Pictured above: Small business owners Danny and Candace Abitbul, who had to lay off 2 workers and cancel plans to buy a new warehouse that would double the business size because of GSP expiration.

Lost Sales, Investments, and Jobs: Impact of GSP Expiration After One Year

September 16, 2014

Coalition for GSP
202-347-1085

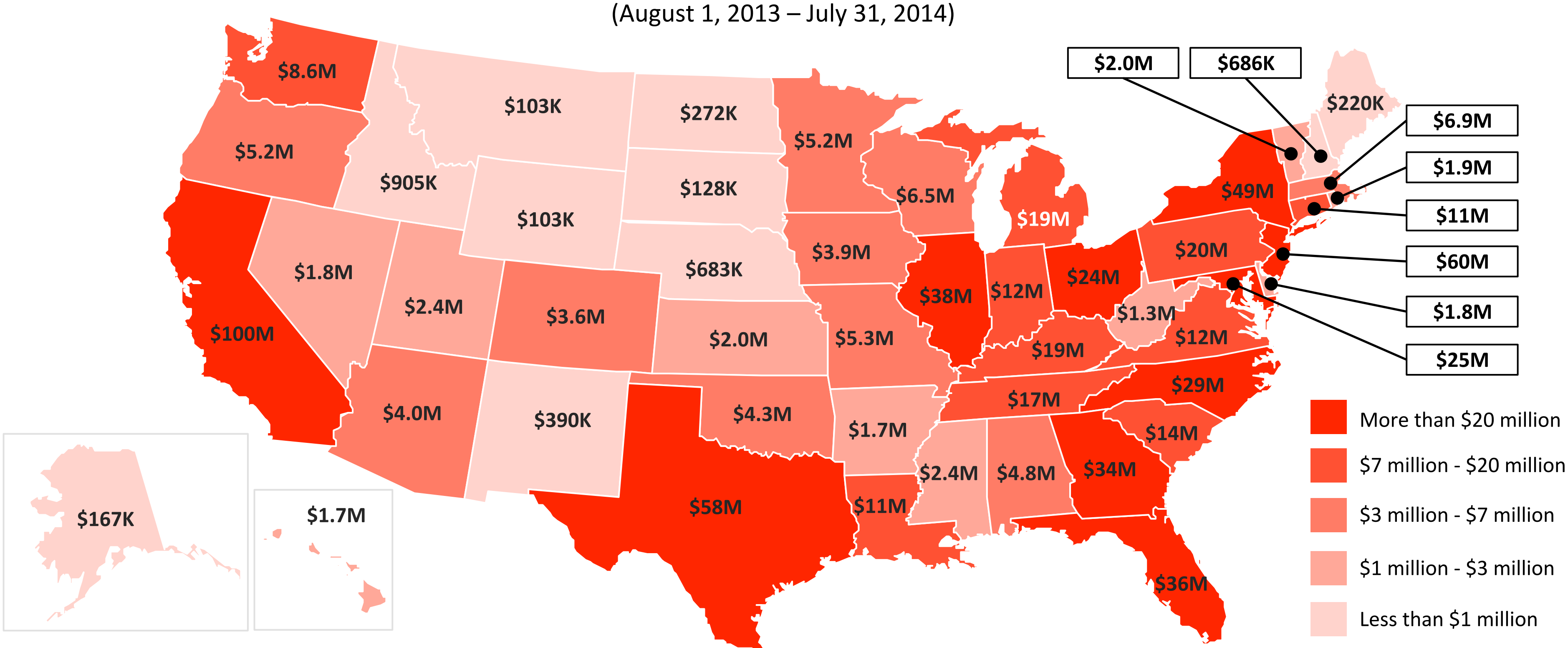
Executive Summary

The U.S. Generalized System of Preferences (GSP) is a trade program that allows American companies to import duty free from certain developing countries. Yet it expired July 31, 2013 and American companies have been paying nearly $2 million per day in higher import taxes – or $672 million after one year of expiration. The Coalition for GSP surveyed hundreds of these companies about the impacts of expiration on their businesses and operations to date. Here are the key findings:

- 40 different states faced at least $1 million in higher taxes because of GSP expiration, led by companies in California that paid an estimated $100 million in higher taxes (page 2)
- Most of the American companies hurt by GSP expiration are small businesses. About 80 percent of survey respondents, as well as companies publicly calling for GSP renewal, have 100 or fewer employees (page 3)
- The effects of GSP expiration are numerous – lost sales, delayed capital expenditures and hires, and layoffs – and likely will linger even if Congress renews the program retroactively (page 4)
- The financial "hit" is hard, particularly for very small companies: one company with 5 employees reported paying $4.5 million in additional taxes in the first year of GSP expiration (page 5)
- More than three-quarters of GSP importers cannot source their products from the United States, so even those seeking alternative U.S. sources of supply while they wait for GSP to be renewed have been disappointed (page 6)
- Nearly four out of every five survey respondents reported lower sales either because they tried to raise prices or because they had to reduce import volumes (pages 7-8)
- Consequently one in eight survey respondents have laid off workers as a direct result of GSP expiration and two respondents have been forced to dissolve their companies (page 9)
- Nearly half of all survey respondents delayed planned hires because of the increased costs of GSP products and decreased sales resulting from GSP expiration (page 10)
- Companies have reduced workers' hours, limited raises, and cut health and retirement contributions to compensate for higher costs and falling sales (page 11)
- Two out of every five survey respondents put major capital expenditures on hold, spreading the pain of GSP expiration to other local businesses (page 12)

American Companies in Every State Pay the Price of GSP Expiration

Tariffs Paid Because of GSP Expiration by State
(August 1, 2013 – July 31, 2014)



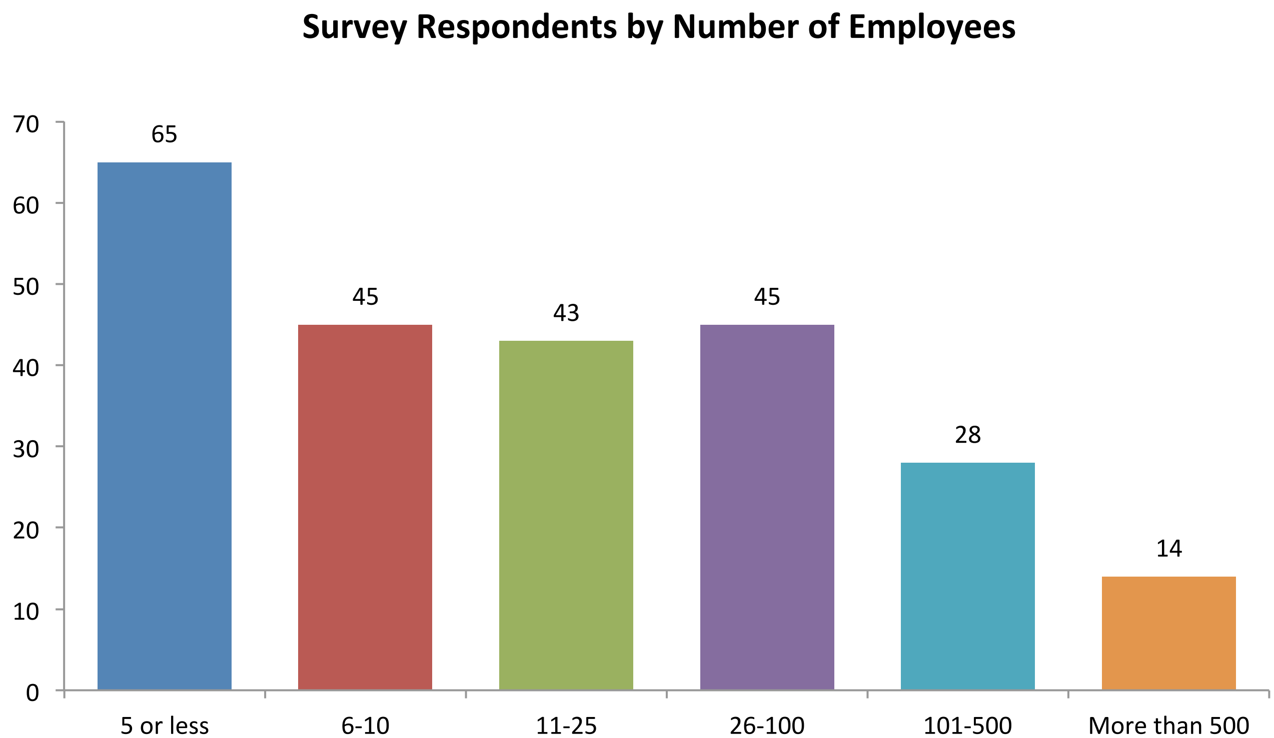
Source: Coalition for GSP from U.S. Census Bureau data

In the first year of GSP expiration, American companies faced an extra $672 million in higher taxes on about $18.6 billion in imports. Companies in every state are forced to pay higher taxes, with some states facing particularly high burdens.

For example, **California companies paid an estimated $100 million in higher taxes**, about $40 million more than second-ranking **New Jersey** or third-ranking **Texas**. In total, 40 states faced taxes exceeding $1 million because of GSP expiration.

Rhode Island companies paid the highest average tax rate at 6.9 percent, nearly twice the national average of 3.6 percent. **Montana** (5.7 percent), **Utah** (5.1 percent), and **Oregon** (4.9 percent) all import high-tariff products under GSP and therefore are paying new average taxes well above the national rate.

Most Companies Hurt by GSP Expiration Are Small Businesses



The vast majority of the 240 survey respondents are small businesses:

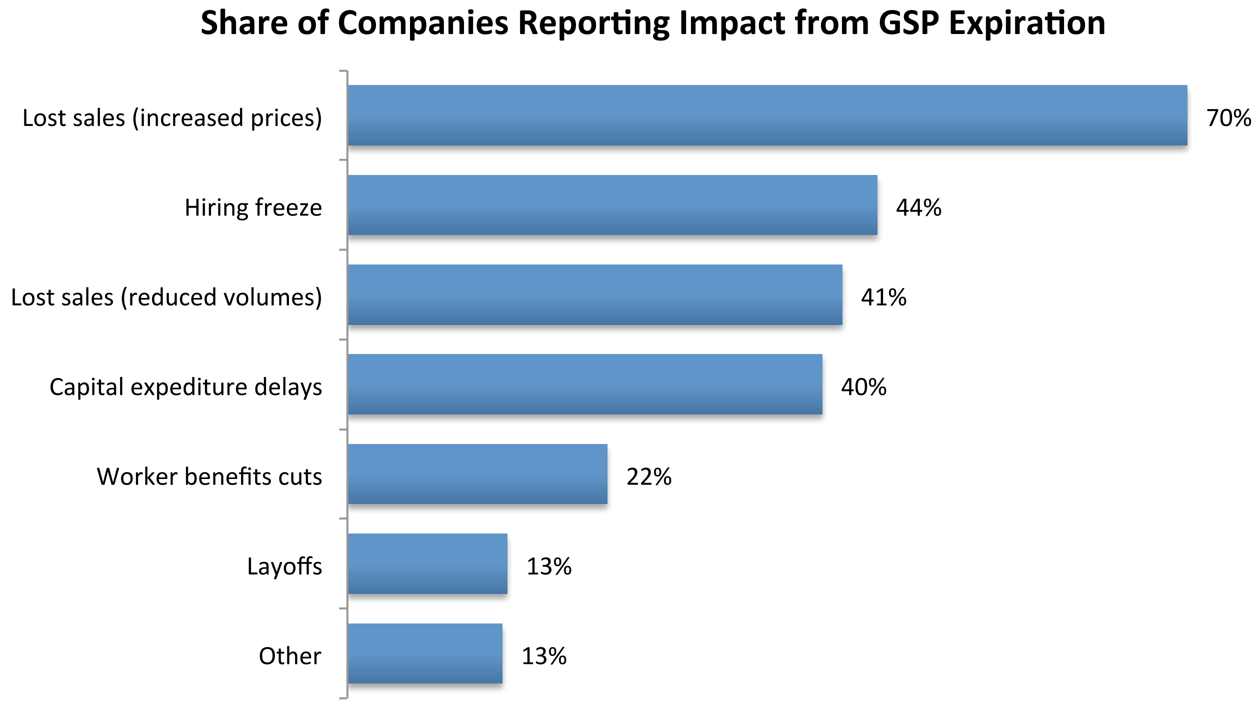
- **27 percent** of companies have **five or less employees**
- **46 percent** of companies have **10 or less employees**
- **83** percent of companies have **100 or less employees**

A Note About Respondent Company Size

The size breakdown of survey respondents is similar to the broader group of about 600 American companies that have added their name to the GSP Supporter List since January 2013. Those companies can be seen at:

www.renewgsptoday.com/2013-gsp-supporter-list/

GSP Expiration Results in Fewer Sales, Investments, and Jobs



Among the survey respondents:

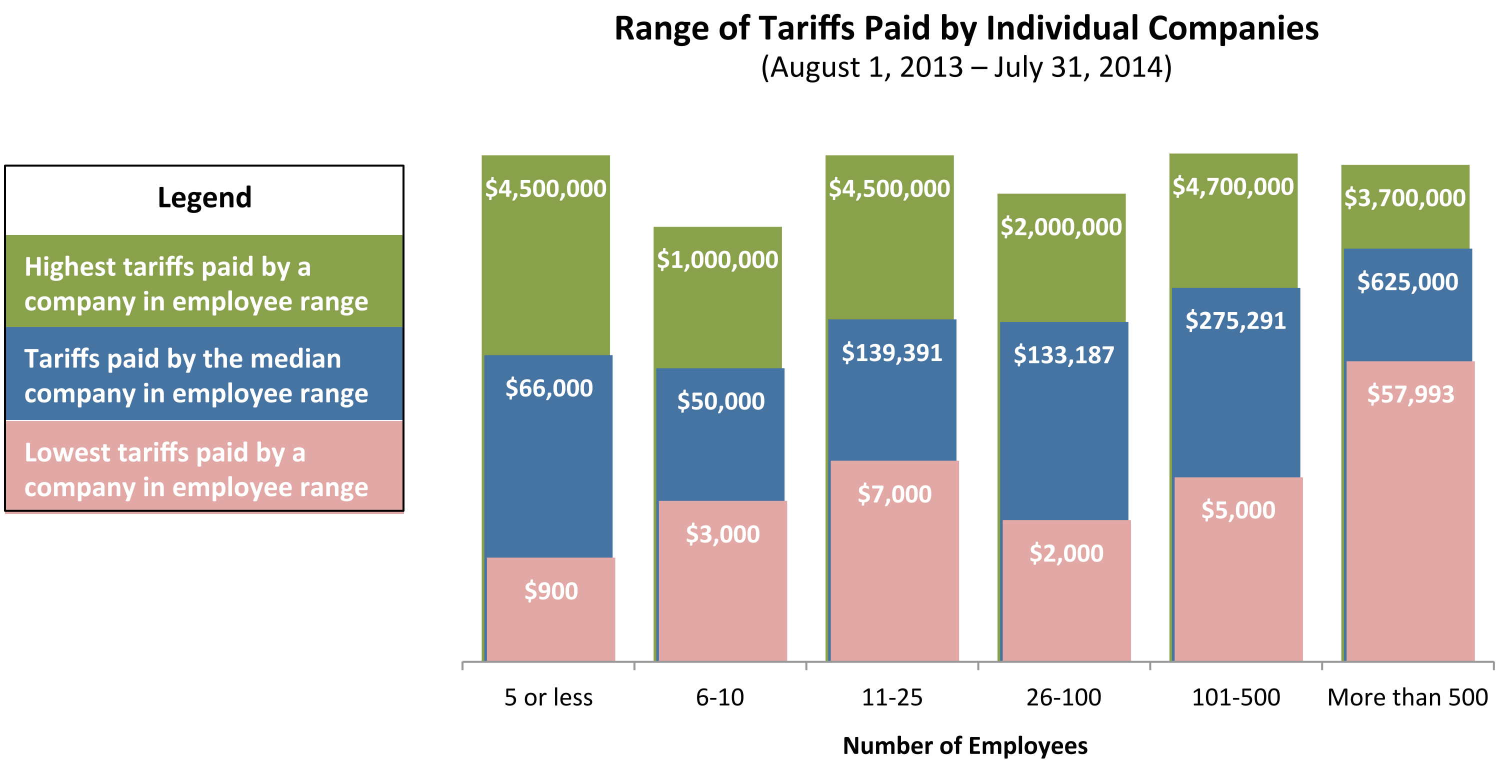
- **70 percent** reported **lost sales from attempting to raise prices** to cover U.S. tariffs now imposed on otherwise duty-free imports. **41 percent** reported **lost sales from reduced imports volumes**. In total, **77 percent** of companies reported lost sales from one or the other of these impacts

- **44 percent** reported **delayed hires** because of GSP expiration, while **13 percent** had to **lay off existing employees**

- **40 percent** reported capital expenditures delays, showing that GSP expiration hurts "non-GSP importers" as well

- **22 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

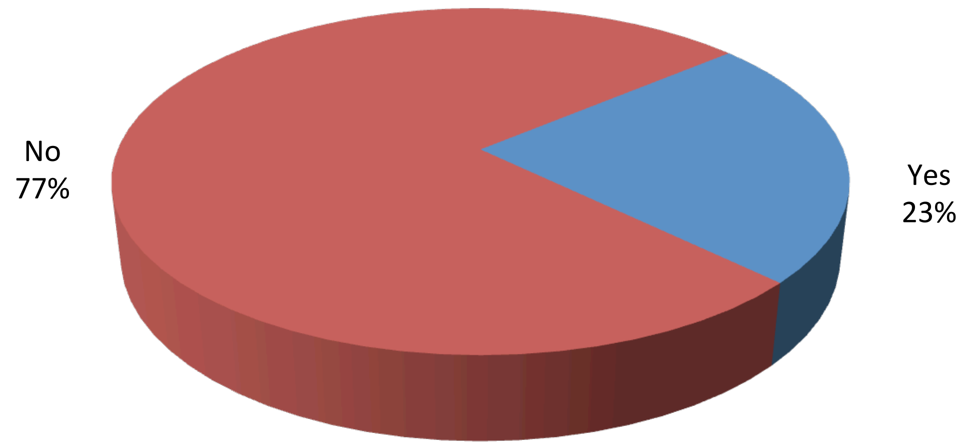


The cost of GSP expiration in terms of tariffs (new taxes) now paid on imports varies greatly between companies and these costs continue to grow every day:

- 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 year that GSP was expired
- **Tariffs paid by the median (i.e., "typical") company** in each group ranged from **$50,000 to $625,000**, 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 U.S. source?



Nearly eight out of ten companies report no alternative U.S. 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 Lose Sales When They Increase Prices to Offset Duty Costs

In total, 70 percent of companies reported lost sales from trying to increase prices to account for GSP expiration – more than any other impact. **Small businesses with 100 or less employees reported such losses at much higher rates than larger companies**, which have greater pricing power. Select company responses:

- **Helen Nguyen, CFO of Evergreen Plastic Container in Portland, Oregon**: *"After increasing prices we are not competitive with larger companies. Sales are down 20 percent from last year and so we cannot expand the business as planned."*

- **Melanie Vaillant, Import/Export Manager of Kheops International in Colebrook, New Hampshire**: *"Increases in our products' wholesale prices make our company less competitive. With higher duty expenses, there is less money for employee benefits and company expansion."*

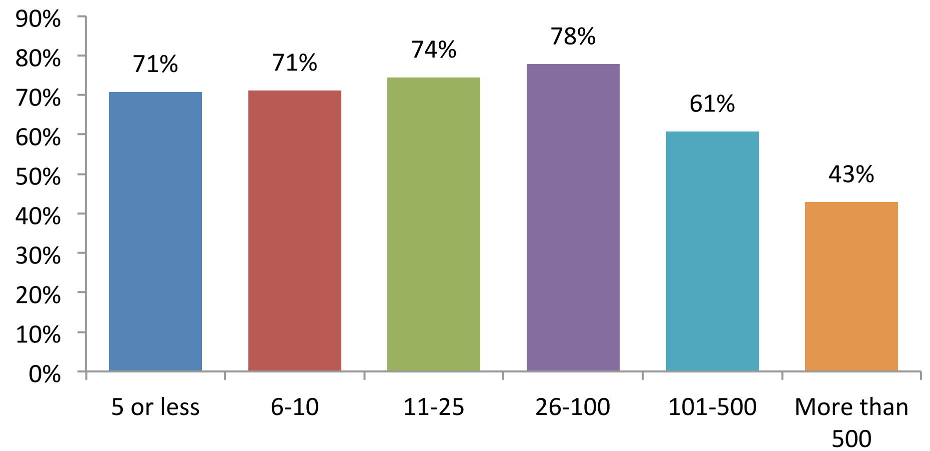
- **Russell L'Abbe, Sales Manager of Lawrence & Company in New Bedford, Massachusetts**: *"We have lost thousands of dollars worth of business and may never get it back. We are a small company and need every penny and every customer to survive."*

- **Greg Jacobson, President of PolySource in Pleasant Hill, Missouri**: *"We estimate lost sales of $2 million on top of $450,000 in tariffs paid, which probably delayed hiring two new positions."*

- **Importer of semi-finished plastics in Michigan**: *"I cannot quantify the value of lost orders because we are no longer getting phone calls from our customers."*

- **Importer of chemicals in Pennsylvania**: *"We have lost at least $250,000 in sales due to unsuccessful price increases to cover the duty and delayed hiring two additional staff until this is resolved."*

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



Fab-Line Machinery in St. Charles, Illinois imports metal fabrication machinery from Turkey. GSP expiration means its customers – American manufacturers – must pay an average of $7,500 more per machine.

The new taxes hurt both its customers and Fab-Line's sales: the small business laid off one employee in August and plans to hire two service technicians are on hold until it is clear that Congress will renew GSP retroactively.

"These taxes make everything more expensive and hurt the U.S. economy. Our customers are angry at the government and want results, not more high costs."

- Patrick Canning, President of Fab-Line Machinery

Companies Lose Sales Because They Import Less Products

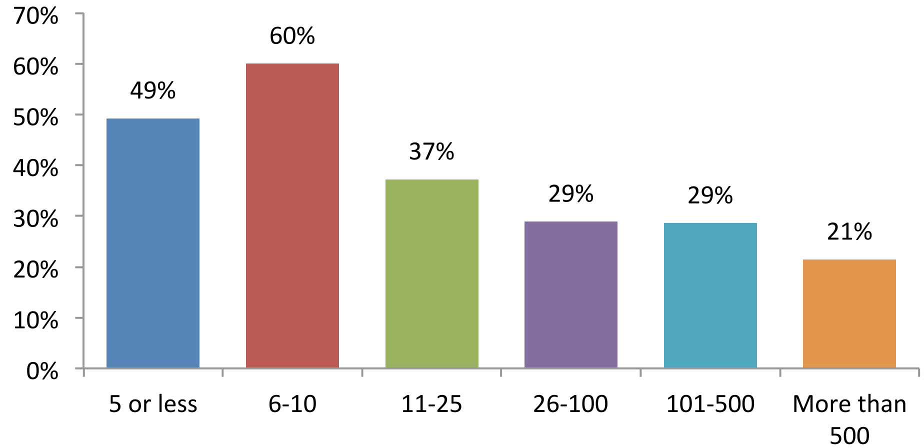
Mullican Flooring in Johnson City, Tennessee imports specialty hardwood flooring products from Indonesia under GSP. On top of $250,000 in higher import taxes, lower sales because of GSP expiration cost Mullican about $200,000 more in lost profits.

Lost profits of nearly half a million dollars over the course of the year affect Mullican's continued efforts to expand U.S. production.

"Our imports used to be much higher, but we took the profits and built a new US plant that created over 350 new jobs. Now we only import specialty items that we cannot make in the US, but the story is the same: we use those profits to expand our domestic production."

-Melvin Burkhardt, Director of Sourced Products at Mullican Flooring

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



Sometimes raising prices is not an option and importers must decide whether to bring in product at all. In total, 41 percent of companies reported lost sales from reducing import volumes. **Businesses with 10 or less employees were much more likely to reduce import volumes – and lose prospective sales – than larger businesses**. Select company responses:

- **Allan Zadik, Owner of FAZ Marketing in Houston, Texas**: "I used to import candy but without GSP, we do not sell candy anymore. No business, no workers. We had to let two people go.".

- **Lisa Johnson, Vice President at COLE-TUVE in White Marsh, Maryland**: "Price is pretty much our top selling point, so raising our prices would put us out of line with the competition. Sales are suffering because we cannot afford to buy as many machines for inventory and customers cannot wait the 10 or 12 weeks for a new factory order to be delivered, so they buy from someone else."

Lower Sales and Higher Costs Force Companies to Lay Off Workers

In total, 13 percent of companies reported laying off workers because of GSP expiration. **Two companies are being forced to close all together and several others stated the viability of their business going forward was now in question**. Businesses with 11-25 employees were the hardest hit, with more than one in five reporting layoffs. Select company responses:

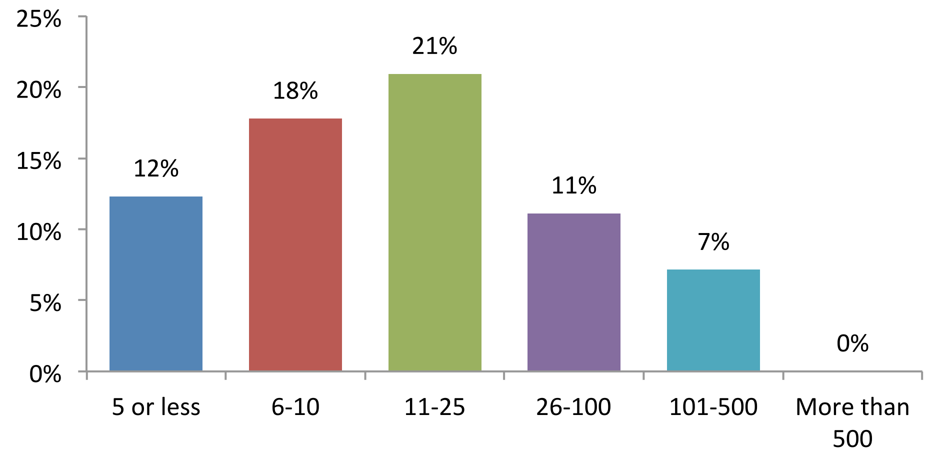
- Terry Wright, Owner of Vispak LLC in Golden Valley, Minnesota: *"We are currently in the process of shutting down the business due to this GSP tax making us non-competitive. We have a dozen independent contractors working with this product who will have to find replacement work."*

- Owner of family business with nine employees in California: *"The cost of [GSP] duty was a major factor in the loss of margin in our products, which led to the bank calling our loan. We had no choice but a bulk sale of the assets and dissolution of the company. Our financial future is very uncertain now. Timely GSP renewal would have enabled us to avoid all of this."*

- Candace Abitbul, Owner of Sophia Foods in Brooklyn, New York: *"We planned to purchase a property and double our size, but due to waning sales directly related to GSP we have put that idea on hold. Furthermore, until we know where we stand on the issue, we have not only implemented a hiring freeze, but have had to lay off two employees."*

- George Navarian of Novita Jewelry in Monrovia, California: *"We were forced to lay off two employees at the end of last year and will have to lay off at least two more if GSP is not renewed."*

Share of Companies Reporting Layoffs by Size



Matrix Metals LLC manufactures steel castings for the valve, mining, and locomotive industries in the United States. It also imports castings from India under GSP.

The $250,000 in new taxes paid are just part of the problem. Higher costs associated with GSP expiration are causing the company to lose sales to Chinese competitors. **As a result, Matrix Metals has laid off 75 workers. Most workers were in Keokuk, Iowa, but its Richmond, Texas headquarters also was impacted.**

If GSP is renewed, rehiring those workers will not be immediate: it will take time for Matrix Metals to rebuild sales and overcome the damage done by GSP expiration.

GSP Expiration Prevents Companies from Hiring New Workers

In total, 44 percent of companies reported hiring freezes for specific positions. **Small businesses with 11-25 employees were most affected with nearly two out of three reporting delayed hires**. Generally, GSP expiration has had less of an impact on larger companies' hiring decisions. Select company responses:

- **Frank Cannon, President of The Cannon Group in Westerville, Ohio**: *"With a loss of $700,000 to our bottom line we cannot afford to hire any new staff. If Congress renews GSP retroactively, we would definitely hire more staff."*

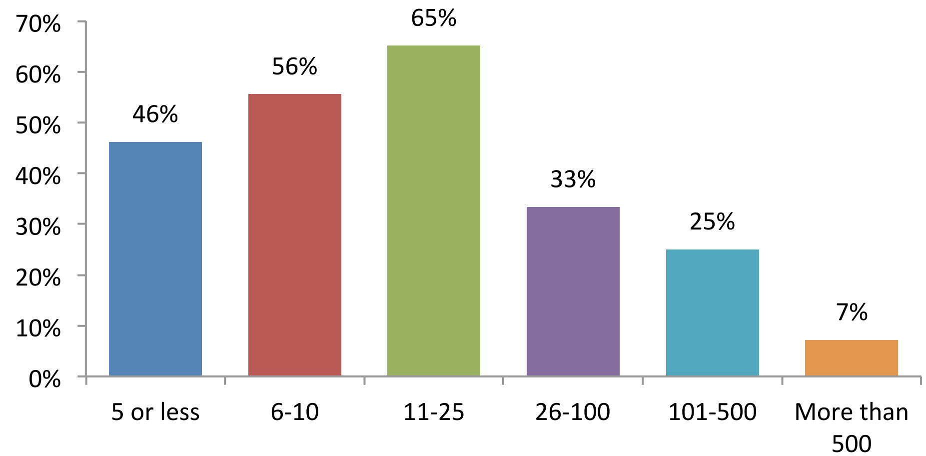
- **Ron Henderson, President of Varaluz, LLC in Las Vegas, Nevada**: *"We desperately need 2 additional people lost thru attrition but do not have the cash to hire them thanks to GSP not being renewed."*

- **Alex Livingston, Owner of Summit Specialty Products in Alpharetta, Georgia**: *"We have opportunities to expand now that the home building business is starting to grow again, but the loss of $90,000 in tariffs has not allowed us to invest in either people or new equipment in the manner in which we would like."*

- **Jacob Heilbron, Chairman of Kona Bicycle Company in Ferndale, Washington**: *"We're unable to raise prices during our model year so the loss of profit is absorbed into our bottom line. We would like to hire new U.S. based personnel for our R&D/Product Development team but are waiting until GSP is renewed."*

- **Michael Langhammer, CEO of Quality Gold in Fairfield, Ohio**: *"We have had to forego a significant amount of money. We have contracts and catalogs that feature the products, so we are squeezed. I estimate that we have not hired at least 15 people."*

Share of Companies Reporting Hiring Freeze by Size



McGuire Manufacturing in Cheshire, Connecticut imports components from Thailand for commercial grade plumbing fixture trim. McGuire's products are found in numerous major buildings (e.g., Freedom Tower in New York City, Hartsfield-Jackson Airport in Atlanta, and the Wynn Las Vegas & Encore Resort), but GSP expiration threatens growth for this 20-person manufacturer.

"As a result of GSP expiration, we have allowed attrition to reduce our workforce by two fulltime positions. I'd like to replace them, and would do so immediately if Congress renews GSP retroactively, but I can't right now."

-Mike McRoberts, President of McGuire Manufacturing

Workers Pay the Price for GSP Expiration via Lower Wages and Benefits

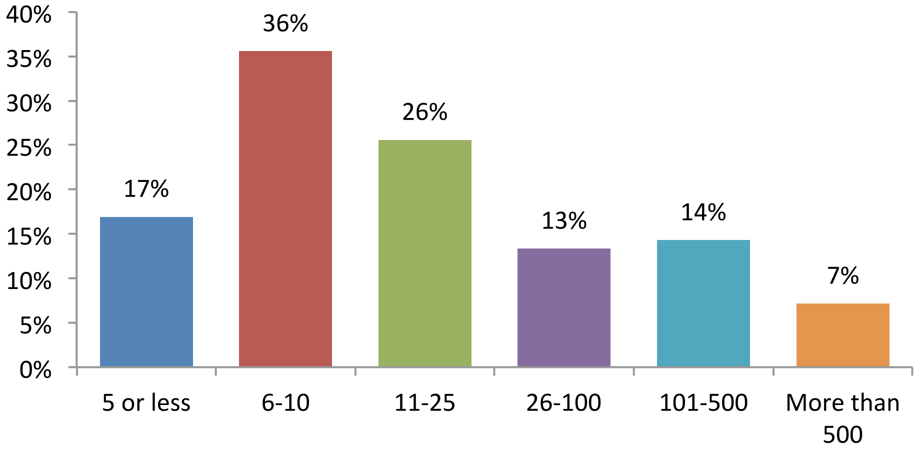
Stackhouse Athletic Equipment in Salem, Oregon develops and manufactures track and field equipment for high school team sports and its "Stackhouse by ATE" product line is imported from India under GSP.

When the company tried to raise prices to cover the GSP taxes, sales of those products dropped by 10 percent. As a result, Stackhouse had to cut some health benefits for its 9 workers and put off hiring another full-time employee. A swift, retroactive GSP renewal would benefit both Stackhouse and its workers.

"We'd like to be able to offer better coverage when we renew our health insurance in November. We'd also like to bring in another employee to split their time between manufacturing and wholesale. A refund of the GSP taxes we've paid in the last year would cover those expenses."

-Greg Henshaw, President of Stackhouse

Share of Companies Reporting Worker Benefits Cuts by Size



In total, 22 percent of companies reported cutting workers benefits to offset increased GSP costs and lost sales. **Impacts were greatest on businesses with six-10 employees.** Select company responses:

- **Paul Westmaas, President of HiBlow USA in Saline, Michigan**: *"Our employees now must pay more for medical insurance and it could get worse. We are waiting to hear if we'll lose one of our largest customers to lower-cost, Chinese competitors."*

- **Kiro Ivanovski, Owner of Fast-Pak Trading in Secaucus, New Jersey**: *"We had to cut salaries by 20 percent across the board - after laying off 3 employees. We were growing and planned to hire 3 sales people and 2 warehouse staff, but GSP expiration ended those plans."*

- **Christopher Keefe, Founder of Minga Fair Trade Imports in Lake Geneva, Wisconsin**: *"To avoid losing sales we did not raise product prices. Since we are now losing money on some imports, we have not been able to increase employee´s compensation adequately."*

Companies Delay Job-Creating Capital Investments

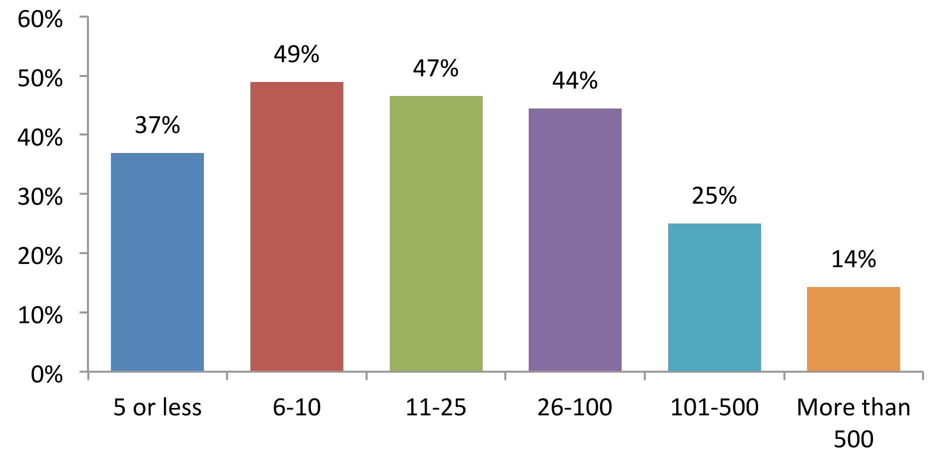
B&C Technologies in Panama City, Florida designs and sells industrial and commercial laundry equipment imported from Thailand under GSP. In March, B&C purchased a plant (above) in Panama City Beach to begin manufacturing machines in the United States.

Yet stagnant sales and more than $100,000 in additional taxes paid because of GSP expiration will prevent B&C from moving into the plant by April 2015 as planned.

"We made a commitment to manufacture in America, but right now distributors are turning away from us in favor of suppliers from China and the Czech Republic that are not impacted by GSP expiration. Retroactive GSP renewal would help us finish the new plant and expand our American workforce."

-Bengt Bruce, President at B&C Technologies

Share of Companies Reporting Capital Expenditure Delays by Size



In total, 40 percent of companies reported delaying capital expenditures because of GSP expiration. **These delays have a ripple effect on other local businesses from real estate and construction firms to services providers and equipment manufacturers**. Select company responses:

- <u>Jan Reid, CEO of Xpres LLC in Winston-Salem, North Carolina</u>: *"We have delayed purchases of $40,000 in needed racking storage and a $100,000 oven investment that will increase our output capacity."*

- <u>Company looking to expand in Virginia</u>: *"We planned to spend $4 million to purchase a plant and warehouse in Virginia that would employ 30 people, plus two sales reps to market the products. Those investments were put on hold because of GSP expiration. We will make the final decision around the end of November."*

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 August 4-August 29, 2014. Duplicate responses were removed from the dataset before calculating the final results.

In total, there were 240 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. The survey respondents operate in all 50 states, plus the District of Columbia and Puerto Rico.

For more information, please contact:

Coalition for GSP
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Washington, DC 20036
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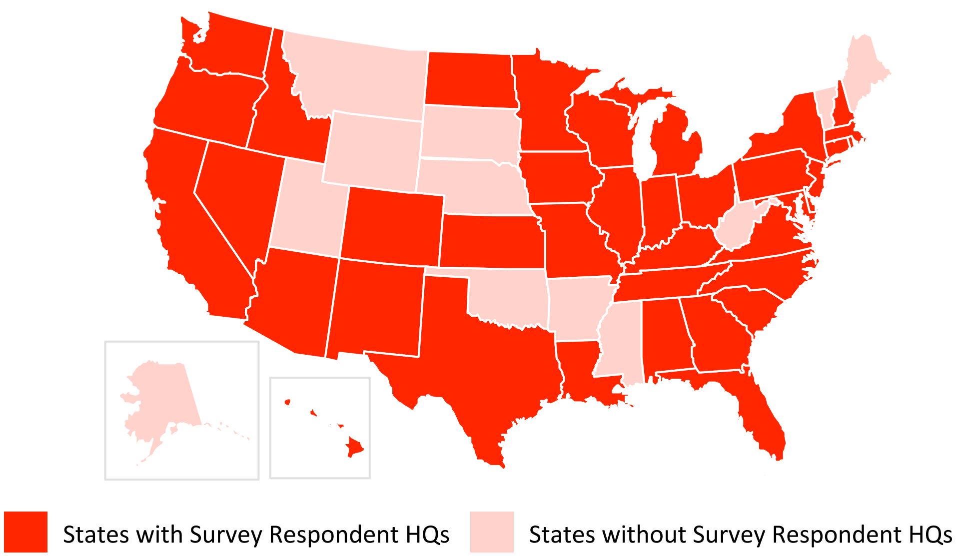
States Where Survey Respondents Are Headquartered



States Highlighted in Report

California (p. 9)	New Hampshire (p. 7)
Connecticut (p. 10)	New Jersey (p. 11)
Florida (p. 12)	New York (p. 9)
Georgia (p. 10)	North Carolina (p. 12)
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