty rates for these products are

* Customs Service Decision 81-79. See colloquy between Mr. Gibson and Mr. Rose in 128 Cong. Rec. H. 10164 (Dec. 17, 1982) on the Caribbean Basin Economic Recovery Act, as passed by the House in the 97th Congress.

relatively high. Furthermore, since both imported cigars and the raw material used in U.S. cigar production would be duty-free, the competitive balance between imports and domestic products would be maintained.

There would be no adverse effect on production or employment in the U.S. cigar industry. In that connection we agree with the findings of the U.S. Department of Agriculture last year in its report on the probable effects of the Caribbean Basin Initiative on the industry.* The following excerpts from the report summarize the legislation's impact with respect to cigar leaf and cigars:

> "II. <u>CIGAR LEAF</u>
>
> <u>SUMMARY</u>: The overall impact of the CBI, as introduced by the President, on U.S. cigar tobacco growers is judged to be minimal. Also, the structure of the cigar leaf tobacco industry in the Caribbean Basin is not expected to change significantly under the CBI. The U.S. cigar manufacturers are likely to continue to look to the Caribbean as a source of cigar tobacco..." (page 4)
>
> "III. <u>CIGARS</u>
>
> <u>SUMMARY</u>: ... The duty-free entry clause of the CBI would have no impact on the U.S./Caribbean cigar trade because most of the cigars from this region will enter the U.S. duty free under the Generalized System of Preferences..." (page 7)"

In conclusion, we support the legislation you are considering for the reasons we have outlined and hope for its early enactment.

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* "Caribbean Basin Initiative: Implications for the U.S. Tobacco Industry", Tobacco, Cotton and Seeds Division, Foreign Agriculture Service (June, 1982).

CHAMBER OF COMMERCE
OF THE
UNITED STATES OF AMERICA

HILTON DAVIS
VICE PRESIDENT
LEGISLATIVE AND POLITICAL AFFAIRS

April 20, 1983

1615 H STREET, N.W.
WASHINGTON, D.C. 20062
202/463-5600

The Honorable Robert Dole
Chairman
Committee on Finance
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

On behalf of the Chamber's over 220,000 members, I appreciate the opportunity to express support for the Caribbean Basin Initiative (CBI) as incorporated in S. 544, now before the Committee on Finance.

The Chamber's Board of Directors, on November 10, 1982, endorsed the trade incentive provisions of the version of the bill then before the 97th Congress. S. 544 is substantially the same proposal and the Chamber reaffirms its support.

The Chamber Board's action last November was based on a careful assessment of CBI's costs and benefits. Initially, reflecting the wide range of interests among our members, the Board was concerned that the foreign policy and other benefits of an economically resurgent Caribbean Basin might involve unacceptable costs in terms of American production and jobs. The Board concluded, however, that speedy action on the legislation was imperative on several counts. Five months later, the situation is now even more pressing.

- First, a stable and prosperous Caribbean Basin is politically valuable to the United States. Communist influence thrives in economic chaos and the lack of hope this engenders. It is, therefore, in our own best security interests to ensure that close neighbors in the region are healthy and prosperous.

- Second, access to the U.S. market has been identified by Caribbean Nations as the top priority factor for their economic development. This access is provided in the duty free title of the bill and provides the best long term prospects for economic growth by basing the program on a policy of self-help. The deficiencies in the region's economic infrastructure, which have seriously inhibited private sector enterprise, will be effectively addressed by the emergency economic assistance package approved by Congress last year.

- Third, the new wave of private enterprise-oriented political leaders in the region would be embarrassed by the Initiative's failure: their opponents want it to fail.

- Fourth, S. 544 provides adequate safeguards against disruptive surges of imports from the region. Moreover, it would be several years before significant new trade activity would result, by which time U.S. economic recovery should be firmly established.

- Fifth, duty free treatment under the Act would not be permanent, but only for a period not to exceed 12 years after enactment. Excluding petroleum products, the U.S. had a $2.9 billion trade surplus with the region in 1982, a 50 percent increase over 1980. This trade could grow further as a revitalized region provides even better market opportunities for American exporters.

- Sixth, the development of economic opportunities in the region is the one sure way to diminish the United States' problem of illegal immigration.

To summarize, the Caribbean Basin is very definitely in the United States' backyard, a reality which justifies the degree of precedent-breaking action implicit in the Initiative. S. 544 provides an opportunity to assert U.S. leadership and concern in a way that is both effective and based on the time-proven principle of self help.

I will appreciate your consideration of our views and inclusion of this letter in the hearings record.

Cordially,

Hilton Davis

Hilton Davis

cc: Committee Members
Rod DeArment, Majority Staff Director
J. Michael Stern, Minority Staff Director

Caribbean Central American Action

April 5, 1983

The Honorable Robert J. Dole
U.S. Senate
2213 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Dole:

Of the several issues being considered in this session of Congress, none is of greater importance than the Caribbean Basin Initiative. The nations of the Caribbean need access to the United States markets to achieve their economic development, just as the United States needs political stability in the region, relief from illegal immigration, a halt to the unchecked flow of narcotics, and expanded markets for our own goods and services. The CBI will be an important step towards achieving these goals.

The CBI is a bold innovative plan which will assist the Caribbean Basin nations by stimulating private sector development through increased trade and investment. It was approved by the House Ways and Means Committee and Senate Finance Committee, and passed overwhelmingly by the full House of Representatives, during the December 1982 lame duck session. As Chairman Dan Rostenkowski stated, the CBI will have a positive effect on our own economic growth -- not take away U.S. jobs:

> "The argument that the CBI will cost thousands of U.S. jobs is a hollow threat. If this bill succeeds in stirring Caribbean nations to increase their capacity for trade, U.S. industries will greatly benefit by their demand for capital assets like machinery, construction materials and technology."

The CBI has strong support from members of both parties who realize that this legislation is squarely in the national interest. The CBI bill, which overwhelmingly passed the House late in the 97th Congress, has had the strong backing of Democrats such as Jim Wright, Mike Barnes, Mr. Rostenkowski, Sam Gibbons and Clement Zablocki along with Republicans Charles Percy, Bob Dole, Bob Michel, Bill Frenzel and others. Your support is needed now to pass the CBI into law.

Caribbean leaders told a large congressional delegation in Jamaica at the end of last year that the Caribbean simply cannot wait another year for the CBI. The CBI has raised expectations for more than a year while the region's economic crisis has worsened.

Defeat of the CBI would be a severe blow to U.S. credibility throughout the region as well as to the economic and political future of our closest neighbors.

We strongly urge your support for this vital legislation.

Sincerely,

S. Lee Kling
Sam Segnar
Frank Borman
David Rockefeller

Enclosures: Foreign Policy article on CBI
Text of telegram of six former Secretaries of State

Suite 1010
1333 New Hampshire Avenue, NW
Washington, D.C. 20036
(202) 466-7464

"Text of Mailgram from Six Secretaries of State in support of CBI"

Dear Member of Congress:

We are writing to ask your vote in favor of passage of the Caribbean Basin Initiative, which each of us strongly believe is vital to the long-term interests of the American people.

The fate of the Caribbean Basin is inseparable from our own. Our neighbors of Central American and the Island Caribbean have often received little public attention, but every administration in the post war era has understood that the Caribbean Basin is critical to both our security interests and our long-term social and economic well-being. The Caribbean Basin initiative was formulated by this administration, but it reflects the concerns and insights of its predecessors, both Democratic and Republican.

The legislation approved by a 27-6 vote in the House Ways and Means Committee provides opportunities and incentives for more investment, more production, and more jobs in the Caribbean area. These opportunities--if realized intelligently and energetically by the people of the basin--will stimulate self-sustaining growth to serve as the foundation for political and social progress and stability. The alternative, and the inevitable result of continued political and economic unrest in our immediate neighborhood would be a highly uncertain security situation, a rising flow of immigration and direct and disruptive human consequences for the United States.

Understandable concerns have been expressed by some about possible effects on U.S. production and employment. We believe the legislation as it emerged from the committee is balanced with safeguards for our most vulnerable industries. In addition, we are convinced that the long-term impact of the CBI will be positive. A prosperous Caribbean Basin means a better market for our own exports. It means lesser demands on U.S. resources--for defense, for economic assistance, and for social expenditures within the U.S. to help the displaced victims of social and economic unrest.

We urge the full Congress to follow the committee's example and complete passage of the CBI program. To delay will not help our economy or U.S. workers, but it will harm both our friends and our long-term national interests.

Please accept our thanks in advance for your personal contribution on this vital issue.

Sincerely,

Dean Rusk
William P. Rogers
Henry A. Kissinger
Cyrus Vance
Edmund S. Muskie
Alexander M. Haig, Jr.

CAMARA DE COMERCIO
DE PUERTO RICO
CHAMBER OF COMMERCE OF PUERTO RICO
TETUAN 100 P. O. BOX 3789 SAN JUAN, PUERTO RICO 00904-3789
TEL. 723-1300

April 19, 1983

Honorable Robert J. Dole
Chairman
Senate Committee on Finance
Dirksen (NSOB) Bldg., Suite 2227
Washington, D.C.

Dear Senator Dole:

The purpose of this letter is to present to you and the Committee on Finance the views and recommendations of the Chamber of Commerce of Puerto Rico regarding S. 544 and the Caribbean Basin Initiative. The public hearing on the bill took place on April 13, 1983. This letter is submitted within the deadline established by your office to submit written testimony: April 20, 1983.

The Chamber of Commerce of Puerto Rico is a business association which includes diverse business firms and trade associations in its membership, and covers all business sectors and geographic areas in the Island.

<u>The CBI and S. 544</u>

The Chamber of Commerce of Puerto Rico realizes the great importance that the Caribbean Basin Initiative and S. 544 have for the United States, de CB beneficiary countries, and Puerto Rico. We support the bill's objectives of improving economic and social conditions in the Caribbean Basin countries and stabilizing the area, thus preventing security

PUERTO RICO
Adelante CON MAS
CAMARA DE COMERCIO

risks and excesive migration, and enhancing the purchase of U.S. goods from those countries.

The bill has many good features which do not need much commentary. It also has some important shortcomings, which we would particularly like to discuss in this writing. Our attitude and our basic position with respect to S. 544 is positive and cooperative. Our support of the bill must be conditioned, however, to the adequate protection of Puerto Rico's interests in accordance with the following views and recommendations.

Duty-Free Treatment and Tax Provisions in S. 544

Of particular concern to Puerto Rico is the fact that many of the products being produced in the CB countries and likely to benefit from duty-free treatment under S. 544 are also produced in Puerto Rico. This is natural, since our Island has many climatic, geographic, cultural, social and economic conditions that are similar to those of several beneficiary countries.

It is also true and natural that the product exclusions and several other measures in S. 544 tend to protect our industries and our economy. Even after considering such exclusions and protective measures, an examination of the list of dutiable products exported from the CB countries into the United States in 1980, and which can be potentially benefitted by S. 544, shows that products presently produced in Puerto Rico could be particularly affected by the proposed duty-free treatment.

The aforementioned list is part of a study prepared in the Caribbean Basin Trade, Investment and Business Information Center of the U.S. Department of Commerce by Fredi Bore, International Economist, and was published on March 1982. It studies the impact on the United States of the proposed free trade area and, although a state-by-state analysis is not made, the effects on Puerto Rico and the U.S. Virgin Islands are specifically examined, in recognition of the fact that "these U.S. possessions and territories have a similar industrial and agricultural base as the CB beneficiary countries".

The study recognizes the special, potential impact of duty-free treatment on such products as rum, drugs, analgesics, electronics and tobacco from Puerto Rico and the U.S. Virgin Islands. There are also significant threats to other agricultural products and to our convention business. Tuna canning, whose inclusion would threaten California's as well as Puerto Rico's 6,000 job industry, has been excluded in S. 544, which is of great importance to our Island.

Rum Industry

Concern about our rum industry and its contribution to Puerto Rican Government income is extremely high in Puerto Rico, and is shared by our Government and our Chamber. Two hundred and fifty million dollars in Puerto Rican Government revenues (11% - 12% of its budget) and $100 million of income to the private sector per year are at stake. The $1.62 per proof gallon constitutes a substantial protection to our rum industry. The chances and the magnitude of potential damage from its proposed elimination are great, particularly within a few years, when the possibilities of technology transfers (to improve quality of CB rums) and of increased capacity by the big, multinational producers in the CB area would be fully realized, by then the full impact of our competitive disadvantages would also be felt.

Particularly important among our disadvantages are our higher cost of molasses and our dependence on CB countries for its supply; our higher salaries and wages; our higher cost and absolute dependence on U.S. flag ships for transportation of rum to the Mainland; and our stiff, federal, environmental protection regultations.

Puerto Rican Governor, Hon. Carlos Romero Barceló, in a statement to the U.S. Special Trade Representative, has indicated that it would be highly discriminatory for the Federal Government to provide high protection to the U.S. sugar industry while it substantially withdraws such protection from the Puerto Rican and Virgin Islands rum industry. In all likelihood the Federal Government has not had the intention of discriminating; but the effects would be just the same.

The Chamber of Commerce of Puerto Rico considers that the protection presently afforded to the Puerto Rico and Virgin Islands rum industries is not adequate. We believe that the best manner of appropriately protecting our industry, while providing an incentive to the CB rum industry, is the latest proposal developed by the U.S. Virgin Islands Governor and their Delegate to Congress, supported by Puerto Rico's Governor and its Resident Commissioner in Washington, whereby CB bottled rum would be duty free while bulk rum would not. The proposal also involves the creation of a $10 to $15 million fund for infrastructural development in the CB region.

The aforementioned proposal, besides affording adequate protection to Puerto Rican rum, of which 64% was shipped in bulk in 1982, seems essential to the Virgin Islands industry, practically all of whose rum is shipped in bulk. Moreover, the proposal has been estimated by Virgin Islands economists to benefit more the CB countries, in terms of direct government revenues, than the present proposal, according to Attorney William Blum, legal counsel to the V.I. Governor. The difference would be $100,000 in corporate taxes under the present proposal vis-a-vis $14.7 million in federal excise taxes going to the CB government under the new proposal.

After considering the additional fact that the rum industry is not a labor-intensive, but rather a capital-intensive industry, the benefits to the CB countries seem more obvious. The Chamber of Commerce of Puerto Rico recommends that the new proposal be adopted by Congress.

Agricultural Products

An examination of the list of dutiable products from CB countries which can potentially benefit from duty-free treatment (Annex 1 to the U.S. Department of Commerce Study previously mentioned) shows that tobacco products (cigars, scap tobacco, wrapper tobacco, filter tobacco and other tobacco items), fresh pineapples, fresh peppers, fresh mangoes, yams and other starchy vegetables, avocados and other vegetables and fresh agricultural products figure prominently as important CB exports.

The Government of Puerto Rico is afraid, and our Chamber shares its concern, that present Puerto Rican efforts to develop its agriculture and produce a greater share of its food needs may be jeopardized by duty-free treatment to such CB exports. In consideration of both CB and Puerto Rican interests in this field, a compromise solution is advisable, whereby tariffs on such products are partially reduced but not totally eliminated.

Electronics Industry

Products such as electronic tubes, capacitors and resistors figure among the main exports from CB countries that can benefit from duty-free treatment. The three product categories just mentioned alone accounted in 1980 for over $100 million in imports from beneficiary countries such as Barbados, El Salvador, Haiti and Costa Rica.

On the other hand, about 250 electronic plants in Puerto Rico provide many thousands of jobs and constitute one of our most important industries. The many, relatively unskilled, assembly operations involved, and the relatively low wages paid for such operations in the CB countries vis-a-vis Puerto Rico tend to indicate that this industry could be significantly affected by CB duty-free imports. Serious consideration should be given to providing at least partial protection to this industry through a reduction, but not the total elimination, of the existing tariff.

Convention Business

Convention visitors constitute about 7% of all visitors to Puerto Rico. Last year 1,378 conventions were held in the Island. Our tourism has had a very poor season this year, affected by the recession and relatively benign climate in the Mainland. A decline in the convention business would further hurt the industry.

Puerto Rico and the Virgin Islands have considerably benefited from the business convention expense deduction under Section 602 of the Tax Reform Act of 1976. However, extension of the benefit to Jamaica and Mexico has already diluted the benefitial effect on Puerto Rico and the Virgin Islands. A further dilution of the benefits because of the extension of the incentive to other CB country conventions would further affect us.

Puerto Rico's hotels, the tourism industry in general, the P.R. Government and our Institution see with great concern this provision of S. 544 and consider fair that Canada, Mexico and Venezuela provide a similar deduction for conventions in Puerto Rico through tax treaties with the United States.

The Chamber of Commerce of Puerto Rico will sincerely appreciate that you take into consideration our recommendations to further protect our Island's economy under S. 544 and the CBI. We also pledge our cooperation to help attain the CBI objectives.

Sincerely,

JOSE R. COLON
President

STATEMENT OF
THE DEVELOPMENT GROUP FOR ALTERNATIVE POLICIES AND
THE INTERRELIGIOUS TASK FORCE ON U.S. FOOD POLICY
FOR A NETWORK OF CONCERNED CITIZENS OF THE
CARIBBEAN AND CENTRAL AMERICA ON THE
EXPECTED IMPACT OF THE CARIBBEAN BASIN INITIATIVE

SENATE FINANCE COMMITTEE

13 APRIL 1983

We are pleased and honored to be able to present to the Committee a perspective on the Caribbean Basin Initiative that has not generally been heard by policymakers in this country. Yet, it is a point of view shared by thousands of people in the Caribbean and Central America, including those working most closely with the poor and disadvantaged whom the Initiative is purportedly intended to ultimately benefit. They would like the Committee to know that the Initiative has not been universally applauded in the region. Some of the best and most dedicated people in the area fear that the CBI will have a disastrously destructive effect upon many of their countries. They need only point to previous experiences with similar programs and the initial impact of the CBI in the region to make their point.

The Reagan Administration has been criticized throughout the Caribbean and Central America for not extensively consulting representatives from the region, particularly those representing the interests of the working class and poor. The Administration, in developing the CBI, was highly selective in its consultations, the result being an essentially unilateral proposal which has caused considerable resentment, particularly within the nongovernmental sector in the region. The enthusiastic response of their government leaders to an initiative originating outside the region in which they had little or no input has been explained by the fact that most of the region's governments are either unrepresentative of their populations or are under severe economic duress. And, while the private sector in the region was also consulted, such popular and representative bodies as trade unions, cooperatives, farmers' groups, and community organizations were excluded from talks on the CBI.

Accordingly, a three-day Working Conference on Caribbean and Central American Development was convened in Kingston, Jamaica, 14-16 December 1982, to enable an articulation of views from segments of the population that ultimately would be most affected by the President's plan. It was conceived as a means of soliciting input from representatives of nongovernmental organizations in the region in order to develop practical alternatives to the Caribbean Basin Initiative and an appropriate American response to the region's problems. The conference was sponsored by The Development GAP, a Washington-based development policy organization, and was supported by a grant from the Presbyterian Hunger Program.

The conference was attended by fourteen NGO representatives from Costa Rica, Nicaragua, Honduras, El Salvador, Guatemala, Mexico, Jamaica, Haiti, Dominican Republic, Dominica, Grenada, Trinidad, and Puerto Rico. These included representatives of farmers' organizations, small-business groups, universities, research institutions, church organizations, and development institutions. A number of other individuals from the region, including representatives from workers' unions and human rights groups, were invited but were unable to attend. Observers from four American development and church organizations attended in order to gain a perspective on the issue and to explain particular details of the CBI and its legislative status to the conference participants. The names of the participants and their respective organizational affiliations are attached.

What follows is a draft report of the conference proceedings. A final report, with a further elaboration of more concrete alternative proposals, will be published in May.

Overview

As part of its critique of the CBI, the working group generally agreed that the Plan is intended to benefit primarily U.S. interests and that its long-term impact on the countries in the region is likely to be negative. According to the conferees, the CBI was designed by and for American special interest groups at the expense of the vast majority of the region's populations. Its main impact would be to enhance American access to and control over local resources and to increase their economies' dependence on the United States while weakening the economic links that presently exist within the region. Regional mechanisms of cooperation, it was pointed out, are being sidestepped and undermined.

The intrinsic problem with the CBI, it was argued, is that it is a continuation -- and an even more cynical manifestation -- of longstanding American policy toward its neighbors in the Western Hemisphere. The Caribbean and Central America were specifically chosen at this time for special treatment due to their perceived strategic importance, but the United States, it was pointed out, always has considered the region as a resource base. Accordingly, it has encouraged and supported an excessively free-market model of development -- most blatantly incorporated in the trickle-down, private-sector, survival-of-the-largest policies of the CBI. Hence, the Plan has been perceived as the economic component of a U.S. effort to maintain and enhance its domination of the region.

The proposal seeks a strengthening of economic ties which will assure access to raw materials, provide investment opportunities, and preserve traditional markets for U.S. goods. It was felt that, with foreign direct investment generally declining, American taxpayers are being asked to pay for financial incentives to encourage U.S.-based multinationals to seek investment outlets and production bases from which to export to the United States. Trade dependencies are also being deepened, in response to threats from trade competitors, and newly created, in an attempt to redirect trade away from ex-colonial powers in the region. In effect, the United States, it was felt, is trying to firmly establish a Third World development model, a model of dependency that led to disastrous results when implemented in the 1950s in Puerto Rico.

At the same time, the CBI was seen as contributing to an American design to discourage alternative models of development such as those pursued by Nicaragua and Grenada. The exclusively bilateral approach of the CBI, together with the exclusion of these two countries as beneficiaries, was cited as evidence of the geopolitical intent of the proposal. The conferees also suggested that, by forging stronger links to the region, the United States hoped to discourage movements toward political non-alignment. Finally, the Plan was viewed as a part of, rather than as an alternative to, the American dependence upon a military solution to the current regional crisis, as the United States picks up client states and expands its economic and military presence in the Basin.

Development and the CBI

The general theme underlying much of the conference discussion was that effective development is both balanced and equitable. Developmental progress, it was argued, must be measured not only against economic indicators but also in terms of its social impact. Broad participation by all sectors of society in development planning, implementation and evaluation is necessary to ensure the evolution of a just and equitable society. Accordingly, representative and popular organizations must be recognized as not only legitimate but essential participants in development efforts. Their activities are of even greater importance in countries such as Guatemala and Haiti that are controlled by repressive governments that demonstrate little regard for the welfare of the poor majority.

Economic sovereignty, as contrasted with economic dependency, was identified as an essential goal of development. The conference laid out and analyzed four essential strategies for achieving economic self-reliance: import substitution, agricultural development, export production and infrastructural development. While the importance of agricultural development was particularly stressed, it was pointed out that basic, staple-crop production received no attention in the original CBI package. Worse, the projected increase in the production of beef, sugar, and related projects that would be stimulated by the dropping of U.S. import barriers alarmed conference participants. They argued that such an increase would displace small farmers in the region, raise local prices of staple goods, and increase the need for food imports.

They thus enthusiastically endorsed a House amendment to the CBI, introduced by Rep. Thomas Downey with the backing of the Washington-based Bread for the World, designed to protect small-farm agriculture and help countries to eventually feed themselves by safeguarding production for domestic consumption. The conferees' endorsement of the amendment -- which specifically makes duty-free entry of the above products into the United States contingent upon the submission of an acceptable plan that ensures that present levels of domestic food production would not be adversely affected by changes in land use and land ownership -- reflected their concern that the CBI trade and investment incentives would distort the use of land in the region, in part by encouraging and facilitating increased foreign ownership. It was noted that this amendment was consistent with the high priority already given in the Caribbean to food self-reliance, on a regional basis. It was also pointed out that the policy would be particularly important in Central America, where both further concentration of wealth and environmental destruction have resulted from increased beef production for export. Forestry, for one, was urged as a sounder export base.

As it now stands, even with the Downey amendment, the CBI does not provide the basis for domestic economic integration. The production it supports is not integrated into the general economy, and important socio-economic aspects of development are ignored. The upgrading of managerial and other critical skills, a general improvement in education, the expansion of regional markets, an increase in food self-sufficiency and land-use efficiency, the development of a diversified local manufacturing base, research to develop new products using local resources, the development of exports that better enhance local societies, the establishment of new structures and policies that build distribution into economic growth and give the poor better access to productive resources, and the involvement of popular organizations more directly in national planning and decisionmaking were all identified at the conference as critical needs in the region but received no attention in the CBI.

It was strongly argued that national and regional economies must be restructured so that local needs can be translated into effective demand and domestic production redirected to meet this demand. Given the history and structure of most of the societies in the Basin area, there were no reservations from a diverse group of people at the conference about placing the responsibility of establishing the framework and policies for economic restructuring with the public sector. Yet, the CBI seeks to diminish state intervention to regulate private-sector abuses or to provide some balance in the economy for the poor and working classes. Improvement in most of the critical areas cited at the conference would not be stimulated by the purely private-sector, free-market approach and policies of the CBI, but rather through a more effective balance among the official, private, and nongovernmental sectors in each country. In short, this means mixed economies with broader participation in important decisionmaking, protection from the misuse of power by the state, but also a role for government in regulating the private sector and ensuring an equitable development process. It was noted that a generation ago the Alliance for Progress, a program similar in many ways to this CBI proposal, had, for all its failings, some conditionality attached relating to social reform in order to help the majority of citizens in Latin America and diversify national economies.

Problems With the CBI Export Model

The CBI is intended to promote rapid industrialization through expanded export production. It was pointed out, however, that it overemphasizes export expansion as the basis for an industrial boom and national economic growth. While acknowledging the importance of exports for overall development, the conferees also argued the need for continued import substitution strategies and infrastructural development in order to develop indigenous industries and achieve long-term self-reliant development. Local agricultural produce and other available resources, particularly the surplus from principal export crops, can be processed and consumed locally or sold in foreign markets, in part through regional mechanisms. Programs of import substitution which encourage the growth of these and other industries can therefore also form the basis for an export drive; i.e., the CBI poses a false dichotomy by encouraging exports to the exclusion of domestic industrial and agricultural diversification and development.

By encouraging the type of exportation that it does, the CBI will also exacerbate the long-term economic problems of the region's countries. Specifically, it will encourage more inefficient use of land and greater food dependency, on the one hand, and primarily foreign-controlled industrialization (including agroindustry) and greater dependency on high and inappropriate technology, on the other. Exclusive emphasis on export production also leaves a country exceedingly vulnerable to price fluctuations. It was felt that there was a need to move away from this type of export production and dependency; the Downey amendment was seen as a step in the right direction.

Repeated reference was made to similar American policy efforts in the past: the Alliance for Progress and Operation Bootstrap. Both contributed to rapid economic growth, the benefits of which reached a small middle class and helped to fuel rising political and economic expectations. In the case of Central America, these increased expectations, along with growing domestic income disparities and intransigent repressive governments, provided the formula for much of the current political instability and armed conflict. In the case of Puerto Rico, the program, though also designed with mechanisms for income distribution, has yielded high levels of unemployment, migration, food stamp dependency, and dependency on foreign investors and foreign markets. Yet the conferees found that the Reagan Administration chose to ignore these lessons and followed the essentially "trickle-down" development models previously utilized and found wanting. In the end, the CBI was designed with many of the elements of the Taiwan model, as well -- an export model used in Haiti in the late 1960s that created only 60,000 urban-based jobs that have been shown to be highly vulnerable to American economic downturns. In short, the conference concluded that the CBI was certain to go the way of past failures.

Other weaknesses in the Plan's trade provisions were discussed at the conference. Some of the special needs of developing countries in the establishment of trade agreements, for example, were not recognized in the CBI. Access to markets is one particularly problematical area, as the CBI exempts from duty-free treatment the very products, such as textiles and rum, which would most benefit Caribbean and Central American economies. There is also an urgent need, unrecognized in the Plan, for price stabilization mechanisms that will help to redress trade imbalances over both the short and long term.

The major problem with the trade provisions, however, is that it will generally be American and other foreign companies -- given immediate and unrestricted access to the "basic commodity resources" of the countries signing agreements under the CBI -- rather than local interests that will be in a position to exploit these opportunities and take the lion's share of the benefits. In fact this is seen as part of the basic design and intent of the plan. Those countries already substantially involved in exporting to the United States the cash commodities affected by the CBI should have the capacity to increase their sales in the short term. Many, if not most, however, will not be prepared to take immediate advantage of the opportunity presented by the marginal lowering of U.S. trade barriers. They will require five or six years to develop the infrastructure, contacts, know-how, and new products to significantly access U.S. markets. In fact, the conferees considered it surprising, or perhaps a reflection of how bad the economic and financial situation is in the region, that many countries are buying into the CBI without being close to prepared to exploit trade possibilities. The situation is doubly troublesome because MNC-dominated trade could well mean favorable trade balances for the United States rather than local economies, which will be increasingly dependent upon the importation of American technology, as well as on external prices for their exports. The terms of profit repatriation under CBI agreements will also be a factor, as will the rate of capital flight from the region. The trade proposal curiously focusses only on the movement of commodities, ignoring the serious problems surrounding current capital movement.

Foreign Investment

As reflected at the conference, there are individuals and groups at all points along the political spectrum in the region who accept the need for some direct foreign investment to help with the development of resources in the respective countries. The conferees, while critical of the role that foreign investment has often played in the region, encouraged investment that meets certain conditions. These include the creation of long-term, stable employment, the development of local skills and managerial technological capacities, the generation of markets, and the rational, ecologically sound use of indigenous resources. National governments should therefore be able to reserve and exercise the right to regulate the activities of foreign investors. They should determine which economic sectors should be under state control, which are open to foreign investment and under what conditions. Tax incentives should be structured according to the investment criteria established in each country.

It was also felt that the effectiveness of national policies regarding foreign investment would be increased by the establishment of a code of corporate conduct which would be recognized throughout the region. Intra-regional competition may prevail without the observance of such regional standards. Such a code of conduct could also establish standards regarding compensation for damage inflicted by foreign investors, including, for example, environmental destruction.

Accordingly, the conference called upon the United States to support movement in this direction, and, in the meanwhile, help the countries of the Basin to: work out fair arrangements with investing companies on a selective basis; identify and control investment that creates local capacity and meets other national investment criteria; establish national policies and programs that give people a stake in their own societies (for example, equalizing credit access for small businesses, cooperatives, and small farmers competing with large investors in the purchase and formation of capital); and exercise the legitimate public role -- exercised by even the most conservative governments in the region -- of regulating private-sector investment for the purpose of ensuring balanced and equitable growth.

Unfortunately, the CBI was designed, it was charged, to have quite the opposite effect. The CBI trade and tax provisions encourage investment regardless of their contribution to the long-term development of the countries within the region. Assembly-type operations which take advantage of the large supply of cheap labor are likely to find the incentives most attractive. Promotion of this sort of investment may increase intra-regional competition and encourage government efforts to maintain a docile workforce. The Plan will clearly perpetuate multinational corporate investment, the predominance of large industry, and export to the United States rather than help move local economies into the type of production that would directly enhance local societies. In the process, conference participants warned, it would undermine policies of import substitution, as well as intra-regional trade.

Furthermore, direct investment will probably be concentrated in only the few countries that are relatively peaceful, have stable economic environments, are not in a poor debt situation (unless dollars are set aside specifically for repatriation purposes), and can supply cheap labor. The movement of capital from Puerto Rico to take advantage of low wage levels in Haiti was, in the view of the conferees, a demonstration of both the pattern of investment to be expected under the CBI and of the instability of employment created by foreign investment in the region. Not that the CBI would be a panacea for the region's unemployed in any event: it is calculated that it would have little net impact in this area, leaving one out of every four people still without a job.

Above all, however, the conferees, and particularly those familiar with the experience and impact of Operation Bootstrap, pointed warily at the economic strategy, encouraged by the Plan, which makes the expected flow of foreign investment in response to export incentives the key to economic revitalization. It was argued that countries following such a path will be either pressured or seduced into granting multinational companies -- best placed to take advantage of the CBI trade incentives -- the resource access and local investment policies they want on very accommodating terms. The result would be a further denationalization of decisionmaking regarding resource allocation, raising serious doubts about the ability of governments to protect their natural resources and environments and to direct new production into priority areas integrated into their respective national economies.

The pursuit of such a strategy spelled disaster in Puerto Rico, where foreign firms were offered a complete package of incentives, including cheap labor, up to 75 percent tax exemption, easy access to the U.S. market, and use of the island's best sources of water, as well as other key infrastructure. When the MNCs eventually pulled out for greener pastures -- often declaring bankruptcy before tax liabilities became due -- they left behind their legacy: sick workers suffering the effects of unregulated chemical industries; polluted water and other ruined natural resources; greatly increased consumer dependencies on Western products; and massive numbers of unemployed-cum-welfare dependents. What it did not leave behind were basic skills, local management capabilities, technology or technological know-how, or market linkages.

Economic Assistance

The economic assistance component of the CBI -- already approved by Congress and implemented by the Reagan Administration -- was also soundly criticized by the conference participants. Of overriding concern was the fact that aid funds were provided essentially for private-sector purchase of commodity imports. Rather than balance-of-payments assistance, the conferees called for aid routed as directly as possible to appropriate development programs and the activities of the poor themselves. This would require establishing a major flow of aid resources to indigenous private voluntary organizations and the participation of aid beneficiaries in development planning. Probable priority areas were identified as credit for small- and medium-sized farms; the development of rural industry; the development of local entrepreneurship, particularly in the smaller Caribbean islands; the development of alternative marketing structures; education and training; and disaster relief. To attend to these needs, it was suggested that a higher level of resources be channelled through existing regional development institutions -- largely ignored in the CBI -- and directed to the small islands of the eastern Caribbean.

Recent events on one of these islands, Dominica, also focussed the conference's attention on the potential for destructive intervention by the United States in the domestic affairs of the nations of the region. Participants pointed to American use of bilateral aid agreements to require the elimination of subsidies of all types, including those assisting very poor producers. Under the agreement signed with the Dominican Government, for example, control over the country's dominant banana industry was taken away from the producers and the public sector and turned over to weak private-sector management. Part of the arrangement was for an American multinational to supply non-subsidized production inputs, while output prices continued to be fixed by a British company -- thus squeezing the Dominican small farmer even further. The local producers' union is currently fighting the agreement. The conferees urged U.S. policymakers to put a stop to agreements of this type before irreversible damage is done to efforts aimed at equitable development in the region.

Lack of Consultation

One of the principal reasons, identified at the conference, for the problems with the CBI aid, trade, and investment provisions was the lack of consultation with the people of the region. Very few people were in fact consulted, certainly not representatives of the poor, popular organizations, and supportive development and research organizations. In fact, policymakers in the United States and in other Western nations were criticized at the conference for seldom, if ever, visiting and consulting with the supposed intended beneficiaries and, as is often the case, the final victims of aid, trade, and investment programs and policies. It was pointed out that very little of most development aid ever gets down to these people, as it is wasted, misused, and manipulated by institutions representing vested interests. Furthermore, all these capital flows, though to varying degrees justified on the basis of helping the poor, can have very counterproductive effects upon this population. Economic displacement, land speculation, high staple food prices, land scarcity, the reinforcement of repressive and elite structures, and the destruction of the national environment are but a few of the possible consequences. Yet, the poor, or their representatives, are seldom consulted and even less often involved in the decisionmaking involved in framing such programs and policies.

To understand the reasons why conventional aid usually does not reach where it is supposedly intended and why trade and investment policies often have counterproductive effects upon the poor, American policymakers and program officers must speak to those who have least control over the system. It was agreed that until the former increased their understanding of the nature of poverty in the region the likelihood of the United States, even under a new Administration, providing the appropriate incentives and encouraging the adoption of the proper policies to support rather than hinder movement toward a fairer distribution of income and productive resources within each society in the region would remain slim. The conferees were not so much surprised by the cynical policies designed by the Reagan Administration as they were by the support for the policies by apparently well-meaning individuals and interest groups in the United States. They felt that this reflected insufficient knowledge about the region, its history, its social and economic structures, and the situation of its poor. They therefore argued strongly for the inclusion of representatives of the social development sector and of the poor and working class in any future discussions on the development of the region.

Conditionality

The questions of conditionality, and the possible infringement on national sovereignty, were the subjects of much discussion at the conference. Both the CBI legislation and the bilateral aid agreements emanating from it set forth provisions requiring changes in domestic policies in return for economic benefits -- spcifically, for trade advantages and financial assistance. It was noted that these favor private investment, leaving minimal roles for public-sector regulation and popular organizations. They range from the elimination of subsidies to poor producers and the modification of export subsidies to required consultation with USAID on "aspects of macroeconomic policy that relate...to the objectives of the Caribbean Basin Initiative" (Honduras-USAID Loan Agreement). Title I of the CBI, in stating the conditions to be considered by the President in designating beneficiary countries, further heightened the suspicion at the conference that the Administration was giving itself broad latitude to dictate changes in the region's economies for its own interests. Assurance of "equitable and reasonable" access to the markets and basic commodity resources of a country is one such criterion. Another recommended consideration is whether a country grants preferential treatment to other developed countries "which has, or is likely to have, a significant adverse effect on United States commerce..." Conference participants believed that such a consideration could undermine the agreements emanating from the Lome Conventions.

The conferees concluded that all these conditions should be eliminated from any Caribbean Basin legislation, pointing out that, instead of developing partnership relationships, the United States was unilaterally directing policy changes in the region. It was able to do so by being much the stronger negotiating party in each of the series of bilateral negotiations intentionally designed by this Administration to be able to obtain the terms and conditions it seeks. The United States, for example, would not be held to regional standards as to the degree to which its domestic policies "distort international trade," while the President is given the arbitrary power by the CBI to judge and disqualify countries on just such a standard. This is not only one of many examples of the dangerous level of discretion afforded the U.S. President, but, given the difficulty of a nation in the Basin to actually distort international trade by itself, it is a further demonstration of the potentially manipulative nature of the CBI.

In fact, many if not most of the countries linked to the CBI would be particularly vulnerable to this type of arbitrary power. Economies might well be planned and geared up on the basis of a long-term export strategy only to have years of preparation and investment wiped out by changes in certain tariff and quota provisions. The conference asked for long-term commitments from the United States regarding the entry of their products, as well as the right to consult with the Agriculture Department before it recommends changes in import policies.

Given the history and current situation in Haiti and much of Central America and the history of American intervention in the region, the conference was also forced to explore the deeper nature and meaning of national sovereignty. It was agreed that national sovereignty had limited meaning to the extent a country's government did not represent the will of its people and less so to the degree that that government was placed in power and sustained by external forces. Accordingly, the conferees called upon the United States to respect the wishes of the majorities in their countries as reflected in the opinions of those representing various social, economic, and political sectors. Conditions set down would therefore have to be worked out with the poor and working class and not only government leaders and the privileged classes.

The Strengthening of Regionalism

Although regional integration and unity are developmental cornerstones, both politically and economically, particularly in the Caribbean, no attempt is made in the CBI to strengthen regional mechanisms. There is no recognition, for example, of Caribbean regional food production plans being developed in the late 1970s, nor of the need to build a basic regional capacity in all areas. Furthermore, in dealing with each country bilaterally the Reagan Administration did not concern itself with how American policy could encourage greater regional trade and a more complete and permanent integration of regional production. This neglect by the Administration could be interpreted as a deliberate effort to undermine already struggling attempts to build regional unity. In analyzing the CBI trade provisions, the conferees expressed their fear that these would, in fact, weaken efforts at regional cooperation significantly.

Hence, it was strongly urged that a multilateral mechanism be established in the region with broad representation. This would have various purposes. First, it might serve to counterbalance the fallout from the CBI on regional institutions already in place, regional trade and the broadening of regional markets, multi-nation negotiating power, and the search for regional rather than bilateral solutions to national problems. Second, it could monitor and eventually evaluate social and economic progress under a CBI, preparing periodic reports on implementation and impact and drawing on the views and experiences of cooperatives, unions and other institutions representing the poor and working classes; this would allow for periodic revisions of plans, programs, and policies. And third, it would be designed to provide greater balance among the negotiating parties, providing, for example, a means by which unfair provisions of bilateral treaties could be challenged and a common code of conduct regarding foreign investment could be established, so that the countries of the region could cooperate rather than compete in their search for American markets and investment. Other functions might include advising on the allocation of aid funds and improving the flow of information and overall communications throughout the region. It was also suggested that the commission might advise on the best means by which non-indigenous private voluntary organizations can support the work of local non-governmental organizations.

Although no specific institutional mechanisms were recommended for such a role by the conferees, it was strongly suggested that existing institutions, like the Central American and Caribbean Common Markets or the Inter-American Economic and Social Council of the OAS, be directly involved. The conference called for a stipulation in any new legislation that would require that the U.S. President start to move away from strictly bilateral relations under the CBI and toward the establishment of a structured multilateral relationship within a short, specified period of time. The General Secretaries of both Common Markets could be asked to recommend a regional structure, calling upon key Ministers and other representatives from the region's countries for their input. In the opinion of the conferees, an international commission may, in fact, be best placed under the joint operation of the two Common Markets themselves, as they are known to have good information on the two sub-regions respectively, strong technical and social staffs, a history of dealing with international economic issues, and most of the countries in the Basin as members; non-members, like the Dominican Republic and Haiti, would have to be brought in.

The commission should have broad representation on the donor side and particularly from within the Basin states, as one of the key reasons identified for the failure of past policies to have a positive impact upon the poor was the lack of decisionmaking involvement on the part of their representatives. The creation of a multilateral commission would facilitate a more mutual, as opposed to unilateral, process for genuine economic cooperation for development, and this would provide the framework for a long-term commitment. Hence, the conference emphasized the need to move the United States toward a convention form of negotiations, such as the European Economic Community (EEC) established with African, Caribbean, and Pacific (ACP) nations in Lome in 1975. From this would emerge a multilateral partnership that strengthens rather than undermines existing regional institutions. It was also hoped that, in the spirit of partnership, the United States would recognize the need to help the Basin's countries to diversify their economic ties both within and outside the region so as not to become overly dependent upon and vulnerable to the American economy and policies.

Militarism and the CBI

A major issue at the conference was the implications of the CBI for the increased militarization of the region. While there is no money in the CBI specifically for military purposes, four concerns were voiced by the conferees. First, El Salvador, given its precarious economic and financial situation caused by the war, would still receive a disproportionate percentage of the CBI economic assistance funds. Second, new American investment in Caribbean nations which heretofore had not hosted such interests could provide a pretense for American military intervention in the area in certain cases. Third, rather than reducing tensions in the region and leading to the eventual end of hostilities, the CBI would probably increase tensions and the degree of militarization by further polarizing the haves and have-nots within countries and by trying to divide states along ideological lines through its policy of exclusion and isolation of certain nations. Fourth, and most important, the CBI is seen as the economic underpinning of an American political-military answer to the perceived threat in Central America and to the general regional crisis. It was felt that, as long as the United States utilizes such endeavors as a CBI for strategic purposes and to perpetuate its regional economic domination, peace in the region will be extremely difficult to obtain. And without peace and political stability, effective development will be equally difficult to achieve.

On the subject of exclusion of specified "communist" countries under the CBI, the conference firmly held that this violated a basic principle of regional cooperation. It was argued that there existed no good reason why Nicaragua, Grenada, or even Cuba, for that matter, should be excluded from participation in a regional scheme when the United States trades with communist and socialist countries in other parts of the world. It was apparent to the conferees that the U.S. was trying to isolate countries, both economically and because they pose a different model for development in the region. Unless the United States were at war with a particular country, the conferees found such a policy of isolation from the other states in the region to be unacceptable. They objected to the arbitrary use of political criteria for eligibility and recommended that eligibility be based solely on a government's demonstrated commitment to the economic and social welfare of all its citizens.

Summary and Recommendations

While the conferees did not attempt to come up with concrete proposals as an alternative to the CBI policies, their recommendations can be summarized from the conference proceedings. These will be further developed in the final conference report. The recommendations are as follows:

1. Make economic assistance more developmental in nature and channel it as directly as possible to the poor, primarily through institutions that represent and work with them. Cut off all aid to repressive governments. Condition limited balance-of-payments assistance on the equitable use of the local currency counterpart provided by government. Untie aid and encourage the diversification of economic links by giving countries the option to purchase goods and services from non-American sources when more appropriate.

2. Support for a role for the public sector in regulating and controlling the abuses of the private sector and in providing balance in the society to help the poor and working classes. The elimination of all conditions in bilateral agreements limiting the role of government in helping the poor. This implies support for the maintenance of subsidies where critical for the poor, particularly in the areas of food and agriculture. Public-sector responsibility, as well, in providing incentives to help diversify local economies, in creating necessary infrastructure, and in working with the private sector to upgrade local technical and managerial skills and to develop new products and exports which enhance local societies.

3. Support for policies and programs of import substitution that help integrate domestic economic activity. Encouragement of indigenous processing of local resources and the development of new products for local consumption and as a basis for an export drive.

4. The stabilization of export prices of key commodities of countries that have programs in place to increase food self-reliance and ensure an equitable distribution of land domestically. Operationalizing the Downey amendment requiring national Staple Food Protection Plans as a condition for receiving duty-free treatment of exports of sugar, beef and related products.

5. Equalization of the rights of all parties under CBI provisions. The elimination of the arbitrary power of the United States to unilaterally, and on short notice, strike goods off the duty-free list without consultation with interested parties in the region; the right of countries to prior consultation with the Department of Agriculture. The recognition of the equal right of each of the region's countries to terminate its adherence to particular provisions of a bilateral agreement if its determines that they are having an adverse effect on its economy or a particularly vulnerable population group.

6. Greater oversight control by the U.S. Congress over the President in the implementation of any Caribbean Basin plan.

7. Support for regional institutions and economic integration. Strengthening rather than undermining regional common markets and other mechanisms. The encouragement of regional trade, the integration of regional production, and the development of regional food plans. The building of regional capacity in all areas.

8. Shifting of the CBI to a multilateral basis. The establishment of a multilateral commission, perhaps under the joint operation of the region's two common markets or under the OAS, and movement toward a convention and partnership form of negotiations and follow-up in the mode of the EEC-ACP relationship under the Lome Conventions. The requirement that the U.S.President negotiate a multilateral treaty within two years, and that it be negotiated in convention form within a regional mechanism with broad representation from within each country and from both inside and outside the region. The use of such a mechanism to also: strengthen other regional institutions and integration; explore regional rather than bilateral solutions to problems; monitor and evaluate social and economic progress and impact under a CBI; draw on the

views and experiences of the poor, their representatives, and their institutions; provide greater balance among negotiating parties; provide means to challenge provisions of bilateral treaties and to establish a common code of conduct vis-a-vis multinational investors; advise on the allocation of aid funds; and improve the flow of information in the region.

9. Conditioning of aid, as well as trade and investment incentives, on, and only on, a government's demonstrated concern for the plight and development of its poorest citizens. Inclusion of representatives from a broad range of sectors, including the poor, in working out bilateral agreements and support for their inclusion in national planning and other decisionmaking.

10. Support for more appropriate foreign investment in the region and for fair arrangements with investing companies. Balancing of national negotiating power with that of multinational companies. Support for the establishment of a regional code of conduct and for an increase in national monitoring and policing power. An increase in the flow of information within the region that enhances knowledge about the organization and operations of particular industries and helps countries to identify and control relevant, constructive types of investments. Support for representative union development and ability to negotiate effectively. Significant tax exemptions only for foreign firms constructively involved in or contributing to important socio-economic activities.

11. Lessen the financial burden on the American taxpayer by eliminating or reducing most tax exemptions extended to large American and multinational firms. Use of increased revenues to finance American job retraining and in other ways assist the American worker in accordance with the principle of compensation established elsewhere in the CBI.

12. Assistance in restricting capital flight from the region in order to deal effectively with balance-of-payments problems.

13. Elimination of military aspects of the CBI by reducing aid to El Salvador and by reducing parallel military aid throughout the region. Elimination of all strategic country exclusions.

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WORKING CONFERENCE ON
THE CARIBBEAN AND CENTRAL AMERICAN DEVELOPMENT

December 1982

Participants

Richard L. Bernal	Economics Department University of the West Indies	Jamaica
Liliana Cabral	Caribbean Council of Churches	Dominican Republic
Amalia Chamorro	Institute for Social and Economic Research (INIES)	Nicaragua
Bernard Etheart	CHADEV (Comite Haitien de Developpement)	Haiti
Manolo Garcia	Oficina de Servicios de Solidaridad (OSS)	Guatemala
Ramon Gonzalez Vaglio	Union Nacional de Pequenos y Medianos Productores Agropecuarios (UPANACIONAL)	Costa Rica
Sandra M. Laureano	Caribbean Project for Justice and Peace	Puerto Rico
Sam Lawrence	Private farmer; formerly executive director of Jamaica Manufacturers Association	Jamaica
Neville Linton	Caribbean Conference of Churches	Guyana/Trinidad and Tobago
Atherton Martin	Dominica Farmers' Union and The American Friends Service Committee	Dominica
Luis Lopezllera Mendez	Promocion del Desarrollo Popular A.C. and CRES	Mexico
Lindwall Purcell (Thomas)	---	Grenada
Jorge Sol	Institute for Policy Studies	El Salvador
Benjamin Villaneuva	Research and Development Technical Corp.	Honduras
Douglas Hellinger Stephen Hellinger	The Development Group for Alternative Policies	United States
Jim Cotter	International Voluntary Services	United States
Cheryl Morden	Church World Service/ Lutheran World Relief	United States

Hearing Held Wednesday, April 13, 1983

Statement of the
COMPONENTS GROUP
of the
ELECTRONIC INDUSTRIES ASSOCIATION (EIA)
on the
CARIBBEAN BASIN ECONOMIC RECOVERY ACT
to the
Senate Finance Committee

The Caribbean Basin Economic Recovery Act (S.544) provides the opportunity for duty-free entry to the U.S. market of products from 28 Caribbean countries for a period of 12 years. The Act is built on the concept of improving 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 Components Group of the Electronic Industries Association (EIA) endorses this legislation with the exception that it should be modified to insure that no more than 50% of the value of an eligible article orginates in any one highly industrialized nation (other than the United States).

Four of EIA's Divisions comprise the Components Group. The Tube Division is composed of United States manufacturers of electronic tubes; members of the Parts Division manufacture various passive and electromechanical electronic components; members of the Solid State Products Division manufacture semiconductor devices and electronic chips; the Distributor Products Division's members are manufacturers of components who sell their products through electronic distributors. Together, the Components Group represents over 250 large and small manufacturers.

In the 5-year period from 1978 through 1982, imports of electronic products into the USA increased from $10 billion to $21 billion or by 110%, while exports rose only 84%, from $13 billion to $24 billion. In 1981, the electronic trade surplus was $3.8 billion; last year it declined by 16%, to $3.2 billion

The fact demonstrated above, namely that imports of electronic products are increasing at a faster rate than exports, should be more than disquieting. The trend for other "high tech" industries is much the same. Moreover, massive imports continue to erode our "basic" industries at an alarming rate. This broad impact of importation, let alone the duty-free portion of it, has resulted in the destablization of our industrial economy.

We note that the Caribbean Basin Economic Recovery Act would abandon GSP's process for designating specific articles as eligible for duty-free treatment. Under its provisions, almost all products shipped from Caribbean nations would be eligible for duty-free entry, until some injured U.S. party succeeded in a "safeguard" action. This would result in exposing many import-sensitive industries to a flood of imported goods and to the consequent threat of serious injury. To endanger so many manufacturers, at a time when the U.S. economy is trying to regain strength, would be most unwise.

It is our position that the United States economy cannot afford to absorb any more duty-free imports unless we couple this benevolence with measures insuring that the primary beneficiaries are Caribbean nations, not highly industrialized nations.

Experience under the U.S. Generalized System of Preferences (GSP) has taught us that the manufactured products of less developed countries contain, in very large measure, parts and materials supplied by highly industrialized countries. These components must be imported into the beneficiary countries to enable them to assemble articles which are saleable in the United States.

So, on the one hand, it must be recognized that industrialized countries can and do benefit from GSP, and would benefit from the Caribbean Economic Recovery Act, too. On the other hand, the essential thrust of both laws should be to assure that developing countries derive the greatest benefit, not highly industrialized nations other than the United States.

We support the provisions in the Act which endeavor to prevent the simple trans-shipment of manufactured goods. Substantial value must be added in a 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.

We oppose the language of the bill which would allow the major portion of the content of manufactured products to be supplied by highly industrialized nations other than the United States. It is appropriate that there should be some incentive to obtain at least a portion of those parts and materials from U.S. sources--especially if the resultant assemblies are destined for our marketplace, and if the U.S. is expected to admit them without the payment of duty. Therefore, we strenuously recommend that the bill's language be changed to insure that no more than 50% of the content of an eligible article comes from another highly industrialized country.

Under the present provisions of the bill, as much as 65% of the content could actually originate in a single, highly industrialized third country. Surely, this legislation is meant to encourage the development of the Caribbean Basin countries and not encourage the use of the intended beneficiaries as little more than duty-free conduits to the United States by our competitors in major trading nations.

It is imperative that provisions be added to strengthen the proposed law: in its present form, S.544 could be used improperly by industrialized countries, thereby undercutting the ability of Caribbean countries to develop their industrial base and infrastructure.

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Essex
EXPORTS, INC.

April 14, 1983

Mr. Robert E. Lighthizer
Chief Counsel
U.S. Senate Finance Committee
Dirksen Senate Office Building
Washington D.C. 20510

Re: Caribbean Basin Initiative (CBI)

Dear Mr. Lighthizer:

As a U.S. exporter deeply involved in trading with the Caribbean, as well as Secretary of the Florida Exporters and Importers Association, I wish to express my feelings with respect to the proposed Caribbean Basin Initiative legislation so that they may be included in the printed record.

I believe it is imperative that this proposed bill be approved in order to alleviate the precarious economic situation of most Caribbean countries which has reached a crisis stage. Not only do we need to implement this legislation in order to avoid a further deterioration of the political situation of the countries in question, but also to improve their economic conditions. As a result, these countries will be in a position to import from the U.S. the goods and services that they desperately need to foster their own growth.

Most of the exporting and importing community in South Florida is of the opinion that the benefits to be gained from implementation of this legislation far outweigh the disadvantage of the possible loss of domestic jobs due to competition from foreign manufacturers and producers. History proves beyond doubt that protectionist policies invariably result in economic contraction to the detriment of all parties concerned, and the opposition to this much needed bill on the grounds of fear of competition by much smaller and less developed countries may be qualified only as demagogic and irresponsible at best.

On the other hand, the job potential creation in manufacturing, services and financial industries throughout the country resulting from an increased level of trade, is far superior to the presumed loss of jobs in certain specific areas. I am stating this opinion with the knowledge that the export-import community fully supports the CIB legislation and looks forward to its swift passage through Congress.

Respectfully submitted,

Very truly yours,

Manuel F. Ardois
Vice President

/cl

TESTIMONY

FOR THE
SENATE FINANCE COMMITTEE
ON THE
CARIBBEAN BASIN INITIATIVE (S.544)

Submitted By:

Arthur W. Kane
Vice President, Norwegian Caribbean Lines
Chairman, International Conference Industry Association
and representing
Florida Association of Marine Industries
Florida Caribbean Cruise Association

April 13, 1983

REMARKS ON CARIBBEAN BASIN INITIATIVE (S.544)

My name is Arthur W. Kane and I am the Vice President of Corporate Relations for Norwegian Caribbean Lines, whose corporate offices are in Miami, Florida. Norwegian Caribbean Lines has five cruise vessels operating exclusively in the Caribbean out of the Port of Miami and employs more than 1,200 Caribbean crew members who remit their earnings to their families in Jamaica, the Bahamas, Haiti, Honduras, and the Dominican Republic.

I am speaking also as Chairman of the International Conference Industry Association (ICIA) here in Washington, and as the representative of the Florida Association of Marine Industries and the Florida Caribbean Cruise Association.

We wish to express our strong support for the Caribbean Basin Initiative under discussion by this Committee as S.544. We believe that the bill is good and necessary for the United States because it offers us an opportunity to assist in strengthening the economies of friendly nations whose development, for political and geographical reasons, is closely related to our American economy. Indeed, the very survival and political stability of some friendly governments in the region is dependent upon our fulfilling the hopes and promises for economic development created more than a year ago by President Reagan's announcement of the Caribbean Basin Initiative.

As an economist with twelve years experience in community and economic development programs in the Caribbean, I have witnessed through the years, beginning with the Alliance for Progress, how successive administrations have sent their representatives to the Caribbean with pledges of support for these countries. Too often these pledges have been forgotten. Congressman Rostenkowski, after his recent trip to the Caribbean, marvelled how these nations remained friendly to us in spite of the fact that we have done little or nothing for them over the years. Certainly the Caribbean Basin Initiative is important for political stability within the region, but it is also important for the credibility of this country in the region.

Mr. Chairman, other witnesses before this Committee will offer many valid reasons for supporting the CBI. I will confine my explanation for supporting this bill to just three points.

1. The Caribbean Basin Initiative is Good for the U.S. Economy

It will create employment in Caribbean nations, most of whom presently have unemployment rates more than twice our U.S. rates and these jobs will stimulate the local economies and develop markets for American industrial and consumer goods.

Increased trade with Caribbean nations will boost the transportation and service industries of Florida, through which 40% of exports to the region presently flow. But as Dr. J. Kenneth Lipner of Florida International University declares, the states presently enduring the highest unemployment rates in the U.S. will be the ones to gain most from industrial orders brought on by increased economic activities in the Caribbean, namely, Michigan, Ohio, Illinois, New York and California.

2. <u>The Caribbean Basin Initiative is in keeping with the increasingly held view that the future growth of the U.S. economy is linked to the realities of a Global Economy.</u>

John Naisbitt's current book "<u>Megatrends</u>" argues that by the year 2000 the U.S. will have given up its dominant position in the major industries of steel, autos, railroad equipment, machinery, appliances, textiles, shoes and apparel. By that time the third world will manufacture 30% of the world's goods, while the U.S. will be concentrating on high technology and information industries.

The Caribbean Basin Initiative is a start toward helping our neighbors to the South to develop export industries before Eastern European or other distant countries increase their share of the U.S. market. The CBI therefore represents a solid step toward acknowledging the inevitability of a Global Economy in which the United States has the opportunity of taking the principal leadership role just as we did in another critical point for the world economy following World War II.

3. <u>Section 202 of this bill, allowing for tax deductions for business business meetings or conventions held in Caribbean Basin countries, is an important addition to the bill as originally proposed because it acknowledges the importance of tourism to the economies of all countries in the region.</u>

One of the imperfections of the bill, however, is that it conditions this boost to tourism by requiring financial information which some Caribbean nations will not be able to exceed to for reasons critical to their present financial and economic viability. I believe that there are compromises possible which will resolve the problem for the United States while protecting the financial independence of our Caribbean friends.

Mr. Chairman, Tourism is so important for the Caribbean Basin that I encourage this Committee to take every legislative step possible to assist in the growth of the industry in the Caribbean.

In this regard, Mr. Chairman, I urge this Committee to consider amending Section 202 further to include tax deductibility for conventions aboard cruise ships serving the Caribbean basin countries. Senator Chiles of Florida has submitted S.1012 on this specific subject.

The cruise industry employees more than 4,000 Caribbean citizens as crew and brings nearly 20,000 tourists to several Caribbean Basin ports each week, where they will spend between $50 and $80 per person in each port visited. The cruise industry also directly employees 10,000 American shoreside and another 20,000 indirectly in related service industries. The cruise industry purchases over $1 billion in goods and services in the American economy annually, over $750 million in Florida alone.

The restoration of the convention market will enable the cruise industry to increase sales, and therefore its job opportunities, by an estimated 20%, the same percentage of market lost by the industry when the prohibition of shipboard convention deductions took effect on January 1, 1981.

Mr. Chairman, this matter is a question of equity. Last year, and now with this bill which we support, exemptions have been extended beyond Mexico and Canada, to Jamaica, to U.S. flag vessels and now to Caribbean land-based hotels. We believe that fairness requires that shipboard conventions also be exempted in that the Caribbean Basin is the predominant area served by the cruise industry.

In conclusion, Mr. Chairman, we believe that the Caribbean Basin Initiative gives the United States the opportunity to make positive steps to help friendly neighbors and to contribute to their political stability, rather than to delay and later have to remedy unpleasant economic and political events in the region.

Thank you.

Arthur W. Kane
Vice President, Corporate Relations
Norwegian Caribbean Lines
One Biscayne Tower
Miami, Florida 33131

FLORIDA EXPORTERS & IMPORTERS ASSOC., INC.
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April 12, 1983

Mr. Robert E. Lighthizer
Chief Counsel
Senate Finance Committee
Dirksen Senate Office Building
Washington, D.C. 20510

Caribbean Basin Initiative: Public Comments

Dear Mr. Lighthizer:

The following represents the views of the Florida Exporters & Importers Association concerning the proposed Caribbean Basin Initiative. The Association is the second largest trade association of exporters in the United States. Although our views are expressed briefly herein, please note that we are prepared to provide whatever additional comments or documentation you require.

The Caribbean Basin Initiative ("CBI") was originally a three-part plan designed to further the economic development and political stability of the Caribbean and Central America. The first part, which is already law, provided for a one-time $350 million balance of payment foreign aid plan to the countries of the Basin. The second part, the 10% investment tax credit for United States investors, was heavily criticized by U.S. labor groups and was eliminated from the proposal. The remaining part, which almost passed in 1982 except for the delay on the gasoline tax, provides for twelve years of duty-free entry into the United States of goods with at least a 35% "value added" in the Caribbean. The object of this is to foster industrial development in the Caribbean Basin nations by attracting capital lured by the prospect of U.S. duty-free entry with respect to Caribbean Basin goods. You should note that many of these goods already enter duty-free under the so-called Generalized System of Preferences ("GSP"). The CBI essentially expands the GSP listing and fixes it for twelve years.

There has been some opposition by U.S. labor groups to this remaining portion of the CBI, but the rationale seems less convincing than when the CBI had the investment credit portion. At the core of the opposition is a fear that the CBI will result in a loss of U.S. jobs at a time when our national economy has been stagnant or deteriorating. Of course, recent indicators suggest we are on our way back to some sort of economic recovery.

We believe the argument that the CBI will take away U.S. jobs lacks substance, although it may have some superficial appeal. Certainly as to the State of Florida, this argument rings false. Not adopting the CBI, for example, will probably lead to greater political instability and economic dislocation in the Caribbean region; this usually brings in waves of immigrants to Florida. These immigrants then constitute an added burden on the local community, at least for the short and medium term. The new immigrants also take away jobs, particularly in the service industries and blue collar field.

Adoption of the CBI, however, may mean that the Caribbean Basin area will be strengthened and will provide a more meaningful economic opportunity for its people. It will develop a two-way street for trade, in that the CBI will also create stronger foreign markets for the sale of goods and services from the United States, which is the natural supplier of components, technology and certain raw materials essential to Caribbean Basin industrial development. At the very least, Florida will be the transshipment point for trade to and from such region; this means more jobs, particularly in the clerical, cargo handling and trucking industries, in addition to the international financial and professional services industries which are so critical to the economic viability of Florida and the United States.

In sum, the problems of the Caribbean Basin will disproportionately fall on Florida; the benefits of the passage of the CBI will not only accrue to this area but also to the rest of the country.

The purpose of our comments is to show that opposition to the CBI is counterproductive to the best interests of this country. Preservation and expansion of U.S. jobs is certainly a key governmental and social objective. Passage of the CBI is most consistent with such objective; opposition to the CBI is not. Moreover, there are better and more positive methods for fostering full employment in this country which do not implicate the CBI.

Please contact us if you have any questions.

Sincerely,

Sergio de Armas
President

Saturnino E. Lucio

Saturnino E. Lucio, II
Legal Counsel

FLORIDA FARM BUREAU FEDERATION

POST OFFICE BOX 730 - TELEPHONE 378-1321 - GAINESVILLE FLORIDA 32602

March 28, 1983

The Honorable Robert Dole, Chairman
Committee on Finance
United States Senate
Washington, D. C. 20515

Dear Senator Dole:

The Florida Farm Bureau, representing over 95,000 member families and approximately 95% of all farmers in Florida, is pleased to comment on S. 544, legislation to implement the Administration's Caribbean Basin Initiative.

Florida agriculture has a great deal to lose, much more than most other states, if the Caribbean Basin Initiative duty-free trade package is passed. Florida agriculture, which still is our state's largest industry and largest employer, has been losing large shares of the fruit and vegetable market over the years due to dumping by Mexico and Brazil. The Caribbean Basin Initiative provisions will only hasten this declining share of the market and force our producers out. We will compete against any nation at anytime, but the rule should be the same.

The "Rules of Origin" and "Fast Track" safeguards written into the bill are, in our opinion, not adequate to prevent transshipment and disruption of our orderly marketing of agricultural commodities.

We ask that all agricultural products and commodities be excluded from duty-free treatment as is now applicable to textiles and apparel articles.

Sincerely,

Walter J. Kautz

Walter J. Kautz
President

WJK:bk

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 DO NOT 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. ANY ADDITIONAL IMPORTS WILL ONLY SERVE TO EXPEDITE THE ALREADY DECREASING SHARE FOR OUR DOMESTIC PRODUCERS.

THE FLORIDA PRODUCERS' SHARE OF THE FRESH FRUIT AND VEGETABLE MARKET HAS DRASTICALLY DECLINED 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 <u>TRANSSHIPMENT</u> 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 DAYS, 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 CURRENTLY 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.

21-491 O—83——24

FOOD FOR THE POOR, INC.

April 14, 1983

Mr. Robert E. Lighthizer, Chief Counsel
U. S. Senate Finance Committee
Dirksen Senate Office Building
Washington, D. C., 20510

Dear Mr. Lighthizer,

I urge you to work for the swift passage of the Caribbean Basin Initiative Plan.

Unless the countries of the Caribbean region receive help in the form of stimulation of their economies, the growing percentage of poor people especially in the English speaking Caribbean will be very tempted to consider the Cuban/Russian model. While they rejected it at the polls over the past three years their growing disenchantment with joblessness and hunger they are beginning to see more and more in their countries will turn them back toward communism.

If we can help get the Caribbean region back on its feet we will have less concern over wars to our south, wars which will certainly spill over to our shores.

Kindly do everything in your power to get the C.B.I. passed and implemented.

Yours in service to the poor,

Ann Hunt Brefka
Director

GENERAL MILLS, INC.
TOY GROUP - OPERATIONS DIVISION

151 BODMAN PLACE
SUITE 300
RED BANK, NEW JERSEY 07701

TELEPHONE (201) 530-8070
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April 18, 1983

Robert E. Lighthizer, Esq.
Chief COunsel
Committee on Finance
Dirksen Senate Office Building
Washington, D.C. 20510

Re: Written Comments Submitted By General Mills Toy Group in Support of S.544, Caribbean Basin Initiative, Public Hearings of April 13, 1983

Dear Sir:

These written comments in support of S.544, the Caribbean Basin Initiative, are submitted on behalf of the General Mills Toy Group, one of this country's largest producers of toys, dolls and games.

In fiscal 1982, the toy group's worldwide sales totalled $654.8 million, and the group employed over 6000 persons in the United States. The domestic group, composed of Kenner Products, Parker Brothers and Fundimensions, sells a wide variety of toys throughout the U.S., including Star Wars action figures, Strawberry Shortcake dolls, Nerf toy balls, Monopoly, Risk and Clue board games, Frogger and the Empire Strikes Back video game cartridges, and Lionel Electric trains.

The General Mills Toy Group strongly supports S.544, which if enacted would provide for duty-free entry for merchandise produced in developing countries in the Caribbean Basin. Passage of S.544 will allow General

Mills, as well as other companies in the U.S. toy industry, to increase their employment of American workers and reduce their costs, which in turn will be reflected in lower selling prices to American consumers. And since the toys, games and dolls which will be produced in the Caribbean are not manufactured in substantial commercial quantities in the United States, no domestic toy producer or group of workers in the toy industry will be adversely affected by passage of this legislation.

Examples of the type of merchandise which the Toy Group could produce in the Caribbean Basin are doll clothing and stuffed animals.

Doll clothing, which in 1983 is subject to a duty rate of 12.8 percent ad valorem from the majority of the world's nations, an 8 percent duty from least developed developing countries ("LDDC"), and which currently is eligible for duty-free entry pursuant to the Generalized System of Preferences (GSP), is perfectly suited for production in the Caribbean Basin. As noted in the International Trade Commission's (ITC) July 1980 report on "Dolls and Stuffed Toy Animals," USITC Pub. No. 841, Control No. 7-5-7, the compactness of doll clothing negates the freight-cost advantage inherent in domestic production, which when coupled with the fact that doll clothing must be sewn by hand makes it economically impractical to undertake large scale commercial production in the United States. In fact, in it's July 1980 Report, the ITC estimated that between 1978 and 1979 imports of doll clothing supplied about 90% of domestic consumption.

Of the $20,855,531 of doll clothing imported into the United States in 1982, $528,992 was entered duty-free from the Caribbean Basin nation of Haiti pursuant to the GSP, and $220,258 was imported from Haiti utilizing American made fabricated components exported to Haiti for assembly. With the GSP due to expire at the end of 1984, it is essential that doll clothing retain duty-free entry from the Caribbean. As presently constructed, the Caribbean Basin Initiative also may benefit those domestic producers who send American made material to Haiti for assembly, since 15 of the 35 percent local content required to qualify a product for free entry can be attributable to materials produced in the United States. To ensure that a product such as doll clothing, manufactured from American made material sewn in a Caribbean Basin country, qualifies for free entry, the General Mills Toy Group suggests that S.544 be amended to provide that where over 50 percent of an imported product's appraised value is attributable to American made components, the local content from the Caribbean Basin can be reduced to 10 percent. In this manner, companies utilizing substantial American components in their production process will not risk loss of free entry merely because the cost of American made materials greatly exceeds the relatively low labor costs in the developing nations of the Caribbean. Implementation of this suggestion will have a beneficial impact both on American employment and the Caribbean Basin.

As is the case with doll clothing, stuffed animals are perfectly suited for production in the Caribbean since they also require labor intensive hand sewing. In fact, in 1982 over 2 million stuffed toy figures were imported from Haiti, with over 900,000 imported duty-free pursuant to the GSP, and nearly one million entered with a partial duty exemption as American goods assembled abroad, in item 807.00, TSUS. Like doll clothing, these stuffed toys cannot be produced in significant commercial quanitites in the United States, and like doll clothing, if these toys could not be sourced overseas they would not exist. Since the major effect of assessing duty on stuffed toys is to increase prices to the American consumer, enactment of the Caribbean Basin Initiative will clearly have a positive effect on those consumers who can least afford to purchase stuffed toys for their children, and will benefit the U.S. toy, doll and game industry.

This final point - that enactment of the Caribbean Basin Initiative will benefit the American toy industry, which employes a substantial number of American workers - cannot be overemphasized. The General Mills Toy Group, as well as the vast majority of domestic companies engaged in the toy, doll and game industry, have been forced to source from overseas suppliers many products requiring labor intensive assembly and decoration in the production process. Many of these toys would not exist if not produced abroad, and the Toy Group is unaware of any company which currently manufactures competitive products in substantial commercial quantities in the United States. However, although certain manufacturing jobs will not be returned to the United States, the General Mills Toy Group is a U.S. based company employing over 6000 American workers in a wide variety of positions, ranging from the extensive research, development, design and engineering necessary to manufacture a toy, to the advertising and marketing needed to sell that toy in the fiercely competitive domestic marketplace. Allowing domestic toy producers to enter their toys, games and dolls, and component parts, without paying duty, allows these companies to compete against those foreign based producers who have a significantly lower domestic value as a percentage of their sales price than do American companies such as General Mills. Free entry allows the Toy Group to expand its domestic research and development operations, to increase its employment of American workers, and to sell more of its high quality toys, games and dolls in the United States and around the world. Free entry benefits American consumers who desire to purchase a General Mills toy for their children. Free entry increases employment opportunities for persons living in the Caribbean Basin and helps these countries develop essential managerial skills necessary for future development. Free entry does not adversely affect American companies or American workers in the U.S. toy, doll and game industry. For all of these reasons, the General Mills Toy Group enthusiastically supports S.544, and respectfully requests that the Senate approve this important legislation.

On behalf of the General Mills Toy Group, we thank the Senate Finance Committee for the opportunity to submit these brief comments in support of S.544 and will gladly answer any additional questions which the Committee may have.

Respectfully submitted,

By: J. William Woodlock
J. William Woodlock
Vice President

General Mills Toy Group
Operations Division
151 Bodman Place
Red Bank, New Jersey 07701

For the record

STATEMENT OF THE HONORABLE LARRY J. HOPKINS
BEFORE THE SENATE FINANCE COMMITTEE
ON S. 544
April 13, 1983

Mr. Chairman, I appreciate the opportunity to submit this statement to the Senate Finance Committee for consideration during deliberations on S. 544, the Caribbean Basin Economic Recovery Act. I am unable to present this statement in person because the Subcommittee on Tobacco and Peanuts is holding hearings at this time to review the tobacco price support program.

Let me take this opportunity to say that I'm not opposed to the Caribbean Basin Initiative concept in its present form. I applaud the President's efforts to economically assist the Caribbean countries. I am concerned, however, that this assistance not be to the detriment of American citizens. As Ranking Minority Member of the Subcommittee on Tobacco and Peanuts, of the House Committee on Agriculture, and the representative from the largest burley tobacco-producing Congressional District in the country, I am particularly alarmed by the potential for economic harm to America's tobacco producers.

As you remember, last year, the Congress passed the No Net Cost Tobacco Program Act. Beginning with the 1982 crop, the tobacco program operates at no net cost to the American taxpayers, except for administrative expenses. Any losses on price support loans will be paid by the tobacco farmer from a fund made up of farmer contributions. Tobacco producers cannot efficiently operate their price support program at no cost with potential interference from duty-free tobacco.

Imports of tobacco have been increasing steadily in recent years. In 1972, total imports of unmanufactured tobacco for which duties were paid were 229 million pounds. In 1982, that figure had increased to 376.5 million pounds. With the duty-free treatment of tobacco from Caribbean countries as provided for in S. 544, the possibility exists for further increases in imports.

I am distressed by this possibility. If larger quantities of cheaper, imported tobacco begin to enter this country, there is no doubt in my mind that this tobacco will be bought instead of our American-grown tobacco. Let me set up a possible scenario. The marketing quota for any particular year attempts to forecast the amount of tobacco needed for domestic and foreign markets, with a slight carryover. When a marketing quota is announced by the government, individual farmers are told how much tobacco they will be allowed to market. Based on this quota, whatever it is for that year, farmers make plans -- credit plans, plans for the purchase of seed, fuel, and fertilizer, plans for labor needs, and so forth. After they harvest, the farmers go to market expecting some fair return on their investments, only to find out that the buyers don't need quite as much tobacco as they planted -- either buyers don't want it or they offer a low price for it. Why has this happened?

I'll tell you why -- because cheaper tobacco has become available and buyers, who understandably are looking for the best price, are simply purchasing the cheapest tobacco. Then, if that home-grown tobacco is not sold at auction for at least one cent more than the established price support loan level, it goes into the pool -- in other words, under loan. The farmer, as I mentioned earlier, is responsible for any losses that might occur on sale of this loan tobacco. That's where his contribution to the no net cost fund comes in. If that loan tobacco can only be sold at a loss, the farmer's contribution to the no net cost fund increases the next year if the fund is not large enough. Understand -- at this point, the imported tobacco is no longer duty-free. Who is paying the duty? I'll tell you who -- the American tobacco farmer, that's who!

Tobacco is the only price support commodity that is required by law to operate at no net cost -- the only one. I think it's unfair to threaten the livelihood of tobacco farmers with the possibility of increased imports -- there are plenty of cheap imports in the marketplace already. This added threat to their livelihood, on top of the existing financial crisis in the agricultural sector of our economy, is asking too much of our American tobacco farmers. I think it's time to take a little bit better care of the American people first.

I say to my colleagues who, whenever the word tobacco is mentioned, start talking about smoking and health, that this is not a health issue -- it is an economic issue. Americans will continue to smoke. It's a matter of whether people will be smoking American tobacco or more foreign tobacco. Imports already account for three-tenths of the tobacco in cigarettes produced in the United States. People are not going to get healthier by smoking imported tobacco and, as a matter of fact, many of our health safeguards, such as pesticide restrictions, aren't in place in the Caribbean countries.

In February 1982, the Department of Agriculture indicated that there was a shortage of burley tobacco. The Department confirmed this by raising the marketing quota for 1982 by 3%. The burley farmers responded by raising a record crop in Kentucky. After the crop was ready for market, USDA said they raised too much, now we have a surplus, so they lowered the price support loan for the 1982 crop. Now, even though we have a surplus of tobacco in our country, we are going to increase the potential for more tobacco to come into the country -- by giving certain imports duty-free status.

Too much tobacco drives down the price. When prices are low, more tobacco goes into the pool -- it's eligible for price supports. When more tobacco goes into the pool, the marketing fee goes up. And in essence -- the farmers in my District pay the duty on this "duty-free" tobacco.

I am informed by the U.S. Department of Agriculture and the Special Trade Representative's office that the impact on American tobacco will be minimal, approximately 30 million pounds. If this is the case, if so little tobacco is expected to be imported under this legislation, its exemption would not impact significantly on the intent of the legislation.

I ask this Committee to give careful consideration to the points I have raised. The exemption of tobacco from those articles eligible for duty-free entry into the United States is vital to the effective operation of the no net cost tobacco program. In your deliberations on ways to help the economies of countries in the Caribbean, I respectfully request that you keep in mind the effect this legislation will have on America's tobacco farmers. They, too, pay taxes and will be paying for this program if it is enacted.

I appreciate the opportunity to submit this statement for consideration.

Before The Committee On Finance Of The United States Senate

STATEMENT
OF THE
INTERNATIONAL SUGAR POLICY COORDINATING COMMISSION
OF THE DOMINICAN REPUBLIC *

April 20, 1983

The International Sugar Policy Coordinating Commission of the Dominican Republic supports S. 544, the Caribbean Basin Economic Recovery Act. In the Dominican Republic this legislative proposal is seen as a landmark in the evolution of the relations that should exist between industrialized and developing neighbors.

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 by higher prices for essential imported products. Because sugar is the keystone of the Dominican economy, the provisions in the bill that would have the most immediate and meaningful impact are those relating to sugar.

* The International Sugar Policy Coordinating Commission is a quasi-governmental agency comprised of both public and private sector members under the chairmanship of the Secretary of State for Foreign Relations of the Dominican Republic.

The Dominican Republic is now the only Caribbean Basin nation to which the U.S. sugar duty (2.81 cents per pound) applies. As of March 31, 1983, sugar imported from every other country in the Caribbean Basin receives duty-free treatment under the Generalized System of Preferences.* This disparity in treatment exacts a heavy toll on the foreign exchange earnings of the Dominican Republic. In addition, it would apparently close the door to Dominican sugar under the refined sugar reexport program announced by the U.S. Department of Agriculture in the Federal Register of April 8, 1983. The reason is that the U.S. drawback rules permit U.S. refiners (importers) to receive a refund for duties paid with respect to previously imported sugar. Thus, refiners will have a strong incentive to purchase duty-free (GSP) sugar on the world market, to the exclusion of Dominican sugar or other dutiable sugar, in order to maximize their drawback benefits under the reexport program.

The sugar provisions in S. 544 would extend equal tariff treatment to Dominican sugar entering the U.S. market for consumption. It should be noted that Dominican sugar would be subject to the absolute quota provided in the bill or a smaller quota imposed by the President under Headnote 2, Part 10A, Schedule 1 of the Tariff Schedules, or under any other provision of law. We have been advised by the U.S. Government that, if S. 544 is

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* Most of the sugar producing countries outside the Caribbean Basin that export to the U.S. market have also been accorded GSP treatment for sugar. On March 31, 1983, Colombian, Philippine and Argentine sugar was added to the GSP list.

enacted, Dominican sugar imported for refining and reexportation under the Department of Agriculture's program would be duty-free up to the quota specified in the bill.

In order to appreciate our keen interest in this bill it is necessary to understand the central role of sugar in our economy.

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 upwards of 35 percent of the nation's foreign exchange receipts, which are sorely needed to pay for the many imported products we require and which we cannot viably produce ourselves. These include manufactured items largely imported from the United States, and virtually 100 percent of our energy requirements.

It is the policy of the Dominican government to encourage diversification in our external trade sector. Although there has been some progress in that respect in recent years, 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.

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 world 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 1981, when free market prices were about 13.5 cents per pound, the President increased the duty from 0.62 cents to its maximum rate of 2.81 cents per pound and established an import fee, originally set at 2.14 cents per pound. Subseqently, the fee was increased to 4.07 cents but even at that level it was ineffective in maintaining U.S. sugar prices at the domestic price objective. Therefore, on May 5 of last year, the President adopted an allocated import quota system and the fee has since been lowered to zero. Under the quota, sugar imports from the Dominican Republic for FY 1983 are limited to about 477,000 metric tons, which is 253,000 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 6 cents per pound. Between 1981 and 1982 our total export earnings fell by 35%, while our export earnings from sugar dropped by 48%.

The situation we are facing is, therefore, an extremely serious one, since the large balance of our exportable sugar production, after filling the U.S. quota, must be placed in the free market at those extremely depressed prices.

Enactment of the proposed Caribbean Basin Economic Recovery Act would remove the tariff burden on an industry that is vital to the stability of the Dominican Republic and to its future development prospects. We are encouraged by the fact that the measure is being seriously considered by the United States. Although we recognize that the current allocation of the sugar quota reduces the intended benefit of the duty exemption for Caribbean Basin countries, we support S. 544 and hope for its early enactment.

JOINT STATEMENT OF THE LEATHER PRODUCTS COALITION

Presented by

Ronald Ansin, Chairman, Anwelt Corporation,
Fitchburg, Massachusetts and
Chairman, National Affairs Committee,
Footwear Industries of America, Inc.

Arnold Mayer, International Vice President,
United Food and Commercial Workers International
Union, AFL-CIO
Washington, D.C.

Leroy Weiner, President, Airway Industries, Inc.,
Ellwood City, Pennsylvania, and
Past President, Luggage and Leather Goods Manufacturers
of America, Inc.

On Behalf of

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

Before the

Committee on Finance
United States Senate

On S. 544

April 13, 1983

Our written testimony is on behalf of several industry trade associations and labor unions in the leather-related products sector. The products with which we are concerned are footwear, luggage, flat goods, work gloves, handbags and leather wearing apparel. The subject of our appearance, the Caribbean Basin Initiative as passed by the House and reported out favorably by the Senate Finance Committee last year and as reintroduced in the Senate this year (S. 544), appropriately addresses the very serious concerns which we had about duty-free treatment for leather-related products when the CBI was originally proposed by the Administration. Specifically, we refer to the exemption in S.544 of leather-related products from duty-free treatment included in section 103(b).

We should like to advise you that the Footwear Division of the Rubber Manufacturers Association (RMA) has asked to be associated with our remarks. As you know, all footwear is exempted from duty-free treatment under S. 544, and we are happy to have the RMA associated with our testimony.

As a coalition, we fought a long, uphill, but ultimately successful, battle last year to convince the Congress and finally the Administration that it would be a cruel blow to our industries and workers if our products were to be afforded duty-free treatment under the CBI; the arguments are no less valid today. If anything, conditions in our respective industries are far worse than they were when the Administration first proposed the CBI in early 1982. Indeed, during 1982, the unemployment rate in the leather-related products sector rose from 13.1 percent to 17.4 percent.

In this regard, we call your attention to the table we have attached to our testimony on selected economic indicators of the health of the leather-related industries. The table reveals that:

- o For those leather-related industries where employment data are available, the data show almost 14,000 jobs lost in the nonrubber footwear industry, 2,000 jobs lost in the luggage industry and over 3,000 jobs lost in the personal leather goods (flat goods) and handbag industries in 1982.
- o Imports of leather-related products were up by record numbers in 1982 as evidenced by the staggering increase in nonrubber footwear imports which increased from 375 million to 480 million pairs, and luggage and leather wearing apparel imports which rose by $43 million and $45 million, respectively.
- o Import penetration for the entire leather products sector is at already unacceptably high levels. The latest available data show footwear at 60 percent, luggage at 40 percent, personal leather goods (flat goods) at 30 percent, handbags at 80 percent, leather work gloves at 56 percent, and leather apparel at 56 percent.

These worsening conditions are precisely why we have asked for time to address the Committee. While our products are exempted in the current version of the bill now before the Committee, we do not want to see this exemption reversed for lack of understanding as to why the Administration's original proposal was later amended in the House (a position later accepted by this Committee) to exempt our products.

We have never disagreed with the highly laudable goals of the Caribbean Basin Initiative. Having said this, however, we must also speak to the enormous vulnerability of our products to imports and the already highly competitive nature of the leather products industries in the Caribbean -- a fact evidenced by the 30 percent per annum growth rate of Caribbean exports to the United States in this product sector over the past several years.

Not only are leather product imports from the Caribbean sizeable and growing, together with imports from other countries, they are also increasing their penetration of the U.S. market. Imported handbags from all sources, for example, accounted for 29 percent of the U.S. market in 1967 but held almost 80 percent in 1982. Over the same period, imports of nonrubber footwear have increased their share from 18 percent to over 60 percent. And the trend is the same for each of the other products. The point is that Caribbean exporters do not need duty-free entry in order to penetrate and compete in the U.S. market.

Moreover, increased imports of leather-related products from the Caribbean under one-way free trade would not replace imports from other countries but would be at the expense of U.S. firms and their workers. Over the years, many developing-country producers have entered the U.S. leather products market with few displacements, if any, of older developing-country suppliers.

Our industries are labor intensive and employ about 225,000 workers. They are mostly semi-skilled, and many are women and minorities. In addition, these industries provide many entry-level jobs for people under 25, and employ a very high percentage of people over 50. Both age groups are the hardest to employ and have the highest unemployment rates. The loss of jobs for these people would be tragic, even more so in light of both the reduction in Federal funds for trade adjustment assistance and the reduced ability of state governments to offer assistance as they take on additional burdens.

The Congress and the Executive Branch have already recognized the import-sensitivity of the leather-related industries. All footwear was specifically excluded from the Generalized System of Preferences (GSP) in the Trade Act of 1974. Virtually all leather-related products have been found to be import sensitive in the context of the GSP. The International Trade Commission (ITC) found that imports were a substantial cause of the injury suffered by the leather apparel and nonrubber footwear industries. Furthermore, four of the leather-related industries represented here today -- footwear, luggage, work gloves, and handbags -- have received Department of Commerce grants to improve their competitiveness vis-a-vis imports, specifically because they were determined, under government guidelines, to be import-impacted. It is important that the U.S. Government not undo with one hand what it has done with the other.

Without our exemption, the CBI safeguard measures as included in S. 544 would be virtually meaningless for our industries. Such safeguards are simply inadequate to protect U.S. firms and workers from injury due to increased imports generated by one-way free trade. It is characteristic of these industries that imports can increase rapidly before safeguard action can be taken, regardless of how good the intentions of the Executive Branch may be. Certainly the record of the "escape clause" in the United States leaves serious doubt as to how effective a safeguard would be under the CBI. Out of the 47 investigations completed to date under Section 201 of the Trade Act of 1974, only 10 have resulted in any measure of import relief. These industries, particularly leather wearing apparel and nonrubber footwear which were denied import relief by the White House after affirmative injury findings by the ITC, have concluded that when safeguard mechanisms are tied to Presidential discretion, they cannot afford to have much confidence in them.

In conclusion, with substantial and growing import penetration, the leather-related industries are already in a state of siege. They have suffered from plant closings and lost jobs due to imports. These industries look to Congress for help in preventing further damage. Congress has by its past actions recognized the import-sensitivity of this sector. It was after all the Congress that recognized the potential harm to these import sensitive industries of the CBI's one-way free trade provisions and subsequently acted to exempt all leather-related products from duty-free trade. If this Committee moves forward with the trade provisions of the Caribbean Basin Initiative, the leather products exemption must remain intact. To do otherwise would be to ask this small sector to shoulder the full burden of U.S. foreign policy objectives.

Attachment

SELECTED ECONOMIC INDICATORS OF THE HEALTH OF THE LEATHER-RELATED INDUSTRIES

	Nonrubber Footwear	Luggage	Personal Leather Goods	Handbags	Leather Apparel	Leather Work Gloves
Employment						
(number of employees)						
1977	156,900	17,300	33,100		6,700	5,500
1980	143,600	16,300	30,000		5,000	6,100
1981	142,600	15,000	30,100		N/A	N/A
1982	128,800	13,100	26,900		N/A	N/A
Production/Shipments						
	(million prs.)	(million dollars)	(million dollars)	(million units)	(million dollars)	(thousand dz. prs.)
1977	418.1	585.0	369.0	55.8	150.9	3,710
1980	396.9	808.0	426.0	50.8	192.6	2,878
1981	375.5	865.0(E)	439.0(E)	53.3	186.5	2,756
1982	325.4	813.0(E)	413.0(E)	N/A	N/A	2,400(E)
Imports						
	(million prs.)	(million dollars)	(million dollars)	(million dollars)	(million dollars)	(thousand dz. prs.)
1977	368.1	118.0	44.0	207.1	220.4	2,090
1980	365.7	243.2	71.9	350.6	170.9	3,175
1981	375.4	291.9	84.1	406.2	207.1	3,028
1982	480.0	334.8	87.5	409.5	252.0	3,091
Import Penetration*						
(percent)						
1977	47.1	N/A	N/A	62.9	N/A	36.8
1980	48.9	N/A	N/A	75.4	N/A	52.4
1981	50.8	40.0(E)	30.0(E)	78.8	56.0(E)	52.2
1982	60.2	N/A	N/A	80.0(E)	N/A	56.3

* Where import and domestic production data are available only in terms of value, import penetration has been estimated.

(E) -- Estimated.

N/A -- Not available.

Source: Economic Consulting Services Inc.; based on U.S. Department of Commerce and Bureau of Labor Statistics data.

MOTION PICTURE ASSOCIATION
OF AMERICA, INC.
1600 EYE STREET, NORTHWEST
WASHINGTON, D. C. 20006
(202) 293-1966

JACK VALENTI
PRESIDENT

April 11, 1983

RE: Caribbean Basin Initiative,
S. 544

Dear Mr. Chairman:

I am writing to express the support of the Motion Picture Export Association of America for the Caribbean Basin Economic Recovery Act (S. 544) and, particularly, for Section 102(b)(5) of that Act which prescribes that

> "the President shall not designate any country a beneficiary country under this title . . . if a government-owned entity in such country engages in the broadcast of copyrighted material, including films or television material, belonging to United States copyright owners without their express consent;"

We also support Section 102(c)(9) of the Act which requires the President, in determining whether to designate any country as a beneficiary country under the Act, to take into account,

> "the extent to which such country prohibits its nationals from engaging in the broadcast of copyrighted material, including films or television material, belonging to United States copyright owners without their express consent;"

These provisions are necessary because the Jamaican Broadcasting Corporation, a government-controlled broadcasting monopoly, has instituted the practice of intercepting U.S. domestic satellite signals. JBC tapes these programs and rebroadcasts them throughout Jamaica without the consent of the copyright owners and without paying for the broadcast rights. JBC also acquires video cassettes intended for home use only, and broadcasts these motion pictures without consent or payment. Other privately owned entities have begun to engage in similar practices elsewhere in the Caribbean area.

These practices are nothing more than theft of American property. Film piracy is not new, but this is the first time it has been attempted through modern technology by a friendly foreign government. This piracy must be stopped now. If Jamaica can steal films with impunity, others will follow its example, and the American motion picture industry would be severely damaged. There are no effective legal remedies in Jamaica, but this legislation will offer Jamaica a significant incentive to respect American property rights.

The American motion picture and television industry is a major export industry. American producers and distributors of theatrical motion pictures and television material receive almost $3 billion annually from the licensing of these products overseas. These revenues contribute some $1 billion a year to the national balance of payments which ~~could be lost~~ if film piracy becomes widespread. Moreover, any significant dimunition of these revenues could severely damage the quality and position of a unique American industry.

The Caribbean Basin Economic Recovery Act provides significant trade privileges and other economic benefits for friendly countries in the region. It is entirely reasonable that the beneficiaries of this legislation respect the property rights of American citizens. Up to now, the Jamaican government has taken the position that it is free to intercept U.S. pay-TV signals and to rebroadcast the films without the consent of the copyright owners. It has said Jamaica will pay the compensation it deems to be fair, but it will not purchase the films from their American owners or pay commercial rates.

The United States government cannot compel other nations to respect the rights of American citizens, but neither is it required to finance those who steal American property. Section 102(b)(5) will send these countries a strong signal that it is in their own interest to discontinue film piracy. The American industry is prepared to provide the films on the same basis they are made available worldwide.

Mr. Chairman, I ask that this letter and the attached memorandum which describes the unauthorized interception and retransmission of U.S. domestic satellite signals in the Caribbean be inserted in the hearing record on S. 544. I hope the Finance Committee and the Senate will seriously consider these views as they act on this measure.

Respectfully,

The Honorable Robert Dole
Chairman
Senate Finance Committee
2227 Dirksen Senate Office Building
Washington, D.C. 20510

Attachment

MOTION PICTURE ASSOCIATION
OF AMERICA, INC.
1600 EYE STREET, NORTHWEST
WASHINGTON, D. C. 20006
(202) 293-1966

JACK VALENTI
PRESIDENT

April 11, 1983

UNAUTHORIZED INTERCEPTION AND TRANSMISSION OF U.S. DOMESTIC SATELLITE SIGNALS IN THE CARIBBEAN

1. **Statement of the Problem**

The Jamaican Broadcasting Corporation, a government controlled monopoly, has been intercepting U.S. domestic satellite signals and rebroadcasting programs belonging to United States copyright owners without their consent and without payment. In addition some motion pictures available in videocassette format for home use only have been broadcast without consent and without payment.

In Panama, Belize, Honduras, and Costa Rica, private businessmen have established pay cable or subscription television systems and are intercepting and retransmitting U.S. domestic satellite signals to local subscribers for a fee without the consent of the copyright owners and without payment of royalties. In the Bahamas and Dominican Republic, hotels are intercepting U.S. domestic satellite signals and providing guests with in-room movies without consent of the copyright owners and without the payment of royalties.

2. **The MPAA Position**

The interception of U.S. domestic satellite signals and the retransmission of programs carried thereon without the consent of copyright owners is a violation of the property rights of United States copyright owners, pay television programmers and broadcasters.

The unauthorized interception of U.S. domestic satellite signals and the retransmission of the programs contained therein is a violation of the International Telecommunication Convention, December 9, 1932, 49 Stat 2391, T.S. No. 867, and in particular of Art. 17 of the Radio Regulations. The U.S. and most Caribbean countries are parties to this treaty.

3. <u>What the MPAA Wants</u>

The MPAA requests that the United States take appropriate steps to protect the rights of its citizens, as follows:

a) The mandatory denial of Caribbean Basin Initiative benefits if any governmental broadcast entity broadcasts or transmits motion pictures or television programming belonging to United States copyright owners without the express consent of the owners.

b) The discretionary denial of CBI benefits if any country permits its nationals to engage in such practices.

c) Vigorous State Department action to require Jamaica and all other countries to comply with their obligations under the ITU Convention and the Radio Regulations issued thereunder.

d) Congressional review of the FCC <u>Transborder</u> decisions of October 22, 1981, and February 23, 1982.

e) Pending such Congressional review, State Department withholding of consent to any U.S. entity to deliver <u>transborder</u> signals and programs pursuant to the FCC decisions, unless such entity has obtained the consent of the originator of the signal or program service to engage in such transborder delivery.

f) Ratification by the United States of the Convention Relating to the Distribution of Program Carrying Signals Transmitted by Satellite (Brussels Satellite Convention of 1974).

4. **The Unauthorized Interception and Retransmission of Satellite Signals is a Violation of International Law**

Article 42(1) of the 1973 International Telecommunications Convention (Malaga-Torremolinos) provides:

> "The provisions of the Convention are completed by the administrative regulations which regulate the use of telecommunication and shall be binding on all the Members.

Article 17 of the 1959 Radio Regulations (Geneva) provides as follows:

> The administrations bind themselves to take the necessary measures to prohibit and prevent:
>
> a) the unauthorized interception of radiocommunications not intended for the general use of the public;
>
> b) the divulgence of the contents, the simple disclosure of the existence, publication or any use whatsoever, without authorization, of information of any nature whatever obtained by the interception of the radio communications mentioned in No. 723 (i.e. in paragraph (a) above).

The U.S. and Jamaica are both parties to the Telecommunications Convention and the 1959 Radio Regulations. Thus, Article 17 requires the authorities of Jamaica to prohibit and prevent unauthorized interception and distribution of U.S. domestic satellite signals not intended for use by the general public in Jamaica.

The treaty is clear, but there is no practical means of enforcement. As Barbara Ringer, delegate of the United States to the 1974 International Conference of States on the Distribution of Programme-carrying Signals Transmitted by Satellite, has said:

> 661.1...one of the alternatives discussed for solving the problem...was whether the International Telecommunication Convention and the Radio Regulations annexed to it are capable of controlling the problem. As has been said earlier in this meeting, this alternative was rejected partly on the grounds that the ITU Convention and the Regulations, to the extent that they actually cover the problem as a technical matter, have no enforcement machinery, and it was doubtful whether they could be made an effective means to combat satellite piracy.

There is no adequate remedy under copyright (see paragraph 8). Accordingly, the only effective remedy which U.S. Copyright owners have is the support of the United States government, and in particular, the action which the MPAA requests as set forth in subparagraph 3 (a) - (c) above. We believe that the MPAA recommendations are appropriate not only as a matter of treaty obligations and general equity, but because the Congress itself addressed this issue in a different but relevant context, and concluded that intercepton and retransmission of telecommunications signals should be subject to the rights of copyright owners.

Beginning in the early seventies, Congress wrestled with the very difficult problem of whether U.S. cable systems should be subject to copyright liability for picking up broadcast signals, and in particular, foreign broadcast signals.

In House Report, No. 94-1476, the subject is addressed, as follows:

> In the Committee's view, the authorization by the FCC to a cable system to carry a foreign signal does not resolve the copyright question of the royalty payment that should be made for copyrighted programs originating in the foreign country. The latter raises important international questions of the protection to be accorded foreign copyrighted works in the United States. While the Committee has established a general compulsory licensing scheme for the retransmission of copyrighted works of U.S. nationals, a broad compulsory license scheme for all foreign works does not appear warranted or justified. Thus, for example, if in the future the signal of a British, French, or Japanese station were retransmitted in the United States by a cable system, full copyright liability would apply.

Congress made a narrow exception in the case of Canadian or Mexican border broadcast signals under Section 111 (c) (4), but even this narrow exception would not furnish any other country with an excuse to pick up U.S. domestic satellite signals. The Caribbean countries are not picking up broadcast signals; there are no U.S. direct broadcast satellites. Jamaica is picking up point to point signals, and if this were done in the U.S., the interception and retransmission would be subject to full copyright liability and possibly prosecution under Section 605 of the Communications Act (47 U.S.C. S605).

In any event, other countries, and in particular Jamaica, have not demonstrated sensitivity to the problem equal to U.S. sensitivity. Indeed, one government official for Jamaica recently argued at the World Intellectual Property Organization in Geneva, that U.S. satellite signals are part of the common heritage that should be provided to developing countries without charge:

> The international community must be charged to formulate a dynamic and revolutionary principle...that...would permit the free use of all material broadcasted internationally by satellite...so that what may be conceived today as piracy of Satellite Broadcasts may be regarded as legitimate sharing in one aspect of the technology advancements of mankind. Statement of Mr. Tom Tavares-Finson, Office of the Prime Minister Kingston, Jamaica, March 16, 1983.

In conclusion, MPAA's position is unassailable as a matter of law, and vigorous U.S. action is necessary to protect not only the MPAA member companies, but all copyright owners of motion pictures and television programming.

5. <u>The FCC Transborder Decisions</u>

Some have raised the question of the relationship between two decisions of the Federal Communications Commission and the issues addressed here, suggesting that these decisions undermine the MPAA position. We submit that they do not, but that in any event because the issues raised in this memorandum were not considered by the FCC or any other U.S. governmental authority, the effect of these decisions should be suspended pending a full review by Congress.

In two decisions, on October 22, 1981 and February 23, 1983, the FCC authorized transborder satellite services in the form of non-INTELSAT domestic space segment facilites to Costa Rica, Mexico, Jamaica, Haiti, the Bahamas, Bermuda and Canada. Such transmission was conditioned upon, among other things, action by the U. S. State Department.

The State Department should withhold action with respect to signals carrying motion pictures and television programing, pending a review of the important international copyright questions which the FCC declined to address, stating:

> ...the proper forum to raise such issues, would be the transborder locations where the programming is received. (Paragraph 45.)

As we demonstrate in paragraph 6 below, the local courts are not effective forums to resolve this issue, with the result that the FCC decisions threaten to establish a de facto system throughout the Caribbean of free use of programming without authorization of the U.S. copyright owner.

Moreover, this issue was not addressed by the executive branch which was involved in the transborder proceedings. On July 23, 1981 James L. Buckley, Under Secretary of State for Security Assistance, Science and Technology, in reply to a FCC request for an opinion in connection with then pending transborder applications, addressed the question of whether foreign policy or national security interests bar transborder use of domestic satellite facilities. An inter-agency study group concluded that there were no foreign policy objections as regards the INTELSAT system, but it did not address the question of protection of the copyright owners of the programs being carried. As a result, neither the Transborder decisions nor the Buckley letter take into account foreign use of copyrighted material where the user has not acquired the right to use the copyrighted material.

Consequently, U.S. satellite policy has been predicated upon analyses of issues relating to the dissemination of the signals as a technical matter, but not in connection with issues relating to the programming carried by the signal and the rights of the owners of the programming. MPAA believes that Congress should address the issue of programming itself and the rights of the owners of the programs as concepts analytically distinct from the question of dissemination of the signal, and pending such review, the State Department should not grant approval of transborder services. Of course even if

Congress should not undertake such review, the State Department should review these issues.

In addition to Congressional review of the FCC's transborder decisions, Congress should consider adherence to the Brussels Satellite Convention, which attempts to address the specific problem of the unauthorized interception and retransmission in one country of point to point satellite signals originating from another country.

6. The Brussels Satellite Convention

The Brussels Satellite Convention is an international convention drafted in final form in 1974 by thirty-nine states including the United States. Since 1974, six states, including two Latin American countries, have acceeded to the convention. The United States is not a party.

As its formal title indicates, the Convention is designed to deal with the unauthorized interception and retransmission in one country of point to point satellite signals originating from another country. States adhering to the Convention pledge to take adequate measures, through their internal law, to preclude such interception and retransmission. It was drafted because, as the Convention preamble states, there "is no world-wide system to prevent distributors from distributing...signals transmitted by satellite...not intended for those distributors." Inasmuch as it purports to deal with the specific problems addressed by this memorandum, and in light of the rapid develoment of satellite technology since 1974 on a domestic and worldwide scale, MPAA urges Congressional review of the Convention.

A detailed discussion of the merits of the Convention is outside the scope of this memorandum; but we think it appropriate to discuss two points.

First, to what extent is the Congressional review unnecessary or undesirable because of the existence of, and nearly universal adherence to, the I.T.U.? The answer is that the I.T.U. does not conflict with the Convention. As the following excerpt from the Convention preamble states, the drafters took special pains not to weaken the I.T.U.:

> The Contracting States, conscious of the need not to impair in any way international agreements already in force, including the International Telecommunication Convention and the Radio Regulations annexed to that Convention..

Moreover, as the General Rapporteur stated:

> The purpose of the Brussels Convention is to complement and supplement the I.T.U., not to compete with or weaken it.

The Convention is not perfect; indeed, it should be strengthened, but as a legal matter, we maintain that Congress could review the question of adherence without fear of weakening the obligations of the United States and all other countries adhering to the I.T.U. At the same time, we urge that such review and adherence would not be superfluous because the Convention, unlike the I.T.U., addresses the particular problems raised by unauthorized interception and retransmission of satellite signals.

Second, why haven't more countries formally ratified the Convention? We must keep in mind that in 1974 there were no U.S. domestic satellites being used to transmit television programming on a systematic basis. This is a comparatively recent development. In addition, earth station receiver technology, a primary factor which accounts for the increasing widespread retransmission of satellite signals, has developed only recently. In short, most countries have not felt the need to ratify the Convention because deficient technology was an adequate barrier to widespread retransmission.

Recent technological developments account for growing support for the Convention. For example, at the Fourth World Conference of Broadcasting Unions meeting in Algiers, March 7 to 12, 1983, representatives from the eight broadcasting unions on five continents adopted a resolution recommending that the Brussels Convention be ratified and implemented into national law. Furthermore, at the WIPO

Worldwide Forum on the Piracy of Broadcasts and of the Printed Word, Geneva, March 16 to 18, 1983, several representatives of the attending nations, including Mexico, a party to the Brussels Convention and a Latin American country, urged adoption of the Convention by other States. The executive committee of the National Association of Broadcasters has given its support to the United States ratification of the Convention.

The United States now has more domestic satellites than any other nation. It is the world's leading producer and exporter of motion pictures and television programs. Given its prime technological and artistic position, the U.S. should be in the forefront of the nations trying to solve this pernicious problem. Congressional review and subsequent adherence by the U.S. will surely encourage other nations to join the Convention.

7. Economic and Trade Policy Considerations

The "Gross Billings" of the MPAA's member companies in Jamaica in 1981 was US $679,737, of which television sales to Jamaica amounted to approximately $100,000. In comparison, in 1982, after JBC began picking up and retransmitting television satellite signals, television sales to JBC dropped 40% to approximately $60,000.

Gross income from theatres in 1981 in the West Indies (Trinidad and Tobago, Barbados, Windward and Leeward Islands, Guyana, and Surinam) was $1,898,772; Dominican Republic, $1,696,733; Costa Rica, Belize, Panama, El Salvador, Nicaraugua, Honduras, and Guatemala, over $6 million, aggregating $10 million in the Caribbean Basin alone, excluding northern South America and Mexico. Total revenues, including television sales, in the region are well over $20,000,000 a year.

Normally, because of traditional sequential release patterns, motion pictures are not released to theatres in the Caribbean and Central American territories until a year to eighteen months after U.S. theatrical release, sometimes long after they have been shown on U.S. domestic pay cable television by means of satellite transmission. As a result the interception and retransmission of satellite signals threatens the theatrical and television income of the MPAA companies throughout the region. Such loss will not be borne by the MPAA companies alone. A motion picture is the product of the combined efforts of hundreds of U.S. citizens whose income and livelihood are threatened by such a development.

This practice cannot be justified by the claim that the region has been deprived of motion pictures or television programs. Program material is readily available in videocassette or film format to service theatres, television stations , pay cable systems and hotels. For example, the MPEAA companies concluded negotiations with the JBC in 1979. The license fees for Jamaica, taking into account the number of television sets on the island (200,000) are the lowest in all of the Caribbean and Latin America and have not risen since 1979. The member companies of MPEAA are willing to send salesmen to Jamaica to conclude licensing deals for television series and feature films. But in the past year, the JBC has insisted upon "blanket" use of films transmitted by satellite but not intended for use by the general public in Jamaica. The JBC has been unwilling to negotiate license agreements on the customary title-by-title basis prevalent throughout the world. If Jamaica can do this with impunity, other countries in the region and elsewhere will surely follow its example.

8. **MPAA Experience in attempting to enforce copyrights in Central American and Caribbean Countries**

MPAA maintains a vigorous anti-piracy program dedicated to the enforcement of the rights of the member companies of MPAA. For a number of reasons, enforcement of copyrights in the Caribbean Basin region is difficult.

A. No copyright relations with the U.S.

A number of countries, e.g., Jamaica, Netherlands Antilles, are not members of the Universal Copyright Convention and have no copyright relations with the United States.

In 1976, some MPAA companies initiated a copyright infringement suit in Aruba, Netherlands Antilles, seizing over one hundred pirated videocassettes. Because the Netherlands Antilles is not a member of the U.C.C. nor bound by the adherence of the Netherlands, the companies were compelled to utilize what is commonly called the "back-door" Berne Convention approach, that is, attempted to show the motion pictures had been published simultaneously in the U.S. and Canada. The Court found that only three of the one hundred titles were protected and returned the other titles to defendants.

B. <u>Unclear copyright relations with the U.S.</u>

Many countries have become independent since the late fifties and may no longer be bound to international copyright conventions by reason of the adherence to such conventions by the former mother countries. (Examples: Trinidad and Tobago, Grenada, Surinam, Belize).

C. <u>Antiquated and Unclear Copyright Laws</u>

The copyright law of Panama, a country which like the United States adheres to the Universal Copyright Convention, was enacted in 1916; the statute does not provide for the protection of motion pictures. Inasmuch as Panama does not protect Panamanian motion picture producers, it is under no obligation to protect foreign producers.

The Bahamas is subject to the United Kingdom Copyright Act of 1956 and bound by United Kingdom adherence to the U.C.C. The member companies have filed a civil suit against a hotel which is intercepting satellite transmissions and providing guests with in-room movies. The legal issue raised is whether such performances are "public" under the 1956 U.K. Act. The hotel contends that they are private, because each performance is in a separate room. We have asked for a hearing on this point of law, and until it is established that such activity constitutes copyright infringement, no widespread legal enforcement is possible.

In 1981, the member companies commenced a trademark infringement action in Venezuela. The lower court returned 25,000 videocassettes which had been seized by police on the grounds that the copy of the trademark logo on the film was not a falsification because it was a perfect copy.

D. Local Registration Requirements

In many countries the statutes require registration of the motion picture and deposit of a copy of the motion picture in order to meet the burden of proof as to copyright ownership. Such registration would not be onerous if only a few motion pictures had to be registered, but U.S. companies make hundreds of motion picutres and television pictures a year. Thus in Venezuela, such registration requires the filing of a Spanish synopsis of the plot of each motion picture and program.

E. Local Power of Attorney Requirements

In 1980, the member companies funded a civil action for copyright infringement in Mexico and successfully obtained an order requiring an accounting of all cash register receipts of several video pirates. However, only one company could proceed as a named plaintiff because, by reason of formalities imposed under Mexican law, it took more than eighteen months to obtain a legal power of attorney.

9. Conclusion

MPAA has established in this memorandum its case for the protection of the motion pictures and television programming of not only its members, but for all United States copyright owners. Such protection should be afforded in the form of the concrete proposals set forth on page 2 of this memorandum which we repeat here:

a) The mandatory denial of Caribbean Basin Initiative benefits if any governmental broadcast entity broadcasts or transmits motion pictures or television programming belonging to United States copyright owners without the express consent of the owners.

b) The discretionary denial of CBI benefits if any country permits its nationals to engage in such practices.

c) Vigorous State Department action to require Jamaica and all other countries to comply with their obligations under the ITU Convention and the Radio Regulations issued thereunder.

d) Congressional review of the FCC Transborder decisions of October 22, 1981, and February 23, 1982.

e) Pending such Congressional review, State Department withholding of consent to any U.S. entity to deliver transborder signals and programs pursuant to the FCC decisions, unless such entity has obtained the consent of the originator of the signal or program service to engage in such transborder delivery.

f) Ratification by the United States of the Convention Relating to the Distribution of Program Carrying Signals Transmitted by Satellite (Brussels Satellite Convention of 1974).

BEFORE THE UNITED STATES SENATE

COMMITTEE ON FINANCE

IN RE:

A BILL TO PROMOTE ECONOMIC REVITALIZATION AND FACILITATE EXPANSION OF ECONOMIC OPPORTUNITY IN THE CARIBBEAN BASIN REGION.	S. 544

POSITION PAPER OF THE

NAT'ONAL ASSOCIATION OF BEVERAGE IMPORTERS, INC.

Rex D. Davis, President
National Association of
Beverage Importers, Inc.
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Of Counsel:

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April 7, 1983

INDEX

Subject	Page

NABI SUBMISSION CONCERNING CARIBBEAN BASIN INITIATIVE

Introduction

In regard to S. 544, the Caribbean Basin Initiative, the following submission is made on behalf of the members of the National Association of Beverage Importers in general support of the proposed Caribbean Basin Economic Recovery Act. The National Association of Beverage Importers, hereafter NABI, is the national trade association of beverage alcohol importers comprising in its membership over 100 importers of wine, spirits and beer. Together, this membership is responsible for the importation of about 80% of the distilled spirits imports into the United States.

NABI Position

NABI endorses the principle of free trade and the elimination of trade barriers. Accordingly, NABI goes on record with the Finance Committee as supporting Title I of S. 544 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.

Puerto Rican and Virgin Islands Governments Oppose Duty-Free Treatment

It is understandable that the governments of Puerto Rico and the Virgin Islands are concerned over the prospective reduction of the imported rum duty of $1.57 per proof gallon to zero. However, this would be merely giving equal treatment in the marketplace to all Caribbean rums, since neither Puerto Rican nor Virgin Islands rum currently bears any import duty.

Puerto Rican and Virgin Islands Rums Dominate the U.S. Rum Market

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 shipments from Puerto Rico and the Virgin Islands in 1982 amounted to 22.9 million proof gallons. During this same year, total shipments of duty-paid imports of rum amounted to 773,706 gallons, down from 968,803 gallons in the previous year. In terms of competitive position, this shows Puerto Rican and Virgin Islands rum with almost 97% of the market and all other rum constituting 3.3% of the market. An import penetration level of 3% can hardly be considered significant in terms of potential harm to the Puerto Rican and Virgin Islands' industry. This is particularly true where there is no "dumping" and where there is no subsidy or countervailing situation. Zero duty for Caribbean rum would produce a situation where the Caribbean rums would be competing on equal tariff footing with Virgin Islands and Puerto Rican rums.

History of Rum Duties

Duties on imported rum have remained at relatively high levels for 30 years. The following table of import duties on bottled distilled spirits since Repeal shows 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. Currently, in 1983, the rum duty is roughly three times the average duty on other major categories of imported spirits. The following table illustrates the glaring inequity of the current rum duty.

Table I[1/]

Basic Import Duties on Bottled Distilled Spirits Since Repeal

	1933	1943	1952	1963	1972	1983	1987
Canadian Whisky	$5.00	$2.50	$1.25	$1.25	$ .62	$ .43	$ .25
Scotch & Irish Whiskey	5.00	2.50	1.50	1.02	.51	.35	.20
Rum	5.00	2.50	1.75	1.75	1.75	1.57	1.40
Gin	5.00	2.50	1.25	1.00	.50	.50	.50
Brandy	5.00	2.50	1.25	1.25	.62	.87	.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	.87	.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.

Table II

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 foregoing 20% duty reduction, rum would still bear a duty of nearly 300% of the basic duty on gin, brandy, cordials and vodka.

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.

S. 544 Proposes a Bounty or Grant to
the Governments of Puerto Rico and the Virgin Islands

In spite of the domineering position of Puerto Rico and Virgin Islands rum in the U.S. market, representatives of these governments have prevailed upon legislators for protective treatment in S. 544.

Sec. 201 of the bill would provide that all excise taxes (at $10.50 per gallon) collected on rum imported into the United States would be remitted to the treasuries of Puerto Rico and the Virgin Islands. Subsection (2) empowers the Secretary of the Treasury to provide a formula for the division of revenue. Presumably this would bear some direct proportional relationship to the rum production and/or shipment to the United States by Puerto Rico and the Virgin Islands.

This would provide a windfall of significant magnitude to these insular possessions. In 1982 duty-paid rum imports from beneficiary countries to the United States amounted to 700,590 proof gallons. Based on this figure, the payments to these insular possessions would be over $7,356,000 per year; but with increases expected and designed by the proposal, Puerto Rico and the Virgin Islands could expect to divide an additional and increasing amount each year.

The quantification of this windfall is immediately apparent when the rate of bounty at $10.50 per proof gallon is viewed in relation to the value of the merchandise. The following table shows Puerto Rican and U.S. Virgin Islands shipments to the U.S. in 1982.

Table III[2/]

Puerto Rican and Virgin Islands Rum Shipments

Country		Gallons	Values	Avg. Value ppf gallons
P.R.	Btld.	7,293,574	$ 44,043,192	$ 6.039
"	Bulk	12,540,743	53,288,532	4.249
V.I.(U.S.)	Btld.	56,059	230,166	4.106
"	Bulk	3,085,820	4,655,795	1.509

This shows that Puerto Rico and the U.S. Virgin Islands would receive a bounty of nearly 10% over the value of the bulk rum produced in the Virgin Islands and 255% over the value of bottled rum. Similarly, Puerto Rico would receive a bounty of 247% over the value of bulk rum produced in Puerto Rico, and 174% over the value of bottled rum.

2/ Source: Bureau of the Census publications EM-594 & IM-161.

The following table shows 1982 imports of rum from the Caribbean countries which would benefit from the elimination of duty on rum.

Table IV[3/]

1982 Imports of Rum from Caribbean Countries

Country		Gallons	Values	Average Value ppf gal
ANTIGUA	Btld.	525	$ 4,754	$ 9.055
BAHAMAS	Btld.	10,124	87,005	8.594
BARBADOS	Btld.	19,263	156,003	8.099
"	Bulk	66,373	245,049	3.692
DOM. REP.	Bulk	42,778	59,123	1.382
GUYANA	Btld.	20,940	204,842	9.782
"	Bulk	20,202	68,705	3.401
HAITI	Btld.	12,675	128,685	10.153
JAMAICA	Btld.	53,270	490,547	9.209
"	Bulk	443,559	2,031,844	4.581
TRINIDAD	Btld.	2,717	26,987	9.933
NETH. ANTILLES	Btld.	672	10,014	14.902
BRIT. V.I.	Btld.	7,492	128,705	17.179
	TOTAL	700,590	$ 3,642,263	$ 5.199

The comparison of Table III with Table IV illustrates the point that the windfall to Puerto Rico and the Virgin Islands by way of payment to these insular possessions of excise taxes collected on imported rum is higher than the total value of the imported rum itself. Specifically, Caribbean rum imports to the United States in 1982 amounted to 700,590 gallons, with an excise tax yield of $7.36 million. The total value of this merchandise was $3.6 million. Accordingly, Puerto Rico and the Virgin Islands would receive a bounty of over double the value of the competing merchandise.

3/ Source: Bureau of the Census publication IM-146X.

Competitive Conditions Between Rums

A further comparison of the two foregoing tables illustrates the competitive position as among rums from various countries. First, the value of rum imports from Caribbean countries in all instances except the Dominican Republic, were higher than values on Puerto Rican and Virgin Islands rum. Given the free play of the marketplace with no duty on any rums, there is still the higher price for Caribbean imports. This means that the elimination of duty could not have any significant effect in displacing Puerto Rican and Virgin Islands exports to the United States, because of the single fact of cost.

This advances the second point: with less than 4% of the rums currently coming to the U.S. from outside Puerto Rico and the Virgin Islands, there is consumer preference for Puerto Rican and Virgin Islands rum over the rums of the other Caribbean nations. Even if price were not a controlling factor, it would be a long time before Caribbean rums could begin to alter the dominant position of Puerto Rico and Virgin Islands in the rum market. This is further overlaid with the fact that this duty-free treatment would last for only 12 years.

The Bill Would Guarantee Against Market Dominance by Caribbean Rums

Sec. 104(c) provides further protection against what must be regarded as an impossible event. This section states:

> (c) If the sum of the amounts of taxes covered into the treasuries of Puerto Rico or the United States Virgin Islands pursuant to section 7652(c)[4/] of the Internal Revenue Code of 1954 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 compensation 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.

The foregoing seems to mean that if the Caribbean rums imported into the United States surpass Puerto Rico and Virgin Islands shipments, then the President can withdraw duty-free treatment for Caribbean rums. Considering a competitive position of 3% of the market, the possibility that Caribbean rums could attain 51% of such market is several quantum leaps into the remote.

4/ The statutory reference is incorrect. Sec. 7652 of the I.R. Code contains only sections (a) and (b).

Conclusion

NABI does not oppose nor take exception to the foregoing protections and windfalls of S. 544. If the Congress deems these necessary for the U.S. insular possessions, then so be it. The only point of emphasizing the generous extent of compensation to these governments is to underscore the fact that Puerto Rico and the Virgin Islands are adequately protected in this legislation.

NABI urges that this bill be reprinted favorably without any form of quota amendment on Caribbean rum imports.

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7 April 1983

SOME KEY CONSIDERATIONS FOR BOLSTERING THE PROSPECTS FOR SUCCESS OF THE CARIBBEAN BASIN INITIATIVE

A Presentation to the Committee on Finance
of the United States Senate in connection with
Its Public Hearings on S. 544, scheduled for April 13, 1983

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April, 1983

SOME KEY CONSIDERATIONS FOR BOLSTERING THE PROSPECTS FOR SUCCESS OF THE CARIBBEAN BASIN INITIATIVE:

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I. INTRODUCTION

The Government of Puerto Rico has been deeply interested and closely involved in the development of the legislation designed to implement major aspects of the Reagan Administration's Caribbean Basin Initiative ever since the President presented the main outline of the plan to the Organization of American States in February, 1982.

Governor Carlos Romero Barceló and Resident Commissioner Baltasar Corrada del Río were among those who supported the basic implementing legislation in principle during public hearings conducted by Congressional committees in 1982. They argued, however for stronger safeguards for certain sensitive industries in Puerto Rico, such as the tuna and rum industries. Such safeguards were adopted in H.R. 7397 as approved by the House of Representatives in the closing session of the 97th Congress and these have been incorporated into S.544 by the Senate Finance Committee.

This presentation does not purport to be a technical critique of protective or other provisions of The Caribbean Basin Economic Recovery Act as set forth in S.544, however; other representatives of the Government of Puerto Rico will address these aspects. The purpose of this paper is to point up key considerations and experience that indicate Puerto Rico's ability and desire to make a constructive contribution to strengthening economic and social development and improving the quality of life of our neighbors in the region.

The Economic Development Administration is the agency of Puerto Rico's government directly responsible for promoting private investment in our own development program. EDA, or "Fomento" as it is universally called from its name in Spanish, is making this presentation to the Senate Finance Committee in order to point up some key considerations that we believe can help to bolster the prospects for success of the CBI if they are kept as part of its long range operational philosophy.

We note with approval that increased trade and private investment are key elements underlying the essential philosophy of the entire CBI endeavor. We believe that the progress we have made especially in recent years, in expanding trade, and the results we have achieved in attracting private investment, can be used as a basis for instructive examples in assisting some of the Caribbean countries in their development.

There are other considerations, which will be dealt with later on in this presentation, but we begin with a brief analysis on how direct merchandise trade with Caribbean countries has increased as our own development program has progressed from a mix of mainly low capital, low technology, labor intensive industries to a much greater mix of industries which includes innovative, world-competitive, high technology industries.*

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* For a more elaborate analysis of Puerto Rico's overall development program and its more recent achievements in attracting high technology industry, see "The Impact of the Possessions Corporation System of Taxation in the Economic Development of Puerto Rico", a presentation to the Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives, December 15, 1982, and "Encouraging the Growth of Innovative, High Technology Industry as a Means of Strengthening the United States Economic and Enhancing its Capacity to Export in an Increasingly Competitive World Market: Lessons from Puerto Rico's Recent Experience", a presentation to the Subcommittee on Savings, Pensions and Investment Policy of the Committee on Finance, United States Senate, February 4, 1983.

II. THE GROWTH OF PUERTO RICO'S TRADE WITH THE CARIBBEAN

Puerto Rico's trade with other Caribbean Basin societies has roots reaching far back in time. Those roots were fragile, in part because they violated the strict mercantilist policy of Spain through the entire colonial era. They were, in other words, nurtured on smuggling. Trade became increasingly more open after the break-up of the Spanish Empire in the New World in the early 19th century. Today, as part of the United States, Puerto Rico is a relative giant in terms of trade in the Caribbean region and its economy is one of the most open in the entire world.

Since Puerto Rico launched its modern day development program forty years ago it has continued to trade with most of the countries of the Caribbean, but it is only recently that this trade has assumed significant proportions. The reasons for this are easily identified. In the forties and fifties and into the sixties, most of the Caribbean economies, and especially those of the oil-poor islands, were based on a handful of agricultural products. Flourishing tourism industries developed in some islands but in the field of merchandise trade there was nothing to be gained by exchanging sugar for sugar, rum for rum, bananas for bananas.

Thus, as recently as 1965, Puerto Rico's direct merchandise trade with the Caribbean was minuscule. While the development program had brought about substantial growth in manufacturing, with corresponding increases in trade between the Island and the United States mainland, direct trade with the rest of the world, while growing, was taking place more with European nations.

Thus, in fiscal year 1965, Puerto Rico's total direct foreign trade had a value of only $289.8 million.

Merchandise imports from foreign countries were valued at $258.5 of which only $55 million came from 21 Caribbean countries, and of this relatively large number, five accounted for about $45 million, or 82 per cent, of total imports.

The five were, in order of importance: Venezuela, the Netherlands Antilles, the French West Indies, the Dominican Republic, and Trinidad and Tobago, and by far the most important single import product was petroleum.

As for direct exports to all foreign countries in FY65, the total value was only $31.3 million. Of this meager total, slightly more than $11 million went to a score of Caribbean countries, with five taking the lion's share.

In order of importance the five were: the Dominican Republic, taking nearly half the total for the region, the French West Indies, the Netherlands Antilles, Venezuela, and the Leeward and Windward Islands.

It was only in the seventies that trade with the region began to reach significant levels and this trend has strengthened in recent years as is shown in Table I.

THE TREND OF PUERTO RICO'S DIRECT MERCHANDISE TRADE
WITH SELECTED CARIBBEAN BASIN COUNTRIES*

-Selected Fiscal Years-

YEAR	EXPORTS	IMPORTS
1965 1/	11	54
1970 2/	50	237
1975 3/	244	854
1980 4/	482	1,786
1981 4/	584	1,739
1982 4/	711	1,494

Source: Puerto Rico Department of Commerce

*Direct Trade Figures Do Not Give Full Credit to Products of Puerto Rico Which Become Part of U.S. Direct Exports to the Rest of the World.

1/ Based on Trade with 10 Countries to which Exports or from which Imports had a value of $1 million or more: Colombia Dominican Republic, French West Indies, Haiti, Leeward & Windward Islands, Mexico, Netherlands Antilles, Nicaragua, Trinidad & Tobago, and Venezuela.

2/ The 10 Countries Above Plus: Barbados, Costa Rica, Honduras, Jamaica and Panama.

3/ The 15 Countries Above Plus: Bahamas and Guatemala.

4/ The 17 Countries Above Plus: El Salvador, Guyana and Surinam.

The sharp rise in imports in FY75 shown in the table, reflects, of course, the sharp rise in oil prices that began in 1973, since Puerto Rico was importing crude oil and/or petroleum products from the Bahamas, the Netherlands Antilles, Trinidad and Tobago, and Venezuela.

The less dramatic, but still impressive increase in Puerto Rico's direct exports to the region, on the other hand, was a positive reflection of the diversification and expansion of its economy as a whole.

This becomes strikingly evident in the period 1980-82, even though these years have been notable for recessionary trends around the world and for special economic and political problems in some Caribbean Basin countries.

An indication of the diversified nature of Puerto Rico's current, direct merchandise trade with all foreign countries is shown in Table II.

Another indication of Puerto Rico's total economic growth is the fact that it manufactures products making up more than 66 per cent of the listings in the manual of Standard Industrial Classifications.

Thus, its potential for increased trade is excellent.

TABLE II

A. PUERTO RICO'S PRINCIPAL DIRECT MERCHANDISE EXPORTS
TO FOREIGN COUNTRIES - FISCAL YEAR 1982
(Value in Millions of Dollars - Figures Rounded)

MERCHANDISE CATEGORY	VALUE
All Merchandise	$1,147
Pharmaceuticals and related	239
Benzenoid chemicals and related	138
Machinery and Mechanical Equipment	81
Petroleum Products	49
Electrical Machinery and Equipment	45
Apparel and Accessories	44
Animal and Vegetable Products NES	43
Paper and Products	39
Tobacco and Products	36
Metal Products	36

B. PUERTO RICO'S PRINCIPAL DIRECT IMPORTS OF
MERCHANDISE FROM FOREIGN COUNTRIES - FY 1982

(Value in Millions of Dollars - Figures Rounded)

MERCHANDISE CATEGORY	VALUE
ALL MERCHANDISE	$2,957
Petroleum and Products	1,574
Fish and Shellfish	267

(Table II-B Continued)

MERCHANDISE CATEGORY	VALUE
Transportation Equipment	$ 211
Benzenoid Chemicals and Related	124
Meat Products	87
Electrical Machinery and Equipment	79
Metals and Products	59
Machinery and Mechanical Equipment	49
Footwear, Gloves, Luggage and other Flat Goods	47
Apparel and Accessories	42

Source: Puerto Rico Department of Commerce

It is noteworthy that of total direct exports, Caribbean countries, with $711 million, purchased approximately 62 percent.

Also noteworthy is the fact that, while petroleum and products accounted for 53 percent of total direct merchandise importsfrom all foreign countries, imports from Caribbean sources accounted for more than $1 billion or about two thirds of all petroleum imports from non-U.S. sources.

Petroleum imports from Venezuela were valued at $606 million, from the Netherlands Antilles at $253 million, from Trinidad and Tobago $190 million, and from the Bahamas $133 million. It should also be noted, however, that by the middle of FY82, Puerto Rico's largest oil refining complex had fallen victim to adverse economic forces and had therefore ceased to be a major importer of crude from which to refine gasoline for the Island market and petrochemical products for export to the U.S.

On the other hand, it is significant that Puerto Rico was a relatively large market for Basin products other than petroleum. These had a total value of about $435 million and the greatest portion of these imports, with a value of about $380 million, came from oil-poor countries of the Basin.

It is clear, then, that Puerto Rico's trade with the Caribbean has been rising and diversifying. In fact it has grown by more than 20 per cent a year for most of the past decade, despite the problems of recession, oil price hikes, poverty, instability, balance of payments difficulties and others that have variously plagued the region's societies.

Through trade missions, exchanges between government officials and executives from private enterprise, and other activities, Puerto Rico is continuing to help insure that this healthy trend, in the midst of so many adverse circumstances, will strengthen in the future.

We turn now to another key consideration: the concept of joint production.

III. STIMULATING DEVELOPMENT THROUGH JOINT PRODUCTION

Puerto Rico's development program began earlier and has proceeded under political arrangements much different from those of other Caribbean countries.

It is worth pointing out, however, that one key factor in the program's success so far is that government undertook to play a role as a catalyst for private investment in a democratic process that aimed at helping the poor by enlarging, rather than shrinking, the middle class.

This partnership undoubtedly accounts for Puerto Rico's rise to the status of a relative giant in the region in terms not only of external trade, but in its per capita income and product, the size of its financial system, the extent of its infrastructure, and in its high levels of health, education and life expectancy.

The key point to be made here, though, is that our productive capacity is now complementary to that of many other Caribbean economies. Lacking natural resources we have had to concentrate on the human resource. With a large pool of skilled and semi-skilled labor we are well placed to carry on joint production with our neighbors who, whatever their handicaps, do have certain comparative advantages that they can turn to their benefit if given the chance.

Joint production, or production sharing, can utilize those comparative advantages so as to increase employment all around.

The promotion of this kind of productive activity is Puerto Rico's natural role in the new development of the Caribbean.

It also happens that production sharing is part of the reality of what Robert Reich of the Kennedy School of Government at Harvard and others call a major structural change in the world economy and a major shift in approaches to production that began in the sixties and became pronounced in the late seventies.

In an article in The Atlantic Monthly (March, 1983) based on his forthcoming book, "The Next American Frontier", Reich observes that "the central problem of America's economic future is that the nation is not moving quickly enough out of high volume, standardized-production", which it pioneered and which for many decades gave it world leadership.

Not only the U.S. and Europe, but Japan as well, Reigh notes, have been feeling "the ever-greater challenge from low-wage production in developing countries".

"Japan, West Germany, France and other industrialized countries", he says, "have sought to meet this challenge by shifting their industrial bases towards products and processes that require skilled workers. Skilled labor is the only dimension of production where these countries retain an advantage. Technological innovations can be bought or imitated by anyone. High-volume, standardized-production facilities can be established anywhere. But production processes that depend on skilled labor must stay where the skilled labor is".

Reich concludes, therefore, that production based on highly integrated, highly innovative, highly flexible systems of production is the main answer.

"This does not mean", he emphasizes, "that industrialized countries must abandon their older industries--steel, chemicals, textiles and automobiles". Restructured toward technologically more sophisticated business, he adds, "these industries are the gateways through which new products and processes emerge".

Puerto Rico, with its high technology industrial sector, is midway between the parent enterprises from which innovation comes and the Caribbean countries with their unskilled workers so desperately in need of jobs.

Thus, the economies of the Caribbean region have more to gain by cooperation than by competition, and the Puerto Rican development experience can serve as a partial model for that cooperation. We have no qualms about sharing our ideas and methods of industrial promotion, for example, because we are confident that we will gain more than we could possibly lose from the development of the Caribbean region.

Joint production, or production sharing, includes the "twin plant" concept. Considering that most of Puerto Rico's competitive manufacturing sector consists of subsidiaries of U.S. parent companies we can also think in terms of triplets, quadruplets and other multiples of joint production.

Joint production between our island and others has been going on for some time. Several Puerto Rican corporations perform labor intensive electronics assembly in Barbados, some through subsidiaries and some by subcontracting. Others send components to the Dominican Republic and other neighboring countries for processing, almost entirely by local contractors. In general terms, the arrangements can be compared with some of those of Puerto Rico's "Operation Bootstrap" era, when mainland parents had the labor intensive phases of their production done on our Island. Most importantly, it should be noted, Puerto Rico's economy today stands as proof that this process is NOT a dead end.

The catch is that increasing joint production and generating broader commerce in the Caribbean demand reasonably healthy economies. We cannot be good customers and trading partners for one another without maintaining our individual economic health.

We turn now to another key consideration: the imperative of starting as a means of advancing.

IV. STARTING AS A MEANS OF ADVANCING

Many Caribbean economies are in the initial stages of industrial development, when agricultural labor needs of the traditional kind decrease, excess labor abounds, and manufacturing suddenly becomes paramount--as much from sheer necessity as from growing local abilities.

This stage is quite familiar to Puerto Rico since we have suffered through it, although we have only recently begun to develop the kind of modern agricultural production that rewards relatively large numbers of workers with steady, well paid employment.

Driven in the early days by necessity to employ the thousands of workers no longer employable in traditional agriculture, we began by promoting labor intensive industry in the private sector. As part of the U.S. customs union we had no choice but to produce competitively from the very beginning and in the long run this necessity has given rise to one of our greatest advantages.

After 30 years of intense effort we now have physical infrastructure and a commercial sector that make possible the kind of production we have aimed for. Our most recent promotions are high technology firms which could not possibly have operated in the former Puerto Rican economy.

In the process, our wages have been overtaking those of the Unites States as a whole and our minimum wage levels are now completely integrated with the U.S. system. As we have noted, despite its small size geographically, Puerto Rico is a relative giant in the region, economically speaking.

In terms of total value of exports, for example, we rank fifth in all of Latin America. We now find ourselves in much the same relationship to the

Caribbean economies as the U.S. economy was to ours 30 years ago.

Thus, we feel that all can profit more through cooperation than by competition. Total employment in manufacturing will be higher in the long run if certain branches of industry are encouraged to locate in the lower wage areas. This approach enables manufacturers, even of high technology products, to compete in world markets--as witness high labor intensive operations in the Far East in support of the U.S. computer industry. Output of finished products is thus kept competitive internationally.

The point is that this same competitiveness can be achieved through Puerto Rico and its neighbors, which are closer to most of "home".

Since the late sixties the manufacturing labor force in Puerto Rico has shown most growth in the most capital intensive 2-digit SIC categories: Chemicals, electronics, scientific and precision instruments, and non-electrical machinery. In the process, total employment increased, showing that a capital intensive industrial structure can employ more labor than a labor intensive one if investment is high enough to continuously create new linkages.

Labor intensive industry is much less important in the present economy although that sector has lost less than the more technologically advanced sectors have gained.

Neighboring economies, meanwhile, are performing assembly or other operations for finished goods sold mainly in the developed countries. Many of their new promotions are for operations producing for re-export under U.S. Tariff items 806.30 and 807.00 or their European equivalents, which in effect prohibits advanced processing from taking place.

Examples of such developments are the sewing industry in the Dominican Republic; electronics components assembly in Barbados and Jamaica; toy assembly in Haiti; and "Twin Plant" or In-Bond plants in Mexico.

None of this should be viewed as unfortunate for the less developed economies. They are not going to be caught in a "low wage trap", unless they themselves are going to be static in production and the world economy is going to be static in its purchasing power. As the example of Puerto Rico itself so clearly shows, that trap does not exist as long as development is seen as the means to improving the quality of life.

This should be a key consideration in pursuing the regional development effort whether it is in a small island, where 100 or 200 manufacturing jobs can mean the difference between relative prosperity and privation and instability or in the larger countries where the need for jobs runs to thousands and tens of thousands and where there are usually large untapped, under utilized or badly utilized resources. In the case of land this can mean latifundia that are underworked and minifundia that are worked to death.

V. SOME EXAMPLES OF JOINT PRODUCTION AND JOINT VENTURES

Puerto Rico's interest in encouraging joint production is not based on wishful thinking. Our purpose in promoting the concept is to gain new jobs, not to lose them. On the basis of still limited, but carefully evaluated experience, we have concluded that if certain labor intensive processes are not profitable in Puerto Rico, then it is in our interest to make an effort to insure that they are performed near Puerto Rico. The resulting output might then be used in our own advanced production facilities, creating employment here.

At the same time, we would be helping to develop neighboring economies which could then afford to purchase from us. Instead of simply accepting the loss of labor intensive industry, we should save what we can and turn an inevitable develoment to our own and a neighbor's advantage. For example:

--Applied Magnetics of Goleta, California, a leading member of the computer industry, has three separate plants in Puerto Rico employing more than 300 workers and manufacturing high density recording units, drum and disk head, and other computer devices. Supplying elements of their magnetic heads is a plant in Barbados.

--General Electric, an employer of vast numbers of workers across the United States, has 21 manufacturing plants in Puerto Rico employing in all several thousand workers. They include plants manufacturing electric measuring instruments, relays and switches, circuit protection devices, vehicle controls and meters. Some of the components for these products come from twin-plant and subcontracted operations in other Caribbean islands.

--Honeywell, Inc. of Minneapolis, another huge mainland employer and one of the Fortune 500 companies, operates Honeywell Information Systems in Puerto Rico which manufactures computer terminal equipment, auxiliary displays and electronic typewriter keyboards. This plant, which employs close to 200 men and women, uses components made in other islands.

--Bristol Myers Co. of New York, still another of the Fortune 500 enterprises, operates five plants in Puerto Rico employing a total of 600 workers and producing mainly bulk and finished antibiotics. These plants, in turn, are supplied in part from operations in the Dominican Republic.

--Intel Corporation of Santa Clara, California, one of the key companies in the U.S. mainland's galaxy of computer makers, manufactures printed circuit board modules in a new plant that, characteristically, has a relatively small work force but which should also, characteristically, build up steadily. It receives integrated circuit chips from a twin plant in Barbados for incorporation into its finished components.

--Esmark Inc., a Fortune 500 company based in Chicago and a major employer across the United States through its Estech (chemicals), Estronics (consumer electronics), Swift & Co. (food products) and Playtex (brassieres and girdles) divisions ,first established a Playtex subsidiary in Puerto Rico in 1956. It now has four plants in Puerto Rico producing finished products and employing a total of more than 1,400 workers. Some of its sewing operations are being done in Barbados.

As this presentation was prepared at least 40 of our electronics manufacturing enterprises were studying twin plant possibilities.

Other promising kinds of joint ventures are emerging.

--With the sugar industry here in decline, the owners of what used to be a major foundry for sugar mills have worked out a project that would involve transferring some equipment to Haiti to serve mills there and to produce agricultural implements in rough for finishing in Puerto Rico.

--Puerto Rico Drydock Corp., owned primarily by Spanish investors, which operates the largest private drydock enterprise in Puerto Rico and is serving the shipping industry here and beyond our shores, is considering a twin facility in Port-au-Prince.

--Master Enterprises, a Puerto Rican enterprise which holds U.S. and foreign patents for the manufacture of modular homes and other structures, is negotiating a joint venture in Jamaica.

--Betteroads Asphalt Co., another Puerto Rican enterprise, has formed a joint venture with Jamaican investors to carry out road building and repair.

--Systems Concept Inc., another local firm with patented systems for manufacture of prefabricated low cost housing, is negotiating ventures in Jamaica and other countries.

In general, given their stage of development Caribbean economies cannot supply each other with finished manufactures. In many cases local law phohibits the sale of "enclave" products in the domestic market and enclave production is rarely in the form of finished products in any case. Therefore, the potential for trade with Puerto Rico's more diversified economy is increased. And in the case of many consumer products most countries will have to import them from elsewhere, Puerto Rico thus becomes a logical "elsewhere".

There are, or course, barriers to trade, certain constraints on investment and investors, such as foreign exchange convertibility and earnings repatriation problems, and problems centering on the availability, reliability and economic feasibility of air and maritime transportation.

We are looking, however, to a long term process. Centerpiece of the President's CBI is essentially free access to the U.S. market for 12 years. Development is a process, not an event. We need to be looking 12 years ahead with each passing year of the CBI program--evaluating the past and assessing the future both near term and longer. Development, besides requiring time, is also hazardous, rarely working precisely as planned, but often revealing new opportunities to be seized even in cases of failure. This is another key consideration that needs to be part of the CBI philosophy.

VI. ASSISTING DEVELOPMENT THROUGH TECHNICAL COOPERATION

Puerto Rico has a long history of technical cooperation with the rest of the world.

In the first decade or so of the development program Puerto Rico served as a key U.S. area for orienting government officials from the Caribbean, the rest of Latin America and many countries of Africa, the Middle East and Asia under the umbrella of the American global development assistance program that included President Truman's "Point IV" program of technical cooperation.

Many thousands of visitors drew inspiration for their own programs after seeing Puerto Rico's approaches to self-help, low-cost, rural housing; rural and technical education; rural health care and preventive medicine.

Those from ministries concerned with elementary education were invariably impressed by the fact that they never drove through rural and semi-urbanized areas for more than five or 10 minutes without seeing a sign that said in Spanish "Drive Slowly, School Zone Ahead". Those concerned with power and water development were awestruck by TVA but gained practical inspiration from Puerto Rico's much smaller hydroelectric projects and rural aqueducts.

Under President Eisenhower's "Atoms for Peace Program", the University of Puerto Rico developed and operated, under contract with the U.S. Atomic Energy Commission, the Puerto Rico Nuclear Center. The Center trained hundreds of young scientists, engineers and doctors, mainly from Latin America, in nuclear engineering, nuclear safety, nuclear medicine and the use of radioisotopes in agricultural and other kinds of research.

With the coming in the early seventies of the age of deep concern for the environment and the need to emphasize energy conservation and to develop alternate and renewable energy sources, the Nuclear Center evolved into the present Center for Energy and Environmental Research. Early in 1983, the Center was cited by the U.S. Department of Energy for its outstanding work in environmental research and in developing biomass as a renewable source of energy and commercially valuable chemical feedstocks. The Center's "energy cane management concept", on which research and development began in 1977, has shown the feasibility of producing relatively low cost energy and other valuable byproducts on a commercial scale by vastly increasing acre yields of sugarcane and other tropical grasses. This turns the traditional approach to the growing of sugarcane from a seasonal into a year around industry capable of paying adequate wages and salaries to its workers and managers. By early 1983, the "energy cane" program had demonstrated on a commercial scale that biomass can be produced at a cost of about $2 per million BTUs, or well below one half the current cost of fuel oil.

The Center has also been cited for its outstanding research on ocean thermal energy conversion (OTEC).

Both the biomass and the OTEC concepts have promise for the Caribbean region as a whole as well as for other areas of the tropics.

Among other achievements, CEER scientists and engineers designed, and students built, a system of parabolic, concentrating solar collectors, made of low cost materials, to air condition the Center's main building at the U.P.R. Mayaguez campus.

The University of Puerto Rico, in a consortium with several of the Island's private universities, has developed a science and engineering resource center with the aid of a grant from the National Science Foundation that has strengthened the science and engineering capabilities of all the participants. U.P.R., which administers the center, has for many years been active in cooperative programs with institutions of the region that are members of the association of universities known as "UNICA".

Fomento, in cooperation with the University of Puerto Rico, the Department of Education, the Department of Labor, and the private sector, established in 1970 The Electronic Industries Center to provide special training for students seeking careers in the rapidly growing electronics industry.

This brief summary is the "tip of the iceberg", so to speak, indicating Puerto Rico's potential for technical cooperation with the Caribbean area in many fields of development.

VII. COOPERATION WITH JAMAICA FOR DEVELOPMENT

In addition to the joint business ventures referred to in Section V of this paper, Fomento has sent missions to and received visitors from a number of countries to discuss possible cooperative programs for industrial promotion.

Our first action program has begun with Jamaica on the basis of an agreement reached in 1982 between Governor Romero and Prime Minister Seaga.

With funding of $100,000 provided under a contract with the U.S. Agency for International Development, Fomento is working with its Jamaican counterpart, Jamaica National Investment Promotions Ltd., on a program that encompasses Investment Promotion, Executive Resource Development, Promotion Officer Development, Targeting of Potential Investors, and Twin Plan Promotion.

The program, developed as a result of exchange visits by officials of the two agencies during the second half of 1982, began early in 1983. Its elements include a variety of seminars and exchanges of personnel.

Fomento routinely conducts seminars and training programs on investment promotion for its own officers in the Island, in its branch offices in major cities of the U.S. mainland, and in its overseas offices located in Madrid, Frankfort and Tokyo. JNIPL officers will be attending these seminars so that the cost for both agencies will be minimized.

The program also involves preparation of a special curriculum, designed specifically for Jamaica's needs, which will serve as the basis for the Executive Training Program. This part of the over-all program will include an executive exchange. Eight top executives of Investment Promotions Ltd. will visit Puerto Rico for one week to receive in-depth management training. They will then make a three-day visit to Fomento's New York office to discuss targeting and promotional techniques.

The program also includes one-day seminars to be conducted in Jamaica for JNIP personnel and a series of one-week seminars in Puerto Rico which will include site visits to industrial plants and exchanges of views with their staffs,

These and other elements of the program will be monitored and evaluated as they occur in order to identify weaknesses and strengths so as to achieve maximum and optimum benefits.

As the Jamaica program proves itself, Fomento and AID will be considering additional contracts under which programs can be developed with other countries which have submitted formal requests to Fomento for similar kinds of assistance.

VIII. IN CONCLUSION

We have reviewed the record and the potential for trade and production sharing, the philosophy of starting in order to advance, the record and the potential for technical cooperation in many fields of activity, and the elements of a specific action program for industrial promotion. It remains to mention certain other key considerations that should inform the CBI in order to help bolster its prospects for success.

1. The Environment

One of the reasons for opposition to the CBI --especially the free access aspect--is the fear that rising Caribbean development will create unfair competition for Puerto Rico, the U.S. Virgin Islands and many areas of the United States mainland in part because none of the countries have environmental protection programs even beginning to approach those of the United States.

Obviously impoverished economies cannot afford elaborate environmental protection programs at the outset, but they cannot ignore them for long. In the sixties, for example, the Inter-American Committee on the Alliance for Progress (CIAP as it was called from its name in Spanish, French and Portuguese), endeavored to help Barbados in developing adequate waste treatment programs because pollution of its superb beaches was endangering the health of its people and its promising tourism industry.

Haiti has large expanses of land that are essentially useless because they are eroded down to bedrock, partly because of deforestation resulting from the need to burn wood or charcoal for ordinary cooking and other basic needs. Erosion has meant accelerated silting of the Artibonite power project's reservoir on the one hand and inability of the watershed to hold ground water during times of normal rainfall against times of drought. Thus, the project can fail at times to provide both power and water for basic human needs as well as for industry and agriculture.

Reforestation is urgently needed, and Puerto Rico has shown that some species of tropical grasses and trees can grow very rapidly to economic size with proper management. But a reforestation program would always be endangered by the need of poor people for fuel. On the other hand, Belize is mounting a vast program of timber cutting and reforestation to improve the quality of its agricultural base, while certain countries, such as Guyana and Surinam have vast forest resources that could, perhaps, serve as an interim source of fuel for rural Haitians while reforestation went forward.

For the moment, the most dangerous deep-sea pollutant in the Caribbean is oil coming from offshore drilling blowouts such as Mexico's Ixtoc and spills resulting from tanker accidents. Fortunately, however, the Caribbean is much less polluted than the Mediterranean, for example, so that there is still time for gradual action rather than crash programs.

The United States, Britain, France, the Netherlands, Colombia, Mexico and Venezuela, along with Granada Honduras, Jamaica, Nicaragua, Panama and St. Lucia recently signed in Cartagena a convention that constitutes a moral commitment to work collectively "to prevent, reduce and combat pollution" of the marine environment. At least four other nations--Cuba, Costa Rica, Guatemala and Trinidad and Tobago are expected to join the original signers in the near future.

The Cartagena Convention, therefore, builds on the Caribbean Action Plan of 1981 which identified some 60 projects for which some of the member states of the Cartagena agreement pledged themselves to put up an initial fund of approximately $1.2 million. Mexico and Venezuela, because of their current financial difficulties, have been unable to contribute their shares and the United States is not a contributor to CAP because it is already heavily committed to support other environmental programs in the region. But other countries whose participation is needed in the CBI, such as Canada, West Germany and Japan, might be asked to put up some of the initial financing.

2. COORDINATING MECHANISMS

In addition to continuing concern for and action on protection of the marine and land environments, the CBI needs mechanisms for goal-setting, coordination and evaluation. The CBI cannot succeed as a program of Caribbean recipients reacting to the United States, or even a multilateral group formed by the United States, Canada, Mexico, Colombia and Venezuela.

The CBI can learn valuable lessons from the procedures developed by CIAP during the Alliance for Progress. Development programs were discussed and evaluated with the individual countries and with groups of countries such as those of the then promising Central American Common Market with input from the World Bank, the International Monetary Fund, the Inter-American Development Bank, the United Nations Industrial Development Program. Since many of the Caribbean islands are so small, a CIAP-like mechanism would not need to be elaborate. Nor should it be confined to governmental and multilateral organization experts. It should have direct and continuing participation from the private sector.

And again, considering the smallness of some of the economies, the program could well consider the establishment of what might be called an Island Advisory Group. It could well be based in Puerto Rico, since the University of Puerto Rico has developed a Seminar on Problems of Small Island Economies. And it could draw on the expertise and experience of the Island Resources Foundation, with headquarters in St. Thomas, and call in other experts as circumstances required.

STATEMENT OF THE

PUERTO RICO MANUFACTURERS ASSOCIATION

ON S-544

"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 afford 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 negative growth 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 critical 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 Regan's 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 turmoil 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). Start up employment generated by Fomento promoted plants 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 important 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 U.S. corporations in the United States. An example proves the point: Japanese cars currently being assemble in Trinidad 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 U.S. 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 stateside 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 (cross-road 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 dollars 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 state-side 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 U.S. 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 farther 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, economics) 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 Haiti and the Dominican Republic.

While we can appreciate the merits of this program — in operation — we doubt it will be of significant, long-lasting impact to the manufacturing sector and our economy of Puerto Rico.

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, FOMENTO PROMOTED PLANTS - FISCAL YEARS 1979-80, 1980-81, 1981-82

Years	Number of Plants	Start-Up Employment
1979-80	110	1,482
1980-81	117	1,795
1981-82	118	2,098

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EXHIBIT IV

PLANT CLOSINGS, PUERTO RICO - FISCAL YEARS 1979-80, 1980-81, 1981-82

Years	Numbers of Plants	Start-Up 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%

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.

NINETY-SEVENTH CONGRESS

DAN ROSTENKOWSKI, ILL., CHAIRMAN
COMMITTEE ON WAYS AND MEANS

JOHN J. SALMON, CHIEF COUNSEL
A. L. SINGLETON, MINORITY CHIEF OF STAFF

DAVID A. ROHR, STAFF DIRECTOR

EXHIBIT XI

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES

WASHINGTON, D.C. 20515

SUBCOMMITTEE ON TRADE

May 11, 1982

COMMITTEE ON
3:40 pm
MAY 11 1982
WAYS AND MEANS

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 superseded 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 103 to provide a 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/wJMa

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

Brookfield Athletic Shoe Co., Inc.	East Brookfield, Massachusetts
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	29,063	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.

TRADE NET

600 NEW HAMPSHIRE AVENUE, N.W.
SUITE 621
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SHANA GORDON, PH.D.
PRESIDENT

TELEPHONE: 202/338-1990
TELEX: 248 362 WAER

STATEMENT IN BEHALF OF LEGISLATION IMPLEMENTING THE CARIBBEAN BASIN INITIATIVE
SUBMITTED TO THE SENATE FINANCE COMMITTEE
APRIL 18, 1983

TRADE NET, a nonprofit association committed to establishing a broad-based network advocating U.S. policies that facilitate an open, competitive and productive world trading environment, strongly supports the Caribbean Basin Initiative and its implementing legislation.

TRADE NET believes the CBI trade and investment incentives would ultimately increase employment in the United States because greater prosperity and stability in the Caribbean region would create a market for U.S. exporters, that significantly exceeds the current $7 billion level. In the shorter term, improved access to the U.S. market for Caribbean products would benefit the U.S. consumer through lower prices and a wider range of options. In addition, the CBI would enhance Caribbean peace and prosperity which is vital to U.S. national security and the U.S. economy because Caribbean sea lanes are a necessity for our trade -- one-half of our imports and exports, two-thirds of our imported oil, and more than half of our imported strategic materials pass through the Panama Canal and the Gulf of Mexico.

In summary, TRADE NET heartily endorses the Caribbean Basin Initiative -- an outstanding aid package based on the principle that economic growth can contribute more to political stablility than can military aid -- and urges passage of the implementing legislation.

REUBIN O'D. ASKEW • KARL R. BENDETSEN • BOB BERGLAND • ROBERT A. BEST • JOHN R. DEANE, JR.
SHANA GORDON • ROBERT K. GRAY • BRYCE N. HARLOW • E. W. KELLEY • MARTIN R. PETERSEN
WILLIAM E. SIMON • JOHN M. TOUPS • W. J. USERY, JR. • WILLIAM N. WALKER

Virginia Farm Bureau Federation

200 WEST GRACE STREET P. O. BOX 27552 RICHMOND, VIRGINIA 23261 804-788-1234

April 18, 1983

Honorable Robert Dole, Chairman
Committee on Finance
United States Senate
Russell Senate Office Building
Washington, D.C. 20510

Dear Senator Dole:

The Virginia Farm Bureau Federation, on behalf of Virginia tobacco producers submit the following comments on S.544, legislation to implement the Administration's Carribbean Basin Initiative.

While we comprehend the government's desire to promote economic revitalization of the Carribbean Basin region, it presents problems to our producers unless safeguards or exemptions are included.

Therefore, we cannot support the Carribbean Basin Initiative unless the legislation provides: an exemption from tobacco imports from CBI initiative since such imports into the Carribbean Basin countries for semiprocessing would result in so-called scrap tobacco that could then be imported into the United States duty free.

Mr. Chairman, we appreicate consideration of our views on this matter by your committee.

Sincerely,

S. T. Moore, Jr.
President

STATEMENT OF DONALD C. NELTHROPP
PRESIDENT - VIRGIN ISLANDS RUM INDUSTRIES, LTD.

BEFORE THE SENATE FINANCE COMMITTEE

HEARING ON S. 544, THE CARIBBEAN BASIN ECONOMIC RECOVERY ACT

APRIL 13, 1983

My name is Donald C. Nelthropp. I am the president of Virgin Islands Rum Industries, Ltd., known by its acronym "VIRIL." My address is Box 218, Frederiksted, St. Croix, U.S. Virgin Islands 00840.

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 the Senate in February, legislation implementing the Caribbean Basin Initiative contains a provision, section 104(g), that is essential if Virgin Islands rum producers are to compete on an equitable basis with foreign Caribbean rum producers. Additional steps must be taken, however, to provide basic safeguards for the Virgin Islands rum industry while at the same time allowing increased duty-free access to the United States rum market for rum distillers located in CBI beneficiary countries. In this regard, VIRIL welcomes the Committee Chairman's invitation to Congressman de Lugo of the Virgin Islands to work with the staff of the Committee toward a resolution of the Territory's concerns.

VIRIL is by far the largest manufacturer of rum in the Virgin Islands. A wholly-owned subsidiary of Schenley Industries, Inc., VIRIL operates a distillery on the island of St. Croix. VIRIL manufactures over 90% 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, after collection costs are subtracted, excise taxes collected in the United States on Virgin Islands rum are rebated to the Virgin Islands government. These rebates now represent over 15% of the annual gross revenues of the Virgin Islands government. This excise tax rebate mechanism makes VIRIL's operation the single largest source of revenue for the Virgin Islands.

In order fully to appreciate the impact which the CBI will have on VIRIL and on the Virgin Islands, it is important to understand the market in 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. Most of this rum is then marketed by several dozen purchasers -- many of which are small corporations -- that bottle and sell rum under private, unadvertised labels at a price significantly below that of aged, advertised brand name rums. 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 marked contrast to that involving Puerto Rican rum, which is aged and primarily marketed under well-known brand names. Thus, Puerto Rican rums are less engaged in price competition. Since Virgin Islands rum does not enjoy the brand loyalty of such Puerto Rican rums as Bacardi and Ronrico, VIRIL would be particularly affected by the increasing levels of unaged, bulk rum imports from foreign Caribbean nations which S. 544, as presently constituted, would attract to the U.S. market.

At the present time, the tariff levied on foreign rum entering the United States -- $1.57 per proof gallon in 1983 -- 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 producers in the Virgin Islands would clearly be adversely affected. VIRIL wants to see the economy of the Virgin Islands, and its own place in that economy, continue to grow and prosper. However, without a U.S. tariff on foreign rum, and in light of the present competitive

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* The cost of VIRIL's molasses supplies for distilling rum for export to the mainland United States is presently subsidized by the Virgin Islands government under 33 V.I. Code 3036. When this subsidy is taken into account, the price VIRIL ultimately pays for its molasses is below the world market price. There is reason to believe, however, that similar subsidy programs exist on other Caribbean islands. In Trinidad and Tobago, the government owns the local molasses supplies and can provide molasses to rum distillers at a price it determines. Molasses prices in the Dominican Republic are also controlled by the government, and there is evidence that an export subsidy has been put in place there to encourage rum shipments to the United States.

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,* 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 one country alone. Most of this Caribbean Basin rum is shipped to the United States in bulk. Moreover, it is our understanding that millions of proof gallons of foreign Caribbean rum are presently in storage in bonded warehouses in the United States. This rum, upon which no tariff has yet been paid, could easily flood the American market if the tariff is removed.

To compound the problem, VIRIL has been effectively precluded from developing a commercially significant 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, including the proposed CBI beneficiary countries, 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

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* Seagram, which owns Puerto Rico Distillers, Inc., also owns the Myers Rum distillery in Jamaica. Bacardi has distilleries in Trinidad and Tobago and 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 main distillery in the Dominican Republic.

so sensitive to price, the Virgin Islands is thus effectively foreclosed from competing in European markets. Similarly, while a substantial tariff keeps Virgin Islands rum out of Canada, the Commonwealth countries of the Caribbean enjoy duty-free access to the Canadian rum market.

The lifting of U.S. tariffs on all shipments of Caribbean bulk rum would have serious competitive consequences. 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 manufactured 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.

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 bulk 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* headquartered outside the Caribbean), would simply expand their production by operating more days per 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 duties on foreign Caribbean bulk 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.

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* E.g., Myers rum of Jamaica is owned by Seagram, a Canadian corporation; Pott rum of St. Maarten is owned by a German corporation; Mount Gay rum of Barbados is owned by an American multinational.

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 February.

One such relief mechanism is contained in the Eastern Caribbean Regional Development Fund proposal that has been proposed by the governments of Puerto Rico and the Virgin Islands. This proposal, which VIRIL strongly supports, would grant unlimited duty-free treatment to bottled rum from foreign Caribbean nations. Because bottling operations are the most labor-intensive aspect of rum manufacturing, encouraging rum producers to expand local bottling operations would create new jobs. The existing tariff on bulk rum would be retained and tariff revenues, along with excise taxes collected on all rum imported into the United States from beneficiary countries, would be devoted (up to certain predetermined ceilings) to the Fund, to be administered by the Agency for International Development. Disbursements from the Fund would be made for the development of infrastructure in island beneficiary countries, with a specified portion of the Fund earmarked for the use of rum-producing nations. The Fund proposal would cost the U.S. Treasury less than the blanket duty-free treatment proposal now in S. 544 and would further the goals of the CBI without jeopardizing the future economic and fiscal health of Puerto Rico and the Virgin Islands.

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 last year, the House of Representatives adopted an amendment addressing the environmental issue. The amendment, which now appears in section 104(g) of S. 544, 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 technology-forcing 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. During the Committee's hearing on S.544, Secretary of State Shultz referred to this amendment when he described the Administration's efforts to fashion S.544 in a way that would foster the development of the U.S. Caribbean.

The environmental amendment adopted by the House last year 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 the 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. All we are asking, and all section 104(g) would accomplish, and I want to stress this, is the chance to compete with foreign producers on more equal terms in the marketplace, free of undue and unnecessary regulatory burdens which such foreign producers do not bear.

Through the adoption of the Eastern Caribbean Regional Development Fund proposal and the enactment of section 104(g), 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. But enactment of the Fund proposal without environmental regulatory relief, or vice versa, will fall far short of the mark, probably fatally short.

VIRIL recognizes 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 section 104(g) of S.544 is retained and some modification is made that prevents a flood of duty-free foreign Caribbean bulk 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 the Senate in February implementing the Caribbean Basin Initiative contains one provision, section 104(g), essential to the future of 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 it is forced to comply with costly and unjustified environmental regulatory requirements. VIRIL urges this Committee to support enactment of section 104(g) of S. 544, which places the regulation of the Virgin Islands rum industry's water-borne effluents in the hands of Virgin Islanders.

VIRIL's product is extremely price-sensitive. Purchasers of VIRIL's unaged, bulk rum will readily turn to an alternate source of lower-priced rum. Since production costs in foreign Caribbean islands are lower than in the Virgin Islands, removal of the present U.S. tariff on foreign Caribbean rum would clearly have an adverse effect on VIRIL. VIRIL urges the Committee to adopt the Eastern Caribbean Regional Development Fund proposal endorsed by the governments of the Virgin Islands and Puerto Rico. Under this proposal, foreign Caribbean rum producers would be able to ship unlimited quantities of bottled rum into the United States duty-free, which would encourage the expansion of local bottling operations, creating new jobs. Tariff revenues from foreign Caribbean bulk rum, along with excise taxes collected on all foreign Caribbean rum, would be devoted (up to certain predetermined ceilings) to the development of local infrastructure in the island nations of the Caribbean. VIRIL strongly supports this development program.

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Statement submitted by David J. Steinberg, President, U.S. Council for an Open World Economy, to the Senate Committee on Finance in hearings on the Caribbean Basin Initiative
April 20, 1983

(The U.S. Council for an Open World Economy is a private, nonprofit organization engaged in research and public education on the merits and problems of developing an open international economic system in the overall national interest. The Council does not act on behalf of any private interest.)

While the Administration is to be commended for its concern with the economic well-being, political stability and national security of the countries of the Caribbean basin, at least the trade-policy segments of S.544 (the Caribbean Basin Economic Recovery Act) do not measure-up to the kind of fesponse the Caribbean crisis ought to elicit from a nation whose economic and security stakes in the Caribbean area are so formidable.

The President has called the Caribbean crisis "a crisis of unprecedented proportions." He has said that "economic disaster" threatens even the area's most established democracies. The United States, he declares, is prepared "to act boldly" in responding to this emergency; the chairman of the Senate Committee on Finance, in his statement introducing the bill, calls the CBI "an opportunity for bold leadership." The opportunity is there; the leadership is not bold enough.

CBI Scope Too Limted

The proposal of duty-free, unrestricted access to the U.S. market for 12 years has a surface image of impressive help for the region's earning power. However, a limited period of duty-free access -- followed by restoration of the suspended tariffs at the end of that period, which itself could be shortened by U.S. import restrictions if the duty-free status is a substantial stimulant to Caribbean exports to the United States -- is not an adequate incentive to the kind of industrial investment the region needs. Nor do the product exemptions at the very outset of the proposed policy do much for the CBI's image.

The Administration's original proposal included exceptions on textiles and apparel subject to trade-restrictive agreements, sugar, and products covered by U.S. import-relief actions. A significant assortment of additional exceptions, added by the House Committee on Ways and Means and passed by the House in 1982, are now incorporated in S.544. These additional exemptions are "footwear, handbags, luggage, flat goods, work gloves and leather wearing apparel not designated (as duty-free under the Generalized System of Preferences)," tuna, and petroleum or any product derived from petroleum. On the one hand, the offer of unilateral free trade is diminished by many product exceptions and no policy to remove these exceptions at the earliest possible time. On the other hand, the duty-free status intended for eligible products constitutes discriminatory treatment for countries of the Caribbean basin as against other sectors of the Third World, necessitating a waiver under the rules of the General Agreement on Tariffs and Trade and posing problems for U.S. relations with poor countries outside the Caribbean area. The United States should be developing a free-trade strategy with respect to all underdeveloped countries, many of which outside the Caribbean area are threatened with crises comparable with those in the Caribbean basin and merit a response no less bold. There is no such strategy.

In recognition of the problems of weaker U.S. industries that may have great difficulty coping with duty-free access under the CBI (or under the broader Third World strategy I prefer), the free-trade timetable I advocate could be slowed for some products in order to provide adjustment time for weak industries requiring special assistance. But no product should be permanently exempt. And free-trade status should be permanent, subject to temporary suspension, under strict standards, for legitimate, unforeseen contingencies. Differentials in the free-trade timetable would not undermine the credibility of the U.S. initiative. On the contrary, announced determination to remove import impediments on all products with deliberate speed would contribute to the credibility of a dramatic U.S. commitment of assistance to those countries. Enlarging the scope of the CBI's trade provisions along the lines I propose would make the Caribbean initiative a valuable proving ground for planning the comprehensive free-trade strategy I propose concerning all goods from all underdeveloped countries. The domestic-policy preparedness for this kind of CBI trade policy would become the prototype for the broader adjustment strategy that should be high on our national agenda.

U.S. "Industrial Policy" Inadequate

One-way free trade of the scope I am proposing, either for the CBI or broader Third World coverage, should not only be conditional on reasonable concessions by the beneficiary countries concerning labor standards and human rights as well as fair treatment of American goods, services and capital; it should also, both for economic soundness and political acceptability in the United States, be backstopped by a redevelopment strategy that addresses the real problems and needs of vulnerable U.S. industries, workers and communities through balanced recourse to the widest range of appropriate measures that advance the total national interest including the enlightened self-interest of these sectors of our economy. A commitment to full employment is an essential ingredient of the national adjustment strategy that should be high in our priorities. A properly designed adjustment strategy should reject simplistic recourse to import restriction (the product exceptions in the CBI bill exemplify simplistic recourse to import restriction). Coherent industry-redevelopment policies in weak U.S. industries would accelerate removal of any import restraints found to be essential for effective transition to economic viability for the affected sectors of our 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 at Administration request; 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 kind of help they need, and may find competition from the stronger members of the industry more severe behind import controls that affect them all. The law does not require a coherent 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 restriction (the Secretary of Agriculture in the case of agricultural products, as S.544 provides), there is a real possibility that the President may, 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 in question. Alternatives to import restriction where serious 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 our economy. The Administration has not established this kind of position.

In short, the Administration and Congress should be seeking ways to keep the foreign-policy imperatives of the CBI from denying appropriate assistance to seriously injured U.S. industries, and, on the other hand, ways to keep the problems of weaker U.S. industries from undermining the CBI and the credibility of U.S. concern for the economic development and national security of the Caribbean countries. The CBI as now formulated reveals serious shortcomings in this respect.

The Administration has also revealed little sensitivity to the possibility that imports of various products competing with U.S. production 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 United States. The current CBI bill has been improved in this regard, raising the Caribbean "value added" minimum from the original 25 percent of the appraised value of the item at the time of entry into the United States to 35 percent. That is, the sum of (a) the cost or value of the materials produced in one or more beneficiary countries plus (b) the direct costs of processing operations performed in such country or countries, must be not less than 35 percent of U.S. import value. The cost or value of component materials produced in the United States (excluding Puerto Rico) may not exceed 15 percent of the appraised value on entry into the United States. If the 35 percent minimum is suitable at all, it is suitable for only a short term, after which it should be raised significantly. Even as an initial minimum, it seems too low 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 Caribbean products eligible for duty-free status are only a small fraction of total U.S. imports, even of total imports in the respective categories) neglects the possibly adverse impact on some of our weaker industries. It neglects as well the political pressures which have already added significant product exemptions to the CBI bill and could generate additional exceptions.

Summary

While the Administration's concern with the economic and security problems of the Caribbean region is most commendable, these countries, and possible U.S. investors, have cause for apprehension over how much they will really benefit from the CBI's trade measures in the face of notable product exemptions and the possibility that success in capitalizing on the duty-free status allowed may lead 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 free-trade measures compared with the government's secutity concern with the Caribbean region. 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 secutity of those countries compared with the countries of the Caribbean basin.

The CBI strategy needs to be upgraded (a) to cover all poor countries, (b) 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 (c) to ensure the ability of the American economy -- indeed every state in the Union -- to adjust effectively to a free-trade initiative. Although the CBI initiative is clearly more politically palatable in the United States than an overall free-trade strategy affecting all underdeveloped countries, this more limited project will be truncated by substantial product exceptions and may be weakened even more by withdrawals of duty-free status (before the prescribed free-trade period has expired) in response to possible demands for government help from industries that may be adversely affected by duty-free expansion of imports from the Caribbean area. U.S. foreign-policy, national-security and export-expansion interests would suffer.

At least the trade component of the CBI should be returned to the Administration drawing board for substantial redesign even as confined to the Caribbean basin. A development program dealing with transportation, training and much more should be added to round out a balanced program of economic-development assistance.

STATEMENT FOR THE RECORD

of

WEST INDIES RUM AND SPIRITS PRODUCERS' ASSOCIATION

By Douglas P. Wachholz, Esquire
United States Counsel

The West Indies Rum and Spirits Producers' Association ("WIRSPA") is a Caribbean-wide regional association which represents the interests of the national associations of Antigua and Barbuda, The Bahamas, Barbados, Guyana, Jamaica, and Trinidad and Tobago. It has a central office in Bridgetown, Barbados.

WIRSPA supports the Caribbean Basin Economic Recovery Act (S.544). The association believes that the bill's provision for duty-free treatment of Caribbean exports is an important vehicle for accellerating the region's economic growth by encouraging the private sector to play a lead role in the process. This is especially true with regard to rum.

Presently, full duty charges of $1.57 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 is one of the reasons that it has such a small share of the rapidly-growing U.S. rum market. 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. Most other Caribbean countries export an even smaller amount to the U.S.

It should be noted that the Caribbean rum industries are particularly important intended beneficiaries under the bill because of rum's important role in the economies of the exporting countries. Increased rum exports are an immediate direct source of desperately needed foreign exchange and tax revenues for the governments of these countries, most of which suffer severe trade balances with the U.S. 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. The same applies to each of the other rum-exporting countries.

Caribbean rum distillers provide jobs in a region where massive unemployment causes human suffering and can lead to social and political unrest. The employment benefits the rum industry provides are not limited only to workers in the distilleries themselves. The important -- but troubled -- sugar industries in these countries depend to a degree on the growth and stability of the rum exporters. Molasses, an important by-product of sugar production, is the main feedstock in rum production. The demand for rum exports, thus, is a important determinant of the economic viability of the fragile sugar industries in the rum-producing Caribbean countries. Both Caribbean rum and sugar industries, therefore, will become larger and more dependable employers if rum is granted duty-free access to the U.S. under the bill.

Caribbean rum distilleries also contribute to raising the standard of living of their respective countries by paying high wages. Indeed, workers in the rum industries of the region earn some of the highest wage rates in the Caribbean. In Jamaica, 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.

Another positive aspect of allowing Caribbean rum to compete on an unfettered duty-free basis is that it is one of the very few products of high local added value, with over 90% of the value of the finished product being produced in the region. All the distilleries except one are locally owned or controlled.

What is not widely known is the extent to which the importation of Caribbean rum creates American jobs. Bulk rum imports mean U.S. jobs in the manufacture of the bottles, labels, tops and packages which the rum is bottled and sold in. American workers are also employed in the bottling, packaging, handling, distribution and promotional processes for Caribbean bulk imports. The cooperage industry in the U.S. also greatly benefits from its sales of American white oak barrels to Caribbean distilleries for their use in aging the rums. Beyond this, Caribbean rum imports create foreign exchange to help that region's countries correct their unfavorable trade imbalance with the U.S. and to pay for increased Caribbean imports from the U.S. More Caribbean rum imports, thus, will have the correlative effect of helping to create more American jobs.

WIRSPA is distressed, therefore, that the Government of the U.S. Virgin Islands, with the support of the Government of Puerto Rico, is attempting to undermine and limit the bill's relevance to the Caribbean and its private sector rum producers by denying duty-free entry of Caribbean bulk rums. The Virgin Islands' latest proposal, submitted in oral testimony by Virgin Islands Governor Juan Luis before the Senate Finance Committee, would only permit duty-free entry of bottled Caribbean rum and calls for the establishment of a new U.S. Government aid "fund" administered by the Agency for International Development. This "fund" would be established with excise taxes paid on private sector Caribbean rum imports and given as aid by a proposed new government bureaucracy to the governments of the Caribbean, whether they are rum-producing countries or not.

This proposal is unacceptable to the rum producers of the Caribbean which WIRSPA represents. It has also been categorically denounced by all of the governments of the rum-exporting Caribbean countries. The governments of these countries have stated their total and unequivocal opposition to the Virgin Islands proposal in separate telegrams to Governor Juan Luis of the Virgin Islands. These Caribbean governments also have expressed their views to the United States Government in a joint letter to Secretary of State George Shultz.

A Special Meeting of the Caribbean Common Market (CARICOM) Commodities Working Party on Rum was held in Barbados on April 25, 1983. Representation at the meeting included delegates from member governments, the West Indies Rum and Spirits Producers' Association, the CARICOM Secretariat, and the Organization of Eastern Caribbean States Economic Affairs Secretariat. The Working Party reaffirmed its unanimously adopted position -- determined at a previous meeting on January 31, 1983 -- with regard to the proposed Caribbean Basin Economic Recovery Act (S.544), which is as follows: "CARICOM Member States should press for (1) the removal of import duties for all (bulk and bottled) Caribbean rum entering the U.S. market and (2) the rejection of the U.S. Virgin Islands proposal which advocates the removal of import duty on bottled rum, the retention of import duty on bulk rum and the establishment of a development fund for Caribbean projects." This position is consistent with the previous recommendation of the CARICOM Technical Group on the CBI which has been accepted by the Foreign Ministers of the Member States of CARICOM.

The Virgin Islands proposal is seriously flawed and conflicts with the objectives of the Administration's bill. The following points show why:

-- First, bulk rum is the product which comprises most of the rum imports from the Caribbean -- approximately 80% of the total. Bottled rum is only imported on a limited basis because the freight costs are much higher since shipping bottled rum means the additional payments for the weight of the glass bottles, the weight of the water used to dilute the rum to bottled market proof (bulk rum is shipped at double proof and diluted in the U.S.), and the packaging and bulk of the containers. Breakage of glass bottles also adds to the costs of shipping bottled rums. Shipping bottled rum is, simply, very uneconomical. <u>Bottled</u> rum's duty-free entry is of only minor consequence to WIRSPA's member countries and rum industries. <u>Bulk</u> rum is the "bread and butter" of rum exports from the Caribbean.

-- The Virgin Islands proposal attempts to derogate from the private sector trade promotion thrust of the bill and to substitute instead an amorphous governmental aid mechanism.

-- Under the Virgin Islands proposal the private sector rum producers of the Caribbean would be discouraged from expanding their productive capacities, thus limiting the concommitant economic benefits to their countries' development, in favor of a government-to-government aid program unrelated to the needs and capabilities of the respective beneficiaries.

-- The Virgin Islands proposal would deny complete duty-free access to the U.S. market of a product manufactured and distributed by free enterprise, which uses only indegenous Caribbean raw materials and labor, which is an important by-product of a critical sector (the sugar industry) of most Caribbean economies, and which is a highly visible and emotional symbol of Caribbean productive capacity and regional pride.

It is absolutely clear that the unfettered duty-free entry of Caribbean rum, which comprises less than 4% of the rapidly-expanding U.S. rum market, will in no way harm the rum industry of the U.S. Virgin Islands, or that of Puerto Rico. The duty-free rum imports from those territories account for over 96% of the U.S. market. Under U.S. law the excise taxes collected on Puerto Rican and Virgin Islands rums are covered back to the treasuries of those two territories. These substantial sums -- $230 million for Puerto Rico and $35 million for the V.I. in 1981 -- are then used in part to help defray the promotional costs of the marketing of the rums and, in the case of the Virgin Islands, to help subsidize the purchase of molasses, the most significant cost element in the production of rum. Under S.544, Puerto Rico and the Virgin Islands would, additionally, receive the excise taxes paid on Caribbean rum imports, thus giving them even greater subsidies and advantages over much more expensive and longer-aged Caribbean rums. A copy of a recent paper by Dr. James Sood entitled "The Potential Impact on Puerto Rico and the Virgin Islands Due to the Removal of the U.S. Import

Tarriff on Rum" is appended for the record. Dr. Sood's paper amply demonstrates that Puerto Rico and the Virgin Islands rum industries will not be harmed. Indeed, a strong case can be made that duty-free Caribbean imports under the Administration's bill will actually further strengthen Puerto Rico and the Virgin Islands while giving greater access to the U.S. market for Caribbean rums.

The particularly discouraging aspect of the Virgin Islands proposal is that it is not needed to protect the continued growth of Virgin Islands or 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 Caribbean rums are allowed to compete for a 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 growing market.

Additionally, S.544 has extremely ample -- indeed generous -- protections built into it for Puerto Rico and the Virgin Islands. Besides the payment of excise taxes on Caribbean rums to the treasuries of the two U.S. territories, sections 103(e) and 104(f) of the bill allow Virgin Islands and Puerto Rican 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 the Caribbean. Section 104(c) of the bill also permits the President to withdraw duty-free treatment on rum if he determines that excise tax revenues given to the Virgin Islands and Puerto Rico fall below the level they would have reached had the Caribbean rums come from Puerto Rico and the Virgin Islands. This safeguard provides for protection for the U.S. territories against a potential future lowering of the excise tax rate for Caribbean rums.

Another bonus in the bill for the Virgin Islands is the exemption it receives in section 104(g) from the Federal Water Pollution Control Act effluent standards and requirements for the territory's rum distillery. It is, therefore, very difficult to envision any rational argument contending that S.544 will hurt the rum industries of the Virgin Islands or Puerto Rico.

In conclusion, WIRSPA believes that the access to the U.S. rum market afforded by S.544 is a matter of vital importance to the rum industries of 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. WIRSPA urges the Senate Finance Committee and the full United States Senate to reject the latest attempt by the Virgin Islands to limit the duty-free import of Caribbean rum and to vote for fair and free access of this highly-visible Caribbean product which is such a strong symbol of the region's productive capacity. 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 serious Caribbean needs through private sector initiative.

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