December 16, 2021

The Honorable Earl Blumenauer
Chairman
Ways & Means Subcommittee on Trade
U.S. House of Representatives
Washington, DC 20515

The Honorable Vern Buchanan
Ranking Member
Ways & Means Subcommittee on Trade
U.S. House of Representatives
Washington, DC 20515

RE: Trade Subcommittee Hearing on Supporting U.S. Workers, Businesses, and the Environment in the Face of Unfair Chinese Trade Practices

Dear Chairman Blumenauer and Ranking Member Buchanan:

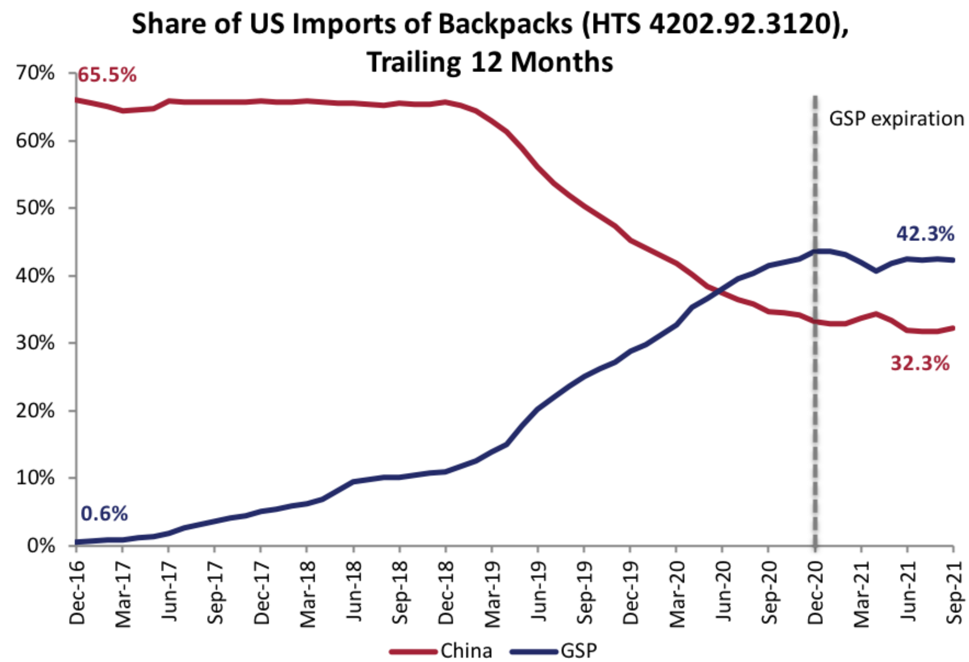
The Coalition for GSP appreciates the opportunity to submit these comments on supporting U.S. workers, businesses, and the environment in the face of unfair Chinese trade practices. The Coalition is a group of American companies and trade associations organized to educate policy makers and others about the important benefits to American companies, workers, and consumers of the Generalized System of Preferences (GSP) program. Coalition members range from small, family-owned businesses to Fortune 500 corporations and operate in all 50 states, the District of Columbia, and Puerto Rico.

GSP eliminates U.S. tariffs on thousands of goods from about 120 countries, but China is excluded from GSP benefits. Many GSP beneficiary countries, and particularly those in Southeast Asia, are natural sourcing alternatives to China. By eliminating tariffs on China's competitors, GSP makes those other developing countries more viable alternatives to low-cost Chinese producers. However, the authorization of the GSP program expired on December 31, 2020.

Any discussion of improving competitiveness through trade – especially as it relates to diversifying supply chains away from China – must include GSP renewal. Loss of duty-free treatment provided by GSP makes Chinese producers more competitive. From January-October 2021, American companies paid at least $873 million in extra tariffs on these non-Chinese imports. Actual tariffs paid could approach $1.1 billion in 2021 alone, and American companies will continue paying millions of dollars a day in extra tariffs when buying from China's competitors until Congress renews GSP.

GSP expiration primarily hurts the competitiveness of American small businesses that can least afford to pay the extra tariffs. Research over many years has shown consistently that the typical GSP importer has about 15 employees and saves between $100,000 and $200,000 annually in forgone tariffs as a result of the program. The extra tariff costs come as companies try to navigate the ever-changing Covid-19 pandemic and on top of rising freight costs, supply chain disruptions, and other inflationary pressures. Small businesses account for the vast majority of more than 300 American companies and associations that sent a letter in September 2021 to the House Ways and Means and Senate Finance Committee leaders urging GSP renewal.

The linkages between China policy and GSP are not simply tangential: many companies are now paying tariffs due to GSP expiration *because* they shifted sourcing out of China and into GSP countries following the imposition of Section 301 tariffs. Backpacks are one example. After GSP benefits were extended to backpacks in 2016, GSP imports steadily gained market share. The Section 301 tariffs supercharged the trend – with gains now directly at the expense of China – but GSP expiration at the end of 2020 stopped both GSP imports' rise and Chinese imports' fall. A large number of travel goods companies that "left" China to avoid 25% Section 301 tariffs are now paying extra tariffs of 17.6% to 20% due to GSP expiration.



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

It is not just backpacks: there is a near-perfect overlap between the products facing Section 301 tariffs when imported from China and the products that qualify for GSP benefits. According to the Coalition's analysis of U.S. Census Bureau data for January-October 2021, 95% of GSP-claiming imports and 96% of tariffs paid due to GSP expiration were on products that face Section 301 tariffs when imported from China. Over that same period, GSP imports increased by 12% for products where Chinese imports face Section 301 tariffs but decreased 7% for products where Chinese imports do not face any new Section 301 tariffs. For U.S. companies looking for price-competitive sources of products, raising tariffs by letting GSP expire has a similar effect as cutting tariffs on China.

And it is not just GSP expiration, but other policy decisions related to GSP that benefit China. For example, an estimated 97% of the extra tariffs paid in 2021 as a result of individual GSP product exclusions (e.g., competitive need limitations or "CNLs") were on products that face Section 301 tariffs when imported from China. Similarly, an estimated 90% of the extra tariffs paid due to lost GSP for India in 2021 were on products that face Section 301 tariffs when imported from China. Between GSP expiration, individual GSP product exclusions, and terminated GSP for India, the United States is imposing an extra $150 million per month in tariffs on China's competitors for the exact products where American companies are most-motivated to move supply chains out of China.

Given the clear linkages between GSP and China trade, here are three recommendations to support U.S. workers and businesses trying to compete with China.

1. **Congress should renew GSP as soon as possible**. GSP has a long track record of bipartisan support. The most recent vote on GSP reauthorization in the House of Representatives passed 400-2 in 2018. There is not a single current Member of the House of Representatives that voted against GSP renewal in 2018. Yet American companies are on track to pay at least $1 billion in extra tariffs while they wait for reauthorization, with exporters in China being among the clearest beneficiaries.

2. **Congress should include the provisions of the bipartisan "CNL Update Act" (H.R.6171) as part of any GSP renewal bill**. Recently introduced by Ways and Means Committee Members Stephanie Murphy (FL) and Jackie Walorski (IN), the bill would provide further guidance to the Administration on country and product eligibility reviews to ensure that GSP covers as much "good trade" furthering the program's development goals as possible. Such provisions would complement other changes under consideration (e.g., new eligibility criteria) by creating better incentives for countries to comply with GSP eligibility criteria and promoting a race-to-the-top on trade not just between, but within, GSP beneficiary countries. The changes also would provide more opportunities to shift supply chains out of China.

3. **Congress should continue to encourage the Administration to make restoring GSP for countries such as India a priority.** In November, 75 House Members – including 19 Members of the Ways and Means Committee – sent a letter encouraging U.S. Trade Representative Katherine Tai to advance negotiations with her counterparts in India. The letter stated that if "progress can be made at the TPF to address the market access issues that led to India's termination as a GSP beneficiary, we strongly encourage you to create a framework for a deal that could be implemented soon after Congress reauthorizes the GSP program." A U.S.-India joint statement said the U.S. would consider restored GSP. Congress should encourage the talks to move as quickly as possible so that American companies can once again import duty-free from India as an alternative to China.

The Coalition for GSP thanks you again for the opportunity to submit these comments on how GSP renewal and improvements can help support U.S. workers, businesses, and the environment in the face of unfair Chinese trade practices. We look forward to working with Congress to advance these critical issues as soon as possible in 2022.

Sincerely,

Daniel S. Anthony
Executive Director
Coalition for GSP