



## 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 underdevelopment that is compounding security problems for its new and fragile democracy. The Bush Administration has responded by redirecting some development assistance to help the Haitian government stabilize rice prices and to support job creation programs. On May 16, 2008, the Administration announced that it would send \$20 million worth of emergency food to Haiti. The 110<sup>th</sup> Congress is also considering supplemental appropriations for food aid and increasing debt relief for Haiti. Specifically, 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 May 2008, the House and Senate also passed the Food, Conservation, and Energy Act of 2008 (H.R. 2419), 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 will 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.<sup>1</sup> 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.

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

Since assuming his second non-consecutive term of office in May 2006, President René Préval has emphasized the importance of rebuilding democratic institutions and 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 110<sup>th</sup> 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 May 2008, the House and Senate passed the Food, Conservation, and Energy Act of 2008 (H.R. 2419), 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. Some Members also have urged the Administration to grant temporary protected status (TPS) for Haitian immigrants living in the United States through legislation (H.R. 522) and letters to the President. Others would also like to see more counternarcotics assistance in response to any initiatives that traffickers may contemplate to take advantage of Haiti's current instability. Collectively, these and other possible assistance 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.<sup>2</sup> 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. Préval nominated Ericq Pierre, a Haitian economist with the Inter-American Development Bank (IDB), as Prime Minister, but he was rejected by the Parliament. Préval may have a difficult time finding another nominee for the post and lingering unrest could easily ignite again and further destabilize the Préval government. Some have warned that, should conditions not improve, supporters of ousted President Jean Bertrand Aristide may push

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<sup>2</sup> 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.

for his return.<sup>3</sup> 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. Emergency assistance from the international community, though increasing, reportedly is still insufficient. The World Bank is providing \$10 million in grant funding, the IDB \$12.5 million, and several donor countries have made additional pledges. However, as of late April, the World Food Program (WFP), the food agency of the United Nations, had reportedly received only 24% 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.<sup>4</sup>

**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 has 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.<sup>5</sup> The FY2009 regular 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.<sup>6</sup> 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 ten 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 another \$20 million worth of emergency food aid to Haiti. Some 38,000 tons of food will be shipped to Haiti, estimated to be enough to feed approximately 760,000 people for three months.<sup>7</sup>

**Congressional Emergency Food Aid Response.** Congress is currently considering the Administration's request for a \$350 million FY2008 supplemental appropriation and a \$770 million FY2009 supplemental appropriation for food aid. The May 15, 2008, House-amended version of the FY2008 Supplemental Appropriations Act, H.R. 2642, would make \$1.86 billion in P.L. 489 food aid available in FY2008 and FY2009. Members from both the House and Senate have asked the Administration to

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<sup>3</sup> "Haiti Politics, On a Knife's Edge," *Economist Intelligence Unit*, April 15, 2008; "Hungry for Change in Haiti," *Christian Science Monitor*, April 22, 2008.

<sup>4</sup> World Food Program, "Haiti Financial Resource Status," April 29, 2008.

<sup>5</sup> 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.

<sup>6</sup> 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 aids in developing countries or when U.S. domestic supplies run short.

<sup>7</sup> USAID To Ship \$20 million in Food Aid to Haiti, *Miami Herald*, May 16, 2008.

provide Haiti with no less than \$60 million in emergency supplemental food assistance. The additional 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 experts and 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.<sup>8</sup> 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 109<sup>th</sup> Congress passed the Haitian Hemispheric Opportunity through Partnership Encouragement (HOPE) Act in December 2006 (P.L. 109-432). The act provides 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 110<sup>th</sup> Congress expanded them in May 2008, when it passed the Food, Conservation, and Energy Act of 2008 (H.R. 2419) – the Farm Bill, Title XV of which includes the Haitian Hemispheric Opportunity through Partnership Encouragement (HOPE) Act of 2008 (HOPE II Act).

The HOPE II Act builds on HOPE I, recognizing that apparel assembly is Haiti's core export sector and essential for its economic well-being because it generates 75%-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 rationale for emphasizing tariff preferences among other policy options is based on the importance attached to rejuvenating the apparel sector, and the dominant role of the U.S. market for Haiti's apparel exports. The HOPE II Act also supports textile and apparel firms in the Dominican Republic, which have an extensive co-production arrangement with Haiti.

The HOPE II Act differs 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 II Act 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

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<sup>8</sup> "Deforestation and Failing Agricultural Production in Haiti," Interview with Dr. Robert Maguire, Chicago Public Radio, April 28, 2008.

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 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.

Congress passed both HOPE Acts with broad support, but domestic textile producers objected to the TPLs, contending that because the HOPE Acts permit use of third-party fabrics and other inputs, the policy amounts to displacing jobs in the United States and the Caribbean by 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 that are partners to U.S. reciprocal trade agreements, such as CAFTA-DR and NAFTA.

Proponents of the HOPE tariff preferences responded that they apply to a very small portion of U.S. apparel imports and are in place for only a limited period of time, presenting little threat to larger U.S. and regional textile producers. They further argued that rules of origin and other implementation issues can be clarified. Support for enhancements in the HOPE II Act rested on arguments that these benefits outweighed potential costs and therefore should be approved as part of an ongoing multifaceted response to Haiti's need for food aid, financial development assistance, and other international aid.

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 U.S. textile imports from Haiti, inhibited by the limited time frame and complicated rules of origin. 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, expanding existing benefits, and adding new ones. The major features of HOPE II would provide greater duty-free treatment than HOPE I for certain U.S. apparel imports wholly assembled or knit-to-shape in Haiti.

In brief, 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 would also require 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.<sup>9</sup> 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.

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<sup>9</sup> International Monetary Fund, “Haiti: Country Report No.08/117,” March 2008.