The U.S. Generalized System of Preferences Program:

An Update

Prepared for

The Coalition for GSP

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Executive Summary

- The U.S. Generalized System of Preferences (GSP) program is part of an effort of the United States and 19 other industrialized countries to promote development abroad through trade, rather than aid. For nearly 30 years, GSP has provided benefits — zero duties applied to certain imports into the United States — to a specific list of developing countries, provided they protect the rights of their workers, protect intellectual property rights, and provide U.S. exporters access to their markets, among other criteria.

- In 2002, Congress passed the Trade Act of 2002, which included a five-year renewal of GSP, made retroactive to the program's September 30, 2001 expiration date. This is the longest renewal the program has seen in nearly 17 years. The long renewal term has contributed to an increase in the utilization of GSP.

- The GSP program is an integral part of the U.S. economy. Duty-free imports under GSP save consumers of a broad range of products — from flashlights to cheese— millions of dollars annually. The program also functions as a tool to promote U.S. exports to developing countries. GSP supports U.S. jobs in a wide variety of industries that depend on imported and unfinished goods.

- Numerous small businesses owe their continued competitiveness to the GSP program. The duty savings afforded by GSP for these companies may appear modest, but in many cases the savings make the difference between profitability and survival in tough markets.

- Congress must renew the program before its December 31, 2006 expiration date. The longest possible renewal will ensure future success of the program. GSP enjoys wide support from a large number of groups—Republicans, Democrats, Congress, the Administration, even labor unions. These groups must all work together to ensure a seamless renewal of the program.

I. Introduction: A Cycle of Renewals

In its 30-year history, Congress has renewed the U.S. Generalized System of Preferences (GSP) program a total of eight times. However, seven of those eight renewals occurred during the last 11 years of the program's existence.

Prior to the current five-year renewal of GSP, the stop-and-start nature of the program was a source of frustration to all concerned: the Administration, Congress, developing countries, and to U.S. businesses.

Long renewal periods maximize the program's effectiveness on developing countries and its benefits to U.S. companies.

- The Administration had difficulty running a program that frequently expired in mid-year and was extended for a period usually less than 15 months. The retroactive refund of duties deposited, with interest, was costly to the U.S. Customs Service.

- The frequent expiration of the program forced Congress to set aside other important business to take up GSP renewal. Furthermore, Congressional leadership struggled to find the appropriate legislative vehicle on which to carry GSP renewal without exposing it to controversial amendments that would threaten its passage.

- When Congress allowed the GSP program to expire, American businesses were forced to guess at appropriate pricing for products that became subject to duties when imported. Also significant was the need for U.S. companies importing otherwise duty-free goods under GSP to pay the duties during periods when the program expired, and subsequently wait for Congress to renew the program retroactively to the date it last expired to get those duties refunded.

- In an environment of frequent expirations, developing countries found it difficult to attract investment and trade with a vague "promise" that duty-free treatment for their products might be forthcoming from the United States if and when GSP was renewed.

As a result, usage of the program declined during this period. From 1994 to 2001, U.S. imports under GSP declined an average 2.2 percent annually. However, since the current five-year renewal, U.S. imports from GSP beneficiary countries have increased an average 13.2 percent annually.

GSP's Legislative Journeys

Action	Term	Legislative Vehicle
• Enacted	10 years, 1/3/75-1/3/85	Trade Act of 1974
• Renewed	8.5 years, 1/4/85-7/3/93	Trade and Tariff Act of 1984
(Expiration period of just over one month)		
• Renewed*	15 months, 7/4/93-9/30/94	FY 94 Budget Reconciliation Act
(Expiration period of just over two months)		
• Renewed*	10 months, 10/1/94-7/31/95	Uruguay Round Agreements Act
(Expiration period of 15 months)		
• Renewed*	22 months, 8/1/95-5/31/97	Small Business Job Protection Act of 1996
(Expiration period of just over two months)		
• Renewed*	13 months, 6/1/97-6/30/98	Taxpayer Relief Act of 1997
(Expiration period of four months)		
• Renewed*	12 months, 7/1/98-6/30/99	Tax and Trade Relief Extension Act of 1998
(Expiration period of five and a half months)		
• Renewed*	27 months, 7/1/99-9/30/01	Work Incentives Improvement Act of 1999
(Expiration period of 10 months)		
• Renewed*	5 years, 10/01/01-12/31/06	The Trade Act of 2002

* The renewal was made retroactive to the date of expiration, and duties paid by importers were ultimately refunded.

II. Summary of the U.S. GSP Program: Who Uses It?

Recent changes in the GSP program, coupled with the dynamics of the Congressional renewal process, have over the years affected the extent to which developing countries use—and thus benefit from—the program.

A. Eligible Countries

GSP remains an important trade program for a large number of developing countries. In 2004, the United States designated 119 countries plus 19 territories for "beneficiary developing country" (BDC) status under GSP (see Appendix A for a list). BDCs exported $22.7 billion worth of duty-

Table 1
Leading Sources of GSP Imports, 2004
(Millions)

Beneficiary Developing Country (BDC)	Duty-Free U.S. Imports from BDC under GSP	Total U.S. Imports from BDC	Share of U.S. Imports Using GSP
India	$3,270	$15,503	21.1%
Brazil	3,168	21,098	15.0
Thailand	3,143	17,510	17.9
Angola	3,066	4,476	68.5
Indonesia	1,290	10,778	12.0
Turkey	970	4,936	19.7
Philippines	967	9,144	10.6
South Africa	949	5,926	16.0
Equatorial Guinea	895	1,166	76.8
Venezuela	815	24,440	3.3
Argentina	563	3,772	14.9
Russia	554	11,637	4.8
Chad	275	698	39.4
Romania	211	849	24.9
Colombia	187	7,361	2.5
Kazakhstan	158	541	29.2
Croatia	125	291	43.0
Sri Lanka	115	1,957	5.9
Peru	107	3,685	2.9
Costa Rica	100	3,297	3.0
Total, Top 20 BDCs	20,928	149,065	14.0
Total, All BDCs	22,709	225,569	10.1

Source: U.S. Bureau of the Census.

free products entered the United States in 2004. Nearly 77 percent of all U.S. imports from Equatorial Guinea enter duty-free using GSP. Likewise, nearly a third of Kazakhstan's total exports to the United States enter duty-free under GSP.[1]

The program provides significant savings to U.S. companies and consumers in a wide variety of sectors.

A significant change to the GSP program occurred in 2000 when President Clinton signed into law the African Growth and Opportunity Act (AGOA), expanding GSP benefits for a number of countries in Sub-Saharan Africa (SSA). AGOA gives eligible SSA countries GSP duty-free benefits for an additional 1,200 products not available to other GSP members in addition to many GSP products reserved for least-developed BDCs. In an effort to further spur development, AGOA exempts the eligible SSA countries from the competitive needs limitations. Eligible SSA countries will receive all GSP benefits through September 30, 2015, regardless of whether or not GSP is renewed beyond 2006.

Still more recent changes to the program occurred in 2002 when Congress amended the criteria the president must consider when determining a country's eligibility for the GSP program. The first new condition requires countries to take steps to support the United States in its efforts to combat terrorism. A second new condition adds the requirement that GSP beneficiaries set a minimum age for the employment of children and implement a prohibition on the use of the worst forms of child labor. To date, no country has lost its GSP benefits for failing to meet these new criteria.

Finally, in 2004, seven GSP beneficiaries lost GSP eligibility when they became members of the European Union. Those seven included former top beneficiaries Hungary, Poland and the Czech Republic, along with Estonia, Latvia, Lithuania, and Slovakia. In addition, President Bush announced in 2004 that Antigua and Barbuda, Bahrain, and Barbados had achieved "high income" status and would be graduated from the GSP program on January 1, 2006.

B. Eligible Products

GSP preferences are available to a large number of products. Just under half—4,600 tariff items out of more than 10,000—of all products imported into the United States are eligible for GSP duty-free benefits.

Past experience shows that the program thrives on the stability granted during long renewal periods. From 1994 to 2001, the GSP program frequently expired and was renewed by Congress for only short periods of time. During that period, U.S. imports under GSP declined an average 2.2 percent annually. However, during the current, five-year renewal period, U.S. imports under GSP have increased an average 13.2 percent annually. Table 2 illustrates that several countries suffered declines in GSP exports to the United States during the "stop and start" renewal period, but have enjoyed strong growth in GSP exports during the current 5-year renewal period.

The GSP program saved importers over $800 million in duties in 2004.

GSP duty-free savings are significant. GSP saved importers more than $800 million in duties in 2004. Clearly, U.S. duties remain high for many products. Certain glassware products, for example, have duties that range between 3 percent and 38 percent. Other high-tariff products include certain ceramic tiles (12 percent duties), brooms and brushes (8 to 32 percent) and flashlights (12.5 percent). In 2004, over $148.9 million of granite (for architectural uses) was imported duty-free under GSP, avoiding an average duty of 3.7 percent. While on the surface, GSP imports may not appear to

Table 2
Increases in U.S. Imports under GSP from Selected Beneficiary Countries[2]

	1994-2001 Stop & Start Renewal Period	2001-2004 Stable Renewal Period
Uganda	-48.6%	+696.6%
Croatia	-57.1	+469.9
Guyana	-91.6	+435.7
Argentina	-60.3	+186.8
Dominican Republic	-75.1	+185.2
Kenya	-58.6	+79.5

Source: U.S. Census Bureau.

account for a large share of total U.S. imports, the program does provide significant savings to U.S. companies and consumers in a wide variety of sectors. The positive impact of GSP on the U.S. economy is described and quantified in an earlier study by the Trade Partnership.[3]

GSP-eligible products are mostly manufactures and semi-manufactures—notably, consumer electronics and machinery and parts—but also selected agricultural, fishery, and primary industrial products. The GSP statute specifically excludes several import-sensitive articles: textile and apparel products subject to textile agreements; certain watches;[4] import-sensitive electronic products; import-sensitive steel products; footwear, handbags, luggage, and other leather products and flat goods; import-sensitive semi-manufactured and manufactured glass products; any agricultural product that is subject to a tariff-rate quota if entered in excess of that

Table 3
Leading Product Groups Imported Duty-Free Under GSP, 2004
(Millions and Percent)

Products	Value	Share of Total GSP Imports	Value of Duties Saved
Oils and petroleum products	$4,227.1	18.6%	$10.8
Jewelry and parts	3,105.4	13.7	174.0
Electrical equipment and parts	2,115.8	9.3	73.2
Transportation equipment parts	1,484.8	6.5	37.1
Wood and wood products	971.2	4.3	51.2
Plastics and plastic products	931.4	4.1	44.3
Agricultural and food products (excl. sugar)	912.5	4.0	56.8
Machinery (including computers), parts	843.9	3.7	25.8
Organic chemicals	822.9	3.6	37.6
Iron and steel raw materials	801.5	3.5	24.6
Iron and steel products	506.0	2.2	18.1
Rubber products	489.5	2.2	16.5
Aluminum mill products	449.2	2.0	15.9
Sugar	363.4	1.6	17.9
Leather products	308.2	1.4	8.7
Furniture and parts	31.9	0.1	2.4
Total, Leading Products	18,364.7	80.9	614.9
Total, All GSP Products	22,708.8	100.0	809.4

Source: Derived from U.S. Census data provided by the Office of the U.S. Trade Representative.

quota; any products subject to any escape clause or national security action, and any other articles determined to be import sensitive during annual reviews. (Except for textiles and apparel, these are the broad groupings of products for which SSA countries now receive GSP benefits. The SSA countries receive separate benefits for textile and apparel products under the AGOA.)

In addition, the president has the authority to add or remove specific products from GSP eligibility. Each year, during the GSP annual review, interested parties submit petitions to the Office of the U.S. Trade Representative (USTR) requesting that a specific product be added to, or removed from, the list of products eligible for GSP benefits. USTR, along with the U.S. International Trade Commission hold hearings, and review comments and briefs before presenting their opinions to the president.

Although U.S. duties are falling on many products, high duties remain on several consumer products that are not import-sensitive.

Several notable events took place in the leading product groups eligible under GSP in 2004. First, oil and petroleum products continue to be the largest imports in the GSP program, due to rising energy prices and the need to find sources of cheaper fuel. Second, jewelry and parts of jewelry became the second largest product group imported under GSP. Jewelry and parts are India's leading GSP export to the United States, and GSP helps American retailers, in particular, to save tariffs of 5.0 to 13.5 percent. Finally, although electrical equipment and parts are still a top product group imported under GSP, its share of total GSP imports has been declining in recent years as worldwide tariffs on electrical equipment and parts decline. Nonetheless, tariffs on certain products in this category such as photocopying machines, flashlights, and television components, remain quite high.

C. Competitive Need

The United States reserves GSP benefits for less-competitive foreign producers by limiting the preferential treatment given to more competitive BDCs through the so-called "competitive need" provisions. Under these provisions, the United States may deny duty-free treatment to a specific product from a specific country if imports of that product exceed a certain dollar threshold. In 2004, that threshold stood at $115 million and increases by $5 million annually. Specific products from a specific country may also be denied duty-free treatment under GSP if those imports account for more than 50 percent of total imports of that product from the world. The United States denied duty-free treatment to 6.5 percent of the value of otherwise GSP-eligible products from BDCs because they exceeded the 2004 competitive need limit dollar threshold of $115 million or the 50-percent total U.S. import limit.

In addition to the competitive need limitations, the U.S. program requires mandatory graduation of a beneficiary developing country from the GSP program two years after the President determines that it has become a “high income” country as defined by the World Bank.

Table 4
Per-Capita Income Levels of Leading GSP Beneficiaries, 2004

India	$620
Brazil	3,090
Thailand	2,540
Angola	1,030
Indonesia	1,140
Turkey	3,750
Philippines	1,170
South Africa	3,630
Equatorial Guinea	930*
Venezuela	4,020
Argentina	3,720
Russia	3,410
Chad	260
Romania	2,920
Colombia	2,000
Kazakhstan	2,260
Croatia	6,590
Sri Lanka	1,010
Peru	2,360
Costa Rica	4,670
GSP Graduation Threshold (“High Income”)	10,066
2004 U.S. Per Capita Income	41,400

* Data for 2002.

Countries are ranked by order of use of the U.S. program, as shown in Table 1.

Sources: The World Bank and the Office of the U.S. Trade Representative.

In its *2006 World Development Indicators*, the most recent information available for graduation decisions,[5] the World Bank defined a "high income country" as one with a per capita income of $10,066 or more in 2004. As noted, in 2004, President Bush announced that Antigua and Barbuda, Bahrain, and Barbados had achieved "high income" status and would be graduated from the GSP program on January 1, 2006.

Table 4 reports the GDP per capita data for the leading GSP beneficiaries in 2004, according to the most recent data published by the World Bank.

The GSP program reserves benefits for less-competitive foreign producers through the so-called "competitive need" provisions.

The law creating the GSP program also specifically excludes GSP eligibility from countries that are part of the European Union. On May 1, 2004, ten new countries from Eastern Europe joined the European Union. Among those were several former GSP beneficiaries: the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, and Slovakia. Furthermore, GSP beneficiaries Bulgaria and Romania are on track to join the EU in January 2007 at which point they will lose their U.S. GSP benefits. Turkey and Croatia are also hoping to join the EU, but their accession dates are still several years away.

Table 5
Least-Developed Beneficiary Developing Countries

Afghanistan	Chad	Lesotho	Sao Tome and Principe
Angola	Comoros	Madagascar	Sierra Leone
Bangladesh	Congo (Kinshasa)	Malawi	Somalia
Benin	Djibouti	Mali	Tanzania
Bhutan	Equatorial Guinea	Mauritania	Togo
Burkina Faso	Ethiopia	Mozambique	Tuvalu
Burundi	Gambia, The	Nepal	Uganda
Cambodia	Guinea	Niger	Vanuatu
Cape Verde	Guinea-Bissau	Rwanda	Republic of Yemen
Central African Republic	Haiti	Samoa	Zambia
	Kiribati		

D. Special Provisions for Least-Developed BDCs

In order to concentrate more of the program benefits on least-developed BDCs, those countries qualify for special treatment. Countries that are designated "least developed beneficiary countries:"

- are exempt from the competitive need limits, and
- receive duty-free benefits for a special list of products otherwise exempt from the program. (However, the products may not include textiles, apparel, or, except for least developed countries in sub-Saharan Africa, certain watches and parts, footwear, handbags, luggage, flat goods, gloves or leather wearing apparel, agricultural products entered in excess of a tariff-rate quota, or products subject to an escape clause or national security action.)

Angola and Equatorial Guinea, for example, are considered least-developed BDCs. Because of this status, both countries were exempt from competitive need limitations and allowed to export $3.8 billion of petroleum oil duty-free to the United States. This least-developed BDC status helped, in part, to save American importers an estimated $10.8 million on oil duties.

In 1997, the Office of the U.S. Trade Representative approved a new list of 1,783 additional products for which least-developed developing countries only could

Table 6
Beneficiary sub-Saharan African Countries under the African Growth and Opportunity Act

Angola	Djibouti	Madagascar	Rwanda
Benin	Ethiopia	Malawi	Sao Tome & Principe
Botswana	Gabon	Mali	Senegal
Burkina Faso	Gambia, The	Mauritania	Seychelles
Cape Verde	Ghana	Mauritius	Sierra Leone
Cameroon	Guinea	Mozambique	South Africa
Chad	Guinea-Bissau	Namibia	Swaziland
Congo (Brazzaville)	Kenya	Niger	Tanzania
Congo (Kinshasa)	Lesotho	Nigeria	Uganda
			Zambia

receive duty-free benefits under GSP. The list includes food products, chemicals, steel, cases and chests, household porcelain, china or ceramic tableware, glassware, VCRs, radio-tape recorder combinations, radios, clocks, fishing rods and reels, brooms and pens.

As previously noted, all SSA countries eligible for AGOA are exempt from competitive need limitations in the GSP program and receive duty free treatment for an additional 1,200 products. The list of products eligible under AGOA includes some products ineligible for duty-free treatment under the regular GSP program such as watches, footwear, and leather articles. The list also includes food products, iron and steel products, and consumer products such as tableware and cutlery, fishing equipment, and clocks. In 2003, President Bush added Angola to the list of countries eligible for AGOA. At the same time, he terminated AGOA benefits for Eritrea and the Central African Republic. In 2004, the President also terminated AGOA benefits for Cote d'Ivoire. These three countries are still eligible for regular GSP benefits, however Cote d'Ivoire and Eritrea lost their exemption from the competitive needs limitations. Table 6 lists the SSA countries eligible for benefits under AGOA.

Congress must ensure that GSP is no longer plagued by short-term renewals and frequent lapses.

III. Current Status of the Program

As noted, Congress renewed the GSP program in 2002 retroactively from October 1, 2001 through December 31, 2006. The long renewal period is evidence that the program is strongly supported by both parties in Congress and the Administration.

Now Congress and the Administration must work together again to renew GSP again for the longest possible term before it expires on December 31, 2006. As we have shown, it is also important that Congress and the Administration renew GSP before it expires, to ensure sourcing stability and continued effectiveness of the program in achieving its development objectives. Such action will maximize the benefits of GSP for the developing countries that rely on it and U.S. companies that include it as an integral part of their business plans.

Endnotes

1 While Table 1 may seem to indicate that a relatively small share — 10.1 percent — of total U.S. imports from BDCs actually benefit from GSP, it is misleading to conclude that GSP is therefore unimportant. This statistic must be interpreted with great care. First, at best only half of all U.S. tariff line items are even eligible for duty-free treatment under GSP. Textile and apparel products, for example - significant exports for countries such as Sri Lanka, Indonesia and India, -are included in the total value of imports from BDCs, but not in the total value of duty-free imports. Second, only the least-developed BDCs are eligible for duty free benefits on an additional 1,800 products. Finally, many countries in Africa, the Caribbean, and Andean regions are eligible for duty-free benefits under other preference programs, which cover many of the same products as GSP. The stop and start nature that plagued the program in the past may have driven U.S. importers and businesses to source goods under these other preference programs—which may have more stringent rules of origin—because the programs have longer authorization periods.

2 Although several of the countries listed in this table are eligible for duty-free benefits under separate preference programs, the data used for the calculations exclude all other preference programs and focus solely on the impact of GSP.

3 The Trade Partnership, “The U.S. Generalized System of Preferences Program: An Integral Part of the U.S. Economy,” prepared for the Coalition for GSP, January 1997, pp. 14-41.

4 The Omnibus Trade and Competitiveness Act of 1988 provided for GSP treatment for those watches entering the United States after June 30, 1989, which are determined not to cause material injury to watch band, strap or bracelet manufacturing and assembly operations in the United States.

5 The World Bank, <u>World Development Report 2006</u>, September 2005, pp. 292-293, 300.

Appendix A

List of Beneficiary Developing Countries

Beneficiary Developing Countries
Independent Countries

Afghanistan
Albania
Algeria
Angola
Antigua and Barbuda*
Argentina
Armenia
Bahrain*
Bangladesh
Barbados*
Belize
Benin
Bhutan
Bolivia
Bosnia and Hercegovina
Botswana
Brazil
Bulgaria
Burkina Faso
Burundi
Cambodia
Cameroon
Cape Verde
Central African Republic
Chad
Colombia
Comoros
Congo (Brazzaville)
Congo (Kinshasa)
Costa Rica
Cote d'Ivoire
Croatia
Djibouti
Dominica
Dominican Republic
Ecuador
Egypt
El Salvador
Equatorial Guinea
Eritrea
Ethiopia
Fiji
Gabon
Gambia, The
Georgia
Ghana
Grenada
Guatemala
Guinea
Guinea-Bissau
Guyana
Haiti
Honduras
India
Indonesia
Iraq
Jamaica
Jordan
Kazakhstan
Kenya
Kiribati
Kyrgyzstan
Lebanon
Lesotho
Macedonia, Former Yugoslav Republic of
Madagascar
Malawi
Mali
Mauritania
Mauritius
Moldova
Mongolia
Morocco
Mozambique
Namibia
Nepal
Niger
Nigeria
Oman
Pakistan
Panama
Papua New Guinea
Paraguay
Peru
Philippines
Romania
Russia
Rwanda
St. Kitts and Nevis
Saint Lucia
St. Vincent and the Grenadines
Samoa
Sao Tomé and Principe
Senegal
Serbia and Montenegro
Seychelles
Sierra Leone
Solomon Islands
Somalia
South Africa
Sri Lanka
Suriname
Swaziland
Tanzania
Thailand
Togo
Tonga
Trinidad Tobago
Tunisia
Turkey
Tuvalu
Uganda
Uruguay
Uzbekistan
Vanuatu
Venezuela
Republic of Yemen
Zambia
Zimbabwe

* Will graduate from the GSP program and will no longer be eligible for GSP benefits on January 1, 2006

Non-Independent Countries and Territories

Anguilla
British Indian Ocean Territory
Christmas Island (Australia)
Cocos (Keeling) Islands
Cook Islands
Falkland Islands (Islas Malvinas)
Gibraltar
Heard Island and McDonald Islands
Montserrat
Niue
Norfolk Island
Pitcarin Islands
Saint Helena
Tokelau
Turks and Caicos Islands
Virgin Islands, British
Wallis and Futuna
West Bank and Gaza Strip
Western Sahara

Associations of Countries (treated as one country)

Member Countries of the Cartagena Agreement (Andean Group)

Consisting of:

Bolivia
Colombia
Ecuador
Peru
Venezuela

Member Countries of the Association of South East Asian Nations (ASEAN)

Currently qualifying:

Cambodia
Indonesia
Philippines
Thailand

Member Countries of the Caribbean Common Market (CARICOM), except The Bahamas

Consisting of:

Antigua and Barbuda
Barbados
Belize
Dominica
Grenada
Guyana
Jamaica
Montserrat
St. Kitts and Nevis
Saint Lucia
Saint Vincent and the Grenadines
Trinidad and Tobago

Member Countries of the West African Economic and Monetary Union (WAEMU)

Consisting of:

Benin
Burkina Faso
Côte d'Ivoire
Guinea-Bissau
Mali
Niger
Senegal
Togo

Member Countries of the Southern Africa Development Community (SADC)

Currently Qualifying:

Botswana
Mauritius
Tanzania

Member Countries of the South Asian Association for Regional Cooparation (SAARC)

Currently Qualifying

Bangladesh
Bhutan
India
Nepal
Pakistan
Sri Lanka