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CRS Report for Congress

Haiti: Legislative Responses to the Food Crisis and Related Development Challenges

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Summary

Haiti faces several interrelated challenges, the most immediate being a deepening food crisis that in April 2008 led to deadly protests and the ouster of Haiti's prime minister. Haiti also suffers from a legacy of poverty, unemployment, and under-development that is compounding security problems for its new and fragile democracy. On May 23, 2008, the Bush Administration announced that it would send an additional $25 million in emergency food aid to Haiti, bringing its total emergency contribution to $45 million. In late June 2008, Congress appropriated $1.2 billion in FY2008 and FY2009 supplemental assistance for P.L. 480 food aid in the FY2008 Supplemental Appropriations Act, H.R. 2642 (P.L. 110-252). Haiti is one of ten priority countries likely to receive a portion of that assistance. In June 2008, the House and Senate also passed the Food, Conservation, and Energy Act of 2008 (H.R. 6124/P.L. 110-246), the Farm Bill. Title XV includes the Haitian Hemispheric Opportunity through Partnership Encouragement (HOPE) Act of 2008, which provides tariff preferences for U.S. imports of Haitian apparel. This report, which may be updated, follows the current situation in Haiti and key legislative initiatives designed to help address Haiti's many challenges.

Background

Haiti has had a long, difficult history highlighted by prolonged poverty, political instability, and underdevelopment resulting in a politically fragile state with the lowest standard of living in the Western Hemisphere.[1] With the assistance of the United Nations Stabilization Mission in Haiti (MINUSTAH) and large amounts of international aid, Haiti has been attempting to establish a foundation for longer-term economic development. Security issues have presented the primary risk to stability, while restoring economic growth, investment, employment, and access to basic social services have been the major and equally formidable challenges to sustainable development.

Since assuming his second non-consecutive term of office in May 2006, President René Préval has emphasized the importance of rebuilding democratic institutions and

[1] For a summary of Haiti's recent history, see CRS Report RL32294, *Haiti: Developments and U.S. Policy Since 1991 and Current Congressional Concerns*.

establishing conditions for private investment to create jobs. The success of his government will depend largely on its ability to improve security and socioeconomic conditions in Haiti, a country in which 76% of the population lives on less than $2 a day. During his first two years in office, security conditions have improved, but Haitians have seen their already substandard living conditions deteriorate further with the rise in global food prices. In a country where more than half of the working age population is unemployed, even many of those who have jobs do not earn enough to provide their families with more than one meal a day.

Steeply rising food prices and resulting riots in Haiti have been a catalyst for Administration and congressional action. The 110th Congress is responding directly to Haiti's immediate food needs, but has also taken the opportunity to advance legislation on other fronts it deems critical for Haiti's longer term development. In April 2008, the House unanimously passed an amendment to the Jubilee Act (H.Amdt. 993 to H.R. 2634) that recommends immediate cancellation of Haiti's outstanding multilateral debts. In June 2008, the House and Senate passed the Food, Conservation, and Energy Act of 2008 (H.R. 6124/P.L. 110-246), the Farm Bill. Title XV includes the Haitian Hemispheric Opportunity through Partnership Encouragement (HOPE) Act of 2008, which gives tariff preferences to U.S. imports of Haitian apparel. In late June 2008, Congress amended the Mérida Initiative, an aid package for Mexico and Central America that was part of the FY2008 Supplemental Appropriations Act, H.R. 2642 (P.L. 110-252), to include counternarcotics funds for Haiti.[2] Some Members of Congress have also urged the Administration to grant temporary protected status (TPS) for Haitian immigrants living in the United States (H.R. 522). Collectively, these efforts form the basis for a multifaceted congressional response to Haiti's stability and development challenges.

Haiti's Food Crisis

Rising food prices are having economic and political effects around the world, but especially among poor people in low-income developing countries like Haiti.[3] Prices for basic food commodities in Haiti, the vast majority of which are imported, have risen by an average of 30-40% over the last year. In early April 2008, weeks of protests against rising food prices turned violent, with at least six people killed, including one U.N. peacekeeper. Haitians were reportedly frustrated by the Préval government's lack of action and protests continued until the President announced a plan to partially subsidize the cost of rice. On April 12, Haiti's Prime Minister resigned after the Haitian Parliament accused him of mishandling the government's response to the food crisis.

Since then, the Haitian Parliament has rejected two Préval nominees for Prime Minister on technical grounds, but these failures may point to deeper concerns over the current administration's capacity to govern. With a less than full functioning government, lingering unrest could reignite, further destabilizing the country. Some observers have warned that, should conditions not improve, supporters of ousted President Jean Bertrand

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[2] See CRS Report RS22837, *Merida Initiative: Proposed U.S. Anticrime and Counterdrug Assistance for Mexico and Central America*.

[3] For more information on the effects of rising food prices, see CRS Report RL34478, *Rising Food Prices and Global Food Needs: the U.S. Response*, by Charles E. Hanrahan.

Aristide may push for his return.[4] Aristide's last government (2001-2004) was marred by tension and violence, and his departure from office led to the introduction of U.N. forces to stabilize the country's security situation.

To overcome the current crisis, observers maintain that President Préval will have to solidify his governing coalition, a formidable task, and secure significant support from the international community. The World Bank is providing $10 million in grant funding, and the IDB is reportedly providing a $24.5 million grant to Haiti. Emergency assistance from individual donor countries has increased significantly in recent weeks, particularly since the U.S. and Canadian governments announced major pledges to the World Food Program (WFP) for its efforts in Haiti. The WFP has received 49% of the support estimated to be needed over the next two years to support the Haitian government's efforts to strengthen social safety nets and create food price stabilization programs.[5]

Administration Response. The Bush Administration initially responded to the food crisis in Haiti by redirecting $6.5 million in development assistance funds to support President Préval's plan to subsidize the cost of rice ($1 million) and to create short-term employment programs ($5.5 million). Haiti had already been allocated a regular appropriation of approximately $234 million in U.S. assistance in FY2008, including some $34 million in P.L. 480 Title II food aid.[6] The FY2009 request for Haiti was for roughly $246 million, including $35.5 million in P.L. 480 food assistance. On April 14, 2008, President Bush directed the Secretary of Agriculture to draw down the Bill Emerson Humanitarian Trust by $200 million to help meet global emergency food needs.[7] USAID has indicated that it will use that $200 million worth of commodities plus an additional $40 million in emergency P.L. 480 Title II food aid to assist 10 priority countries in FY2008, including Haiti. The food aid will be distributed by the WFP and private voluntary organizations. On May 16, 2008, USAID announced that it would provide $20 million worth of emergency food aid to Haiti, and on May 23, 2008, USAID pledged an additional $25 million to support the WFP's programs in Haiti.[8]

Congressional Emergency Food Aid Response. In late June 2008, Congress appropriated $1.2 billion in FY2008 and FY2009 supplemental assistance for P.L. 480 food aid in the FY2008 Supplemental Appropriations Act, H.R. 2642 (P.L. 110-252). Members from both the House and Senate have asked the Administration to provide Haiti with no less than $60 million in emergency supplemental food assistance. The additional

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[4] "Haiti Politics, On a Knife's Edge," *Economist Intelligence Unit*, April 15, 2008; "Hungry for Change in Haiti," *Christian Science Monitor*, April 22, 2008.

[5] Nicole Gaouette, "Emergency Funding For Latin America Announced," *Los Angeles Times*, May 28, 2008; World Food Program, "Haiti Financial Resource Status," June 2, 2008.

[6] P.L. 480 Title II authorizes the U.S. Agency for International Development (USAID) to distribute U.S. agricultural commodities for emergency relief and for use in development programs.

[7] The Bill Emerson Humanitarian Trust is a reserve of commodities and cash authorized under P.L. 105-385 that can be used to meet unanticipated humanitarian food aid needs in developing countries or when U.S. domestic supplies run short.

[8] USAID Press Release, " USAID Announces Additional Emergency Food Assistance for Haiti," May 23, 2008.

food aid could be used to support the Préval government's effort to subsidize the cost of rice and WFP programs in Haiti, including communal kitchens and school feeding programs. Haiti, however, will have to compete for food aid allocations with other larger countries that also have pressing needs, such as Afghanistan and Sudan.

While responding to Haiti's emergency food needs is the immediate priority, some advocates have urged Congress to consider funding programs to promote agricultural development in Haiti as a long-term solution to the country's food insecurity. They have recommended U.S. support for new initiatives aimed at diversifying food production and supporting agricultural, conservation, and infrastructure projects.[9] Many analysts also point to the large Haitian diaspora as a possible avenue to promote rural development projects, possibly through short-term consultancies with the Haitian government.

The HOPE Act: Trade Preferences for Export Promotion

To assist Haiti with rebuilding its economy by encouraging investment and job creation in the once vibrant apparel sector, the 109th Congress passed the Haitian Hemispheric Opportunity through Partnership Encouragement (HOPE) Act in December 2006 (P.L. 109-432). The act provided duty-free treatment for select apparel imports from Haiti that are made in part from less expensive third country (e.g. Asian) yarns and fabrics, provided Haiti meets eligibility criteria related to labor, human rights, and anti-terrorism policies. To enhance the effectiveness of these provisions, the 110th Congress expanded them in June 2008 when it passed the Food, Conservation, and Energy Act of 2008 (H.R. 6124/P.L. 110-246) — the Farm Bill, Title XV of which includes the Haitian Hemispheric Opportunity through Partnership Encouragement (HOPE) Act of 2008 (HOPE II Act).

Support for the duty preferences recognizes the dominant role of the U.S. market as the main destination for Haitian apparel exports. Apparel assembly is also Haiti's core export sector and essential for its economic well-being because it generates up to 80% of the country's foreign exchange used to finance Haiti's large food import bill, among other needs. In 2007, apparel constituted over 80% of Haiti's total exports and 93% of exports to the United States (81% knit, 12% woven articles), so the sector provides one potential avenue for employment growth. The preferences also support textile firms in the Dominican Republic, which have an expanding co-production arrangement with Haiti.

The HOPE Acts differ from other trade arrangements with the Caribbean that emphasize apparel benefits. Unlike apparel provisions in the Caribbean Basin Trade Partnership Act (CBTPA), of which Haiti is a beneficiary country, and the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR), which does not include Haiti, those in the HOPE Acts permit duty-free treatment for apparel imports in limited quantities (known as tariff preference levels — TPLs) assembled or knit-to-shape in Haiti with inputs from *third-party* countries, or those outside the region that are not in a trade arrangement or agreement with the United States. The competitive advantage to Haitian firms derives from their ability to use less expensive Asian inputs and still receive duty-free treatment. To the extent that this advantage is in place for an

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[9] "Deforestation and Failing Agricultural Production in Haiti," Interview with Dr. Robert Maguire, Chicago Public Radio, April 28, 2008.

extended period of time, it is intended to encourage increased investment in the apparel assembly business in Haiti, contributing to growth in output, employment, and exports.

The HOPE I Act provided three major tariff preferences for limited amounts of articles imported *directly* from Haiti: (1) quotas for the duty-free treatment of apparel articles that meet the regional value-added content rule (50% rising to 60%), effectively allowing the remaining portion of inputs to be sourced from outside the region; (2) tariff preference levels for woven articles, or additional quotas for duty-free treatment of a limited amount of woven apparel that cannot meet the 50%-60% value-added rule (allowing all inputs for these articles to be sourced from anywhere in the world); and (3) a single transformation rule of origin that allows for duty-free treatment of brassieres made from components sourced anywhere in the world, provided the garments are cut and sewn or otherwise assembled completely in Haiti, the United States, or both.

The HOPE I Act, however, did not result in dramatic growth in Haitian textile exports to the United States, inhibited by the limited time frame and complicated rules of origin. Further, U.S. textile producers objected to the TPLs, contending that because they permit use of third-party fabrics and other inputs, they effectively displace jobs in the United States and the Caribbean with those in Asia. As an alternative, the industry suggested allowing TPLs only for goods no longer produced in the Western Hemisphere. U.S. textile producers also found the rules of origin to be vague and difficult to enforce, and raised concern that the tariff preferences could divert apparel production to Haiti from countries in the region that are partners to U.S. reciprocal trade agreements.

Proponents of the HOPE II responded that it would clarify rules of origin and simplify other implementation problems. They further argued that the preferences are quantitatively limited, apply to a very small portion of U.S. apparel imports, and are in place for only a specified period of time, presenting little threat to larger U.S. and regional textile producers. Support for enhancements in the HOPE II Act rested on arguments that these benefits outweighed potential costs and therefore would be a constructive part of an ongoing multifaceted response to Haiti's development needs.

The HOPE II Act enhances the tariff preferences by extending them for 10 years through September 30, 2018, making the rules more flexible and simpler, and expanding duty free treatment for U.S. apparel imports wholly assembled or knit-to-shape in Haiti. Specifically, HOPE II: (1) maintains the value-added rule in HOPE I, freezing the cap on total apparel imports and keeping the original five-year sunset provision because the rule was little used and is highly complicated; (2) increases the cap for select woven apparel imports; (3) provides a new cap for select imports of knit apparel, with significant exclusions; (4) adds a new uncapped "3 for 1" earned import allowance (EIA) that allows duty-free treatment of imports made from qualifying inputs (e.g. fabrics made from U.S. or countries a party to U.S. trade agreements) and articles made from non-qualifying inputs (e.g. from Asian fabrics) in a 3 for 1 ratio; (5) includes a new uncapped benefit for apparel using non-U.S. fabrics deemed to be in "short supply," (6) expands the single transformation rule from brassieres to apparel articles covered under CAFTA-DR, headgear, and select sleepwear, luggage, and handbags; and, (7) allows for direct shipment of apparel articles sent from Haiti to the Dominican Republic for finishing, reducing transportation costs and lead times incurred under the HOPE I requirement that articles be returned to Haiti for direct shipment to the United States. HOPE II also requires that Haiti create a new apparel sector monitoring program (Labor Ombudsman) to ensure compliance with core labor standards.

Debt Relief

Some Members of Congress also pushed to provide immediate debt relief to Haiti to help the Préval government free up limited fiscal resources to address the food crisis. According to the Haitian Central Bank, Haiti's foreign public debt totals roughly $1.7 billion, a large portion of which is owed to multilateral institutions such as the World Bank, IDB, and International Monetary Fund (IMF). A March 2008 IMF report projects that the Haitian government will make debt service payments of roughly $71.7 million in 2008.[10] On April 16, 2008, the House unanimously passed an amendment to the Jubilee Act (H.Amdt. 993 to H.R. 2634) that recommends immediate cancellation of Haiti's outstanding debts to the international financial institutions. A companion bill (S. 2166) has been introduced in the Senate. Hearings were held, but the bill is still in committee. The Jubilee Act seeks to change multilateral lending practices and cancel debt for many low-income countries.

Critics charge that providing immediate cancellation of Haiti's debt is probably unnecessary because Haiti is already advancing through the Heavily Indebted Poor Countries (HIPC) debt relief process. They assert that Haiti, similar to other heavily indebted countries, should be encouraged to adopt sound reforms and policy changes that will (hopefully) help it avoid future excessive indebtedness. Providing Haiti with unconditional debt relief, they argue, would encourage the Haitian government to increase borrowing. In November 2007, the Haitian government published a Poverty Reduction Strategy in line with IMF and World Bank recommendations. Many observers had predicted that Haiti would be able to meet the so-called "completion point" required for debt relief by late 2008 or early 2009, but the current crisis could delay this outcome.

Proponents counter that given Haiti's immediate food crisis, the Secretary of the Treasury should urge the multilateral donors to cancel Haiti's foreign debt immediately because Haitian public finances could be better used to subsidize food purchases that are desperately needed right away. Immediate assistance would also accelerate debt relief anticipated under the HIPC program, but which may not be forthcoming soon because Haiti is unlikely to meet the remaining conditions for debt relief in the near future.

[10] International Monetary Fund, "Haiti: Country Report No.08/117," March 2008.