CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

September 28, 2010

H.R. 2378
Currency Reform for Fair Trade Act

As ordered reported by the House Committee on Ways and Means on September 24, 2010

SUMMARY

H.R. 2378 would expand the definition of countervailing subsidies—financial benefits granted by governments to certain domestic exporting firms—that could trigger the imposition of additional import tariffs under current U.S. countervailing duty law. This bill would add to the list of such subsidies the benefit enjoyed by a firm exporting from a country with a “fundamentally undervalued” currency. The bill specifies the mechanisms for determining the size of this subsidy and for identifying a fundamentally undervalued currency. The bill would also provide that export subsidies by such countries could not be disregarded for purposes of assessing countervailing duties solely because the subsidy is also provided to non-exporters.

Because enacting H.R. 2378 would increase customs duties and thus federal revenues, pay-as-you-go procedures apply. CBO estimates those additional revenues would total $125 million over the 2011-2020 period. Enacting H.R. 2378 would not affect direct spending.

Based on information from the International Trade Administration (ITA) and the International Trade Commission (ITC), the two agencies that determine whether countervailing duties should be levied, CBO estimates that implementing H.R. 2378 would cost $41 million over the 2011-2015 period, assuming appropriation of the necessary amounts.

H.R. 2378 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

The bill would impose a private-sector mandate, as defined in UMRA, on importers of goods that would be subject to higher tariffs imposed under the bill. The cost of the mandate would depend on the number and value of imports affected and the increase in the tariff rate. Based on information from ITC, ITA, and industry sources, CBO estimates that the cost of the mandate would fall below the annual threshold established in the Unfunded Mandates Reform Act for private-sector mandates ($141 million in 2010, adjusted annually for inflation) during each of the first five years that the mandate would be in effect.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 2378 is shown in the following table. This legislation's effects on federal spending fall within budget function 150 (international affairs) and 370 (commerce and housing credit).

	By Fiscal Year, in Millions of Dollars											
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2011-2015	2011-2020
CHANGES IN REVENUES												
Estimated Revenues	0	5	15	15	20	20	15	15	10	10	55	125
CHANGES IN SPENDING SUBJECT TO APPROPRIATION												
Estimated Authorization Level	8	8	8	9	9	9	9	10	11	11	42	93
Estimated Outlays	7	8	8	9	9	9	9	10	11	11	41	92

BASIS OF ESTIMATE

For this estimate, CBO assumes that the bill will be enacted late in calendar year 2010.

Revenues

Under current law, if ITA identifies that a countervailing subsidy has been conferred on certain goods, and if ITC determines that a U.S. industry has been materially injured by that subsidy, countervailing duties—additional import tariffs—are imposed on those goods. In the past few years, no such duties have been collected as a result of successful petitions alleging that countervailing subsidies were conferred on products that were exported from countries likely to meet the definition of having a "fundamentally undervalued currency” as defined in the bill. However, H.R. 2378 would expand the set of actionable subsidies under current law and would stipulate that export subsidies from countries with fundamentally undervalued currencies would be actionable even if also provided to non-exporters; thus, the bill would likely increase the amount of countervailing duties applied.

Based on information provided by ITC, ITA, and industry experts, CBO estimates that a small share of imports from countries with undervalued currencies would be found to cause such material injury to domestic firms; therefore, enacting H.R. 2378 would lead to an increase of $125 million in federal revenues (net of income and payroll tax offsets) over the 2011-2020 period. CBO expects that countervailing duties would increase to an amount that would make them smaller than existing antidumping duties applied to countries potentially having undervalued currencies as defined by the bill.

The estimated revenue effect is lower than it would otherwise be in part because the bill does not affect the determination of material injury to a U.S. industry. In addition, many imports do not injure domestic firms because there are no competitors currently operating in the United States. Finally, a projected decline in the value of the U.S. dollar would also reduce any potential revenues. The estimate is subject to considerable uncertainty with respect to how the provisions would be implemented and the relative values of various currencies.

Spending Subject to Appropriation

Based on information from both ITA and ITC, CBO estimates that implementing H.R. 2378 would cost $41 million over the 2011-2015 period, assuming appropriation of the necessary amounts, for salaries, benefits, and administrative expenses to hire 36 additional staff at ITA and for additional administrative activities at ITC to conduct investigations under the new requirements. The number of countervailing duty petitions that could arise under the bill is very uncertain, and the agencies’ administrative costs could be higher if the volume of cases increased significantly.

PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget reporting and enforcement procedures for legislation affecting direct spending or revenues. CBO estimates that enacting H.R. 2378 would increase revenues and would not affect direct spending.

The changes in revenues that are subject to pay-as-you go procedures are shown in the following table.

CBO Estimate of Pay-As-You-Go Act Effects for H.R. 2378, the Currency Reform for Fair Trade Act, as Ordered Reported by the House Committee on Ways and Means on September 24, 2010

	By Fiscal Year, in Millions of Dollars												
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2010-2015	2010-2020
	NET INCREASE OR DECREASE (-) IN THE DEFICIT												
Statutory Pay-As-You Go Impact	0	0	-5	-15	-15	-20	-20	-15	-15	-10	-10	-55	-125

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 2378 contains no intergovernmental mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

The bill would impose a private-sector mandate, as defined in UMRA, on importers of goods that would be subject to higher tariffs imposed under the bill. The cost of the mandate would depend on the number and value of imports affected and the increase in the tariff rate. Based on information from ITC, ITA, and industry sources, CBO estimates that the cost of the mandate would fall below the annual threshold established in the Unfunded Mandates Reform Act for private-sector mandates ($141 million in 2010, adjusted annually for inflation) during each of the first five years that the mandate would be in effect.

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