
USA to Denounce Turkey's Eligibility to GSP Beneficiary

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Introduction

The U.S. Trade Representative's Office ("**US Trade Office**") made an official statement on 04.03.2019 with respect to USA's intention to end Turkey's designation as a beneficiary developing country under the Generalized System of Preferences ("**GSP**") program¹. Basis for this anticipated measure against Turkey was that it no longer complies with the conditions for the program. With regards to the issue, the following topics will be covered within this article:

- What is GSP and what's its significance?
- The current situation between Turkey and USA regarding GSP.
- The possible outcomes of denouncing Turkey's eligibility.

What is GSP?

GSP is a preferential tariff system that World Trade Organization's ("**WTO**") developed country members are able to offer for the benefit of the developing countries. Such programs allow developing countries to be exempted from general WTO rules, especially the Most Favored Nation ("**MFN**") rule. This enables developed WTO members to exclude member countries with relatively poorer economies from tariff practices. Developing countries can export certain goods to the countries with GSP programs without imposition of duties through such practices.

The developed countries individually decide which country or product can benefit from their GSP programs. WTO does not provide any definition for developed or developing countries. Generally, developed countries establish a criterion in order to determine which countries can benefit from GSP program.

USA's GSP program was established by the Trade Act of 1974. The program promotes economic development for the developing countries. The scope of the program covers approximately 5,000 products and 120 designated beneficiary countries. The program covered USD 19 billion worth of product only in 2016².

The Current Situation Between Turkey and USA Regarding GSP

Turkey was assigned as a GSP beneficiary developing country by USA in 1975. Since then, Turkey exported billions of US Dollars' worth of products to USA. Only in 2017, USA's imports from Turkey worth 1.66 billion US Dollar under GSP program, which amounts to 17.7% of the total USA imports from Turkey³.

The exclusion of Turkey from GSP program was an oncoming measure which first showed signs in August 2018. The US Trade Office on 03.08.2018 announced that they initiated a review of GSP eligibility regarding Turkey. The incident triggered such action was the measures Turkey took against the imports originating from USA in context of "*Trade Wars*". According to the US Trade Office's announcement, Turkey has imposed additional tariffs on UDS 1.78 billion of US imports only "*and not to other trading partners*". The announcement stated that the US Trade Office has launched a self-initiated GSP eligibility review of Turkey based on "*concerns related to its compliance with the GSP market access criterion*." However, the announcement failed to address whether Turkey's imposition of additional tariffs on US imports triggered the review.

Following the review, the US Trade Office made the announcement regarding Turkey's exclusion from GSP program. As to why it took such measure, the US Trade Office stated that Turkey no longer meets the criteria for eligibility as "*it is sufficiently economically developed and should no longer benefit from preferential market access to the United States market*." The President is entitled to determine which countries and which products are eligible for GSP program. While making such determinations, the President takes the recommendations of the U.S. Trade Representative. Furthermore, the annual reviews of GSP product and country eligibility are conducted by GSP Subcommittee⁴. Any changes may not take effect until at least 60 days after the notifications to Congress and the governments of concerned parties. Therefore, no change is expected until the end of said 60 days period regarding Turkey's eligibility.

The Possible Outcome of Such Measure

In the case of exclusion of Turkey from GSP program, Turkey will lose its privileges regarding billions of US Dollars' worth of exports to USA. As it is mentioned above, GSP program enables certain products to be imported without duties.

In consequence of Turkey's exclusion, prices of products that were covered by the GSP program will have duties added on which will reduce the competitiveness of imports originated in Turkey. Some of the leading GSP import categories that Turkey benefited were vehicles and vehicle parts, jewelry and precious metals, and stone articles.

Footnotes

1. <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/march/united-states-will-terminate-gsp>
2. https://www.washingtonpost.com/news/monkey-cage/wp/2018/01/25/what-is-gsp-and-why-does-it-matter-for-u-s-trade/?noredirect=on&utm_term=.ee63aad27d36
3. <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/august/ustr-announces-new-gsp-eligibility>
4. Office of the United States Trade Representative, GSP Guidebook March 2017, page 10.

