

**Comments Regarding GSP Country Eligibility Review: Turkey**  
**Docket No. USTR-2018-0031**

**Submitted by GSP Action Committee**  
**September 12, 2018**

**Introduction**

The GSP Action Committee (“Action Committee”) welcomes the opportunity to submit comments for the country eligibility review for Turkey under the Generalized System of Preferences (GSP) by the Office of the U.S. Trade Representative (USTR) and the GSP Subcommittee of the Trade Policy Staff Committee (TPSC). The Action Committee is a new initiative from the Coalition for GSP, which since 1992 has been the predominant U.S. business community voice advocating for GSP renewal. The Action Committee is a group of American companies and trade associations organized to help policy makers and others fully appreciate the important benefits to American companies, workers, and consumers of the GSP program as they administer the program on a daily basis.

Members of the Action Committee know first-hand the benefits of the GSP program to American companies and workers. By lowering costs for raw materials, components, and machinery, GSP helps American manufacturers and workers compete in a tough global economy, where they face competition not only in the U.S. market from imported finished products, but also in international markets to which they export. In 2017, approximately 64 percent of U.S. imports under GSP were raw materials, components and machinery. GSP eliminated \$495 million in U.S. tariffs on such products in 2017.<sup>1</sup>

By lowering costs for consumer goods and food products, many of which are not available in the United States, GSP increases product choices and helps American families stretch paychecks further. In 2017, approximately 36 percent of U.S. imports under GSP were consumer goods and food products. GSP eliminated \$398 million in tariffs on such products in 2017.

The broader the scope of the GSP program, the greater the benefits for American companies, workers, and families.

**Summary of comments**

The Action Committee’s comments focus on specific benefits and opportunities to American workers, manufacturers, farmers, and ranchers created by the GSP program, and in particular continued duty-free treatment under GSP for imports from Turkey. Using information about GSP use and other business characteristics provided by our members, along with data from official U.S. government trade statistics, we demonstrate two key points:

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<sup>1</sup> National GSP savings figures differ from those provided in previous country review submissions based on new data published by the U.S. Census Bureau in June and August 2018.

1. **American companies and workers are the primary “beneficiaries” of the GSP eligibility for Turkey.** Recent experiences with temporary GSP lapses and retroactive reauthorizations clearly demonstrate the importance of GSP for American companies and workers.
2. **Turkey’s continued GSP eligibility is in the U.S. national interest.** Turkey’s inclusion in the GSP program promotes U.S. competitiveness in all 50 states, in particular at small businesses, as well as U.S. exports to the world.

While we strongly encourage the Governments of Turkey and the United States to work constructively to resolve any alleged violations of the GSP country eligibility criteria, we are concerned about the real, negative impacts to American companies, workers, and the U.S. national interest that would result if those discussions are unfruitful and GSP benefits for Turkey were suspended. We believe the GSP Subcommittee should place great weight on these factors as it undertakes this review and decides the appropriate course of action.

### **American companies are the primary “beneficiaries” of the GSP program**

As the GSP Subcommittee undertakes its country eligibility review for Turkey (and others), an important fact to keep in the forefront of your review is that American companies – not foreign governments – are the primary beneficiaries of continued GSP eligibility for major supplier countries. When GSP is in place, American companies’ costs decrease and workers gain. When GSP benefits go away, either because of lapsed authorization or Administrative decisions, American companies face higher taxes and workers suffer.

Recent experiences with temporary GSP lapses and retroactive reauthorizations clearly demonstrate the importance of GSP for American companies and workers. Table 1, based on surveys of hundreds of GSP importers in August 2014 and August 2016, show the impact that GSP benefits have on employment, employee benefits, investments, and sales.

**TABLE 1: IMPACTS OF GSP EXPIRATION AND RENEWAL ON U.S. COMPANIES AND WORKERS**

<b>Impact</b>	<b>August 2014 Survey<sup>A</sup></b> (after 1 year of GSP expiration)	<b>August 2016 Survey<sup>B</sup></b> (after 1 year of GSP reauthorization)
Employment	13% laid off workers / 44% delayed new hires	46% hired new workers
Benefits	22% cut employee wages or benefits	23% provided new (or reinstated) employee benefits
Investments	40% delayed or canceled capital investments	41% made new capital investments
Sales	77% lost sales due to price increases or reduced volumes	56% increased sales of GSP-eligible products

Source: Coalition for GSP survey data

<sup>A</sup> Survey; 230 respondents (Fall 2014); <sup>B</sup> Survey; 135 respondents; Fall 2016

One small business that imports non-perishable specialty foods from Turkey was among the respondents. The Brooklyn-based, family-owned business paid \$46,000 in extra tariffs when GSP expired from August 2013 to July 2015.<sup>2</sup> The new taxes forced the company to lay off two workers and cancel plans to buy a new, larger warehouse to grow the business.

How the tariffs resulted in layoffs also is illustrative. About seven months after GSP expired, the business owner reported: “We laid off one driver due to slowing sales directly related to the raising of 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.” The higher prices and slower moving inventory led it to lay off the second worker a few months later.<sup>3</sup>

Reinstated GSP benefits allowed the company to hire two workers to fill the positions eliminated during expiration – and then add two more new positions. It increased benefits for all employees and doubled its square footage by expanding into neighboring warehouse space. Similarly, the company laid off two workers when GSP expired for 10 months in 2011, and spent the next two years trying to rebuild the business (before GSP expired again). GSP benefits for Turkey have been the difference between growth and contraction for this small business.

It is not an isolated example: nearly half of the respondent companies that import from Turkey either laid off workers or froze new hires during the expiration. More than half of those same companies reported hiring workers in the year after GSP benefits were reinstated.

We believe the impacts of suspending GSP benefits for Turkey would be even worse for American companies than expiration of the program, since suspensions traditionally have lasted much longer than short-term renewal lapses. Additionally, American companies’ investments and employment would be less likely to bounce back following any future reinstatement of GSP benefits lost to a suspension, since tariffs paid during suspensions are not eligible for refunds.

This is not to suggest that Turkish exporters do not benefit from GSP eligibility, but program coverage is limited: just 17.7 percent of U.S. imports from Turkey in 2017 received GSP benefits. In fact, the U.S. government collected about \$3.25 in tariffs on imports of non-GSP eligible products from Turkey in 2017 for every \$1 in tariffs waived due to GSP.

### **Turkey’s continued GSP eligibility is in the U.S. national interest**

Turkey’s continued GSP eligibility is in the U.S. national interest for a number of reasons. Duty-free treatment for Turkey saves American companies about \$60 million annually, helping manufacturers remain competitive. While GSP benefits for imports from Turkey are shared broadly across the United States, suspending such GSP benefits would have a disproportionate

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<sup>2</sup> <http://renewgsptoday.com/2017/06/26/gsp-company-profile-sophia-foods-in-brooklyn-new-york/>

<sup>3</sup> <http://renewgsptoday.com/2016/09/13/gsp-renewal-allows-new-york-small-business-to-refill-positions-lost-during-expiration-and-then-some/>

negative impact on several states. GSP imports from Turkey are particularly important for small businesses that can least afford significant tax hikes. Finally, GSP benefits for Turkey help support U.S. exports throughout the world.

*Savings Impacts* – As the fifth-largest source country of GSP imports by value, Turkey is very important to American beneficiaries of the GSP program. In 2017, GSP benefits for Turkey saved American companies about \$63 million on \$1.7 billion in imports. In the first seven months of 2018, GSP benefits for Turkey saved American companies about \$34 million, a slight decrease from 2017.

*Competitiveness Impacts* – Like the program overall, most GSP imports from Turkey are raw materials, components, and machinery. In 2017, 57 percent of GSP imports were such capital goods and parts that help American manufacturers remain competitive. Auto parts, building materials, and plastic and rubber components were among the highest-value imports from Turkey under GSP.

*Geographic Impacts* – The American benefits of GSP eligibility for Turkey are geographically diverse. In terms of tariff savings under GSP, Turkey was among the top three most important GSP-eligible countries for six states (plus the District of Columbia) in 2017. Imports from Turkey accounted for more than 10 percent of all GSP savings for nine states: Delaware (20%), Minnesota (17%), Missouri (16%), New York (16%), Alaska (15%), Illinois (14%), North Dakota (13%), Massachusetts (12%), and Kansas (11%).

Imports from Turkey into specific states are often indicative of dominant local industries. In 2017, jewelry was the top import from Turkey under GSP into New York. Michigan's top import was automotive parts (e.g., stampings), while Pennsylvania's top import was candies.

*Business Impacts* – Turkey is the fourth-most frequently cited source country for companies that have signed up for the "GSP Supporter List."<sup>4</sup> Since early 2017, officials from over 400 U.S. companies have provided information about company demographics and locations, imported products, source countries, GSP savings, and other topics when signing up for the list. Twenty-two percent of companies report importing from Turkey, below only India (41%), Indonesia (26%), and Thailand (24%).

The information, submitted on a confidential basis unless companies explicitly choose to allow information sharing, provides useful insights into the types of American companies that benefit from GSP eligibility for Turkey – and conversely would be hurt by any suspension of such eligibility. For example:

- 86 percent of GSP importers from Turkey are small businesses with fewer than 100 employees;

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<sup>4</sup> See: <http://renewgsptoday.com/gsp-supporter-list/>

- The typical GSP importer from Turkey has 14 employees and saves \$150,000 from GSP annually, and
- 29 percent of GSP importers from Turkey export some of their GSP-eligible products (or derivative products made thereof).

*Export Impacts* – Though few companies both import from Turkey under GSP and export to Turkey, three in ten export some of the products that benefit from GSP for Turkey *somewhere* in the world. That includes 27 percent of small businesses. By comparison, the U.S. Small Business Administration estimates that only 5 percent of small businesses export.<sup>5</sup>

Companies importing from Turkey under GSP report using those products in exports to 20 individual countries, including: Argentina, Aruba, Belgium, Brazil, Canada, Chile, China, Curacao, Denmark, Dominican Republic, France, Germany, India, Indonesia, Japan, Mexico, Panama, Philippines, Singapore, and the United Kingdom. (Others cited more generic regions such as Europe, Caribbean Islands, Latin America, or “worldwide.”) Removing GSP benefits for Turkey would in turn make U.S. exports to all of these countries less competitive.

## **Conclusion**

The GSP Action Committee appreciates the opportunity to contribute to the GSP Subcommittee’s review of country eligibility for Turkey. GSP supports American companies, workers, and exports, and many of those benefits are tied directly to Turkey’s inclusion in the program. Suspending those benefits would have real, negative impacts on U.S. competitiveness at businesses throughout the country – impacts to which the GSP Subcommittee should give great weight as it moves ahead with the eligibility review.

I look forward to working with the Administration to promote – and improve upon – trade policies such as GSP with a proven track record of benefiting American companies, workers, and families.

For more information, please contact:

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<sup>5</sup> <https://www.sba.gov/blogs/big-impact-if-small-businesses-would-export>