

# ISSUE BRIEF

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## Congress Should Renew the Generalized System of Preferences

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On December 31, 2017, the Generalized System of Preferences (GSP) expired. GSP is a program that eliminates tariffs on thousands of products from around the world. Congress, caught up in high-profile fights on health care and taxes, failed to pass routine reauthorization legislation.

A lapse in GSP could cause serious harm to U.S. businesses that use products imported through GSP. Past lapses in the program have cost domestic companies as much as \$1 billion in extra import taxes, resulting in decreased employment, investment, and wages.

Congress should immediately reauthorize GSP. Doing so will not only prevent the need for likely cumbersome import tax refunds, but also reduce uncertainty for U.S. businesses that import through the program.

### Basics of GSP

GSP was established under the Trade Act of 1974 and is responsible for eliminating tariffs on thousands of imports from 120 countries. The purpose of GSP is to promote economic growth and economic freedom in beneficiary countries and provide competitive inputs for U.S. companies.<sup>1</sup>

In 2016, nearly \$19 billion in goods were imported under GSP, including products from more than 5,000 categories. Seven beneficiary countries imported \$1 billion of goods or more under the program: India (\$4.7 billion), Thailand (\$3.9 billion), Brazil (\$2.2 billion), Indonesia (\$1.8 billion), the Philippines (\$1.5 billion), Turkey (\$1.4 billion), and South Africa (\$1 billion).<sup>2</sup>

Between January and October 2017, American businesses saved \$701 million thanks to GSP. The states that benefitted the most from the reduced tariffs during that period were California (\$111 million), Texas (\$64 million), New Jersey (\$63 million), New York (\$53 million), Florida (\$46 million), Georgia (\$34 million), Illinois (\$33 million), Ohio (\$28 million), Michigan (\$25 million), and Pennsylvania (\$24 million).<sup>3</sup>

### GSP Lapse Is Expensive and Causes Uncertainty

A lapse in GSP is not only problematic for U.S. producers that rely on these competitive intermediate goods, but is also a costly mistake for Congress when reauthorization finally occurs. GSP expired in 2013 and was not reauthorized until 2015, resulting in U.S. companies paying \$1.3 billion in extra import taxes.<sup>4</sup>

The short-term renewal of GSP in 2015 was retroactive, meaning it refunded duties paid during the expiration period.<sup>5</sup> However, the relief came too late. According to a Coalition for GSP letter sent to Congress in November 2016, “Taxes and uncertainty forced companies to lay off workers, freeze new hires, cut wages and benefits, and delay capital investments.”<sup>6</sup>

This paper, in its entirety, can be found at <http://report.heritage.org/ib4805>

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U.S. companies that benefit from GSP today are finding themselves in the same position they were in just a few years ago. Burris Company, located in Greeley, Colorado, specializes in the production of rifle scopes and uses GSP to import some of its products from the Philippines. According to the Coalition for GSP, “In July 2013, Burris committed to increase U.S. manufacturing in Greeley. Yet when GSP expired two weeks later, the 14.9 percent import tax prevented Burris from making the investments necessary to meet its new production goals.”<sup>7</sup> The expiration of GSP cost Burris \$3.2 million and it took over a year for the government to refund the excess taxes paid by the company.<sup>8</sup>

Burris Company now employs 133 people in the U.S. Despite expansion of U.S. operations following renewal of GSP in 2015, Mike Kinnison, vice president of finance for Burris, expressed concern about Congress failing to renew the program. “Adding the cost of GSP will substantially impact the financials both in the short term and delay expansion capabilities in the U.S.”<sup>9</sup>

### **Providing Affordable Intermediate Goods**

Many of these products are intermediate goods used as inputs by domestic companies, such as automotive parts, rubber tires, electric motors, air conditioner parts, and pipe valves. The U.S. Chamber of Commerce estimates that “[a]pproximately two-

thirds of U.S. imports under GSP are raw materials, parts and components, or machinery and equipment used by U.S. companies to manufacture goods in the United States for domestic consumption or for export.”<sup>10</sup>

Imports are a vital resource for U.S. manufacturers, both large and small, and tariffs that increase the cost of materials, components, and machinery for those manufacturers hinder their ability to do business in America. Renewing GSP will allow companies like Burris to continue to grow and create jobs in the U.S.

### **GSP Renewal Has Bipartisan Support**

The current effort to renew GSP is widely bipartisan, as indicated in an October letter from more than 30 members to Representative Kevin Brady (R-TX) and Representative Richard Neal (D-MA). According to the letter, “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 workers and families.... Failure to reauthorize GSP before it expires could cause U.S. companies to lay off workers, reduce wages and benefits, and reduce investment.”<sup>11</sup>

Hundreds of U.S. companies and trade associations have also voiced their support for GSP to congressional leadership. A November letter with more than 300

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1. Office of United States Trade Representative, “Generalized System of Preferences,” <https://ustr.gov/issue-areas/trade-development/preference-programs/generalized-system-preference-gsp> (accessed January 3, 2018).
  2. Office of the United States Trade Representative, “GSP by the Numbers,” July 28, 2017, <https://ustr.gov/sites/default/files/files/gsp/GSP%20by%20the%20numbers%20July%202017.pdf> (accessed January 3, 2018).
  3. Coalition for GSP, “State-by-State Breakdown of \$701 Million in GSP Savings Through October 2017,” December 19, 2017, <http://renewgsptoday.com/2017/12/19/state-by-state-breakdown-of-701-million-in-gsp-savings-through-october-2017/> (accessed January 3, 2018).
  4. Coalition for GSP, “GSP Coalition Letter,” November 14, 2017, [http://renewgsptoday.com/wp-content/uploads/2017/11/GSPCoalition\\_Letter\\_14Nov2017.pdf](http://renewgsptoday.com/wp-content/uploads/2017/11/GSPCoalition_Letter_14Nov2017.pdf) (accessed January 3, 2018).
  5. Ryan Olson, “The Generalized System of Preferences,” Heritage Foundation *Backgrounder* No. 2942, September 10, 2014, <http://www.heritage.org/report/the-generalized-system-preferences-time-renew-and-reform-the-us-trade-program>.
  6. Coalition for GSP, “GSP Coalition Letter.”
  7. Coalition for GSP, “Burris Company, Inc.,” <http://renewgsptoday.com/profiles/burris-company-inc/> (accessed January 3, 2018).
  8. *Ibid.*
  9. Coalition for GSP, “GSP Expiration Survey Response: ‘We Dread the Same Situation Arising Again,’” December 12, 2017, <http://renewgsptoday.com/2017/12/12/gsp-expiration-survey-response-we-dread-the-same-situation-arising-again/> (accessed January 3, 2018).
  10. John G. Murphy, “Time to Renew the Generalized System of Preferences,” U.S. Chamber of Commerce, October 30, 2017, <https://www.uschamber.com/series/above-the-fold/time-renew-the-generalized-system-preferences> (accessed January 3, 2018).
  11. Congress of the United States, House of Representatives, Letter to Chairman Kevin Brady and Ranking Member Richard Neal, October 27, 2017, <https://norman.house.gov/uploadedfiles/gspletter.pdf> (accessed January 3, 2018).
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signatories stated that “American businesses—particularly small businesses—cannot afford for GSP to expire again. The GSP program enjoys strong bipartisan support in Congress. Nearly 400 Representatives and 97 Senators voted in favor of GSP renewal legislation in 2015.”

While rank-and-file members recognize the importance of GSP, congressional leadership neglected to advance legislation that would have renewed the program prior to its expiration in 2017.<sup>12</sup> However, a “spokeswoman for Senator Orrin Hatch, the Republican chairman of the finance committee, said he would seek to renew GSP ‘as soon as possible’ when Congress reconvenes in January.”<sup>13</sup> The White House also came out recently expressing its support for a 3-year renewal of GSP.<sup>14</sup>

### The Time to Renew GSP Is Now

The December expiration of GSP is fresh on the minds of the business community today, as are the consequences of past periods of lapse. Congress should do the following to keep GSP alive:

- **Pass legislation renewing GSP.** Congress should not delay in renewing GSP to prevent the costly effects of disrupted supply chains and increased tariffs.
- **Commit to GSP for the long term.** Past Heritage research has found that short-term GSP renewal can lead to decreased use of the program. Congress should commit to extending the program for at least 10 years.

### Conclusion

The Generalized System of Preferences is a vital source for cost-effective, competitive materials, components, and machinery for U.S. businesses of all sizes. Congress’s failure to renew GSP in 2017 should be remedied as soon as possible. Doing so will prevent domestic companies from being forced to take drastic measures to remain in business, such as laying off employees and reducing wages.

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12. Shawn Donnan, “US Poised to Let Emerging Markets Trade Pact Expire,” *Financial Times*, December 24, 2017, <https://www.ft.com/content/51aa539e-e764-11e7-97e2-916d4fbac0da> (accessed January 3, 2018).

13. *Ibid.*

14. Adam Behsudi, “Morning Trade,” *Politico*, January 3, 2018, <https://www.politico.com/newsletters/morning-trade/2018/01/03/lighthizer-gets-more-washing-machine-heat-from-ohio-063267> (accessed January 3, 2018).