



# Trade Preferences: Economic Issues and Policy Options

**Vivian C. Jones, Coordinator**

Specialist in International Trade and Finance

**J. F. Hornbeck**

Specialist in International Trade and Finance

**M. Angeles Villarreal**

Specialist in International Trade and Finance

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## Summary

Since 1974, Congress has created multiple trade preference programs designed to foster economic growth, reform, and development in less developed countries. These programs give temporary, non-reciprocal, duty-free U.S. market access to select exports of eligible countries. Congress conducts regular oversight of these programs, repeatedly revising and extending them. Two major issues face the 111<sup>th</sup> Congress: (1) the expiration of two preference programs by December 31, 2010; and (2) possible legislative action on broader reform of the preference programs based on comprehensive reviews in hearings held in both the House and the Senate earlier in this Congress.

Congress established five trade preference programs. The Generalized System of Preferences (GSP) applies to developing countries as a whole. In addition, there are four regional programs established in the Andean Trade Preference Act (ATPA), the Caribbean Basin Economic Recovery Act (CBERA); the Caribbean Trade Partnership Act (CBTPA), the African Growth and Opportunity Act (AGOA), and the Haitian Opportunity through Partnership Encouragement (HOPE) Act. Both the GSP and the ATPA are scheduled to expire on December 31, 2010.

Unlike free trade agreements, trade preferences are unilateral, so developing countries do not have to provide reciprocal trade benefits to the United States. To qualify for tariff preferences, however, they must meet certain eligibility criteria, which vary by program. Examples include adopting internationally recognized worker rights, providing adequate protection of intellectual property rights, and operating an open market economy under established multilateral trade rules. In the 111<sup>th</sup> Congress, the House Ways and Means and Senate Finance Committees have held hearings on the operation and impact of these programs. In the first session, Congress legislatively extended the GSP and ATPA for a one-year, ending December 31, 2010 (P.L. 111-124). In the second session, it has extended provisions in the CBTPA and HOPE Act through September 30, 2020 in the Haiti Economic Lift Program Act of 2010 (P.L. 111-171). Other bills introduced include H.R. 1837 and S. 1665, which would extend ATPA to additional countries; and S. 1141 and S. 4101, which would expand product coverage for certain least-developed countries.

Trade preferences are permitted by the World Trade Organization (WTO) under the General Agreement on Tariffs and Trade (GATT) “enabling clause,” which allows members to provide more favorable treatment to developing countries. Other developed countries such as Canada, Japan, the European Union (EU), and Australia provide similar preferences. In the WTO Doha Development Agenda (DDA) round of multilateral trade negotiations, both developed and developing WTO members agreed to provide duty-free, quota-free (DFQF) preferential access to least-developed countries, subject to adoption of the agreement.

Evaluations of the benefits of trade preferences have been mixed. Many developing countries have used tariff preferences to enhance their competitiveness in certain industries, particularly apparel. In other countries, preferences are used to export major commodities such as petroleum products, which may be less supportive of long-term economic diversification and development. Meeting the needs of the least developing countries is a core policy issue that continues to drive the debate over the design of preference programs. Consumers and some U.S. industries and workers benefit from the additional trade, others compete directly with it, so perspectives on trade preferences vary despite their overall costs apparently being small.

This report discusses the major U.S. trade preference programs, their possible economic effects, stakeholder interests, and legislative options.

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Since 1974, Congress has created multiple trade preference programs designed to foster economic growth and development in less developed countries. These programs give temporary, non-reciprocal, duty-free U.S. market access to select exports of eligible countries. Congress conducts regular oversight of these programs, often revising and extending them. Two major issues face the 111<sup>th</sup> Congress: (1) the expiration of the Generalized System of Preferences (GSP) and the Andean preference program on December 31, 2010; and (2) possible legislative action on broader reform of the preference programs based on comprehensive reviews in hearings held in both the House and the Senate earlier in this Congress.

## Background

The multilateral trading system that has evolved since the end of World War II is centered on the guiding tenet of nondiscrimination. It is embodied in the most favored nation (MFN) principle of the General Agreement on Tariffs and Trade (GATT) and its successor, the World Trade Organization (WTO).<sup>1</sup> The economic rationale for this foundational idea rests on avoiding the type of protectionist policies prominent during the inter-war period that exacerbated the Great Depression. As fundamental as MFN treatment is to the conduct of modern trade, the GATT/WTO also allows for certain exceptions, one being special and differential treatment (SDT) for developing countries.

Special trade treatment permits, among other policies, preferential programs that reduce tariffs on certain goods from eligible developing countries. Lower tariffs support an export development strategy that is based on increasing trade and diversifying it away from traditional commodity exports into more value-added goods in industry and manufacturing. Because commodity prices have declined over the long run and experienced periods of extreme volatility over shorter periods of time, countries dependent on them often find their trade position weakened over time.<sup>2</sup> Exports are also key to development of industry in countries with small domestic markets. By diversifying trade to other sectors and industries it is hoped that developing economies will attract more investment, create more jobs, become more stable, and grow faster.<sup>3</sup>

Many developed countries have unilateral trade preference programs; Congress has legislatively established five in the United States. The first was the Generalized System of Preferences (GSP), established in the Trade Act of 1974. It applies to developing countries as a whole. In addition, there are four regional programs that followed, created in the Andean Trade Preference Act (APTA), the Caribbean Basin Economic Recovery Act (CBERA); the Caribbean Basin Trade Partnership Act (CBTPA), the African Growth and Opportunity Act (AGOA), and the Haitian Opportunity through Partnership Encouragement (HOPE) Act (discussed in detail below). The regional programs were built on the GSP concept, but are more targeted and tend to offer more generous and flexible access to the U.S. market.

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<sup>1</sup> In the United States MFN treatment is defined in law as normal trade relations (NTR).

<sup>2</sup> The terms of trade or the ratio of export prices to import prices tends to fall with commodity prices over the long run, causing deteriorated trade and current account positions.

<sup>3</sup> Bernard Hoekman, Will Martin, and Carlos A. Primo Braga, "Quantifying the Value of Preferences and Potential Erosion Losses," in *Trade Preference Erosion: Measurement and Policy Response*, ed. Bernard Hoekman, Will Martin, and Carlos A. Primo Braga (New York: Palgrave MacMillan, 2009), pp. 1-2.

Trade preferences provide duty-free U.S. market access to select exports of eligible developing countries. All U.S. preference programs are unilateral, meaning that they do not require reciprocal trade concessions. Congress conducts oversight of these programs, revising and extending them periodically.<sup>4</sup> In order to qualify to receive benefits, beneficiary developing countries must meet eligibility criteria, which vary by program. Some examples include ensuring that prospective countries make strides toward enhancing the rule of law, adopting internationally recognized worker rights, supporting counternarcotics policies, and providing open markets for U.S. exports. Preference programs, as such, are regarded by many as integral elements of U.S. trade, development, and foreign policy.

During the 111<sup>th</sup> Congress, both the House Ways and Means and Senate Finance Committees have held hearings to evaluate preference programs and possible means to improve their effectiveness. Congress passed legislation in the first session that extends the GSP and ATPA for one year through December 31, 2010 (P.L. 111-124). In the second session, Congress has extended the CBPTA through September 30, 2020, and granted additional preferences to Haiti in the Haiti Economic Lift Program Act of 2010 (P.L. 111-171). Other bills introduced include H.R. 1837 and S. 1665, which would expand the ATPA to additional countries; and S. 1141 and S. 4101, which would expand product coverage for certain least-developed countries, but Congress has not acted on these legislative initiatives.

Supporters of trade preferences include beneficiary developing country governments who have established industries and jobs partially as a result of preference programs, U.S. importers, including retailers and U.S. consuming industries, and U.S. producers working in joint production with assembly plants in developing countries. These groups tend to favor longer-term renewal of preferences to ensure more predictability, which is one important factor in investment and sourcing decisions. Stakeholders opposed to preference programs include U.S. manufacturers of competing import-sensitive products and some labor groups representing workers negatively affected by them, although the strict labor requirements of preference programs can attract support from labor groups. Generally, preference programs receive broad support in Congress, but some lawmakers have reservations about their design and operation.

## **Generalized System of Preferences (GSP)**

Authorized by Congress in 1974, the GSP is the oldest and largest trade preference program, currently providing trade benefits to 131 countries. It was last extended through December 31, 2010, by P.L. 111-124. The GSP statute (Title V of the Trade Act of 1974, P.L. 93-618, as amended) authorizes the President to grant duty-free status to selected imports from two categories of countries: beneficiary developing countries (BDCs) and least-developed country beneficiaries (LDBDCs),<sup>5</sup> the latter designating additional special treatment for the poorest developing countries.<sup>6</sup> The President may designate eligible countries, subject to various

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<sup>4</sup> U.S. Congress, House, Committee on Ways and Means, Subcommittee on Foreign Trade, "Hearing on the Operation, Impact, and Future of the U.S. Preference Programs," Hearing Advisory, November 10, 2009.

<sup>5</sup> According to the GSP statute (see 19 U.S.C. § 2467) beneficiary and least-developed beneficiary countries must be designated as such by Executive Order or Presidential Proclamation. Least-developed beneficiaries are designated according to the same eligibility criteria as beneficiary developing countries and must comply with the same requirements, but receive tariff benefits on additional products.

<sup>6</sup> 19 U.S.C. §§ 2461-2467, as amended. For a more complete description of the GSP, see CRS Report RL33663, *Generalized System of Preferences: Background and Renewal Debate*, by Vivian C. Jones.

mandatory and discretionary conditions as set out in the statute.<sup>7</sup> In general, these include: providing equitable and reasonable market access; taking actions to adopt internationally recognized worker rights; supporting private ownership and repatriation of capital; not engaging in practices that would harm U.S. economic interests; and supporting certain U.S. anti-terrorism policies.<sup>8</sup> The GSP program is implemented by the Trade Policy Staff Committee (TPSC), an interagency group chaired by the Office of the U.S. Trade Representative (USTR).

In order to qualify for GSP eligibility, products must be imported directly from a BDC, where at least 35% of the value of materials and/or processing must be completed.<sup>9</sup> The President is authorized to designate products as eligible for GSP status, but many agricultural, textile, apparel, and other “import sensitive” products are excluded.<sup>10</sup> In addition, a country (LDC beneficiaries excluded) may lose eligibility for a particular product due to statutory competitive need limitations (CNLs). An automatic CNL is triggered if imports of a product from a BDC: (1) exceed a specified threshold value (\$140 million in 2010); or (2) account for 50% or more of total U.S. imports of the product. After the threshold is reached, CNLs go into effect on July 1 of the next calendar year and may be waived under certain conditions.<sup>11</sup>

Countries are also mandatorily “graduated” from the GSP program if the President determines that they have become a “high income” country.<sup>12</sup> Benefits may also be limited or withdrawn if the President determines that a beneficiary is sufficiently competitive based on an assessment of its level of economic development, per capita income, or living standards.<sup>13</sup>

## **Regional Programs**

### **The Caribbean**

In 1983, Congress created the first regionally-targeted preference program with strong bipartisan passage of the Caribbean Basin Economic Recovery Act (CBERA).<sup>14</sup> The Act provided limited duty-free entry of select Caribbean exports as a core element of the U.S. foreign economic policy response to deteriorating economic and political conditions in the region in the 1980s. Although considered an important new program at the time, its effects were limited by the exclusion of key exports, especially apparel. Apparel were (and are) major products of the region, but were designated “import sensitive” in the United States. CBERA was made permanent with a few

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<sup>7</sup> 19 U.S.C. § 2462.

<sup>8</sup> *Ibid.*

<sup>9</sup> 19 U.S.C. § 2463(a)(2).

<sup>10</sup> 19 U.S.C. § 2463(b).

<sup>11</sup> 19 U.S.C. § 2463(c). If a CNL is in place on a product, an interested party from a beneficiary country can request redesignation of the product’s eligibility if imports of the product fall below the CNL limits in a subsequent year.

<sup>12</sup> 19 U.S.C. § 2462(e). The last countries graduated from the GSP were Equatorial Guinea and Croatia (effective January 1, 2011) because the President determined that they had become “high income” countries. See Proclamation 8467 of December 23, 2009, *To Modify Duty-Free Treatment Under the Generalized System of Preferences, and for Other Purposes*, 74 *Federal Register* 69221. The per capita GNP limit is set at the lower bound of the World Bank’s definition of a “high income” country which was \$11,116 in 2006 (see USTR, *Generalized System of Preferences Guidebook*).

<sup>13</sup> 19 U.S.C. § 2462(c)(2).

<sup>14</sup> P.L. 98-67, 19 U.S.C. § 2701ff.

modest additions of eligible products in the Caribbean Basin Economic Expansion Act of 1990 (CBI II).<sup>15</sup>

Additional preferences were extended to the Caribbean region in the Caribbean Basin Trade Partnership Act (CBTPA) in May 2000.<sup>16</sup> In the CBTPA, Congress effectively extended benefits to eligible Caribbean countries through fiscal year 2008 equivalent to those given to Mexico under the North American Free Trade Agreement (NAFTA). The CBTPA also enhanced product coverage to include certain apparel goods—provided that the fabrics were sourced in the United States or the Caribbean and made from U.S. yarn. Congress recently extended CBTPA through September 30, 2020 in the Haiti Economic Lift Program (HELP) Act of 2010.<sup>17</sup>

Implementation of the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR) on March 1, 2006 shifted treatment of imports from the largest Caribbean apparel producing countries from a unilateral preference program to the more liberal benefits afforded under the new, reciprocal free trade agreement (FTA).<sup>18</sup> Haiti was the only major apparel-producing country in the region that was not included in CAFTA-DR.<sup>19</sup> Because Haiti's economic fortunes continued to deteriorate, Congress provided uniquely generous and flexible unilateral preferences to Haiti's apparel sector by amending CBERA to include the Haitian Hemispheric Opportunity through Partnership Encouragement Act of 2006 (HOPE I).<sup>20</sup> These preferences were further enhanced and extended by the HOPE II Act of 2008,<sup>21</sup> and again by the HELP Act.

The HOPE Act, as amended, differs from other U.S. preference programs because it allows duty-free treatment for Haitian apparel exports made from limited amounts of lower-cost third-country fabrics and other inputs from countries outside the region or not part of a trade agreement with the United State (e.g., many Asian producers). The eligibility criteria are based on GSP provisions, with an additional requirement mandating detailed United Nations monitoring of Haitian firms to ensure that they conform to internationally recognized worker rights.<sup>22</sup>

### **Andean Trade Preference Act (ATPA)**

The United States originally extended special duty treatment to imports from Colombia, Ecuador, Peru, and Bolivia in the Andean Trade Preference Act (ATPA), initially enacted on December 4, 1991, and most recently extended through December 31, 2010.<sup>23</sup> It lapsed on December 4, 2001, but was subsequently renewed and amended on August 6, 2002 in the Andean Trade Promotion and Drug Eradication Act (ATPDEA).<sup>24</sup> ATPDEA renewed ATPA trade preferences and also expanded the preferences to include additional products previously excluded under ATPA,

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<sup>15</sup> P.L. 101-382. For more background, see CRS Report RL33951, *U.S. Trade Policy and the Caribbean: From Trade Preferences to Free Trade Agreements*, by J. F. Hornbeck.

<sup>16</sup> P.L. 106-200, Title III, 19 U.S.C. §2703.

<sup>17</sup> P.L. 111-171. See CRS Report RL34687, *The Haitian Economy and the HOPE Act*, by J. F. Hornbeck.

<sup>18</sup> P.L. 109-53, 19 U.S.C. § 4001 ff.

<sup>19</sup> Others include the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua.

<sup>20</sup> P.L. 109-432, 19 U.S.C. 2703a.

<sup>21</sup> P.L. 110-246, Subtitle D, Part I.

<sup>22</sup> CRS Report RL34687, *The Haitian Economy and the HOPE Act*, by J. F. Hornbeck.

<sup>23</sup> Title II of P.L. 102-182, 19 U.S.C. § 3201ff, most recently extended by P.L. 111-124.

<sup>24</sup> Title XXXI of P.L. 107-210.



including certain petroleum and petroleum products, textiles and apparel, footwear, and tuna in flexible containers, among others.

The purpose of ATPA is to provide preferential duty treatment to U.S. imports from beneficiary countries to promote economic growth, provide “legitimate” business opportunities, and expand job creation as alternatives to illegal crop production and drug trafficking.<sup>25</sup> The ATPA is one part of a broader U.S. initiative to address the drug trade problem in the Andean region. Other efforts include drug crop eradication and additional counter-narcotics activities.

In December 2008, then-President George W. Bush determined that Bolivia failed to meet ATPA beneficiary criteria and suspended Bolivia’s status as a beneficiary country for failure to cooperate in counternarcotics efforts. On June 30, 2009, President Barack Obama extended this determination. Reinstatement of Bolivia as an ATPA beneficiary country will require congressional approval.

### **African Growth and Opportunity Act (AGOA)**

The African Growth and Opportunity Act (AGOA)<sup>26</sup> originated in 2000 as part of an increasing U.S. effort to promote the development of, and deeper economic integration with, sub-Saharan Africa. The preference program was last amended and renewed through September 30, 2015.<sup>27</sup> GSP benefits were also extended to AGOA-eligible countries until that time, irrespective of any other congressional determinations on GSP extension.<sup>28</sup>

AGOA provides eligible sub-Saharan African countries more generous duty-free access than afforded under GSP, including special access for certain textile and apparel products that are designated “import sensitive” in the GSP statute.<sup>29</sup> AGOA also provides U.S. technical assistance and trade capacity building to eligible governments and businesses through four regional trade hubs in Gaborone, Botswana; Nairobi, Kenya; Accra, Ghana; and Dakar, Senegal.<sup>30</sup>

Currently, 38 countries are eligible to receive AGOA benefits. AGOA-eligible countries must demonstrate, among other things, that they: (1) are making continual progress toward establishing a market-based economy; (2) do not engage in activities that undermine U.S. national security and foreign policy interests; and (3) do not engage in gross violations of internationally recognized human rights or provide support for international terrorism.<sup>31</sup>

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<sup>25</sup> See P.L. 107-210, Div. C, Title XXXI, sec. 3102.

<sup>26</sup> Title I of P.L. 106-200 (19 U.S.C. § 3701 – 3741), as amended.

<sup>27</sup> P.L. 109-432, Div. D, Title VI, section 6004.

<sup>28</sup> 19 U.S.C. § 2466a (a)(1)(B).

<sup>29</sup> 19 U.S.C. § 3721.

<sup>30</sup> 19 U.S.C. § 3732(b). Office of the United States Trade Representative, *2008 Comprehensive Report on U.S. Trade and Investment Policy Toward Sub-Saharan Africa and Implementation of the African Growth and Opportunity Act: The Eighth of Eight Annual Reports*, May 2008, p. 47.

<sup>31</sup> 19 U.S.C. § 3703.

## Preference Programs and the WTO

The GATT and WTO agreements are based on the fundamental principle that unconditional most-favored-nation (non-discriminatory) status must be offered to the products of other Members with respect to tariffs and other trade-related measures.<sup>32</sup> Programs offering preferential treatment, such as the GSP, are inconsistent with this principle. Because these programs were designed to help less developed countries through trade expansion, parties to the GATT provided a legal basis for one-way tariff preferences in the 1979 “Enabling Clause,” which stated that “contracting parties may accord differential and more favorable treatment to developing countries, without according such treatment to other contracting parties” under certain conditions.<sup>33</sup> The Enabling Clause was formally incorporated into the GATT 1994 when the Uruguay Round Agreements—the same agreements that established the WTO—entered into force on January 1, 1995.

Other developed countries offer special trade preferences for developing countries including Canada, the European Union, Japan, and Australia.<sup>34</sup> Some developing nations, such as India and Brazil, also provide tariff concessions to least developed countries (LDCs).<sup>35</sup> Generally, each preference-granting country extends to eligible developing countries (as determined by each benefactor) an exemption from duties (in the form of duty-free access or reduced tariffs) on designated “non-sensitive” manufactured products and agricultural goods. Product coverage and the type of preferential treatment offered vary widely.<sup>36</sup> Although most preference schemes (including all U.S. programs) admit eligible products duty-free, some countries provide tariff reductions, rather than complete exemption, from duties. The Australian system, for example, is based on a five percentage point margin of preference, meaning that when the Australian General Tariff (GT) is 5% or higher on a given product, the amount of the tariff is reduced by 5 percentage points for products of beneficiary countries. When the GT rate is 5% or less, the preferential rate is zero.<sup>37</sup>

Other developed countries also offer regional preferences, or preferences that “reward” developing countries that comply with additional eligibility criteria such as anti-corruption measures, environmental sustainability goals, or core worker rights provisions. For example, the European Union offers additional duty-free access to its market to LDC beneficiaries under the “Everything But Arms” preference,<sup>38</sup> as well as an incentive-based program (known as GSP+) that provides enhanced benefits for “vulnerable countries” (in terms of size or limited diversification in its exports). GSP+ beneficiaries must have ratified and effectively implemented

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<sup>32</sup> CRS Report RS22183, *Trade Preferences for Developing Countries and the World Trade Organization (WTO)*, by Jeanne J. Grimmer.

<sup>33</sup> *Ibid.* The Enabling Clause replaced a 1974 GATT waiver on preferences under which the United States and other countries originally adopted and implemented preference programs.

<sup>34</sup> According to the United Nations Conference on Trade And Development (UNCTAD), there are currently 13 countries that offer GSP programs: Australia, Belarus, Bulgaria, Canada, Estonia, the European Union, Japan, New Zealand, Norway, Russia, Switzerland, and Turkey.

<sup>35</sup> Julia V. Sekkel, *Summary of Major Trade Preference Programs*, Center for Global Development, April 2009, p. 15.

<sup>36</sup> Sanchez Arnau, Juan C., *The Generalized System of Preferences and the World Trade Organization*, London: Cameron May, Ltd., 2002, p. 187.

<sup>37</sup> United Nations Conference on Trade and Development (UNCTAD), *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](http://www.unctad.org/en/docs/itcdtsbmisc56_en.pdf).

<sup>38</sup> European Council Regulation (EC) 416/2001.

27 specified international conventions in the fields of human rights, core labor standards, sustainable development, and good governance.<sup>39</sup>

Also in the WTO, as a part of the Doha Round of multilateral trade negotiations, developed country members and “developing country members declaring themselves in a position to do so” agreed to provide “duty-free and quota-free” (DFQF) market access for all products originating from all least-developed countries “in a manner that ensures stability, security, and predictability.”<sup>40</sup> Members “facing difficulties” would be permitted to exempt 3% of all tariff lines, provided that steps are taken to build the list of covered products until total DFQF is reached.<sup>41</sup> Since the DDA is a “single undertaking” (which means that nothing is finally agreed until everything is agreed), the DFQF agreement reached in 2005, will not be implemented until the negotiating round is concluded.<sup>42</sup>

## Stakeholder Perspectives

Like all public policies, the costs and benefits do not fall uniformly to all affected parties. This is reflected in various stakeholder responses to trade preferences. Supporters include beneficiary developing country governments, producers, workers, and exporters. Many of these countries receive foreign investment based on U.S. trade preferences, resulting in increased employment in certain industries.<sup>43</sup> For these countries, jobs and related income created by U.S. trade preference programs have become an important element for economic growth and development. Many beneficiary stakeholders express concern that if preferences are not renewed, other low-cost countries such as China would benefit at their expense.<sup>44</sup>

U.S. manufacturers who import intermediate products through the various trade preference programs in downstream products also support trade preferences. Some U.S. producers, especially in the U.S. textile and apparel industries, have made use of preferences to remain competitive through cooperative relationships with certain beneficiaries, especially the Caribbean and Latin American countries.<sup>45</sup> Businesses that benefit from preference programs favor longer-term renewal of trade preferences because they provide predictability when signing import contracts and making investment decisions.<sup>46</sup>

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<sup>39</sup>European Council Regulation (EC) 732/2008. See also the European Commission website, <http://ec.europa.eu/trade/wider-agenda/development/generalised-system-of-preferences/>.

<sup>40</sup> World Trade Organization, Ministerial Declaration, Annex F, December 18, 2005, WT/MIN(05)/DEC.

<sup>41</sup> Ibid.

<sup>42</sup> CRS Report RL32060, *World Trade Organization Negotiations: The Doha Development Agenda*, by Ian F. Fergusson.

<sup>43</sup> U.S. Congress, House Committee on Ways and Means, *Hearing on the Operation, Impact, and Future of the U.S. Preference Programs*, 111th Cong., 1st sess., November 17, 2009, Testimony of Alan Han of Nien Hsing Textile.

<sup>44</sup> U.S. Government Accountability Office, *International Trade: U.S. Trade Preference Programs Provide Important Benefits, but a More Integrated Approach Would Better Ensure Programs Meet Shared Goals*, GAO-08-443, March 2008, p. 40, <http://www.gao.gov>.

<sup>45</sup> U.S. Congress, House Committee on Ways and Means, *Hearing on the Operation, Impact, and Future of the U.S. Preference Programs*, 111th Cong., 1st sess., November 17, 2009. Testimony of David Love, Senior Vice President and Chief Supply Chain Officer, Levi Strauss & Co.

<sup>46</sup>U.S. Government Accountability Office, *International Trade: U.S. Trade Preference Programs Provide Important Benefits, but a More Integrated Approach Would Better Ensure Programs Meet Shared Goals*, GAO-08-443, March 2008, p. 42, <http://www.gao.gov>.

Trade preferences reflect both economic development and foreign policy goals. In addition to the economic benefits, eligibility criteria create incentives for beneficiary countries to support U.S. objectives such as adopting and enforcing internationally recognized worker rights, reducing barriers to investment, and enforcing intellectual property rights.<sup>47</sup> In addition, U.S. regional preferences created with particular goals in mind—such as eradication of drug production in the case of the Andean trade preference program—create incentives to fulfill additional U.S. policy goals.<sup>48</sup> Organized labor, for example, tends to support trade preferences because worker rights provisions have led to improvements in labor rights in some regions. Labor officials have cited the GSP process, specifically annual country practice reviews, as helpful in addressing enforcement and rule-of-law issues relating to compliance.<sup>49</sup> Labor support, however, is also tempered by the fact that certain workers will be negatively affected by increased imports of products with which they compete.

Stakeholders opposed to preferences programs mostly include U.S. manufacturers of competing import-sensitive products. In particular, some in the U.S. textile and apparel industry are opposed to unfettered extension of textile and apparel preferences, especially when U.S. workers are potentially adversely affected.<sup>50</sup>

## **Economic Issues**

All trade preference programs have in common the goal to promote export-driven growth and development in less developed countries. The programs themselves, however, raise multiple economic and political issues. Preference program features are a key factor in determining their effectiveness. Among key issues is the extent to which preferences: (1) target the developing country's productive capacity; (2) have sufficiently flexible and manageable rules of origin; (3) are not overly restricted by domestic interests; and (4) are extended for a sufficiently long period of time to attract foreign investment. Because of eligibility requirements that countries must accept from the preference giver, and the fact that they can also be unilaterally cut off, there are also opportunity costs to preferences.<sup>51</sup>

### **Program Effectiveness—Use of U.S. Trade Preferences**

The value trade preferences provide from a programmatic perspective rests on their ability to increase exports from developing countries, particularly away from traditional commodities. The value to the exporting countries is equal to what is called the preference margin, which may be

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<sup>47</sup> U.S. Congress, Senate Committee on Finance, *U.S. Preference Programs: How Well Do They Work?*, 110th Cong., 1st sess., May 16, 2007, S. Hrg. 110-650 (Washington: GPO, 2007) Statement of Meredith Broadbent, Assistant U.S. Trade Representative for Market Access and Telecommunications, Office of the U.S. Trade Representative, Washington, D.C., p. 4.

<sup>48</sup> *Ibid.*

<sup>49</sup> “The Real Record on Workers’ Rights in Central America,” AFL-CIO, April 2005, <http://www.aflcio.org>.

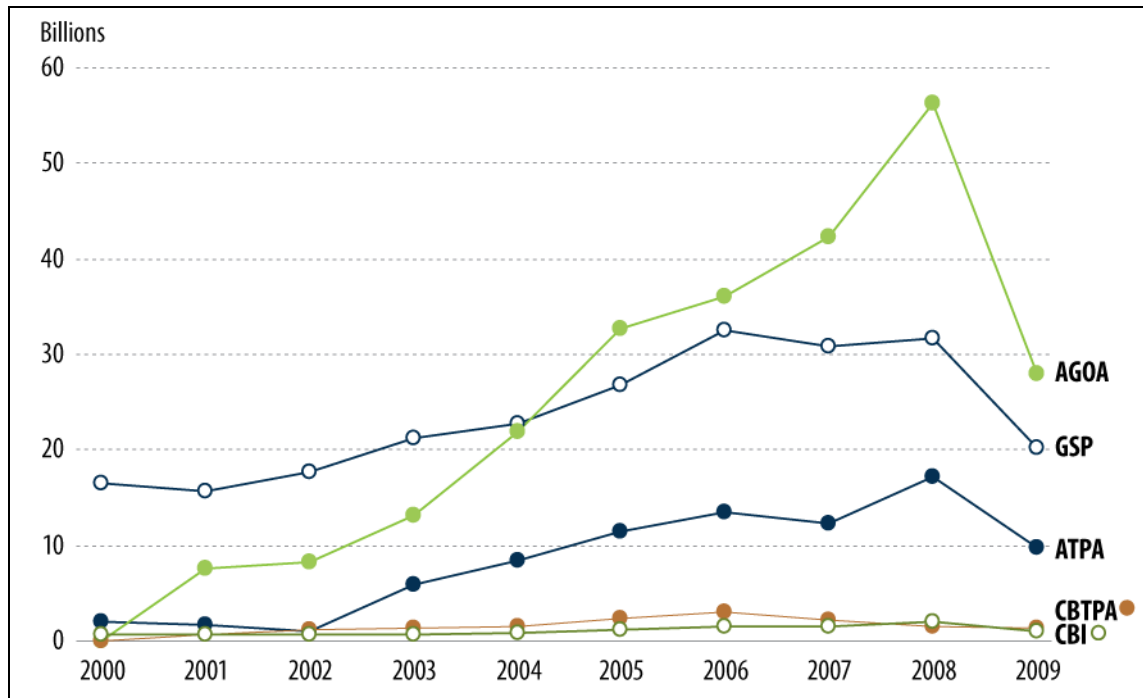
<sup>50</sup> U.S. Congress, House Committee on Ways and Means, *Hearing on the Operation, Impact, and Future of the U.S. Preference Programs*, 111th Cong., 1st sess., November 17, 2009, Testimony of David Hastings, chairman of the Mount Vernon Mills, on behalf of the National Council of Textile Organizations (NCTO).

<sup>51</sup> Caglar Ozden and Eric Reinhardt, *The Perversity of Preferences: The Generalized System of Preferences and Developing Country Trade Policies, 1976-2000*, The World Bank Development Research Group, Working Paper, January 2003, p. 2.

simply defined as the difference between the MFN and preferential tariffs on exported goods.<sup>52</sup> If the preference margin is significant, it should contribute to export growth by reducing the import cost of goods in the United States relative to competing exports from countries without preferences.

One simple approach to examining the benefits of preference programs is to evaluate their use by observed growth in exports, although this provides for only a preliminary understanding.<sup>53</sup> For example, the total value of imports entering under U.S. preference programs in 2008 was \$110.0 billion in 2008, and \$60.5 billion in 2009 (see **Figure 1** and **Table 1**). U.S. imports from all countries fell dramatically in 2009, including those entering under preference programs. The Great Recession was the major cause of U.S. import compression in 2009, with the decline in U.S. consumption of petroleum products being a key trend. For AGOA in particular, the dramatic decline in 2009 reflects that 93% of AGOA-eligible imports are petroleum products, the demand for which fell precipitously with the economic downturn (see Appendix **Table A-2** for data). Such a dramatic fall in exports entering under preference programs points to two fundamental concerns: the continued dependence on price-volatile commodity exports, and the possible failure of preference programs to encourage greater export diversification.

**Figure 1. Imports Entering Under Preference Programs, 2000-2009**  
(in billions of U.S. Dollars)



**Source:** United States International Trade Commission Trade Dataweb, <http://www.usitc.gov>.

<sup>52</sup> The “real” preference margin is better calculated as the difference between the tariff preference on competing goods from other developing countries and the tariff preferences offered on goods from the country under study.<sup>52</sup> Hoekman, Martin, and Braga, *op. cit.*, p. 4.

<sup>53</sup> Hoekman, Martin, and Braga, *op. cit.*, p. 9.

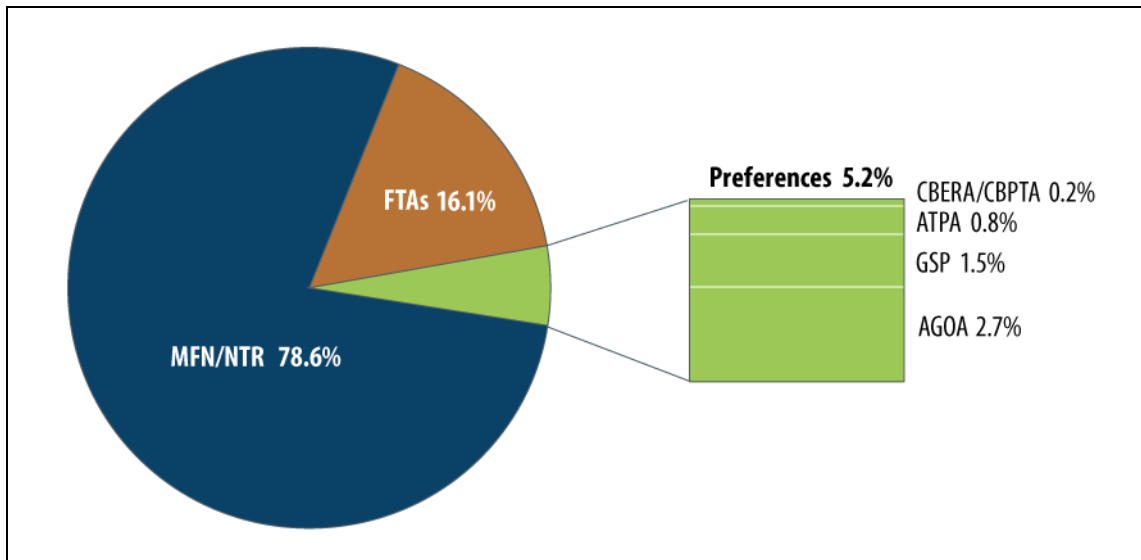
**Table I. Imports by Preference Program**  
(in billions of U.S. Dollars)

| Trade Preference Program | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008  | 2009 |
|--------------------------|------|------|------|------|------|------|------|------|-------|------|
| GSP                      | 16.4 | 15.7 | 17.7 | 21.3 | 22.7 | 26.7 | 32.6 | 30.8 | 31.7  | 20.3 |
| ATPA                     | 2.0  | 1.7  | 1.0  | 5.8  | 8.4  | 11.5 | 13.5 | 12.3 | 17.2  | 9.7  |
| AGOA                     | 0    | 7.6  | 8.3  | 13.2 | 22.0 | 32.7 | 36.1 | 42.3 | 56.4  | 28.1 |
| CBERA                    | 2.6  | 2.7  | 2.9  | 3.0  | 2.9  | 3.4  | 4.0  | 2.8  | 3.0   | 1.1  |
| CBTPA                    | 0.2  | 5.6  | 7.1  | 7.5  | 7.9  | 8.8  | 6.0  | 2.7  | 1.7   | 1.3  |
| Total                    | 21.2 | 33.3 | 37.0 | 50.8 | 63.9 | 83.1 | 92.2 | 90.9 | 110.0 | 60.5 |

Source: United States International Trade Commission Trade Dataweb, <http://dataweb.usitc.gov>.

Figure 2 illustrates that only 5.2% of about \$1.3 trillion in U.S. imports entered duty-free under preference programs in 2008.<sup>54</sup> About 16% of U.S. imports entered duty-free (or at reduced duties) under reciprocally negotiated free trade agreements (FTAs). In 2008, the largest percentage (79%) of U.S. imports entered under most-favored-nation (MFN), also known as normal trade relations (NTR) rates.<sup>55</sup> The simple average U.S. tariff rate is 3.3%, but tariffs on certain items, including some eligible under preference programs, are much higher.<sup>56</sup>

**Figure 2. Preference Programs as a Percentage of All U.S. Imports, 2008**



Source: United States International Trade Commission Trade Dataweb, <http://dataweb.usitc.gov>.

<sup>54</sup> CRS Report RL33577, *U.S. International Trade: Trends and Forecasts*, by Dick K. Nanto and J. Michael Donnelly.

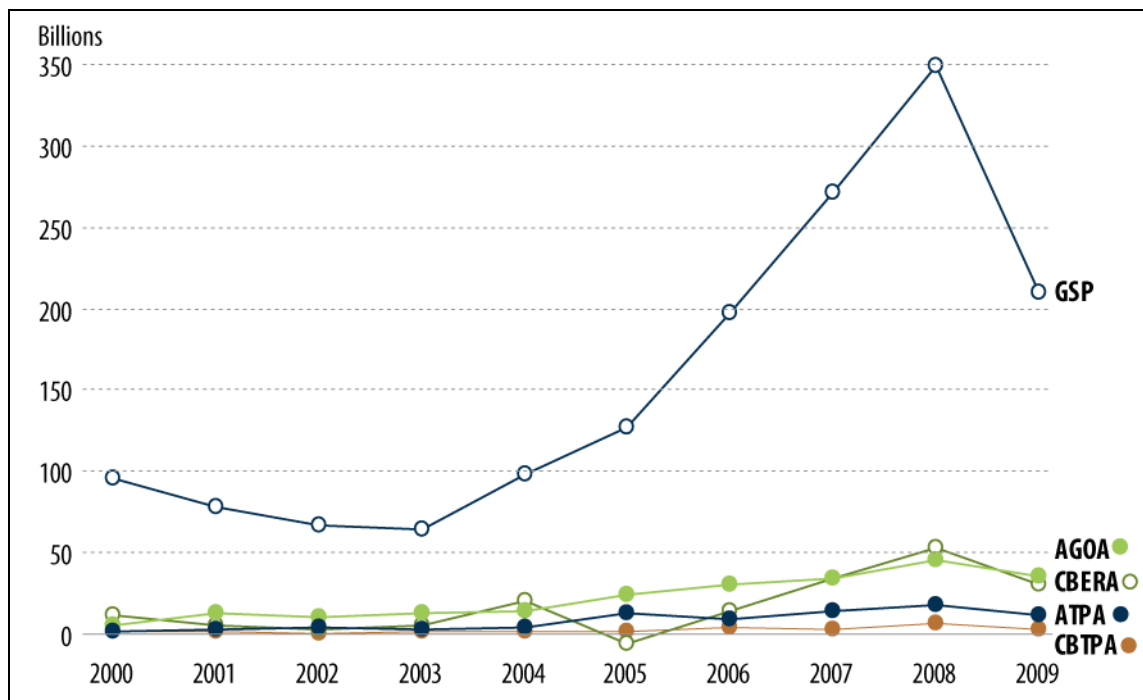
<sup>55</sup> While the WTO uses the term "most-favored-nation" to describe nondiscriminatory trade treatment, U.S. law since 1998 has referred to this treatment as "normal trade relations" (NTR) status. See P.L. 105-206, section 5003.

<sup>56</sup> World Trade Organization, "United States: Tariffs and Imports, Summary and Duty Ranges," [http://stat.wto.org/TariffProfiles/US\\_e.htm](http://stat.wto.org/TariffProfiles/US_e.htm).

Preference margins, by and large, tend to be small, providing relatively limited benefit to developing countries. More nuanced findings suggest, however, that certain products with high tariffs, such as apparel, provide a much greater benefit to those countries able to produce for the U.S. market. At the other end of the spectrum, the preference margin on petroleum is much smaller because tariffs tend to be small or zero in the case of many countries, and so there is much less benefit from a particular preference program. Nor does continuing to rely on petroleum exports promote economic diversification conducive for development.<sup>57</sup>

There are also costs associated with tariff preferences. Extensive administrative procedures and complex rules of origin often diminish their use. Also, benefits may accrue to U.S. importers rather than exporters, if they are price setters in the domestic economy. Preferences may also diminish production of competing goods in the importing country and cause some trade diversion.<sup>58</sup>

**Figure 3. Foreign Investment Flows to Preference Receiving Countries, 2000-2009**  
(in billions of U.S. dollars)



**Source:** United Nations Conference on Trade and Development (UNCTAD), Foreign Direct Investment Database.

**Figure 3** illustrates foreign direct investment (FDI) flows to beneficiary countries by preference program from 2000 to 2009, although attributing these trends to preference programs is analytically difficult. Nonetheless, between 2000 and 2008, the most dramatic increases in FDI flows occurred in GSP beneficiary countries. These countries received more than \$350 billion in foreign investment in 2008. AGOA countries also experienced slow, but steady FDI growth, from \$24.8 billion in 2000 to \$46.5 billion in 2008. ATPA countries, likewise, experienced slow, steady

<sup>57</sup> Hoekman, Martin, and Braga, op. cit., p.7.

<sup>58</sup> Ibid., pp. 4-6.

increases in FDI flows. FDI flows to Latin American and Caribbean beneficiaries of CBERA and CBTPA remained relatively stable during the period. As with the record on imports, the decline in investment from 2008 to 2009 can be attributed largely to the global economic downturn.

## **Developing Country Economic Effects**

For GSP countries, total U.S. imports from all BDCs have increased 250% over a twelve-year time period, from \$107.8 billion in 1996 to \$378.0 billion in 2008. Over the same time period, total U.S. imports entering under the GSP program increased at a slower rate, from \$11.6 billion to \$31.2 billion in 2008.<sup>59</sup> Together, these data indicate that only about 10% of exports from eligible countries enter the United States under the GSP program, a relationship that has remained steady or declined slightly over time.<sup>60</sup> Thus, in the aggregate, the GSP affects a relatively small portion of developing country exports. This is due, in part, to program restrictions on key “import sensitive” exports such as textiles and apparel and agricultural goods, and is also perhaps due in part to the automatic CNLs on GSP-eligible products. Mandatory graduation of beneficiaries from the GSP may also be a factor.

The Caribbean programs have had varying economic effects depending on how they have been structured. The original CBERA program provided few incentives to the major exports of the region (i.e., apparel), and so the response was predictably limited. This remained unchanged until the CBTPA, passed in 2000, provided duty-free treatment for apparel, among other goods. Since Central America is a major source of apparel goods, it was not surprising that U.S. imports under CBTPA grew to some 30% of total imports from the region by 2003. Nonetheless, U.S. imports of apparel under CBTPA continued to shrink as a percentage of apparel imports from the world, perhaps pointing to the limits of preferential tariff treatment in the face of a highly competitive global market. With the implementation of the CAFTA-DR, apparel concessions were more favorable under the agreement and so were no longer exported under the Caribbean preferences. This trend is reflected in the decline of total imports from CBERA countries from \$31.8 billion in 2005 to \$19.6 billion in 2008, with goods imported under the CBTPA falling from 28% in 2005 to only 9% of total imports from the region by 2008.<sup>61</sup>

The Haiti HOPE I Act was used minimally in the first two years, because of its highly complicated rules of origin and a short-term extension by Congress that did not entice investor response. With the passage of HOPE II, the preferences were made more flexible and generous, targeted to both knit and woven textiles and apparel. Simpler rules of origin, particularly those that did not require use of U.S. or domestic materials, were widely used. This again points to the importance of preference program design as a critical factor for predicting their use. Congress amended and enhanced the preferences on products that were imported most frequently under the preference when passing the HELP Act of 2010.<sup>62</sup>

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<sup>59</sup> As shown in Figure 1, U.S. imports from developing countries, including those entering under preference programs, fell dramatically in 2009 due to the global financial crisis. Therefore, we find that 2008 data may be more instructive than 2009 data when describing the economic effects of the various preference programs.

<sup>60</sup> CRS Report RL33663, *Generalized System of Preferences: Background and Renewal Debate*, by Vivian C. Jones.

<sup>61</sup> CRS Report RL33951, *U.S. Trade Policy and the Caribbean: From Trade Preferences to Free Trade Agreements*, by J. F. Hornbeck.

<sup>62</sup> CRS Report RL34687, *The Haitian Economy and the HOPE Act*, by J. F. Hornbeck.



The effect of the ATPA on the economies of Bolivia, Colombia, Ecuador, and Peru has also been small but positive. A study by the United States International Trade Commission estimated that ATPA helped to expand job opportunities in the flower and asparagus industries, particularly to individuals who otherwise might have engaged in illicit drug crop production and related activities.<sup>63</sup> After ATPA was amended to include textile and apparel articles, all four countries experienced related output and employment growth, particularly in Peru and Colombia. The textile and apparel sectors have been a source of legitimate economic activity and employment in some Andean regions. Industry representatives there are concerned about losing ATPA preferences because of the importance of the United States as an export market. The removal of Bolivia as a designated ATPA beneficiary amidst political uncertainty has likely affected the potential for long-term investment in Bolivia, which may, in turn, have contributed to volatility in Bolivia's FDI flows as well as potential ATPA-related investment.<sup>64</sup>

AGOA preferences, combined with macroeconomic reforms, played a positive role in economic growth in sub-Saharan Africa in some industry sectors. For example, footwear exports from the region grew 33% overall between 2002 and 2006 as a result of duty-free access to the U.S. market under AGOA.<sup>65</sup> At the same time, African exports continue to be the least diversified of all developing regions, and many African economies still remain vulnerable to external shocks caused by reliance on primary commodity exports such as oil.<sup>66</sup>

## **Comparative Advantage and Development**

While preferences may lead to important gains in manufacturing growth in some sectors and countries, a critical question is whether they help a country exploit a comparative advantage in trade, or artificially induce investment in industries that otherwise would be uncompetitive in the global market place. Some evidence points to support for comparative advantage in many cases where preferences build on an existing or nascent industry, allowing firms to gain a foothold in the international marketplace.<sup>67</sup> Preferences appear to have provided an opportunity for some of the current emerging markets such as India and Brazil to expand their international reach in certain markets. For example, India's utilization rate of the GSP program is very high (about 83%)<sup>68</sup>—spurred on, in part, by jewelry exports. The incentives created through the ATPA program may also have played a role in the expansion of the flower industry in Colombia and Ecuador. According to the Society of American Florists, about 67% of fresh flowers (as sold by dollar volume) in the United States are imports, with Colombia and Ecuador as the top two exporters. Apparel is an important sector for expanding export diversification in developing

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<sup>63</sup> U.S. International Trade Commission, *Andean Trade Preference Act: Impact on U.S. Industries and Consumers, and on Drug Eradication and Crop Substitution*, Thirteenth Report, Investigation No. 332-352, Publication 4037, September 2008.

<sup>64</sup> For more information, see the following reports: USITC Publication 4037; *Confederación de Empresarios Privados de Bolivia, The Importance of ATPDEA for Bolivia*, October 2008; and Université de Lausanne (Unil), *ATPDEA's End: Effects on Bolivian Real Incomes*, by Olivier Cadot, Etchel M. Fonseca, and Synabout Yaye Sakho, February 2008.

<sup>65</sup> United States International Trade Commission, *Sub-Saharan Africa: Factors Affecting Trade Patterns of Certain Industries*, Investigation Number 332-477, April 2008, <http://www.usitc.gov/publications/332/pub3989.pdf>.

<sup>66</sup> World Bank, *World Trade Indicators 2008*. South Africa is the most diversified economy on the continent, despite diversification efforts in many middle- and low-income African economies.

<sup>67</sup> See Raed Safadi and Ralph Latimore, eds., *Globalization and Emerging Economies: Brazil, Russia, India, Indonesia, China, South Africa*, Organization for International Cooperation and Development (OECD), 2008.

<sup>68</sup> CRS calculations based on U.S. International Trade Commission (USITC) trade statistics.

countries, particularly those with liberal rules of origin.<sup>69</sup> Countries such as Haiti have benefitted significantly from flexible rules of origin for apparel goods.

On the other hand, some countries may be encouraged by preferential programs to develop industry sectors in which they would otherwise not be able to compete, diverting public and private investment from other uses. Supply constraints and difficult business environments can overcome any benefit that tariff preferences may offer.<sup>70</sup>

## **Export Diversification**

Trade preference programs are unlikely to help poor countries achieve their development goals unless there is some transformation in their export structure away from primary goods.<sup>71</sup> USTR officials argue, for example, that AGOA is helping to expand and diversify trade between the United States and sub-Saharan Africa by building partnerships between U.S. and African businesses.<sup>72</sup> According to a 2009 report by the International Trade Administration, U.S. imports under AGOA are becoming increasingly diverse. Some of the more significant growth is taking place in jewelry and jewelry parts, fruit and nut products, fruit juices, leather products, plastic products, and cocoa paste. Apparel production has also benefitted.<sup>73</sup>

Because sub-Saharan Africa's preferential trade with the world still largely consists of oil and petroleum products, however, points to the crux of the diversification problem. With petroleum accounting for 93% of AGOA trade, the program may not be having the desired effect on Africa's economic development.<sup>74</sup> Such a case argues for aid in helping countries in Africa to take fuller advantage of the benefits that trade preferences offer and perhaps for reconsideration of program incentives.

## **Preference Erosion**

Preference erosion refers to the diminishing of the preference margin because tariff levels are being reduced in either multilateral or reciprocal bilateral or regional trade agreements. As tariffs fall worldwide, the benefit of zero tariffs in preference programs becomes smaller. It is an important point in the Doha Round negotiations from LDC perspectives. Particularly affected are countries participating in preference programs that cover most of their trade. There is a disincentive for LDCs to support multilateral trade liberalization should it result in reducing the

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<sup>69</sup> Society of American Florists, *About the Flower Industry*, <http://www.aboutflowers.com/about-the-flower-industry/industry-overview.html> and Hoekman, Martin, and Braga, op. cit., pp. 21-22.

<sup>70</sup> Organization for International Cooperation and Development (OECD), *Making Open Markets Work for Development*, Policy Brief, October 2005, p. 2 and Ibid.

<sup>71</sup> OECD Secretary-General. The Generalized System of Preferences: Review of the First Decade. Organization of Economic Cooperation and Development, 1983, p. 9. CRS Report RL33663, *Generalized System of Preferences: Background and Renewal Debate*, by Vivian C. Jones.

<sup>72</sup> Office of the United States Trade Representative. "AGOA Opens Doors for U.S. Businesses," Press Release, August 5, 2010.

<sup>73</sup> Department of Commerce, International Trade Administration, "U.S.-African Trade Profile," p. 2, <http://www.agoa.gov/> and Hoekman, Martin, and Braga, op. cit., pp. 21-22.

<sup>74</sup> "Trade: the U.S. and Sub-Saharan Africa: Oil is King," *Country Forecast Africa*, Economist Intelligence Unit, March 12, 2010; Kalley, Karanta, "Asia's Crude Oil Purchases from West Africa Rise Sharply in Q1," *Global Insight*, World Markets Research Center, March 8, 2010.

benefits of their preference programs.<sup>75</sup> Products that otherwise face relatively high tariffs, such as apparel, are also subject to relatively greater preference erosion. One study cites apparel producing countries Cape Verde, Haiti, Malawi, Mauritania, and Sao Tome and Principe as the most vulnerable to preference erosion.<sup>76</sup>

Given there has not been a multilateral agreement under the WTO since the 1994 Uruguay Round, most preference erosion has occurred because of the expanding bilateral and regional trade agreements, and the 2005 WTO Agreement on Textiles and Clothing (ATC), which eliminated quantitative export restrictions and import quotas.<sup>77</sup> Under these circumstances, developing countries see the Doha Round as a continuation of trends that reduce their preference benefits. There is broad agreement, however, that in the aggregate, preference erosion is quantitatively small relative to the global benefits of MFN trade liberalization, although for certain countries it may be costly.<sup>78</sup>

## Country Usage Concentration

While U.S. preference programs are open to many countries (for example, there are over 130 GSP beneficiaries), actual preference usage seems to be highly concentrated in only a few countries. In 2006, the top 25 preference beneficiaries accounted for 95 percent of U.S. preference imports.<sup>79</sup> As part of the debate over preference programs, some discussion has gravitated toward reconsidering their design in ways that would broaden their use, particularly by LDCs that may not be endowed with energy exports or have limited capability to develop apparel manufacturing.

## Eligibility Issues

Trade preferences, by their nature, divide countries into two camps: those who receive them and those that do not. This dichotomy raises some political issues that affect attitudes toward preference programs. Countries that have preferential access to developed economies want to maintain that advantage. They do this by advocating for precluding the extension of preferences to other countries. Large developing countries also lobby to ensure that their continued benefit is not jeopardized by a change in graduation or other rules that might reduce their eligibility.

For example, some AGOA beneficiaries have expressed concern that proposals to extend DFQF access to all LDCs (including apparel exporters Bangladesh and Cambodia) will place Africa's developing apparel industries in direct competition with these countries for U.S. market share, thereby eroding the preferences they currently exclusively enjoy. Some Members have sought an overhaul of preference programs to make it easier to graduate "advanced" developing countries

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<sup>75</sup> Paul Brenton and Caglar Ozden, *Trade Preferences for Apparel and The Role of Rules of Origin – The Case of Africa*, The World Bank, p. 2.

<sup>76</sup> Hoekman, Martin, and Braga, op. cit., p. 18-19.

<sup>77</sup> Ibid.

<sup>78</sup> "NGOs, Business Groups Debate Principles for Preference Reform," *Inside U.S. Trade*, April 10, 2009, U.S. Government Accountability Office (GAO), *International Trade: U.S. Trade Preference Programs Provide Important Benefits, but a More Integrated Approach Would Better Ensure Programs Meet Shared Goals*, GAO-08-443, March 2008, p. 35, and Ibid., p.21.

<sup>79</sup> U.S. Government Accountability Office (GAO), *International Trade: U.S. Trade Preference Programs Provide Important Benefits, but a More Integrated Approach Would Better Ensure Programs Meet Shared Goals*, GAO-08-443, March 2008, p. 35.

such as India and Brazil from the GSP because of their opposition of U.S. interests in DDA negotiations.<sup>80</sup> Others in the academic world have also pointed to the benefits of focusing preference programs exclusively on the poorest of the developing countries.<sup>81</sup>

A second issue involves the opportunity costs of eligibility criteria. All U.S. programs, for example, require participating countries to meet numerous non-trade related criteria. These range from adopting labor commitments to ensuring assistance is forthcoming on drug interdiction, among other policies. While the United States readily acknowledges that these foreign policy concerns are part of their preference programs, they represent opportunity costs to the recipient country that some argue amounts to “politicizing trade.”<sup>82</sup>

## Effects on the U.S. Market

The United States potentially faces costs in permitting unilateral trade preferences to developing countries. Domestic industries may face greater import competition as lower-cost imports enter the U.S. market, which could affect production, employment, and wages. However, preference programs are designed to limit the economic impact on domestic producers by various means.

In the GSP, U.S. import-competing manufacturers are largely protected from severe economic impact by three features. First, some products, such as most textile and apparel goods, are designated “import sensitive” and are therefore ineligible for duty-free treatment.<sup>83</sup> Second, “competitive need limits” in the GSP are triggered if imports of a product reach a certain threshold.<sup>84</sup> Third, U.S. producers may petition the United States Trade Representative (USTR) that GSP treatment granted to eligible articles be withdrawn. These petitions are considered during the annual review of the GSP program.<sup>85</sup>

Although the smaller regional preference programs include preferences for additional “import-sensitive” products, such as textiles and apparel, these differences do not greatly increase the potential for significant negative effects on U.S. producers. First, tariff lines given duty-free access can be very narrowly tailored to mitigate the impact of the preferences. Second, rules of origin are often carefully written to minimize effects on domestic producers. For example, for apparel imported from an AGOA country to receive the AGOA preference, no more than 10% (by weight) of the fiber and yarns making up the product can originate in a country other than the AGOA beneficiary or the United States.<sup>86</sup> Some U.S. apparel producers actually benefit from preferences through an integrated value-added chain of production between the U.S. producers and those in Central America and the Caribbean, which lowers their overall costs relative to other major global producers, such as those in China.<sup>87</sup> These cost factors have also assisted U.S.

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<sup>80</sup>“Sen. Grassley Warns Brazil, India, on GSP; Stops Short of Predicting Graduation,” *Inside U.S. Trade*, May 19, 2006. “Ways and Means Likely to Seek One-Year Extension of GSP, ATPDEA,” *Inside U.S. Trade*, September 7, 2010.

<sup>81</sup> Paul Collier, *The Bottom Billion: Why the Poorest Countries Are Failing and What Can Be Done About It* (Oxford: Oxford University Press, 2007), pp. 168-169.

<sup>82</sup> For a summary, see Hoekman, Martin, and Braga, op. cit.

<sup>83</sup> 19 U.S.C. § 2463(b)(1).

<sup>84</sup> 19 U.S.C. § 2463(c).

<sup>85</sup> Provisions for the GSP Annual Review are set out at 15 C.F.R. § 2007.2(c)-(h).

<sup>86</sup> See the Office of Textiles and Apparel (OTEXA) website at <http://otexa.ita.doc.gov/>.

<sup>87</sup> United States Government Accountability Office, *International Trade: U.S. Trade Preference Programs Provide Important Benefits, but a More Integrated Approach would Better Ensure Programs Meet Shared Goals*, GAO-08-443, (continued...)

producers in retaining U.S. market share that could have been lost to Asian producers following the expiration of the WTO Agreement on Textiles and Clothing on January 1, 2005.<sup>88</sup>

Also in terms of U.S. benefits, some U.S. manufacturers who use imported inputs benefit from the lower cost of the intermediate manufactured goods and raw materials imported under preference programs.<sup>89</sup> U.S. demand for certain individual products, such as jewelry, leather, and aluminum, is also quite significant. Ultimately, consumers also benefit from the lower prices of products imported duty-free under preference programs.<sup>90</sup>

Even though preferences are structured to minimize the impact on U.S. producers, some amount of injury does occur. For example, the U.S. International Trade Commission found that U.S. growers of asparagus, fresh cut roses, chrysanthemums, carnations, and anthuriums may have experienced displacement of more than 5% of the value of production in 2005 because of imports that receive the ATPA preference.<sup>91</sup>

With regard to losses in tariff revenues, over time, most of these costs have been shown to be relatively small. For example, CBO estimated that P.L. 111-124, which renewed the ATPA and GSP until December 31, 2010, amounted to a loss of revenue of \$589 million in FY2010 and \$196 million in FY2011.<sup>92</sup> Imports entering duty-free are also relatively small compared to the total dollar value of imports to the United States.

Overall effects on the U.S. economy are quite small. For example, the value of goods imported under the GSP program in 2008 represented only about \$31.7 billion, compared to total U.S. imports of \$2.1 trillion. Imports from all preference programs amounted to only about 5.2% of all U.S. trade (see **Figure 2**).<sup>93</sup>

## Legislative Options for Congress

The debate in Congress over trade preferences encompasses multiple viewpoints. Leaving the programs largely as they are is one. Others see the need for revision to address specific problems.

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(...continued)

March 2008, p. 11, <http://www.gao.gov>.

<sup>88</sup> The WTO Agreement on Textiles and Clothing (1995 to January 1, 2005) established a 10-year plan for multilaterally eliminating quotas on international trade in textiles and apparel products. It replaced the Multifibre Arrangement signed in 1974, as part of the General Agreement on Tariffs and Trade.

<sup>89</sup> United States Government Accountability Office, *International Trade: U.S. Trade Preference Programs Provide Important Benefits, but a More Integrated Approach Would Better Ensure Programs Meet Shared Goals*, GAO-08-443, March 2008, p. 12, <http://www.gao.gov>.

<sup>90</sup> *Ibid.*

<sup>91</sup> U.S. International Trade Commission, *Andean Trade Preference Act: Impact on U.S. Industries and Consumers and on Drug Crop Eradication and Crop Substitution, 2008*, Investigation No. 332-352, September 2008, pp. 3-11, <http://www.usitc.gov>.

<sup>92</sup> Congressional Budget Office, *Cost Estimate on H.R. 4284, An Act to Extend the Generalized System of Preferences and the Andean Trade Preference Act, and for Other Purposes*. Since the law also extended some customs user fees and increased the portion of large corporate (firms with income of more than \$1 billion) estimated income tax payments due in July 2014, CBO estimated that the net impact of the legislation would actually be much lower.

<sup>93</sup> CRS estimates based on U.S. International Trade Commission figures. See also CRS Report RL33577, *U.S. International Trade: Trends and Forecasts*, by Dick K. Nanto and J. Michael Donnelly.

These include: (1) the role that preferences may play as a disincentive for beneficiary countries, particularly large developing countries, to embrace fully the Doha Round of multilateral trade negotiations;<sup>94</sup> (2) problems of compliance with eligibility criteria;<sup>95</sup> (3) the need to press for reciprocal trade treatments as poor countries reach a certain level of development; and (4) the need to focus them more on the least developed countries.<sup>96</sup> Policy discussions tend to revolve around five basic program parameters: (1) renewal period, (2) harmonization, (3) country coverage, (4) product coverage, and (5) eligibility criteria.

## Renewal Period

With the exception of CBERA, all preference programs are time-limited and Congress must reauthorize them if they are to continue. Although Congress has generally viewed these programs as temporary, it has historically chosen to renew them, usually without interruption and often with broad approval. Program beneficiaries, including governments, importers, and consuming industries, advocate diligently for continued program support.

The primary argument for longer-term renewals is to establish a predictable trade environment that will attract long-term investment. Preferences translate into relatively lower costs of goods imported into the United States, which provide businesses with the incentive to operate in otherwise less competitive or desirable locations. Investors are more likely to consider long-term commitments when preferences are not subject to repeated short-term extensions, which adds an element of uncertainty to business planning, and also has implications for employment and economic stability in beneficiary countries. Extended preference horizons also support development of stable sourcing relationships and improved working environments given the emphasis eligibility criteria places on such factors as rule of law, good business practices, and worker rights.<sup>97</sup> Some Members, though, view extended renewal as conditioned on other program changes such as those discussed below.<sup>98</sup>

The 111<sup>th</sup> Congress has already acted to extend some preference programs. In the first session, it provided a one-year extension for the GSP and ATPA through December 31, 2010 (P.L. 111-124). In the second session, the HELP Act (P.L. 111-117) extended the CBTPA and Haiti HOPE Act through September 30, 2020. If Congress takes up comprehensive legislation, it is possible that it may consider the costs and benefits of harmonizing renewal periods and perhaps act to lengthen the renewal period for GSP and ATPA.

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<sup>94</sup> Bernard Hoekman, William J. Martin, and Carlos A. Primo Braga, *Preference Erosion: The Terms of the Debate*, World Bank, May 2006.

<sup>95</sup> See Government Accountability Office, *U.S. Trade Preference Programs: An Overview of Use by Beneficiaries and U.S. Administrative Reviews*, GAO-07-1209, September 2007, p. 4.

<sup>96</sup> Martin Vaughan, "Grassley Throws Up Obstacle to Trade Preference Renewal," *Congress Daily*, September 8, 2006.

<sup>97</sup> U.S. Congress, House Committee on Ways and Means, *Hearing on the Operation, Impact, and Future of the U.S. Preference Programs*, 111th Congress, 1st sess., November 17, 2009. Testimony of William Reinsch, President, National Foreign Trade Council (NFTC). See also Testimony of David Love, Senior Vice President and Chief Supply Chain Officer, Levi Strauss & Co., San Francisco, California.

<sup>98</sup> Joseph J. Schatz, "Lawmakers Look to Trade Preferences to Boost Haiti's Recovery," *CQ Today*, March 10, 2010, p. 6.

## Harmonization

Preference programs have similar, but not identical, program features. A key theme for renewal has been to review these policy parameters to determine if there are opportunities to simplify, harmonize, and make more consistent program features such as eligibility criteria, rules of origin, and product coverage. Some areas may be easier to harmonize than others. For example, it may be possible to standardize eligibility criteria across all programs.

Harmonizing the complex “maze” of rules of origin could be a much greater challenge. Still, many view this as an important step toward making the programs operate more efficiently, not only from the perspective of businesses attempting to meet these rules, but also at the U.S. border where customs officials must determine the eligibility of each product entering the country. Because these rules were carefully crafted to maximize benefits to the intended countries, while minimizing any adverse effects on U.S. producers and preventing transshipment, harmonization may prove challenging to achieve in practice.<sup>99</sup>

Trade capacity building (TCB), or training to improve the capability of firms in beneficiary countries to use these preferences, may provide a partial solution. The Government Accountability Office (GAO) has reported that research on the textile and apparel inputs industry in sub-Saharan Africa has confirmed that TCB is key to improvement of the competitiveness of the sector and utilization of preferences.<sup>100</sup>

## Country Coverage

Although preference program legislation gives the President the authority to determine country eligibility based on designated criteria, Congress specifically designates overall which countries may receive the preferences. For example, Congress designated 48 sub-Saharan African countries as potentially eligible to receive the AGOA preference, but the President initially designated 34 countries as eligible based on the criteria Congress set forth in the statute.<sup>101</sup> Congress could legislatively expand or contract country coverage at any time. For example, several bills in Congress seek specifically to prevent Vietnam from obtaining GSP status due to its poor record on worker rights.<sup>102</sup>

By definition, trade preferences are targeted toward developing countries, but there are different opinions regarding how broadly they should apply. Some argue that they should be targeted only

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<sup>99</sup> U.S. Congress, Senate Committee on Finance, *U.S. Preference Programs: Options for Reform*, 111th Cong., 2nd sess., March 9, 2010.

<sup>100</sup> U.S. Congress, House Committee on Ways and Means, *Hearing on the Operation, Impact, and Future of the U.S. Preference Programs*, 111th Cong., 1st sess., Testimony of Loren Yager, Director, International Affairs and Trade, GAO.

<sup>101</sup> 19 U.S.C. § 3706; Executive Office of the President, Proclamation 7350 of October 2, 2000, “To Implement the African Growth and Opportunity Act and to Designate Eritrea as a Beneficiary Developing Country for Purposes of the Generalized System of Preferences,” 65 *Federal Register* 59321, October 4, 2000. Currently, 40 countries are eligible to receive AGOA preferences.

<sup>102</sup> CRS Report RL34702, *Potential Trade Effects of Adding Vietnam to the Generalized System of Preferences Program*, by Michael F. Martin and Vivian C. Jones.

toward LDCs that need them most.<sup>103</sup> Higher or “middle” income developing countries resist this approach.

Congress could also expand regional programs or create new preference programs in order to incorporate those LDCs not currently covered in AGOA or the other regional programs. Three bills introduced in the 111<sup>th</sup> Congress (H.R. 1837, S. 1665, and S. 780) would expand coverage in the ATPA to include Paraguay and/or Uruguay. The Tariff Relief Assistance for Developing Economies Act of 2009 (S. 1141) would authorize extending AGOA-like trade preferences for textile and apparel goods to non-African LDCs, including Afghanistan, Bangladesh, Bhutan, Cambodia, Kiribati, Lao People’s Democratic Republic, Maldives, Nepal, Samoa, Solomon Islands, Timor-Leste (East Timor), Tuvalu, Vanuatu, and Yemen. The bill would also extend product coverage for these countries to other “import-sensitive” items, subject to International Trade Commission (ITC) recommendation and Presidential determination.

Another approach would be to reduce coverage for advanced developing countries, or require more reciprocity from these nations.<sup>104</sup> Decreasing the number of country participants could also be achieved by applying mandatory country “graduation” to all preference programs, such as currently implemented in the GSP. According to the GSP statute, mandatory graduation occurs when a beneficiary country is determined to be a “high income country” as defined by official International Bank for Reconstruction and Development (World Bank) statistics.<sup>105</sup> Alternatively, Congress could choose another measure of income for graduation from preference programs, or require that country graduation be determined by a comprehensive review of its industries and economy.<sup>106</sup>

One bill—the New Partnership for Trade Development Act of 2009 (S. 4101)—seeks to expand country coverage in textiles and apparel to more LDCs, while limiting the imports of more competitive countries. The legislation would amend the AGOA and GSP programs to expand preferences for LDCs, while strengthening and improving benefits to AGOA countries to ensure that existing African beneficiaries would not be negatively affected.<sup>107</sup> The bill would strengthen AGOA preferences by granting DFQF treatment to all least-developed AGOA countries; applying the GSP 35% value-added rules, and extending the third-country fabric provision until September 30, 2015.<sup>108</sup> It would also extend DFQF benefits to additional eligible non-African LDCs. For those countries that are already “significant apparel suppliers” to the United States,<sup>109</sup> the bill

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<sup>103</sup>Center for Global Development, *Open Markets for the Poorest Countries*, p. 6; Paul Collier, *The Bottom Billion*, pp. 167-168, and Amy Tsul, “Senate Finance Chairman Baucus, Grassley Describe Trade Preference Reform Elements,” *International Trade Daily*, March 10, 2010.

<sup>104</sup>U.S. Congress, Senate Committee on Finance, *U.S. Preference Programs: Options for Reform*, 111th Cong., 2nd sess., March 9, 2010, Statement of Senator Charles Grassley.

<sup>105</sup>19 U.S.C. § 2462(e). The World Bank currently uses gross national income (GNI) per capita as its main indicator for classifying economies, and countries are determined to be “high income” if they have reached a per capita income level of \$11,906 or more. See World Bank, *Country Classifications*, <http://data.worldbank.org/about/country-classifications>.

<sup>106</sup>The President already has authority to do this as outlined in GSP discretionary criteria. See 19 U.S.C. § 2462(c)(2).

<sup>107</sup>House of Representatives, Office of Representative Jim McDermott, “Rep. McDermott Introduces Bill to Improve Trade Benefits to Poor Countries,” Press Release, November 20, 2009.

<sup>108</sup>Third-country fabric provisions allow an apparel product to contain some fabric inputs originating anywhere in the world and still be imported duty-free under a preference program. The AGOA preference includes a Special Rule (in force until September 30, 2012) for lesser-developed beneficiaries allowing them to include a limited amount of third-party fabric in AGOA apparel imports.

<sup>109</sup>H.R. 4101 defines a “significant apparel supplier” as an LDC beneficiary from which total U.S. apparel imports in a calendar year exceed 2% of the aggregate square meter equivalents of all U.S. apparel imports in that year.



would limit apparel imports eligible for preferences. The bill would also allow extension of coverage to articles deemed “import-sensitive” with respect to the GSP under certain conditions. The bill would require a transparent decision-making process regarding GSP competitive need limit waivers. The bill would continue to extend benefits to “upper-middle income” GSP beneficiaries, provided that they, in turn, grant trade preferences to LDCs and sub-Saharan African countries.

## **Eligibility Criteria**

Some importers and non-governmental organizations (NGOs) advocate amending preference program eligibility criteria so that they are “clear, commercially meaningful, and achievable.”<sup>110</sup> Proponents of this view tend to differ in their selection of criteria, however. For example, some NGO advocates object to conditions requiring protection of intellectual property on the grounds that the application of these criteria can be “arbitrary and unpredictable.”<sup>111</sup> Business proponents, however, might be more favorable to inclusion of intellectual property eligibility criteria on the grounds that such protections help them to preserve the value of their products.

An alternative might be to reconstitute preference programs to include incentives to beneficiaries other than tariff reductions, or to create an additional preference program for countries that are willing to comply with additional U.S. objectives. The European Union, for example, has crafted a “GSP-plus” program that offers additional product coverage to particularly vulnerable developing countries, provided that they have ratified and implemented a number of core international conventions on human rights, labor rights, good governance and environmental protection.<sup>112</sup>

## **Product Coverage**

Congress could re-evaluate current product coverage, and decide to expand or eliminate certain products from preference programs. For example preference advocates argue that immediate DFQF could be extended to all LDCs with minimal effects on the U.S. economy.<sup>113</sup>

No U.S. preference program as currently authorized provides complete DFQF access. For example, some U.S. products, such as certain apparel, leather, electronics, steel, and glass products, are deemed “import-sensitive” in GSP due to possible negative effects on U.S. domestic producers. In terms of DFQF access for textiles and ready-made apparel products, the AGOA program is the broadest, although significant restrictions are still in place (i.e., caps are placed on use of yarns and fabrics that are of third-country or sub-Saharan African origin).

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<sup>110</sup> U.S. Congress, House Committee on Ways and Means, *Hearing on the Operation, Impact, and Future of the U.S. Preference Programs*, 111th Cong., 1st sess., November 17, 2009, Statement for the Record, U.S. Preference Reform Working Group.

<sup>111</sup> Kimberley Ann Elliott, et al., *Open Markets for the Poorest Countries: Trade Preferences that Work.*, Center for Global Development, April 2010, p. 13.

<sup>112</sup> European Commission, *Generalized System of Preferences*, [http://ec.europa.eu/trade/wider-agenda/development/generalised-system-of-preferences/index\\_en.htm](http://ec.europa.eu/trade/wider-agenda/development/generalised-system-of-preferences/index_en.htm).

<sup>113</sup> See Kimberley Ann Elliott, et al., *Open Markets for the Poorest Countries: Trade Preferences that Work*, Center for Global Development, April 2010.

As part of the World Trade Organization (WTO) Doha Round negotiations, the United States and other developed country WTO members and “developing country members declaring themselves in a position to do so” agreed to provide DFQF access, but these commitments will not take effect until (or unless) the Doha Round is completed.<sup>114</sup>

Some in Congress favor expanding product coverage in preference programs. For example, several bills in the 111<sup>th</sup> Congress seek to expand AGOA-like textile and apparel benefits to other non-African LDCs—a move that some African countries oppose due to concerns that they would be put at a disadvantage compared to LDCs like Cambodia and Bangladesh that have sophisticated, established apparel industries already in place.<sup>115</sup>

If Congress chose to expand or harmonize product coverage, it could also shield import-competing U.S. industries by applying an across-the-board cap on preferential access. For example, the CNL thresholds that apply in GSP (discussed above) could be implemented in all programs, or be enacted in a harmonized program. Congress could also provide tariff reductions (as opposed to duty-free access) for certain “import-sensitive” products in all U.S. preference programs as currently implemented. This approach is similar to the Australian GSP program, which provides a 5% preference margin on products with tariffs over 5%, rather than strictly duty-free access.<sup>116</sup>

Preferences also differ with regard to cumulation, which allows for combining inputs from numerous beneficiary countries under one or more preference programs as long as a substantial transformation still occurs in the beneficiary country. For example, one of the requirements for apparel articles to qualify for the ATPA states that they may be sewn or assembled in one *or more* ATPA beneficiary countries or the United States. In the GSP, certain pre-designated regional groups may meet the value-added requirement by combining (cumulating) inputs in order to qualify for preferential access. The Haiti HOPE Act provisions also allow for regional cumulation and limited use of third-party materials. Allowing LDC beneficiaries to “cumulate” inputs from all developing countries could provide flexibility and could have the added effect of simplifying rules of origin.<sup>117</sup> Congress could restrict or expand the availability of preferences by modifying these provisions to include a greater or lesser percentage of inputs from other beneficiary countries, or by permitting a larger percentage of third-party inputs.

## Outlook

The 111<sup>th</sup> Congress has held hearings on trade preference programs in both the House and Senate, where some Members expressed interest in amending and harmonizing some of the preferences provisions. As specialized programs intended to serve as a form of assistance to developing countries, program design is critical in determining whether those countries most in need are

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<sup>114</sup> World Trade Organization, Ministerial Declaration, Annex F, December 18, 2005, WT/MIN(05)/DEC.

<sup>115</sup> For example, see U.S. Congress, House Committee on Ways and Means, *Hearing on the Operation, Impact, and Future of the U.S. Preference Programs*, 111th Cong., 1st sess., November 17, 2009, Statement for the Record, African Cotton and Textiles Industries Federation.

<sup>116</sup> United Nations Conference on Trade and Development (UNCTAD), *GSP - Handbook on the Scheme of Australia*, UNCTAD/ITCD/TSB/Misc.56, 2000.

<sup>117</sup> Kimberly Ann Elliott, et al., *Open Markets for the Poorest Countries: Trade Preferences that Work*, Center for Global Development, April 2010, pp. 9-10.

being well served. Because these are complex programs with multiple design features, evaluating them is a challenging and complicated exercise. If the 111<sup>th</sup> Congress does not take up legislation that would reform preference programs, the issue will likely continue to be prominent in the 112<sup>th</sup> Congress.

## Appendix. Eligible Countries and Products Imported by Preference Program

**Table A-1. Eligible Countries by Preference Program**  
(Least-Developed Countries (LDCs) in Italics)

| Designated Beneficiary Countries | Generalized System of Preferences (GSP) | Caribbean Basin Economic Recovery Act (CBERA) | Caribbean Basin Trade Partnership Act of 2000 (CBTPA) | Andean Trade Preference Act (ATPA) | African Growth and Opportunity Act (AGOA) |
|----------------------------------|-----------------------------------------|-----------------------------------------------|-------------------------------------------------------|------------------------------------|-------------------------------------------|
| <i>Afghanistan</i>               | X                                       |                                               |                                                       |                                    |                                           |
| <i>Angola</i>                    | X                                       |                                               |                                                       |                                    | X                                         |
| Antigua and Barbuda              |                                         | X                                             |                                                       |                                    |                                           |
| Argentina                        | X                                       |                                               |                                                       |                                    |                                           |
| Armenia                          | X                                       |                                               |                                                       |                                    |                                           |
| Aruba                            |                                         | X                                             |                                                       |                                    |                                           |
| Azerbaijan                       | X                                       |                                               |                                                       |                                    |                                           |
| Bahamas                          |                                         | X                                             |                                                       |                                    |                                           |
| <i>Bangladesh</i>                | X                                       |                                               |                                                       |                                    |                                           |
| Barbados                         |                                         | X                                             | X                                                     |                                    |                                           |
| Belize                           | X                                       | X                                             | X                                                     |                                    |                                           |
| <i>Benin</i>                     | X                                       |                                               |                                                       |                                    | X                                         |
| <i>Bhutan</i>                    | X                                       |                                               |                                                       |                                    |                                           |
| Bolivia                          | X                                       |                                               |                                                       |                                    |                                           |
| Bosnia and Herzegovina           | X                                       |                                               |                                                       |                                    |                                           |
| Botswana                         | X                                       |                                               |                                                       |                                    | X                                         |
| Brazil                           | X                                       |                                               |                                                       |                                    |                                           |
| <i>Burkina Faso</i>              | X                                       |                                               |                                                       |                                    | X                                         |
| Burundi                          | X                                       |                                               |                                                       |                                    | X                                         |
| <i>Cambodia</i>                  | X                                       |                                               |                                                       |                                    |                                           |
| Cameroon                         | X                                       |                                               |                                                       |                                    | X                                         |
| Cape Verde                       | X                                       |                                               |                                                       |                                    | X                                         |
| <i>Central African Republic</i>  | X                                       |                                               |                                                       |                                    |                                           |
| <i>Chad</i>                      | X                                       |                                               |                                                       |                                    | X                                         |
| Colombia                         | X                                       |                                               |                                                       | X                                  |                                           |

| Designated Beneficiary Countries | Generalized System of Preferences (GSP) | Caribbean Basin Economic Recovery Act (CBERA) | Caribbean Basin Trade Partnership Act of 2000 (CBTPA) | Andean Trade Preference Act (ATPA) | African Growth and Opportunity Act (AGOA) |
|----------------------------------|-----------------------------------------|-----------------------------------------------|-------------------------------------------------------|------------------------------------|-------------------------------------------|
| Comoros                          | X                                       |                                               |                                                       |                                    | X                                         |
| Congo (Brazzaville)              | X                                       |                                               |                                                       |                                    | X                                         |
| Congo (Kinshasa)                 | X                                       |                                               |                                                       |                                    | X                                         |
| Cote d'Ivoire                    | X                                       |                                               |                                                       |                                    |                                           |
| Croatia                          | X                                       |                                               |                                                       |                                    |                                           |
| Djibouti                         | X                                       |                                               |                                                       |                                    | X                                         |
| Dominica                         | X                                       | X                                             |                                                       |                                    |                                           |
| East Timor                       | X                                       |                                               |                                                       |                                    |                                           |
| Ecuador                          | X                                       |                                               |                                                       | X                                  |                                           |
| Egypt                            | X                                       |                                               |                                                       |                                    |                                           |
| Equatorial Guinea                | X                                       |                                               |                                                       |                                    |                                           |
| Eritrea                          | X                                       |                                               |                                                       |                                    |                                           |
| Ethiopia                         | X                                       |                                               |                                                       |                                    | X                                         |
| Fiji                             | X                                       |                                               |                                                       |                                    |                                           |
| Gabon                            | X                                       |                                               |                                                       |                                    | X                                         |
| Gambia, The                      | X                                       |                                               |                                                       |                                    | X                                         |
| Georgia                          | X                                       |                                               |                                                       |                                    |                                           |
| Ghana                            | X                                       |                                               |                                                       |                                    | X                                         |
| Grenada                          | X                                       | X                                             |                                                       |                                    |                                           |
| Guinea                           | X                                       |                                               |                                                       |                                    |                                           |
| Guinea-Bissau                    | X                                       |                                               |                                                       |                                    | X                                         |
| Guyana                           | X                                       | X                                             | X                                                     |                                    |                                           |
| Haiti                            | X                                       | X                                             | X                                                     |                                    |                                           |
| India                            | X                                       |                                               |                                                       |                                    |                                           |
| Indonesia                        | X                                       |                                               |                                                       |                                    |                                           |
| Iraq                             | X                                       |                                               |                                                       |                                    |                                           |
| Jamaica                          | X                                       | X                                             | X                                                     |                                    |                                           |
| Jordan                           | X                                       |                                               |                                                       |                                    |                                           |
| Kazakhstan                       | X                                       |                                               |                                                       |                                    |                                           |
| Kenya                            | X                                       |                                               |                                                       |                                    | X                                         |
| Kiribati                         | X                                       |                                               |                                                       |                                    |                                           |

| Designated Beneficiary Countries | Generalized System of Preferences (GSP) | Caribbean Basin Economic Recovery Act (CBERA) | Caribbean Basin Trade Partnership Act of 2000 (CBTPA) | Andean Trade Preference Act (ATPA) | African Growth and Opportunity Act (AGOA) |
|----------------------------------|-----------------------------------------|-----------------------------------------------|-------------------------------------------------------|------------------------------------|-------------------------------------------|
| Kosovo                           | X                                       |                                               |                                                       |                                    |                                           |
| Kyrgyzstan                       | X                                       |                                               |                                                       |                                    |                                           |
| Lebanon                          | X                                       |                                               |                                                       |                                    |                                           |
| Lesotho                          | X                                       |                                               |                                                       |                                    | X                                         |
| Liberia                          | X                                       |                                               |                                                       |                                    | X                                         |
| Macedonia                        | X                                       |                                               |                                                       |                                    |                                           |
| Madagascar                       | X                                       |                                               |                                                       |                                    |                                           |
| Malawi                           | X                                       |                                               |                                                       |                                    | X                                         |
| Maldives                         | X                                       |                                               |                                                       |                                    |                                           |
| Mali                             | X                                       |                                               |                                                       |                                    | X                                         |
| Mauritania                       | X                                       |                                               |                                                       |                                    | X                                         |
| Mauritius                        | X                                       |                                               |                                                       |                                    | X                                         |
| Moldova                          | X                                       |                                               |                                                       |                                    |                                           |
| Mongolia                         | X                                       |                                               |                                                       |                                    |                                           |
| Montenegro                       | X                                       |                                               |                                                       |                                    |                                           |
| Montserrat                       |                                         | X                                             |                                                       |                                    |                                           |
| Mozambique                       | X                                       |                                               |                                                       |                                    | X                                         |
| Namibia                          | X                                       |                                               |                                                       |                                    | X                                         |
| Nepal                            | X                                       |                                               |                                                       |                                    |                                           |
| Netherlands Antilles             |                                         | X                                             |                                                       |                                    |                                           |
| Niger                            | X                                       |                                               |                                                       |                                    |                                           |
| Federal Republic of Nigeria      |                                         |                                               |                                                       |                                    | X                                         |
| Pakistan                         | X                                       |                                               |                                                       |                                    |                                           |
| Panama                           | X                                       | X                                             | X                                                     |                                    |                                           |
| Papua New Guinea                 | X                                       |                                               |                                                       |                                    |                                           |
| Paraguay                         | X                                       |                                               |                                                       |                                    |                                           |
| Peru                             |                                         |                                               |                                                       | X                                  |                                           |
| Philippines                      | X                                       |                                               |                                                       |                                    |                                           |
| Russia                           | X                                       |                                               |                                                       |                                    |                                           |
| Rwanda                           | X                                       |                                               |                                                       |                                    | X                                         |

| <b>Designated Beneficiary Countries</b> | <b>Generalized System of Preferences (GSP)</b> | <b>Caribbean Basin Economic Recovery Act (CBERA)</b> | <b>Caribbean Basin Trade Partnership Act of 2000 (CBTPA)</b> | <b>Andean Trade Preference Act (ATPA)</b> | <b>African Growth and Opportunity Act (AGOA)</b> |
|-----------------------------------------|------------------------------------------------|------------------------------------------------------|--------------------------------------------------------------|-------------------------------------------|--------------------------------------------------|
| Saint Lucia                             | X                                              | X                                                    | X                                                            |                                           |                                                  |
| Samoa                                   | X                                              |                                                      |                                                              |                                           |                                                  |
| Sao Tome and Principe                   | X                                              |                                                      |                                                              |                                           | X                                                |
| Senegal                                 | X                                              |                                                      |                                                              |                                           | X                                                |
| Serbia                                  | X                                              |                                                      |                                                              |                                           |                                                  |
| Seychelles                              | X                                              |                                                      |                                                              |                                           | X                                                |
| Sierra Leone                            | X                                              |                                                      |                                                              |                                           | X                                                |
| Solomon Islands                         | X                                              |                                                      |                                                              |                                           |                                                  |
| Somalia                                 | X                                              |                                                      |                                                              |                                           |                                                  |
| South Africa                            | X                                              |                                                      |                                                              |                                           | X                                                |
| Sri Lanka                               | X                                              |                                                      |                                                              |                                           |                                                  |
| St. Kitts/Nevis                         | X                                              | X                                                    |                                                              |                                           |                                                  |
| St. Vincent and the Grenadines          | X                                              | X                                                    |                                                              |                                           |                                                  |
| Suriname                                | X                                              |                                                      |                                                              |                                           |                                                  |
| Swaziland                               | X                                              |                                                      |                                                              |                                           | X                                                |
| Tanzania                                | X                                              |                                                      |                                                              |                                           | X                                                |
| Thailand                                | X                                              |                                                      |                                                              |                                           |                                                  |
| Togo                                    | X                                              |                                                      |                                                              |                                           | X                                                |
| Tonga                                   | X                                              |                                                      |                                                              |                                           |                                                  |
| Trinidad and Tobago                     |                                                | X                                                    | X                                                            |                                           |                                                  |
| Tunisia                                 | X                                              |                                                      |                                                              |                                           |                                                  |
| Turkey                                  | X                                              |                                                      |                                                              |                                           |                                                  |
| Tuvalu                                  | X                                              |                                                      |                                                              |                                           |                                                  |
| Uganda                                  | X                                              |                                                      |                                                              |                                           | X                                                |
| Ukraine                                 | X                                              |                                                      |                                                              |                                           |                                                  |
| Uruguay                                 | X                                              |                                                      |                                                              |                                           |                                                  |
| Uzbekistan                              | X                                              |                                                      |                                                              |                                           |                                                  |
| Vanuatu                                 | X                                              |                                                      |                                                              |                                           |                                                  |
| Venezuela                               | X                                              |                                                      |                                                              |                                           |                                                  |

| Designated Beneficiary Countries | Generalized System of Preferences (GSP) | Caribbean Basin Economic Recovery Act (CBERA) | Caribbean Basin Trade Partnership Act of 2000 (CBTPA) | Andean Trade Preference Act (ATPA) | African Growth and Opportunity Act (AGOA) |
|----------------------------------|-----------------------------------------|-----------------------------------------------|-------------------------------------------------------|------------------------------------|-------------------------------------------|
| Virgin Islands, British          |                                         | X                                             |                                                       |                                    |                                           |
| Yemen                            | X                                       |                                               |                                                       |                                    |                                           |
| Zambia                           | X                                       |                                               |                                                       |                                    | X                                         |
| Zimbabwe                         | X                                       |                                               |                                                       |                                    |                                           |

**Source:** Harmonized Tariff Schedule of the United States (HTSUS) Revision I, July 1, 2010. See General Notes 4, 7, 16, and 17 for definitive country listings.

**Notes:** GSP Independent Countries only. See HTSUS General Note 4 for a listing of Non-Independent Countries and Territories, and Associations of Countries that are treated as one country for purposes of the GSP.

LDCs are designated as such for purposes of the GSP and receive duty-free access to additional tariff lines.



**Table A-2. Major U.S. Imports by Preference Program**

| <b>Top 15 U.S. Imports under the Generalized System of Preferences (GSP), 2008</b>                                                                              |                            |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|
| <b>HTS Subheading and Description</b>                                                                                                                           | <b>Actual U.S. Dollars</b> |
| 27090020 - Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more (LDC only)                                                | 9,740,681,021              |
| 27090010 - Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I. (LDC only)                                                  | 1,024,288,176              |
| 71121150 - Silver articles of jewelry and parts thereof, not elsewhere specified, valued over \$18 per dozen pieces or parts                                    | 481,322,767                |
| 71131929 - Gold necklaces and neck chains                                                                                                                       | 381,788,293                |
| 40111010 - New pneumatic radial tires, of rubber, of a kind used on motor cars                                                                                  | 379,467,478                |
| 76061230 - Aluminum alloy, plates/sheets/strip                                                                                                                  | 339,609,297                |
| 71131950 - Precious metal (other than silver) articles of jewelry and parts thereof, whether or not plated or clad with precious metal, not elsewhere specified | 322,809,325                |
| 39076000 - Polyethylene terephthalate in primary forms                                                                                                          | 253,278,318                |
| 40112010 - New pneumatic radial tires, of rubber, of a kind used on buses or trucks                                                                             | 207,368,571                |
| 21069099 - Food preparations not elsewhere specified or included, not canned or frozen                                                                          | 165,198,981                |
| 68029900 - Monumental or building stone & arts. thereof, further worked than simply cut/sawn, not elsewhere specified                                           | 154,998,583                |
| 40151910 - Seamless gloves of vulcanized rubber other than hard rubber, other than surgical or medical gloves                                                   | 140,171,668                |
| 90015000 - Spectacle lenses of materials other than glass, unmounted                                                                                            | 118,288,524                |
| 85042300 - Liquid dielectric transformers having a power handling capacity exceeding 10,000 kVA                                                                 | 108,983,792                |
| 17011110 - Cane sugar, raw, in solid form, without added flavoring or coloring                                                                                  | 89,661,957                 |
| <b>Subtotal - GSP Imports Above:</b>                                                                                                                            | <b>13,907,916,751</b>      |
| <b>All Other:</b>                                                                                                                                               | <b>17,754,837,014</b>      |
| <b>Total GSP Imports:</b>                                                                                                                                       | <b>31,662,753,765</b>      |

**Top 15 U.S. Imports under the Caribbean Basin Economic Recovery Act (CBERA), 2008**

| <b>HTS Subheading and Description</b>                                                                                                             | <b>Actual U.S. Dollars</b> |
|---------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|
| 29851120 – Methanol (Methyl alcohol), other than imported only for use in producing synthetic natural gas (SNG) or for direct use as fuel         | 1,175,154,686              |
| 22071060 - Undenatured ethyl alcohol of 80% by volume alcohol or higher, for non-beverage purposes                                                | 483,063,905                |
| 08043040 - Pineapples, fresh or dried, not reduced in size, in crates or other packages                                                           | 393,122,221                |
| 39031100 - Polystyrene, expandable, in primary forms                                                                                              | 135,521,790                |
| 20091100 - Orange juice, frozen, unfermented and not containing added spirits                                                                     | 64,689,149                 |
| 07149020 - Fresh or chilled yams, whether or not sliced or in the form of pellets                                                                 | 29,915,488                 |
| 71081250 - Gold, nonmonetary, unwrought                                                                                                           | 26,890,097                 |
| 17011110 - Cane sugar, raw, in solid form, without added flavoring or coloring                                                                    | 22,300,311                 |
| 22072000 - Ethyl alcohol and other spirits, denatured, of any strength                                                                            | 20,003,309                 |
| 08072000 - Papayas (papaws), fresh                                                                                                                | 14,048,666                 |
| 16041440 - Tunas and skipjack, not in airtight containers, not in oil, in bulk or in immediate containers weighing with contents over 6.8 kg each | 12,925,254                 |
| 22071030 - Undenatured ethyl alcohol of 80 % by volume of alcohol or higher, for beverage purposes                                                | 8,685,447                  |
| 85291020 - Television antennas and antenna reflectors, and parts suitable for use therewith                                                       | 7,652,688                  |
| 08045040 - Guavas, mangoes, and mangosteens, fresh, if entered during the period September 1 through May 31, inclusive                            | 5,173,035                  |
| 22029090 - Nonalcoholic beverages, not elsewhere specified not including fruit or vegetable juices of heading 2009                                | 4,226,852                  |
| <b>Subtotal - Total CBERA Products Above:</b>                                                                                                     | <b>2,403,372,898</b>       |
| <b>All Other:</b>                                                                                                                                 | <b>619,158,293</b>         |
| <b>Total CBERA Imports:</b>                                                                                                                       | <b>3,022,531,191</b>       |

**Top 15 U.S. Imports under the Caribbean Basin Trade Partnership Act (CBTPA), 2008**

| <b>HTS Subheading and Description</b>                                                                                                                                   | <b>Actual U.S. Dollars</b> |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|
| 27099920 - Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more                                                                   | 903,985,774                |
| 61091000 - T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton                                                                          | 168,910,180                |
| 61102020 – Sweaters, pullovers and similar articles, knitted or crocheted, of cotton, not elsewhere specified                                                           | 145,801,021                |
| 27101125 – Naphthas (excluding motor fuel/motor fuel blended stock) from petroleum oils & bituminous minerals (o/than crude)                                            | 143,644,824                |
| 62034240 - Men's or boys' trousers and shorts, not bibs, not knitted or crocheted, of cotton, not containing 15% or more by weight of down                              | 50,873,428                 |
| 61099010 - T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of man-made fibers                                                                 | 22,106,139                 |
| 27101905 -Distillate and residual fuel oil (including blends) derived from petroleum or oils from bituminous minerals, testing under 25 degrees A.P.I.                  | 19,571,420                 |
| 62034340 - Men's or boys' trousers, breeches & shorts, of synthetic fibers, containing under 15% weight down, and containing under 36% weight wool, not water resistant | 19,062,093                 |
| 27101145 - Light oil mixtures of hydrocarbons from petroleum oils & bituminous minerals(other than crude)                                                               | 15,073,275                 |
| 62053020 - Men's or boys' shirts, not knitted or crocheted, of manmade fibers, not elsewhere specified                                                                  | 6,224,233                  |
| 16041430 - Tunas and skipjack, not in oil, in airtight containers, not over 7 kg, not a product of U.S. possessions, over quota                                         | 2,555,140                  |
| 61081100 - Women's or girls' slips and petticoats, knitted or crocheted, of man-made fibers                                                                             | 1,660,626                  |
| 61143020 – Bodysuits and bodyshirts, knitted or crocheted, of man-made fibers                                                                                           | 1,321,716                  |
| 27101930 - Lubricating oils, with or without additives, from petroleum oils and bituminous minerals (o/than crude)                                                      | 603,007                    |
| 61012000 - Men's or boys' overcoats, carcoats, capes, cloaks, anoraks, windbreakers and similar articles, knitted or crocheted, of cotton                               | 289,819                    |
| <b>Total CBTPA Items Above:</b>                                                                                                                                         | <b>1,501,682,695</b>       |
| <b>All other CBTPA:</b>                                                                                                                                                 | <b>199,886,135</b>         |
| <b>Total CBTPA Imports:</b>                                                                                                                                             | <b>1,701,568,830</b>       |

**Top 15 U.S. Imports under the Andean Trade Preference Act (ATPA), 2008**

| <b>HTS Subheading and Description</b>                                                                                                                   | <b>Actual U.S. Dollars</b> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|
| 27090010 - Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I.                                                     | 10,128,076,615             |
| 27090020 - Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more                                                   | 2,078,529,699              |
| 74031100 - Refined copper cathodes and sections of cathodes                                                                                             | 844,388,290                |
| 27101905 – Distillate and residual fuel oil (including blends) derived from petroleum or oils from bituminous minerals, testing under 25 degrees A.P.I. | 628,662,292                |
| 27101125 -Naphthas (except motor fuel/motor fuel blended stock) from petroleum oils & bituminous minerals (other than crude)                            | 377,140,870                |
| 06031100 - Sweetheart, Spray and other Roses, fresh cut                                                                                                 | 310,291,331                |
| 61102020 - Sweaters, pullovers and similar articles, knitted or crocheted, of cotton, not elsewhere specified                                           | 239,924,774                |
| 06031900 - fresh cut, Anthuriums, Alstroemeria, Gypsophilia, Lilies, Snapdragons and flowers, not elsewhere specified                                   | 192,515,808                |
| 61051000 – Men's or boys' shirts, knitted or crocheted, of cotton                                                                                       | 176,191,218                |
| 61091000 - T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton                                                          | 162,482,114                |
| 7092090 - Asparagus, not elsewhere specified, fresh or chilled                                                                                          | 145,195,953                |
| 62034240 - Men's or boys' trousers and shorts, not bibs, not knitted or crocheted, of cotton, not containing 15% or more by weight of down              | 85,840,968                 |
| 16041430 - Tunas and skipjack, not in oil, in airtight containers, not over 7 kg, not a product of U.S. possessions, over quota                         | 70,067,275                 |
| 06034240 - Chrysanthemums, fresh cut                                                                                                                    | 66,942,147                 |
| 06031270 - Other Carnations, fresh cut                                                                                                                  | 37,759,897                 |
| <b>Subtotal - All ATPA Items Above:</b>                                                                                                                 | <b>15,544,009,251</b>      |
| <b>All Other:</b>                                                                                                                                       | <b>1,698,665,706</b>       |
| <b>Total ATPA Imports:</b>                                                                                                                              | <b>17,242,674,957</b>      |

**Top 15 U.S. Imports under the African Growth and Opportunity Act (AGOA), 2008**

| <b>HTS Subheading and Description</b>                                                                                                                                                              | <b>Actual U.S. Dollars</b> |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|
| 27090020 - Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more                                                                                              | 48,518,019,968             |
| 27090010 - Petroleum oils from bituminous minerals testing under 25 degrees A.P.I.                                                                                                                 | 2,731,811,660              |
| 87032300 -Motor cars & other motor vehicles for transport of persons, with spark-ignition internal combustion reciprocal piston engine with cylinder capacity of 1500 cc and not more than 3000 cc | 1,553,389,022              |
| 27101905 - Distillate and residual fuel oil (including blends) derived from petroleum or oils from bituminous minerals, testing under 25 degrees A.P.I.                                            | 750,982,539                |
| 27101125 -Naphthas (except motor fuel/motor fuel blended stock) from petroleum oils & bituminous minerals (other than crude)                                                                       | 658,853,842                |
| 72021150 - Ferromanganese containing by weight more than 4 % carbon                                                                                                                                | 367,406,195                |
| 62046240 -Women's or girls' trousers, breeches and shorts, not knitted or crocheted, of cotton, not elsewhere specified                                                                            | 256,791,659                |
| 87032400 - Motor cars & other motor vehicles for transport of persons, with spark internal combustion reciprocating piston engine with cylinder capacity of 3000 cc.                               | 250,978,213                |
| 61102020 -Sweaters, pullovers and similar articles, knitted or crocheted, of cotton, not elsewhere specified                                                                                       | 161,602,238                |
| 62034240 - Men's or boys' trousers and shorts, not bibs, not knitted or crocheted, of cotton, not containing 15% or more by weight of down                                                         | 152,706,522                |
| 62052020 - Men's or boys' shirts, not knitted or crocheted, of cotton, not elsewhere specified                                                                                                     | 81,008,135                 |
| 61103030 - Sweaters, pullovers and similar articles, knitted or crocheted, of manmade fibers, not elsewhere specified                                                                              | 75,623,601                 |
| 38237060 -Industrial fatty alcohols other than derived from fatty substances of animal or vegetable origin                                                                                         | 73,833,844                 |
| 61046220 - Women's or girls' trousers, breeches and shorts, knitted or crocheted, of cotton                                                                                                        | 73,810,107                 |
| 27101145 - Light oil mixtures of hydrocarbons from petroleum oils & bituminous minerals(other than crude) or preparations 70% or more by weight from petroleum oils, not elsewhere specified       | 50,463,377                 |
| <b>Subtotal - AGOA Imports Above:</b>                                                                                                                                                              | <b>55,757,280,922</b>      |
| <b>All Other:</b>                                                                                                                                                                                  | <b>616,369,979</b>         |
| <b>Total AGOA Imports:</b>                                                                                                                                                                         | <b>56,373,650,901</b>      |

**Source:** Harmonized Tariff Schedule of the United States (HTSUS); International Trade Commission Trade Dataweb, <http://dataweb.usitc.gov>.

## **Author Contact Information**

Vivian C. Jones, Coordinator  
Specialist in International Trade and Finance  
vcjones@crs.loc.gov, 7-7823

J. F. Hornbeck  
Specialist in International Trade and Finance  
jhornbeck@crs.loc.gov, 7-7782

M. Angeles Villarreal  
Specialist in International Trade and Finance  
avillarreal@crs.loc.gov, 7-0321