GENERALIZED SYSTEM OF PREFERENCES (GSP): REQUEST FOR PUBLIC COMMENTS

WRITTEN STATEMENT OF THE COALITION FOR GSP

TO THE
OFFICE OF THE U.S. TRADE REPRESENTATIVE

On Behalf of

The Coalition for GSP

October 21, 2005

Submitted by:

Laura M. Baughman
Justin D. Hoffmann
THE TRADE PARTNERSHIP
1001 Connecticut Ave., NW
Suite 1110
Washington, DC 20036
202-347-1041

I. Introduction

This written statement is submitted by the Coalition for GSP (Coalition) in response to the request of the Office of the U.S. Trade Representative (USTR) for comments from the public regarding whether changes should be made to the Administration's operation of the Generalized System of Preferences (GSP) program (*Federal Register* notice of October 6, 2005, pages 58502-58503). The Coalition is a diverse group of U.S. companies and trade associations that use the GSP program. We care so much about GSP renewal because, over the years, the program has become an integral part of our businesses. Our members import a wide range of goods under GSP, from jewelry to plywood to batteries to spices.

The Coalition was formed in 1992 to work with Congress on a renewal of the program, which was to expire on July 3, 1993. We have worked for repeated Congressional renewals of the program ever since. Over the years, we have learned much about how important this program is to American consumers, be they families or manufacturers or farmers. We have also learned much about the dynamics of the Congressional renewal process. We are pleased to have the opportunity to share with you some of those lessons learned, and hope they are helpful in guiding your consideration of how the Administration can best support this important program.

II. Long-term Renewals Are Crucial to American Users of the Program

We urge the Administration and Congress to work together towards the longest period of seamless reauthorization possible. Our ability to use the duty-free benefits available under the program is most effective when we know those benefits will be available by the time we need to import the product or products of interest to us. While the time from design to order to importation varies for each of us, for some companies it can be quite long. For example, some products take as long as one year from design to importation. For others, the products are advertised in catalogues with a shelf life of at least six months. In all cases, we need to know what we will be paying for the imported product at the very beginning of that process. If we can count on receiving duty savings under GSP, we can incorporate those important cost savings into our pricing. But if the program expires mid-stream in the order-to-delivery process, we can be caught with a serious financial load. We cannot always adjust our prices to our customers to pass on the unexpected duties, especially if those prices are advertised in catalogues. So we have to evaluate the risk of losing GSP mid-stream against the benefits of the duty savings. If the program is likely to expire, we often cannot incorporate it into our sourcing plans, and our prices to our customers need to be higher.

With those planning constraints in mind, you can see how short-term renewals of GSP in the 1990s, compared to the long-term period of the past five years, have affected our use of the program. From July 1993 through September 2001, Congress renewed GSP in fits and starts (largely due to the need to meet "pay-go" constraints). Planning our sourcing using GSP was difficult if not impossible. Over this period, from 1994 to 2001, U.S. imports under GSP actually declined an average 2.2 percent annually. But in 2001 Congress renewed GSP for six years, and as a result, imports from GSP beneficiary countries to the United States have increased an average 13.2 percent annually.

A long-term renewal of the program is also important in encouraging sourcing from countries that do not yet have the infrastructure or production capability to be competitive suppliers of GSP-eligible products. You can see from the table below how the long-term renewal of GSP has increased interest in sourcing from poorer beneficiary countries. To the extent that some of our members are interested in investing in new overseas production relationships, we need time to grow these suppliers. Short-term renewals of the program do not encourage this, and keep us focused on more traditional GSP-eligible countries.

Increases in U.S. Imports under GSP from Selected Beneficiary Countries

	1994-2001 Stop-and-Start Renewal Period	2001-2004 Stable Renewal Period
Uganda	-48.6%	+696.6%
Croatia	-57.1%	+469.9%
Guyana	-91.6%	+435.7%
Kenya	-58.6%	+79.5%

Source: U.S. Census Bureau

GSP's Legislative Journeys

Action	Term	Legislative Vehicle
• Enacted	10 years, 1/3/75-1/3/85	Trade Act of 1974
• Renewed	8.5 years, 1/4/85-7/3/93	Trade and Tariff Act of 1984
(Expiration period of just over one month)		
• Renewed*	15 months, 7/4/93-9/30/94	FY 94 Budget Reconciliation Act
(Expiration period of just over two months)		
• Renewed*	10 months, 10/1/94-7/31/95	Uruguay Round Agreements Act
(Expiration period of 15 months)		
• Renewed*	22 months, 8/1/95-5/31/97	Small Business Job Protection Act of 1996
(Expiration period of just over two months)		
• Renewed*	13 months, 6/1/97-6/30/98	Taxpayer Relief Act of 1997
(Expiration period of four months)		
• Renewed*	12 months, 7/1/98-6/30/99	Tax and Trade Relief Extension Act of 1998
(Expiration period of five and a half months)		
• Renewed*	27 months, 7/1/99-9/30/01	Work Incentives Improvement Act of 1999
(Expiration period of 10 months)		
• Renewed*	6 years, 10/01/01-12/31/06	The Trade Act of 2002

* Congress made the renewal retroactive to the date of expiration, and duties paid by importers were ultimately refunded.

III. GSP Matters to American Companies and Workers

We strongly urge the Committee to consider heavily in its deliberations the impact of GSP on *American* companies and consumers. While it is traditional to view GSP as a program designed to benefit primarily least-developed countries, over the years it has become just as important to U.S. farmers, manufacturers and consumers. Today, consumer goods account for 26.3 percent of GSP imports; raw materials and components further processed in the United States account for another more than two thirds of GSP imports. For example, U.S. manufacturers incorporate raw materials like ferroalloys used in steel production, imported under GSP, or aluminum ingots imported under GSP for the aluminum they produce in the United States. Leather from Argentina is incorporated into furniture in North Carolina. The U.S. automotive industry incorporates nearly $1.7 billion worth of duty-free auto parts and components, imported under GSP, in into motor vehicles manufactured in the United States. American farmers benefit from the duty-free savings afforded by the program to agricultural chemicals used to make fertilizers in the United States.

The duty savings afforded by GSP are significant. For example, GSP saves consumers from paying a 12.5 percent duty on flashlights and duties of up to 13.5 percent on jewelry. By importing auto parts and components under GSP, the U.S. auto industry saves millions of dollars on tariffs that range up to 25 percent.

Numerous small businesses owe their continued competitiveness to the GSP program, and indeed small businesses are some of our most enthusiastic

Coalition members. The duty savings afforded by GSP for many products used by these companies may appear modest, but in the savings can make the difference between profitability and survival in tough markets.

Lapses of the GSP program place a large financial burden on U.S. companies who must pay thousands of dollars in duties to Customs for an unknown period of time. After Congress approves reauthorization, typically retroactively to the expiration date, those companies must file requests with Customs to have their money refunded. If we were to return to a period such as that, it is very likely U.S. companies would simply chose to source their products from other countries where the tariff situation is stable and predictable.

IV. Think Hard Before You Graduate

The Coalition urges the Committee to proceed with caution when it examines whether certain beneficiary countries like India or Brazil are competitive and no longer need GSP benefits. Those who promote a “Robin Hood” approach of removing benefits from “rich” GSP countries in order to divert them to “truly poor” beneficiaries wrongly assume that if GSP products could not be imported from, say, Brazil or India, U.S. companies would shift sourcing to Lesotho or Nepal, instead. The choice for U.S. importers is not India vs. Nepal, or Brazil vs. Lesotho, it is India vs. China, and Brazil vs. China. If a country were to lose GSP benefits, U.S. companies and importers will look globally for the best supplier at the lowest cost—suppliers that may not necessarily be other GSP beneficiaries. Indeed, in today's highly competitive markets, China is likely to be the chief winner from such graduations.

Least developed GSP countries need to have not only the capability to produce the products no longer available under GSP from Brazil or India, for example, but the infrastructure and manpower as well. In most cases, they do not (and China *does*), and most U.S. importers do not have the time or resources to bring them up to speed. Not when China looms as a much easier low cost alternative.

In addition, removing countries from the GSP program has important ramifications for achieving broader U.S. trade policy goals. The annual GSP country practices review has proven to be effective in compelling developing country beneficiaries to change their labor practices, increase intellectual property protections, and repeal other policies that hinder U.S. access to overseas markets. For example, this summer, because India took steps to protect intellectual property rights, the United States reinstated certain GSP benefits to India that were removed more than 10 years ago. The United States also reinstated certain benefits to Pakistan, removed in 1996, because that country has taken positive steps towards granting internationally recognized workers rights. These cases illustrate that the process is an effective tool of U.S. trade policy.

If the United States were to graduate certain countries from GSP benefits, we would lose this useful policy tool. Take Malaysia. In 1996, the United States determined that Malaysia was a competitive supplier and no longer needed GSP benefits, even though its level of income was far below the statutory graduation thresholds. Because of this, the United States can no longer threaten to remove Malaysia's GSP benefits because it fails to protect workers rights or intellectual property rights. In fact, USTR reports in its Foreign Trade Barriers report that piracy of optical discs (CDs and DVDs) continues to be a problem in Malaysia. Malaysia has remained on the Special 301 Watch List for over four years because of its failure to substantially reduce the production and export of pirated optical discs. If Malaysia were still eligible for GSP, the United States could use the benefits as leverage to compel Malaysia to work more quickly towards a solution to this problem.

Finally, it is wrong to assume that because a country is competitive in a few sectors that it no longer needs the benefits provided by GSP. As the table shows, supposedly "well off" GSP beneficiaries are still quite poor, by any standard. The Administration should instead use current GSP "rules" that already include a way to deal with the situation of a GSP beneficiary that is a major supplier of a specific product and is competitive in the U.S. market. The competitive needs limitation component of the program can "graduate" certain products from an LDC that is competitive producer of those products – without "costing" the U.S. the program as a tool of U.S. trade policy. At the same time the GSP program continues to encourage development in that country by allowing it to continue to receive duty-free benefits on other products where it is not a competitive producer.

Per-Capita Income Levels of Leading GSP Beneficiaries and Top Exports to the United States Under GSP, 2004

Country	Gross National Income Per Capita	Leading Export to U.S. Under GSP	Value of Leading Export
India	$620	Jewelry of precious metal	$1,470,117
Brazil	3,090	Motor vehicle parts & accessories	456,596
Thailand	2,540	Jewelry of precious metal	677,955
Angola	1,030	Crude oil	2,954,184
Indonesia	1,140	Jewelry of precious metal	86,040
Turkey	3,750	Jewelry of precious metal	360,516
Philippines	1,170	Electric & fiber optic wire & cables	205,588
South Africa	3,630	Ferroalloys	346,092
Equatorial Guinea	930*	Crude oil	806,336,
Venezuela	4,020	Acyclic & ether alcohols	436,712
Argentina	3,720	Leather	126,749
Russia	3,410	Copper wire	131,851
Chad	260	Crude oil	273,913

"High Income" (GSP Graduation Threshold)	$10,066
United States GDP/Capita	41,400

* Data for 2002.

Countries ranked by total exports to the United States under GSP in 2004.
Source: World Bank, *World Development Report 2006*, Tables 1 and 5 and U.S. Bureau of the Census.

V. Controversy Means Delay

Finally, we urge the Administration and Congress to refrain from making any changes to the GSP program until after a long-term reauthorization is accomplished. The program has largely been considered non-controversial on Capitol Hill. However, changing the program will generate controversy. For example, for every proposal to take a product oft the GSP-eligible list (like soda ash), there will be a request to add a product to the list (like apparel). We have learned from our many years seeking Congressional approval of a renewed GSP program that opening the door to changes opens the door to controversial changes, which slows, even stops, the renewal clock. The future of the GSP program deserves thoughtful proposals, adequate opportunity for public input, and careful debate. If changes are proposed, the Administration and Congress will not be able to give the changes the debate they deserve before the end of the next Congressional session, which may be as early as October 2006.

Quite simply, renewal of the program should not be held up while interested parties debate the substantive changes to the program. We urge the Administration to work with Congress on two separate tracks: a straight long term renewal of the existing GSP program, and a more thoughtful discussion of changes to that program that can be considered by Congress at its leisure over the next five or more years. As we hope we have emphasized, GSP works best for American farmers, companies and consumers when we can count on its stability and certainty.

VI. Conclusion

While it is certainly true that GSP was born of a desire to provide a temporary way to assist developing countries to become competitive producers and exporters, over time the program has evolved into an important contributor to *American* competitiveness. Duty-free benefits on a wide variety of products enable American retailers to supply their customers with lower-cost goods, and American companies, many of them small businesses, to purchase raw materials for their U.S. manufacturing and farming operations. Today, *Americans* need this program. We urge the Administration to support a long-term rollover of the existing program, and for us to pursue, together, that rollover before the end of the next Congressional session.