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Generalized System of Preferences: Background and Renewal Debate

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Summary

The U.S. Generalized System of Preferences (GSP) program provides non-reciprocal, duty-free tariff treatment to certain products imported from designated beneficiary developing countries (BDCs). The United States, the European Union, and other developed countries have implemented similar programs since the 1970s. The U.S. program was first authorized in Title V of the Trade Act of 1974, and is subject to periodic renewal by Congress. The GSP program was most recently extended until December 31, 2017, in Title II of P.L. 114-27.The program was also retroactively renewed for all GSP-eligible entries between July 31, 201,3 (the latest expiration date) and the effective date of the current GSP renewal (July 29, 2015). Imports under the GSP program in 2012 (last full year of GSP implementation) amounted to about $19.9 billion—about 6% of all imports from GSP countries, and about 1% of total U.S world imports. P.L. 114-27 also designated new product categories as eligible for GSP status, including some cotton products (for least-developed beneficiaries only) and certain luggage and travel goods.

In recent years, GSP renewal has been somewhat controversial. Some issues have included whether or not to continue to include emerging developing countries (e.g., India, Brazil) as beneficiaries or to open the program to least-developed countries only. Particular products given duty-free access have also caused controversy, as well as the country practices of certain beneficiaries. The most recent program lapse was due, in part, to GSP funding provisions.

The GSP program is one of several U.S. trade preference programs through which the United States seeks to help developing countries expand their economies. Other U.S. trade preference programs are regionally focused, and include the African Growth and Opportunity Act (AGOA), the Andean Trade Preference Act (ATPA, also expired in 2013 and may not be renewed), and the Caribbean Basin Initiative (CBI, includes preference programs for Haiti). The GSP program provides duty-free entry for over 3,500 products (based on 8-digit U.S. Harmonized Tariff Schedule tariff lines) from 122 BDCs, and duty-free status to an additional 1,500 products from 43 GSP beneficiaries additionally designated as least-developed beneficiary developing countries (LDBDCs).

U.S. implementation of GSP requires that developing countries meet certain criteria to be eligible for the program. For example, countries must not have seized ownership or control of the assets of U.S. citizens or have harmed U.S. investors in other specified ways. Eligible countries must also be taking steps to maintain internationally recognized worker rights among other things. GSP rules of origin require that at least 35% of the appraised value of the product be the “growth, product, or manufacture” of the BDC. Third, the GSP program includes certain curbs on product eligibility intended to shield U.S. manufacturers and workers from potential adverse impact due to the duty-free treatment. These include specific exclusion of certain “import sensitive” products (e.g., textiles and apparel), and limits on the quantity or value of any one product imported from any one country under the program (products from least-developed beneficiaries are not subject to this restriction). Fourth, GSP country and product eligibility are subject to annual review.

This report presents, first, recent developments and a brief history, economic rationale, and legal background leading to the establishment of the GSP. Second, the report presents a discussion of U.S. GSP implementation. Third, the report presents an analysis of the U.S. program’s effectiveness and the positions of various stakeholders. Fourth, implications of the expiration of the U.S. program and possible options for Congress are discussed.

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Introduction

The Generalized System of Preferences (GSP) program gives unilateral, nonreciprocal, preferential tariff treatment to certain products imported from designated beneficiary developing countries (BDCs). The United States, the European Union, and other developed countries have implemented such programs since the 1970s in order to promote economic growth in developing countries by stimulating their exports.

GSP was recently renewed Title II of P.L. 114-27 . Prior to the recent GSP extension, the program was extended until July 31, 2013, in Section 1 of P.L. 112-40, and lapsed for almost two years. In the 113th Congress, controversy arose over the funding provisions in Senate bill S. 1331 seeking to renew GSP.

This report presents, first, a brief summary of recent GSP developments and legislation introduced in the 114th Congress. Second, it provides a brief history, economic rationale, legal background, and comparison of GSP programs worldwide. Third, the report describes in more detail the U.S. implementation of the GSP program. Fourth, the report analyzes the U.S. program's effectiveness and stakeholder positions. Fifth, possible options for Congress are discussed.

Recent Developments

114th Congress Legislation

On June 29, 2015, the President signed the Trade Preferences Extension Act of 2015 (P.L. 114-27). Title II of the Act extends GSP until December 31, 2017, and also extended the program retroactively to the prior expiration date, July 31, 2013. The Act also provided the President with authority to designate certain cotton textiles as duty-free under GSP for least-developed countries; as well as to designate certain luggage and travel articles as eligible for GSP (See **Appendix A**).

Regarding retroactive refunds of duties paid on GSP-eligible products imported during the expiration period (between August 1, 2013, and the effective date of the GSP extension, July 29, 2015), U.S. Customs and Border Protection (CBP) has provided guidance on its website regarding the steps necessary to ensure that a refund is received.[1] A brief legislative history follows:

Bills Introduced:

- Title II of H.R. 1891, the AGOA Extension and Enhancement Act of 2015 (Ryan, introduced April 17, 2015), and of its companion bill, S. 1009 (Hatch, introduced April 20, 2015), proposed to extend GSP until December 31, 2017, and to extend it retroactively to the prior expiration date, July 31, 2013. The bill also proposed to give the President authority to designate certain articles made of cotton yarn from least-developed countries eligible for GSP status.
- H.R. 681, the GSP UPDATE Act (Crenshaw, introduced February 3, 2015), and its companion bill S. 340 (Blunt, introduced February 3, 2015) proposed

[1] See http://www.cbp.gov/trade/trade-community/outreach-programs/trade-agreements/special-trade-programs/gsp/gsp-renewal.

to authorize the President to designate certain luggage and travel articles eligible for duty-free status under the GSP.

Legislative Action:

- On May 14, 2015, the Senate incorporated the text of S.1009 into H.R. 1295 and passed the bill, as amended.
- On June 11, the House passed H.R. 1295 with an amendment to the Senate amendment.
- On June 21, the Senate concurred with the House amendment to H.R. 1295 with an additional amendment.
- On June 25, the House passed the bill, as amended by the Senate.
- The President signed the Trade Preferences Extension Act of 2015 on June 29, 2015 (P.L. 114-27).
- The GSP renewal language in the Act also includes the provisions of H.R. 681, the GSP Update Act (above).

Procedures for Receiving Duty Refunds

On July 28, 2015, U.S. Customs and Border Protection (CBP) issued a notice in the *Federal Register* regarding refunds of duties paid during the period that the GSP program was lapsed (August 1, 2013 – July 28, 2015). CBP announced that will process refunds automatically for all import entries that were filed electronically using the Automated Broker Interface (ABI) and were noted with the Special Program Indicator Code (SPI) "A" (indicator for GSP). CBP will not automatically process GSP duty refunds for entries that were not filed electronically using ABI or for entries not annotated with the "A" indicator. In order to receive a refund, these importers must file a duty refund request with CBP by December 28, 2015.[2]

Products Added to GSP

P.L. 114-27also amended the list of eligible products by providing the President with authority to designate certain cotton and cotton waste products as duty-free to eligible least-developed countries. The President was also given authority to designate certain luggage and travel articles (formerly deemed "import-sensitive") as eligible for GSP, following product review and analysis by the U.S. International Trade Commission, and the opportunity for public comment (see "114th Congress Amendments to Eligible Products"). On August 11, 2015, the GSP Subcommittee of the Trade Policy Staff Committee held a public hearing on the proposed GSP designation of the cotton products.[3] On July 16, 2015, the U.S. International Trade Commission (USITC) instituted its 2014 investigation of the economic effects of certain modifications to the GSP, including the possible GSP eligibility of the cotton products, and requested comments from the public.[4]

[2] 80 *Federal Register* 44986.

[3] 80 *Federal Register* 38501.

[4] 80 *Federal Register* 42120.

Countries Suspended from or Included in GSP

Many in Congress were critical of **Russia's** status as a GSP beneficiary following its invasion of Crimea.[5] On May 7, 2014, President Obama notified Congress that he intended to graduate Russia from the GSP program because he had determined that "it is appropriate to withdraw Russia's designation as a beneficiary developing country under the GSP program because Russia is sufficiently advanced in economic development and improved in trade competitiveness that continued preferential treatment under the GSP is not warranted."[6]

On October 3, 2014, the President officially terminated Russia's GSP status, which became effective on the same date.[7] The President's withdrawal of the preference was based on Section 502(f)(2) of the Trade Act of 1974 (19 U.S.C. 2462(f)(2)), which states that one of the factors determining country eligibility is its level of economic development (see "Eligible Countries," below). A list of GSP-eligible countries appears in **Appendix D**.

History, Rationale, and Comparison of GSP Programs

The basic principle behind each GSP program worldwide is to provide developing countries with unilateral preferential market access to developed-country markets in order to spur economic growth in poorer countries. The preferential access is in the form of lower tariff rates (or as in the U.S. case, duty-free) for certain products that are determined not to be "import sensitive" in the receiving country market. The program concept was first adopted internationally in 1968 by the United Nations Conference on Trade and Development (UNCTAD) at the UNCTAD II Conference.[8]

Economic and Political Basis

The GSP concept and programs were established based on an economic theory that preferential tariff rates in developed country markets could promote export-driven industry growth in developing countries. It was believed that this, in turn, would help to free beneficiaries from heavy dependence on trade in primary products (e.g., raw materials), and help diversify their economies to promote stable growth.[9]

Some economists claim that GSP was established, in part, as a means of reconciling two widely divergent economic perspectives of trade equity that arose during early negotiations on the General Agreement on Tariffs and Trade (GATT).[10] Industrialized, developed nations argued that

[5] "Levin Says Efforts on GSP Renewal Hampered by Questions over Russia," *Inside U.S. Trade*, April 10, 2014.

[6] U.S. Congress, House Committee on Ways and Means, *Withdrawal of Russia as a Beneficiary Developing Country under the Generalized System of Preferences*, Executive Communication from Obama, Barack H., 113th Cong., 2nd sess., May 7, 2014, H.Doc.113-107.

[7] Presidential Proclamation 9188 of October 3, 2014, "To Modify the List of Beneficiary Developing Countries Under the Trade Act of 1974," 79 *Federal Register* 60945, October 8, 2014.

[8] U.N. Conference on Trade and Development, "About GSP," at http://www.unctad.org. In addition to the United States and the European Union, eight other developed countries—Australia, Bulgaria, Canada, Japan, New Zealand, Norway, the Russian Federation, and Switzerland—currently have GSP programs.

[9] OECD Secretary-General. *The Generalized System of Preferences: Review of the First Decade*. Organization of Economic Cooperation and Development, 1983, p. 9 (hereinafter OECD GSP Review).

[10] Sapir, A. and L. Lundberg, "The U.S. Generalized System of Preferences and its Impacts," in R. Baldwin and A. (continued...)

the most-favored-nation principle[11] (MFN) should be the fundamental and universal principle governing multilateral trade, while less-developed countries believed that equal treatment of economically unequal trading partners did not constitute equity in trade benefits, and called for "special and differential treatment" for developing countries. These economists assert that GSP schemes thus became one of the means of offering a form of special treatment that developing nations sought, while allaying the fears of developed countries that tariff "disarmament" might create serious disruptions among import-sensitive industries in their domestic markets.[12]

Due to differences in developed countries' economic structures and tariff programs—as well as differences in the types of domestic industries and products each country wanted to shield from foreign competition—it proved difficult to create one unified system of tariff concessions on additional products. Therefore, the GSP became a system of individual national schemes based on common goals and principles—each with a view toward providing developing countries with generally equivalent opportunities for export growth.[13] As a result, the preference-granting countries implemented various individual schemes of *temporary, generalized, non-reciprocal, non-discriminatory* preferences under which tariffs were lowered or eliminated on some imports from certain developing countries.

Although not specifically allowed or codified in the GATT, the programs of most GSP-granting countries place certain conditions on the non-reciprocal preferences by (1) excluding certain countries; (2) determining specific product coverage; (3) determining rules of origin governing the preference; (4) determining the duration of the scheme; (5) reducing any preferential margins accruing to developing countries by continuing to lower or remove tariffs as a result of multilateral negotiations; (6) preventing the concentration of benefits among a few countries; (7) including safeguard mechanisms or "escape" clauses to protect import-sensitive industries; and (8) place caps on the volume of duty-free trade entering under their programs.[14]

GATT/WTO Framework

Although GSP programs were intended to be temporary, an international framework under the GATT was developed to allow the programs to continue. By its very nature as a trade preference, the GSP program posed a problem under the GATT because granting preferences would be inconsistent with the fundamental obligation placed on GATT Parties (GATT Article I:1) to grant MFN tariff treatment to the products of all other GATT Parties. However, since preference programs were viewed a means of transitioning developing countries to greater trade liberalization and economic development, GATT Parties accommodated them in a series of joint actions.

(...continued)

Krueger (eds.) *The Structure and Evolution of Recent U.S. Trade Policy*, Chicago: The University of Chicago Press, 1984.

[11] The most-favored-nation principle means that countries must treat imports from other trading partners on the same basis as that given to the most favored other nation. Therefore, with certain exceptions (including GSP, regional trading arrangements, and free trade agreements), every country gets the lowest tariff that any country gets, and reductions in tariffs to one country are provided also to others. The term "most-favored-nation" has been changed in U.S. law to "normal trade relations."

[12] OECD GSP Review, p. 11.

[13] Ibid., p. 10.

[14] David Wall, "Problems with Preferences," *International Affairs*, vol. 47, October 1971, p. 95.

First, in 1965, the GATT Parties added Part IV to the General Agreement, an amendment that recognizes the special economic needs of developing countries and asserts the principle of non-reciprocity. Under this principle, developed countries may forego the receipt of reciprocal benefits for their negotiated commitments to reduce or eliminate tariffs and restrictions on the trade of less developed contracting parties.[15] Second, because of the underlying MFN issue, GATT Parties in 1971 adopted a waiver of Article I for GSP programs, which allowed developed contracting parties to accord more favorable tariff treatment to the products of developing countries for 10 years.[16] The GSP was described in the decision as a "system of generalized, non-reciprocal and non-discriminatory preferences beneficial to the developing countries."

Enabling Clause

At the end of the Tokyo Round of Multilateral Trade Negotiations in 1979, developing countries secured adoption of the so-called Enabling Clause, a permanent deviation from MFN by joint decision of the GATT Contracting Parties.[17] The clause states that notwithstanding GATT Article I, "contracting parties may accord differential and more favorable treatment to developing countries, without according such treatment to other contracting parties," and applies this exception to:

> (a) Preferential tariff treatment accorded by developed contracting parties to products originating in developing countries in accordance with the Generalized System of Preferences;
>
> (b) Differential and more favorable treatment with respect to the provisions of the General Agreement concerning non-tariff measures governed by the provisions of instruments multilaterally negotiated under the auspices of the GATT;
>
> (c) Regional or global arrangements entered into amongst less-developed contracting parties for the mutual reductions or elimination of tariffs and, in accordance with criteria or conditions which may be prescribed by the CONTRACTING PARTIES for the mutual reduction or elimination of non-tariff measures, on products imported from one another;
>
> (d) Special treatment on the least developed among the developing countries in the context of any general or specific measures in favour of developing countries.[18]

Additional Commitment to LDCs

When launching the Doha Development Agenda (DDA) negotiations in November 2001, World Trade Organization (WTO, established in 1995) members committed themselves to provide "duty free/quota free" (DFQF) access to the products of least-developed countries in keeping with the shared objective of the international community as expressed in the Millennium Development

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[15] Edmond McGovern, International Trade Regulation ¶ 9.212 (updated 1999). Part IV is generally viewed as nonbinding, though some have argued otherwise with regard to certain of its provisions. *Id.*; John H. Jackson, William J. Davey & Alan O. Sykes, Jr., Legal Problems of International Economic Relations 1171 (4th ed. 2002).

[16] GATT, Generalized System of Preferences; Decision of 25 June 1971, L/3545 (June 28, 1971), available at http://www.wto.org/gatt_docs/English/SULPDF/90840258.pdf.

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

[18] For more information on the treatment of GSP and other preference programs in the WTO, see CRS Report RS22183, *Trade Preferences for Developing Countries and the World Trade Organization (WTO)*, by Daniel T. Shedd, Jane M. Smith, and Brandon J. Murrill.

Goals.[19] During DDA negotiations at the sixth WTO Ministerial Conference in Hong Kong in December 2005, developed country WTO members and "developing country members declaring themselves in a position to do so" agreed to deepen this commitment by providing DFQF access to at least 97% of products originating from LDCs by 2008, or no later than the start of the implementation period (i.e., of any multilateral WTO agreement that might be reached), "in a manner that ensures stability, security and predictability."[20] As of 2011, 83.4% of all exports (excluding oil and arms) from LDCs entered into developed countries duty-free.[21] If the DDA, currently at an impasse, were concluded, all developed country WTO members could be required to take on the DFQF commitment.

Comparison of International GSP Programs

Other developed countries besides the United States that have GSP programs are Australia, Bulgaria, Canada, the European Union (EU), Japan, New Zealand, Norway, the Russian Federation, and Switzerland.[22] One economist has referred to these programs as a non-homogeneous set of national schemes sharing certain common characteristics.[23] Generally, each preference-granting country extends to qualifying developing countries (as determined by each benefactor) an exemption from duties (reduced tariffs or duty-free access) on most manufactured products and certain "non-sensitive" agricultural products. Product coverage and the type of preferential treatment offered vary widely.[24]

Although most GSP schemes (including the U.S. program) admit all eligible products duty-free, some countries provide tariff reductions, rather than complete exemption from duties.[25] The Australian System of Tariff Preferences (ASTP), for example, is based on a five percentage point margin of preference. When the Australian General Tariff (GT) is higher than 5%, the ASTP tariff rate is reduced by 5% (for example, if the GT rate is 20%, the ASTP rate is 15%). When the GT rate is 5% or less, the ASTP rate is zero.[26]

In the WTO, the developing country status of members is generally based on self-determination. However, with regard to GSP, each preference-granting country establishes particular criteria and conditions for defining and identifying developing country beneficiaries. Consequently, the list of beneficiaries and exceptions may vary greatly between countries. If political or economic changes have taken place in a beneficiary country, it might be excluded from GSP programs in some countries but not in others. Some countries, including the United States, also reserve the right to exclude countries if they have entered into another kind of commercial arrangement (e.g., a free

[19] World Trade Organization, "The WTO and the Millennium Development Goals," http://www.wto.org/english/thewto_e/coher_e/mdg_e/mdg_e.htm.

[20] World Trade Organization, Ministerial Declaration, Annex F. December 18, 2005, WT/MIN(05)/DEC.

[21] United Nations Integrated Implementation Framework, *WTO Hong Kong DFQF Target*, http://iif.un.org/content/wto-hong-kong-dfqf-target.

[22] U.N. Conference on Trade and Development, "About GSP," at http://www.unctad.org.

[23] Sanchez Arnau, Juan C. *The Generalized System of Preferences and the World Trade Organization*. London: Cameron May, Ltd., 2002, p. 187.

[24] Ibid.

[25] World Trade Organization, Committee on Trade and Development. The Generalized System of Preferences: A Preliminary Analysis of the GSP Schemes in the Quad. WTO Document WT/COMTD/W/93, October 5, 2001.

[26] United Nations Conference on Trade and Development, Generalized System of Preferences on the Scheme of Australia. UNCTAD Technical Cooperation Project on Market Access, Trade Laws and Preferences, June 2000 (INT/97/A06), p. 5. http://www.unctad.org/en/docs/itcdtsbmisc56_en.pdf.

trade agreement) with any other GSP-granting developed country (i.e., in the U.S. case, "if it has, or is likely to have, a significant adverse effect on United States commerce").[27]

In terms of additional GSP product coverage for LDCs, the EU's program, which offers duty-free access for "everything but arms,"[28] is currently perhaps the most inclusive in terms of GSP-eligible products. GSP-granting countries may also have incentive-based programs that provide enhanced benefits for beneficiary countries that meet certain additional criteria. For example, in 2007, the European Community implemented a regulation that grants additional GSP benefits to those countries that have demonstrated their commitment to sustainable development and internationally recognized worker rights.[29]

Each preference-granting nation also has safeguards in place to ensure that any significant increases in imports of a certain product do not adversely affect the receiving country's domestic market. Generally, these restrictions take the form of quantitative limits on goods entering under GSP. Under Japan's system, for example, imports of certain products under the preference are limited by quantity or value (whichever is applicable) on a first-come, first-served basis as administered on a monthly (or daily, as indicated) basis. For other products, import ceilings and maximum country amounts are set by prior allotment.[30] The United States quantitatively limits imports under the GSP program by placing "competitive need limit" (CNL) thresholds on the quantity or value of commodities entering duty-free, as discussed in more detail below.

Each GSP benefactor also has criteria for graduation—the point at which beneficiaries no longer qualify for benefits because they have reached a certain level of development. Most preference-granting countries require mandatory graduation based on a certain level of income per capita based on World Bank calculations. Some programs, such as the EU's, also specifically provide for graduation of certain GSP recipients with respect to specific product sectors.

EU GSP Changes

On January 1, 2014, the EU implemented substantial changes to its GSP program that are intended to (1) better focus on countries in need; (2) further promote core principles of sustainable development and good governance; and (3) enhance stability and predictability.[31] As part of a long-term overhaul of the EU's relationship of its trade arrangements with developing countries, including its GSP beneficiaries, negotiations have been ongoing since 2000 to establish reciprocal, WTO-compliant "Economic Partnership Agreements" (EPAs) with developing country trading partners in the African, Caribbean, and Pacific regions. For example, in July 2014, the EU

[27] 19 U.S.C. 2462(b)(2)(c)

[28] European Communities, GSP Council Regulation (EC) No. 2501/2001. See also Council Regulation (EC) No 732/2008 of 22 July 2008 applying a scheme of generalised tariff preferences for the period from 1 January 2009 to 31 December 2011 and amending Regulations (EC) No 552/97, (EC) No 1933/2006 and Commission Regulations (EC) No 1100/2006 and (EC) No 964/2007. Published in Official Journal of the European Communities, (OJ) OJ L 211 of 6 August 2008. The "Everything but Arms" provision applies to all goods except arms and munitions and white sugar (from October 1, 2009 to September 2012, sugar importers "shall undertake to purchase such products at a minimum price not lower than 90% of the reference price."). See Council Regulation (EC) No 2501/2001.

[29] Ibid.

[30] World Trade Organization, Committee on Trade and Development. *Notification by Japan*, June 21, 2000, WT/COMTD/N/2/Add.9.

[31] Regulation (EU) No. 978/2012 of the European Parliament and of the Council of 25 October 2012 Applying a Scheme of Generalized Tariff Preferences and repealing Council Regulation (EC) No. 732/2008, OJ L 303/1, October 31, 2012. See also European Commission, "Revised EU Trade Scheme to Help Developing Countries Applies on 1 January 2014," Memo, December 19, 2013, http://trade.ec.europa.eu/doclib/docs/2013/december/tradoc_152015.pdf.

initialed an agreement with members of the Economic Community of West African States (ECOWAS). As of October 2014, both sides were preparing for the signature and subsequent ratification of the agreement.[32]

The EU's revisions reduced GSP-eligible countries to 90, down from 176. The other 86 countries previously eligible were excluded because they (1) had alternative trade arrangements for accessing the EU market; (2) had become high or upper-middle income countries; or (3) had other preferential arrangements with the EU.[33]

The EU also added additional tariff lines (mostly chemicals, fertilizers, and base metals) to the list of duty-free products eligible for GSP, narrowed certain countries' benefits to fewer products (e.g., China may only receive benefits for vegetable products; animal and vegetable fats and waxes; meat products; tobacco, and mineral products), and graduated certain competitive sectors in some GSP-eligible countries (e.g., Ukraine will not receive GSP benefits for railway and tramway vehicles and products).[34]

In order to add a measure of stability to the program, the EU extended GSP benefits for 10 years, and provided transition periods of at least one year for those countries that will lose GSP eligibility.

Future Canada Changes

Canada announced that, effective January 1, 2015, Canada's General Preferential Tariff (GPT) benefits were to be withdrawn from 72 countries.[35] GPT will continue to be available to 103 beneficiaries. Canada will continue to review the list of beneficiary countries biannually, and will automatically graduate countries that are either classified for two consecutive years as high or upper middle income countries; or have a 1% or greater share of world exports for two consecutive years.[36]

United States GSP Implementation

Congress first authorized the U.S. Generalized System of Preferences scheme in Title V of the Trade Act of 1974 (P.L. 93-618), as amended.[37] P.L. 93-618 authorized the President to grant duty-free treatment under the GSP for any eligible product from any beneficiary developing country (BDC) or least-developed beneficiary developing country (LDBDC), provides the President with economic criteria in deciding whether to take any such action, and also specifies certain other criteria for designating eligible countries and products.[38]

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[32] European Commission, "Overview of EPAs – State of Play," accessed at http://ec.europa.eu/trade/policy/countries-and-regions/development/economic-partnerships/.

[33] Ibid.

[34] Ibid.

[35] Canada Gazette, "General Preferential Tariff Withdrawal Order (2013 GPT Review), Volume 147, No. 21, October 9, 2013.

[36] Ibid.

[37] Trade Act of 1974, P.L. 93-618, Title V, as amended, 19 U.S.C. §2461-2467. The GSP Program was reauthorized and amended by the Trade and Tariff Act of 1984 (P.L. 98-573), and again by Subtitle J (the GSP Renewal Act of 1996) of P.L. 104-188. Twelve laws have authorized GSP with relatively minor modifications, most recently through July 31, 2013, (P.L. 112-40). See **Table C-1**.

[38] 19 U.S.C. §2461.

Changes to GSP country eligibility or product coverage are made at the discretion of the President, drawing on the advice of the United States Trade Representative (USTR). The Trade Policy Staff Committee (TPSC), an executive branch interagency body chaired by the office of the USTR, serves as the interagency policy coordination mechanism for matters involving GSP.[39] The GSP Subcommittee[40] conducts an annual GSP review in which petitions related to GSP country and product eligibility are assessed and makes recommendations to the full TPSC, which, in turn, passes these recommendations to the USTR.

Eligible Countries

When designating BDCs and LDBDCs, the President is directed to take into account certain mandatory and discretionary criteria. The law prohibits (with certain exceptions) the President from extending GSP treatment to certain countries, as follows:[41]

- other industrialized countries (Australia, Canada, EU member states, Iceland, Japan, Monaco, New Zealand, Norway, and Switzerland are specifically excluded);
- communist countries, unless they are a WTO member, a member of the International Monetary Fund, and receive Normal Trade Relations (NTR) treatment from the United States; must also not be "dominated or controlled by international communism";
- countries that collude with other countries to withhold supplies or resources from international trade or raise the price of goods in a way that could cause serious disruption to the world economy;
- countries that provide preferential treatment to the products of another developed country in a manner likely to have a significant adverse impact on U.S. commerce;
- countries that have nationalized or expropriated the property of U.S. citizens, or otherwise infringe on U.S. citizens' property rights, including patents, trademarks, or copyrights; countries that have taken steps to repudiate or nullify existing contracts or agreements of U.S. citizens (or corporations, partnerships, or associations that are 50% or more owned by U.S. citizens) in a way that would nationalize or seize ownership or control of the property; or
- countries that have imposed or enforced taxes or other restrictive conditions or measures on the property of U.S. citizens; *unless* the President determines that compensation is being made, good faith negotiations are in progress, or a dispute has been handed over to arbitration in the Convention for the Settlement of Investment Disputes or another forum;

[39] According to 15 C.F.R. §2002.2, "The [Trade Policy Staff] Committee consists of a chairman designated by the Special Representative from his Office, and of senior trade policy staff officials designated from their respective agencies or offices by the Secretaries of Agriculture, Commerce, Defense, Interior, Labor, State, and Treasury, by the Executive Director of the Council on International Economic Policy, and by the Chairman of the International Trade Commission." GSP regulations are found at 15 C.F.R. §2007.

[40] The GSP Subcommittee includes officials from these agencies, except Interior and Defense, and also includes the U.S. Agency for International Development.

[41] 19 U.S.C. §2462.

- countries that have failed to act in good faith in recognizing as binding or in enforcing arbitral awards in favor of U.S. citizens (or corporations, partnerships, or associations that are 50% or more owned by U.S. citizens); and
- countries that grant sanctuary from prosecution to any individual or group that has committed an act of international terrorism, or have not taken steps to support U.S. efforts against terrorism.

Mandatory criteria also require that beneficiary countries:

- have taken or are taking steps to grant internationally recognized worker rights (including collective bargaining, freedom from compulsory labor, minimum age for employment of children, and acceptable working conditions with respect to minimum wages, hours of work, occupational safety and health); and
- implement their commitments to eliminate the worst forms of child labor.[42]

The President has the authority to waive certain mandatory criteria if he determines that GSP designation of any country is in the national economic interest of the United States and reports this determination to Congress.[43]

The President is also directed to consider certain criteria as "factors affecting country designation":

- the country's expressed desire to be designated a beneficiary developing country for purposes of the U.S. program;
- the level of economic development of the country;
- whether or not other developed countries are extending similar preferential tariff treatment to the country;
- its commitment to provide reasonable and equitable access to its market and basic commodity resources, and the extent to which the country has assured the United States that it will not engage in unreasonable export practices;
- the extent to which the country provides adequate protection of IPR;
- the extent to which it has taken action to reduce trade-distorting investment policies and practices, and to reduce or eliminate barriers to trade in services; and
- whether or not it has taken steps to grant internationally recognized worker rights.[44]

The law further authorizes the President, based on the required and discretionary factors mentioned above, to withdraw, suspend, or limit GSP treatment for any beneficiary developing country at any time.[45]

[42] 19 U.S.C. §2462(b). The most recent amendments required the support of U.S. efforts against terrorism and expanded the definition of internationally recognized worker rights (Section 4102 of P.L. 107-210). See also United States Trade Representative. *U.S. Generalized System of Preferences Guidebook*, December 2011, p. 19 (hereinafter USTR Guidebook).

[43] 19 U.S.C. §2462(b)(2).

[44] 19 U.S.C. §2462(c). op cit., p. 20.

[45] 19 U.S.C. §2462(d).

Reporting Requirements

The President must advise Congress of any changes in beneficiary developing country status, as necessary.[46] The President must also submit an annual report to Congress on the status of internationally recognized worker rights within each BDC, including findings of the Secretary of Labor with respect to the beneficiary country's implementation of its international commitments to eliminate the worst forms of child labor.[47]

Least-Developed Beneficiaries

The President is also authorized by statute to designate any BDC as a LDBDC, based on an assessment of the conditions and factors previously mentioned.[48] Although the United Nations designation of LDCs plays a large factor in GSP least-developed beneficiary determinations,[49] U.S. officials may also assesses the level of compliance with GSP statutory requirements and comments from the public (as requested in the *Federal Register*) before identifying a country as "least-developed" for purposes of the GSP.[50]

Country Graduation from GSP

The President may withdraw, suspend, or limit the GSP status of a BDC if he determines that the country is determined to be sufficiently competitive or developed, just as President Obama removed Russia's GSP eligibility.[51] *Mandatory* country graduation occurs when the BDC is determined to be a "high income country" as defined by official World Bank statistics.[52] On December 20, 2012, the President determined that St. Kitts and Nevis had become a "high income country" and terminated its GSP beneficiary status as of January 1, 2014.[53] The President made the same determination on June 29, 2012, with respect to Gibraltar and the Turks and Caicos (also effective January 1, 2014).[54]

If a country becomes part of an association of countries specifically excluded from GSP, they are mandatorily withdrawn from GSP. Bulgaria and Romania were the last countries to lose GSP eligibility for this reason, effective when they became EU Member States as of January 1, 2007.[55] Although not specifically required by the GSP statute, developing countries that enter into a free trade agreement (FTA) with the United States, at the discretion of Congress, generally lose GSP

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[46] 19 U.S.C. §2462(d)(3).

[47] 19 U.S.C. §2464.

[48] 19 U.S.C. §2462(a)(2).

[49] 19 U.S.C. §2462(c)(2).

[50] For example, see "Generalized System of Preferences (GSP): Initiation of a Review to Consider the Designation of East Timor as a Least Developed Beneficiary Country under the GSP," 71 *Federal Register* 43543, August 1, 2006. In practice, the Administration designations are based, in large measure on the United Nations designations of LDCs.

[51] Presidential Proclamation 9188 of October 3, 2014, "To Modify the List of Beneficiary Developing Countries Under the Trade Act of 1974," 79 *Federal Register* 60945, October 8, 2014.

[52] 19 U.S.C. §2462(e).

[53] Proclamation 8921 of December 20, 2012, "To Take Certain Actions Under the African Growth and Opportunity Act and for Other Purposes, 77 *Federal Register* 76799, December 28, 2012.

[54] Proclamation 8840 of June 29, 2012, 77 *Federal Register* 39885, July 5, 2012.

[55] Presidential Proclamation 8098, December 29, 2007, 72 *Federal Register* 460. European Union member states are specifically identified as ineligible for designation as GSP countries in 19 U.S.C. §2462 (b)(1)(C).

eligibility in favor of the reciprocal concessions granted by the FTA. Specific language to this effect would appear in FTA implementing legislation.[56]

Countries Potentially Eligible for GSP

Now that the GSP program has been extended, the United States Trade Representative (USTR) could possibly consider the GSP eligibility of additional countries. On April 16, 2013, the USTR requested public comments and announced a public hearing on whether to add Burma (Myanmar) and Laos to the list of beneficiary countries under the GSP program.[57] Burma's GSP eligibility has been suspended since April 1989 because it had not been meeting GSP criteria related to worker rights.[58] Laos was removed from GSP eligibility in August 1976, apparently on the basis of its having become a communist country several months earlier.[59] A hearing was held on June 4, 2013. Shortly thereafter, the GSP program expired, thus no action regarding their eligibility was taken.

According to pre-hearing comments, some U.S. nongovernmental organizations (NGOs), including the U.S. Campaign for Burma, EarthRights International, and the AFL-CIO, asserted that Burma, although it has recently instituted new labor laws, has not sufficiently demonstrated its willingness to address forced labor and worst forms of child labor issues, or to grant freedom of assembly or collective bargaining. The lack of adequate workplace protections was also mentioned.[60] Organizations and individuals representing the retail industry were strongly in favor of Burma and Laos being granted GSP eligibility, saying that it would "help Myanmar and Laos to reach their full economic potentials by diversifying their markets and becoming more globally integrated."[61] The International Intellectual Property Alliance (IIPA), a private sector coalition of trade associations representing copyright-based industries, did not oppose the granting of GSP benefits for either Burma or Laos, but pointed out several areas where these countries may not fully qualify for GSP eligibility based on IPR protection criteria. The IIPA requested a review of Burma and Laos's progress in meeting these criteria one year after the President designates them as GSP beneficiaries.[62]

Eligible Products

The Trade Act of 1974 authorizes the President to designate certain imports as eligible for duty-free treatment under the GSP after receiving advice from the United States International Trade Commission (USITC).[63] "Import sensitive" products specifically excluded from preferential treatment include most textiles and apparel goods; watches; footwear and other accessories; most electronics, steel, and glass products; and certain agricultural products that are subject to tariff-

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[56] Colombia and Panama were the latest countries to lose GSP status for this reason. See Section 201(a)(2) of the United States-Colombia Trade Promotion Agreement (P.L. 112-42) and Section 201(a)(2) of the United States-Panama Trade Promotion Implementation Act (P.L. 112-43). One country, Jordan, continues to be eligible for GSP benefits even though it entered into an FTA with the United States in 2001.

[57] 78 *Federal Register* 22593, April 16, 2003.

[58] Presidential Proclamation 5955 of April 13, 1989, 54 *Federal Register* 15357.

[59] Executive Order 11934, "Amending the Generalized System of Preferences," 41 *Federal Register* 37804, August 30, 1976.

[60] GSP Country Eligibility Review – Burma, Docket ID: USTR-2013-0020. http://www.regulations.gov.

[61] Ibid. Statement of the Retail Industry Leaders Association (RILA).

[62] Ibid. Statement of the International Intellectual Property Alliance (IIPA).

[63] 19 U.S.C. §2463(a)(1).

rate quotas.[64] The lists of eligible products are reviewed and revised by the GSP Subcommittee annually, generally on the basis of petitions received from beneficiary countries or interested parties.[65] Any modifications to these lists usually take effect on July 1 of the following calendar year.[66]

In terms of product coverage, more than 3,500 products are currently eligible for duty-free treatment, and about 1,500 additional articles originating in LDBDCs may receive similar treatment. Leading GSP imports in 2012 included petroleum products, especially crude oil; car and truck tires; ferrosilicon; aluminum alloy plates, sheet, and strip; and car and truck tires.[67] See **Appendix B** for a list of leading GSP imports.

114th Congress Amendments to Eligible Products

P.L. 114-27 amended the list of eligible products by (sec. 202), providing the President with authority to designate certain cotton and cotton waste products as duty-free to eligible least-developed beneficiaries. According to the Senate report accompanying H.R. 1295, the section is intended to implement commitments made at the WTO to provide duty-free, quota-free treatment for certain cotton products originating from least-developed countries.[68]

Sec. 204 of P.L. 114-27 also removed the statutory exclusion of travel goods (as "import-sensitive") and gave the President authority to designate certain luggage and travel articles as eligible for GSP following product review and analysis by the USITC and the opportunity for public comment.

Rules of Origin

Eligible goods under the U.S. GSP program must meet certain rules of origin (ROO) requirements in order to qualify for duty-free treatment. First, duty-free entry is only allowed if the article is imported directly from the beneficiary country into the United States without entering the commerce of a third country. Second, at least 35% of the appraised value of the product must be the "growth, product or manufacture" of a beneficiary developing country, as defined by the sum of (1) the cost or value of materials produced in the BDC (or any two or more BDCs that are members of the same association or countries and are treated as one country for purposes of the U.S. law, see **Table D-1**), plus (2) the direct costs of processing in the country.[69]

Competitive Need Limits and Waivers

The GSP statute also established "competitive need limit" (CNL) requirements for the President to suspend GSP treatment for BDCs if (1) imports of a product from a single country reach a specified threshold value (increases by $5 million each calendar year; i.e., $170 million in 2015

[64] 19 U.S.C. §2463(b).

[65] The GSP Subcommittee is a sub-group of the Trade Policy Staff Committee (TPSC). The TPSC, through the USTR, is charged with advising the President on GSP beneficiary country designations and covered products (see Section 8 of Executive Order 11846, 40 *Federal Register* 14291, as amended).

[66] USTR Guidebook, p. 8.

[67] See USTR Guidebook.

[68] 114th Congress, House, Committee on Ways and Means, Report (to accompany S. 1267), *An Original Bill To Extend the African Growth and Opportunity Act, the Generalized System of Preferences, the Preferential Duty Treatment Program for Haiti, and for Other Purposes,* S.Rept. 114-43, May 12, 2015.

[69] 19 U.S.C. §2463(a).

and $175 million in 2016); or (2) 50% or more of total U.S. imports of a product entering under GSP come from a single country.[70] By statute, GSP treatment for a product exceeding either competitive need limit threshold ends on July 1 of the next calendar year.[71]

BDCs may petition for CNL waivers, which are individually reviewed and granted or denied on a case-by-case basis. In deciding whether to grant a waiver, the President must (1) receive advice from the USITC as to whether a U.S. domestic industry could be adversely affected by the waiver; (2) determine that the waiver is in the U.S. economic interest; and (3) publish the determination in the *Federal Register*.[72] The President is also required to give "great weight" to the extent to which the BDC opens its markets to the United States and protects intellectual property rights (IPR).[73]

In 2006, Congress amended the GSP law to provide that the President should revoke any CNL waiver that had been in effect for five years or more if (1) the exports of the product were in excess of 1.5 times of the specified dollar amount reflected in the CNL provision; or (2) imports of the product exceeded 75% of the appraised value of total imports of the product into the United States in a calendar year.[74]

De Minimis CNL Waivers

De minimis CNL waivers may also be provided if the total imported into the United States of a particular product from *all countries* is small. The *de minimis* level is adjusted each year, in increments of $500,000; for example, $22.5 million in 2015 and $23 million in 2016.[75]

Waivers for Articles not Produced in the United States on January 1, 1995

Specific products that the President determined were not produced in the United States on January 1, 1995, are also eligible for waivers (a "504(d)" waiver). Imports of these products from BDCs may enter the United States duty-free.[76]

Annual Reviews

The GSP Subcommittee also reviews issues regarding BDCs' and LDBDCs' observance of country practices (such as worker rights or IPR protection); investigates petitions to add or remove items from the list of eligible products; and considers which products should be removed on the basis that they are "sufficiently competitive" or "import sensitive" relative to U.S. domestic firms. The USTR must also seek an investigation by the USITC assessing the impact of any proposed addition to the GSP product list or any proposed waiver of CNLs.[77]

[70] LDBDCs and sub-Saharan African beneficiaries of AGOA are exempt from competitive need limits. 19 U.S.C. §2463(c)(2)(A). See also USTR Guidebook, p. 11.

[71] Ibid.

[72] 19 U.S.C. §2463(d).

[73] 19 U.S.C. §2463(d)(2).

[74] Ibid.

[75] 19 U.S.C. §2463(c)(2)(F). These waivers are automatically reviewed by the GSP Subcommittee (see below), but are granted at the discretion of the President.

[76] 19 U.S.C. §2463(c)(2)(E). The TPSC GSP Subcommittee automatically considers *de minimis* waivers each year. Granting waivers is a discretionary decision of the President. See USTR Guidebook, p. 12.

[77] 19 U.S.C. §2463(d)(1)(A).

Effectiveness of the U.S. GSP Program

The statutory goals of the U.S. GSP program are to (1) promote the development of developing countries; (2) promote trade, rather than aid, as a more efficient way of promoting economic development; (3) stimulate U.S. exports in developing country markets; and (4) promote trade liberalization in developing countries.[78] It is difficult to assess whether or not the program alone has achieved these goals, however, because the GSP is only one of many such foreign aid initiatives used by the United States to assist poorer countries. Economic success within countries is also related to internal factors, such as governance, stability, wise policy decisions, availability of infrastructure to foster industry, and legal/financial frameworks that encourage foreign investment. External macroeconomic factors, including global economic growth, worldwide economic shocks, and exchange rates, may also influence the growth of developing countries.

What follows, therefore, are general comments, rather than hard data, about the impact of GSP on developing countries, and possible economic effects on the U.S. market. The positions of various stakeholders regarding the value of the program are also discussed.

Effects on Developing Countries

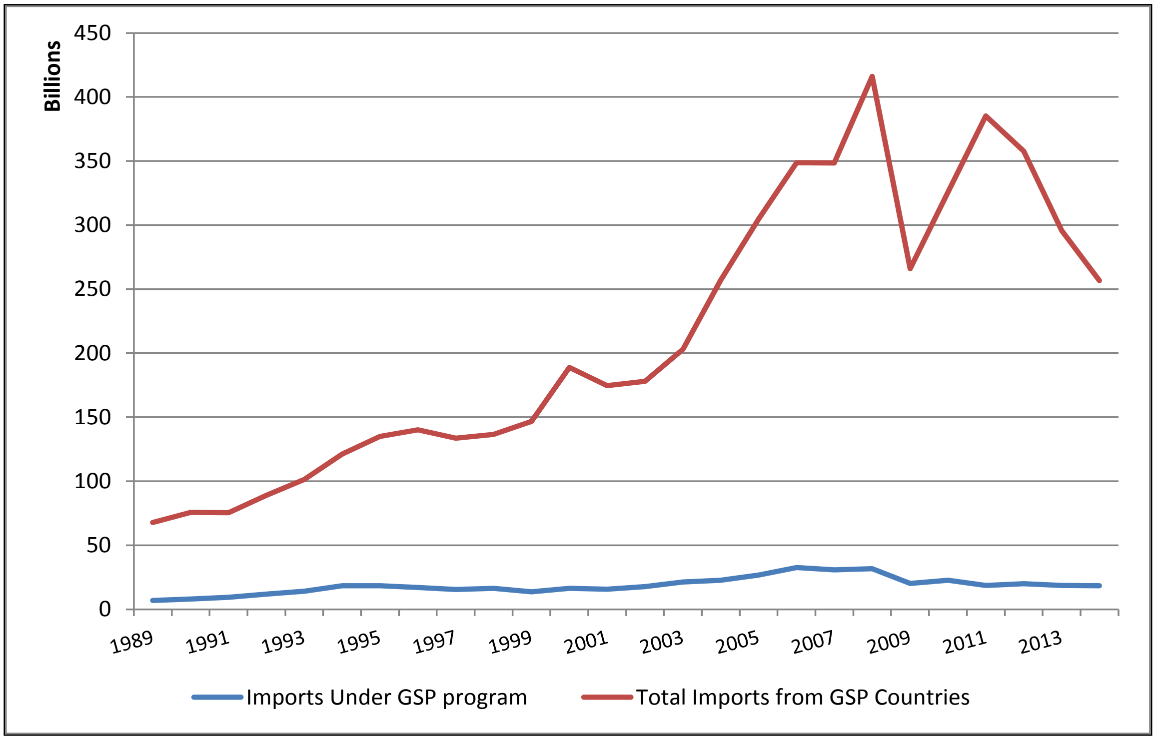
From 1996 to 2008, total U.S. imports from GSP-eligible developing countries increased dramatically, from $82 billion in 1996 to a peak of $384 billion in 2008 (see **Figure 1**). Total imports from GSP countries decreased by 36% (to $246 billion) in 2009, largely due to the effects of the global economic downturn. Imports increased to $367 billion in 2011, but decreased gradually to $238 billion (estimated) in 2014.[79] The general growth trend in total imports from GSP countries over time could indicate, in very broad terms, that GSP, and perhaps other preferential programs, may have helped generate some export-driven growth in developing countries.

[78] P.L. 98-573, Section 501(b), 19 U.S.C. §2461 note. Additional factors are to allow for differences in developing countries; help developing countries generate foreign exchange reserves, further integrate developing countries into the international trading system; and encourage developing countries to eliminate trade barriers, guard intellectual property rights, provide worker rights; and address concerns of the United States with regard to adverse effects on U.S. producers and workers and compliance with GATT obligations.

[79] GSP trade data are estimated for 2013 and 2014 are based on U.S. entries of goods filed electronically with a Special Program Indicator (SPI) designating them as eligible for GSP benefits. Countries receiving benefits under the African Growth and Opportunity Act (AGOA) continued to receive GSP benefits under AGOA despite GSP expiration.

Figure 1. U.S. Imports from GSP Countries

1989-2014



Source: United States International Trade Commission Trade Dataweb.

Notes: The GSP program expired as of July 31, 2013; thus August 2013 through December 2014 imports under GSP are estimated based on entries that were filed electronically and appropriately labeled as eligible for GSP.

In contrast to this general growth trend, imported goods entering under the GSP program have been relatively static, averaging about 11% of all imports from GSP-eligible countries. A number of factors could cause this difference, including uncertainty based on short-term GSP program renewal; long pauses between program authorization periods (despite assurances of automatic refunds once the program is retroactively renewed); suspension, termination, or graduation of countries from GSP eligibility; and exclusion of certain products from eligibility through CNLs or by petition. In addition, some products from developing countries may receive more favorable treatment under other trade preference programs, such as the African Growth and Opportunity Act (AGOA) or the Caribbean Basin Initiative (CBI). The fact that countries that enter into free trade agreements (FTAs) with the United States (many of which were GSP beneficiaries) are disqualified from GSP eligibility could also be a reason that the amount of trade imported under the GSP has remained about the same over time.

Another indicator of the GSP's impact on developing countries is the utilization rate of the preference. At first glance, it seems that only a few beneficiary developing countries use GSP to a great extent. However, as one study pointed out, the apparent lack of utilization masks the fact that many GSP-eligible goods may also be imported duty-free under other U.S. preference schemes, such as the (AGOA).[80] The study also illustrated that, for certain industries in BDCs, the

[80] Organization for Economic Cooperation and Development (OECD). *Agriculture and Food*. Preferential Trading Arrangements in Agricultural and Food Markets: The Case of the European Union and the United States: United States Preference Schemes. Volume 2005, No. 1, p. 81. See also U.S. Government Accountability Office. *U.S. Trade* (continued...)

positive impact of GSP is quite significant. For example, for all agricultural commodities eligible for GSP treatment, the GSP utilization rate was approximately 58%.[81]

Many developing countries with a natural competitive advantage in certain products use trade preferences such as the GSP to gain a foothold in the international market. For example, India and Thailand, two countries with well-established jewelry industries, were able to expand their international reach through GSP programs and become competitive in the international market. However, some countries could also be encouraged by preferential programs to develop industry sectors in which they might not otherwise ever be able to compete, thus diverting resources from other industries that might actually become competitive over time (trade diversion).[82]

Some economists assert that the lack of reciprocity in the GSP program could actually result in long-term costs for beneficiary countries. In multilateral trade negotiations, such as in the WTO Doha Development Agenda (DDA), countries may engage in reciprocal tariff reductions, meaning that all parties would agree to reduce their tariffs. By avoiding such reciprocal concessions, these economists say that developing countries are keeping in place protectionist trade policies that could actually impede their long-term growth. Moreover, these unilateral preferences could become an impediment to multilateral trade negotiations because developing country beneficiaries may prefer to seek ways of maintaining their unilateral preferences rather than exchanging them for reciprocal benefits.[83]

For this reason, some economists prefer multilateral, nondiscriminatory tariff cuts because preferential tariff programs, such as the GSP, can lead to inefficient production and trade patterns in developing countries.[84] When tariffs are reduced across-the-board, rather than in a preferential manner, countries tend to produce and export on the basis of their comparative advantage—thus exporting products that they produce relatively efficiently and importing products that others produce relatively efficiently. However, while some developing country producers (especially those whose products do not qualify under GSP) may benefit from multilateral tariff reductions, other industries may be hurt because their margin of preference under GSP is reduced.

Economic Effects on the U.S. Market

U.S. imports under the GSP program in 2012 were about $19.9 billion (see **Appendix B**) in comparison to total imports of about $2.3 trillion. This might indicate that the overall effects of GSP on the U.S. economy are quite small. In addition, most U.S. producers of import-competing products are largely protected from severe economic impact. First, certain products, such as most textile and apparel products, are designated "import sensitive" and therefore ineligible for duty-free treatment. Second, CNLs are triggered when imports of a product from a single country reach a specified threshold value, or when 50% of total U.S. imports of a product come from a

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(...continued)

Preference Programs Provide Important Benefits, but a More Integrated Approach Would Better Ensure Programs Meet Shared Goals, March 2008, p. 19.

[81] Ibid.

[82] OECD, "Making Open Markets Work for Development," *Policy Brief*, October 2005, p. 2.

[83] Patrick Low, Roberta Piermartini, and Jurgen Richtering, *Multilateral Solutions to the Erosion of Non-Reciprocal Preferences in NAMA*, World Trade Organization, Economic Research and Statistics Division, Working Paper ERSD-2005-05, October 2005. R. E. Baldwin and T. Murray, "MFN Tariff Reductions and Developing Country Trade Benefits Under the GSP," *The Economic Journal*, vol. 87, no. 345 (March 1977), pp. 30-46.

[84] Bernard Herz and Marco Wagner, *The Dark Side of the Generalized System of Preferences*, German Council of Economic Experts, Working Paper 02/2010, February 2010, p. 27.

single country.[85] Third, U.S. manufacturers or producers may petition the USTR to withdraw GSP benefits from a product if they are injured by the preference.[86]

In federal budgetary terms, according to the Congressional Budget Office cost estimate included in the Senate report accompanying H.R. 1295 (became P.L. 114-27), the GSP program was projected to cost the United States about $1 billion in 2015 (including retroactive refunds of duties collected during the 2013-2015 program lapse), $627 million in 2016, $665 million in 2017, and $127 million in 2018, in foregone tariff revenues.[87]

Many U.S. manufacturers and importers benefit from the lower cost of consumer goods and raw materials imported under the GSP program.[88] U.S. demand for certain individual products, such as jewelry, leather, and aluminum, is quite significant.[89] The Coalition for GSP, a group of U.S. companies and associations that benefit from the GSP program, asserts that companies in 40 states paid at least $1 million in higher tariffs due to GSP expiration, with California firms paying an estimated $100 million in tariffs.[90] They assert that small and medium enterprises (SMEs) bear a disproportionate share of the burden, resulting in lower sales and lost jobs.[91] It is also possible, however, that other factors, including slower growth and reduced demand in the U.S. market, have contributed to the adverse economic impact.

Stakeholders' Concerns

Supporters of the GSP program include beneficiary developing country governments and exporters, U.S. importers, and some U.S. manufacturers who use inputs entering under GSP in downstream products. Some Members favor GSP renewal because they believe it is an important development and foreign policy tool. Those who oppose the program include some U.S. producers who manufacture competing products and some in Congress who favor more reciprocal approaches to trade policy. What follows is a thematic approach to the major topics of discussion in the GSP renewal debate.

"Special and Differential Treatment"

Developing countries have long maintained that "special and differential treatment," such as that provided by the GSP, is an important assurance of access to U.S. and other developed country

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[85] 19 U.S.C. §2463(c).

[86] 15 C.F.R. 2007.0(b).

[87] U.S. Congress, Senate Committee on Finance, Full Committee, An Original Bill to Extend the African Growth and Opportunity Act, the Generalized System of Preferences, the Preferential Duty Treatment Program for Haiti, and for Other Purposes, To accompanyS. 1267, 114th Cong., 1st sess., May 12, 2015, S.Rept. 114-43 (Washington: GPO, 2015), p. 15.

[88] Coalition for GSP, *Lost Sales, Investments, and Jobs: Impact of GSP Expiration After One Year*, September 16, 2014.The Coalition for GSP, a coalition of more than 600 U.S. companies and organizations in support of GSP renewal, makes the case that non-renewal of GSP costs U.S. businesses an estimated $2 million per day in additional tariffs, see http://renewgsptoday.com.

[89] In some product categories, imports under GSP account for 25% or more of total U.S. imports. For example, in 2013, 94% of copper stranded wire in HTS 7413.00.10; 76% of ferrochromium in HTS 7272.41.00; 72% of cocoa paste in HTS 1803.20.00; and 70% of plywood sheets of 6mm thick and under in HTS 4412.31.40 were imported under the GSP program. GSP expired on July 31, 2013.

[90] Coalition for GSP, *Lost Sales, Investments, and Jobs: Impact of GSP Expiration After One Year*, September 16, 2014.

[91] Ibid.

markets in the midst of increasing globalization.[92] Many of these countries have built industries (or segments of industries) based on receiving certain tariff preferences.

Some in Congress and the Administration have expressed the desire to see reciprocal trade relationships with some emerging market economies that continue to be beneficiaries of non-reciprocal U.S. preference programs.[93] At the same time, there is continued broad support for preference programs in general, including GSP and the African Growth and Opportunity Act (AGOA).[94]

Some GSP supporters indicate that the program could serve as an incentive for beneficiaries to participate in multilateral trade negotiations. Historically, some developing nations have perceived the United States as generally unwilling to accept multilateral efforts to grant additional "special and differential treatment" for developing country WTO members, instead favoring reciprocal concessions for improved market access for U.S. products.[95] Thus, absence of GSP renewal could cause the negotiating positions of some developing countries to harden, rather than soften.[96] Others argue that the preferential margins afforded through trade preference programs such as GSP discourage developing countries from trade negotiations, as presented below.

Erosion of Preferential Margins

Developing countries have expressed concern about the overall progressive erosion[97] of preferential margins as a result of across-the-board tariff negotiations within the context of multilateral trade negotiations such as the Doha Round. In 1997, a study prepared by the Organization for Economic Cooperation and Development (OECD) found that the degree of erosion of preferences resulting from Uruguay Round (1986-1994) tariff concessions by the Quad countries (Canada, European Union, Japan, United States) was indeed significant.[98] Some economists point out that if multilateral rounds of tariff reductions continue, combined with the

[92] For example, see World Trade Organization, Committee on Trade and Development, *Special and Differential Treatment Provisions in WTO Agreements and Decisions*, Note by the Secretariat, WT/COMTD/W/196, June 14, 2013, accessed at http://www.wto.org/english/tratop_e/devel_e/dev_special_differential_provisions_e.htm.

[93] U.S. Congress, Senate Committee on Finance, *The African Growth and Opportunity Act at 14: The Road Ahead*, 113th Cong., 2nd sess., July 30, 2014. Although USTR Froman specifically referred to South Africa in this context, a reference was made by Chairman Wyden that appeared to be applicable to all beneficiary countries: "with respect to how to improve reciprocity with developing countries, you talked about the need to move toward more reciprocal and make—more reciprocal arrangements with emerging market countries rather than remaining satisfied just handing out these tariff preferences. And I strongly agree with that. And certainly, there are legitimate questions about whether South Africa is ready to graduate from the program given the size of its economy. Is it time for Congress and the Administration to consider whether countries like India, Thailand, Brazil and Turkey are also ready to graduate from the Generalized System of Preferences program?"

[94] *Inside U.S. Trade*, "Congress Working on Advancing GSP Renewal; Senate Pushing GSP-Only," June 20, 2014.

[95] OECD GSP Review, p. 11.

[96] Ibid.

[97] While overall multilateral preferences may be eroding, tariff benefits for individual items is still quite significant. For example, the U.S. tariff on flashlights (eligible for duty-free access for all BDCs) is 12.5% *ad valorem*. Some GSP-eligible jewelry items have tariffs as high as 13.5%.

[98] Organization for International Cooperation and Development, *Market Access for the Least-Developed Countries: Where are the Obstacles?* Published by World Trade Organization, WT/LDC/HL/19, October 21, 1997, Table 12, p. 47. The study estimated that in 1997, the loss in the Canadian market was approximately 71%, in the EU 26%, in Japan 34%, and in the United States, 50% (hereinafter OECD study).

proliferation of bilateral and regional trade agreement, the preference may disappear completely unless GSP tariff headings are expanded to include more "import-sensitive" products.[99]

One example of present concern of preference erosion could be the WTO efforts to provide duty-free, quota-free (DFQF) U.S. market access for all products to all least-developed countries. However, many sub-Saharan African countries have expressed concern that an approach like this could place them in direct competition for U.S. market share with other developing countries, thus diluting the value of the preferential treatment that they receive through AGOA.[100]

Other economists say that preference erosion could be more than outweighed by the benefits of increased market access, even for developing countries, brought about by multilateral trade liberalization.[101] These economists say that, rather than continuing GSP and other preferential programs (either through inertia or concern that removing them would be seen as "acting against" the world's poorest populations), a better approach might be to "assist them in addressing the constraints that really underlie their sluggish trade and growth performance."[102]

Under-Utilization of GSP

Some academic literature on preference programs, including GSP and free trade agreements, suggests that they are not used to their fullest extent. One reason cited is insufficient preference margins (i.e., the benefits accruing to importers are not worth the additional costs (e.g., paperwork involved in tracking local content to document fulfillment of the GSP rule of origin requirement) associated with claiming the preference.[103]

Additional literature suggests that some countries may not use GSP because their exporters are unfamiliar with the program, because some BDC governments do not sufficiently promote the existence of available opportunities under the preference, because of the lack of available infrastructure (for example, undeveloped or damaged roads and ports that impede the efforts to get goods into the international market), because many products developing countries produce are deemed "import sensitive," or a combination of all of these factors.[104] One option for addressing these factors could be assistance to GSP beneficiaries through U.S. trade capacity building efforts similar to those employed as part of AGOA.[105]

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[99] Sanchez Arnau, Juan C. *The Generalized System of Preferences and the World Trade Organization*, London: Cameron May, Ltd., 2002, p. 282.

[100] Alliance to End Hunger, et al. Letter to House Ways and Means and Senate Finance Chairs and Ranking Members, April 22, 2009. African Ambassador's Group Statement, May 13, 2013.

[101] Baldwin, R.E. and Murray, T. "MFN Tariff Reductions and Developing Country Trade Benefits Under the GSP," *Economic Journal* 87:345, March 1977, p. 46.

[102] OECD study, p. 27.

[103] Shushanik Hakobyan, "Accounting for Underutilization of Trade Preference Programs: The U.S. Generalized System of Preferences," August 2012, p. 1.

[104] U.S. Government Accountability Office. *International Trade: U.S. Trade Preference Programs Provide Important Benefits, But a More Integrated Approach Would Better Ensure that Programs Meet Shared Goals*. GAO 08-443, March 2008, pp. 53-55 (hereinafter 2008 GAO Report).

[105] For more information, see CRS Report R43173, *African Growth and Opportunity Act (AGOA): Background and Reauthorization*, by Brock R. Williams.

Trade as Foreign Assistance

No other U.S. preference program is more broadly based or encompasses as many countries as GSP. As a result, the program is supported by many observers who believe that it is an effective, low-cost means of providing economic assistance to developing countries. Supporters maintain that encouraging trade by private companies through the GSP program stimulates economic development much more effectively than intergovernmental aid and other means of assistance.[106] Economic development assistance through trade is a long-standing element of U.S. policy, and other trade promotion programs such as AGOA and the Caribbean Basin Trade Partnership Act (CBTPA) are also based on this premise.

Conditionality of Preferences

Some supporters of GSP and other non-reciprocal programs assert that the conditions required (such as worker rights and IPR requirements) for GSP qualification provide the United States with leverage that can be used to promote U.S. foreign policy goals and commercial interests.[107] For example, officials in Bangladesh are working closely with U.S. officials following that country's suspension from GSP benefits in June 2013 for worker rights and worker safety issues.[108] Reportedly, Bangladesh has made some significant improvements in worker safety issues in the past year, but it is behind schedule in factory inspections and in implementing "substantial parts" of its Action Plan.[109]

Lower Costs of Imports

U.S. businesses that import components, parts, or materials duty-free under the GSP maintain that the preference results in lower costs for these intermediate goods which, in turn, can make U.S. firms more competitive and be passed on to consumers. These supporters assert that GSP is as important for many domestic manufacturers and importers as for the countries that receive preferential access for their products.[110]

For example, the Coalition for GSP asserted that the program saved American companies $749 million on $19.9 billion in imports in 2012.[111] The same group claims that the expiration of GSP has cost American companies "nearly $2 million per day in higher taxes while waiting for Congress to renew the program."[112] On the other hand, some U.S. manufacturers of import-competing products might, at least marginally, benefit.

Even though most U.S. producers are shielded to a certain extent by CNLs and the exclusion of "import sensitive" products from GSP eligibility, U.S. manufacturers and workers are still

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106 September 21, 2006 DC Bar meeting.

107 The Coalition for GSP and The Trade Partnership. *The U.S. Generalized System of Preferences Program*, February 2013, p. 3, accessed at http://tradepartnership.com/gsp/us-generalized-system-of-preferences/. See also http://renewgsptoday.com.

108 78 *Federal Register* 39949.

109 U.S. Trade Representative, "GSP Action Plan Finds More Needs to be Done to Improve Worker Rights and Worker Safety in Bangladesh," press release, July 2, 2014.

110 Coalition for GSP, "American Companies Frustrated by Congress' Inability to Renew Generalized System of Preferences Program," press release, August 1, 2013, http://renewgsptoday.com/.

111 Coalition for GSP website, http://www.tradepartnership.com/site/gsp.html.

112 Letter from Coalition for GSP to Members of House and Senate, January 28, 2014, http://renewgsptoday.com.

sometimes adversely affected by GSP imports. Some of these companies have petitioned for elimination of specific products from GSP eligibility.[113] For example, in 2010, Exxel Outdoors, a U.S. company that manufactures certain non-down sleeping bags, petitioned for their removal from GSP eligibility, claiming that their business operations were being harmed by imports of duty-free sleeping bags from Bangladesh under the GSP program.[114] These sleeping bag categories were ultimately removed from GSP duty-free treatment in January 2012.[115]

Options for Congress

The U.S. GSP program, as established by Title V of the Trade Act of 1974, was extended through December 31, 2017, (and retroactively extended to the prior expiration date of July 31, 2013) in P.L. 114-27, for all GSP beneficiary countries not covered by the African Growth and Opportunity Act (AGOA).[116]

In previous years, some Members have suggested various reforms of the GSP program. As explained more fully below, possible options include supporting reciprocal tariff and market access benefits through FTAs, renewing the GSP for least-developed beneficiaries only, or extending the program in a modified form.

Although the GSP is a unilateral and non-reciprocal tariff preference, any changes to the program may need to be considered in light of the requirements of the WTO Enabling Clause, as it has been interpreted by the WTO Appellate Body. At a minimum, the United States may need to notify—and possibly consult with—other WTO members regarding any withdrawal or modification of GSP benefits, as required by paragraph 4 of the Enabling Clause.[117] The United States could also pursue a WTO waiver were any modifications of the GSP program considered not to comport fully with U.S. WTO obligations.

Negotiate Trade Agreements with GSP Countries

Some U.S. policymakers have suggested that some developing countries might benefit more through WTO multilateral negotiations, FTAs, or some form of agreement that could also provide reciprocal trade benefits and improved market access for the United States.[118] Arguably, this was one of the policy arguments for the EU's pursuit of Economic Partnership Agreements with many of its former GSP beneficiaries. Since tariff concessions under these agreements would probably apply to more sectors of the economy than GSP, such agreements could increase the likelihood of across-the-board economic stimulation in developing countries. In fact, each one of the United

[113] 19 U.S.C. §2463(c).

[114] "Sleeping Bags Removed from GSP after USTR Administrative Review," *Inside U.S. Trade*, January 5, 2012.

[115] 77 *Federal Register* 1549, January 10, 2012.

[116] The African Growth and Opportunity Acceleration Act of 2004 (P.L. 108-274) had previously authorized the extension of GSP preferences for all beneficiary developing sub-Saharan African countries under AGOA through September 30, 2015. Therefore, despite GSP expiration, AGOA countries continued receiving GSP benefits under AGOA.

[117] Paragraph 4 states that any contracting party that grants a preferential program and seeks to modify or withdraw it must notify the other contracting parties, give them adequate time and opportunity to discuss any difficulties, and help them to reach satisfactory solutions. See http://www.wto.org/english/docs_e/legal_e/enabling1979_e.htm.

[118] For example, USTR Froman indicated that he favored negotiating an FTA with South Africa on July 29 and 30, 2014. See *Inside U.S. Trade*, "Froman Signals Interest in 'Reciprocal' Trade Arrangement with South Africa," July 31, 2014.

States' current FTA partners, with the exception of Canada and Australia, was at one time a beneficiary of the GSP program.[119]

One legislative proposal in the 112th Congress suggested prohibiting the President from designating a country a BDC if it entered into an agreement to provide preferential benefits to the products of a developed country other than the United States, unless the President certified to Congress that it is in the U.S. national interest to make the designation. An explanation of the legislation suggested that such a provision would "transition the United States away from the GSP's one-way preferential treatment to a more mature trading relationship."[120]

Authorize GSP Only for Least-Developed Countries

Some in Congress have expressed the possibility of modifying the GSP so that the benefits apply primarily to least-developed beneficiaries.[121] Since many African least-developed beneficiaries[122] will continue to receive the GSP preference under AGOA, other LDCs that might benefit from an LDC-only GSP program are: Afghanistan, Bhutan, Cambodia, Central African Republic, Democratic Republic of the Congo, Guinea-Bissau, Haiti,[123] Kiribati, Madagascar, Nepal, Samoa, Somalia, Timor-Leste, Tuvalu, Vanuatu, and Yemen.[124] Of these countries, the Democratic Republic of Congo ($93.7 million); Cambodia ($34.9 million); Nepal ($4.6 million); and Samoa ($1.0 million), were the LDCs that made the most use of the GSP (by value) in 2012.[125] U.S. efforts through trade capacity building could help other LDCs take greater advantage of the preference.

Reform GSP

Another possible approach for Congress would be to modify the GSP as it applies to all BDCs. Some of these options could have the effect of expanding the GSP program, while others could serve to restrict its application.

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119 Some U.S. FTA partners were GSP beneficiaries at the time FTA implementing legislation was enacted. Singapore and South Korea were graduated from GSP in 1989, and thus were not GSP beneficiaries at the time the United States implemented their respective FTAs. Israel retained GSP status until 1995, and Jordan still enjoys GSP status. Implementing language for all other FTAs stated that "the President shall terminate the designation of ... as a beneficiary developing country for the purposes of title V of the Trade Act of 1974 on the date of entry into force of the Agreement."

120 H.R. 6537 (112th Congress), The Generalized System of Preferences Improvement Act (Nunes). See also http://nunes.house.gov/uploadedfiles/gsp_improvement_act.pdf

121 U.S. Congress, Senate Committee on Finance, *The African Growth and Opportunity Act at 14: The Road Ahead*, 113th Cong., 2nd sess., July 30, 2014. In the question and answer session, Senate Finance Committee Chair Wyden asked USTR Froman, " ... Is it time for Congress and the Administration to consider whether countries like India, Thailand, Brazil and Turkey are also ready to graduate from the Generalized System of Preferences program?"

122 These least-developed AGOA countries are: Angola, Benin, Burkina Faso, Burundi, Chad, Comoros, Djibouti, Ethiopia, The Gambia, Guinea, Lesotho, Liberia, Malawi, Mali, Mauritania, Mozambique, Niger, Rwanda, Sao Tome and Principe, Senegal, Sierra Leone, South Sudan, Tanzania, Togo, Uganda, and Zambia.

123 Haiti was provided additional unilateral preferences through the Haiti Economic Lift Act of 2010 (P.L. 111-171). CRS Report RL34687, *The Haitian Economy and the HOPE Act*, by J. F. Hornbeck.

124 The Central African Republic, Congo (Kinshasa), Guinea-Bissau, Madagascar, and Somalia are not designated as beneficiary AGOA countries in 2015, but retain their GSP eligibility.

125 2012 was the last full year of GSP eligibility.

Expand Application of GSP

Were Congress to expand or enhance application of the GSP, the following options could be considered:

- Expand the list of tariff lines permitted duty-free access. Allow some "import sensitive" products (in which developing countries often have a competitive advantage) to receive preferential access.
- Improve rule of origin requirements to provide more predictability. Current rules provide no measurable definition of "substantial transformation." As a result, U.S. officials often make eligibility decisions on a case-by-case basis. Thus, BDCs sometimes have no predictable way of knowing before shipment whether certain foreign components are eligible for GSP treatment under the 35% domestic content requirement.[126]
- Eliminate competitive need limitations for BDCs, or raise the thresholds that trigger them.
- Revise country eligibility requirements.

Restrict Application of Preferences

The following is a list of possible approaches if Congress desired to extend, but restrict imports under GSP:

- Reconsider criteria for graduation of countries from GSP, or strengthen legislatively the provision that allows graduation of individual industry sectors within beneficiary countries.
- Modify the rules of origin requirement for qualifying products to require that a greater percentage of the direct costs of processing operations (currently 35%)[127] originate in beneficiary developing countries.
- Lower the threshold at which the President may (or must) withdraw, suspend, or limit the application of duty-free treatment of certain products (CNLs).[128]
- Require the President to more frequently and actively monitor (currently an annual process) the economic progress of beneficiary countries, as well as compliance with GSP criteria.
- Add additional eligibility criteria; for example, to include movement toward more reciprocal tariff treatment, sustainable development, or environmental preservation.

[126] 2008 GAO Report, p. 55.

[127] 19 U.S.C. §2463(a)(2)(A)(ii)(II). The statute further specifies that a product may be made in one BDC or any two or more such countries that are members of the same designated association of countries. For beneficiary countries under AGOA, this percentage may also include up to 15% (as to value) of U.S. origin (19 U.S.C. §2466a(b)(2)).

[128] 19 U.S.C. §2463(c).

Appendix A. GSP-Eligible Products Added in P.L. 104-27

Table A-1. GSP-Eligible Cotton Products (Least-Developed Beneficiaries)

Section 202 of P.L. 104-27

Harmonized Tariff Schedule Number	Description	Normal Trade Relations Tariff
5201.00.18	Cotton, not carded or combed; Harsh or rough, having a staple length under 19.05 mm (3/4 inch); Other	31.4 cents per kilogram
5201.00.28	Cotton, not carded or combed; other, harsh or rough, having a staple length of 29.36875 mm (1-5/32 inches) or more and white in color (except cotton of perished staple, grabbots and cotton pickings); Other	31.4 cents per kilogram
5201.00.38	Cotton, not carded or combed; having a staple length of 28.575 mm (1-1/8 inches) or more but under 34.925 mm (1-3/8 inches); Other	31.4 cents per kilogram
5202.99.30	Cotton waste (including yarn waste and garnetted stock);Other	7.8 cents per kilogram
5203.00.30	Cotton, carded or combed; fibers of cotton processed, but not spun; Other	31.4 cents per kilogram

Source: Harmonized Tariff Schedule of the United States.

Table A-2. GSP-Eligible Luggage and Travel Products

Section 204 of P.L. 104-27

Harmonized Tariff Schedule Number	Description	Normal Trade Relations Tariff
4202.11.00	Trunks, suitcases, vanity & all other cases, occupational luggage & like containers, surface of leather, composition or patent leather	8%
4202.12.20.20	Trunks, suitcases, vanity cases, and similar containers with outer surface of plastics, structured, rigid on all sides	20%
4202.12.20.50	Trunks, suitcases, vanity cases, and similar containers with outer surface of plastics materials, not elsewhere specified or indicated	20%

Harmonized Tariff Schedule Number	Description	Normal Trade Relations Tariff
4202.12.40	Trunks, suitcases, vanity & attaché cases, occupational luggage & like containers, surfaces of cotton, not of pile or tufted construction	6.3%
4202.12.80.30	Attaché cases, brief cases, school satchels, occupational luggage cases and similar containers, of man-made fibers	17.6%
4202.12.80.70	Trunks, suitcases, vanity cases, and similar containers with outer surface of textile materials, of manmade fibers	17.6%
4202.21.60	Handbags, whether or not with shoulder strap, including those without handle; With outer surface of leather or of composition leather; valued not over $20 each	10%
4202.21.90	Handbags, with or without shoulder strap, including those without handle; With outer surface of leather or of composition leather; valued over $20 each	9%
4202.22.15	Handbags, with or without shoulder strap, including those without handle; with outer surface of sheeting of plastics	16%
4202.22.45	Handbags, with or without shoulder strap, including those without handle; with outer surface of cotton; not of pile or tufted construction or braid	6%
4202.22.80.50	Handbags, outer surface of textile material, except braid, pile, or tufted construction, of man-made fiber	17.6%
4202.31.60	Articles of a kind normally carried in the pocket or in the handbag; with outer surface of leather, composition, or patent leather, not otherwise indicated	8%
4202.32.40	Articles of a kind normally carried in the pocket or in the handbag; with outer surface of textile materials; of cotton and not of pile or tufted construction	6.3%

Harmonized Tariff Schedule Number	Description	Normal Trade Relations Tariff
4202.32.80	Articles of a kind normally carried in the pocket or in the handbag; with outer surface of textile materials; of vegetable fibers and not of pile or tufted construction; excluding cotton	5.7%
4202.32.95.50	Articles for pocket or handbag, with outer surface of textiles, of man-made fibers	17.6%
4202.32.95.60	Articles for pocket or handbag, with outer surface of textiles, not otherwise specified or indicated	17.6%
4202.91.00.30	Travel, sports and similar bags, outer service of leather, composition leather, or patent leather	4.5%
4202.91.00.90	Containers, with outer surface of leather, composition leather or patent leather, not elsewhere specified or indicated	4.5%
4202.92.15	Travel, sports, and similar bags; with outer surface of textile materials; of cotton; and not of pile or tufted construction	6.3%
4202.92.20	Travel, sports, and similar bags; with outer surface of textile materials; of vegetable fibers excluding cotton, and not of pile or tufted construction	5.7%
4202.92.30.31	Travel, sports and similar bags, except backpacks of manmade fiber	17.6%
4202.92.30.91	Travel, sports and similar bags, outer surface of textile materials, not elsewhere specified or indicated	17.6%
4202.92.45	Travel, sports, and similar bags with outer surface of plastic sheeting	20%
4202.92.90.26	Other bags, outer surface of man-made fibers	17.6%
4202.92.90.60	Other bags and cases with outer surface of sheeting of plastic, not elsewhere specified or indicated	17.6%
4202.99.90	Cases, bags, and similar containers, not otherwises indicated, with outer surface of vulcanized fiber or of paperboard	20%

Source: Harmonized Tariff Schedule of the United States.

Notes: Products will be eligible for GSP treatment after the President receives the advice of the U.S. International Trade Commission and designates them as GSP-eligible (see 19 U.S.C. 2463 (a)).

Appendix B. Leading U.S. GSP Product Imports and Beneficiaries

Table B-1. Leading GSP Product Imports, 2012

(latest full year of GSP implementation)

Harmonized Tariff Schedule Subheading	General NTR Tariff Rate	Description	Value of Imports Under GSP ($ millions)
27090020	10.5 cents per barrel	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more	$824
40111010	4%	New pneumatic radial tires, of rubber, of a kind used on motor cars (including station wagons and racing cars)	$567
76061230	3%	Aluminum alloy, plates/sheets/strip, with thickness over 0.2mm, rectangular (incl. square), not clad	$266
72024100	1.9%	Ferrochromium containing by weight more than 4% of carbon	$319
71131150	5%	Silver articles of jewelry and parts thereof, valued over $18 per dozen pieces of parts	$365
72023000	3.9%	Ferrosilicon manganese	$280
40151910	3%	Seamless gloves of vulcanized rubber other than hard rubber, other than surgical or medical gloves	$251
21069099	6.4%	Food preparations not elsewhere specified or included, not canned or frozen	$221
40112010	4%	New pneumatic radial tires, of rubber, of a kind used on buses or trucks	$217
72022150	1.5%	Ferrosilicon containing by weight more than 55% but not more than 80% of silicon, not otherwise specified or indicated	$200
18032000	0.2 cents per kilogram	Cocoa paste, wholly or partly defatted	$195
84159080	1.4%	Parts for air conditioning machines, not otherwise specified or indicated	$262
84831030	2.5%	Camshafts and crankshafts, not otherwise specified or indicated	$184

Harmonized Tariff Schedule Subheading	General NTR Tariff Rate	Description	Value of Imports Under GSP ($ millions)
71131929	5.5%	Gold necklaces and neck chains (o/than of rope or mixed links)	$170
87089981	2.5%	Parts and accessories of the motor vehicles of headings 8701 to 8705, not classified elsewhere	$163
84099991	2.5%	Parts, not otherwise specified or indicated, used solely or principally with the engines of heading 8408.20, 8702, 8703, 8704	$161
17011410	1.4606¢/kg less 0.020668¢/kg for each degree under 100 degrees (and fractions of a degree in proportion) But not less than 0.943854¢/k	Other cane sugar, raw, in solid form, without added flavoring or coloring, subject to additional note U.S. 5 to Chapter 17.	$158
22029090	0.2 cents per liter	Nonalcoholic beverages, not otherwise specified or indicated, not including fruit of vegetable juices of heading 2009	$149
68029900	6.5%	Monumental or building stone and articles thereof, not otherwise specified or indicated, further worked than simply cut or sawn, not otherwise specified or indicated	$145
73079150	5.5%	Iron or steel (other than stainless), not cast, flanges for tubes and pipes, not forged or forged and machined, tooled and processed after forging	$137
		Subtotal Above:	$5,234
		All Other:	$14,808
		Total:	$20,042

Source: USITC Trade Dataweb, http://dataweb.usitc.gov, and Harmonized Tariff Schedule, 2014.

Notes: Imports for consumption, actual U.S. dollars. Tariff rates are *ad valorem* unless otherwise specified. NTR stands for "normal trade relations," which in U.S. law replaces the term "most-favored-nation."

Table B-2. Leading GSP Beneficiaries, 2012

(latest full year of GSP implementation)

Rank	Beneficiary Developing Country	GSP Duty-Free Imports ($ millions)	Total Imports ($ millions)
1	India	4,455	40,100
2	Thailand	3,707	25,918
3	Brazil	2,334	31,741

Rank	Beneficiary Developing Country	GSP Duty-Free Imports ($ millions)	Total Imports ($ millions)
4	Indonesia	2,207	18,014
5	South Africa	1,294	8,695
6	Philippines	1,238	9,553
7	Turkey	1,148	6,181
8	Angola	628	9,602
9	Russia[a]	543	29,155
10	Argentina[b]	222	4,329
11	Pakistan	195	3,603
12	Sri Lanka	158	2,239
13	Tunisia	149	1,288
14	Bolivia	129	708
15	Sri Lanka	124	2,239
Imports from Top 15 Beneficiaries		18,133	193,365
All Other Beneficiaries		1,909	144,508
Total Imports from all Beneficiaries		19,879	337,873

Source: USITC Trade Dataweb, http://dataweb.usitc.gov.

a. On October 3, 2014, President Obama removed Russia from the GSP program.

b. Argentina's GSP benefits were suspended on March 26, 2012.

Appendix C. GSP Implementation and Renewal

Table C-1. GSP Implementation and Renewal, 1974-2013

Public Law	Effective Date	Date Expired	Notes
P.L. 93-618, Title V, Trade Act of 1974	January 2, 1975	January 2, 1985	Statute originally enacted.
P.L. 98-573, Title V, Trade and Tariff Act of 1984	October 30, 1984	July 4, 1993	Substantially amended and restated.
P.L. 103-66, Section 13802 (in Omnibus Budget Reconciliation Act, 1993)	August 10, 1993	September 30, 1994	Extended retroactively from July 5, 1993, to August 10, 1993. Also struck out reference to "Union of Soviet Socialist Republics"
P.L. 103-465, Section 601 Uruguay Round Agreements Act	December 8, 1994	July 31, 1995	Extended retroactively from September 30, 1994, to December 8, 1994. No other amendments to provision.
P.L. 104-188, Subtitle J, Section 1952 GSP Renewal Act of 1996 (in Small Business Job Protection Act of 1996)	October 1, 1996 (for GSP renewal only)	May 31, 1997	Substantially amended and restated. Extended retroactively from August 1, 1995, to October 1, 1996.
P.L. 105-34, Subtitle H, Section 981 (in Taxpayer Relief Act of 1997)	August 5, 1997	June 30, 1998	Extended retroactively from May 31, 1997, to August 5, 1997. No other amendments to provision.
P.L. 105-277, Subtitle B, Section 101 (in Omnibus Consolidated and Emergency Supplemental Appropriations, 1999)	October 21, 1998	June 30, 1999	Extended retroactively from July 1, 1998, to October 21, 1998. No other amendments to provision.
P.L. 106-170, Section 508, (in Ticket to Work and Work Incentives Act of 1999)	December 17, 1999	September 30, 2001	Extended retroactively from July 1, 1999, to December 17, 1999. No other amendments to provision.
P.L. 107-210, Division D, Title XLI Trade Act of 2002	August 6, 2002	December 31, 2006	Extended retroactively from September 30, 2001, to August 6, 2002. Amended to (1) include requirement that BDCs take steps to support efforts of United States to combat terrorism and (2) further define the term "internationally recognized worker rights."
P.L. 109-432, Title VIII	December 31, 2006	December 31, 2008	Extended before program lapse.
P.L. 110-436, Section 4	October 16, 2008	December 31, 2009	Extended before program lapse.

Public Law	Effective Date	Date Expired	Notes
P.L. 111-124	December 28, 2009	December 31, 2010	Extended before program lapse.
P.L. 112-40	November 5, 2011	July 31, 2013	Extended retroactively from December 31, 2010, to November 5, 2011.
P.L. 114-27, Title II	July 29, 2015	December 31, 2017	Extended retroactively from July 31, 2013, to July 29, 2015.

Source: CRS analysis using the Legislative Information System (LIS).

Appendix D. GSP Beneficiary Countries

Table D-1. Beneficiary Developing Countries and Regions for Purposes of the Generalized System of Preferences

(as of July 2014)

Independent Countries			
Afghanistan A+	Egypt	Madagascar A+	Seychelles
Albania	Eritrea	Malawi A+	Sierra Leone A+
Algeria	Ethiopia A+	Maldives	Solomon Islands A+
Angola A+	Fiji	Mali A+	Somalia A+
Armenia	Gabon	Mauritania A+	South Africa
Azerbaijan	Gambia, The A+	Mauritius	South Sudan A+
Belize	Georgia	Moldova	Sri Lanka
Benin A+	Ghana	Mongolia	Suriname
Bhutan A+	Grenada	Montenegro	Swaziland
Bolivia	GuineaA+	Mozambique A+	Tanzania A+
Bosnia and Hercegovina	Guinea-BissauA+	Namibia	Thailand
Botswana	Guyana	Nepal A+	Timor-Leste A+
Brazil	Haiti A+	Niger A+	Togo A+
Burkina Faso A+	India	Nigeria	Tonga
Burundi A+	Indonesia	Pakistan	Tunisia
Cambodia A+	Iraq	Papua New Guinea	Turkey
Cameroon	Jamaica	Paraguay	Tuvalu A+
Cape Verde	Jordan	Philippines	Uganda A+
Central African RepublicA+	Kazakhstan	Rwanda A+	Ukraine
ChadA+	Kenya	Saint Lucia	Uruguay
Comoros A+	KiribatiA+	Saint Vincent and the Grenadines	Uzbekistan
Congo (Brazzaville)	Kosovo	Samoa A+	Vanuatu A+
Congo (Kinshasa) A+	Kyrgyzstan	Sao Tome and PrincipeA+	Venezuela
Cote d'Ivoire	Lebanon	Senegal	Republic of YemenA+
Djibouti A+	Lesotho A+	Serbia	Zambia A+
Dominica	Liberia A+		Zimbabwe
Ecuador	Macedonia, Former Yugoslav Republic of		

Non-Independent Countries and Territories Eligible for GSP Benefits		
Anguilla	Heard Island and McDonald Islands	Tokelau
British Indian Ocean Territory	Montserrat	Virgin Islands, British
Christmas Island (Australia)	Niue	Wallis and Fortuna

Independent Countries		
Cocos (Keeling) Islands	Norfolk Island	West Bank and Gaza Strip
Cook Islands	Pitcairn Islands	Western Sahara
Falkland Islands (Islas Malvinas)	Saint Helena	
Associations of Countries (treated as one country) Eligible for GSP Benefits		
Member Countries of the Cartagena Agreement (Andean Group) Bolivia Ecuador Venezuela	**Qualifying Member Countries of the Association of South East Asian Nations (ASEAN)** Cambodia Indonesia Philippines Thailand	**Qualifying Member Countries of the Caribbean Common Market (CARICOM)** Belize Dominica Grenada Guyana Jamaica Montserrat St. Kitts and Nevis Saint Lucia Saint Vincent and the Grenadines
Member Countries of the West African Economic and Monetary Union (WAEMU) Benin Burkina Faso Cote d'Ivoire Guinea-Bissau Mali Niger Senegal Togo	**Qualifying Member Countries of the Southern Africa Development Community (SADC)** Botswana Mauritius Tanzania	
	Qualifying Member Countries of the South Asian Association for Regional Cooperation (SAARC) Afghanistan Bangladesh Bhutan India Nepal Pakistan Sri Lanka	

Source: Harmonized Tariff Schedule of the United States, January 2013.

Notes: "A+" indicates least-developed countries.

a. Russia was subsequently removed from GSP in October 2014.

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