Order Code RS22541
Updated November 10, 2008

CRS Report for Congress

Generalized System of Preferences: Agricultural Imports

Renée Johnson
Specialist in Agricultural Policy
Resources, Science, and Industry Division

Summary

The Generalized System of Preferences (GSP) provides duty-free tariff treatment for certain products from designated developing countries. Agricultural imports under the GSP totaled $2.1 billion in 2007, 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 Thailand, Argentina, Brazil, India, and the Philippines. Some in Congress have called for changes to the program that could limit GSP benefits to certain countries, among other changes. Opinion within the U.S. agriculture industry is mixed, reflecting both support for and opposition to the current program. Congress made changes to the program in 2006, tightening its requirements on imports under certain circumstances. The 110th Congress extended GSP through 2009, likely making the GSP a legislative issue in the 111th Congress. Also, the leadership of the Senate Finance Committee and the House Ways and Means Committee continue to express an interest in evaluating the effectiveness of U.S. trade preference programs, including the GSP.

Background

The U.S. Generalized System of Preferences (GSP) was established by the Trade Act of 1974 (19 U.S.C. 2465; Sec. 505) and now provides preferential duty-free entry to more than 4,650 agricultural and non-agricultural products from 131 designated beneficiary countries and territories.[1] Agricultural products account for about 7% of the total value of annual GSP imports. 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

[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].

the program. However, some in Congress have called for changes to the program that could limit or curtail GSP benefits to certain countries, among other changes. The GSP is currently reauthorized through December 31, 2009 (P.L. 110-436).

GSP Agricultural Imports

In 2007, U.S. imports under the GSP program totaled $30.8 billion, accounting for less than 2% of all commodity imports. Leading U.S. imports under the GSP are manufactured products and parts, chemicals, plastics, minerals, and forestry products. Roughly one-fourth 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 $2.1 billion in 2007. Compared to 2000, the value of agricultural imports under the program has nearly doubled. In 2007, imports under the GSP accounted for about 4% of total U.S. agricultural imports.[3] **Table 1** shows the leading agricultural products (ranked by value) imported into the United States under the GSP program. Leading imports include sugar and confectionery products, processed fruit and vegetable preparations, olive oil, waters and other beverages, processed food inputs for further processing, processed meats and fish products, tropical and non-tropical fruits and vegetables, and cocoa and cocoa-containing products.

Most GSP agricultural imports are supplied by beneficiary countries that have been identified for possible graduation from the program. In 2007, the top six beneficiary countries ranked by import value — Thailand, Argentina, Brazil, India, the Philippines, and Turkey — accounted for the majority 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 GSP as countries whose benefits under the program should be limited or curtailed.

More than 20% of GSP agricultural imports consist of sugar and sugar-based products, and cocoa and cocoa-containing products. Sugar and confectionery imports accounted for 17% of the value of agricultural imports under the GSP program (**Table 1**). Major GSP suppliers of cane and beet sugar imports were the Philippines, Paraguay, Peru, Panama, and South Africa. Major suppliers of confectionery were Brazil, Argentina, Colombia, Thailand, and Turkey. Cocoa and cocoa-containing products accounted for 4% of GSP agricultural imports, and were supplied mainly by Brazil, the Côte d'Ivoire, and Indonesia. Indonesia, among other countries, is a supplier of imports of sugar alcohols and other agriculture-based organic chemicals, such as sorbitol.

Another nearly 40% of agricultural imports under the GSP program include food processing inputs, such as miscellaneous processed foods, processed oils and fats, fruit and vegetable preparations, and ag-based chemicals and byproducts. Other product

---

[2] U.S. Chamber of Commerce, *Estimated Impacts of the U.S. Generalized System of Preferences to U.S. Industry and Consumers*, October, 2006, at [http://www.uschamber.com/publications/reports/0610gsp].

[3] USDA reports U.S. agricultural imports totaled $47.7 billion in 2007 [http://www.ers.usda.gov/Data/FATUS/MonthlySummary.htm].

categories and suppliers are as follows. Olive oil accounted for 7% of GSP agricultural imports in 2007, supplied by Tunisia, Turkey, and Argentina. Mineral waters and other types of nonalcoholic beverages (another 6%) were supplied by Fiji and Thailand, among others. Imports of fresh and prepared fruits and vegetables (about 10%) include bananas and other tropical produce, and dried beans, tubers, onions, and melons from most Latin American countries and India, the Philippines, and Thailand. Argentina is a leading supplier of processed meat under the GSP; Indonesia supplies processed fish and seafood.

Table 1. U.S. Agricultural Imports under GSP, 2007

HTS Chapter(s) Subsection	Import Categories	2007 ($ millions)	% Share	GSP Share All Ag Imports
17	Sugars and sugar confectionery	353.8	17%	14%
19, 21, 13	Processed foods & food processing inputs	316.1	15%	4%
20, 14	Processed fruits & vegetables, inputs	293.3	14%	6%
22	Beverages, water, spirits, and vinegar	156.3	8%	1%
23, 3501-3505, 3301, 38 (part)	Other ag-based chemicals, residues, & byproducts	154.0	7%	3%
1509	Olive oil	142.3	7%	15%
16	Processed meat & fish products	116.2	6%	3%
8 (part), 7	Other fresh fruits and vegetables	110.0	5%	1%
18	Cocoa & cocoa-containing products	91.1	4%	3%
12, 15 (part)	Oilseeds & processed oils/fats	70.1	3%	2%
8 (part)	Fresh tropical fruits	46.9	2%	2%
24	Tobacco products	45.0	2%	3%
9	Coffee, tea, & spices	40.8	2%	1%
4	Dairy products	31.8	2%	2%
10, 11	Grain-based products	29.9	1%	1%
2905 (part)	Ag-based organic chemicals (e.g. sorbitol)	19.1	1%	19%
6	Plants and cut flowers	18.0	1%	2%
8 (part)	Nuts	17.3	1%	2%
5, 4301, 41 (part)	Misc. animal products, incl. hides	6.9	<1%	1%
1, 2	Meat products, incl. live animals	0.4	<1%	0%
50-53 (part)	Ag-based textile inputs (cotton, wool, etc.)	0.3	<1%	0%
	Total	**2059.7**	**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. 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 (for information, see USDA, *Profiles of Tariffs in Global Agricultural Markets*, AER-796, Appendix, January 2001).

Legislative and Administrative Changes to GSP

The 110th Congress extended the GSP for one year through December 31, 2009 (P.L. 110-436). Given this one-year extension, the GSP will continue to be a legislative issue in the 111th Congress. In addition, the leadership of the Senate Finance Committee and the House Ways and Means Committee continue to express the need to evaluate the effectiveness of the GSP, as well as other U.S. trade preference programs. Chairman Baucus of the Senate Finance Committee has said he hopes to review all U.S. trade preference programs in the 111th Congress, and to evaluate which countries are benefitting under the program.[4] This follows an oversight hearing by the committee, which was conducted in June 2008 and focused on ways to reform trade preference programs, including the GSP. According to committee staff, that hearing was considered a first step toward a possible bill seeking to reform trade preference programs.[5]

Amendments to the GSP in 2006 followed extensive debate about the program during the 109th Congress. Specifically, some in Congress questioned the inclusion of certain more advanced developing countries (BDCs)[6] as beneficiaries under the GSP and also commented that certain BDCs had contributed to the ongoing impasse in multilateral trade talks in the WTO Doha Development Agenda.[7] In response to these concerns, Congress amended the program in 2006 by tightening the rules on "competitive need limits" (CNL)[8] waivers that allow imports from beneficiary countries in excess of GSP statutory thresholds for some products (P.L. 109-432). Historically, there have been few CNL waivers to the GSP for agricultural products and it is unlikely that these program changes will greatly affect U.S. agricultural imports under the program. In 2006, Congress had also renewed the GSP for two years through 2008.

In addition, the Trade Policy Staff Committee (TPSC), an advisory committee chaired by the U.S. Trade Representative, has instituted a series of investigations to evaluate possible changes to the GSP.[9] In its 2006 review the TPSC announced that the more than 80 previously granted CNL waivers would be individually evaluated, in addition to the standard practice of examining petitions for new CNL waivers. The TPSC said that it would also examine the eligibility status of several "middle income" economies.[10] Among the countries identified for possible removal as beneficiaries under the program were Argentina, Brazil, India, the Philippines, Thailand, and Turkey. These countries account for over 60% of the value of U.S. agricultural products imported duty-free under the program. Although none of the countries cited lost their overall GSP eligibility as a result of these reviews, several previously granted CNL waivers from these countries were revoked. For agricultural imports under the GSP, the Côte d'Ivoire lost

---

[4] See, e.g., "Senate Moves on APTA," *Washington Trade Daily*, October 3, 2008.

[5] "Senate Finance Mulls Preference Overhaul, May Focus on Poorest," *Washington Trade Daily*, June 13, 2008.

[6] BDCs under the GSP, as of 2008, are listed in the General Notes section of the U.S. Harmonized Tariff Schedule, at [http://hotdocs.usitc.gov/docs/tata/hts/bychapter/0800htsa.pdf].

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

[8] The previous law stipulated a CNL requiring 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. The amended law further tightened these requirements.

[9] 72 *Federal Register* 35895, June 28, 2007 (2006 Review); and 73 *Federal Register* 38297, June 3, 2008 (2007 Review). Regulations for implementing the GSP are at 15 C.F.R. Part 2007.

[10] Countries may "graduate" or be removed as a beneficiary developing country if the country is determined to be sufficiently competitive or developed (19 U.S.C. 2462(e)). For example, in 2008, the Republic of Trinidad and Tobago graduated from the GSP program when it was determined to have become a ''high income'' country. Also, countries that formally enter into a bilateral trading relationship with another developed country may also become ineligible, as happened in 2007 for Bulgaria and Romania when they joined the European Union.

CNL waivers for fresh or dried, shelled kola nuts (HTS 0802.90.94), as part of the 2006 review. Argentina lost CNL waivers for cooked, shelled, fresh or dried peanuts (HTS 1202.20.40), as part of the 2007 review. These waivers had allowed for these products to be imported from the Côte d'Ivoire and Argentina duty-free under GSP despite the statutory import thresholds. Other countries lost CNL waivers for some non-agricultural products, but not for agricultural products. The 2006 review included decisions on other country and product petitions involving agricultural products, but these changes are unlikely to greatly affect U.S. agricultural imports under the program.

For more information and for a discussion of possible legislative options, see CRS Report RL33663, *Generalized System of Preferences: Background and Renewal Debate*, by Vivian C. Jones.

Table 2. U.S. Agricultural Imports under GSP, by Country, 2007

Country of Origin	2007 ($ mill)	% Share	% Change 2003-2007	Major import product categories
Thailand	360	17.5%	61%	nonalcoholic beverages, misc. food preparations, misc. preserved fruits and vegetables, confectionery, pasta
Argentina	242	11.8%	88%	prepared meat, sugar confectionery, cheese, olive oil, gelatin derivatives
Brazil	240	11.6%	15%	gelatin derivatives, chocolate and cocoa products, confectionery, mangoes
India	179	8.7%	108%	vegetable saps/extracts, gelatin derivatives, preserved cucumbers, essential oils (peppermint), ground/crushed peppers, miscellaneous food preparations
Philippines	136	6.6%	22%	cane/beet sugar, coconut oil and coconuts, banana products, fresh/processed tropical fruits, nonalcoholic beverages, misc. food preparations
Turkey	134	6.5%	103%	fruit juice, olive oil, prepared/preserved vegetables, ground/crushed peppers, preserved bell peppers, confectionery
Peru	94	4.6%	143%	ground/crushed peppers, mangoes, artichokes, onions, artificial margarine products and other edible fats/oils, melons, misc. prepared vegetables
Indonesia	87	4.2%	50%	tobacco products, edible animal products, confectionery, organic chemicals, cocoa powder, misc. food preparations, seafood products
Fiji	69	3.4%	115%	mineral waters, sugar cane, molasses, tropical fruits/vegetables, snack foods
Tunisia	69	3.4%	1459%	olive oil/oil products, dates, pasta, misc. food preparations, sauces, capers
Colombia	50	2.4%	3%	sugar, chewing gum, confectionery, processed fruits/nuts, grains/preparations
Ecuador	39	1.9%	131%	preserved/frozen fruit products, sugar, floriculture/plants, seeds, bulbs, tuber vegetables
South Africa	35	1.7%	57%	cane/beet sugar, misc. food preparations, wine, plant bulbs/roots and plants, active yeasts, spices, essential oils (citrus), fruit juices
Subtotal	**1,734**	**84.0%**	**66%**	
Other BDCs	325	15.8%	-41%	
Total	**2,060**	**100.0%**	**29%**	

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 2007 (10-digit HTS level). Agriculture commodities as defined by the WTO Agreement on Agriculture (for information, see USDA, *Profiles of Tariffs in Global Agricultural Markets*, AER-796, Appendix, January 2001).

Possible Implications of Changes to the GSP

The 2006 statutory changes to the GSP tightening rules for CNL waivers are unlikely to greatly affect U.S. agricultural imports under the program. Historically, there have been few CNL waivers for agricultural products imported duty-free under the GSP. Current waivers include sugar and preserved bananas (Philippines), sugar, carnations, figs, yams, and gelatin derivatives (Colombia), certain nuts (Argentina), animal hides

(Argentina, South Africa, and Thailand), and caviar (Russia).[11] Other types of program changes, however, could affect U.S. agricultural imports under the GSP, including additional limits on CNL waivers from certain countries or graduation of some beneficiary countries. Countries that account for the majority of U.S. agricultural imports under the GSP are Thailand, Brazil, Argentina, India, the Philippines, and Turkey.

Comments submitted to USTR on its 2006 proposal from U.S. agricultural 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 supported 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.

---

[11] USTR, CNL Waivers, at [http://www.ustr.gov/Trade_Development/Preference_Programs/GSP/CNL_Waivers_Current_Waivers_to_GSP_Competitive_Need_Limitations_(CNLs).html].

[12] Public comments are posted at USTR's website, at [http://www.ustr.gov/].

[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)).