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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).

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 goals and 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 two to three years. Congress most recently extended the program until December 31, 2020, in Division M, Title V of the Consolidated Appropriations Act, 2018 (P.L. 115-141).

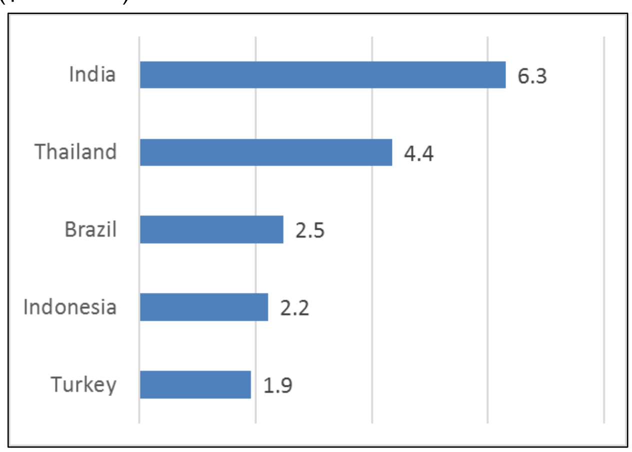
Has the GSP program ever expired before being reauthorized? The GSP program has lapsed prior to its reauthorization in 10 of the 14 times it was extended. Congressional practice has been to extend the program retroactively from the original expiration date, so that importers are refunded (without interest) 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 $12,055 in 2018). The President may also graduate a BDC based on its level of economic development (i.e., income per capita, living standards of inhabitants, or any other economic factors the President deems appropriate).

Figure 1. Top 5 GSP Beneficiaries, 2018
($ in billions)



Source: ITC Trade Dataweb.

How many countries are GSP beneficiaries? Currently, 118 developing countries and territories are BDCs. Forty-four of these countries are additionally designated as least-developed beneficiaries. In 2018, the top five BDCs in terms U.S. imports entering under the program were India, Thailand, Brazil, Indonesia, and Turkey. Total GSP imports in 2018 amounted to about $23.6 billion.

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. For more information, see CRS Insight IN11075, *Trump Administration's Proposed Removal of Generalized System of Preferences (GSP) Benefits for India and Turkey*, by Shayerah Ilias Akhtar and Vivian C. Jones.

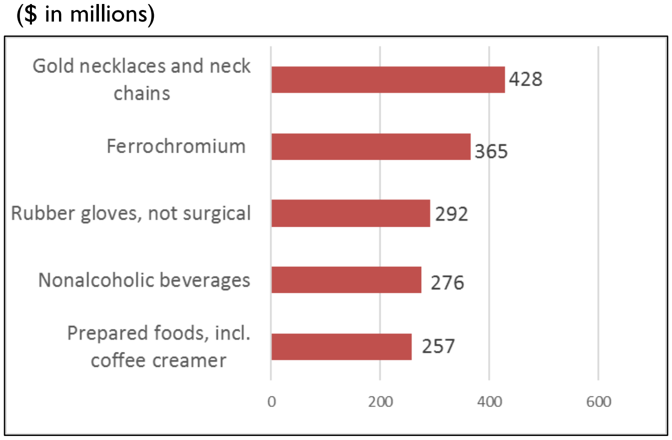
How can I tell if a developing country is a GSP beneficiary? The current list of all BDCs is recorded in the Harmonized Tariff Schedule of the United States (HTSUS), available on the ITC website (http://hts.usitc.gov/current). The list can be found under General Note 4 in the HTSUS "General Notes" section.

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 to designate new articles as eligible for the program after receiving the advice of the ITC. The President recently declared certain luggage and travel articles eligible for GSP, as previously authorized by Congress in Section 204 of the Trade Preferences Extension Act of 2015 (P.L. 114-27). The program currently covers over 3,500 imported products, and least-developed BDCs 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 Imports, 2018

($ in millions)



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 GSP imports in 2018 were gold necklaces and chains, ferrochromium, nonsurgical rubber gloves, nonalcoholic beverages, and prepared foods.

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 least-developed BDCs 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 recent 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. The GSP program was recently reauthorized until December 31, 2020. The 116th Congress may consider further extending the program. Many importers and developing countries state that longer program authorizations would provide greater predictability when making decisions about sourcing merchandise. However, the program also represents a loss of revenue in the form of foregone tariffs, which must be offset as a result of program extensions. The Congressional Budget Office (CBO) estimated that the most recent extension (in P.L. 115-141) would cost $347 million in 2018, $475 billion in 2019, and $492 million in 2020. For more information on the GSP, see CRS Report RL33663, *Generalized System of Preferences (GSP): Overview and Issues for Congress*, by Vivian C. Jones.

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