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106TH CONGRESS *1st Session* | SENATE | REPORT 106–160

THE UNITED STATES-CARIBBEAN BASIN TRADE ENHANCEMENT ACT

SEPTEMBER 16, 1999.—Ordered to be printed

Mr. ROTH, from the Committee on Finance, submitted the following

REPORT

[To accompany S. 1389]

[Including cost estimate of the Congressional Budget Office]

The Committee on Finance, having considered legislation to provide additional trade benefits to certain beneficiary countries in the Caribbean Basin, reports favorably thereon and refers the bill to the full Senate with a recommendation that the bill do pass.

I. BACKGROUND

Congress enacted the Caribbean Basin Economic Recovery Act ("CBERA") in 1983 to respond to an economic crisis in Central America and the Caribbean. The principal U.S. response to that crisis under CBERA was a broad grant of unilateral tariff preferences to qualifying beneficiary countries.

In order to qualify, the beneficiary country had to request the opportunity to participate. The President then determined whether the country was eligible based on a variety of factors, including, among others, the country's commitment to afford the United States equitable and reasonable market access, the country's participation (at the time) in the General Agreement on Tariffs and Trade (GATT), its willingness to accept subsidy disciplines, the extent to which the country afforded adequate intellectual property protection, whether or not the country had taken steps to afford internationally recognized worker rights, and the extent to which the country's economic policies would contribute to the goals of the Caribbean Basin Initiative, or "CBI" as it is widely known.

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The original grant of preferences was limited to a period of 12 years. It covered virtually all trade with the CBI countries with the exception of textiles and apparel, canned tuna, petroleum and petroleum products, and certain watches and watch parts, handbags, luggage, flat goods such as wallets, change purses and key and eyeglass cases, work gloves and leather wearing apparel.

The current CBI beneficiaries include Antigua and Barbuda, Aruba, Bahamas, Barbados, Belize, Costa Rica, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Montserrat, Netherlands Antilles, Nicaragua, Panama, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Trinidad and Tobago, and the British Virgin Islands.

In 1990, Congress passed the Caribbean Basin Economic Recovery Expansion Act of 1990, the so-called "CBI II." That Act made the unilateral grant of preferences permanent. It also expanded the tariff preferences. CBI II permitted the President to proclaim a tariff reduction of 20 percent (but not more than 2.5 percent ad valorem on any article) in tariffs applicable to a subset of the previously excluded products—handbags, luggage, flat goods, work gloves, and leather wearing apparel. CBI II also allowed for duty-free treatment on articles, other than textiles and petroleum-based products, if made from U.S. fabricated components.

In 1993, the United States, Canada, and Mexico signed the North American Free Trade Agreement (NAFTA). Among the commitments made by the United States to Mexico were the sharp reduction in duties and quantitative limits applicable to products ineligible for CBI treatment, including textiles and apparel. This bill is intended to afford CBI beneficiaries treatment akin to that afforded Mexican products in order to avoid undermining investment in the Caribbean Basin based on preferences previously available under the CBI.

Like the CBI II, enacted in 1990, this legislation would expand the existing CBI by providing for additional tariff preferences on a number of products not previously covered by the program. Those benefits, however, are conditioned on the eligible beneficiary countries' trade policies, their participation and cooperation in the Free Trade Area of the Americas (FTAA) or other comparable trade initiatives, as well as certain non-trade factors provided for in the legislation.

In the 105th Congress, the Ways and Means Committee ordered the United States-Caribbean Trade Partnership Act to be reported to the House of Representatives on October 9, 1997. The House voted on the bill on November 4, 1997, and it failed by a vote of 182–234.

In the Senate, the Finance Committee reported out a version of the United States-Caribbean Trade Enhancement Act as an original bill (S. 1278) on October 9, 1997, and again as a part of a larger trade bill (S. 2400) on July 21, 1998. The Senate did not take action on it.

II. GENERAL DESCRIPTION OF ACT

Section 1. Short title; table of contents

Section 1 provides that, if enacted, the measure may be cited as the "United States-Caribbean Basin Trade Enhancement Act." It also lays out a table of contents for the Act.

Section 2. Findings and policy

The findings contained in section 2 of the bill set out the underlying rationale for expansion of the CBI program. The over-arching purpose of the Act is to provide opportunities for the beneficiary countries to enhance their economic development and integration into the international trading system, while providing expanded export opportunities for U.S. goods as a result of the increased trade and economic growth that the enhanced CBI program is designed to foster. The findings underscore that point, as well as emphasize the United States' commitment to encouraging the development of strong democratic governments and revitalized economies throughout the region.

The policy provisions of section 2 reflect the policy of the United States to encourage CBI beneficiaries to become a party to the FTAA or a comparable trade agreement at the earliest possible date. The provisions make the preferences afforded under this Act expressly contingent on a CBI beneficiary country's willingness to join the United States in those initiatives.

Section 3. Definitions

Section 3 provides certain definitions applicable to the provisions of the Act, including definitions of "beneficiary country," "CBTEA," "NAFTA," "NAFTA country," "WTO," and "WTO member."

TITLE I—TRADE BENEFITS FOR CARIBBEAN BASIN COUNTRIES

Section 101. Temporary provisions to provide additional trade benefits to certain beneficiary countries

This section amends subsection 213(b) of the CBERA to provide a tariff preference to imports from the Caribbean Basin of products previously excluded from the CBI, including certain textile and apparel products, footwear, canned tuna, petroleum and derivatives, watches and watch parts. This legislation would establish a "transition period" of over five years from October 1, 1999 through December 31, 2004, during which additional tariff preferences could be made available on certain of those items.

Eligibility for the program is left to the discretion of the President, but the proposal would provide very specific guidance as to the criteria the President should apply in making that determination. The starting point under this Act is compliance with the eligibility criteria set out in the original CBERA. This Act would add certain trade-related criteria, such as the extent to which the beneficiary country fully implements the various Uruguay Round agreements, whether the beneficiary country affords adequate intellectual property protection and protection to U.S. investors, and the extent to which the country applies internationally accepted rules on government procurement and customs valuation.

This section also adds other criteria that reflect important U.S. initiatives. They include, among others, the extent to which the country has become a party to and implements the Inter-American Convention Against Corruption, is or becomes a party to a convention regarding the extradition of its nationals, satisfies the criteria for counter-narcotics certification under section 490 of the Foreign Assistance Act of 1961, and provides internationally recognized worker rights.

Section 101(c) amends current reporting requirements and imposes new reporting requirements for the United States Trade Representative. First, it amends section 212(f) of the Caribbean Basin Economic Recovery Act (19 U.S.C. 2702(f)) to oblige the United States Trade Representative to report not later than December 31, 2001, and every two years thereafter while the program is in effect on the performance of each beneficiary country in meeting the applicable criteria. Before submitting such report, the United States Trade Representative must seek public comment. Second, it amends the reporting requirement in section 203(f) of the Andean Trade Preference Act (19 U.S.C.(f)) to oblige the United States Trade Representative to report on the operation of the ATPA on an annual basis beginning March 31, 2000.

Section 101(d) amends current reporting requirements and imposes new reporting requirements for the International Trade Commission. First, it amends Section 215(a) of the Caribbean Basin Economic Recovery Act (19 U.S.C. 2704(a)) to oblige the United States International Trade Commission to assess the impact of the various CBI programs on U.S. industries, consumers, and the beneficiary countries in biennial reports beginning September 30, 2001. Second, it amends the Andean Trade Preference Act to require the U.S. International Trade Commission to submit biennial reports regarding the economic impact of the ATP on U.S. industries and consumers and the ATPA's effectiveness in promoting drug-related crop eradication and crop substitution efforts of the beneficiary countries. This report shall be submitted on a biennial basis on December 31, alternating with the report required by section 215 of the CBERA.

The preferences offered under this Act are divided between those made available for imports of certain textile and apparel products and those available for all other products covered by the legislation.

Textiles

With respect to textiles, this legislation adopts an approach consistent with that of the CBI II, one that will both provide expanded benefits to the CBI beneficiaries' apparel industry while affording new opportunities for U.S. textile, yarn, and thread producers. Section 101 would extend immediate duty-free and quota-free treatment to the following products:

(1) apparel articles assembled in an eligible CBI beneficiary country from U.S. fabrics wholly formed from U.S. yarns and cut in the United States that would enter the United States under Harmonized Tariff Schedule (HTS) item number 9802.00.80 (a provision that otherwise allows an importer to pay duty solely on the value-added abroad when U.S. compo-

nents are shipped abroad for assembly and re-imported into the United States);

(2) apparel articles entered under chapters 61 and 62 of the HTS where they would have qualified for HTS 9802.00.80 treatment but for the fact that the articles were subjected to certain types of washing and finishing;

(3) apparel articles cut and assembled in the eligible CBI country from U.S. fabric formed from U.S. yarn and sewn in the Caribbean with U.S. thread;

(4) handloomed, handmade and folklore articles originating in the CBI beneficiary country;

(5) textile luggage assembled in an eligible CBI beneficiary country from U.S. fabrics wholly formed from U.S. yarns and cut in the United States that would enter the United States under Harmonized Tariff Schedule (HTS) item number 9802.00.80; and

(6) textile luggage cut and assembled in the eligible CBI country from U.S. fabric formed from U.S. yarn and sewn in the Caribbean with U.S. thread.

With respect to handloomed, handmade, and folkloric items, section 101 provides that the President, in consultation with the relevant beneficiary country, will determine which, if any, particular textile and apparel articles are to be treated as handloomed, handmade or folklore goods eligible for trade preferences under this program. The Committee expects that only genuinely handcrafted articles, normally produced in limited quantities, will be designated as eligible; this provision is not intended to benefit large-scale, industrial production of textile or apparel articles. Rather, consistent with the WTO Agreement on Textiles and Clothing and with the provisions of the NAFTA, the Committee intends that the handloomed, handmade or folklore articles to which the benefits will apply include only handloom fabrics of the cottage industry, or hand-made cottage industry products made of such handloom fabrics, or traditional folklore handcraft textile and clothing products.

As regards textile luggage, the Committee intends that the program cover items covered by two categories of the Harmonize Tariff Schedule of the United States ("HTS"). The program would cover luggage made of textile materials identified in headings 4202.12 and 4202.92 of the HTS.

The Committee intends that the new program of textile and apparel benefits will be administered in a manner consistent with the regulations that currently apply under the "Special Access Program" for textile and apparel articles from Caribbean and Andean Trade Preference Act countries, as described in 63 Fed. Reg. 16474–16476 (April 3, 1998). Thus, the requirement that products must be assembled from fabric formed in the United States applies to all textile components of the assembled products, including linings and pocketing, subject to the exceptions that currently apply under the "Special Access Program."

Section 101 would allow for the snapback of the tariff preferences provided under this section in the event of surges in imports that could cause serious damage to the U.S. industry producing a like product in the United States. To ensure that the preferences made available under this Act do not lead to the transshipment of textile

and apparel products from other countries where the goods would be subject to U.S. quotas, this section includes two provisions penalizing such actions.

First, it would penalize exporters found, on the basis of sufficient evidence, to have engaged in transshipment—all benefits under the program would be denied for a period of two years. Second, any country that was found, on the basis of sufficient evidence, to have failed to take action to prevent transshipment after a specific request for assistance in that regard from the President would have its exports reduced by three times the quantities found to have been transshipped. The Committee intends the "sufficient evidence" standard used here to be the same as that applied under Article 5:4 of the Agreement on Textiles and Clothing administered by the World Trade Organization (WTO).

Other products

On all other products covered by this Act (footwear, canned tuna, petroleum and derivatives, and watches and watch parts, and certain leather goods), the program would provide an immediate reduction in tariffs equal to the preference Mexican products enjoy under NAFTA. In other words, the applicable duty paid by importers on such goods would be equal to the duty applicable to the same goods if entered from Mexico.

In order for their products to qualify for the preferences afforded under this Act, whether applied to textiles and apparel or other products, the beneficiary country must comply with customs procedures equivalent to those required under the NAFTA.

Section 102. Adequate and effective protection for intellectual property rights

Section 102 of this Act clarifies that, for purposes of assessing whether a CBI beneficiary is offering adequate intellectual property protection, compliance with the WTO Agreement on Trade-Related Aspects of Intellectual Property is not determinative.

TITLE II—REVENUE PROVISIONS

Section 201. Temporary increase in amount of rum excise tax that is covered over to Puerto Rico and the U.S. Virgin Islands (sec. 7652 of the Internal Revenue Code (I.R.C.))

Present Law

A $13.50 per proof gallon[1] excise tax is imposed on distilled spirits produced in or imported (or brought) into the United States (I.R.C. sec. 5001). The excise tax does not apply to distilled spirits that are exported from the United States or to distilled spirits that are consumed in U.S. possessions (e.g., Puerto Rico and the Virgin Islands).

The Code provides for cover over (payment) to Puerto Rico and the Virgin Islands of $10.50 per proof gallon of the excise tax imposed on rum imported (or brought) into the United States (without regard to the country of origin) (I.R.C. sec. 7652). During the 5–year period ending on September 30, 1998, the amount covered

[1] A proof gallon is a liquid gallon consisting of 50 percent alcohol.

over was $11.30 per proof gallon. This temporary increase was enacted in 1993 as transitional relief accompanying a reduction in certain tax benefits for corporations operating in Puerto Rico and the Virgin Islands (I.R.C. sec. 936).

Amounts covered over to Puerto Rico and the Virgin Islands were deposited in the treasuries of the two possessions for use as those possessions determine.

Reasons for Change

The Committee determined that an increase in the amount of rum excise taxes covered over to Puerto Rico and the Virgin Islands is appropriate in light of the trade concessions included in the bill for Caribbean Basin nations.

Explanation of Provision

The bill increases from $10.50 to $13.50 per proof gallon the amount of excise taxes collected on rum brought into the United States that is covered over to Puerto Rico and the U.S. Virgin Islands.

The bill further provides that $0.50 per proof gallon of the amount covered over to Puerto Rico will be transferred to the Puerto Rico Conservation Trust, a private, non-profit section 501(c)(3) organization operating in Puerto Rico.

Effective Date

The provision is effective for excise taxes collected on rum imported or brought into the United States from July 1, 1999, through September 30, 1999.

Section 202. Modify installment method and prohibit its use by accrual method taxpayers (secs. 453 and 453A of the Internal Revenue Code)

Present Law

An accrual method taxpayer is generally required to recognize income when all the events have occurred that fix the right to the receipt of the income and the amount of the income can be determined with reasonable accuracy. The installment method of accounting provides an exception to this general principle of income recognition by allowing a taxpayer to defer the recognition of income from the disposition of certain property until payment is received. Sales to customers in the ordinary course of business are not eligible for the installment method, except for sales of property used or produced in the trade or business of farming and sales of timeshares and residential lots if an election to pay interest under section 453(l)(2)(B) is made.

A pledge rule provides that if an installment obligation is pledged as security for any indebtedness, the net proceeds [2] of such indebtedness are treated as a payment on the obligation, triggering the recognition of income. Actual payments received on the installment obligation subsequent to the receipt of the loan proceeds are

[2] The net proceeds equal the gross loan proceeds less the direct expenses of obtaining the loan.

not taken into account until such subsequent payments exceed the loan proceeds that were treated as payments. The pledge rule does not apply to sales of property used or produced in the trade or business of farming, to sales of timeshares and residential lots where the taxpayer elects to pay interest under section 453(l)(2), or to dispositions where the sales price does not exceed $150,000.

An additional rule requires the payment of interest on the deferred tax that is attributable to most large installment sales.

Reasons for Change

The Committee believes that the installment method is inconsistent with the use of the accrual method of accounting and should not be allowed in situations where the disposition of property would otherwise be reported using the accrual method. The Committee is concerned that the continued use of the installment method in such situations would allow a deferral of gain that is inconsistent with the requirement of the accrual method that income be reported in the period it is earned, rather than the period it is received.

The Committee also believes that the installment method, where its use is appropriate, should not serve to defer the recognition of gain beyond the time when funds are received. Accordingly, the Committee believes that proceeds of a loan should be treated in the same manner as a payment on an installment obligation if the loan is dependent on the existence of the installment obligation, such as where the loan is secured by the installment obligation or can be satisfied by the delivery of the installment obligation.

The Committee recognizes that special considerations exist in the disposition of property that is used or produced in the trade or business of farming, as well as certain dispositions of timeshares and residential lots where an election is made to pay interest on deferred taxes. The Committee does not believe that the rules applicable to such situations should be modified at this time.

Explanation of Provision

Use of the installment method for accrual method dispositions

The installment method of accounting generally may not be used for dispositions of property that otherwise would be reported for Federal income tax purposes using an accrual method of accounting. The bill does not change present law regarding the availability of the installment method for dispositions of property used or produced in the trade or business of farming. The bill also does not change present law regarding the availability of the installment method for dispositions of timeshares and residential lots if the taxpayer elects to pay interest under section 453(l)(2).

The bill does not change the ability of a cash method taxpayer to use the installment method. For example, a cash method individual who owns all of the stock of a closely held accrual method corporation sells his stock for cash, a ten year note, and a percentage of the gross revenues of the company for the next ten years. Because the individual would otherwise report the disposition of the stock on the cash method, his ability to use the installment

method in reporting the gain on the sale of the stock is not affected.

Modify pledge rule

The bill also modifies the pledge rule to provide that entering into any arrangement that gives the taxpayer the right to satisfy an obligation with an installment note will be treated in the same manner as the direct pledge of the installment note. For example, a taxpayer disposes of property for an installment note. The disposition is properly reported using the installment method. The taxpayer only recognizes gain as it receives the deferred payments. However, were the taxpayer to pledge the installment note as security for a loan, the taxpayer would be required to treat the proceeds of such loan as a payment on the installment note and recognize the appropriate amount of gain. Under the bill, the taxpayer would also be required to treat the proceeds of a loan as payment on the installment note to the extent the taxpayer had the right to "put" or repay the loan by transferring the installment note to the taxpayer's creditor. Other arrangements that have a similar effect would be treated in the same manner.

The modification of the pledge rule only applies to installment sales where the pledge rule of present law applies. Accordingly, the modified pledge rule does not apply to installment method sales made by a dealer in timeshares and residential lots where the taxpayer elects to pay interest under section 453(l)(2), to sales of property used or produced in the trade or business of farming, or to dispositions where the sales price does not exceed $150,000, because such sales are not subject to the pledge rule under present law.

Effective Date

The provision is effective for sales or dispositions on or after the date of enactment.

III. CONGRESSIONAL ACTION

The Committee considered the legislation in the form of an original bill on June 22, 1999, and ordered it reported favorably by voice vote.

IV. VOTE OF THE COMMITTEE

In compliance with paragraph 7(b) of rule XXVI of the Standing Rules of the Senate, the Committee states that the U.S.-Caribbean Basin Trade Enhancement Act was ordered favorably reported by voice vote on June 22, 1999.

V. BUDGETARY IMPACT

A. COMMITTEE ESTIMATES

In compliance with sections 308 and 403 of the Congressional Budget Act of 1974, and paragraph 11(a) of rule XXVI of the Standing Rules of the Senate, the following statement is made concerning the estimated budget effects of the bill.

ESTIMATED BUDGET EFFECTS OF THE "UNITED STATES-CARIBBEAN BASIN TRADE ENHANCEMENT ACT," AS APPROVED BY THE COMMITTEE ON FINANCE ON JUNE 22, 1999, FISCAL YEARS 1999–2009

[In millions of dollars]

Provision	Effective	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2000–04	2005–09	2000–09
Caribbean Basin Initiative[1]	10/1/99	....	−260	−268	−281	−299	−320	−86	....	....	....	....	−1,429	−86	−1,514
Increase Amount of Rum Excise Tax That is Covered Over to Puerto Rico and the U.S. Virgin Islands (from $10.50 per proof gallon to $13.50 per proof gallon)[1]	([2])	−16	....	....	....	....	....	....	....	....	....	....	....	....	....
Revenue Offset Provision:															
1. Repeal installment method for most accrual basis taxpayers; adjust pledge rules	iseio/a DOE	4	477	677	406	257	72	8	21	35	48	62	1,889	174	2,063
Net total	....	−12	217	409	125	−42	−248	−78	21	35	48	62	460	88	549

[1] Estimate provided by the Congressional Budget Office.
[2] Effective for rum imported into the United States after 7/1/99, and before 10/1/99.

Note.—Details may not add to totals due to rounding. Legend for "Effective" column: DOE = date of enactment; iseio/a = installment sales entered into on or after.

Source: Joint Committee on Taxation.

B. BUDGET AUTHORITY AND TAX EXPENDITURES

1. Budget authority

In accordance with section 308(a)(1) of the Budget Act the Committee states that the U.S.-Caribbean Basin Trade Enhancement Act involves no new or increased budget authority.

2. Tax expenditures

In accordance with section 308(a)(2) of the Budget Act, the Committee states that the provisions of the U.S.-Caribbean Basin Trade Enhancement Act will result in no change in tax expenditures over the period fiscal years 1999–2009.

C. CONSULTATION WITH CONGRESSIONAL BUDGET OFFICE

In accordance with section 403 of the Budget Act, the Committee advises that the Congressional Budget Office has submitted the following statement on the budgetary impact of the U.S.-Caribbean Basin Trade Enhancement Act:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, July 22, 1999.

Hon. WILLIAM V. ROTH, Jr.,
Chairman, Committee on Finance,
U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for S. 1389, the United States-Caribbean Basin Trade Enhancement Act.

If you would like further details about this estimate, we will be pleased to provide them. The CBO staff contacts are Hester Grippando (for revenues), Sunita D'Monte (for spending by the International Trade Commission), John Righter (for all other spending), and Leo Lex (for the state and local impact).

Sincerely,

BARRY B. ANDERSON
(For Dan L. Crippen, Director).

Enclosure.

CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

S. 1389—United States-Caribbean Basin Trade Enhancement Act

Summary: S. 1389 would provide tariff and quota treatment similar to that accorded to products under the North American Free Trade Agreement (NAFTA) to certain products of countries that benefit under the Caribbean Basin initiative trade program. In addition, the legislation would amend the Internal Revenue Code to prohibit the use of the installment method of accounting and to modify the pledge rule for dispositions of property. The bill would also increase by $3 the share of the excise tax on rum that is distributed to Puerto Rico and the Virgin Islands. The higher share would apply only to assessments made between July 1, 1999, and September 30, 1999.

CBO and the Joint Committee on Taxation (JCT) estimate that enacting the legislation would increase government receipts by

$511 million over the 1999–2004 period. In addition, CBO estimates that direct spending would increase by $16 million in fiscal year 1999. Because the bill would affect receipts and direct spending, pay-as-you-go procedures would apply. CBO estimates that implementing the bill's provisions would not significantly affect spending subject to appropriation.

The bill contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA). The legislation contains private-sector mandates that would prohibit the use of the installment method of accounting and modify the pledge rule for dispositions of property. JCT estimates that the costs of the mandates would exceed the threshold for private-sector mandates established in UMRA ($100 million in 1996, adjusted annually for inflation) in fiscal years 2000 through 2004.

Estimated cost to the Federal Government: The estimated budgetary impact of the bill is shown in the following table.

	By fiscal year, in millions of dollars—										
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
CHANGES IN REVENUES											
Estimated Revenues:											
Carribean Basin trade	0	−252	−260	−272	−289	−309	−83	0	0	0	0
Repeal installment method for most taxpayers, adjust pledge rules	4	477	677	406	257	72	8	21	35	48	62
Net Revenue Changes	4	225	417	134	−32	−237	−75	21	35	48	62
CHANGES IN DIRECT SPENDING											
Spending Under Current Law:[1]											
Estimated Budget Authority	290	290	290	290	290	290	290	290	290	290	290
Estimated Outlays	290	290	290	290	290	290	290	290	290	290	290
Proposed Changes:											
Estimated Budget Authority	16	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	16	0	0	0	0	0	0	0	0	0	0
Spending Under S. 1389:											
Estimated Budget Authority	306	290	290	290	290	290	290	290	290	290	290
Estimated Outlays	306	290	290	290	290	290	290	290	290	290	290

[1] The amounts shown are estimated payments to Puerto Rico and the Virgin Islands for their share of excise taxes collected on rum produced in or brought to the United States.

Note. Implementing the bill would also increase spending subject to appropriation, but CBO estimates that such costs would not be significant.

Basis of estimate: For the purposes of this estimate, CBO assumes that this bill will be enacted before the end of fiscal year 1999

Revenues

The bill would offer immediate duty-free and quota-free treatment to certain articles of apparel assembled in a beneficiary country. Products covered under this provision include articles assembled from fabric formed in the United States from yarn made in the United States (including fabrics that have undergone certain additional processing in a beneficiary country), articles cut in a beneficiary country from fabric formed of U.S. yarn and assembled with U.S. thread, and handmade or folklore articles from beneficiary countries. Based on 1998 collections data, CBO estimates that about $6 billion in goods would enter the United States under this provision in fiscal year 2000. Under current law, most of the products covered in this provision enter under a special subheading in the Harmonized Tariff Schedule that allows for duties to be paid only on the value added to the product in the beneficiary country. CBO estimates that this provision would reduce receipts by $244 million in fiscal year 2000 and by $1,422 million over the 2000–2005 period.

The legislation would also grant NAFTA parity to other articles imported into the United States from beneficiary countries, including luggage and handbags, certain leather goods, footwear, tuna, petroleum, watches, and watch parts. Based on recent collections data, CBO estimates that S. 1389 would reduce receipts by $7 million in fiscal year 2000 and by $43 million over the 2000–2005 period.

The Joint Committee on Taxation estimated that repealing the installment method of accounting and modifying the pledge rule for dispositions of property would increase revenues by $2.1 billion over the 1999–2009 period.

Direct spending

Under current law, a tax of $13.50 per proof gallon is assessed on distilled spirits produced in or brought into the United States. The treasuries of Puerto Rico and the Virgin Islands receive $10.50 of the tax assessed on rum manufactured in either territory. In addition, the territories receive payments, at a similar rate, on all rum imported into the United States from any foreign country. Those payments to Puerto Rico and the Virgin Islands are recorded as outlays in the budget.

Under the bill, the governments of Puerto Rico and the Virgin Islands would receive the full $13.50 per proof gallon for assessments made between July 1, 1999, and September 30, 1999. Based on recent tax and payment data, CBO estimates that increasing the territories' share of the excise tax would increase direct spending by $16 million in fiscal year 1999.

Spending subject to appropriation

The bill would require the Administration to determine whether Caribbean Basin countries are eligible to benefit from the bill's preferential trade provisions and to monitor their compliance with

certain requirements. The Administration already performs similar responsibilities under the Caribbean Basin Economic Recovery Act. based on information from the Office of the United States Trade Representative and other affected agencies, CBO estimates that implementing these provisions would not significantly increase those agencies' costs.

The legislation would also amend several existing reporting requirements of the Office of the United States Trade Representative and the International Trade Commission. The amendments would primarily change when and how often the reports are due. CBO estimates that those changes would increase spending subject to appropriation by less than $200,000 annually.

Pay-as-you-go considerations: The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays and government receipts that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By fiscal year, in millions of dollars—										
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Changes in Receipts	4	225	417	134	−32	−237	−75	21	35	48	62
Changes in Outlays	16	0	0	0	0	0	0	0	0	0	0

Estimated impact on state, local, and tribal governments: The bill contains no intergovernmental mandates as defined in UMRA. CBO estimates that the governments of Puerto Rico and the Virgin Islands would receive an additional $16 million in 1999 as a result of the bill's enactment. The bill would also require the government of Puerto Rico to transfer a portion (50 cents per proof gallon of rum) of future payments from the excise tax to the Puerto Rico Conservation Trust Fund.

Estimated impact on the private sector: The legislation contains private-sector mandates that would prohibit the use of the installment method of accounting and modify the pledge rule for dispositions of property. JCT estimates that the mandates would cost $1.9 billion over the 2000–2004 period and that the cost would exceed the threshold for private-sector mandates established in UMRA ($100 million in 1996, adjusted annually for inflation) in fiscal years 2000 through 2003.

Estimate prepared by: Federal revenues: Hester Grippando; Federal spending: John Righter and Sunita D'Monte; impact on state, local, and tribal governments: Leo Lex.

Estimate approved by: Robert A. Sunshine, Deputy Assistant Director for Budget Analysis, and G. Thomas Woodward, Assistant Director for Tax Analysis.

VI. REGULATORY IMPACT AND UNFUNDED MANDATES

A. REGULATORY IMPACT

In accordance with paragraph 11(b) of rule XXVI of the Standing Rules of the Senate, the Committee makes the following statement

concerning the regulatory impact of the U.S.-Caribbean Basin Trade Enhancement Act.

1. Impact on individuals and businesses

The Committee states that the non-revenue offset portion of this Act does not alter any of the substantive or procedural requirements of the programs involved and would not, as a consequence, involve any new paperwork or regulatory burdens on individuals.

The Committee further states that the bill provides the following revenue offsets: (1) repeal the installment method for most accrual basis taxpayers, effective for sales and other dispositions on or after the date of enactment; and (2) increase temporarily the amount of the existing rum excise tax that is covered over to Puerto Rico and the U.S. Virgin Islands. The installment method provisions will increase the tax burden on the affected taxpayers.

2. Impact on personal privacy and paperwork

The U.S.-Caribbean Basin Trade Enhancement Act will have no impact on personal privacy or paperwork.

B. UNFUNDED MANDATES

This information is provided in accordance with section 423 of the Unfunded Mandates Reform Act of 1995 (Pub. L. 104–4). The Committee on Finance has reviewed the provisions of the U.S.-Caribbean Basin Trade Enhancement Act as approved by the Committee on June 22, 1999. In accordance with the requirements of Public Law 104–4, the Committee has determined that the revenue provisions of the bill contain the following Federal private sector mandate: The installment method of accounting is repealed for most accrual basis taxpayers. The Committee has determined that it is necessary to include this provision in the bill to provide a revenue offset for the trade initiatives approved by the Committee.

C. TAX COMPLEXITY ANALYSIS

Section 4022(b) of the Internal Revenue Service Reform and Restructuring Act of 1998 (the “IRS Reform Act”) requires the Joint Committee on Taxation (in consultation with the Internal Revenue Service and the Department of the Treasury) to provide a tax complexity analysis. The complexity analysis is required for all legislation reported by the Senate Committee on Finance, the House Committee on Ways and Means, or any committee of conference if the legislation includes a provision that directly or indirectly amends the Internal Revenue Code (the “Code”) and has widespread applicability to individuals or small businesses.

The staff of the Joint Committee on Taxation has determined that a complexity analysis is not required under section 4022(b) of the IRS Reform Act because the bill contains no provisions that amend the Internal Revenue Code and that have widespread applicability to individuals or small businesses.

VII. CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with paragraph 12 of rule XXVI of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

Caribbean Basin Economic Recovery Act

Subtitle A—Duty-Free Treatment

SEC. 211. AUTHORITY TO GRANT DUTY-FREE TREATMENT.

The President may proclaim duty-free treatment *(or other preferential treatment)* for all eligible articles from any beneficiary country in accordance with the provisions of this title.

SEC. 212. BENEFICIARY COUNTRY.

(a)(1) For purposes of this title—

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

(B) the term "enter" means entered, or withdrawn from warehouse for consumption, in the customs territory of the United States.

(C) The term "HTS" means Harmonized Tariff Schedule of the United States (19 U.S.C. 1202).

(D) The term "NAFTA" means the North American Free Trade Agreement entered into between the United States, Mexico, and Canada on December 17, 1992.

(E) The terms "WTO" and "WTO member" have the meanings given those terms in section 2 of the Uruguay Round Agreements Act (19 U.S.C. 3501).

* * * * * * *

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

* * * * * * *

(9) the extent to which such country provides under its law adequate and effective means for foreign nationals to secure, exercise, and enforce exclusive rights in intellectual property, including patent, trademark, and copyright rights;

* * * * * * *

Notwithstanding any other provision of law, the President may determine that a country is not providing adequate and effective protection of intellectual property rights under paragraph (9), even if the country is in compliance with the country's obligations under

the Agreement on Trade-Related Aspects of Intellectual Property Rights described in section 101(d)(15) of the Uruguay Round Agreements Act (19 U.S.C. 3511(d)(15)).

* * * * * * *

(e)(1)(A) The President may, after the requirements of subsection (a)(2) and paragraph (2) have been met—

【(A)】 *(i)* withdraw or suspend the designation of any country as a beneficiary country, or

【(B)】 *(ii)* withdraw, suspend, or limit the application of duty-free treatment under this subtitle to any article of any country,

if, after such designation, the President determines that as a result of changed circumstances such country 【would be barred from designation as a beneficiary country under subsection (b).】 *no longer satisfies one or more of the conditions for designation as a beneficiary country set forth in subsection (b) or such country fails adequately to meet one or more of the criteria set forth in subsection (c).*

(B) The President may, after the requirements of subsection (a)(2) and paragraph (2) have been met—

(i) withdraw or suspend the designation of any country as a CBTEA beneficiary country, or

(ii) withdraw, suspend, or limit the application of preferential treatment under section 213(b) (2) and (3) to any article of any country, if, after such designation, the President determines that as a result of changed circumstances, the performance of such country is not satisfactory under the criteria set forth in section 213(b)(5)(B).

(2)(A) The President shall publish in the Federal Register notice of the action the President proposes to take under paragraph (1) at least 30 days prior to taking such action.

(B) The United States Trade Representative shall, within the 30-day period beginning on the date on which the President publishes under subparagraph (A) notice of proposed action—

(i) accept written comments from the public regarding such proposed action,

(ii) hold a public hearing on such proposed action, and

(iii) publish in the Federal Register—

(I) notice of the time and place of such hearing prior to the hearing, and

(II) the time and place at which such written comments will be accepted.

(3) If preferential treatment under section 213(b) (2) and (3) is withdrawn, suspended, or limited with respect to a CBTEA beneficiary country, such country shall not be deemed to be a "party" for the purposes of applying section 213(b)(5)(C) to imports of articles for which preferential treatment has been withdrawn, suspended, or limited with respect to such country.

* * * * * * *

【(f) On or before October 1, 1993, and the close of each 3-year period thereafter, the President shall submit to the Congress a complete report regarding the operation of this title, including the results of a general review of beneficiary countries based on the considerations described in subsections (b) and (c).】

(f) Reporting Requirements.—

(1) In general.—Not later than December 31, 2001, and every 2 years thereafter during the period this title is in effect, the United States Trade Representative shall submit to Congress a report regarding the operation of this title, including—

(A) with respect to subsections (b) and (c), the results of a general review of beneficiary countries based on the considerations described in such subsections; and

(B) the performance of each beneficiary country or CBTEA beneficiary country, as the case may be, under the criteria set forth in section 213(b)(5)(B)(ii).

(2) Public comment.—Before submitting the report described in paragraph (1), the United States Trade Representative shall publish a notice in the Federal Register requesting public comments on whether beneficiary countries are meeting the criteria listed in section 213(b)(5)(B)(i), and on the performance of each beneficiary country or CBTEA beneficiary country, as the case may be, with respect to the criteria listed in section 213(b)(5(B)(ii).

SEC. 213. ELIGIBLE ARTICLES.

(a)(1) Unless otherwise excluded from eligibility by this title, and subject to section 423 of the Tax Reform Act of 1986, *and except as provided in subsection (b) (2) and (3)*, the duty-free treatment provided under this title shall apply to any article which is the growth, product, or manufacture of a beneficiary country if—

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

(B) the sum of (i) the cost or value of the materials produced in a beneficiary country or two or more beneficiary countries, plus (ii) the direct costs of processing operations performed in a beneficiary country or countries is not less than 35 per centum of the appraised value of such article at the time it is entered.

* * * * * * *

⟦(b) The duty-free treatment provided under this title shall not apply to—

⟦(1) textile and apparel articles which are subject to textile agreements;

⟦(2) footwear not designated at the time of the effective date of this title as eligible articles for the purpose of the generalized system of preferences under title V of the Trade Act of 1974;

⟦(3) tuna, prepared or preserved in any manner, in airtight containers;

⟦(4) petroleum, or any product derived from petroleum, provided for in headings 2709 and 2710 of the Harmonized Tariff Schedule of the United States;

⟦(5) watches and watch parts (including cases, bracelets and straps), of whatever type including, but not limited to, mechanical, quartz digital or quartz analog, if such watches or watch parts contain any material which is the product of any country with respect to which HTS column 2 rates of duty apply; or

[(6) articles to which reduced rates of duty apply under subsection (h).]

(b) IMPORT-SENSITIVE ARTICLES.—

(1) IN GENERAL.—Subject to paragraphs (2) through (5), the duty-free treatment provided under this title does not apply to—

(A) textile and apparel articles which were not eligible articles for purposes of this title on January 1, 1994, as this title was in effect on that date;

(B) footwear not designated at the time of the effective date of this title as eligible articles for the purpose of the generalized system of preferences under title V of the Trade Act of 1974;

(C) tuna, prepared or preserved in any manner, in airtight containers;

(D) petroleum, or any product derived from petroleum, provided for in headings 2709 and 2710 of the HTS;

(E) watches and watch parts (including cases, bracelets, and straps), of whatever type including, but not limited to, mechanical, quartz digital or quartz analog, if such watches or watch parts contain any material which is the product of any country with respect to which HTS column 2 rates of duty apply; or

(F) articles to which reduced rates of duty apply under subsection (h).

(2) TRANSITION PERIOD TREATMENT OF CERTAIN TEXTILE AND APPAREL ARTICLES.—

(A) PRODUCTS COVERED.—During the transition period, the preferential treatment described in subparagraph (B) shall apply to the following products:

(i) APPAREL ARTICLES ASSEMBLED IN A CBTEA BENEFICIARY COUNTRY.—Apparel articles assembled in a CBTEA beneficiary country from fabrics wholly formed and cut in the United States, from yarns wholly formed in the United States that are—

(I) entered under subheading 9802.00.80 of the HTS; or

(II) entered under chapter 61 or 62 of the HTS, if, after such assembly, the articles would have qualified for entry under subheading 9802.00.80 of the HTS but for the fact that the articles were subjected to stone-washing, enzyme-washing, acid washing, perma-pressing, oven-baking, bleaching, garment-dyeing, or other similar processes.

(ii) APPAREL ARTICLES CUT AND ASSEMBLED IN A CBTEA BENEFICIARY COUNTRY.—Apparel articles cut in a CBTEA beneficiary country from fabric wholly formed in the United States from yarns wholly formed in the United States, if such articles are assembled in such country with thread formed in the United States.

(iii) HANDLOOMED, HANDMADE, AND FOLKLORE ARTICLES.—A handloomed, handmade, or folklore article of a CBTEA beneficiary country identified under subparagraph (C) that is certified as such by the competent authority of such beneficiary country.

(iv) TEXTILE LUGGAGE.—

(I) assembled in a CBTEA beneficiary country from fabric wholly formed and cut in the United States, from yarns wholly formed in the United States, that is entered under subheading 9802.00.80 of the HTS; or

(II) assembled from fabric cut in a CBTEA beneficiary country from fabric wholly formed in the United States from yarns wholly formed in the United States, if such luggage is assembled in such country with thread formed in the United States.

(B) PREFERENTIAL TREATMENT.—Except as provided in subparagraph (E), during the transition period, the articles described in subparagraph (A) shall enter the United States free of duty and free of any quantitative limitations.

(C) HANDLOOMED, HANDMADE, AND FOLKLORE ARTICLES DEFINED.—For purposes of subparagraph (A)(iii), the President, after consultation with the CBTEA beneficiary country concerned, shall determine which, if any, particular textile and apparel goods of the country shall be treated as being handloomed, handmade, or folklore goods of a kind described in section 2.3 (a), (b), or 9c) or Appendix 3.1.B11 of the Annex.

(D) PENALTIES FOR TRANSSHIPMENTS.—

(i) PENALTIES FOR EXPORTERS.—If the President determines, based on sufficient evidence, that an exporter has engaged in transshipment with respect to textile or apparel products from a CBTEA beneficiary country, then the President shall deny all benefits under this title to such exporter, and any successor of such export, for a period of 2 years.

(ii) PENALTIES FOR COUNTRIES.—Whenever the President finds based on sufficient evidence, that transshipment has occurred, the President shall request that the CBTEA beneficiary country or countries through whose territory the transshipment has occurred take all necessary and appropriate actions to prevent such transshipment. If the President determines that a country is not taking such actions, the President shall reduce the quantities of textile and apparel articles that may be imported into the United States from such country by the quantity of the transshipped articles multiplied by 3.

(iii) TRANSSHIPMENT DESCRIBED.—Transshipment within the meaning of this subparagraph has occurred when preferential treatment for a textile or apparel article under subparagraph (B) has been claimed on the basis of material false information concerning the country of origin, manufacture, processing, or assembly of the article or any of its components. For purposes of this clause, false information is material if disclosure of the true information would mean or would have

meant that the article is or was ineligible for preferential treatment under subparagraph (B).

(E) BILATERAL EMERGENCY ACTIONS.—

(i) IN GENERAL.—The President may take bilateral emergency tariff actions of a kind described in section 4 of the Annex with respect to any apparel article imported from a CBTEA beneficiary country if the application of tariff treatment under subparagraph (B) to such article results in conditions that would be cause for the taking of such actions under such section 4 with respect to a like article described in the same 8-digit subheading of the HTS that is imported from Mexico.

(ii) RULES RELATING TO BILATERAL EMERGENCY ACTION.—For purposes of applying bilateral emergency action under this subparagraph—

(I) the requirements of paragraph (5) of section 4 of the Annex (relating to providing compensation) shall not apply;

(II) the term "transition period" in section 4 of the Annex shall have the meaning given that term in paragraph (5)(D) of this subsection; and

(III) the requirements to consult specified in section 4 of the Annex shall be treated as satisfied if the President requests consultations with the beneficiary country in question and the country does not agree to consult within the time period specified under section 4.

(3) TRANSITION PERIOD TREATMENT OF CERTAIN OTHER ARTICLES ORIGINATING IN BENEFICIARY COUNTRIES.—

(A) EQUIVALENT TARIFF TREATMENT.—

(i) IN GENERAL.—Subject to clause (ii), the tariff treatment accorded at any time during the transition period to any article referred to in any of subparagraphs (B) through (F) of paragraph (1) that originates in the territory of a CBTEA beneficiary country shall be identical to the tariff treatment that is accorded at such time under Annex 302.2 of the NAFTA to an article described in the same 8-digit subheading of the HTS that is a good of Mexico and is imported in to the United States.

(ii) EXCEPTION.—Clause (i) does not apply to any article accorded duty-free treatment under U.S. Note 2(b) to subchapter II of chapter 98 of the HTS.

(B) RELATIONSHIP TO SUBSECTION (h) DUTY REDUCTIONS.—If at any time during the transition period the rate of duty that would (but for action taken under subparagraph (A)(i) in regard to such period) apply with respect to any article under subsection (h) is a rate of duty that is lower than the rate of duty resulting from such action, then such lower rate of duty shall be applied for the purposes of implementing such action.

(4) CUSTOMS PROCEDURES.—

(A) IN GENERAL.—

(i) REGULATIONS.—Any importer that claims preferential treatment under paragraph (2) or (3) shall comply with customs procedures similar in all material respects to the requirements of Article 502(1) of the NAFTA as implemented pursuant to United States law, in accordance with regulations promulgated by the Secretary of the Treasury.

(ii) DETERMINATION.—

(I) IN GENERAL.—In order to quality for the preferential treatment under paragraph (2) or (3) and for a Certificate of Origin to be valid with respect to any article for which such treatment is claimed, there shall be in effect a determination by the President that each country described in subclause (II)—

(aa) has implemented and follows, or

(bb) is making substantial progress toward implementing and following,

procedure and requirements similar in all material respects to the relevant procedures and requirements under chapter 5 of the NAFTA.

(II) COUNTRY DESCRIBED.—A country is described in this subclause if it is a CBTEA beneficiary country—

(aa) from which the article is exported, or

(bb) in which materials used in the production of the article originate or in which the article or such materials undergo production that contributes to a claim that the article is eligible for preferential treatment.

(B) CERTIFICATE OF ORIGIN.—The Certificate of Origin that otherwise would be required pursuant to the provisions of subparagraph (A) shall not be required in the case of an article imported under paragraph (2) or (3) if such Certificate of Origin would not be required under Article 503 of the NAFTA (as implemented pursuant to United States law), if the article were imported from Mexico.

(5) DEFINITIONS AND SPECIAL RULES.—For purposes of this subsection—

(A) ANNEX.—The term "the Annex" means Annex 300–B of the NAFTA.

(B) CBTEA BENEFICIARY COUNTRY.—

(i) IN GENERAL.—The term "CBTEA beneficiary country" means any "beneficiary country", as defined by section 212a(1)(A) of this title, which the President determines has demonstrated a commitment to—

(I) undertake its obligations under the WTO on or ahead of schedule;

(II) participate in negotiations toward the completion of the FTAA or a comparable trade agreement; and

(III) undertake other steps necessary for that country to become a part to the FTAA or a comparable trade agreement.

(ii) CRITERIA FOR DETERMINATION.—In making the determination under clause (i), the President may consider the criteria in sections 212 (b) and (c) and other appropriate criteria, including—

(I) the extent to which the country follows accepted rules of international trade provided for under the agreements listed in section 101(d) of the Uruguay Round Agreements Act;

(II) the extent to which the country provides protection of intellectual property rights—

(aa) in accordance with standards established in the Agreement on Trade-Related Aspects of Intellectual Property Rights described in section 101(d)(15) of the Uruguay Round Agreements Act;

(bb) in accordance with standards established in chapter 17 of the NAFTA; and

(cc) by granting the holders of copyrights the ability to control the importation and sale of products that embody copyrighted works, extending the period set forth in Article 1711(6) of NAFTA for protecting test data for agricultural chemicals to 10 years, protecting trademarks regardless of their subsequent designation as geographic indications, and providing enforcement against the importation of infringing products at the border;

(III) the extent to which the country provides protections to investors and investments of the United States substantially equivalent to those set forth in chapter 11 of the NAFTA;

(IV) the extent to which the country provides the United States and other WTO members nondiscriminatory, equitable, and reasonable market access with respect to the products for which benefits are provided under paragraphs (2) and (3), and in other relevant product sectors as determined by the President;

(V) the extent to which the country provides internationally recognized worker rights, including—

(aa) the right of association,

(bb) the right to organize and bargain collectively,

(cc) prohibition on the use of any form of coerced or compulsory labor,

(dd) a minimum age for the employment of children, and

(ee) acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health;

(VI) whether the country has met the counternarcotics certification criteria set forth in section 490 of the Foreign Assistance Act of 1961 (22

U.S.C. 2291j) for eligibility for United States assistance;

(VII) the extent to which the country becomes a party to and implements the Inter-American Convention Against Corruption, and becomes party to a convention regarding the extradition of its nationals;

(VIII) the extent to which the country—

(aa) supports the multilateral and regional objectives of the United States with respect to government procurement, including the negotiation of government procurement provisions as part of the FTAA and conclusion of a WTO transparency agreement as provided in the declaration of the WTO Ministerial Conference held in Singapore on December 9 through 13, 1996, and

(bb) applies transparent and competitive procedures in government procurement equivalent to those contained in the WTO Agreement on Government Procurement (described in section 101(d)(17) of the Uruguay Round Agreements Act);

(IX) the extent to which the country follows the rules on customs valuation set forth in the WTO Agreement on Implementation of Article VII of the GATT 1994 (described in section 101(d)(8) of the Uruguay Round Agreements Act);

(X) the extent to which the country affords to products of the United States which the President determines to be of commercial importance to the United States with respect to such country, and on a nondiscriminatory basis to like products of other WTO members, tariff treatment that is no less favorable than the most favorable tariff treatment provided by the country to any other country pursuant to any free trade agreement to which such country is a party, other than the Central American Common Market or the Caribbean Community and Common Market.

(C) CBTEA ORIGINATING GOOD.—

(i) IN GENERAL.—The term "CBTEA originating good" means a good that meets the rules of origin for a good set forth in chapter 4 of the NAFTA as implemented pursuant to United States law.

(ii) APPLICATION OF CHAPTER 4.—In applying chapter 4 with respect to a CBTEA beneficiary country for purposes of this subsection—

(I) no country other than the United States and a CBTEA beneficiary country may be treated as being a party to the NAFTA;

(II) any reference to trade between the United States and Mexico shall be deemed to refer to trade

between the United States and a CBTEA beneficiary country;

(III) any reference to a party shall be deemed to refer to a CBTEA beneficiary country or the United States; and

(IV) any reference to parties shall be deemed to refer to any combination of CBTEA beneficiary countries or to the United States and a CBTEA beneficiary country (or any combination thereof).

(D) TRANSITION PERIOD.—The term "transition period" means, with respect to a CBTEA beneficiary country, the period that begins on October 1, 1999, and ends on the earlier of—

(i) December 31, 2004, or

(ii) the date on which the FTAA or a comparable trade agreement enters into force with respect to the United States and the CBTEA beneficiary country.

(E) CBTEA.—The term "CBTEA" means the United States-Caribbean Basin Trade Enhancement Act.

(F) FTAA.—The term "FTAA" means the Free Trade Area of the Americas.

SEC. 215. INTERNATIONAL TRADE COMMISSION REPORTS ON IMPACT OF THIS ACT.

[(a) The United States International Trade Commission (hereinafter in this section referred to as the "Commission") shall prepare, and submit to the Congress and to the President, a report regarding the economic impact of this Act on United States industries and consumers during—

[(1) the twenty-four-month period beginning with the date of enactment of this Act, and

[(2) each calendar year occurring thereafter until duty-free treatment under this title is terminated under section 216(b).
For purposes of this section, industries in the Commonwealth of Puerto Rico and the insular possessions of the United States shall be considered to be United States industries.]

(a) REPORTING REQUIREMENT.—

(1) IN GENERAL.—The United States International Trade Commission (in this section referred to a the "Commission") shall submit to Congress and the President biennial reports regarding the economic impact of this title on United States industries and consumers and on the economy of the beneficiary countries.

(2) FIRST REPORT.—The first report shall be submitted not later than September 30, 2001.

(3) TREATMENT OF PUERTO RICO, ETC.—For purposes of this section, industries in the Commonwealth of Puerto Rico and the insular possessions of the United States are considered to be United States industries.

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Andean Trade Preference Act

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SEC. 203. BENEFICIARY COUNTRY.—

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(f) [TRIENNIAL REPORT] *REPORT.*—[On or before the 3rd, 6th, and 9th anniversaries of the date of the enactment of this title] *Not later than March 31, 2000 and annually thereafter,* the President shall submit to the Congress a complete report regarding the operation of this title, including the results of a general review of beneficiary countries based on the considerations described in subsections (c) and (d). In reporting on the considerations described in subsection (d)(11), the President shall report any evidence that the crop eradication and crop substitution efforts of the beneficiary are directly related to the effects of this title.

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SEC. 206. INTERNATIONAL TRADE COMMISSION REPORTS ON IMPACT OF THE ANDEAN TRADE PREFERENCE ACT.

[(a) IN GENERAL.—The United States International Trade Commission (hereinafter in this section referred to as the "Commission") shall prepare, and submit to the Congress, a report regarding the economic impact of this title on United States industries and consumers, and, in conjunction with other agencies, the effectiveness of this title in promoting drug-related crop eradication and crop substitution efforts of the beneficiary countries, during—

[(1) and 24-month period beginning with the date of enactment of this title; and

[(2) each calendar year occurring thereafter until duty-free treatment under this title is terminated under section 208(b).

[For purposes of this section, industries in the Commonwealth of Puerto Rico and the insular possessions of the United States shall be considered to be United States industries.]

(a) REPORTING REQUIREMENTS.—

(1) IN GENERAL.—The United States International Trade Commission (in this section referred to as the "Commission") shall submit to Congress and the President biennial reports regarding the economic impact of this title on United States industries and consumers, and, in conjunction with other agencies, the effectiveness of this title in promoting drug-related crop eradication and crop substitution efforts of the beneficiary countries.

(2) SUBMISSION.—During the period that this title is in effect, the report required by paragraph (1) shall be submitted on December 31 of each year that the report required by section 215 of the Caribbean Basin Economic Recovery Act is not submitted.

(3) TREATMENT OF PUERTO RICO, ETC.—For purposes of this section industries in the Commonwealth of Puerto Rico and the insular possessions of the United States are considered to be United States industries.

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SEC. 7652. SHIPMENTS TO THE UNITED STATES.

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(f) LIMITATION ON COVER OVER OF TAX ON DISTILLED SPIRITS.—For purposes of this section, with respect to taxes imposed under section 5001 or this section on distilled spirits, the amount covered

into the treasuries of Puerto Rico and the Virgin Islands shall not exceed the lesser of the rate of—

(1) $10.50 ($11.30 in the case of distilled spirits brought into the United States during the 5-year period beginning on October 1, 1993), or.

(2) the tax imposed under section 5001(a)(1), on each proof gallon.

the preceding sentence shall not apply to articles that are tax-determined after June 30, 1999, and before October 1, 1999.

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INTERNAL REVENUE CODE OF 1986

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SEC. 453. INSTALLMENT METHOD.

[(a) GENERAL RULE.—Except as otherwise provided in this section, income from an installment sale shall be taken into account for purposes of this title under the installment method.]

(a) USE OF INSTALLMENT METHOD.—

(1) IN GENERAL.—Except as otherwise provided in this section, income from an installment sale shall be taken into account for purposes of this title under the installment method.

(2) ACCRUAL METHOD TAXPAYER.—The installment method shall not apply to income from an installment sale if such income would be reported under an accrual method of accounting without regard to this section. The preceding sentence shall not apply to a disposition described in subparagraph (A) or (B) of subsection (l)(2).

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(d) ELECTION OUT.—

(1) IN GENERAL.—Subsection [(a)] *(a)(1)* shall not apply to any disposition if the taxpayer elects to have subsection [(a)] *(a)(1)* not apply to such disposition.

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(i) RECOGNITION OF RECAPTURE INCOME IN YEAR OF DISPOSITION.—

(1) IN GENERAL.—In the case of any installment sale of property to which subsection [(a)] *(a)(1)* applies—

(A) notwithstanding subsection [(a)] *(a)(1)*, any recapture income shall be recognized in the year of the disposition, and

(B) any gain in excess of the recapture income shall be taken into account under the installment method.

* * * * * * *

(k) CURRENT INCLUSION IN CASE OF REVOLVING CREDIT PLANS, ETC.—In the case of—

(1) any disposition of personal property under a revolving credit plan, or

(2) any installment obligation arising out of a sale of—

(A) stock or securities which are traded on an established securities market, or

(B) to the extent provided in regulations, property (other than stock or securities) of a kind regularly traded on an established market,

subsection ⟦(a)⟧ *(a)(1)* shall not apply, and, for purposes of this title, all payments to be received shall be treated as received in the year of disposition. The Secretary may provide for the application of this subsection in whole or in part for transactions in which the rules of this subsection otherwise would be avoided through the use of related parties, pass-thru entities, or intermediaries.

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SEC. 453A. SPECIAL RULES FOR NONDEALERS.

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(d) PLEDGES, ETC., OF INSTALLMENT OBLIGATIONS.—(1) IN GENERAL.—For purposes of section 453, if any indebtedness (hereinafter in this subsection referred to as "secured indebtedness") is secured by an installment obligation to which this section applies, the net proceeds of the secured indebtedness shall be treated as a payment received on such installment obligation as of the later of—

* * * * * * *

(4) SECURED INDEBTEDNESS.—For purposes of this subsection indebtedness is secured by an installment obligation to the extent that payment of principal or interest on such indebtedness is directly secured (under the terms of the indebtedness or any underlying arrangements) by any interest in such installment obligation. *A payment shall be treated as directly secured by an interest in an installment obligation to the extent an arrangement allows the taxpayer to satisfy all or a portion of the indebtedness with the installment obligation.*

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