Statement of Meredith Broadbent, Assistant U.S. Trade Representative for Industry, Market Access, and Telecommunications
Before the Senate Finance Committee - May 16, 2007

Chairman Baucus, Senator Grassley, and distinguished members of the Committee, I am pleased to participate in today's hearing on U.S. trade preference programs. I am the Assistant U.S. Trade Representative for Industry, Market Access and Telecommunications, and I administer the Generalized System of Preferences (GSP) program which, as you know, covers nearly 4900 products, including agricultural and non-agricultural goods.

At the outset, I would like to thank the Committee for extending the GSP program through December 31, 2008. This was actually the first time that Congress has extended the program without a lapse in its nine extensions since the program was first authorized in 1974. A seamless extension has created greater certainty for developing country producers and exporters, as well as for U.S. importers and businesses. The Administration also agrees with Congress that the purposes of the GSP program are best fulfilled when the benefits provided are targeted to those countries and products that are not yet competitive in the world market. In this regard, we welcomed the competitiveness guidance that Congress added to the GSP statute.

I wanted to say a few words about the origin of the GSP program and how we view its effectiveness today, thirty years later. I will also provide some remarks about other U.S. preference programs, which offer additional benefits to countries in the Caribbean Basin, Andean region and in Africa.

Historical Context for the GSP

Developing countries first put forward the idea of a Generalized System of Preferences, based on the grant of unilateral trade preferences as a form of development assistance, at the United Nations Conference on Trade and Development in 1964. The goal was to improve the ability of developing economies to compete with developed countries within the international trading system, thereby enhancing economic growth and development. In 1968, the United States joined other industrialized countries in supporting the GSP concept. As initially conceived, the key features of the GSP concept included: (1) temporary, unilateral grants of tariff preferences by developed to developing countries; (2) benefits provided to sectors of developing country economies which were not competitive internationally; and (3) safeguard mechanisms to protect domestic industries that were sensitive to import competition from those articles receiving preferential tariff treatment.

In order to implement the GSP concept in 1971, developed countries received a ten-year waiver from their GATT non-discrimination obligation. The GATT "Enabling Clause" made this waiver permanent in 1979.

The Goals of the GSP Program

Authorized by the Trade Act of 1974, the U.S. GSP program was implemented in 1976 for a ten-year period with the goal of promoting economic growth in the developing world. The GSP program is also designed to provide expanded choices to U.S. manufacturers and consumers and to help integrate developing countries into the global trading system.

Congress included competitive need limitations (CNL) in the GSP statute to ensure that the duty-free benefits of the GSP program extend to developing-country exports that are not competitive internationally. The CNLs are ceilings on the GSP benefits for each product and country, and are based on annual product trade from a specific country and the share of total imports of that product. A country will automatically lose its GSP benefits with respect to a product if either the trade cap or import share cap is exceeded in the previous calendar year (and if no waiver is granted).

The GSP program also encourages beneficiaries to: (1) eliminate or reduce significant barriers to trade in goods, services, and investment; (2) afford all workers internationally recognized worker rights; and (3) provide adequate and effective means to secure and enforce property rights, including intellectual property rights.

GSP Program and its Beneficiaries: 1976-1980

Ninety-eight countries and 39 territories comprised the initial beneficiaries of the GSP program. During the GSP program's first five years of operation, developing country beneficiaries were eligible to export to the United States products covered by approximately 2,800 of 7,000 tariff lines. Total U.S. imports under GSP in 1979 were $6.3 billion, or about three percent of total U.S. imports. At that time, nearly 70 percent of total imports under GSP were from five beneficiaries: Taiwan, Korea, Hong Kong, Brazil, and Mexico.

As early as 1980, a Presidential report to Congress noted that the President's statutory authority would be employed in the future "to withdraw, suspend or limit the application of duty free treatment" in a way that would begin to pare back benefits for those competitive products from the more successful exporters under GSP. This issue of gradually integrating advanced developing countries into a more reciprocal trade relationship within the disciplines of the WTO system is one which we still grapple with today, and one upon which Congress has recently focused its attention.

Since 1980

The GSP program has been renewed and modified nine times since its inception. In 1979, the President was given discretion to grant *de minimis* waivers to products exceeding the 50 percent competitive need limitation (CNL) when imports were less than $1 million (a figure that increases annually by $0.5 million). In 1981, by Executive Order, the President authorized USTR to enter into bilateral certification arrangements with interested beneficiaries to grant duty-free treatment to six hand-loomed and folklore textile exports under GSP. Congress first authorized the President to grant waivers to annual CNLs in 1984. In 1996, Congress authorized additional GSP benefits for all "least-developed" beneficiary developing countries. Subsequently, these countries were given the opportunity to export an additional 1,400 products to the United States duty-free.

Over the years, 17 countries have been graduated from the GSP program when their annual per capita gross national income exceeded the statutory limit. In addition, two Presidents have used authority under statute to graduate GSP beneficiaries based on their overall success exporting under the program and in the world trading system. President Reagan graduated Hong Kong, Singapore, South Korea, and Taiwan in 1989, and President Clinton graduated Malaysia in 1997.

In addition, the application of CNLs has resulted in the termination of GSP duty-free benefits for 227 products from countries that have demonstrated their competitiveness in the U.S. market. For example, 63 of Brazil's products have been graduated, followed by 21 for India and 10 for Thailand. Specific imports include several organic chemicals from India, Brazil, and Turkey; plywood from Indonesia and Brazil; carpets from India; monumental building stone from Turkey; and certain motor engines, auto parts and tires from Brazil. These actions underscore the principle enshrined in the GSP program that trade preferences under GSP are to be temporary support for developing countries as they make progress in taking on more reciprocal obligations of the trading system.

Current Status of the GSP Program

Today, 135 developing countries are beneficiaries of duty-free treatment for nearly 4900 articles. U.S. imports under GSP in 2006 were valued at $32.6 billion, an increase of 22 percent over 2005. Although this is a small percentage in the huge U.S. economy, the GSP program provides duty-free treatment to significant percentages of U.S. imports from individual beneficiary countries, such as 49 percent of U.S. imports from Kazakhstan; 36 percent from Fiji; 30 percent from Samoa; 26 percent from India; and 14 percent from Brazil.

Top non-petroleum GSP suppliers in 2006 were India, Thailand, Brazil, Indonesia, and the Philippines. Top overall imports under GSP were petroleum (eligible for duty-free treatment only from least-developed beneficiaries), gold jewelry, aluminum alloy products, refined copper cathodes, methanol, polyethylene terephthalate (PET), and wiring harnesses for vehicles.

In October 2005, in consultation with Congress, the Administration began a process to evaluate how to increase the use of benefits by countries that are small traders under the GSP program and to examine whether, based on competitiveness, the eligibility of certain GSP beneficiaries or certain U.S. imports from particular countries should be terminated because their receipt of benefits no longer seems to meet the goals of the GSP program. We incorporated into the GSP Annual Review a process to evaluate the potential revocation of current CNL waivers, based on the President's authority to revoke waivers due to changed circumstances and the guidance on competitiveness that Congress added to the GSP statute in December.

The Administration is working to ensure that the opportunities provided by the U.S. GSP program benefit as many countries as possible, and we welcome additional congressional direction on how best to accomplish this. We continue to work to qualify additional countries for GSP benefits. The President recently redesignated Liberia and Ukraine as GSP beneficiaries and East Timor joined the GSP ranks for the first time in 2006.

Further, GSP outreach and capacity-building are a top priority for my office. We provide training on how to use GSP to exporters, producers, and artisans in individual countries and by providing GSP-use analyses to beneficiary governments during bilateral and regional consultations in Washington and abroad.

What are the results of the GSP Program?

The most GSP renewal period, beginning in 2002, resulted in an average 11 percent annual increase in imports under GSP, including from least-developed beneficiaries such as Lesotho and Guyana, whose imports under GSP grew by 64 percent and 85 percent respectively. In contrast, between 1994 and 2001, GSP use dropped 2.2 percent annually, on average. Since the program's inception in 1974, GSP has been renewed nine times, each time after periods of expiration ranging in length from two to fifteen months.

One indication of the GSP program's effectiveness is provided by the public comments we have received during the Overall GSP Review. I will recount a few examples:

- One commenter noted that by saving U.S. spice importers $1.2 million in duties in 2005, the GSP program has created increased economic opportunities for small spice farmers in India, Brazil, Venezuela, Indonesia, South Africa, Turkey, and the Philippines.
- We also understand that Indonesia is exporting high-quality contact lenses under GSP to the United States and the duty savings are being used to invest in the industry's competitiveness. As a result, its growth is outpacing that of other foreign contact lens suppliers to the United States.
- Turkey has attained a measure of success, against other foreign suppliers, as an exporter of bathroom and other faucets. The Turkish industry attributes its GSP-supported competitive pricing, in part, to helping establish a country brand with a reputation for good quality at an affordable price.

U.S. retailers have noted that they import products from GSP-eligible countries not only because the savings keep prices low and competitive, but also because GSP provides them with the opportunity to spread product sourcing across a number of GSP countries. This also allows several beneficiaries to benefit from production of a single product. GSP also ensures that U.S. companies have access to intermediary products from beneficiary countries on generally the same terms that are available to competitors in other developed countries that grant them preferential status. At the same time, commenters have maintained that country eligibility in the GSP program nurtures a set of conditions that is advantageous to U.S. exporters as well as to beneficiary countries.

The GSP program has helped influence positive developments in many areas of the U.S. trade agenda with developing countries. GSP benefits have been an incentive to improve worker rights in beneficiary countries including Swaziland, Uganda, and Liberia. Similarly, increased protection and enforcement of intellectual property rights have occurred in Ukraine, India, and Kazakhstan.

Statutory allowance for cumulation of inputs under GSP's rules of origin has also been advantageous. Three television manufacturers -- one in the United States and two located in Thailand -- use the opportunity to pool inputs within the ASEAN region to meet GSP rules of origin. The companies noted that the "arrangement has the effect of stimulating the economies of all countries that are able to be in the supply chain for the production of complete television sets."

While GSP's primary objective was not to grant cost savings to U.S. industry, the U.S. Chamber of Commerce reported that GSP imports keep U.S. manufacturers and their suppliers competitive. In 2005, 75 percent of U.S. imports entering duty-free under GSP were raw materials, components, or equipment used by U.S. companies to manufacture goods either for domestic consumption or export. The Chamber also found that GSP is particularly important to U.S. small businesses, many of which rely on the program's duty savings to compete with much larger companies.

Other U.S. Trade Preference Programs

Over the past thirty years, the United States has enacted other trade preference programs targeting specific regions of the world for deeper, more generous benefits, including benefits for textile and apparel imports which have always been statutorily excluded under GSP. These regional programs were built on the basic structure of the GSP program: the Caribbean Basin Economic Recovery Act (CBERA) in 1983; the Andean Trade Preference Act (ATPA) in 1991; and the African Growth and Opportunity Act (AGOA) in 2000.

The trade programs known collectively as the Caribbean Basin Initiative (CBI) remain a vital element in the United States' economic relations with its neighbors in Central America and the Caribbean. The CBI is intended to facilitate the economic development and export diversification of the Caribbean Basin economies. Initially launched through CBERA, and substantially expanded in 2000 through the U.S.-Caribbean Basin Trade Partnership Act (CBTPA), the CBI currently provides 20 beneficiary countries with duty-free access to the U.S. market for most goods.

The Andean Trade Preference Act program was enacted to provide sustainable economic alternatives to drug-crop production in Bolivia, Colombia, Ecuador, and Peru. Subsequently amended by the Andean Trade Promotion and Drug Eradication Act (ATPDEA), the program has succeeded in creating significant trade opportunities for the countries of this region. Some of the countries now want to build upon this success by moving to a free trade relationship, defined by permanent, reciprocal, and binding trade obligations that offer significant new opportunities for U.S. exporters. Peru and Colombia signed comprehensive free trade agreements with the United States in April 2006 and November 2006 respectively. These agreements contain the rules and incentives that will spur job growth, attract new investment, strengthen the rule of law, and bolster the democratic and economic reforms that have been undertaken by the leaders of Peru and Colombia in recent years.

The African Growth and Opportunity Act provides duty-free access for virtually all products exported to the United States by the 38 sub-Saharan African countries and greater duty free access for apparel and certain textile products for 26 lesser developed AGOA beneficiaries that have implemented procedures to prevent illegal trans-shipment. U.S. imports from sub-Saharan African countries under AGOA (including its GSP provisions) totaled $44.2 billion in 2006, up 16 percent over 2005 – largely due to oil. Non-oil AGOA imports totaled $3.2 billion in 2006, an increase of seven percent over the previous year. Several sectors experienced significant increases: transportation equipment; agricultural products (fruits, nuts, prepared vegetables and cut flowers), machinery products, and footwear.

The Administration is strongly committed to the goal of promoting economic growth in the developing world and, most importantly, in its poorest regions. U.S. preference programs are an important part of that effort.

This concludes my remarks. Thank you for the opportunity to testify before you, and I look forward to your questions.