



# **The Real Impacts of GSP Expiration: How Higher Taxes and Lower Sales Hurt American Jobs and Investments**

**April 2, 2014**

**Coalition for GSP  
202-347-1085**

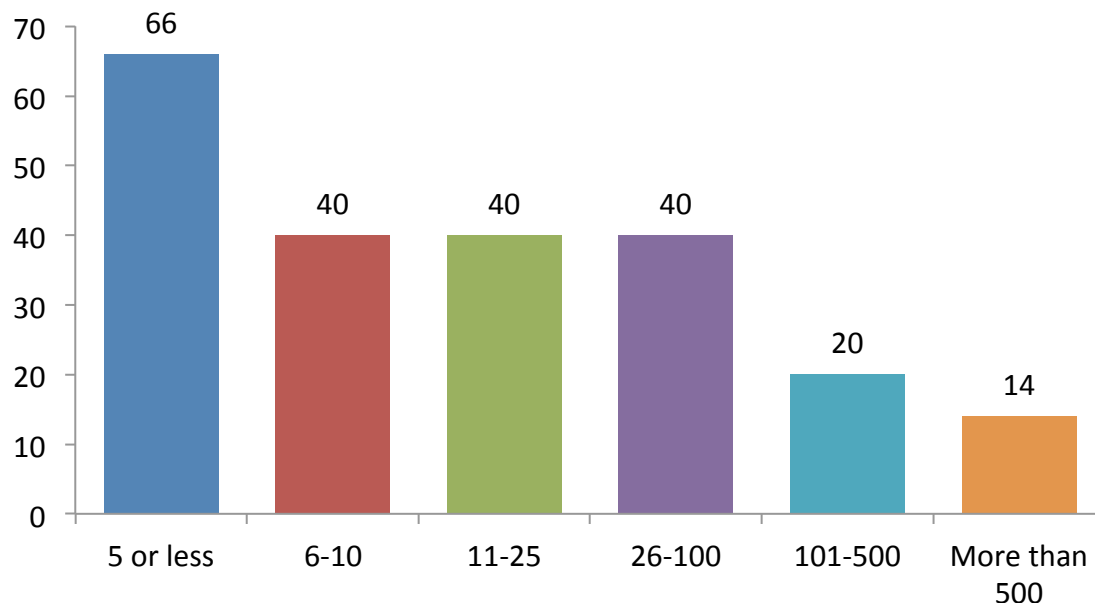
# Executive Summary

The U.S. Generalized System of Preferences (GSP) program expired July 31, 2013. Since then, American companies have been paying nearly \$2 million per day in higher import taxes. The Coalition for GSP surveyed hundreds of these companies about the impacts of expiration on their business and operations to date. Here are the key findings:

- Most of the American companies hurt by GSP expiration are small businesses (page 2)
- GSP expiration causes numerous problems for the US companies – including lost sales, delayed capital expenditures and hires, and layoffs – problems that will linger on even if Congress renews the program retroactively to July 31 (page 3)
- The financial “hit” is hard, even for very small companies: some paid \$1+ million in additional taxes in the first seven months of GSP expiration (page 4)
- Most GSP importers do not have alternative sources of supply in the United States for products otherwise imported under GSP (page 5)
- Lost sales are the most-reported impacts of GSP expiration (pages 6-7)
- Numerous companies have laid off workers as a direct result of GSP expiration (page 8)
- Companies are not making planned hires because of the increased costs of GSP products and decreased sales resulting from GSP expiration (page 9)
- Workers at GSP importers are hurt by Congress’ failure to renew GSP, as companies have reduced hours, limited raises, and cut health and retirement contributions to compensate for higher costs and falling sales (page 10)
- Companies are also putting major capital expenditures on hold, spreading the pain of GSP expiration to other local businesses (page 11)

# American Companies Hurt by GSP Expiration Are Mostly Small Businesses

Survey Respondents by Number of Employees



The vast majority of the 220 survey respondents are small businesses:

- **30 percent** of companies have **five or less employees**
- **48 percent** of companies have **10 or less employees**
- **85 percent** of companies have **100 or less employees**

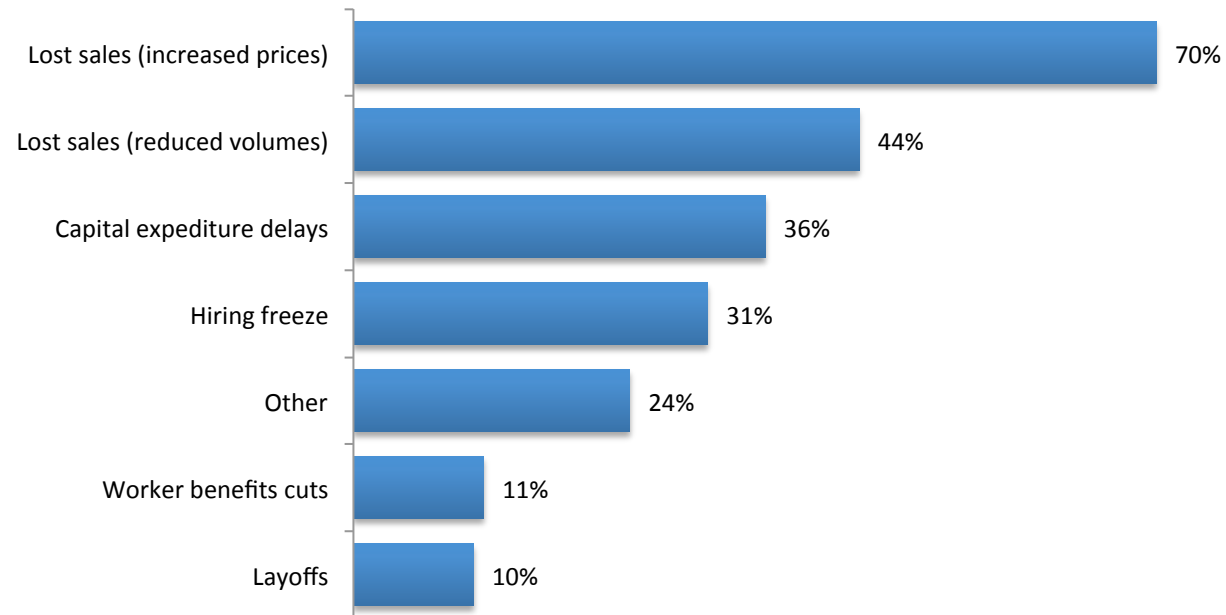
## A Note About Respondent Company Size

The size breakdown of survey respondents is similar to the broader group of nearly 500 American companies that have added their name to the GSP Supporter List since January 2013. Those companies can be seen at:

<http://renewgsptoday.com/2013-gsp-supporter-list/>

# GSP Expiration Harms American Companies in Numerous Ways

Share of Companies Reporting Each Impact from GSP Expiration

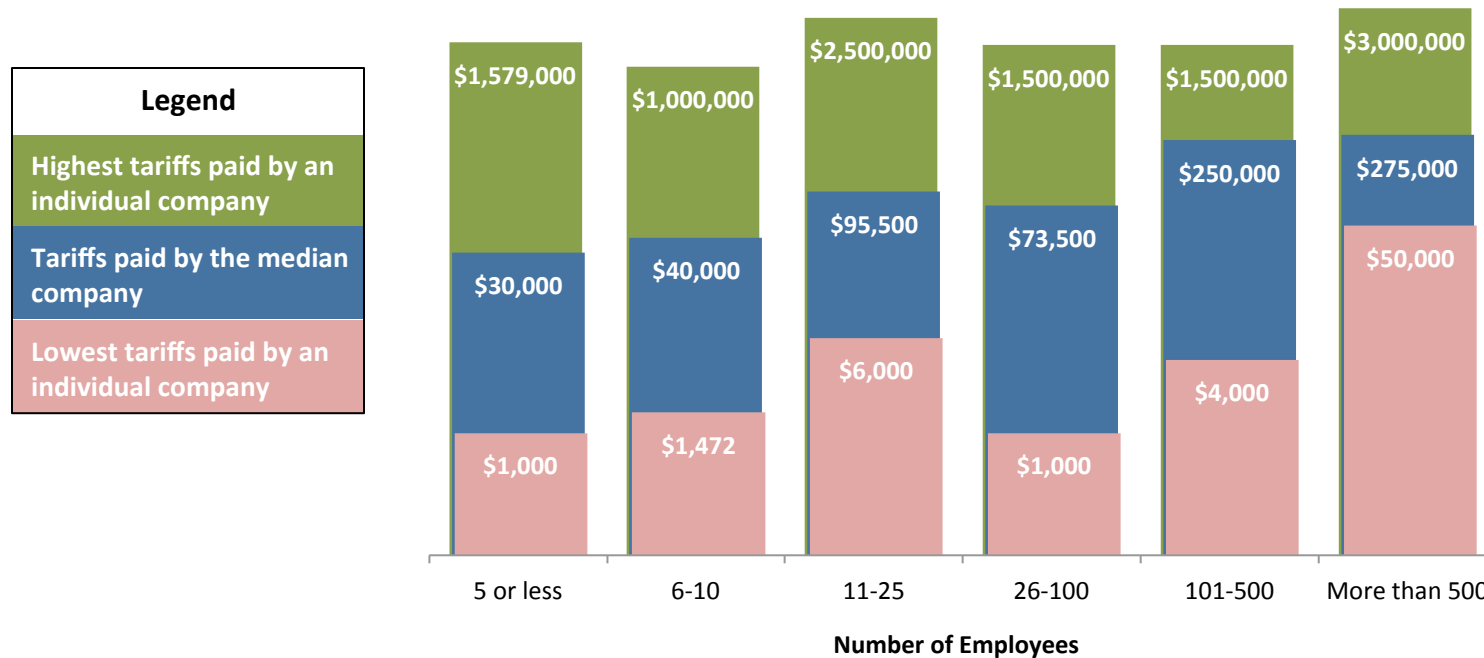


Among the survey respondents:

- **70 percent** reported **lost sales from attempting to raise prices** to cover U.S. tariffs now imposed on otherwise duty-free imports. **44 percent** reported **lost sales from reduced imports volumes**. In total, **78 percent** of companies reported lost sales from one or the other of these impacts
- **36 percent** reported capital expenditures delays, showing that GSP expiration hurts “non-GSP importers” as well
- **31 percent** reported **delayed hires** because of GSP expiration, while **10 percent** had to **lay off existing employees**
- **11 percent** reported **benefits cuts** such as reduced retirement contributions, salary freezes, or canceled bonuses

# GSP Expiration Has Forced Some Companies to Pay Millions To Date

**Range of Tariffs Paid by Individual Companies**  
(August 1, 2013 – February 28, 2014)

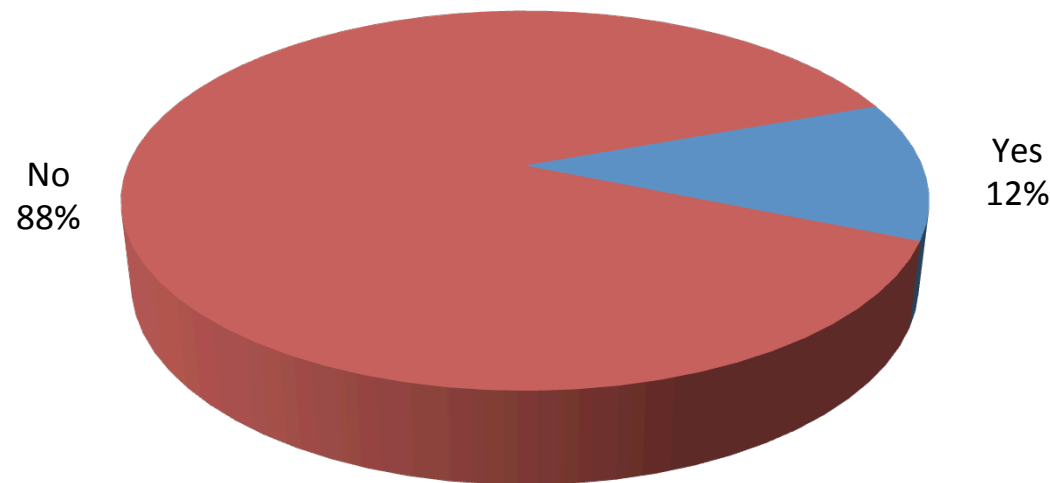


The cost of GSP expiration in terms of tariffs (new taxes) now paid on imports varies greatly between companies and they continue to grow every day:

- Some of the smallest companies face the highest tariffs, with at least some **companies of each size** reporting **\$1 million or more in taxes paid** in the first 7 months that GSP was expired
- **Tariffs paid by the median (i.e., “typical”) company** in each group ranged from **\$30,000 to \$275,000**, generally increasing with the size of the company
- Tariffs paid understate the amount companies save when GSP is in effect, since many companies have reduced import volumes as a result of expiration

# Most GSP Importers Do Not Have Alternative US Sources of Supply

Survey Responses to the Question:  
*Do your products have an alternative US source?*



Nearly nine out of ten companies report no alternative US sources for the products imported under GSP. These often include:

- Specialty food products from specific countries or regions, such as **tropical fruits juices** or **coconut products** from **Indonesia** and the **Philippines**, or **olives and dates** from Mediterranean countries like **Egypt, Tunisia, or Turkey**
- Raw materials from specific countries or regions, such as **tropical hardwood plywood** from **Indonesia** and **Thailand**, **granite** and other natural stones from **Brazil** and **India**, or **activated carbon** from **Brazil, Sri Lanka, and the Philippines**.
- Fair-trade products, such as **handmade home décor items** from the **Philippines** and **Thailand**, or **tribal musical instruments** from **Cameroon, Ghana, and Mali**

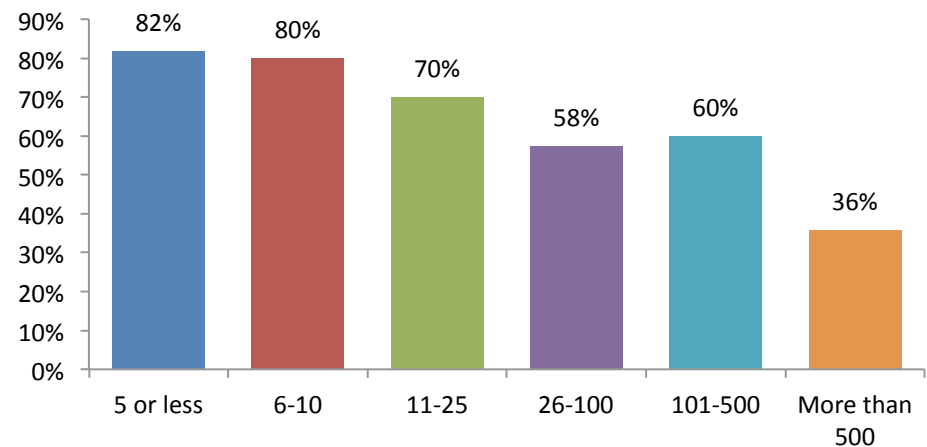
# Companies Reporting Lost Sales from Attempting to Increase Prices

In total, 70 percent of companies reported lost sales from trying to increase prices to account for GSP expiration – more than any other impact. **Businesses with 10 or less employees reported such losses at more than twice the rate of the largest companies**, which have greater pricing power.

Select company responses:

- **Rhode Island jewelry retailer**: We had to add the additional duty to the total cost of goods, and so prices were higher. We also did not introduce new products because they could not be priced competitively. All this equates to loss of sales.
- **Small New York home goods wholesaler**: We sell far in advance of the date of delivery to some major retailers. Their focus is maintaining price point, so even on future sales we have to maintain our original pricing or lose out on the business. We have had to pass on opportunities because of this and I estimate it has cost us \$700,000 in sales.
- **North Carolina supplier of leather upholstery**: Our customers – US furniture manufacturers – are suffering more every day. Leather is shipped duty free to furniture manufacturers in Mexico and Canada who then export to the US without duty [under NAFTA]. This gives US competitors an unfair advantage.
- **Tennessee manufacturer of wood products**: GSP allows us to sell specialty products that are profitable. We have used this to open a US new plant that employs 150 workers, bringing back 80% of what we used to import to be manufactured here. The limited amount we import is essential for future expansion of this facility.

Share of Companies Reporting Lost Sales from Attempting to Increase Prices by Size



*Even for a small manufacturer like us, millions of dollars annually in sales ride on small changes in price. Just for three prospective customers, \$5 million in sales were negatively affected by the sudden imposition of the duty. Had we secured this business our duty paid would, of course, have been far higher.*

**-Illinois** company that imports raw materials from India and Thailand under GSP



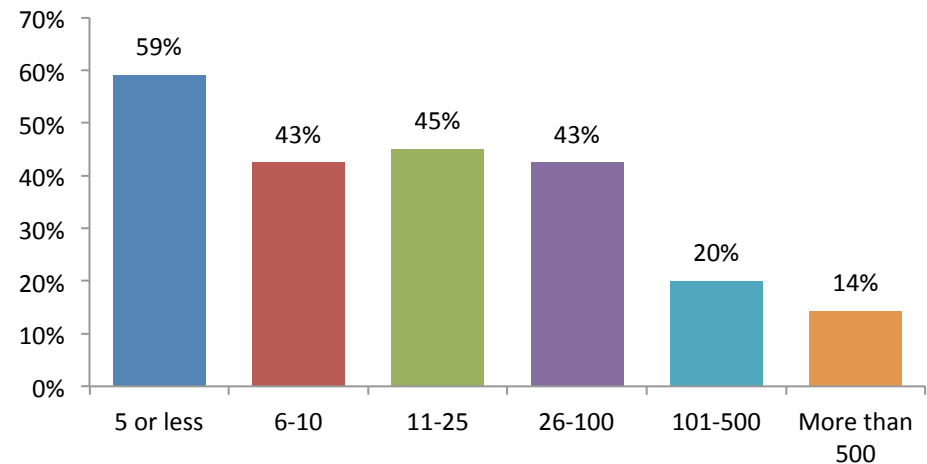
# Companies Reporting Lost Sales from Reduced Import Volumes

Sometimes raising prices is not an option and importers must decide whether to bring in product at all. In total, 44 percent of companies reported lost sales from reducing import volumes. **Businesses with 5 or less employees were four times more likely to reduce import volumes – and lose prospective sales – than the largest businesses.**

Select company responses:

- **Oregon manufacturer that has paid \$40,000 in tariffs:** Market will not allow prices to go up. Prices are going down. Customers will try to source product with lower cost. Impact to us could be up to \$500,000. We're a \$4 million a year in sales company. It's going to hurt.
- **Connecticut chemical company:** Since GSP expired we have lost around \$2 million in sales and this jumps exponentially when new business opportunities are taken into consideration. We cannot hire additional employees because of the additional expenses.
- **Arizona company whose imports are no longer competitive:** We are not importing as much product so we laid off workers and have not hired new employees.
- **Michigan importer paying \$40,000 per month in new taxes:** Largest customer is now actively seeking alternative sources from China because of our price increase due to GSP expiration and two Chinese competitors are gaining share in our main market.
- **New Jersey plastic resins importer:** Sales are down 10%, profits down 17%. Our reduced imports impact local business including ocean freight and drayage companies, warehouse services, the pallet company, and local trucking service to customer.

Share of Companies Reporting Lost Sales from Reduced Import Volumes by Size



*We have been keeping less stock on hand, making it hard to be competitive on large orders. We have to wait 3 months to get the materials in – 2 months for production and another month on the ocean. [As a result] we have not increased pay or reinstated the employer matching of IRA contributions.*

-Small **Ohio** manufacturer that imports specialty component parts from Turkey under GSP



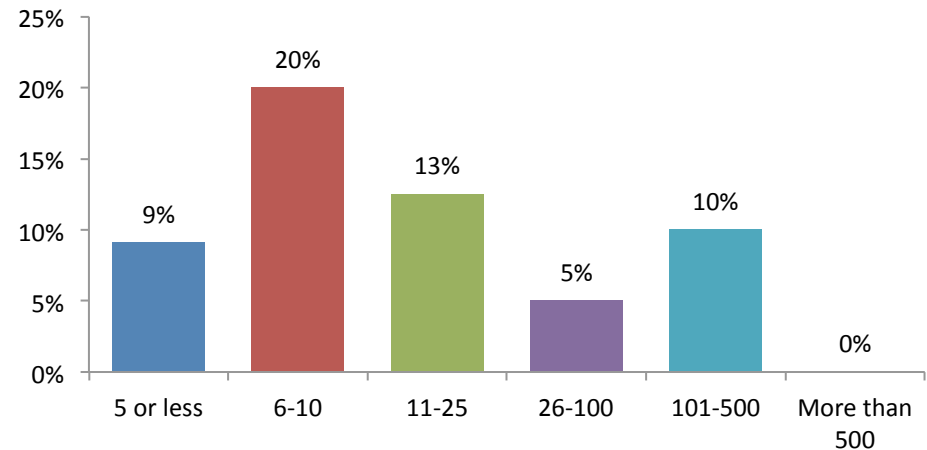
# Companies Reporting Layoffs

In total, 10 percent of companies reported laying off workers because of GSP expiration. **Businesses with 6-10 employees were the hardest hit, laying off workers at twice that rate.** None of the largest companies reported layoffs because of GSP expiration.

Select company responses:

- **California wholesaler of sporting goods paying tens of thousands of dollars per month since GSP expired:** We laid off 8 people and have not hired replacements. There was no money for Christmas bonuses or 401K funding.
- **New Jersey importer of ethnic food products:** To date, we've laid off three employees and several employees could not be given raises as planned. We need to expand our work force but until this situation is resolved we are in a spending freeze.
- **Texas company importing from Brazil:** We had to stop importing due to the lack of GSP. Our sales plummeted from over \$1 million a year to zero. We had to let people go due to the loss of sales and revenue.
- **New York specialty foods importer:** We laid off one driver due to slowing sales directly related to raising prices on product brought at the higher rate. To compound the problem, we're now sitting on slower moving inventory which is strangling our cash flow.
- **Illinois fair trade wholesaler:** One employee was laid off due to lost sales volumes as we tried to raise prices but found the market would not bear it. Our prices are already higher than the rest of the market and the buyers would not accept an additional cost above what was already there for the social cause.

Share of Companies Reporting Layoffs by Size



*I had to lay off 8 of my employees for extra four weeks. Mainly the \$80,000 [in tariffs paid] could have helped the company deal with severe winter issue. Right now I have more than \$60,000 in credit card debt at a higher interest rate.*

**-Small Illinois manufacturer that imports granite colors from India that are not quarried in the United States.**

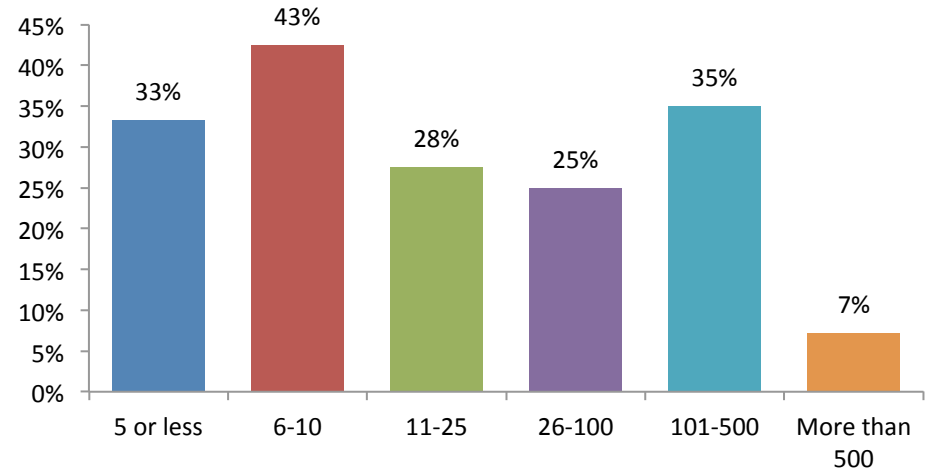
# Companies Reporting Hiring Freezes

In total, 31 percent of companies reported hiring freezes for specific positions. **Small businesses with between six and 10 employees were the most likely to report delayed hires.** Generally, GSP expiration has had less of an impact on larger companies' hiring decisions.

Select company responses:

- **Colorado** manufacturer that imports specialty materials: Our sales have been negatively impacted by an average of \$100,000 per month. We've suspended plans to hire 3 additional employees who were intended to support the segment of the business associated with these imports.
- **Wisconsin** company that has paid \$1 million in tariffs: We have had to freeze hiring at certain positions in the last couple months. I anticipate layoffs, benefit cuts and lost sales in the next few months. We have tried to absorb the impact without effecting our staff but can no longer continue.
- **Pennsylvania** company paying \$10,000 per month: We were looking to hire two or more sales people for 2014 but cannot afford it anymore.
- **New Jersey** importer of Turkish foods: We wanted to hire 2 more sales people. Instead we had to let 1 person go due to increased prices that came with the GSP expiration and the additional duties.
- **Missouri** company paying \$35,000 per month: We have not been able to pass the cost through to customers. Our profitability has been impacted, resulting in hiring freezes and continued downsizing.

Share of Companies Reporting Hiring Freeze by Size



*We have a plan for an e-commerce business to sell our products online that has been delayed. It was supposed to start in first quarter but we have stopped awaiting the decision on GSP renewal. The jobs frozen are 3 warehouse/fulfillment persons, 2 customer support roles, 1 digital marketing person, and 1 manager, plus outside contract work.*

*-Small Florida business that paid about \$1.6 million in import taxes between August 1, 2013 and February 28, 2014*

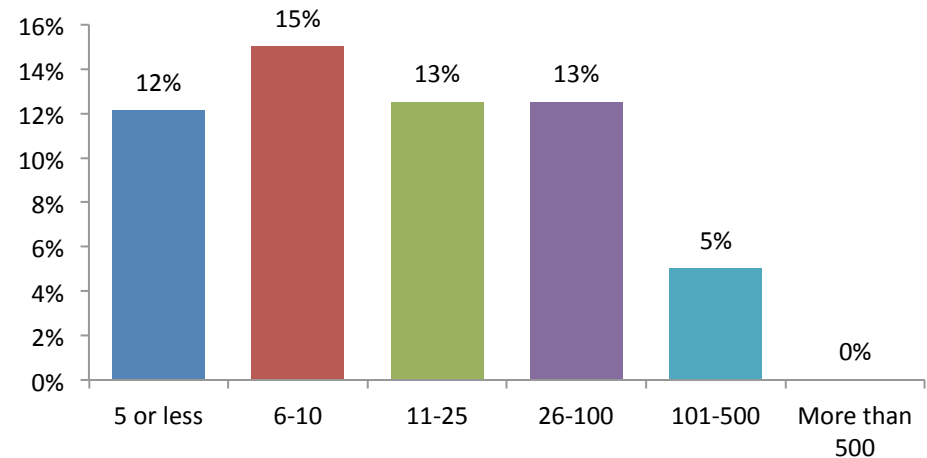
# Companies Reporting Worker Benefits Cuts

In total, 11 percent of companies reported cutting workers benefits to offset increased GSP costs and lost sales. **Impacts on businesses with less than 100 employees were similar, whereas almost no larger businesses cut benefits.**

Select company responses:

- **New Jersey family-owned food importer:** The longer this drags on, the more detrimental it is to our ability to stay in business. We laid off our 2nd of 2 import staff specialists in September because GSP non-renewal has undermined the stability of our business. We have discontinued contributions to our pension plans and cut back on medical benefits.
- **Minnesota manufacturer with 25 employees:** We had to reduce our employees' hours to 38 per week.
- **New York wholesaler of metal fittings, bolts, and stakes:** Our customers will not agree to pay the increase in cost and we most likely will incur a loss at the end of our tax year, so we are not able to provide incentives to our sales staff.
- **Small Delaware retailer that has paid \$15,000 in tariffs:** We have frozen and reduced sales commissions for employees as our company has not been able to raise prices and we have also reduced our overall volume of imports.
- **North Carolina manufacturer paying \$30,000 per month in import taxes:** Employee benefit cuts are under discussion with upcoming health insurance renewals. Cost of living increases for employees are in jeopardy also.

Share of Companies Reporting Worker Benefits Cuts by Size



*We are in a competitive market and our customers balked at a price increase. We were not able to give Christmas bonuses this past year. In addition, we have not been able to give any raises this year.*

**-California designer and wholesaler of handicraft kitchenware and home accessories**

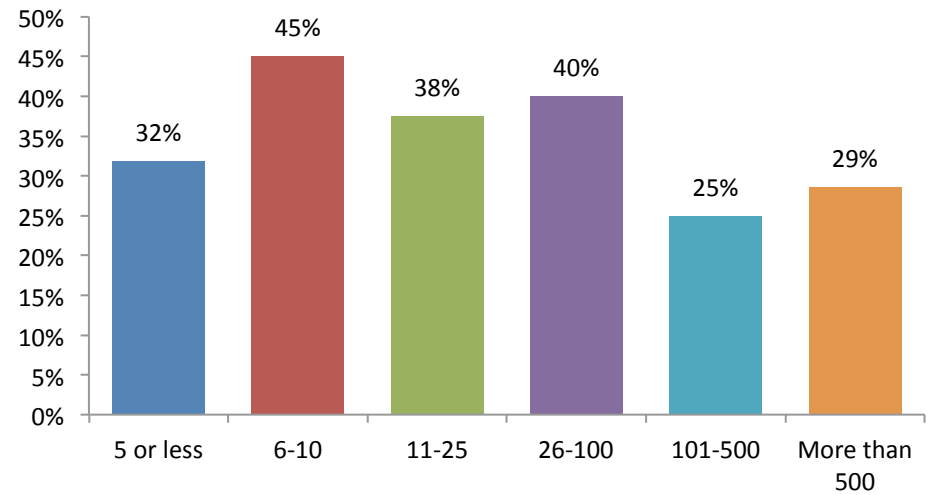
# Companies Reporting Capital Expenditure Delays

In total, 36 percent of companies reported delaying capital expenditures because of GSP expiration. While one of the most frequently cited impacts, **delayed investments are the only category where small and large businesses are impacted in a similar manner.**

Select company responses:

- **New York importer that has paid \$400,000 in extra taxes:** We have postponed our plan of buying a warehouse due to the sudden increase in expense. Three new hires have been delayed.
- **Texas company paying \$200,000 per month in higher taxes:** We need to invest \$2-4 million in distribution and logistics. That has been delayed until we can recover the extra increase in cost from the import duties.
- **California food wholesaler:** Due to negative effects of GSP expiration we have delayed expansion of our facility, which would have included a capital investment of \$300,000 and required us to hire up to 5 new workers once the expansion was completed.
- **New Jersey plastics importer that has paid \$175,000 in GSP tariffs:** Accounting software and computer hardware purchases have been put on hold. The accounting software expenditure delay includes both the cost of the software and the hiring of a consultant to install and implement.
- **Small Massachusetts manufacturer that has paid \$100,000 in tariffs:** Sales loss is about \$400,000, but most important is not having cash to hire and upgrade equipment. Two hires and machinery upgrades have been delayed – and overtime for current employees greatly reduced – as all fixed costs have risen.

Share of Companies Reporting Capital Expenditure Delays by Size



*The GSP suspension is delaying our projects to invest in new printers and laminators. Our plan is to start with 2 of these, and each machine would require 15 people to man it for the shifts.*

**-Virginia** manufacturer that imports intermediate goods from Lebanon and has paid hundreds of thousands of dollars in additional tariffs because of GSP expiration

# About the Survey

The Coalition for GSP conducted a survey to determine how Congressional failure to reauthorize the GSP program before its statutory expiration on July 31, 2013 has impacted the operations of companies that import under the program.

The survey was hosted on the Renew GSP Today website (<http://renewgsptoday.com>) and emailed to known GSP importer companies. A number of associations distributed the survey link to their members.

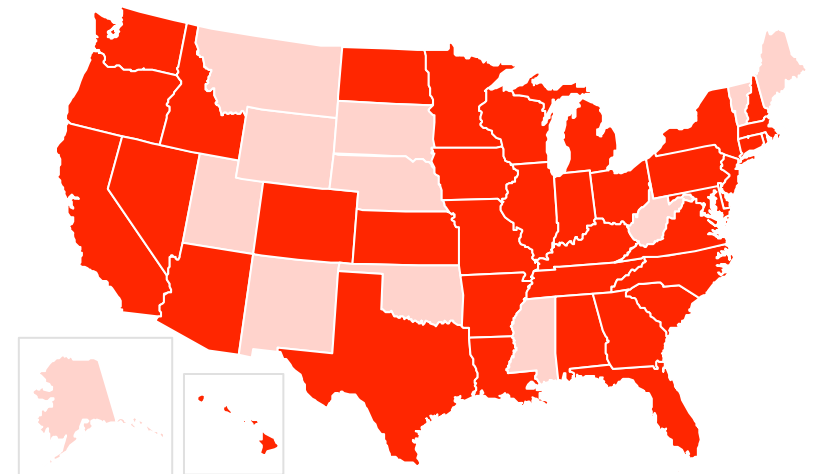
Survey responses were collected from March 11-March 29, 2014. Duplicate responses were removed from the dataset before calculating the final results.

In total, there were 220 usable responses from companies headquartered in 38 states plus Puerto Rico. The map to the right highlights the states in which respondent companies are headquartered.

For more information, please contact:

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## States Where Survey Respondents Are Headquartered



■ States with Survey Respondent HQs ■ States without Survey Respondent HQs

### States Highlighted in Report

Arizona (p. 7)	New Jersey (pp. 7, 8, 9, 10, 11)
California (pp. 8, 10, 11)	New York (pp. 6, 8, 10, 11)
Colorado (p. 9)	North Carolina (pp. 6, 10)
Connecticut (p. 7)	Ohio (p. 7)
Delaware (p. 10)	Oregon (p. 7)
Florida (p. 9)	Pennsylvania (p. 9)
Illinois (pp. 6, 8)	Rhode Island (p. 6)
Massachusetts (p. 9)	Tennessee (p. 6)
Michigan (p. 7)	Texas (pp. 8, 11)
Minnesota (p. 10)	Virginia (p. 9)
Missouri (p. 9)	Wisconsin (p. 9)