Generalized System of Preferences: Agricultural Imports

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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 $2.2 billion in 2009, about 11% of all U.S. GSP imports. Leading agricultural imports include processed foods and food processing inputs, sugar and sugar confectionery, cocoa, processed and fresh fruits and vegetables, beverages and drinking waters, olive oil, processed meats, and miscellaneous food preparations and inputs for further processing. The majority of these imports are from Thailand, Brazil, Argentina, India, and the Philippines. Some in Congress have continued to call 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.

In the past few years, Congress has extended GSP through a series of short-term extensions. However, the 111th Congress did not extend the GSP in 2010, and it was set to expire December 31, 2010 (P.L. 111-124). The expiration of the GSP will likely become a legislative issue in the 112th Congress. In addition, leaders of the House Ways and Means Committee and the Senate Finance Committee have continued to express an interest in evaluating the effectiveness of U.S. trade preference programs, including the GSP, and broader reform of these programs might be possible.

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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 4,800 agricultural and non-agricultural products from 131 designated beneficiary countries and territories.[1] Agricultural products under the GSP totaled $2.2 billion in 2009, accounting for about 11% 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 the program. However, some in Congress have called for changes to the program that could limit or curtail benefits to certain countries, among other changes. In 2008 and again in 2009, GSP was reauthorized through a series of one-year extensions. The 111th Congress did not extend the GSP in 2010, and it was set to expire December 31, 2010 (P.L. 111-124).[2]

GSP Agricultural Imports

In 2008, U.S. imports under the GSP program totaled $20.3 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.[3]

Agricultural products accounted for 11% of all imports under the GSP, totaling $2.2 billion in 2009. Compared to 2000, the value of agricultural imports under the program has nearly doubled. In 2009, imports under the GSP accounted for about 3% of total U.S. agricultural imports.[4] **Table 1** shows the leading agricultural products (ranked by value) imported into the United States under the GSP program. Leading imports include processed foods and food processing inputs, sugar and sugar confectionery, cocoa, processed and fresh fruits and vegetables, drinking waters, olive oil, processed meats, and miscellaneous food preparations and inputs for further processing.

Most GSP agricultural imports are supplied by beneficiary countries that have been identified for possible graduation from the program. In 2009, the top six beneficiary countries ranked by import value—Thailand, Brazil, Argentina, 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.

[1] Office of the U.S. Trade Representative (USTR), Generalized System of Preferences, http://www.ustr.gov/Trade_Development/Preference_Programs/GSP/Section_Index.html.

[2] The African Growth and Opportunity Acceleration Act of 2004 (P.L. 108-274) extended GSP preferences for all beneficiary developing sub-Saharan African countries under the African Growth and Opportunity Act through September 30, 2015.

[3] U.S. Chamber of Commerce, *Estimated Impacts of the U.S. Generalized System of Preferences to U.S. Industry and Consumers*, October, 2006, http://www.uschamber.com/reports/estimated-impacts-us-generalized-system-preferences-us-industry-and-consumers.

[4] The value of U.S. agricultural imports totaled $78.8 billion in 2009 (compiled by CRS using trade data from U.S. International Trade Commission. Imports for consumption, actual U.S. dollars. Agriculture commodities as defined by the WTO Agreement on Agriculture (USDA, *Profiles of Tariffs in Global Agricultural Markets*, AER-796, Appendix, January 2001).

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 18% 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, the Philippines, South Africa, Thailand, and Turkey. Cocoa and cocoa-containing products accounted for 5% of GSP agricultural imports, and were supplied mainly by Brazil, the Côte d'Ivoire, and other African nations. Indonesia, among other countries, is a supplier of imports of sugar alcohols and other agriculture-based organic chemicals, such as sorbitol.

Table 1. U.S. Agricultural Imports under GSP, 2009

HTS Chapter(s) Subsection	Import Categories	2009 ($ millions)	% Share	GSP Share All Ag Imports
19, 21, 13	Processed foods & food processing inputs	385.1	18%	5%
17	Sugar and sugar confectionary	378.9	17%	13%
20, 14	Processed fruits & vegetables, inputs	329.8	15%	7%
22	Beverages, water, spirits, and vinegar	152.7	7%	1%
1509	Olive oil	150.5	7%	17%
23, 3501-3505, 3301, 38 (part)	Other ag-based chemicals, residues, & byproducts	148.2	7%	3%
16	Processed meat & fish products	120.9	6%	3%
8 (part), 7	Other fresh fruits and vegetables	116.3	5%	1%
18	Cocoa & cocoa-containing products	102.1	5%	3%
8 (part)	Fresh tropical fruits	48.3	2%	2%
10, 11	Grain-based products	42.3	2%	1%
12, 15 (part)	Oilseeds & processed oils/fats	41.3	2%	1%
24	Tobacco products	39.5	2%	3%
4	Dairy products	36.8	2%	2%
9	Coffee, tea, & spices	33.2	2%	1%
2905 (part)	Ag-based organic chemicals (e.g. sorbitol)	19.7	1%	25%
6	Plants and cut flowers	15.8	1%	3%
5, 4301, 41 (part)	Misc. animal products, incl. hides	5.3	0%	1%
8 (part)	Nuts	3.6	0%	0%
1, 2	Meat products, incl. live animals	0.3	0%	0%
50-53 (part)	Ag-based textile inputs (cotton, wool)	0.2	0%	0%
	Total	**2,170.8**	**100%**	**3%**

Source: CRS calculations from data from U.S. International Trade Commission, http://dataweb.usitc.gov. Imports for consumption, actual U.S. dollars. Select GSP countries ranked by value of imports. Agriculture commodities as defined by the WTO Agreement on Agriculture. Includes U.S. Harmonized Tariff Schedule chapters 1-24, excluding chapter 3 (fish and fish products, except processed), and parts of chapters 29, 33, 35, 48, 41, 43, and 50-53 (USDA, *Profiles of Tariffs in Global Agricultural Markets*, AER-796, Appendix, January 2001).

Table 2. U.S. Agricultural Imports under GSP, by Country, 2009

Country of Origin	2009 ($ millions	% Share	% Change 2005-2009	Major import product categories
Thailand	425.4	19.6%	48%	food preparations, preserved fruits and vegetables, waters, grain products, sauces and condiments, confectionery,
Brazil	273.0	12.6%	30%	fruit juices, gelatin derivatives, sugar confectionery, tropical fruits, miscellaneous food preparations, cocoa products
Argentina	241.7	11.1%	24%	casein, olive oil, prepared meats, gelatin derivatives, cheese and curd, sugar confectionery, wine
India	211.9	9.8%	71%	vegetable saps/extracts, gelatin derivatives, preserved cucumbers, essential oils (peppermint), spices
Philippines	137.1	6.3%	18%	cane/beet sugar, fresh/processed fruits and tropical fruits, fish products, coconut oil and coconuts, grains, waters
Turkey	131.7	6.1%	16%	sugar confectionary, olive oil, prepared/preserved fruits and vegetables, fruit juices, condiments and spices
Tunisia	106.1	4.9%	406%	olive oil and olive products, tropical fruits, sugar confectionary, sauces and condiments, spices
Indonesia	78.9	3.6%	61%	sugar alcohols and organic chemicals, seafood, tobacco products, sugar confectionary, edible animal products
Colombia	72.6	3.3%	1%	sugar and confectionary, miscellaneous food preparations, molasses, tropical fruits/vegetables, cocoa products
Fiji	47.4	2.2%	-20%	mineral waters, molasses, tropical fruits/vegetables, grain products, miscellaneous food preparations, plants
South Africa	42.1	1.9%	34%	sugar, wine, fish products, yeasts, live plants and seeds, essential oils, food preparations, spices
Cote d`Ivoire	40.8	1.9%	85%	preserved/frozen fruit products, sugar, floriculture/plants, seeds, bulbs, tuber vegetables
Pakistan	34.9	1.6%	272%	cane/beet sugar, rice, miscellaneous food preparations, spices, fresh/processed fruits and tropical fruits
Ecuador	33.4	1.5%	52%	tropical fruits/vegetables, prepared fish products, miscellaneous food preparations, fruit juices, cocoa products
Venezuela	29.2	1.3%	161%	
Subtotal	**1,906**	**87.8%**	**42%**	
Other	**265**	**12.2%**	**16%**	
Total	**2,171**	**100.0%**	**-49%**	

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).

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 categories and suppliers are as follows. Olive oil accounted for 7% of GSP agricultural imports in 2009, 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.

Legislative and Administrative Changes to GSP

In the past few years, Congress has extended GSP through a series of short-term extensions. However, the 111th Congress did not extend the GSP in 2010, and it was set to expire December 31, 2010 (P.L. 111-124). The expiration of the GSP will likely become a legislative issue in the 112th Congress, especially since many in Congress continue to support the program.[5] In addition, the leaders of the House Ways and Means Committee and the Senate Finance Committee have continued to express an interest in evaluating the effectiveness of U.S. trade preference programs, including the GSP, and broader reform of these programs has been expected in recent years.

The House Ways and Means Subcommittee on Trade conducted a hearing evaluating the effectiveness of U.S. trade preference programs, including the GSP, in November 2009;[6] the Senate Finance Committee conducted an oversight hearing in June 2008, focusing on ways to reform U.S. trade preference programs.[7] Prior to the one-year extension in December 2009, the Obama Administration had indicated that the debate on preference reform may extend into next year; however, some Members have expressed their reluctance to pass a GSP renewal without also enacting meaningful reform legislation.[8]

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)[9] 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.[10] In response to these concerns, Congress amended the program in 2006 by tightening the rules on "competitive need limits" (CNL)[11] waivers that allow imports from beneficiary countries in excess of GSP statutory thresholds for some products (P.L. 109-432).

[5] "Congress Passes Short-Term ATPDEA, TAA Extensions, But Not GSP," *Inside U.S. Trade*, December 23, 2010; and press release of Senator Max Baucus, "Baucus Commends Passage of Short-Term Extension of Job-Creating Trade Bill, Seeks Longer Extension," December 22, 2010.

[6] House Ways and Means Subcommittee on Trade, "Hearing on the Operation, Impact, and Future of the U.S. Preference Programs," November 17, 2009.

[7] Senate Finance Committee, "Oversight of Trade Functions: Customs and Other Trade Agencies," June 24, 2008.

[8] See, e.g., remarks of Senator Charles Grassley, Ranking Member of Senate Finance Committee, Washington International Trade Association, June 18, 2009.

[9] A current listing of BDCs under the GSP is available in the U.S. Harmonized Tariff Schedule (General Notes).

[10] 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.

[11] 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.

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.

Also, in 2006, the Trade Policy Staff Committee (TPSC), an advisory committee chaired by the U.S. Trade Representative, instituted a series of investigations to evaluate possible changes to the GSP.[12] 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.[13] 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 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 GSP.

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

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). 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 as part of its 2006 review from U.S. agricultural industry groups are mixed.[14] For example, the American Farm Bureau Federation (AFBF) expressed its general

[12] 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.

[13] 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.

[14] Based on public comments to the 2006 TPSC recommendations, posted at USTR's website.

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. GMA also was a signatory of a letter sent to House and Senate leaders in late 2010 urging Congress to extend the GSP.[15]

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.[16] 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.

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[15] Letter to Representatives Sander Levin and Dave Camp, and Senators Max Baucus and Charles Grassley, from several U.S. companies and manufacturing associations, including GMA, November 10, 2010, https://www.apparelandfootwear.org/UserFiles/File/Letters/2010/111010gspcoalition.pdf.

[16] 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)).