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Generalized System of Preferences (GSP)

What is the GSP? The Generalized System of Preferences (GSP) is a trade program that provides nonreciprocal, duty-free treatment for certain U.S. imports from eligible developing countries. The GSP is the largest such U.S. program; there are other regional preference programs, including the African Growth and Opportunity Act (AGOA). The GSP program expired on December 31, 2020.

What is GSP's purpose? Congress created GSP to spur economic development in poor countries through trade. The program began in the 1970s when the United States and other developed country members of the United Nations (U.N.) sought ways to enable developing countries to diversify their economies and grow through trade. Rather than creating one unified GSP system, developed countries created their own programs based on a common set of principles.

When did the U.S. program begin? The U.S. program was authorized in Title V of the Trade Act of 1974 (19 U.S.C. §§2461-2467), and went into force on January 2, 1975.

What other countries have GSP programs? Other countries that implement GSP programs with similar rules and objectives include Australia, Canada, the EU, Iceland, Japan, New Zealand, Norway, the Russian Federation, South Korea, Switzerland, and Turkey.

Who administers the U.S. program? The President holds the primary authority for GSP. The Trade Policy Staff Committee (TPSC), an interagency committee chaired by the U.S. Trade Representative (USTR), administers the program, mainly by conducting annual product and country reviews and providing recommendations to the President. The U.S. International Trade Commission (ITC) reports to the President on the possible effects of proposed changes to GSP on the U.S. economy. U.S. Customs and Border Protection (CBP) enforces GSP at the border.

Is GSP permanent? GSP was first authorized for 10 years, until 1985. Since then, it has been reauthorized 14 times, with authorizations generally lasting 2 to 3 years. Congress last extended the program until December 31, 2020, in Division M, Title V of the Consolidated Appropriations Act, 2018 (P.L. 115-141).

Has the GSP program ever expired before being reauthorized? The GSP program has lapsed prior to its reauthorization in 10 of the 14 times it was extended. Congressional practice has been to extend the program retroactively from the original expiration date, so that importers are refunded (without interest) for the duties incurred during the lapse.

Are all developing countries automatically included in the GSP program? Beneficiary developing countries (BDCs) are selected by the President on the basis of certain mandatory eligibility criteria (see 19 U.S.C. §2462). For example, eligible countries must not have nationalized or expropriated the property of U.S. citizens, infringed on U.S. citizens' intellectual property rights, or repudiated or nullified existing contracts with U.S. citizens. Countries must also have taken steps to grant internationally accepted worker rights, and implemented commitments to eliminate the worst forms of child labor, among other things.

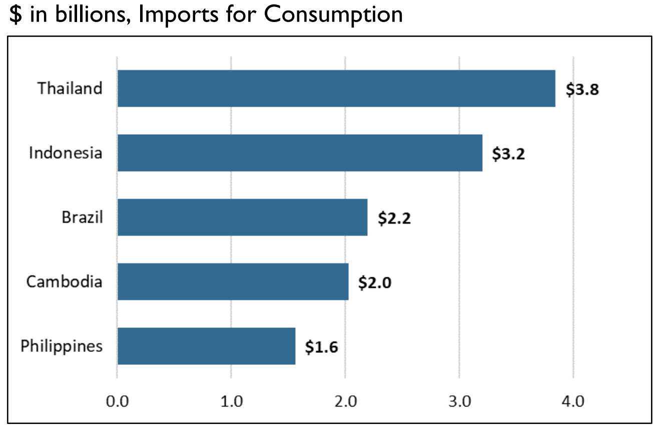
The President may also consider certain discretionary criteria, including the country's level of economic development, whether it is committed to providing reasonable and equitable market access for foreign goods and investment, and the level at which the country is providing protection of intellectual property rights.

Can a country's GSP status change? The President may terminate, suspend, or limit GSP status at any time, based on the eligibility criteria, provided that Congress is notified 60 days prior to the action. BDCs are also mandatorily "graduated" from the GSP if they are determined by the President to be a "high income country," as defined by official World Bank statistics (i.e., gross national income per capita of greater than $12,695 in 2021-2022). The President may also graduate a BDC based on its level of economic development (i.e., income per capita, living standards of inhabitants, or other economic factors the President deems appropriate).

In March 2019, President Trump informed Congress that he intended to remove GSP benefits for India (failure to provide equitable and reasonable market access) and Turkey (based on its level of economic development). The President subsequently removed Turkey's GSP eligibility effective May 17, 2019, and India's effective June 5, 2019.

Figure 1. Top 5 GSP Beneficiaries, 2020

$ in billions, Imports for Consumption



Source: ITC Trade Dataweb

How many countries are GSP beneficiaries? As of January 2021, there were 119 developing countries, including 17 non-independent territories and 44 least-developed beneficiary developing countries (LDBDCs). In 2020, the top five BDCs in terms of U.S. imports entering under GSP were Thailand, Indonesia, Brazil, Cambodia, and the Philippines (**Figure 1**).

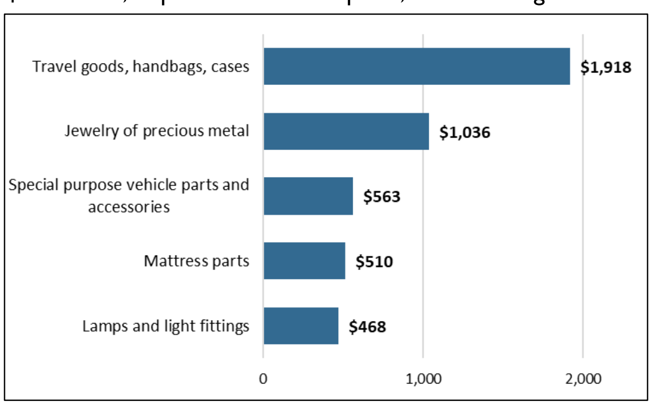
How can I tell if a developing country is a GSP beneficiary? The current list of all BDCs is recorded in the Harmonized Tariff Schedule of the United States (HTSUS), available on the ITC website (http://hts.usitc.gov/current). The list can be found under General Note 4 in the HTSUS "General Notes" section.

Are all products eligible for GSP duty-free status? According to the GSP statute (see 19 U.S.C. §2463), certain products are considered "import-sensitive" and specifically prohibited from GSP treatment. These include most textile and apparel goods, watches, and some electronic, steel, and glass products. The President is sometimes authorized by Congress, in consultation with the ITC, to designate new articles as eligible for the program. In 2015, the President declared certain luggage and travel articles eligible for GSP, as previously approved by Congress in Section 204 of the Trade Preferences Extension Act of 2015 (P.L. 114-27). The program currently covers more than 3,500 imported products. LDBDCs receive duty-free treatment for an additional 1,500 products.

Are there other product restrictions? In order to be imported under GSP, a product must be imported directly from a BDC that is eligible for GSP treatment for that product. At least 35% of the value of an eligible product must be produced in a BDC, or in two or more countries that are part of a GSP-recognized association of countries.

Figure 2. Top 5 GSP Import Categories, 2020

$in millions, Imports for Consumption, HTSUS 4-digit level



Source: ITC Trade Dataweb.

What kinds of products are GSP-eligible? Products eligible to be imported under GSP must be found not to be "import-sensitive," and before new products are added, the public has an opportunity to comment, hearings are held, and the ITC reports on the possible effects of the product's GSP eligibility on the economy and U.S. manufacturers. The top five categories of GSP imports in 2020 were travel goods, handbags, and other cases of various materials; jewelry of precious metals; special purpose vehicle parts and accessories; mattress parts; and lamps and light fittings (**Figure 2**). Total GSP imports in 2020 amounted to about $16 billion.

How can I tell if a product is eligible for GSP status? In the HTSUS, GSP-eligible products are identified by a Special Program Indicator (SPI). The SPI code "A" in the "Special" tariff column next to an HTSUS subheading identifies that the product is GSP-eligible for all BDCs. The code "A+" indicates that the product is eligible only from least-developed BDCs. The code "A*" identifies that the product is not eligible to be imported under the program from one or more BDCs. The SPI must be indicated on the appropriate CBP forms when importers claim duty-free status.

Can BDCs import an unlimited amount of a GSP-eligible product? GSP imports of a single product from an individual BDC are limited to a certain value amount, referred to as competitive need limits (CNL). If the CNL is exceeded, the BDC loses its GSP eligibility for that product, unless the President grants a waiver. Interested parties may petition for waivers if products meet certain specific criteria. There are no value limitations on GSP imports from LDBDCs or dual-African Growth and Opportunity Act (AGOA) and GSP beneficiaries.

Issues for Congress

If a product is eligible for GSP, but tariffs are imposed on them based on other laws, as under President Trump's tariff actions, may the product still be imported duty-free? GSP benefits do not apply to any products subject to duties or quotas under Section 232 of the Trade Act Expansion Act of 1962 on steel and aluminum. Developing countries are largely exempt from the tariff rate quotas imposed under Section 201 of the Trade Act of 1974 on washing machines and parts, and on solar panels and modules, provided that U.S. imports from an individual country do not exceed 3% by value, or if total imports of the product from all developing countries do not exceed 9%. The tariffs assessed under Section 301 of the Trade Act of 1974 apply only to products from China, which is not a GSP beneficiary.

GSP Reauthorization and Reform. The GSP program expired on December 31, 2020, despite legislative efforts to renew the program. Several bills to reauthorize and introduce new eligibility criteria to the program have been introduced in the 117th Congress (H.R. 3975, H.R. 4037, and S. 1260). Some of the proposed eligibility criteria include provisions on human rights, environmental laws, and good governance. Supporters of the proposed eligibility criteria consider it a modernization of the GSP program to address modern-day issues. Others raise concerns that adding new criteria may make the costs of complying with the program outweigh the benefits and discourage BDC participation. They may also undermine the core objectives of the program, which is to promote economic development through trade. See CRS Report RL33663, *Generalized System of Preferences (GSP): Overview and Issues for Congress*, by Vivian C. Jones and Liana Wong.

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