Order Code RS22541
November 29, 2006

CRS Report for Congress

Received through the CRS Web

Generalized System of Preferences Renewal: Agricultural Imports

Renée Johnson
Analyst in Agricultural Economics
Resources, Science, and Industry Division

Summary

The Generalized System of Preferences (GSP) provides duty-free tariff treatment for certain products from designated developing countries. Legislation authorizing the current GSP program expires December 31, 2006. Agricultural imports under the GSP totaled $1.9 billion in 2005, about 7% of all U.S. GSP imports. Leading agricultural imports include sugar, confectionery, cocoa, olive oil, processed meats, drinking waters, and miscellaneous food preparations and inputs for further processing. The majority of these imports are from Argentina, Brazil, India, the Philippines, Thailand, and Turkey. These countries are among those identified by some in Congress and in a recent Bush Administration proposal as countries whose GSP benefits may be limited or curtailed. Opinion within the U.S. agriculture industry is mixed, reflecting both support for and opposition to the current program. This report will be updated as conditions warrant.

Background

The U.S. Generalized System of Preferences (GSP) provides preferential duty-free entry to more than 4,650 agricultural and non-agricultural products from 144 designated beneficiary countries and territories.[1] Agricultural products account for only about 7% of annual GSP imports; however, duty-free access for agricultural imports under the program is an important issue for many in the U.S. agriculture industry who either support or oppose the program. The ongoing debate over GSP renewal has led some in Congress to consider whether the GSP statute should be amended by limiting benefits for certain more advanced beneficiary developing countries (BDCs). The Bush Administration also is considering a proposal to limit GSP benefits or to graduate certain BDCs from the program. Among the identified countries that may be affected by these changes are Argentina, Brazil, India, the Philippines, Thailand, and Turkey. These countries account

[1] Office of the U.S. Trade Representative (USTR), Generalized System of Preferences, at [http://www.ustr.gov/Trade_Development/Preference_Programs/GSP/Section_Index.html]. GSP was established by Title V of the Trade Act of 1974 and was last reauthorized through 2006 in Section 4101 of the Trade Act of 2002 (P.L. 107-210). See also CRS Report RL33663, *Generalized System of Preferences: Background and Renewal Debate,* by Vivian C. Jones.

for the majority of U.S. agriculture products imported duty-free under the program. Legislation authorizing the GSP expires December 31, 2006.

GSP Agricultural Imports

In 2005, U.S. imports under the GSP program totaled $26.7 billion, accounting for about 2% of all commodity imports. Leading U.S. imports under the GSP are manufactured products and parts, chemicals, plastics, minerals, and forestry products. More than 25% of all GSP imports consist of jewelry, electrical, and transportation equipment, both finished products and parts.[2] Agricultural products accounted for 7% of all imports under the GSP, totaling $1.9 billion in 2005. Compared to 2000, the value of agricultural imports under the program has more than doubled. Of all agricultural imports, imports under the GSP account for about a 3% share.

Table 1 shows the leading agricultural products (ranked by value) imported into the United States under the GSP program in 2005. Leading imports include sugar and confectionery products, processed fruit and vegetable preparations, processed food inputs for further processing, olive oil, waters and other beverages, processed meats and fish products, non-tropical fruits and vegetables, and cocoa and cocoa-containing products.

Table 1. U.S. Agricultural Imports under GSP Import Program, 2005

HTS Chapter(s) Subsection	Import Categories	2005 ($millions)	Percent Share	GSP Share All Ag Imports
17	Sugars and sugar confectionery	443	24%	19%
20, 14	Processed fruits & vegetables, inputs	241	13%	6%
19, 21, 13	Processed foods & food processing inputs	237	13%	6%
1509	Olive oil	116	6%	<1%
22	Beverages, water, spirits, and vinegar	115	6%	1%
8 (part), 7	Other fresh fruits and vegetables	113	6%	1%
16	Processed meat & fish products	105	6%	3%
18	Cocoa & cocoa-containing products	105	6%	4%
23, 3501-3505, 3301, 38 (part)	Other ag-based chemicals, residues, & byproducts	78	4%	2%
9	Coffee, tea, & spices	65	4%	2%
24	Tobacco products	58	3%	5%
8 (part)	Fresh tropical fruits	48	3%	2%
4	Dairy products	36	2%	2%
12, 15 (part)	Oilseeds & processed oils/fats	36	2%	5%
6	Plants and cut flowers	23	1%	2%
10, 11	Grain-based products	17	1%	1%
2905 (part)	Ag-based organic chemicals (e.g. sorbitol)	15	1%	15%
8 (part)	Nuts	7	<1%	2%
5, 4301, 41 (part)	Misc. animal products, incl. hides	3	<1%	<1%
1, 2	Meat products, incl. live animals	2	<1%	<1%
50-53 (part)	Ag-based textile inputs (cotton, wool, etc.)	1	<1%	<1%
	Total	**1,864**	**100%**	**3%**

Source: CRS calculations from data from U.S. International Trade Commission (USITC), [http://dataweb.usitc.gov]. Imports for consumption, actual U.S. dollars. Select GSP countries ranked in terms of value of imports in 2005. Agriculture commodities as defined by the WTO Agreement on Agriculture. Includes U.S. Harmonized Tariff Schedule (HTS) chapters 1-24, excluding chapter 3 (fish and fish products, except processed), and parts of HTS chapters 29, 33, 35, 48, 41, 43, and 50-53.

[2] U.S. Chamber of Commerce, *Estimated Impacts of the U.S. Generalized System of Preferences to U.S. Industry and Consumers*, at [http://www.uschamber.com/publications/reports/default].

Most GSP agricultural imports are supplied by beneficiary countries that have been identified for possible graduation from the program. In 2005, the top six BDCs ranked by import value — Thailand, Brazil, Argentina, India, the Philippines, and Turkey — accounted for 56% of agricultural imports under the GSP (see **Table 2**). Brazil and India accounted for nearly one-fifth of agricultural imports under the program. These countries are among those identified by critics of the current program as countries whose GSP benefits should be limited or curtailed.

Table 2. U.S. Agriculture Imports, under GSP Import Program, by Country, 2005

Country of Origin	2005 ($mill)	%Share	%Change 2000-2005	Major import product categories
Thailand	288	15%	68%	misc. food preparations, beverages, misc. preserved fruits and vegetables, confectionery, pasta
Brazil	209	11%	125%	chocolate, confectionery, gelatin & gelatin derivatives, tropical fruits, cocoa powder
Argentina	195	10%	252%	prepared meats, confectionery, cheese, olive oil, gelatin & gelatin derivatives
India	124	7%	104%	ground/crushed peppers, vegetable extracts, preserved cucumbers, essential oils (peppermint), miscellaneous food preparations
Philippines	116	6%	83%	cane/beet sugar, fresh/processed tropical fruit, industrial fatty oils, misc. food preparations
Turkey	114	6%	263%	olive oil, prepared/preserved vegetables, ground/crushed peppers, confectionery, fruit juices
Indonesia	49	3%	-3%	organic chemicals, tobacco products, seafood products, misc. food preparations, confectionery
South Africa	31	2%	18%	cane/beet sugar, wine, crushed/ground peppers, plant bulbs/roots, essential oils (citrus), nuts
Venezuela	11	1%	-70%	waters, cereal flour, soups/broths, chocolate, preserved fruits and vegetables
Croatia	9	<1%	70%	sauces/condiments, soups/broth, preserved meat products, drinking waters, yeasts, chocolate/cocoa
Russia	6	<1%	-42%	cocoa preparations, chocolate, vegetable extracts, prepared seafood, confectionery, fruit juice
Kazakhstan	3	<1%	-59%	caviar, wheat gluten
Romania	1	<1%	39%	caviar, drinking waters, fish-based fats/oils, carbonated beverages, nuts/seeds
Subtotal	**1,157**	**62%**	**89%**	
Other BDCs	**707**	**38%**	**127%**	
Total	**1,864**	**100%**	**101%**	

Source: CRS calculations from data from U.S. International Trade Commission (USITC), [http://dataweb.usitc.gov]. Imports for consumption, actual U.S. dollars. Includes U.S. Harmonized Tariff Schedule (HTS) chapters 1-24, excluding chapter 3 (fish and fish products, except processed), and parts of HTS chapters 29, 33, 35, 48, 41, 43, and 50-53. Select GSP countries ranked in terms of value of imports in 2005 (10-digit HTS level). Agriculture commodities as defined by the WTO Agreement on Agriculture.

More than 30% of GSP agricultural imports consist of sugar and sugar-based products, and cocoa and cocoa-containing products. Sugar and confectionery product imports accounted for 24% of the value of agriculture imports under the GSP program (see **Table 1**). Major GSP suppliers of cane and beet sugar imports were the Philippines, Thailand, and Brazil, as well as other Latin American countries. Major suppliers of sugar confectionery were Brazil, Argentina, and Thailand. Cocoa and cocoa-containing products accounted for 6% of GSP agricultural imports, and were supplied mainly by Brazil, Argentina, and Thailand, as well as by various African and other Latin American countries. Indonesia, the Philippines, Brazil, and Turkey were major suppliers of imports of sugar alcohols and other agriculture-based organic chemicals (including sorbitol), which accounted for about 1% of GSP agricultural imports in 2005.

Another nearly 30% of agricultural imports under the GSP program include processed meat and fish products, olive oil, fresh fruits and vegetables, and drinking waters. Another one-quarter of imports comprise miscellaneous processed foods and inputs and fruit and vegetable preparations. Leading suppliers of processed meat under the GSP include Argentina, Uruguay, Croatia, and Brazil; suppliers of processed fish and seafood include Thailand, Indonesia, and Kazakhstan. Imports of fresh non-tropical fruits and vegetables include mostly dried beans, tubers, and onions from India, Peru, Thailand, and Argentina, and melons from Central American countries, Brazil, and Thailand. Suppliers of other provisionally preserved, prepared, or frozen fruit and vegetable products include Thailand, Argentina, and Brazil. Major suppliers of water and beverages are Thailand, the Philippines, Venezuela, Brazil, Egypt, and India. Suppliers of olive oil include Turkey and Argentina, among other Middle Eastern countries.

Proposed Changes to the GSP

Legislation authorizing the current GSP program expires December 31, 2006. Renewal of the current program is a topic of debate, in part because some in Congress question the inclusion of certain more advanced BDCs under the GSP program. Some in Congress also believe that certain BDCs have contributed to the ongoing impasse in multilateral trade talks in the WTO Doha Development Agenda. To date, legislation seeking to amend the GSP statute has focused on restricting the President's ability to grant "competitive need limits" (CNL) waivers[3] that allow BDCs to exceed GSP statutory thresholds for some products. In part due to these congressional concerns, the Trade Policy Staff Committee (TPSC), an advisory committee chaired by USTR, is investigating whether some BDCs should be graduated from the program.[4]

In the 109th Congress, House Ways and Means Committee Chairman Bill Thomas introduced H.R. 6142, which would renew the GSP program for two years but also seeks to amend the GSP statute. The proposed changes would limit CNL waivers for any eligible imported product from a BDC if (1) the eligible product's aggregated appraised value exceeded $1.5 billion during any calendar year or (2) the BDC's per capita gross national income (GNI) exceeded $3,400 in the preceding calendar year. This would limit CNL waivers to certain BDCs for some imports, including agricultural products. Historically, there have been few CNL waivers to GSP for agricultural products. Current waivers for agricultural products include sugar and preserved bananas from the Philippines, nuts from Argentina, and caviar from Russia.[5] Under the legislation, CNL waivers would be limited for BDCs classified as "upper middle income" countries and for some BDCs classified as "lower middle income" countries, based on per capita GNI groupings reported by the World Bank.[6] This could affect existing CNL waivers for agricultural products from Argentina and Russia, but not from the Philippines.

---

[3] The law stipulates a CNL which requires that countries export no more than 50% of total U.S. imports of each product or no more than a specified dollar amount of the imports for a given year.

[4] BDCs under the GSP, as of 2006, are listed in the General Notes section of the U.S. Harmonized Tariff Schedule, at [http://hotdocs.usitc.gov/docs/tata/hts/bychapter/0612gn.pdf#page=11].

[5] USTR, CNL Waivers, at [http://www.ustr.gov/Trade_Development/Preference_Programs/GSP/Section_Index.html].

[6] GNI per capita income categories: $3,466-$10,725 (upper middle); $876-$3,465 (lower middle). India, Indonesia, Philippines, and Thailand have reported GNI per capita under $3,400.

Senate Finance Committee Chairman Charles Grassley also commented that he would "likely oppose the extension of the GSP program" and that "any extension of GSP would likely not be a continuation of the status quo."[7] His comments identified Brazil and India as countries that benefit under the current GSP program but also as two of the countries he thought most responsible for holding up the Doha negotiations, suggesting that these countries might become ineligible under the GSP program.

Others in Congress favor a short-term extension of the GSP while Congress continues to deliberate and hold hearings on possible amendments to the GSP and other trade preference programs. In September 2006, the 110th Congress's likely incoming chairmen of the House Ways and Means Committee, Charles Rangel, and Senate Finance Committee, Max Baucus, introduced identical bills seeking to extend the current GSP and other trade preference programs. Both the House bill (H.R. 6076) and the Senate bill (S. 3904) would extend the GSP program for two years through 2008. Another Rangel bill introduced in March 2006 (H.R. 5070) would renew the current GSP program for one year. These bills do not propose any programmatic changes to the GSP statute. When the bills were introduced, the primary reason cited for renewing GSP was the need for U.S. trade preference programs that promote economic growth and stability in developing countries by stimulating exports.[8]

The Bush Administration also has indicated that it may consider changes to the current GSP program. On August 6, 2006, the USTR requested review and public comment on changes to the eligibility requirements for certain GSP beneficiaries and existing CNL waivers, which could affect the eligibility status of 13 countries.[9] The identified countries are Argentina, Brazil, Croatia, India, Indonesia, Kazakhstan, the Philippines, Romania, Russia, South Africa, Thailand, Turkey, and Venezuela. Under the current GSP program, mandatory country graduation occurs when a BDC is determined to be a "high income" country or following a review of the BDC's advances in economic development and trade competitiveness.[10] The last time beneficiary countries were graduated from the GSP program was 2004.[11]

Possible Implications of Changes to the GSP

The proposed legislative changes, if enacted, could restrict the President's ability to grant CNL waivers allowing BDCs to exceed statutory thresholds for some products.

[7] U.S. Senate, Committee on Finance, Opening Statement of Senator Chuck Grassley, Hearing on the Nomination of Susan C. Schwab to be U.S. Trade Representative, May 16, 2006.

[8] U.S. House of Representatives, "Rangel Urges Passage of Expiring Trade Benefits," press release of Representative Charles Rangel, Sept. 25, 2006; House of Representatives, "Rangel Bill Would Extend Trade Benefits for Developing Countries," press release of Representative Charles Rangel, Mar. 30, 2006; and U.S. Senate, "Baucus Bill Would Extend Expiring Trade Programs," press release of U.S. Senator Max Baucus, Sept. 15, 2006.

[9] 71 *Federal Register* 45079, August 8, 2006.

[10] GATT, *Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries*; Decision of 28 November 1979, L/4903 (Dec. 3, 1979) (footnotes omitted), at [http://www.wto.org/gatt_docs/English/SULPDF/90970166.pdf].

[11] 69 Federal Register 10131, March 4, 2004. Graduation was effective January 1, 2006.

Based on current CNL waivers to GSP, this could deny waivers for nuts from Argentina and caviar from Russia, and possibly products from some other BDCs. If the administrative changes being evaluated by the TPSC are implemented by USTR, certain beneficiary countries, including Thailand, Brazil, Argentina, India, the Philippines, and Turkey, might be graduated from the program and no longer be eligible to receive benefits under the GSP. These countries account for the majority of U.S. agriculture products imported duty-free under program.

Comments on the Administration's proposal submitted to USTR from the U.S. agriculture industry groups are mixed.[12] The American Farm Bureau Federation (AFBF) expressed its general opposition to the GSP program, stating that products imported duty-free under the program compete with U.S.-produced goods without granting a commensurate level of opportunity for U.S. producers in foreign markets. AFBF further supports withdrawal of CNL waivers for the Philippines, Argentina, and Colombia. The Grocery Manufacturers Association (GMA) expressed support for the current GSP program and identified certain agricultural products of importance to GMA under the program, including sugar confections, spices, and certain processed foods and inputs from Brazil, India, and Argentina. GMA's position was generally supported by comments from the American Spice Trade Association, the National Confectioners Association, and the Chocolate Manufacturers Association.

What remains unclear is whether duty-free access for most agricultural imports under the GSP greatly influences a country's willingness to export these products to the United States. In most cases, costs associated with import tariffs are borne by the importer. These costs may be passed on to the BDCs in terms of lower import prices. However, import tariffs to the United States for most of these products tend to be low. As calculated by CRS, *ad valorem* equivalent tariffs range from 3%-4% for sugar, 2%-10% for cocoa-containing products, 5%-12% for confectionery, 1%-2% for most processed meats, about 2% for olive oil, less than 1% for mineral water, and about 5% for agriculture-based organic chemicals.[13] In general, any additional costs that might be incurred by the BDCs as a result of the proposed changes could be more than offset by the generally higher U.S. prices for most products compared to prices in other world markets. Nevertheless, the imposition of even relatively low import tariffs could represent an increase in input costs to some U.S. food processors and industrial users. These costs could be passed on to consumers through higher prices for these and other finished agricultural or manufactured products. As shown in **Table 1**, about one-half of GSP agricultural imports are intermediate goods and inputs, such as raw sugar, miscellaneous processed foods, preparations, and byproducts, and agriculture-based organic chemicals. These and other stakeholder concerns likely will be raised during the debate on GSP renewal and deliberations regarding possible amendments to the program.

---

[12] USTR, Public Comments Received in the Review on the Eligibility of Certain GSP Beneficiaries and Existing CNL Waivers, General, at [http://www.ustr.gov/Trade_Development/Preference_Programs/GSP/Section_Index.html].

[13] Calculated tariffs based on the in-quota rate. Under the GSP, agricultural products subject to a TRQ exceeding the in-quota quantity is ineligible for duty-free import (19 U.S.C. 2463(b)(3)).