

## INTRODUCTION

The Generalized System of Preferences (GSP), a program designed to promote economic growth in the developing world, provides preferential duty-free treatment for 3,400 products from 136 designated beneficiary countries and territories. The GSP program was instituted on January 1, 1976 and authorized under the Trade Act of 1974 for a ten-year period. It has been renewed periodically since then, most recently in 2002, when President Bush signed legislation that reauthorized the GSP program through 2006. The Philippines has been among the top GSP-beneficiary countries.

The primer aims to increase awareness of Philippine exporters about the U.S. GSP, thereby maximizing utilization of the benefits the GSP program offers.

## WHAT YOU NEED TO KNOW ABOUT THE GSP SCHEME OF THE UNITED STATES OF AMERICA

### 1. What products are eligible for duty-free treatment?

The GSP provides for duty-free treatment in articles which:

- 1.1 are designated as eligible articles for GSP purposes
- 1.2 are the growth, product, or manufacture of a beneficiary developing country (BDC) for GSP purposes
- 1.3 the direct costs of processing operations performed in such BDC or such member countries, is not less than 35 percent of the appraised value of such article at the time it is entered
- 1.4 are imported directly from the BDC into the customs territory of the United States

### 2. What steps are involved?

#### 2.1 Establish the correct Tariff Classification.

**2.2 Check the product coverage.** Exporter should determine whether the product is included in the GSP scheme of the US market. Under the Harmonized Tariff Schedule of the United States, where a product is eligible for GSP treatment, the letter “A” or “A\*” is indicated in the “Special” sub-column of the Rate of Duty column 1.

**2.3 Calculate the Preferential Margin.** The preferential margin should give the exporter a factor in determining the price he can offer to the US importer. This will also enable the exporter to know his advantage in the market over non-beneficiary suppliers in terms of the amount of import duties to be paid on that product.

**2.4 Look at statutory ceilings.** The exporter should look at the statutory ceilings of the program, known as Competitive Need Limit (CNL). This limits the level of GSP benefits that any beneficiary country can enjoy on a product specific basis. CNL provide a ceiling on GSP benefits for each product and Beneficiary Developing Country (BDC). A BDC will automatically lose its GSP eligibility with respect to a product if competitive need limitations are exceeded (if no waiver is granted). The CNL require the termination of a BDC’s GSP eligibility on a product if during any calendar year U.S. imports

Country graduation occurs:

- (1) when the President determines that a beneficiary country is a “high-income country,” as defined by the GSP statute (based on World Bank statistics) (“mandatory graduation”); or
- (2) as the result of a review of a BDC’s advances in economic development and trade competitiveness.

Source: [www.ustr.gov](http://www.ustr.gov) (US GSP Guide Book)  
[www.usitc.gov](http://www.usitc.gov) (Tariff Schedule)

**13. What is meant by the requirement that the article be “imported directly”?**

The article must be shipped directly from the beneficiary country to the United States without passing through the territory of any other country, or, if shipped through the territory of any other country, the merchandise must not have entered the commerce of that country while en route to the United States. In all cases, the invoices, bills of lading, and other documents connected with the shipment must show the United States as the final destination.

**14. Does the US-GSP contain any special provisions for beneficiary developing countries that are members of a regional association(s)?**

Yes. If members of regional associations request and are granted recognition as regional associations under the GSP, the association will be considered as one country for purposes of the GSP rules of origin. Articles produced in two or more eligible member countries of an association will be accorded duty-free treatment if the countries together meet the rules of origin.

**15. If the GSP program expires and is later renewed retroactively, how does an importer arrange to be reimbursed for tariffs paid during the period after the expiration and before the reauthorization of GSP?**

Importers who file their entries electronically should use the appropriate SPI (“A”) as a prefix to the tariff numbers of articles that would qualify for GSP if GSP were in effect at the time of the entry. The U.S. Bureau of Customs has arranged for the timely processing of refunds of duties deposited on these GSP-eligible entries without requiring further action by the filer. The use of the SPI, in effect, constitutes the importer’s request for a refund of duties. For entries made without using the SPI, refunds of duties deposited must generally be requested in writing.

**16. Graduation of a Beneficiary Country from GSP  
What is graduation and how it is implemented?**

Graduation is the removal of GSP eligibility because a country is sufficiently developed or competitive so that it no longer requires GSP benefits, either as a whole or with respect to one or more products. The President may graduate a BDC completely from the program, or the President may graduate only certain products of a BDC.

from that country: (1) account for 50 percent or more of the value of total U.S. imports of that product; or (2) exceed a certain dollar value. The dollar-value limit is increased by \$5 million annually; the limit was set at \$110 million in 2003, increased to \$115 million in 2004, and is \$120 million in 2005. Products will be found “sufficiently competitive” when imported from a specified beneficiary when they exceed one of these limits. By statute, GSP treatment for an article exceeding the CNL terminated July 1 of the next calendar year.

Competitive need limits can be waived. Interested parties may petition for a waiver during the annual review process only when the product is below the CNL limit. In deciding whether to grant a waiver, the President is required to place “great weight” on the extent to which the country is providing reasonable and equitable access to its market for U.S. goods and services and the extent to which the country is providing reasonable and effective protection to U.S. intellectual rights. If a waiver is granted, both the percentage and the dollar limit are waived.

**2.5 Study the rules of origin.** The exporter should see to it that his product satisfies the origin requirement. The rules of origin ensure that the GSP benefits go to the preference-receiving countries.

For an imported article to be GSP-eligible, it must be the growth, product, or manufacture of BDC and the sum of the cost or value of materials produced in the BDC plus the direct costs of processing must equal at least 35 percent of the appraised value of the article at the time of entry into the United States. Rulings on whether products meet the GSP rules of origin may be found on the Customs website, <http://www.customs.gov>

**2.6 Check the consignment conditions.** US requires that goods be “directly consigned” from the preference-receiving country. This is to ensure that goods retain their identity and are not manipulated or further processed in the course of shipment. Products “directly consigned” are those transported without passing through the territory of another country. However, if the products have passed through other territory aside from US, the products should remain under the customs control in the country of transit or warehousing and have not entered into commerce nor have been delivered for home use there, and have not undergone further operations other than keeping them in good condition.

**3. What is the rate of duty on eligible article?**

All GSP imports are free of duty.

**4. How does an importer request GSP treatment?**

The request is made by placing the letter **A**, as a prefix, before the HTSUS tariff-line number on the shipment entry documentation. The letter is referred to as the Special Program Indicator (SPI).

**5. Is any special paperwork necessary for a GSP shipment?**

The United States requires the Certificate of Origin Form A for shipments.

**6. How are certain products removed from GSP eligibility?**

The President may remove products from GSP eligibility three contexts:

- (1) in response to petitions submitted by the interested parties in the annual review;
- (2) upon designating new products, by precluding certain BDCs from GSP eligibility as to those products; and
- (3) upon redesignating specific articles as GSP-eligible, by denying redesignation to certain BDCs.

**7. Is the list of eligible articles and countries ever modified?**

Yes. The U.S. Government, through the GSP Subcommittee, conducts an annual review of the list of articles and countries eligible for duty-free treatment. A listing of modifications under consideration is published in the Federal Register. Modifications in the list normally take effect on July 1 of the following calendar year.

**8. Can an interested party monitor the imports of an article?**

Yes. The Trade Reference Room at the Department of Commerce and the Office of Trade Information at the Census Bureau maintain a monthly compilation of all imports. Trade data can be downloaded from the U.S. International Trade Commission's Dataweb (<http://dataweb.usitc.gov>), registration (free) required.

**9. Can imported materials be counted toward the 35 percent value-added requirement?**

Yes, but only if they are “substantially transformed” into new and different constituent materials which are then used to produce the eligible article. Member countries of GSP-eligible regional associations will be treated as a single country for purposes of determining origin. Customs is charged with determining whether an article meets the GSP rules of origin.

**10. How can the exporter in the developing country determine the appraised value of the article?**

In most cases, the appraised value will be based on the transaction value, i.e., the price actually paid or payable for the merchandise when sold for export to the United States. This value includes the following elements: (1) the packing costs incurred by the buyer; (2) any selling commission incurred by the buyer; (3) the value of any assist; (4) any royalty or license fee that the buyer is required to pay as a condition of the sale; and (5) the proceeds of any subsequent resale, disposal, or use of the imported merchandise that accrue to the seller. In general, shipping and other costs related to transporting the GSP articles from the port of export to the United States are neither included in the value of the article, nor in the value-added calculation.

**11. What may be included in the direct costs of processing?**

Direct costs of processing include all costs, whether directly incurred in, or which can be reasonably allocated to, the growth, production, manufacture, or assembly of the merchandise. These include the following; actual costs, including fringe benefits and on-the-job training costs for production staff and first line supervisors; dies, molds, and tooling costs, as well as depreciation on machinery and equipment; and research, development, design, blue-prints and engineering, quality control, and inspection and testing costs. This list is not exhaustive; further information on valuation can be obtained from Customs.

**12. What may not be included in the direct costs of processing?**

Costs that may not be included in the direct costs of processing are those not directly attributable to the merchandise under consideration or are not costs of manufacturing. These costs include profit and general expenses and business overhead (such as administrative salaries, casualty and liability insurance, advertising, and sales representatives' salaries, commissions, or expenses).