The Caribbean Basin Initiative

By Steven Hendrix

BECAUSE OF RECENT CHANGES TO THE "CARIbbean Basin Initiative," Wisconsin businesses may wish to reconsider whether they can use any of the CBI programs to extend their operations.

Last August, President Bush signed the Customs and Trade Act of 1990. This new law included the Caribbean Basin Economy Recovery Expansion Act of 1990 (CBI II). CBI II extends and expands original legislation passed in 1983. It is designed to promote the stability and diversification of the region's private sector.

As of November 1990, there are 24 countries approved for CBI treatment. They include: Antiqua, Barbuda, Aruba, the Bahamas, Barbados, Belize, the British Virgin Islands, Costa Rica, Dominica, the Dominican Republic, El Salvador, Grenada, Guatemala, Haiti, Honduras, Jamaica, Montserrat, the Netherland's Antillles, Nicaragua, Panama, St. Kitts-Nevis, St. Lucia, St. Vincent-Grenadines, Trinadad and Tobago. Nicaragua and Panama were the two countries most reectly added to the roster by President Bush.

Some of the more successful products of the CBI region are food production, footwear, apparel, electronic assembly handicrafts and wood products.

In short, CBI II has a broad range of programs. It is designed to expand foreign and domestic investment in Central America and the Caribbean Islands within "non-traditional" areas of the economy. Ideally, this investment will diversify the economies of the CBI countries and increase their ability to export.

There are several principle programs involved in CBI II: duty-free treatment of products, U.S. economic assistance, Caribbean Basin self-help efforts, U.S. tax deductions, multilateral assistance and other U.S. programs.

The original Recovery Act of 1983, provided duty-free status to many products. CBI countries have benefited from duty-free treatment for many of their exports to the U.S. With the new law, this treatment is in effect "in perpetuity."

Interestingly, however, unfair trading practices and potentially harmful or unsafe products are still subject to other applicable U.S. laws. Furthermore, some products eligible for preferential CBI treatment with customs are still subject to federal excise taxes. For example, many liquor products are subject to the excise tax. Finally, not all products are eligible for duty-free preference.

"Traditional" products often do not qualify for special duty-free treatment. Products subject to normal customs duty include textiles and apparel, watches, luggage and handbags, footwear, canned tuna and petroleum. The Customs Service gives entrance of sugar, veal, beef and ethanol duty-free treatment only if special conditions are met.

Besides the above exclusions, the Customs Service uses two general rules to qualify products for duty-free treatment. The first consideration is the so-called "value-added rule." The second rule requires a "substantial transformation" of the product.

The "value added rule" contends that to be eligible for duty-free treatment the product must be produced, grown or manufactured in one or more CBI-approved country. For products less than 100 percent produced in a CBI country, special rules then apply. In most instances, the value-added in a CBI country must be no less than 35 percent of the value or cost of processing.

As for "substantial transformation" of the product, problems arise when a company creates a product from material brought in from a country not included in CBI legislation. Then, the final product must be "new and different" from the non-CBI materials used in its creation. Customs considers a product as new and different only if there has been a substantial transformation of the material into a new product.

U.S. COMPANIES INTERESTED IN THE CBI SHOULD start their trade in quiry with the U.S. Commerce Department. The Commerce Department employs trade specialists to help U.S. investments and imports from CBI countries. Individual country desk officers are available in the Caribbean Basin Division. For less specialized information, firms may wish to contact the Department's Latin American/Caribbean Business Development Center.

One attractive element of CBI legislation is the effective elimination of restrictions to U.S. government procurement from CBI countries. Companies in CBI countries now have basically the same ability to sell to the U.S. governement as domestic suppliers. If duty-free treatment is available for goods, the companies can compete with their U.S. counterparts. All of this makes CBI countries a more attractive location for basing foreign operations of U.S. companies, while also boosting investment.

The Export-Import Bank of the U.S. (Eximbank) provides U.S. exporters with financing for sales to Caribbean based buyers. Eximbank makes this financing available through insurance, commercial credits and commercial guarantees. For additional information, exporters should contact Eximbank's Latin American Division, or their commercial bank.

U.S. investment in the Caribbean countries is promoted by the Overseas Private Investment Corporation (OPIC). OPIC helps investors by offering political risks insurance and by financing U.S. investments by offering direct loans or loan guarantees to investors. The Corporation also helps organize investment missions and works as an investment information source.

The U.S. Agriculture Department offers research and technical information on agricultural products, markets, economic analysis and information of import regulations.

Other countries in addition to the United States have helpedCBI countries develop trade. The leader, Canada, has both introduced trade development and economic assistance to the Caribbean region. Canada also has provisions allowing for duty-free treatment of qualifying goods.

Business prospect in the Caribbean Basin are looking up. Traditionally, U.S. companies have had their greatest success using CBI programs in industries that are labor intensive. Both skilled and unskilled labor abound with plenty of people ready to start work.

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