December 7, 2006

Ambassador Susan C. Schwab
United States Trade Representative
Executive Office of the President
Washington, D.C. 20508

Secretary Carlos M. Gutierrez
Secretary of Commerce
U.S. Department of Commerce
Washington, DC 20230

**RE: Generalized System of Preferences**

The following comments are submitted on behalf of the Industry Trade Advisory Committee for forest products (ITAC 7). ITAC 7 is comprised of industry representatives from the forest products sector that includes lumber and solid wood products and pulp and paper products. The Committee also includes environmental representatives.

All ITAC 7 members support the reauthorization of the Generalized System of Preferences (GSP) and urge the U. S. Trade Representative and the Secretary of Commerce to impress upon Congressional leaders the importance of renewing this trade preference program.

ITAC 7 members also acknowledge that a key concern that Congress has raised is that GSP benefits go largely to a few advanced developing countries (e.g. Brazil and India). The majority of ITAC 7 members[1] share this concern and applaud the Administration for undertaking a review of the program. More specifically, the majority of ITAC 7 members believe that certain beneficiary countries are sufficiently competitive with respect to trade in wood products that they no longer need the tariff preferences provided by the program and recommend the following:

- a reauthorization of the GSP program must be accompanied by a commitment that a thorough review of the program will be undertaken that addresses the competitive challenges the U.S. wood products industry is facing.
- the Administration should develop criteria that would constitute "sufficiently competitive" and apply this when identifying countries eligible for GSP preference in the wood products sector (Chapter 44).

The modification of the GSP program represents an opportunity for Congress and the Administration to contribute to the competitiveness of the U.S. forest products industry. A healthy forest products industry not only contributes to the economy, but also to the long-term sustainability of our environment.

Thank you for considering our views on this important issue.

Sincerely

Ann Wrobleski

Ann Wrobleski
Chair, ITAC 7 (Forest Products)

[1] Certain members of the ITAC 7 do not support any changes to the current GSP criteria.

**Membership of the Industry Trade Advisory Committee on Forest Products (ITAC 7)**

Ann Wrobleski, ITAC 7 Chair
International Paper Company

Jacob Handelsman, Vice Chair
American Forest & Paper Association

Ernest T. Altman
Hardwood Plywood & Veneer Association

Heidi Biggs Brock
Weyerhaeuser Company

Michael G. Brummer
Hammer Lithograph Corporation

Angel M. Diez
Pope & Talbot, Inc.

Anne Divjak
American Forest & Paper Association

Edward G. Elias
APA – The Engineered Wood Association

Thomas E. Gestrich
International Paper Company

John A. Grunwald
Indiana Hardwood Lumbermen's Association

Edward A. Heidt, Jr.
The Penrod Company

Paul Houghland, Jr.
National Hardwood Lumber Association

Michael T. Leahy, Esq.
Defenders of Wildlife

Brent J. McClendon
The International Wood Products Association

Paul McKay
North Pacific Lumber Co.

Viginia McLain
MeadWestvaco Corporation

Douglas P. Norlen
Pacific Environment

Harold A. Rahn
Norcom, Inc.

Thomas D. Searles
American Lumber Standard Committee, Inc.

James A. Taylor
Tri-State Pole and Piling, Inc.

Robert W. Taylor
Weyerhaeuser Company

C. Richard Titus
Kitchen Cabinet Manufacturers Association

Elizabeth C. Ward
Hardwood Federation

actionaid

fighting poverty together

**international** usa

September 5, 2006

Ambassador Susan Schwab
Office of the United States Trade Representative
600 17th Street, N.W.
Washington, DC 20508

Dear Ambassador Schwab,

I write to you on behalf of ActionAid International, an international development organization with programs in 44 countries. ActionAid International's work is organized around six thematic areas: education; HIV-AIDS; emergencies and human security; women's rights; governance; and food and hunger. We are deeply concerned about the recent proposal to exclude certain countries from trade benefits under the Generalized System of Preferences. We have active programs in Brazil, India and South Africa, which are among the countries targeted for exclusion from GSP. We are concerned that this action would have negative impacts on farmers and workers in those countries.

While it is true that the countries being considered for exclusion from the GSP have relatively high GDPs compared to the least developed countries, they still have large populations of poor people. More than half of India's billion people, for example, live in extreme poverty, a number that greatly exceeds the number of poor people in many of the least developed countries. While we do not believe that access to US markets under the GSP will in itself lift people out of poverty, market access does provide an opportunity that countries like India, Brazil, South Africa and others should have available as one element of their national development programs.

The denial of GSP benefits would hurt industrial and agricultural workers and producers in these countries. In considering the potential impacts of this change, we have focused on the situation in Brazil, one of the countries targeted for exclusion. The Sao Paulo State Federation of Industries (FIESP) estimates that the denial of GSP benefits would lead to losses of at least $386 million and would directly result in 20,000 jobs being cut.

The impacts of reductions in exports resulting from tariff increases, however, would likely reverberate throughout the economy. For example, in 2005 Brazilian mango exports to the U.S. under the GSP program totaled $17,638,000**.** These exported mangos are primarily produced by large-scale farmers, who employ significant numbers of people in Northeast Brazil, the region with the highest level of poverty. In 2004 the average tariff on Brazilian mangos was 6.6%. If Brazil is removed from the GSP, this would increase to an *ad valorem* tariff of 55%. This tariff would make it almost impossible for Brazilian exporters to compete with production from other countries.

Agricultural production does not necessarily adjust to changing market conditions quickly or in ways that produce desirable outcomes. According to our colleagues in ActionAid

Brazil, while mangos for export are largely produced by agribusinesses in the Sao Francisco valley, there is extensive production by small-scale farmers for the domestic market. If the Brazilian exporters can no longer export to the U.S., they will likely redirect their production to the domestic market, thus overloading it.

The immediate result would be that thousands of Brazilian small-scale farmers, who have lower levels of infrastructure and capital, would confront a collapse in prices and possibly bankruptcy. Over the longer term, the former export producers would be compelled to reduce their production, thus resulting in lower levels of employment and incomes for the farm workers. Similar impacts could also be felt in other industrial and agricultural sectors, leading to additional threats to livelihoods and increases in poverty.

We also question the assertion that removing the “middle income” countries from the GSP would result in increased benefits to poorer countries. We have seen no information from USTR that would indicate how such a shift might be achieved. We believe that there should be a thorough and comprehensive assessment of the potential risks and opportunities involved in any such change, based not only on economic projections but also on input from the governments and civil societies that would be affected by these changes.

In addition to our concern about the impacts of these changes on poor people in these countries, we are also uneasy about the political messages that would be sent by the elimination of these countries’ access to the GSP. While we understand that there was some discussion of changes to the program late last year, those revisions appear to have been shelved until the recent collapse of the Doha Development Round of the WTO. The proposed changes in GSP now appear to send a message that countries like Brazil and India that advocate for their own national development goals at the WTO talks will be punished for doing so.

ActionAid International and many of its country programs have expressed their concerns about the WTO in numerous national and international forums. We believe that the negotiating package that was under consideration would have undermined many nations’ abilities to promote their own development strategies. But while the proposals presented by the Brazilian, Indian and other governments in the G-20 may need improvements to more effectively promote poverty reduction and development, we fully support their right to advance their views without threats of reprisals. We understand that you have stated that these proposed changes in the GSP are not intended to punish members of the G-20, but that is exactly how it is being perceived in many countries. This kind of threat, whether intended or not, is hardly conducive to the creation of an atmosphere favorable to the resumption of more productive trade talks at some point in the future.

We urge you to reconsider the removal of these countries from the GSP and to conduct a thorough assessment process with the participation of the targeted governments and their civil society organizations. Such an assessment should also include an agreed phase-out plan, wherever necessary. Until that time, the GSP program should be continued. GSP provides benefits both to developing countries and to the US consumers who buy their products. It would a shame to undermine what many consider a constructive and well-functioning element of US trade policy on the basis of short-term political differences with key trade partners.

Sincerely,

Karen Hansen-Kuhn
Food and Hunger Policy Analyst
ActionAid International USA
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## AFL-CIO Comments on the Eligibility of Certain GSP Beneficiaries and Existing Competitive Need Limitation (CNL) Waivers

The American Federation of Labor & Congress of Industrial Organizations (AFL-CIO) opposes the proposed changes in the criteria for graduating countries from the Generalized System of Preferences (GSP). The AFL-CIO believes that decisions on the limitation, suspension, or withdrawal of GSP eligibility should be made transparently using existing criteria.[1] We do not believe that USTR's proposal to remove GSP benefits from 13 countries (Argentina, Brazil, Croatia, India, Indonesia, Kazakhstan, Philippines, Romania, Russia, South Africa, Thailand, Turkey, and Venezuela) is warranted at this time.

As explained more fully below, the AFL-CIO believes that the existing criteria for determining the eligibility for designation as a beneficiary country, set forth at §§ 2461-62,[2] are sufficient and should continue in force. We agree that high-income countries should "graduate" from the trade preference program, as the GSP program was designed to "promote economic growth in the developing world."[3] However, a mandatory graduation mechanism already exists, found at §2462(e), and other existing criteria contain adequate guidance for determining whether a country belongs on the beneficiary list.[4]

USTR has proposed the following new criteria:

To limit, suspend, or withdraw the eligibility of those GSP beneficiary countries for which the total value of U.S. imports under GSP exceeded $100 million in 2005, *and* (a) which the World Bank classified as an upper-middle-income economy in 2005; or (b) that accounted for more than 0.25 percent of world goods exports in 2005, as reported by the World Trade Organization.

The first criterion, the $100 million import ceiling, appears designed to filter out those countries that have made the most use of the program. It does not necessarily follow, however, that the high-volume exporters (to the U.S. market, and under GSP) are the most developed and thus in a better position to succeed economically without the preferences. Indeed, there is no apparent correlation between income level and use of the GSP program. It also does not automatically follow that denying GSP benefits to the proposed countries will allow poorer countries to supplant them. Encouraging least developed countries to use GSP more extensively will take a more targeted set of policies.

[1] Fed. Reg. Vol. 71, No. 152 (Aug. 8, 2006)
[2] 19 U.S.C. 2461-62
[3] USTR, U.S. Generalized System of Preferences Guidebook, Jan. 2006, p.3.
[4] 2462(e) Mandatory graduation of beneficiary developing countries: If the President determines that a beneficiary developing country has become a "high income" country, as defined by the official statistics of the International Bank for Reconstruction and Development, then the President shall terminate the designation of such country as a beneficiary developing country for purposes of this subchapter, effective on January 1 of the second year following the year in which such determination is made.

The third criterion, that a country account for more than 0.25 % of world goods exports in 2005, proposes a standard that is arbitrary both in definition and application. First, there is no correlation between level of income and a country's percentage share of goods exports on the world market. Several high-income countries export far less than the threshold .25%: e.g., Bermuda (.0003%), Cyprus (.01%), Greece (.16%), Luxembourg (.17%), and New Zealand (.21%). Many low-income or lower middle-income countries out-export their far wealthier counterparts. Countries such as Algeria and Nigeria, both GSP beneficiary countries, command a world export share of goods of about .43%. Thus, the .25% ceiling tells us little about the country's level of development, or whether a particular country merits removal from the list of beneficiary countries.

In sum, the proposed new criteria for determining eligibility appear arbitrary and do not constitute an improvement over the current standard. The AFL-CIO believes the existing criteria for graduation of a country are sufficient. If the USTR wishes to encourage greater use of the GSP system by least developed countries, it should develop a program with that objective.

<u>Strengthening Worker Rights</u>

Further, we fear that many low-income workers in the thirteen targeted countries could be negatively affected by the removal of GSP. One way to ensure that the national income generated by trade is more equitably distributed is to ensure that core worker rights are effectively enforced. The AFL-CIO strongly encourages USTR not only to maintain existing conditions on beneficiary designation related to internationally recognized worker rights, but also to improve upon them. Below are four critical improvements that should be incorporated into this and any other trade preference program.

**Eligibility standard:** The GSP statute requires the President to take into account whether countries have taken or are taking steps to afford internationally recognized worker rights. This standard allows beneficiary countries to have poor worker rights records as long as they temporarily and marginally "take steps to" improve their performance once a petition is filed (e.g., introduce labor law reform legislation, which may or may not pass). The CBTPA requires the President to take into account the extent to which a country provides internationally recognized worker rights, and the AGOA allows the President to designate a country as a beneficiary if it has established, or is making continual progress towards establishing, protection of internationally recognized worker rights. These standards lack definition: "the extent to which" and "continual progress towards" do not establish a minimum, substantive threshold for compliance. Even a country like Burma or China can argue that it has made some sort of glacial progress towards establishing one or two of the internationally recognized worker rights, or that it provides some of these rights at least to some extent. The GSP should require beneficiary countries to be in full or substantial compliance with all five internationally recognized worker rights. Countries that do not meet this standard should accept (and we should offer) the necessary financial and technical assistance to achieve compliance by a date certain. If a country refuses to accept such assistance or fails to utilize the assistance to achieve compliance within the given time frame, it should no longer be eligible.

**Executive discretion:** Even if a country has been found to be not taking steps to afford internationally recognized worker rights, the GSP allows the President to waive this requirement if it is in U.S. economic or security interests. This broad grant of discretion could be abused to favor certain human rights violators over others, and it should be taken out of the GSP law.

**Definition of internationally recognized worker rights:** The GSP refers to the definition of internationally recognized worker rights in 19 USC §2467, which does not include the prohibition on discrimination contained to the ILO's 1998 Declaration on Fundamental Principles and Rights at Work. Our trade law's definition of internationally recognized worker rights should include "the elimination of discrimination in respect of employment and occupation." In addition, our definition states "a minimum age for the employment of children," which is somewhat weaker than the ILO formulation, "the effective abolition of child labor."

**Petition process:** USTR should not rely exclusively on the petitioning process to review eligibility determinations, which shifts the burden of enforcement to worker rights advocates, but should itself regularly review the compliance of beneficiary countries and self-initiate appropriate action. Nothing in the statute now bars USTR from doing this, but they have only once self-initiated a GSP review on worker rights grounds.

The petitioning process should be flexible enough to allow the submission of petitions throughout the year. Currently, if a worker rights situation deteriorates in a particular country, it may be up to a year before the process allows the formal consideration of a petition. Further, any non-frivolous petition, i.e., one that is factually correct and of serious nature, should be accepted. The standards that the interagency committee uses to accept or reject a GSP petition for review should be made public.

Investigations may be continued for more than one review cycle, but should never last for more than two review cycles without a determination of eligibility. Over the period of the GSP process, some reviews have continued for many years while workers' rights continued to be routinely violated. Thailand, for example, was under review for worker rights violations for nine years while it maintained full eligibility.

A determination that a country does not merit review should not bar subsequent petitions. The so-called "no new information" rule, 15 CFR 2007.0(b)(5), 2007.1(a)(4), has no statutory foundation and should be abolished. The rule allows countries to take minimal steps towards compliance just to avoid review and then backslide into noncompliance once suspension of benefits is no longer threatened.

## Conclusion

The AFL-CIO urges the USTR to retain the existing eligibility criteria. The new criteria proposed appear arbitrary and designed to eliminate certain countries, without regard to level of development. If the USTR has a sincere desire to improve upon existing eligibility criteria, we recommend that the worker rights provision be strengthened in the manner suggested in these comments.

Opposes Whole GSP Program

From: MelCCJ@aol.com
Sent: Thursday, August 31, 2006 5:03 PM
To: FN-USTR-FR0052
Subject: REVOCATION OF GSP URGED

AS A MEMBER OF THE JEWELERY TRADE I URGE YOU TO REVOKE THE TRADE AGREEMENTS, OUR COUNTRY IS MORE IMPORTANT THEN OUR JEWELERY INDUSTRY  MEL LUBMAN.

Opposes All 13 Counries for GSP.
Opposes All Agrc. CNLWs

From: Ronald Karney [ronaldk@fb.org]
Sent: Friday, September 01, 2006 9:12 AM
To: FN-USTR-FR0052
Cc: Teeter, Regina
Subject: 2006 GSP Eligibility and CNL Waiver Review

Importance: High

Per your request.  Attached are the comments from the American Farm Bureau Federation regarding the 2006 GSP Eligibility and CNL Waiver Review.  Please contact me if you have any questions, thank you.

Sincerely,

RJ

RJ Karney
Director of Legislative Services
American Farm Bureau Federation
202-406-3680 (phone)
202-406-3604 (fax)
ronaldk@fb.org

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August 31, 2006

GSP Subcommittee
Office of the U.S. Trade Representative
USTR Annex, Room F-220
1724 F Street, NW
Washington, D.C. 20508

RE: 2006 GSP Eligibility and CNL Waiver Review

The American Farm Bureau Federation (AFBF) is pleased to comment on the eligibility for certain GSP beneficiaries to continue in the program, and on existing Competitive Need Limitation (CNL) waivers. Farm Bureau members are impacted by the GSP program because they are domestic producers of many agricultural crops, commodities and products for which tariffs are suspended on competing imports from many Beneficiary Developing Countries (BDC) in the program.

AFBF is opposed to the GSP program generally because it is a unilateral concession of tariffs on imports without achieving a commensurate level of opportunity for U.S. products in foreign markets. Most of the countries that are designated as BDCs maintain high import tariffs on similar products from the United States. The granting of GSP benefits should generally be discouraged in lieu of more productive trade and investment framework agreements or trade promotion agreements that serve not only to relax trade impediments and open markets but also to foster infrastructure and other substantial forms of development in BDCs.

In addition, the agricultural products that are eligible for GSP benefits are predominately, but not exclusively, specialty products and their derivatives rather than more traditional grains, dairy and mainstream meat products. The challenge is that many of these products are among the more sensitive to changes in supply and demand equilibrium. Also, they are among the majority of crops and products that do not enjoy support from the U.S. government, so the argument cannot generally be supported that the presence of domestic subsidies justifies their eligibility for GSP benefits to BDCs.

AFBF recognizes that the GSP Subcommittee is focusing its attention on the eligibility status of those select BDCs that exceeded $100 million of GSP exports to the U.S. in 2005 and which either the World Bank has classified as an upper-middle-income economy for the same period or that accounted for more than 0.25 percent of world goods exports in 2005 as reported by the World Trade Organization. Specifically these countries are Argentina, Brazil, Croatia, India, Indonesia, Kazakhstan, Philippines, Romania, Russia, South Africa, Thailand, Turkey and Venezuela.

An AFBF analysis of the GSP program found that of the 151 BDCs eligible for GSP benefits, the top 20 accounted for 90 percent of agricultural imports that benefited from GSP treatment. Among them are some of the world's largest agricultural traders including Argentina, Brazil, Colombia, India and Indonesia. All of these except Colombia are on the GSP Subcommittee's focus list of BDCs in question. Of the four included on the Subcommittee's list, Brazil and India are leaders of a developing nation bloc and are actively negotiating an agreement in the Doha Round of trade negotiations with other key WTO members including the U.S. Indonesia one is a member of an association of nations that just signed a trade and investment framework agreement with the U.S. The other, Argentina, is a major agricultural producer and exporter. Even Columbia has concluded negotiation of a Free Trade Agreement with the U.S. which, while not on the GSP Subcommittee's focus list, establishes a sound basis for withdrawing GSP benefits in lieu of those it will accrue from the FTA. AFBF firmly believes that all five of these BDCs have demonstrated that they are quite capable of furthering the development of their exports without the benefit of the GSP program and strongly urges the Subcommittee to immediately withdraw their eligibility for GSP benefits.

Four additional countries on the GSP Subcommittee list are also included in the top 20 BDCs referenced in the AFBF analysis above. Ranked from highest to lowest are Thailand, Philippines, Turkey and South Africa.

Thailand is in negotiations with the U.S. on a free trade agreement which presumably will include preferential access to the U.S. market for Thai goods and subsequently will negate its need for GSP benefits. The Philippines is also in the group of Southeast Asian nations that recently signed a trade and investment framework agreement with the U.S. It's clear from these actions that these countries are assuring the U.S. that they are viable trading partners. The benefits of being a formal trading partner with the U.S. should accrue through the agreements that are being negotiated rather than via the GSP program. AFBF strongly urges that these countries be removed from the GSP program.

The remaining countries on the GSP Subcommittee list but (Croatia, Kazakhstan, Romania, Russia, South Africa, Turkey and Venezuela) should be withdrawn from eligibility to receive GSP benefits because they are by definition above the criteria that would make them eligible to receive GSP benefits based on their developmental status. Their development is at a point where they should rely on the multilateral trading system (the WTO) to achieve benefits from all system members as a means of further advancing their trade interests. Maintaining GSP benefits with the U.S. discourages their active participation in the Doha Round negotiations because they have little to gain in market access by virtue of the preferences inferred to them by the GSP program.

**CNL Waiver Review**

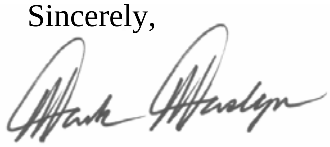
Colombia and the U.S. are expected to ratify a free trade agreement soon. Therefore, there is no need to waive the CNL limits on several agricultural products to maintain GSP benefits including 06031030 miniature carnations, 07149020 fresh or chilled yams, 17011105 cane sugar, 17011110 cane sugar, 17011120 cane sugar and 20089928 figs. AFBF urges that the CNL waivers on these products be withdrawn.

AFBF also urges the withdrawal of CNL waivers to the Philippines for 17011110 cane sugar, 17011105 cane sugar, 17011120 cane sugar, and 20089915 bananas. Sugar is a sensitive product. The import of sugar is tightly controlled with import quotas, higher import tariffs, and other measures designed to maintain some semblance of market equilibrium. The Philippines signed a trade and investment framework agreement with the U.S. as member of the ASEAN group of nations. Preferential access to the U.S. market for products of the Philippines and all other ASEAN nations should accrue through the agreement and not through unilateral trade preference programs such as the GSP. Continued participation in the GSP program discourages meaningful participation in more substantive trade agreements.

Despite high internal taxes that are charged on its exports, Argentina is a major agricultural exporter. As such it makes no logical sense to waive the CNL criteria on 12022040 peanuts and 20081125 blanched peanuts from Argentina when the country itself imposes export taxes on its agricultural exports thereby making them more expensive in world markets. There is no development reason to waive the CNL for these products and AFBF urges that the waivers be immediately withdrawn.

Thank you for the opportunity to provide comments on this important trade topic. We look forward to the Subcommittee's favorable consideration of the positions stated herein.

Sincerely,



Mark Maslyn,
Executive Director of Public Policy

Opposes all jewelry imported
under GSP program.

From: bob@aro-sac.com
Sent: Friday, September 01, 2006 9:37 AM
To: FN-USTR-FR0052
Subject: 2006 GSP Eligibility and CNL Waiver Review

As an owner of one of the very few remaining Jewelry manufacturers left in the USA , I strongly urge the USTR Panel to support cancelling of all Duty Free trade benefits for ALL jewelry costume and other from India and all other countries under GSP.
The existing GSP benefits are the cause of all the losses we as manufacturers are facing and losses of jobs in manufacturing. These supposed benefits have only helped the retailers by lowering their costs but have not saved the retail price at all!
I strongly urge you to not renew the GSP benefits for ALL jewelry costume and other from India and all other countries under GSP.

Thanking you,

Sincerely,

Robert A. Montaquila
President

Aro-Sac, Inc.
1 Warren Avenue
North Providence, RI  02911

Tel: 401-231-6655
Fax: 401-231-7130
e-mail: bob@aro-sac.com

www.aro-sac.com


56 West 45th Street
Suite 705
New York, NY 10036

Opposes GSP Program

From: globaldia@aol.com
Sent: Saturday, September 02, 2006 10:24 AM
To: FN-USTR-FR0052
Subject: 2006 GSP Eligibility and CNL Waiver Review

Repeal the law and task away the overseas advantage in the market place

AllenLipscher
Global Diamonds,Inc

September 5, 2006

Via E-Filing: FR0052@USTR.EOP.GOV
GSP Subcommittee
Office of the United States Trade Representative
USTR Annex, Room F-220
1724 F Street, NW
Washington, DC 20508

ATTN: Marideth J. Sandler, Executive Director for the GSP Program,
Chairman, GSP Subcommittee of the Trade Policy Staff Committee

Re: Comments on "2006 GSP Eligibility and CNL Review"

Dear Ms. Sandler:

On behalf of the American Association of Exporters and Importers (AAEI), we respectfully submit the comments below on the Eligibility of Certain GSP Beneficiaries and Existing Competitive Need Limitation (CNL) Waivers. *See*, 71 Fed. Reg. 45079. We appreciate this opportunity to comment upon the GSP program.

AAEI has been the national voice of the international trade community since 1921. Its unique role, speaking for both importers and exporters, is driven by its broad economic base of manufacturers, distributors, retailers and service providers, many of which are small businesses with important capabilities and technologies to offer to the many agencies of the U.S. Government. With promotion of fair and open trade policy and practice at its core, AAEI speaks to international trade, supply chain, export controls, and customs and border protection issues covering a broad expanse of legal, technical and policy-driven concerns.

As a trade organization representing the private sector, including manufacturers and importers, engaged in and impacted by developments pertaining to international trade, trade facilitation and trade development, AAEI is deeply interested in renewal of the GSP program. We hope to assist the GSP Subcommittee in considering how to best renew this important program to the benefit of both the continuing development of our trading partners, and the health of key U.S. manufacturing sectors who have invested heavily in the program in full accord with its intent.

In its notice inviting comments, the Trade Policy Staff Committee (TPSC) proposed a re-alignment of beneficiary developing countries (BDCs) by reference to new criteria. If a country accounts for at least $100 million of GSP imports in 2005, and either meets the World Bank's definition of a "middle income" economy, or accounts for 0.25% of world goods exports as reported by the WTO, it would no longer be eligible for GSP treatment, as being presumptively "developed."

With all due respect, AAEI submits that this sweeping new definition may not sufficiently take into account the fact that there are many sectors within numerous developing economies which are not as advanced as the new criteria would presume, and their efforts to further develop and expand employment would be stifled by such sweeping new qualifications. Although the intent of USTR is ostensibly to "spread" the benefits of GSP duty-free treatment to least developed countries, rather than the current 10-15 countries which appear most often as the origin for GSP claims, this proposal would not accomplish that goal. It should be quickly apparent that taking BDC status away from one country is much easier than re-assigning that status and its benefits to another. The proposed criteria would serve as a "disqualification" threshold, rather than a qualification incentive, since many U.S. importers of particular commodities would be more likely to shift their sourcing to either developed country suppliers, China, Mexico, or other recently disqualified "more developed" developing countries. This would not serve the intent of encouraging greater development in poorer countries, and would disrupt trading patterns for U.S. purchasers who have made investments, developed relationships, and incorporated supply expectations in logistical planning with BDCs that will be abruptly disrupted. This doesn't even begin to take into account the efforts and expenditures of many U.S. companies to secure their supply chains with their GSP suppliers under programs such as C-TPAT; CBP can verify to USTR that the likelihood of achieving the same level of security validation when a company's sourcing shifts to China, is very low.

Several sectors of the U.S. manufacturing economy have taken the steps encouraged by GSP to invest in a number of BDC countries such as Brazil, India, Venezuela, Thailand, and others. These countries have become important sources of supply for raw materials and semi-manufactured inputs for the automotive, chemical, and other sectors. Some of the affected U.S. sectors have experienced extreme financial stress and loss of jobs, including several highly publicized bankruptcies and reorganizations in the automotive parts sector. Loss of GSP for raw material for many of them will mean re-evaluation of whether to move upstream processing overseas, further impacting U.S. jobs. While we are aware that GSP is not intended to grant cost savings to U.S. industries, its abrupt removal can certainly bring hardship to a number of U.S. purchasers (as well as having an adverse impact on the security linkages mentioned above).

The thirteen countries identified by USTR in its proposal are, indeed, the more advanced of the developing country BDCs. While the trade community is concerned about the impasse at the Doha Round negotiations, we have always viewed GSP as a U.S. trade facilitation and incentive program to assist countries seeking to develop a market economy. Whether use of the GSP program to assert leverage in multilateral negotiations is an appropriate U.S. policy, it does indeed depart from the underlying purposes of the statute and the international program as envisaged by the developed economies when the program was started in the 1960s and 70s. (Graduation from GSP status when a country accounts for $100 million in total GSP imports – after years of applying roughly the same dollar measure for graduation of single products alone – reflects a major shift in the intent of GSP.) The concept of single sector or single article graduation upon surpassing a defined level of trade, is the true goal of the program, and AAEI believes that this focus should remain there, rather than complete graduation of all major beneficiaries in the manner suggested.

Because the remainder of the current Congressional session may limit debate concerning GSP, AAEI suggests that potential trade disruption be limited as much as possible, through a temporary one-year extension of the program under the present terms, so that it can be fully examined on its own merits, and not hastily de-constructed in the wake of the immediate post-Doha suspension "disappointment" which we fear will distort the full consideration of both the intent of the program and the degree to which American businesses have come to support and rely upon it.

Respectfully submitted,

*/s/ Hall Northcott*

Hallock Northcott
President and CEO

Cc: Matthew McGrath, Co-Chair, AAEI Trade Policy Committee
Karen Niedermeyer, Co-Chair, AAEI Trade Policy Committee
Aaron Gothelf, Co-Chair, AAEI Customs Policy and Procedures Committee
Claib Cook, Co-Chair, AAEI Customs Policy and Procedures Committee
Robert Ehinger, Co-Chair, AAEI Customs Policy and Procedures Committee

September 5, 2006

GSP Subcommittee
Office of the United States Trade Representative
USTR Annex
Room F-220
1724 F Street, N.W.
Washington, D.C. 20508

By E-Mail: FR0052@USTR.EOP.GOV

Re: 2006 GSP Eligibility and CNL Waiver Review

Dear Members of the GSP Committee:

In accordance with your office's *Federal Register* Notice initiating reviews and requesting comments on the eligibility of certain GSP Beneficiaries, please find below the comments of the Emergency Committee for American Trade (ECAT).

ECAT is an association of the chief executives of leading U.S. business enterprises with global operations. ECAT was founded more than three decades ago to promote economic growth through expansionary trade and investment policies. Today, ECAT's members represent all the principal sectors of the U.S. economy – agriculture, finance, high technology, manufacturing, merchandising, processing, publishing and services. The combined exports of ECAT member companies run into the tens of billions of dollars. The jobs they provide for American men and women – including the jobs accounted for by suppliers, dealers, and subcontractors – are located in every state and cover skills of all levels. Their collective annual worldwide sales total nearly $2.4 trillion, and they employ more than five and one-half million persons. ECAT companies are strong supporters of negotiations to eliminate tariffs, remove non-tariff barriers and promote trade liberalization and investment worldwide.

ECAT has been a longstanding supporter of the Generalized System of Preferences (GSP) program that was first established in U.S. law by the Trade Act of 1974 for a period of 10 years to provide duty-free treatment to many imports from developing countries, in order to help them diversify their economies and reduce their dependence on foreign aid. Instituted on January 1, 1976, the GSP program now provides duty-free access for the entry of more than 4,650 non-import sensitive products from 144 designated beneficiary countries and territories that meet certain eligibility requirements. GSP has been successful in providing incentives to promote trade and investment opportunities in numerous developing and least developed countries, helping to create economic growth and opportunity.

GSP has been renewed multiple times, most recently by the Trade Act of 2002 for a period of five years, through December 31, 2006. We welcome the Administration's ongoing review of this program to help broaden its effectiveness and help more countries benefit from the program.

**Comments on Potential Limitation, Suspension or Withdrawal of GSP Eligibility from Certain Countries**

The GSP Subcommittee has requested comments on the eligibility status of the following 13 GSP beneficiary developing countries: Argentina, Brazil, Croatia, India, Indonesia, Kazakhstan, the Philippines, Romania, the Russian Federation, South Africa, Thailand, Turkey and Venezuela.

ECAT recognizes and supports the GSP graduation provisions for higher-income countries and recognizes that further work can be done in this area. Countries that have reached a high level of economic development should be graduated as they no longer need the benefits that GSP provides. At the same time, care must be taken not to graduate precipitously developing countries that are showing some improvement in per capita income or overall levels of development and that are able to make continued use of the program. Indeed, for many of these countries (including many on the GSP Subcommittee's list), GSP is showing the concrete benefits it was intended to produce, helping these developing countries improve economic opportunities within their countries, while also benefiting U.S. companies, workers and consumers. Withdrawing benefits to developing countries that are actually using the program for its purposes would seem to thwart the long-term objectives of the GSP program. At the same time, ECAT welcomes and supports efforts to increase the use of the GSP program by least developed countries. This goal, however, can likely best be accomplished not by denying benefits to current high users of the GSP program that remain classified as developing economies, but by expanding the products for which duty-free treatment is available for least developed countries. In this context, comprehensive access for beneficiary agricultural exports is important since agriculture accounts for an estimated 70 percent of all jobs in developing countries.

With respect to the 13 countries identified by the GSP Subcommittee, ECAT supports the continued GSP eligibility of these countries, given the economic development benefits that this program provides these developing countries and the economic opportunities it fosters for U.S. companies and their workers.

Each of these countries clearly continues to meet the GSP legislation's eligibility requirements:

- Withdrawal, suspension or limitation of GSP will undermine the economic development of these countries by decreasing economic opportunities for exports to the United States. GSP has provided a much-needed impetus for economic growth in these countries and the unnecessary limitation of this status will undermine continued growth and development. GSP exports continue to represent a fairly substantial portion of total exports to the United States for many of these countries, thus indicating that the program is supporting economic growth and development.

- While several of these countries have been able to improve their competitiveness through the GSP program, their competitiveness is not at such a level to warrant their suspension from the program. Indeed, increases in exports evince that the GSP program is working. To withdraw benefits as a country shows some level of competitiveness in a product area would negatively impact that country's development, business relationships and economic opportunities in the United States, while also sending a message to other countries that GSP is a much more limited program than it was originally intended to be.

- Each of these countries remains categorized as a developing country by the World Bank and other international institutions given each country's level of per capita income. Notably, the World Bank classifies India as a "low-income" country. While a few of these countries – Argentina, Croatia, the Russian Federation, South Africa, Turkey and Venezuela – are classified as upper-middle-income economies – their per capita income remains at the lower end of the World Bank's scale ($3,466 - $10,725). Indeed, per capita income for each of these countries, except Croatia, was below $4,050 in 2004, the latest year for which the World Bank provides data. These countries still need and benefit from the trade-promoting and economic-growth advancing benefits that the GSP program provides. None of these countries' per capita income is even close to the over $10,000 GSP high-income graduation threshold.

  More significantly, it should be noted that per capita income is only one of several potential indicia that could be relevant in the assessment of a country's level of development. Poverty rates, infrastructure development, health care and education, as well as many other factors are also highly relevant indicia and strongly suggest that these countries all remain developing countries that should continue to be eligible for GSP. With respect to some of the more resource-rich of these countries in particular, the per-capita-income focus overstates the overall level of development. That is, the revenue from resource exports may produce higher per capita income levels, but many other parts of a country's economy remain at a much lower level of economic development.

It is also important to consider the importance of continued GSP eligibility for the United States. GSP ensures that U.S. companies can source intermediary components and products from these countries without paying extra taxes, thereby increasing the competitiveness of U.S. companies both in the United States and abroad. GSP also provides important benefits for U.S. consumers who benefit from the lower prices that GSP eligibility permits. In addition, the GSP program serves as important leverage for the U.S. government in advocating U.S. trade and investment objectives abroad, notably the protection of U.S. intellectual property rights. ECAT urges the Administration to utilize forcefully this leverage for GSP beneficiary countries to encourage improved compliance with intellectual property and other key standards.

## CONCLUSION

For all of these reasons, ECAT urges the Administration to work to continue to extend and expand the GSP program in a manner that supports economic growth and opportunity in the United States and in developing countries throughout the world.

Thank you for your consideration of ECAT's comments.

Sincerely,

Calman J. Cohen
President

Supports All GSP Countries

From: Steve Lazinsky [SteveL@comeq.com]
Sent: Tuesday, August 29, 2006 2:37 PM
To: FN-USTR-FR0052
Subject: (no subject)

Please pass the bill to protect GSP countries

**FOOTWEAR DISTRIBUTORS AND RETAILERS OF AMERICA**
1319 F Street, NW | Suite 700 | Washington, DC 20004
Phone (202)737-5660, Fax (202)638-2615 | www.fdra.org
Peter T. Mangione, President, e-mail: ptmangione@fdra.org

Supports All Countries
Supports Removal of Footwear
Exemption for GSP

From: Marcus A. Kraker [MKraker@loefflerllp.com]
Sent: Thursday, August 31, 2006 4:16 PM
To: FN-USTR-FR0052
Cc: Peter Mangione; Michael P. Daniels; Barbara Merola; Tammy Odierna
Subject: 2006 GSP Eligibility and CNL Waiver Review

On behalf of the Footwear Distributors and Retailers of America, we submit the attached letter pursuant to the August 8, 2006 Trade Policy Staff Committee Request for Comments on the Eligibility of Certain GSP Beneficiaries and Existing Competitive Need Limitation (CNL) Waivers. Please acknowledge receipt of this submission by return email.

Please contact me if you have any questions. Thank you for your consideration.

________________________________

Marcus A. Kraker
Executive Director, Washington Office
The Loeffler Group/Loeffler Tuggey Pauerstein Rosenthal LLP
Tel: 202-775-4440
Fax: 202-775-0836
Cell: 210-860-6856

# Footwear Distributors and Retailers of America

The Footwear Distributors and Retailers of America (FDRA) submits the following comments in response to the Trade Policy Staff Committee's August 8, 2006 *Request for Comments on the Eligibility of Certain GSP Beneficiaries and Existing Competitive Need Limitation (CNL) Waivers* (69 Fed. Reg. 13582).

FDRA member companies account for approximately 75 percent of US footwear sales at retail. Its members also account for the vast bulk of imported footwear into the United States.

FDRA:

1. Supports the extension of the GSP program.

2. Opposes the proposed changes in country eligibility criteria. It believes that existing competitive need limits on a product basis should be the sole means of withdrawing GSP benefits for countries meeting existing country eligibility criteria. All of the countries mentioned in the notice remain developing countries and are dependent on the GSP program to compete with dominant suppliers and diversify their exports.

3. Strongly urges that in extension legislation the exemption of footwear from the GSP program be removed. 19 U.S.C. §2463(b)(1)(E) currently exempts all footwear. This exemption may have been justified at the time GSP was first enacted but makes no sense under present changes in the market. Imports now account for about 99% of the market. According to the Rubber and Plastic Footwear Manufacturers Association (RPFMA) only 17 line items continue to be manufactured in the United States. Exemption of footwear only serves to penalize US consumers, retailers and developing countries. Retailers need to diversify sourcing of footwear away from its heavy dependency on China. Developing countries need removal of the exemption to allow them to better compete with China.

Respectfully submitted,

Peter T. Mangione, President
Footwear Distributors and Retailers of America

August 31, 2006

**RETAILER MEMBERS**

**FOOTWEAR DISTRIBUTORS AND RETAILERS OF AMERICA**
1319 F Street, NW, Washington, DC 20004
Tel: 202-737-5660; Fax: 202-638-2615; Website: www.fdra.org
Peter T. Mangione, President, e-mail: ptmangione@fdra.org

# Footwear Distributors and Retailers of America

Bakers Footwear Group
Brown Shoe Company
Clarks Companies
Designer Shoe Warehouse (DSW)
Famous Footwear
FOOTACTION USA
Foot Locker, Inc.
Footstar, Inc.
Gap, Inc.
Genesco, Inc.
J.C. Penney Company
Meldisco
Naturalizer Retail
Payless ShoeSource
Sears, Roebuck & Company
Rack Room Shoes
Retail Ventures, Inc.
The Stride Rite Corporation
Value City
Wal-Mart

## DISTRIBUTOR MEMBERS

ACI
Aerogroup Int., Inc.
ASICS Tiger Corporation
ATSCO Footwear, Inc.
AZALÉIA
BBC International
BCNY International Inc.
Bennett Footwear Group
Cels Enterprises
C.O. Lynch
Cole Haan
Converse
Drew Shoe Corporation
Dynasty Footwear
Elan-Polo, Inc.
E.S. Originals
Global Brand Marketing, Inc.
Green Market Services
HYI
H.H. Brown Shoe Company
Inter Pacific Corporation
Jimlar Corporation
K-Swiss, Inc.
Jones Apparel/Nine West
Laird, Ltd
LJO, Inc
Mark Tucker, Inc.
Mephisto USA
Mercury International
Nike, Inc.
Olem Shoe Corporation
RANNA, Inc.
Reef
Renaissance Imports
R.G. Barry Corporation
Right Stuff, Inc.
Salland Industries LTD
SG Footwear, Inc.
Skechers USA, Inc.
Street Cars, Inc.
The Topline Corporation
Valley Lane Industries
Wolverine World Wide

## EXECUTIVE COMMITTEE 2006

Jim Issler, H.H. Brown Shoe Company, Chairman
Killick Datta, Global Brand Marketing, Inc., Vice-Chairman
Matt Rubel, Payless ShoeSource, Treasurer

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Cecil McDermott, J.C. Penney
Jeff Shepard, Meldisco
Scott Ramsland, Rack Room Shoes
Ric Anderson, Sears, Roebuck and Company
Melanie Owens, Wal-Mart Stores, Inc.
Debbie Kocks, Wal-Mart Stores, Inc.

### DISTRIBUTORS

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Robert Campbell, BBC International
Robert Callahan, Elan-Polo, Inc.
Joseph Russell, Elan-Polo, Inc.
Joey Safedy, E.S. Originals
Larry O'Shaughnessy, IDL, Inc.
Alan Luchette, Jones Apparel/Nine West Group
Irving Wiseman, Mercury International
William Snowden, Sr., The Topline Corp.
Laurence Tarica, Jimlar Corporation
Art Croci, Wolverine World Wide
Rick Thornton, The Stride Rite Corporation
Pamela Salkovitz, The Stride Rite Corp.

**FOOTWEAR DISTRIBUTORS AND RETAILERS OF AMERICA**
1319 F Street, NW, Washington, DC 20004
Tel: 202-737-5660; Fax: 202-638-2615; Website: www.fdra.org
Peter T. Mangione, President, e-mail: ptmangione@fdra.org

Supports All Countries

From: stevenziskin@aol.com
Sent: Thursday, August 31, 2006 4:22 PM
To: FN-USTR-FR0052
Subject: "2006 GSP Eligibility and CNL Waiver Review."

This would be disasterous for the wholesale and retail industry as it would make it almost impossible for us to compete against the international market - not to mention what it would do to our domestic commerce.

Best Regards,
Steven Ziskin
email: stevenziskin@aol.com

From: Robert Restrepo [rrestrepo@pliii.com]
Sent: Tuesday, August 15, 2006 2:47 PM
To: FN-USTR-FR0052
Subject: USTR Response

Dear GSP Subcommittee,

Thank you very much for letting us write comments on this issue.

1.. The countries mentioned here for GSP limitation, suspension or withdrawal: Argentina, Brazil, Croatia, India, Indonesia, Kazakhstan, Philippines, Romania, Russia, South Africa, Thailand, Turkey, and Venezuela are countries, which have benefited quite much with GSP. It seems to me these countries have been uplifted and their economic status has grown by the benefit of GSP, which purpose was to do that. It seems to me that a good reviewed can be achieved on these countries and I agree with your review. The only country I would probably try to avoid doing something with is Brazil. Brazil still has a very massive poor population compare to the others, which can still benefit in the future by having GSP.

2.. Regarding the second area including Argentina, Bosnia-Herzegovina, Brazil, Colombia, Croatia, India, Indonesia, Ivory Coast, Kazakhstan, Macedonia, Peru, the Philippines, Romania, Russia, South Africa, Thailand, Turkey, Venezuela, and Zimbabwe for waiver stoppage. We should have consideration for US interests if national industries are being affected by these waivers. In the other hand have consideration for those countries just mentioned that are trying to develop their economies, for the benefit of their people. For example Colombia is now trying very hard to increase their economic development, which will lead the FARC and drug traffickers to eventually lose their power of bullying their own country. Again we cannot solve most of these problems, but what is most important is our help to those that will overcome those negative branches within their own country.

Thank you for our chance to make a difference and help with decision making.

Best Regards,

Robert Restrepo

Transportation Administrator

Proliance International Inc

Phone : 203-859-3531

Fax: 203-865-3723

RRestrepo@pliii.com

Support All Countries
under Review
re jewelry

From: Winifred Bruce [oriental_accents@yahoo.com]
Sent: Friday, September 01, 2006 2:58 PM
To: FN-USTR-FR0052
Subject: 2006 GSP Eligibility and CNL Waiver

I am urging the US government to maintain the GSP status granted India, Brazil and 11 other trading partners.

We depend on this to make our living and with all the increases gas and oil I am and many of the vendors are not making it as it is.

So please do not make the changes that will add another 5 to 6 percent increase for jewelers.

Supports All
Supports Renewal of GSP

From: Diane Schexnayder [diane01@wrzanes.com]
Sent: Friday, September 01, 2006 4:54 PM
To: FN-USTR-FR0052
Subject: Renewal of GSP

We are pleased to throw our support behind the renewal of Generalized Systems of Preferences.

We are customs brokers and freight forwarders operating in the Opportunity Zone of the Post-Katrina recovery, and witness daily the needs of suppies and services to the region and know that any impediment to interational trade will greatly slow the recovery efforts. Many of our close neighbors to the south of us are still gearing up for DR-CAFTA, and many have already felt the impetus of GSP, by its removal at the signing of this FTA.

While expiration of GSP may force traders to source under other FTA's available to them, DHS [Customs] is still a long way from having available programming technology to handle the electronic processes. This will mean an increase in the amount of paper documentation that will be necessary to effectively claim the trade preference levels. Customs staffing is already challenged due to critical security issues. With FTA's implementation and GSP expiration coming together at the time and place, we see a storm of another kind brewing on the horizon.

While the pheonix will rise from the ashes, the ascent will be slowed and the price tag will look like a ball and chain and inscribed thereon "$$$ Death of GSP $$$". Without GSP, America will become more dependent on China, until other FTA's have time to root. We submit, we can always say "No to GSP" at a later date.

Thank you for your consideration and support of GSP renewal.

Diane Schexnayder, V.P.
W. R. ZANES & CO. OF LA., INC.
P. O. BOX 2330 (ZIP 70176)
223 TCHOUPTOULAS ST
NEW ORLEANS, LA 70130
PH: 504-524-1301
FAX: 504-524-1309
email: diane01@wrzanes.com

cc: Rep Bobby Jindal
Senator David Vitter
Senator Mary Landrieu

August 25, 2006

Ms. Merideth Sandler
GSP Subcommittee
USTR Annex, Room F-220
1724 F Street, NW
Washington, DC 20508

Dear Ms. Sandler:

The American Spice Trade Association (ASTA) was founded in 1907 and represents the interests of the spice industry around the world, specifically as it relates to trade in the United States. ASTA's membership is made up of almost 200 companies that manufacture, import, export, distribute, purchase and supply services to the spice and seasoning industry. ASTA members manufacture and market the majority of spices sold in the U.S. at retail and to food processors.

We are writing concerning the notice in the August 8th, 2006 Federal Register requesting comments on the eligibility of certain GSP beneficiaries and existing competitive need limitation waivers.

Approximately 80% of spices are imported into the U.S., a vast majority from countries such as India, Brazil, Venezuela, Indonesia, South Africa, Turkey, Argentina, and the Philippines. In fact, GSP eligible spices come from all the countries the Administration is seeking comments on for GSP eligibility status. We very much support the continued eligibility of Argentina, Brazil, Croatia, India, Indonesia, Kazakhstan, Philippines, Romania, Russia, South Africa, Thailand, Turkey, and Venezuela. India and Brazil are especially important countries for the U.S. spice industry and our members. Our members, many of whom are small importers and traders, have greatly benefited from the GSP program. For example, in 2005, GSP tariff savings for all spices was approximately 1.2 million dollars. Limiting, suspending, or withdrawing the eligibility of the GSP beneficiary countries referenced above would have an extremely negative impact on the spice industry.

Clearly, the GSP program benefits the U.S. spice industry, but we are also concerned about the economic growth and stability of the beneficiary countries. Most spices in these countries are grown on small family plots. The GSP program has helped create economic opportunity and increased and expanded trade.

Thank you for considering the international spice industry as you review the GSP program. Please contact me at 202-367-1207 if you have questions.

Sincerely,

Cheryl Deem

Executive Director

August 25, 2006

Ms. Merideth Sandler
GSP Subcommittee
USTR Annex, Room F-220
1724 F Street, NW
Washington, DC 20508

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Thank you for considering the international spice industry as you review the GSP program. Please contact me at 202-367-1207 if you have questions.

Sincerely,

Cheryl Deem

Executive Director

Support Brazil, India, &
11 other countries
Pro CNLWs for jewelry

From: Mary Haltom [maryhaltom@sbcglobal.net]
Sent: Thursday, August 31, 2006 4:36 PM
To: FN-USTR-FR0052
Subject: 2006 GSP Eligibility and CNL Waiver Review

As an owner of a U.S. independently owned jewelry store, I strongly urge the USTR Panel to support continuation of Duty Free trade benefits for jewelry from India, Brazil and 11 other trade partners under GSP. The existing GSP benefits are of critical importance to our profitability and more importantly it saves the American consumer money. Withdrawing jewelry imports from the GSP program would add a six percent duty to a significant portion of jewelry products purchased by US consumers. Consumers already facing rising gold, diamond and oil prices, and feeling the effects of a softening US dollar, may see the retail prices for jewelry increase 15 to 20 percent, with a negative effect on my business.

I strongly urge you to recommend the continuation and renewal of GSP benefits for diamond jewelry.

Thank you,
Mary Haltom
Mary Haltom Jewelers
6326 Camp Bowie, Ft. Worth, Tx 76116
817-763-0077 fax 817-763-0927
Mon-Fri 10am-5:30pm Sat 10am-4pm

Supports Brazil, India, &
11 other GSP Countries
Pro CNLWs for jewelry

From: TerriKaf@aol.com
Sent: Thursday, August 31, 2006 4:40 PM
To: FN-USTR-FR0052
Subject: (no subject)

To whom it may concern:

Please be advised that the retail jewelry community of the US requests that you continue the trade benefits granted to Indian jewelry manufacturers under the GSP (Generalized System of Preferences) program and maintain the GSP status granted to India, Brazil and the 11 other trading partners. If this is not done, serious and severe economic hardships would ensue and would ultimately effect the United States consumer. The trade cannot support a six percent duty to a significant portion of goods, nor can the American consumer. Please take this into serious consideration.

Thank you.

Terri Kafrissen
Gina Puckett

Supports Brazil, India, & All
GSP Countries
Pro all CNLWs

From: Cynthia Allen [CindyAllen@argents.com]
Sent: Thursday, August 31, 2006 4:56 PM
To: FN-USTR-FR0052

Please see our comments attached. If you are unable to access the attached document, please contact me at your convenience.

Sincerely,

Cynthia D. (Jerome) Allen

President, Detroit Customs Brokers and Forwarders Association
Director of Compliance
Argents Express Group

(734) 326-9499 phone
(734) 326-1172 fax
(800) 229-2231 toll-free

callen@argents.com direct
www.argents.com

c/o 7025 Metroplex Dr.
Romulus, MI. 48174
Phone (734) 326-9499
Fax (734) 326-1172
Email dcbfa@aol.com
or callen@argents.com

Marideth J. Sandler
Chairman
GSP Subcommittee of the Trade Policy Staff Committee
Office of the U.S. Trade Representative
600-17th Street N W
Washington, DC 20506

Dear Chairman Sandler,

The Detroit Customs Brokers and Forwarders Association (DCBFA), an Affiliated Association of the National Customs Brokers and Forwarders Association of America (NCBFAA) is pleased to submit this statement in support of the Generalized System of Preferences (GSP) program in response to the GSP Subcommittee's Request for Public Comments to determine whether major beneficiaries of the program have expanded exports or have progressed in their economic development to the extent that their eligibility should be limited, suspended, or withdrawn.

DCBFA is the state of Michigan's association representing customs brokers and freight forwarders. Our members handle the myriad of details involved in importing goods into the U.S. From paying duties and fees owed to Customs and Border Protection (CBP), to filing entry documents, to complying with security requirements, and to arranging for transportation needs in this role, we know first hand how important GSP is for the U.S. businesses. This is particularly important in the current struggling manufacturing oriented Michigan economy.

We urge the Administration to exercise caution as it approaches the decisions of whether to remove countries such as Brazil or India from the GSP program. While these larger beneficiary countries have progressed economically due to their participation in the GSP program, an abrupt cut-off from the program would cause serious hardship for these countries without a corresponding benefit to the least developed countries. It does not necessarily follow that Michigan or any U.S. Businesses will switch suppliers from larger GSP countries or source from a least developed country. In fact the least developed countries often lack the production capabilities as well as the infrastructure to become reliable sources of many products now sources in some of the larger GSP countries such as Brazil and India. A decision to remove one or more of these countries leads to essentially lose-lose proposition.

From our unique vantage point in the import process, we are keenly aware of the valuable role GSP has played in the past 20 years. It has added to the robust trade flows that fuel our national economy. Removal of the major GSP players from the program now will greatly diminish GSP's effectiveness with negative repercussions for these countries, as well as for Michigan and all U.S. companies that outsource from these GSP beneficiaries. It will also impact consumers who will ultimately pay the price when duties are imposed. We believe that Brazil, India, and the other countries that have been identified for review are essential to the success of GSP and should remain in the program.

We encourage the Administration not to focus too narrowly on any single statutory criteria. GSP decisions must be made in a broader context that takes into account the profoundly negative impact of suddenly withdrawing trade benefits. For example, for many small Michigan companies, GSP – with it duty free treatment of products from developing countries – is the single element that allows them to remain competitive and profitable in increasingly tight markets. A sudden loss of GSP benefits for the products will be significant event for these companies.

We also urge the GSP Subcommittee and the Administration to complete this review and announce the outcome as soon as possible. We also strongly suggest that adequate time be allowed for Michigan companies to make adjustments, should they be required. It is our understanding that the decision on whether to terminate competitive need limit waivers on specific products will take effect immediately upon announcement of the decision. We ask that the Subcommittee reconsider this policy and take into account the disruptive impact such an immediate implementation will cause Michigan companies already struggling to compete in a global market environment. These companies will bear the brunt of unexpected imposition of duties on products that are already in the pipeline, and will risk either losing profitability on their sales, or worse, losing contracts as a result of higher costs resulting in the closure of more manufacturing capabilities within our state.

In the current security laden environment, supply chain security is crucial to our continued economic success both nationally and as individual Michigan companies engaged in global trade.  The ability to suddenly change suppliers is non-existent in the Customs-Trade Partnership Against Terrorism program, which requires a thorough knowledge of everyone in the supply chain before doing business with them.  Changes of this nature require months and sometimes years to implement, while in the meantime the imposed duties will make them less competitive.  A sudden duty impact of this nature may force business to reevaluate their product line production within our state, and frankly, within the U.S.

It is important that as the review proceeds the Administration work closely with Congress to ensure a timely, long-term renewal of the program.  This cannot be stated too emphatically.  The delayed, sporadic, and uncertain renewal of the program in the past has been damaging to our Michigan businesses and counterproductive to the goals of the GSP program itself.  The financial and administrative burdens created by lapses in the GSP program are a serious drain on individual companies.

We hope that the Subcommittee and the Administration will utilize every resource to assure timely renewal of the GSP program.

Thank you for your consideration of our views,

Sincerely,

Cynthia D. (Jerome) Allen
President
Detroit Customs Brokers and Forwarders Association

Supports Brazil, India, & All
GSP Countries
Pro all CNLWs

From: Mj1026@aol.com
Sent: Friday, September 01, 2006 10:10 AM
To: FN-USTR-FR0052
Subject: 2006 GSP Eligibility and CNL Waiver Review

Please see attached comments regard the above subject matter.

Thanks,

Mary F. Jackson

Mary F. Jackson
Office Manager/Administrative Assistant
Kent & O'Connor, Incorp.
1990 M Street, NW, Suite 340
Washington, DC 20036
Phone: (202) 223-6222
FAX: (202_ 785-0687
e-mail: mj1026@aol.com

August 30, 2006

Marideth J. Sandler
Chairman
GSP Subcommittee of the Trade Policy Staff Committee
Office of the U.S. Trade Representative
600-17th Street NW
Washington, DC 20506

Dear Chairman Sandler,

The National Customs Brokers and Forwarders Association of America (NCBFAA) is pleased to submit this statement in support of the Generalized System of Preferences (GSP) program in response to the GSP Subcommittee's Request for Public Comments to determine whether major beneficiaries of the program have expanded exports or have progressed in their economic development to the extent that their eligibility should be limited, suspended or withdrawn.

NCBFAA is the national association representing customs brokers and freight forwarders. Our members handle the myriad of details involved in importing goods into the U.S. – from paying duties and fees owed to Customs and Border Protection (CBP) to filing entry documents to complying with security requirements to arranging for transportation. In this role, we know first-hand how important GSP is for U.S. businesses.

We urge the Administration to exercise caution as it approaches the decisions on whether to remove countries such as Brazil or India from the GSP program. While these larger beneficiary countries have progressed economically due to their participation in the GSP program, an abrupt cut-off from the program would cause serious hardship for these countries without a corresponding benefit to the least developed countries. It does not necessarily follow that US businesses will switch suppliers from a larger GSP country to a least developed country. In fact, the least developed countries often lack the production capability as well as the infrastructure to become a reliable source for many products now sourced from Brazil, India or one of the other larger beneficiary countries. A decision to remove one of these countries is essentially a lose-lose proposition.

From our unique vantage point in the import process, we are keenly aware of the valuable role GSP has played in the past 20 years. It has added to the robust trade flows that fuel our economy. Removal of the major GSP players from the program now will greatly diminish GSP's effectiveness, with negative repercussions for these countries, as well as for US companies that source from these GSP beneficiaries and for consumers who ultimately will pay the price when duties are imposed.  We believe Brazil, India and the other countries you have identified for review are essential to GSP and should remain in the program.

We encourage the Administration not to focus too narrowly on any single statutory criteria.  GSP decisions must be made in a broader context that takes into account the profoundly negative impact of suddenly withdrawing trade benefits.  For example, for many small US companies, GSP – with its duty free treatment for production inputs from developing countries – is the single element that allows them to remain competitive and profitable in increasingly tight markets.  A sudden loss of GSP benefits for the products will be a significant event for these companies.

We also urge the GSP Subcommittee and the Administration to complete this review and announce the outcome as soon as possible to allow US companies time to make adjustments.  It is our understanding that the decisions on whether to terminate competitive need limit waivers on specific products will take effect immediately upon announcement of the decision.  We ask you to reconsider this policy and consider the disruptive impact such an immediate implementation would cause for US companies who will have to bear the brunt of an unexpected imposition of duties on products already in the pipeline.

At the same time, as this review proceeds, it is important that the Administration work closely with Congress to ensure a timely, long-term renewal of the program.  This cannot be stated too strongly.  The delayed, sporadic and uncertain renewals of the past were very damaging to many US businesses and counterproductive to the goals of the GSP program.  The financial and administrative burdens created by lapses in the GSP program are a serious drain on individual companies and we hope you will utilize every resource to assure a timely renewal of the program.

Thank you for your consideration of our views.

Sincerely,

Mary Jo Muoio
President
National Customs Brokers & Forwarders Association of America
1200 18th Street, NW, Suite 901
Washington, DC   20036

Supports Brazil, India, & All
GSP Countries
Pro all CNLWs

From: Mj1026@aol.com
Sent: Friday, September 01, 2006 10:10 AM
To: FN-USTR-FR0052
Subject: 2006 GSP Eligibility and CNL Waiver Review

Please see attached comments regard the above subject matter.

Thanks,

Mary F. Jackson

Mary F. Jackson
Office Manager/Administrative Assistant
Kent & O'Connor, Incorp.
1990 M Street, NW, Suite 340
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August 30, 2006

Marideth J. Sandler
Chairman
GSP Subcommittee of the Trade Policy Staff Committee
Office of the U.S. Trade Representative
600-17th Street NW
Washington, DC 20506

Dear Chairman Sandler,

The National Customs Brokers and Forwarders Association of America (NCBFAA) is pleased to submit this statement in support of the Generalized System of Preferences (GSP) program in response to the GSP Subcommittee's Request for Public Comments to determine whether major beneficiaries of the program have expanded exports or have progressed in their economic development to the extent that their eligibility should be limited, suspended or withdrawn.

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We urge the Administration to exercise caution as it approaches the decisions on whether to remove countries such as Brazil or India from the GSP program. While these larger beneficiary countries have progressed economically due to their participation in the GSP program, an abrupt cut-off from the program would cause serious hardship for these countries without a corresponding benefit to the least developed countries. It does not necessarily follow that US businesses will switch suppliers from a larger GSP country to a least developed country. In fact, the least developed countries often lack the production capability as well as the infrastructure to become a reliable source for many products now sourced from Brazil, India or one of the other larger beneficiary countries. A decision to remove one of these countries is essentially a lose-lose proposition.

From our unique vantage point in the import process, we are keenly aware of the valuable role GSP has played in the past 20 years. It has added to the robust trade flows that fuel our economy. Removal of the major GSP players from the program now will greatly diminish GSP's effectiveness, with negative repercussions for these countries, as well as for US companies that source from these GSP beneficiaries and for consumers who ultimately will pay the price when duties are imposed. We believe Brazil, India and the other countries you have identified for review are essential to GSP and should remain in the program.

We encourage the Administration not to focus too narrowly on any single statutory criteria. GSP decisions must be made in a broader context that takes into account the profoundly negative impact of suddenly withdrawing trade benefits. For example, for many small US companies, GSP – with its duty free treatment for production inputs from developing countries – is the single element that allows them to remain competitive and profitable in increasingly tight markets. A sudden loss of GSP benefits for the products will be a significant event for these companies.

We also urge the GSP Subcommittee and the Administration to complete this review and announce the outcome as soon as possible to allow US companies time to make adjustments. It is our understanding that the decisions on whether to terminate competitive need limit waivers on specific products will take effect immediately upon announcement of the decision. We ask you to reconsider this policy and consider the disruptive impact such an immediate implementation would cause for US companies who will have to bear the brunt of an unexpected imposition of duties on products already in the pipeline.

At the same time, as this review proceeds, it is important that the Administration work closely with Congress to ensure a timely, long-term renewal of the program. This cannot be stated too strongly. The delayed, sporadic and uncertain renewals of the past were very damaging to many US businesses and counterproductive to the goals of the GSP program. The financial and administrative burdens created by lapses in the GSP program are a serious drain on individual companies and we hope you will utilize every resource to assure a timely renewal of the program.

Thank you for your consideration of our views.

Sincerely,

Mary Jo Muoio
President
National Customs Brokers & Forwarders Association of America
1200 18th Street, NW, Suite 901
Washington, DC 20036

**To:** Office of the U.S. Trade Representative

**From:** Women's Edge Coalition (contact: Katrin Kuhlmann, kkuhlmann@womensedge.org)
Oxfam America (contact: Katherine Daniels, kdaniels@oxfamamerica.org)
German Marshall Fund of the United States (contact: Randall Soderquist, rsoderquist@gmfus.org)
Viji Rangaswami, Carnegie Endowment for International Peace (vrangaswami@ceip.org)

**Re:** 2006 GSP Eligibility and CNL Waiver Review

**Date:** September 5, 2006

We write in response to the August 7, 2006 request for comments on the operation of the U.S. Generalized System of Preferences (GSP) program.[1] We agree with the general objective of the inquiry, which, as stated by U.S. Trade Representative (USTR) Susan Schwab in announcing the request for comments, is "for more countries to benefit from the program and use trade in support of their economic development."[2] As this submission will outline, we do not believe that revoking some or all of the GSP benefits currently available to the countries identified in the review ("review countries") would achieve USTR's stated objective. Our analysis, discussed in greater detail below, shows that non-GSP beneficiaries, including developed countries such as Canada and Japan, and large, industrialized developing countries like China, would likely be the primary beneficiaries of such a revocation. Moreover, many of the review countries are extremely poor, or, even where some economic development has occurred, still have very large desperately poor populations. Revocation of benefits is likely to have a serious detrimental development impact on the review countries, and particularly on vulnerable populations within them, such as women and low-skilled workers.

We structure our comments in five parts. First, we discuss the importance of trade to development, and preferences to trade. Second, we identify the primary impediments to broader use of GSP by developing countries. Third, we discuss the impact of revocation of benefits on the composition of suppliers to the U.S market, and on some of the review countries. Fourth, we discuss how revocation of GSP for the identified countries will hurt U.S. commercial interests. Fifth, we offer recommendations on how to most effectively help more developing countries, and in particular, least developed and low-income countries, benefit from GSP.

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[1] Office of the United States Trade Representative, "Generalized System of Preferences (GSP): Initiation of Reviews and Request for Public Comments," 71 *Fed. Reg* 45079 (Aug. 8, 2006).
[2] *USTR Announces Review to Consider Withdrawing GSP Benefits for Certain Countries*, August 7, 2006, Office of the United States Trade Representative, www.ustr.gov/Document_Library/Press_Releases/2006.

## I. Trade Contributes to Development, and Preferences Contribute to Trade

The concept of GSP is now more than four decades old – yet it is very modern in its outlook and very much complements the Administration's approach to promoting development. The rationale, as first articulated at the U.N. Conference on Trade and Development (UNCTAD) in 1964, is that the developed countries can most effectively promote economic growth and industrialization in developing countries through trade.[3]

This perspective is supported by literature showing that increased trade contributes to growth. This growth can occur through a number of channels. Most obviously, the opportunity for international trade gives firms and workers in developing countries access to more markets, including larger and wealthier markets. That access creates additional demand for developing country goods, which, in turn, creates new, much-needed opportunities for employment. Increased trade is also shown to stimulate a greater demand for investment, which, in turn, has a strong positive effect on increased growth.[4] In addition, increased trade is assumed to increase total factor productivity of an economy through channels such as improved access to new information and improved efficiency as developing country firms are exposed to global competition.

There is evidence that preference programs are achieving the intended result of promoting development. One study of U.S. preference programs from the 1980s shows that GSP beneficiary countries increased exports of products eligible for GSP treatment by about 8% annually.[5] A more recent analysis of U.S. preferences extended to countries in Central America under the Caribbean Basin Economic Recovery Act (CBERA) reveals two very positive impacts from that preference program. First, increased access to the U.S. market has had a significant positive impact on investment in Central America, which, in turn, has contributed to income growth in the region.[6] Second, preferences have played an important role in promoting export diversification.[7] A third finding – that the positive effect of preferences is heightened when beneficiary countries also liberalize – also underscores the potential of U.S. preference programs as a tool for development.[8] Notably, all U.S. preference programs include eligibility criteria aimed at promoting economic and legal reforms.

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[3] For a brief history of GSP, see *Assessment of the Generalized System of Preferences*, General Accounting Office, Report 95-9 (November 1994), Chapter 1.
[4] See, Judith M. Dean, "Do Preferential Trade Agreements Promote Growth: An Evaluation of the Caribbean Basin Economic Recovery Act," USITC Office of Economics Working Paper, No. 2002-07-A (Washington, DC: USITC, July 2002).
[5] Samuel Laird and Andre Sapir, "Tariff Preferences," in *The Uruguay Round: A Handbook on Multilateral Trade Negotiations*, eds. Michael J. Finger and Andrzej Olechowski (Washington, DC: World Bank, 1987), cited in William H. Cooper, *Generalized System of Preferences*, CRS Report for Congress, (March 30, 2006).
[6] Dean, *supra* note 4, at 19.
[7] Dean, *supra* note 4, at 5.
[8] Dean, *supra* note 4, at 19.

## II. Restrictions in the GSP Program Are the Real Impediment to Broader Use

Notwithstanding these positive results, preference programs, and, in particular, the U.S. GSP program, clearly have not had the full development impact desired. Many developing countries, and, in particular, poorer developing countries, export very little under GSP, as USTR and others have noted. This lack of utilization, however, is not due to larger or more developed GSP beneficiary countries monopolizing the benefits. Rather, it has happened because the current GSP program fails to cover the specific products that developing countries have a comparative advantage in producing. This lack of coverage is especially acute for less industrialized developing countries not included in any of the U.S. regional preference programs, such as the African Growth and Opportunity Act (AGOA) and the CBERA.

Exclusions under GSP primarily result from statutory mandates and from operation of the product approval process. With respect to statutory exclusions, paradoxically, the products excluded by statute include many products no longer produced in the United States, such as watches, certain glass products, and many types of footwear. They also include textiles and apparel and certain agricultural products – key products for many low-income and least developed countries. These are also sectors that tend to be dominated by vulnerable populations, including women and low-skilled workers – precisely the people preference programs should be designed to help.

With respect to the approval process, unlike some other U.S. preference programs, such as the Andean preference program, products are not automatically included as eligible under GSP – a petition must be filed for inclusion, which is then subject to a lengthy interagency review process. As a result, some products have not been included simply because developing country exporters have lacked the capacity to go through the petition process.

Table One illustrates the paucity of coverage under GSP, particularly for exports from the poorest developing countries. For example, Bangladesh has a per capita GDP of only $406, yet only 2% of Bangladeshi exports to the United States are eligible to receive GSP treatment. Nepal has a per capita GDP of only $252, yet only 5% of its exports to the United States qualify for GSP treatment. In fact, preference coverage for developing countries that are eligible only for GSP, and are not eligible for benefits under one of the regional preference programs, is, on average, only about 44%. Nearly half of the GSP-only countries have less than one third of their exports covered by the program.[9] Of the 15 LDCs eligible only under the GSP program, half have coverage rates near or below 25%,[10] even though the GSP-plus LDC program offers greater product coverage than the regular GSP program.

[9] Judith M. Dean and John Wainio, "Quantifying the Value of US Tariff Preferences," (January 2006), revision of a paper presented at *Preference Erosion: Impacts and Policy Responses*, WTO International Symposium, Geneva, June 12-14, 2005, at 10.
[10] *Id*. at 10.

**Table One: GSP Coverage* of Non-Agricultural Imports from Select Beneficiary Countries, 2003**

| Country | GSP Coverage | 2003 Share of Exports Receiving GSP Treatment (%)** | Per Capita GDP*** |
|---|---|---|---|
| | | **Non-LDCs** | |
| Egypt | 3% | 2.8% | $1085 |
| Mongolia | 1% | 0.1% | $641 |
| Pakistan | 5% | 3.6% | $632 |
| Sri Lanka | 7% | 5.4% | $1033 |
| Tunisia | 20% | 11.9% | $2838 |
| | | **LDCs** | |
| Afghanistan | 27% | 0.0% | n/a |
| Bangladesh | 2% | 1.5% | $406 |
| Bhutan | 22% | 17.6% | $751 |
| Cambodia | 1% | 0.3% | $354 |
| Nepal | 5% | 3.0% | $252 |

*Ratio of imports eligible for GSP (or GSP-plus for LDCs) to total dutiable imports. GSP coverage data taken from Judith M. Dean and John Wainio, *Quantifying the Value of US Tariff Preferences*, (January 2006), revision of a paper presented at Preference Erosion: Impacts and Policy Responses, WTO International Symposium, Geneva, June 12-14, 2005, Table 2.
**Data from U.S. International Trade Commission Dataweb, available at www.usitc.gov.
*** World Bank data.

Beyond product exclusions, several other aspects of the GSP program impede its effectiveness in promoting trade with and development in less-industrialized developing countries. These impediments include:

- **Disincentives for long-term investment because of short extensions and frequent expirations of the program.** Over the last 12 years, GSP has been allowed to lapse periodically and has usually been renewed for periods of less than one year (the last renewal was an exception). This has greatly undermined the effectiveness of the program in promoting trade and investment in marginal, developing countries. Simply put, investors and importing firms attracted by the opportunity of preferences will not invest in or source from countries if the status of the preferences is in doubt. In contrast, where preferences are stable, trade and investment has flourished. For example, U.S. preferences for the Caribbean and Central American countries, which are permanent and have been in effect continuously since 1984, have had a significant impact on investment.[11]

- **Disincentives for long-term investment because of the competitiveness penalty.** Under the current GSP program, countries that enjoy export success to the United States risk losing their preferential access under the program's competitive needs limit (CNL). The CNL was put into place to help less

[11] Dean, *supra* note 4, at 5.

competitive GSP beneficiaries – once a country reached the CNL, it was assumed to be a competitive exporter, and revoking benefits was assumed to provide less competitive beneficiaries with the opportunity to export. Unfortunately, the CNL has not had that effect. Data show that the CNL causes imports of the affected goods to drop by 10 to 17%, with no shift of trade in favor of less developed/competitive producers.[12] Moreover, the CNL has an unintended effect of chilling investment in countries perceived as likely to exceed it. Investors appear reluctant to invest in certain sectors in marginal countries because they believe that as soon as their investment succeeds, they will no longer receive the preference.

- **Lack of focus on supply side constraints.** The Doha Round of WTO negotiations has rightly focused on the issue of whether developing countries have the capacity to capitalize on the market access opportunities provided by developed countries through multilateral trade negotiations. The same concern exists with respect to unilateral preference programs. U.S. preference programs, including GSP, have not adequately tied trade capacity building assistance to the types of market access opportunities provided.

## III. Revocation of GSP Benefits Would Give Industrialized and Advanced Developing Countries an Economic Boost at the Expense of the Less Industrialized Countries

As stated out the outset, we do not believe that revoking some or all of the GSP benefits currently available to the review countries would achieve USTR's stated objective of redistributing benefits under the program to other developing countries. Moreover, such action could have a significant adverse impact on development in some of the review countries.

### A. Revocation Would Benefit Industrialized and Advanced Developing Countries

We identified the top three GSP exports for seven of the countries listed in USTR's request for comments (Brazil, India, Indonesia, Philippines, South Africa, Thailand, and Turkey). We then identified the top ten country exporters of these products to the U.S. market. For almost all of the top GSP exports from these seven countries, the alternative suppliers are developed countries, other advanced developing countries that are not GSP beneficiaries, or one of the other countries identified in USTR's GSP notice. These trade patterns, shown in Table Two below, suggest that if these seven review countries lose benefits, it would be these other leading suppliers, not less-industrialized GSP beneficiary countries, which would gain.

[12] James Devault, "Competitive Need Limits and the U.S. GSP," Contemporary Economic Policy (Huntington Beach: Oct 1996), Vol.14, Iss. 4.

| Table Two: Top GSP Imports from Countries Identified in USTR FR Notice and Alternative Suppliers | | | |
|---|---|---|---|
| **Country** | **Product (HTS 8 digit line)** | **Value (US$)** | **Top 10 Suppliers to US Market** |
| **Brazil** | Pts. & access. of mtr. vehicles of 8701, nesoi, and 8702-8705, brakes and servo-brakes & pts thereof (o/than mounted brake linings) (87083950) | 223,671,557 | Canada, Mexico, Japan, China, Brazil, Germany, South Korea, Italy, Taiwan, Australia |
| | Plywood of wood sheets, n/o 6 mm thick each, with outer plies of coniferous wood, with face play nesoi, not or clear surface covered (44121940) | 140,991,971 | Brazil, Canada, Chile, China, Paraguay, Mexico, Austria, Netherlands, Germany, Guyana |
| | Other parts, nesoi, suitable for use solely or principally with the machines in heading 8501 or 8502 (85030095) | 131,170,736 | Japan, Brazil, Mexico, Canada, Germany, China, Denmark, Taiwan, France, Netherlands |
| **India** | Precious metal (o/than silver) articles of jewelry and parts thereof, whether or not plated or clad with precious metal,nesoi (71131950) | 1,594,212,535 | India, China, Thailand, Italy, Hong Kong, Turkey, Mexico, Dominican Republic, France, Canada |
| | Monumental or building stone & arts. thereof, of granite, further worked than simply cut/sawn, nesoi (68029300) | 74,615,304 | Brazil, Italy, China, India, Canada, Taiwan, Spain, South Africa, Saudi Arabia, Argentina |
| | Pts. & access. of motor vehicles of 8701, nesoi, and 8702-8705, pts. for steering systems nesoi (87089973) | 62,679,865 | Japan, Canada, Mexico, Liechtenstein, Germany, South Korea, India, Brazil, Thailand, France |
| **Indonesia** | Still image video cameras (other than digital) and other video camera recorders (85254080) | 83,626,632 | Japan, Malaysia, Indonesia, China, South Korea, Singapore, Taiwan, Denmark, Thailand, Germany |
| | Polyethylene terephthalate in primary forms (39076000) | 76,802,412 | Mexico, Canada, China, South Korea, Indonesia, Thailand, India, Taiwan, Italy, Malaysia |
| | Precious metal (o/than silver) articles of jewelry and parts thereof, whether or not plated or clad with precious metal,nesoi (71131950) | 69,926,309 | India, China, Thailand, Italy, Hong Kong, Turkey, Mexico, Dominican Republic, France, Canada |

| | | | |
|---|---|---|---|
| **Philippines** | Insulated ignition wiring sets and other wiring sets of a kind used in vehicles, aircraft or ships (85443000) | 148,275,001 | Mexico, Philippines, Honduras, China, Nicaragua, Japan, Thailand, Indonesia, Canada, France |
| | Insulated electric conductors nesoi, for a voltage exceeding 80 V but not exceeding 1,000 V, fitted with connectors, nesoi (85445190) | 62,673,427 | Mexico, China, Philippines, Taiwan, Canada, Japan, Indonesia, Germany, Hong Kong, India |
| | Cane sugar, raw, in solid form, w/o added flavoring or coloring, subject to add. US 5 to Ch.17 (17011110) | 56,386,002 | Brazil, Dominican Republic, Philippines, Australia, Guatemala, Panama, Colombia, Argentina, El Salvador, Swaziland |
| **South Africa** | Aluminum alloy, plates/sheets/strip, w/thick. o/0.2mm, rectangular (incl. sq), not clad (76061230) | 149,578,295 | Canada, Germany, South Africa, Russia, Greece, Indonesia, Brazil, Romania, China, Austria |
| | Ferrochromium containing by weight more than 4 percent of carbon (72024100) | 114,815,184 | South Africa, Kazakhstan, Zimbabwe, Russia, Sweden, India, China |
| | Ferrosilicon manganese (72023000) | 60,863,525 | South Africa, Norway, Romania, Australia, Mexico, Russia, Georgia, South Korea, Spain, Canada |
| **Thailand** | Precious metal (o/than silver) articles of jewelry and parts thereof, whether or not plated or clad with precious metal,nesoi (71131950) | 590,713,403 | India, China, Thailand, Italy, Hong Kong, Turkey, Mexico, Dominican Republic, France, Canada |
| | Non-high definition color television reception app., nonprojection, w/CRT, video display diag. ov 35.56 cm, incorporating a VCR or player (85281228) | 170,286,335 | Malaysia, Thailand, China, Mexico, Hong Kong, Belgium, Taiwan, Japan, United Kingdom, Israel |
| | Sacks and bags (including cones) for the conveyance or packing of goods, of polymers of ethylene (39232100) | 129,498,353 | Canada, China, Thailand, Taiwan, Mexico, Indonesia, South Korea, Malaysia, Vietnam, Hong Kong |

| | | | |
|---|---|---|---|
| **Turkey** | Precious metal (o/than silver) articles of jewelry and parts thereof, whether or not plated or clad with precious metal,nesoi (71131950) | 279,853,191 | India, China, Thailand, Italy, Hong Kong, Turkey, Mexico, Dominican Republic, France, Canada |
| | Gold necklaces and neck chains (o/than of rope or mixed links) (71131929) | 103,992,130 | Italy, Turkey, Croatia, Israel, India, France, Thailand, Peru, China, Dominican Republic |
| | Refined copper, wire, w/maximum cross-sectional dimension of 6 mm or less (74081900) | 37,421,045 | Turkey, Brazil, Germany, France, United Kingdom, Austria, Japan, China, Peru, Taiwan |

As shown in Table 2, the top GSP export from Brazil is certain automotive parts classified under HTSUS 87083950. The other top suppliers to the U.S. market for that tariff classification are Canada, Mexico, Japan, China, Germany, South Korea, Italy, Taiwan and Australia. Of these exporters, Canada, Mexico, and Australia have duty-free access to the U.S. market under U.S. free trade agreements (FTAs). South Korea is likely to enjoy similar access soon. In light of both the heavy concentration of developed country exporters and the significant number of exporters that are party to a U.S. FTA, it would be highly improbable that a LDC or low-income developing country would be able to break into the U.S. market, even with revocation of Brazil's GSP benefits.

Similar trade patterns exist for Indonesia's leading GSP export – video cameras classified under HTSUS 85254080. The leading exporters to the U.S. market are Japan, Malaysia, China, South Korea, Singapore, Taiwan, Denmark, Thailand and Germany. The high concentration of developed country and advanced developing country exporters suggests that it would be very difficult for an LDC or low-income country to enter the U.S. market.

In some instances, importers have already indicated that they will switch sourcing from a GSP beneficiary to a non-GSP beneficiary if benefits are revoked. The best example is for India and Thailand's leading GSP export – entry-level fine jewelry classified under HTSUS 71131950 (e.g., gold jewelry available at Wal-Mart, JC Penney, etc.). The other leading exporter to the U.S. market of jewelry falling under this classification is China. Leading U.S. importers of this type of jewelry state that they intend to source from China if India or Thailand lose GSP benefits, because, according to them, China has the immediate capacity to produce what they need at a highly competitive price.[13] When asked whether they would consider sourcing from other GSP beneficiaries, including countries that currently do not export this type of jewelry, the importers said no, due to the uncertainty of training a new workforce.[14]

[13] From authors' conversations with leading industry importers. Notes on file with authors.
[14] *Id*.

### B. Revocation Could Hurt the Poor

Revocation of benefits for the review countries would be at odds with past U.S. practice under the GSP programs. In contrast to countries that have been graduated from GSP in the past, many of the review countries have very large poor populations, and low per capita GDPs. Moreover, the leading GSP exports discussed are produced by the types of industries GSP was intended to support – industries that require a skilled workforce and that foster the development of related industries and services.

#### 1. Revocation Would Not Be Consistent with Past Practice

The U.S. Government appears to have revoked GSP benefits for beneficiary countries primarily under three circumstances. First, GSP benefits have been terminated when a country has exceeded the per capita income threshold (as measured by World Bank statistics), triggering graduation from the program.[15] Second, benefits have been revoked when a country has maintained practices clearly inconsistent with the statute's eligibility requirements, such as inadequate protection and enforcement of intellectual property[16] or weak observance of worker's rights.[17] Third, countries have lost GSP benefits when they extended preferential trade terms to non-U.S. trading partners, a provision recently invoked when several countries acceded to the European Union.[18]

Only in very few cases has revocation been based on the conclusion that a country is well on the road to economic development. However, in those few cases, which involved Hong Kong, the Republic of Korea, Singapore, Taiwan,[19] and Malaysia, [20] the circumstances justifying revocation were very different from the situation at hand. For

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[15] Section 504 of the U.S. Trade Act of 1974, as amended, establishes the legal criterion for per capita income graduation. This provision has been applied in seventeen cases. For example, Antigua and Barbuda, Bahrain, and Barbados were determined to have achieved "high income" status and were graduated from the GSP program on January 1, 2006. *See* "The U.S. Generalized System of Preferences Program: An Update," prepared for the Coalition for GSP by the Trade Partnership, March 2006, www.tradepartnership.com.

[16] *See, e.g.*, Ukraine, Office of the United States Trade Representative, "Determination of Action to Suspend GSP Benefits Under Section 301 (b)," 66 *Fed. Reg.* 42246 (Aug. 10, 2001).

[17] Because of labor rights violations, a total of thirteen countries have been suspended from GSP beneficiary status: Romania (1987), Nicaragua (1987), Paraguay (1987), Chile (1987), Burma (1989), Central African Republic (1989), Liberia (1990), Sudan (1991), Syria (1992), Mauritania (1993), Maldives (1995), Pakistan (1996), and Belarus (2000). *See* "The U.S. Generalized System of Preferences Program: An Update," prepared for the Coalition for GSP by the Trade Partnership, March 2006, www.tradepartnership.com.

[18] In May 2004, GSP benefits were terminated for the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland and Slovenia. Office of the United States Trade Representative, Generalized System of Preferences (GSP): Termination of Countries Joining the European Union From Eligibility as a GSP Beneficiary Country," 69 Fed. Reg. 28185 (May, 18, 2004).

[19] Hong Kong, the Republic of Korea, Singapore, and Taiwan were graduated from the GSP program on January 2, 1989. *Statement by Assistant to the President for Press Relations Fitzwater on Amendments to the Generalized System of Preferences Program*, January 29, 1988, www.presidency.ucsb.edu/ws.

[20] Malaysia was graduated from the GSP program on January 1, 1997. *Proclamation 6942: To Amend the Generalized System of Preferences*, October 17, 1996, www.presidency.ucsb.edu/ws.

example, when Hong Kong's GSP benefits were terminated in 1989, Hong Kong had per capita GDP, as adjusted for inflation, of $13,767.[21] Singapore's per capita GDP in 1997, also adjusted for inflation was $12,204.[22] These per capita GDPs are much higher than the per capita GDPs in many of the review countries. For example, India has per capita GDP of $620 and a population of 855.6 million poor living on less than $2 a day.[23]

Admittedly, South Korea did have a relatively low GDP at the time of its graduation in 1989. However, South Korea is distinguishable on other grounds. At the time of graduation, South Korea had already transitioned from an agriculture-based economy to a manufacturing based economy, with only around one third of its workforce engaged in farming. South Korea also had experienced significant, consistent economic growth for a number of years. In fact, for the prior three years before graduation, the South Korean economy was growing at an average of 12% per year, and the South Korean government projected that per capita GDP would double within ten years.[24] Those statistics stand in sharp contrast to the review countries. In India, for example, the majority of its working population continues to engage in farming, much of which is on small, subsistence plots. India also has much lower levels of projected economic growth and a significantly lower per capita GDP.[25]

### 2. <u>Revocation Hurts Sectors Important to Development</u>

The industries that rank among the top GSP exports for many of the review countries are also significant in terms of development patterns. Many of industries supported by GSP in these countries have helped create large numbers of jobs, fostered a skilled workforce, and have supported the development of related industries and services.

For example, as shown in Table Two, electronic products are a significant GSP export for Indonesia, Philippines and Thailand. The electronics industry is credited with helping spur development in Asia for four related reasons. [26] First, and most obviously, the industry has attracted needed investment and generated jobs. In Thailand, for example, the electronics industry has created approximately 300,000 new jobs, including in rural areas.[27] Second, because of the skills required, the industry has helped promote the development of a more skilled labor force and has contributed to improvements in

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[21] World Bank, *World Development Indicators*, 2006, publications.worldbank.org/subscriptions/WDI/SMReslt.asp.
[22] *Id*.
[23] *Id*.
[24] *South Korea: A Country Study*. Federal Research Division, Library of Congress, 1992. Andrea Matles Savada and William Shaw, eds., pgs. 193-195, *Trends in Developing Economies 1990*. The World Bank, October 1990, pgs. 299 to 303.
[25] *Supra*, note 21.
[26] UNCTAD. "Strengthening Participation of Developing Countries in Dynamic and New Sectors of World Trade: Trends, Issues and Policies in the Electronics Sector," September 28, 2005. UNCTAD/TD/B/COM.1/EM.28/2, www.unctad.org/en/docs/c lem28d_en.pdf
[27] UNCTAD, "A Case Study of the Electronics Industry in Thailand," 2005. UNCTAD/ITE/IPC/1005/06, http://www.unctad.org/en/docs/iteipc20056_en.pdf.

labor productivity. [28] Third, the sector has led to advances in technology and innovation. Fourth, the industry has attracted and spurred the development of related services industries.[29] In fact, in the Philippines the electronics manufacturing sector has been one of the few sectors to generate economic growth.[30]

Jewelry-making is another important GSP sector that is helping to contribute to development in India, Indonesia, Thailand and Turkey. In India, for example, industry experts estimate that the export-oriented jewelry making industry has created 400,000 jobs since GSP benefits were extended in 2001.[31] Forty percent of these workers are women, and many of the workers come from the countryside, where they likely were involved in subsistence farming. The export-oriented jewelry industry also helps support an estimate 600,000 related workers involved in gem cutting and finishing. While the gem cutting industry existed prior to the development of the export-oriented jewelry industry (and in fact, was one of the reasons the new industry could be so quickly established), the gem industry has flourished and expanded as the new industry has taken root. Industry experts say there would likely be a contraction in that related industry if GSP benefits are revoked. It is important to note that many of these businesses are family owned, and a number of the workers do not possess the skills to transfer to another industry.

## IV. Revocation of GSP Benefits Will Hurt U.S. Commercial Interests

### A. Eligibility Criteria Promote U.S. Interests

Since the GSP program was created, it has served as an important U.S. policy tool to encourage economic reforms in GSP beneficiary countries. The mandatory and discretionary criteria in the statute, such as the requirement that countries adequately and effectively protect intellectual property (IP) and the requirement that workers' rights be protected, have served as important leverage to bring about legal reform in GSP beneficiary countries, to the benefit of U.S. businesses and workers, as well as to the beneficiary countries. That leverage will be lost if GSP benefits are revoked for the review countries, many of which are key markets for U.S. firms.

The IP provisions of the GSP program have been particularly important to upholding U.S. commercial interests, such as addressing counterfeiting and enforcement of copyright laws. Several notable examples of how the IP provisions in the GSP statute have been used to address legal deficiencies and rampant copyright piracy exist within the group of review countries, namely India, whose benefits were revoked and then

[28] *See* Sidney F. Heath III, "Lessons from the Evolution of Electronics Manufacturing Technologies" from Marshaling Technology for Development: Proceedings of a Symposium, 1995.
[29] OECD Development Centre, "Striving for International Competitiveness: Lessons from Electronics for Developing Countries," Jan Maarten de Vet, OECD Working Paper No. 84.
[30] International Bank for Reconstruction and Development and the International Finance Corporation. "Country Assistance Strategy for the Republic of the Philippines," April 19, 2005. http://siteresources.worldbank.org/INTPHILLIPINES/resources/PHILCASMAIN_noannexes.pdf.
[31] From authors' conversations with leading industry importers. Notes on file with authors.

restored in 2005, and Brazil and Kazakhstan, both of which made significant improvements to their copyright regimes in response to pending GSP cases.

Numerous examples of the effectiveness of GSP's requirement for adequate and effective IP enforcement also exist aside from the review countries. After losing GSP benefits in 2001, Ukraine implemented measures to fight widespread copyright and trademark piracy.[32] Recently, USTR, in response to a petition filed by U.S. industry to revoke Pakistan's GSP benefits due to IP violations, used GSP eligibility to obtain significant improvements to Pakistan's IP regime.[33]

IP is just one example of eligibility criteria that have promoted reform in beneficiary countries. Other eligibility criteria on protection of workers rights, investor's rights, and affording equitable access to U.S. goods and services have also provided leverage in achieving positive change in beneficiary countries.

### B. <u>U.S. Firms Benefit from Use of GSP Products</u>

In addition to promoting better trade practices in beneficiary countries through the statutory criteria, GSP helps many U.S. businesses, including many small and large U.S. importers and retailers, which use GSP imports. In particular, U.S. firms use GSP imports to lower their cost of doing business. In fact, GSP is estimated to have saved U.S. businesses $923 million in 2005.

For example, GSP has been the key to success of a number of smaller companies that import fertilizer and herbicides for farmers and households.[34] It is also the key to the sourcing strategies for a number of nationwide U.S. retailers of household wares. GSP also supports U.S. jobs in a wide variety of U.S. manufacturing industries that use inputs imported under GSP as a way to reduce their manufacturing costs. For example, a major U.S. electronics manufacturer uses GSP-eligible speaker parts at one of its U.S. facilities.[35]

### C. <u>GSP Serves Other U.S. Interests</u>

In addition to its economic benefits, GSP serves other important U.S. foreign policy goals, such as the promotion of U.S. security. President Bush has argued that the United States is seeking economic progress in the developing world because

> our interests are directly at stake . . . . The ultimate answer to [the threat of terrorism] is to encourage prosperous, democratic, and lawful societies that join us in overcoming

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[32] "USTR Reinstates GSP benefits for Ukraine," January 1, 2006. *See* www.ustr.gov/Document_Library/Press_Releases/2006/January.

[33] "USTR Ends Review of Pakistan's Protection of Intellectual Property Rights," January 24, 2006. *See* www.ustr.gov/Document_Library/Press_Releases/2006/January.

[34] "The U.S. Generalized System of Preferences Program: An Update," prepared for the Coalition for GSP by the Trade Partnership, March 2006, www.tradepartnership.com.

[35] *Id.*

> the forces of terror . . . . It is trade that provides the engine for development.[36]

Because GSP is an important economic tool to countries that are central to U.S. security interests, the GSP program plays a large role in U.S. economic and political policy. In the case of the identified countries, this is particularly true with respect to Indonesia and the Philippines.[37] GSP has also provided an effective means to promote economic growth and minimize political and economic upheaval in the face of natural disaster, such as the Asian tsunami in December 2004, and war.[38]

## V. Five Changes to Broaden the Benefits of GSP

We reiterate our strong support of the objective of promoting international economic development through the U.S. GSP program and other preference programs. In order to achieve the objective of broadening use of GSP, and, based on the restrictions outlined in Section II, we propose that USTR, working with Congress, reform the GSP program to include the following:

- **Broaden the benefits of GSP for LDCs and low-income and other economically vulnerable countries by providing 100% duty-free access for all exports.**

- **Make GSP permanent.**

- **Use a negative list product designation so that preferential market access is granted without a petition process, as under the Andean preference program.**

- **Eliminate the competitive need limit, which creates a glass ceiling for competitive GSP beneficiaries and often acts to discourage investment.**

- **Provide targeted trade capacity building, including through programs designed to address infrastructure gaps, financing shortfalls, beneficiary government policies that impede development, and corruption.**

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[36] "President Discusses G8 Summit, Progress in Africa," June 30, 2005. *See* www.whitehouse.gov/news/releases/2005/06/20050630.html.

[37] One of the few countries to have ratified all 12 UN Conventions on Counterrorism, the Philippines was designated as a major non-NATO ally by the United States in October 2003. "Background Note: Philippines." U.S. Department of State, Bureau of East Asian and Pacific Affairs, September 2005. *See* www.state.gov/r/pa/ei/bgn/2794.htm.

[38] "U.S. Extends Trade Benefits to Tsunami-hit Countries and Iraq," June 30, 2005. *See* www.ustr.gov/Document_Library/Press_Releases/2005/June.

**To:** **Office of the U.S. Trade Representative**

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**Re:** **2006 GSP Eligibility and CNL Waiver Review**

**Date:** **September 5, 2006**

We write in response to the August 7, 2006 request for comments on the operation of the U.S. Generalized System of Preferences (GSP) program.[1] We agree with the general objective of the inquiry, which, as stated by U.S. Trade Representative (USTR) Susan Schwab in announcing the request for comments, is "for more countries to benefit from the program and use trade in support of their economic development."[2] As this submission will outline, we do not believe that revoking some or all of the GSP benefits currently available to the countries identified in the review ("review countries") would achieve USTR's stated objective. Our analysis, discussed in greater detail below, shows that non-GSP beneficiaries, including developed countries such as Canada and Japan, and large, industrialized developing countries like China, would likely be the primary beneficiaries of such a revocation. Moreover, many of the review countries are extremely poor, or, even where some economic development has occurred, still have very large desperately poor populations. Revocation of benefits is likely to have a serious detrimental development impact on the review countries, and particularly on vulnerable populations within them, such as women and low-skilled workers.

We structure our comments in five parts. First, we discuss the importance of trade to development, and preferences to trade. Second, we identify the primary impediments to broader use of GSP by developing countries. Third, we discuss the impact of revocation of benefits on the composition of suppliers to the U.S market, and on some of the review countries. Fourth, we discuss how revocation of GSP for the identified countries will hurt U.S. commercial interests. Fifth, we offer recommendations on how to most effectively help more developing countries, and in particular, least developed and low-income countries, benefit from GSP.

[1] Office of the United States Trade Representative, "Generalized System of Preferences (GSP): Initiation of Reviews and Request for Public Comments," 71 *Fed. Reg* 45079 (Aug. 8, 2006).
[2] *USTR Announces Review to Consider Withdrawing GSP Benefits for Certain Countries*, August 7, 2006, Office of the United States Trade Representative, www.ustr.gov/Document_Library/Press_Releases/2006.

## I. Trade Contributes to Development, and Preferences Contribute to Trade

The concept of GSP is now more than four decades old – yet it is very modern in its outlook and very much complements the Administration's approach to promoting development. The rationale, as first articulated at the U.N. Conference on Trade and Development (UNCTAD) in 1964, is that the developed countries can most effectively promote economic growth and industrialization in developing countries through trade.[3]

This perspective is supported by literature showing that increased trade contributes to growth. This growth can occur through a number of channels. Most obviously, the opportunity for international trade gives firms and workers in developing countries access to more markets, including larger and wealthier markets. That access creates additional demand for developing country goods, which, in turn, creates new, much-needed opportunities for employment. Increased trade is also shown to stimulate a greater demand for investment, which, in turn, has a strong positive effect on increased growth.[4] In addition, increased trade is assumed to increase total factor productivity of an economy through channels such as improved access to new information and improved efficiency as developing country firms are exposed to global competition.

There is evidence that preference programs are achieving the intended result of promoting development. One study of U.S. preference programs from the 1980s shows that GSP beneficiary countries increased exports of products eligible for GSP treatment by about 8% annually.[5] A more recent analysis of U.S. preferences extended to countries in Central America under the Caribbean Basin Economic Recovery Act (CBERA) reveals two very positive impacts from that preference program. First, increased access to the U.S. market has had a significant positive impact on investment in Central America, which, in turn, has contributed to income growth in the region.[6] Second, preferences have played an important role in promoting export diversification.[7] A third finding – that the positive effect of preferences is heightened when beneficiary countries also liberalize – also underscores the potential of U.S. preference programs as a tool for development.[8] Notably, all U.S. preference programs include eligibility criteria aimed at promoting economic and legal reforms.

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[3] For a brief history of GSP, see *Assessment of the Generalized System of Preferences*, General Accounting Office, Report 95-9 (November 1994), Chapter 1.
[4] See, Judith M. Dean, "Do Preferential Trade Agreements Promote Growth: An Evaluation of the Caribbean Basin Economic Recovery Act," USITC Office of Economics Working Paper, No. 2002-07-A (Washington, DC: USITC, July 2002).
[5] Samuel Laird and Andre Sapir, "Tariff Preferences," in *The Uruguay Round: A Handbook on Multilateral Trade Negotiations*, eds. Michael J. Finger and Andrzej Olechowski (Washington, DC: World Bank, 1987), cited in William H. Cooper, *Generalized System of Preferences*, CRS Report for Congress, (March 30, 2006).
[6] Dean, *supra* note 4, at 19.
[7] Dean, *supra* note 4, at 5.
[8] Dean, *supra* note 4, at 19.

## II. Restrictions in the GSP Program Are the Real Impediment to Broader Use

Notwithstanding these positive results, preference programs, and, in particular, the U.S. GSP program, clearly have not had the full development impact desired. Many developing countries, and, in particular, poorer developing countries, export very little under GSP, as USTR and others have noted. This lack of utilization, however, is not due to larger or more developed GSP beneficiary countries monopolizing the benefits. Rather, it has happened because the current GSP program fails to cover the specific products that developing countries have a comparative advantage in producing. This lack of coverage is especially acute for less industrialized developing countries not included in any of the U.S. regional preference programs, such as the African Growth and Opportunity Act (AGOA) and the CBERA.

Exclusions under GSP primarily result from statutory mandates and from operation of the product approval process. With respect to statutory exclusions, paradoxically, the products excluded by statute include many products no longer produced in the United States, such as watches, certain glass products, and many types of footwear. They also include textiles and apparel and certain agricultural products – key products for many low-income and least developed countries. These are also sectors that tend to be dominated by vulnerable populations, including women and low-skilled workers – precisely the people preference programs should be designed to help.

With respect to the approval process, unlike some other U.S. preference programs, such as the Andean preference program, products are not automatically included as eligible under GSP – a petition must be filed for inclusion, which is then subject to a lengthy interagency review process. As a result, some products have not been included simply because developing country exporters have lacked the capacity to go through the petition process.

Table One illustrates the paucity of coverage under GSP, particularly for exports from the poorest developing countries. For example, Bangladesh has a per capita GDP of only $406, yet only 2% of Bangladeshi exports to the United States are eligible to receive GSP treatment. Nepal has a per capita GDP of only $252, yet only 5% of its exports to the United States qualify for GSP treatment. In fact, preference coverage for developing countries that are eligible only for GSP, and are not eligible for benefits under one of the regional preference programs, is, on average, only about 44%. Nearly half of the GSP-only countries have less than one third of their exports covered by the program.[9] Of the 15 LDCs eligible only under the GSP program, half have coverage rates near or below 25%,[10] even though the GSP-plus LDC program offers greater product coverage than the regular GSP program.

[9] Judith M. Dean and John Wainio, "Quantifying the Value of US Tariff Preferences," (January 2006), revision of a paper presented at *Preference Erosion: Impacts and Policy Responses*, WTO International Symposium, Geneva, June 12-14, 2005, at 10.
[10] *Id*. at 10.

**Table One: GSP Coverage* of Non-Agricultural Imports from Select Beneficiary Countries, 2003**

| Country | GSP Coverage | 2003 Share of Exports Receiving GSP Treatment (%)** | Per Capita GDP*** |
|---|---|---|---|
| | | **Non-LDCs** | |
| Egypt | 3% | 2.8% | $1085 |
| Mongolia | 1% | 0.1% | $641 |
| Pakistan | 5% | 3.6% | $632 |
| Sri Lanka | 7% | 5.4% | $1033 |
| Tunisia | 20% | 11.9% | $2838 |
| | | **LDCs** | |
| Afghanistan | 27% | 0.0% | n/a |
| Bangladesh | 2% | 1.5% | $406 |
| Bhutan | 22% | 17.6% | $751 |
| Cambodia | 1% | 0.3% | $354 |
| Nepal | 5% | 3.0% | $252 |

*Ratio of imports eligible for GSP (or GSP-plus for LDCs) to total dutiable imports. GSP coverage data taken from Judith M. Dean and John Wainio, *Quantifying the Value of US Tariff Preferences*, (January 2006), revision of a paper presented at Preference Erosion: Impacts and Policy Responses, WTO International Symposium, Geneva, June 12-14, 2005, Table 2.
**Data from U.S. International Trade Commission Dataweb, available at www.usitc.gov.
*** World Bank data.

Beyond product exclusions, several other aspects of the GSP program impede its effectiveness in promoting trade with and development in less-industrialized developing countries. These impediments include:

- **Disincentives for long-term investment because of short extensions and frequent expirations of the program.** Over the last 12 years, GSP has been allowed to lapse periodically and has usually been renewed for periods of less than one year (the last renewal was an exception). This has greatly undermined the effectiveness of the program in promoting trade and investment in marginal, developing countries. Simply put, investors and importing firms attracted by the opportunity of preferences will not invest in or source from countries if the status of the preferences is in doubt. In contrast, where preferences are stable, trade and investment has flourished. For example, U.S. preferences for the Caribbean and Central American countries, which are permanent and have been in effect continuously since 1984, have had a significant impact on investment.[11]

- **Disincentives for long-term investment because of the competitiveness penalty.** Under the current GSP program, countries that enjoy export success to the United States risk losing their preferential access under the program's competitive needs limit (CNL). The CNL was put into place to help less

[11] Dean, *supra* note 4, at 5.

competitive GSP beneficiaries – once a country reached the CNL, it was assumed to be a competitive exporter, and revoking benefits was assumed to provide less competitive beneficiaries with the opportunity to export. Unfortunately, the CNL has not had that effect. Data show that the CNL causes imports of the affected goods to drop by 10 to 17%, with no shift of trade in favor of less developed/competitive producers.[12] Moreover, the CNL has an unintended effect of chilling investment in countries perceived as likely to exceed it. Investors appear reluctant to invest in certain sectors in marginal countries because they believe that as soon as their investment succeeds, they will no longer receive the preference.

- **Lack of focus on supply side constraints.** The Doha Round of WTO negotiations has rightly focused on the issue of whether developing countries have the capacity to capitalize on the market access opportunities provided by developed countries through multilateral trade negotiations. The same concern exists with respect to unilateral preference programs. U.S. preference programs, including GSP, have not adequately tied trade capacity building assistance to the types of market access opportunities provided.

## III. Revocation of GSP Benefits Would Give Industrialized and Advanced Developing Countries an Economic Boost at the Expense of the Less Industrialized Countries

As stated out the outset, we do not believe that revoking some or all of the GSP benefits currently available to the review countries would achieve USTR's stated objective of redistributing benefits under the program to other developing countries. Moreover, such action could have a significant adverse impact on development in some of the review countries.

### A. Revocation Would Benefit Industrialized and Advanced Developing Countries

We identified the top three GSP exports for seven of the countries listed in USTR's request for comments (Brazil, India, Indonesia, Philippines, South Africa, Thailand, and Turkey). We then identified the top ten country exporters of these products to the U.S. market. For almost all of the top GSP exports from these seven countries, the alternative suppliers are developed countries, other advanced developing countries that are not GSP beneficiaries, or one of the other countries identified in USTR's GSP notice. These trade patterns, shown in Table Two below, suggest that if these seven review countries lose benefits, it would be these other leading suppliers, not less-industrialized GSP beneficiary countries, which would gain.

[12] James Devault, "Competitive Need Limits and the U.S. GSP," Contemporary Economic Policy (Huntington Beach: Oct 1996), Vol.14, Iss. 4.

| **Table Two: Top GSP Imports from Countries Identified in USTR FR Notice and Alternative Suppliers** | | | |
|---|---|---|---|
| **Country** | **Product (HTS 8 digit line)** | **Value (US$)** | **Top 10 Suppliers to US Market** |
| **Brazil** | Pts. & access. of mtr. vehicles of 8701, nesoi, and 8702-8705, brakes and servo-brakes & pts thereof (o/than mounted brake linings) (87083950) | 223,671,557 | Canada, Mexico, Japan, China, Brazil, Germany, South Korea, Italy, Taiwan, Australia |
| | Plywood of wood sheets, n/o 6 mm thick each, with outer plies of coniferous wood, with face play nesoi, not or clear surface covered (44121940) | 140,991,971 | Brazil, Canada, Chile, China, Paraguay, Mexico, Austria, Netherlands, Germany, Guyana |
| | Other parts, nesoi, suitable for use solely or principally with the machines in heading 8501 or 8502 (85030095) | 131,170,736 | Japan, Brazil, Mexico, Canada, Germany, China, Denmark, Taiwan, France, Netherlands |
| **India** | Precious metal (o/than silver) articles of jewelry and parts thereof, whether or not plated or clad with precious metal,nesoi (71131950) | 1,594,212,535 | India, China, Thailand, Italy, Hong Kong, Turkey, Mexico, Dominican Republic, France, Canada |
| | Monumental or building stone & arts. thereof, of granite, further worked than simply cut/sawn, nesoi (68029300) | 74,615,304 | Brazil, Italy, China, India, Canada, Taiwan, Spain, South Africa, Saudi Arabia, Argentina |
| | Pts. & access. of motor vehicles of 8701, nesoi, and 8702-8705, pts. for steering systems nesoi (87089973) | 62,679,865 | Japan, Canada, Mexico, Liechtenstein, Germany, South Korea, India, Brazil, Thailand, France |
| **Indonesia** | Still image video cameras (other than digital) and other video camera recorders (85254080) | 83,626,632 | Japan, Malaysia, Indonesia, China, South Korea, Singapore, Taiwan, Denmark, Thailand, Germany |
| | Polyethylene terephthalate in primary forms (39076000) | 76,802,412 | Mexico, Canada, China, South Korea, Indonesia, Thailand, India, Taiwan, Italy, Malaysia |
| | Precious metal (o/than silver) articles of jewelry and parts thereof, whether or not plated or clad with precious metal,nesoi (71131950) | 69,926,309 | India, China, Thailand, Italy, Hong Kong, Turkey, Mexico, Dominican Republic, France, Canada |

| | | | |
|---|---|---|---|
| **Philippines** | Insulated ignition wiring sets and other wiring sets of a kind used in vehicles, aircraft or ships (85443000) | 148,275,001 | Mexico, Philippines, Honduras, China, Nicaragua, Japan, Thailand, Indonesia, Canada, France |
| | Insulated electric conductors nesoi, for a voltage exceeding 80 V but not exceeding 1,000 V, fitted with connectors, nesoi (85445190) | 62,673,427 | Mexico, China, Philippines, Taiwan, Canada, Japan, Indonesia, Germany, Hong Kong, India |
| | Cane sugar, raw, in solid form, w/o added flavoring or coloring, subject to add. US 5 to Ch.17 (17011110) | 56,386,002 | Brazil, Dominican Republic, Philippines, Australia, Guatemala, Panama, Colombia, Argentina, El Salvador, Swaziland |
| **South Africa** | Aluminum alloy, plates/sheets/strip, w/thick. o/0.2mm, rectangular (incl. sq), not clad (76061230) | 149,578,295 | Canada, Germany, South Africa, Russia, Greece, Indonesia, Brazil, Romania, China, Austria |
| | Ferrochromium containing by weight more than 4 percent of carbon (72024100) | 114,815,184 | South Africa, Kazakhstan, Zimbabwe, Russia, Sweden, India, China |
| | Ferrosilicon manganese (72023000) | 60,863,525 | South Africa, Norway, Romania, Australia, Mexico, Russia, Georgia, South Korea, Spain, Canada |
| **Thailand** | Precious metal (o/than silver) articles of jewelry and parts thereof, whether or not plated or clad with precious metal,nesoi (71131950) | 590,713,403 | India, China, Thailand, Italy, Hong Kong, Turkey, Mexico, Dominican Republic, France, Canada |
| | Non-high definition color television reception app., nonprojection, w/CRT, video display diag. ov 35.56 cm, incorporating a VCR or player (85281228) | 170,286,335 | Malaysia, Thailand, China, Mexico, Hong Kong, Belgium, Taiwan, Japan, United Kingdom, Israel |
| | Sacks and bags (including cones) for the conveyance or packing of goods, of polymers of ethylene (39232100) | 129,498,353 | Canada, China, Thailand, Taiwan, Mexico, Indonesia, South Korea, Malaysia, Vietnam, Hong Kong |

| | | | |
|---|---|---|---|
| **Turkey** | Precious metal (o/than silver) articles of jewelry and parts thereof, whether or not plated or clad with precious metal,nesoi (71131950) | 279,853,191 | India, China, Thailand, Italy, Hong Kong, Turkey, Mexico, Dominican Republic, France, Canada |
| | Gold necklaces and neck chains (o/than of rope or mixed links) (71131929) | 103,992,130 | Italy, Turkey, Croatia, Israel, India, France, Thailand, Peru, China, Dominican Republic |
| | Refined copper, wire, w/maximum cross-sectional dimension of 6 mm or less (74081900) | 37,421,045 | Turkey, Brazil, Germany, France, United Kingdom, Austria, Japan, China, Peru, Taiwan |

As shown in Table 2, the top GSP export from Brazil is certain automotive parts classified under HTSUS 87083950. The other top suppliers to the U.S. market for that tariff classification are Canada, Mexico, Japan, China, Germany, South Korea, Italy, Taiwan and Australia. Of these exporters, Canada, Mexico, and Australia have duty-free access to the U.S. market under U.S. free trade agreements (FTAs). South Korea is likely to enjoy similar access soon. In light of both the heavy concentration of developed country exporters and the significant number of exporters that are party to a U.S. FTA, it would be highly improbable that a LDC or low-income developing country would be able to break into the U.S. market, even with revocation of Brazil's GSP benefits.

Similar trade patterns exist for Indonesia's leading GSP export – video cameras classified under HTSUS 85254080. The leading exporters to the U.S. market are Japan, Malaysia, China, South Korea, Singapore, Taiwan, Denmark, Thailand and Germany. The high concentration of developed country and advanced developing country exporters suggests that it would be very difficult for an LDC or low-income country to enter the U.S. market.

In some instances, importers have already indicated that they will switch sourcing from a GSP beneficiary to a non-GSP beneficiary if benefits are revoked. The best example is for India and Thailand's leading GSP export – entry-level fine jewelry classified under HTSUS 71131950 (e.g., gold jewelry available at Wal-Mart, JC Penney, etc.). The other leading exporter to the U.S. market of jewelry falling under this classification is China. Leading U.S. importers of this type of jewelry state that they intend to source from China if India or Thailand lose GSP benefits, because, according to them, China has the immediate capacity to produce what they need at a highly competitive price.[13] When asked whether they would consider sourcing from other GSP beneficiaries, including countries that currently do not export this type of jewelry, the importers said no, due to the uncertainty of training a new workforce.[14]

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[13] From authors' conversations with leading industry importers. Notes on file with authors.
[14] *Id*.

### B. Revocation Could Hurt the Poor

Revocation of benefits for the review countries would be at odds with past U.S. practice under the GSP programs. In contrast to countries that have been graduated from GSP in the past, many of the review countries have very large poor populations, and low per capita GDPs. Moreover, the leading GSP exports discussed are produced by the types of industries GSP was intended to support – industries that require a skilled workforce and that foster the development of related industries and services.

#### 1. Revocation Would Not Be Consistent with Past Practice

The U.S. Government appears to have revoked GSP benefits for beneficiary countries primarily under three circumstances. First, GSP benefits have been terminated when a country has exceeded the per capita income threshold (as measured by World Bank statistics), triggering graduation from the program.[15] Second, benefits have been revoked when a country has maintained practices clearly inconsistent with the statute's eligibility requirements, such as inadequate protection and enforcement of intellectual property[16] or weak observance of worker's rights.[17] Third, countries have lost GSP benefits when they extended preferential trade terms to non-U.S. trading partners, a provision recently invoked when several countries acceded to the European Union.[18]

Only in very few cases has revocation been based on the conclusion that a country is well on the road to economic development. However, in those few cases, which involved Hong Kong, the Republic of Korea, Singapore, Taiwan,[19] and Malaysia, [20] the circumstances justifying revocation were very different from the situation at hand. For

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[15] Section 504 of the U.S. Trade Act of 1974, as amended, establishes the legal criterion for per capita income graduation. This provision has been applied in seventeen cases. For example, Antigua and Barbuda, Bahrain, and Barbados were determined to have achieved "high income" status and were graduated from the GSP program on January 1, 2006. *See* "The U.S. Generalized System of Preferences Program: An Update," prepared for the Coalition for GSP by the Trade Partnership, March 2006, www.tradepartnership.com.

[16] *See, e.g.*, Ukraine, Office of the United States Trade Representative, "Determination of Action to Suspend GSP Benefits Under Section 301 (b)," 66 *Fed. Reg.* 42246 (Aug. 10, 2001).

[17] Because of labor rights violations, a total of thirteen countries have been suspended from GSP beneficiary status: Romania (1987), Nicaragua (1987), Paraguay (1987), Chile (1987), Burma (1989), Central African Republic (1989), Liberia (1990), Sudan (1991), Syria (1992), Mauritania (1993), Maldives (1995), Pakistan (1996), and Belarus (2000). *See* "The U.S. Generalized System of Preferences Program: An Update," prepared for the Coalition for GSP by the Trade Partnership, March 2006, www.tradepartnership.com.

[18] In May 2004, GSP benefits were terminated for the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland and Slovenia. Office of the United States Trade Representative, Generalized System of Preferences (GSP): Termination of Countries Joining the European Union From Eligibility as a GSP Beneficiary Country," 69 Fed. Reg. 28185 (May, 18, 2004).

[19] Hong Kong, the Republic of Korea, Singapore, and Taiwan were graduated from the GSP program on January 2, 1989. *Statement by Assistant to the President for Press Relations Fitzwater on Amendments to the Generalized System of Preferences Program*, January 29, 1988, www.presidency.ucsb.edu/ws.

[20] Malaysia was graduated from the GSP program on January 1, 1997. *Proclamation 6942: To Amend the Generalized System of Preferences*, October 17, 1996, www.presidency.ucsb.edu/ws.

example, when Hong Kong's GSP benefits were terminated in 1989, Hong Kong had per capita GDP, as adjusted for inflation, of $13,767.[21] Singapore's per capita GDP in 1997, also adjusted for inflation was $12,204.[22] These per capita GDPs are much higher than the per capita GDPs in many of the review countries. For example, India has per capita GDP of $620 and a population of 855.6 million poor living on less than $2 a day.[23]

Admittedly, South Korea did have a relatively low GDP at the time of its graduation in 1989. However, South Korea is distinguishable on other grounds. At the time of graduation, South Korea had already transitioned from an agriculture-based economy to a manufacturing based economy, with only around one third of its workforce engaged in farming. South Korea also had experienced significant, consistent economic growth for a number of years. In fact, for the prior three years before graduation, the South Korean economy was growing at an average of 12% per year, and the South Korean government projected that per capita GDP would double within ten years.[24] Those statistics stand in sharp contrast to the review countries. In India, for example, the majority of its working population continues to engage in farming, much of which is on small, subsistence plots. India also has much lower levels of projected economic growth and a significantly lower per capita GDP.[25]

### 2. <u>Revocation Hurts Sectors Important to Development</u>

The industries that rank among the top GSP exports for many of the review countries are also significant in terms of development patterns. Many of industries supported by GSP in these countries have helped create large numbers of jobs, fostered a skilled workforce, and have supported the development of related industries and services.

For example, as shown in Table Two, electronic products are a significant GSP export for Indonesia, Philippines and Thailand. The electronics industry is credited with helping spur development in Asia for four related reasons. [26] First, and most obviously, the industry has attracted needed investment and generated jobs. In Thailand, for example, the electronics industry has created approximately 300,000 new jobs, including in rural areas.[27] Second, because of the skills required, the industry has helped promote the development of a more skilled labor force and has contributed to improvements in

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[21] World Bank, *World Development Indicators*, 2006, publications.worldbank.org/subscriptions/WDI/SMReslt.asp.
[22] *Id*.
[23] *Id*.
[24] *South Korea: A Country Study*. Federal Research Division, Library of Congress, 1992. Andrea Matles Savada and William Shaw, eds., pgs. 193-195, *Trends in Developing Economies 1990*. The World Bank, October 1990, pgs. 299 to 303.
[25] *Supra*, note 21.
[26] UNCTAD. "Strengthening Participation of Developing Countries in Dynamic and New Sectors of World Trade: Trends, Issues and Policies in the Electronics Sector," September 28, 2005. UNCTAD/TD/B/COM.1/EM.28/2, www.unctad.org/en/docs/c lem28d_en.pdf
[27] UNCTAD, "A Case Study of the Electronics Industry in Thailand," 2005. UNCTAD/ITE/IPC/1005/06, http://www.unctad.org/en/docs/iteipc20056_en.pdf.

labor productivity. [28] Third, the sector has led to advances in technology and innovation. Fourth, the industry has attracted and spurred the development of related services industries.[29] In fact, in the Philippines the electronics manufacturing sector has been one of the few sectors to generate economic growth.[30]

Jewelry-making is another important GSP sector that is helping to contribute to development in India, Indonesia, Thailand and Turkey. In India, for example, industry experts estimate that the export-oriented jewelry making industry has created 400,000 jobs since GSP benefits were extended in 2001.[31] Forty percent of these workers are women, and many of the workers come from the countryside, where they likely were involved in subsistence farming. The export-oriented jewelry industry also helps support an estimate 600,000 related workers involved in gem cutting and finishing. While the gem cutting industry existed prior to the development of the export-oriented jewelry industry (and in fact, was one of the reasons the new industry could be so quickly established), the gem industry has flourished and expanded as the new industry has taken root. Industry experts say there would likely be a contraction in that related industry if GSP benefits are revoked. It is important to note that many of these businesses are family owned, and a number of the workers do not possess the skills to transfer to another industry.

## IV. Revocation of GSP Benefits Will Hurt U.S. Commercial Interests

### A. Eligibility Criteria Promote U.S. Interests

Since the GSP program was created, it has served as an important U.S. policy tool to encourage economic reforms in GSP beneficiary countries. The mandatory and discretionary criteria in the statute, such as the requirement that countries adequately and effectively protect intellectual property (IP) and the requirement that workers' rights be protected, have served as important leverage to bring about legal reform in GSP beneficiary countries, to the benefit of U.S. businesses and workers, as well as to the beneficiary countries. That leverage will be lost if GSP benefits are revoked for the review countries, many of which are key markets for U.S. firms.

The IP provisions of the GSP program have been particularly important to upholding U.S. commercial interests, such as addressing counterfeiting and enforcement of copyright laws. Several notable examples of how the IP provisions in the GSP statute have been used to address legal deficiencies and rampant copyright piracy exist within the group of review countries, namely India, whose benefits were revoked and then

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[28] *See* Sidney F. Heath III, "Lessons from the Evolution of Electronics Manufacturing Technologies" from Marshaling Technology for Development: Proceedings of a Symposium, 1995.
[29] OECD Development Centre, "Striving for International Competitiveness: Lessons from Electronics for Developing Countries," Jan Maarten de Vet, OECD Working Paper No. 84.
[30] International Bank for Reconstruction and Development and the International Finance Corporation. "Country Assistance Strategy for the Republic of the Philippines," April 19, 2005. http://siteresources.worldbank.org/INTPHILLIPINES/resources/PHILCASMAIN_noannexes.pdf.
[31] From authors' conversations with leading industry importers. Notes on file with authors.

restored in 2005, and Brazil and Kazakhstan, both of which made significant improvements to their copyright regimes in response to pending GSP cases.

Numerous examples of the effectiveness of GSP's requirement for adequate and effective IP enforcement also exist aside from the review countries. After losing GSP benefits in 2001, Ukraine implemented measures to fight widespread copyright and trademark piracy.[32] Recently, USTR, in response to a petition filed by U.S. industry to revoke Pakistan's GSP benefits due to IP violations, used GSP eligibility to obtain significant improvements to Pakistan's IP regime.[33]

IP is just one example of eligibility criteria that have promoted reform in beneficiary countries. Other eligibility criteria on protection of workers rights, investor's rights, and affording equitable access to U.S. goods and services have also provided leverage in achieving positive change in beneficiary countries.

### B. U.S. Firms Benefit from Use of GSP Products

In addition to promoting better trade practices in beneficiary countries through the statutory criteria, GSP helps many U.S. businesses, including many small and large U.S. importers and retailers, which use GSP imports. In particular, U.S. firms use GSP imports to lower their cost of doing business. In fact, GSP is estimated to have saved U.S. businesses $923 million in 2005.

For example, GSP has been the key to success of a number of smaller companies that import fertilizer and herbicides for farmers and households.[34] It is also the key to the sourcing strategies for a number of nationwide U.S. retailers of household wares. GSP also supports U.S. jobs in a wide variety of U.S. manufacturing industries that use inputs imported under GSP as a way to reduce their manufacturing costs. For example, a major U.S. electronics manufacturer uses GSP-eligible speaker parts at one of its U.S. facilities.[35]

### C. GSP Serves Other U.S. Interests

In addition to its economic benefits, GSP serves other important U.S. foreign policy goals, such as the promotion of U.S. security. President Bush has argued that the United States is seeking economic progress in the developing world because

> our interests are directly at stake . . . . The ultimate answer to [the threat of terrorism] is to encourage prosperous, democratic, and lawful societies that join us in overcoming

[32] "USTR Reinstates GSP benefits for Ukraine," January 1, 2006. *See* www.ustr.gov/Document_Library/Press_Releases/2006/January.
[33] "USTR Ends Review of Pakistan's Protection of Intellectual Property Rights," January 24, 2006. *See* www.ustr.gov/Document_Library/Press_Releases/2006/January.
[34] "The U.S. Generalized System of Preferences Program: An Update," prepared for the Coalition for GSP by the Trade Partnership, March 2006, www.tradepartnership.com.
[35] *Id.*

> the forces of terror . . . . It is trade that provides the engine for development.[36]

Because GSP is an important economic tool to countries that are central to U.S. security interests, the GSP program plays a large role in U.S. economic and political policy. In the case of the identified countries, this is particularly true with respect to Indonesia and the Philippines.[37] GSP has also provided an effective means to promote economic growth and minimize political and economic upheaval in the face of natural disaster, such as the Asian tsunami in December 2004, and war.[38]

## V. Five Changes to Broaden the Benefits of GSP

We reiterate our strong support of the objective of promoting international economic development through the U.S. GSP program and other preference programs. In order to achieve the objective of broadening use of GSP, and, based on the restrictions outlined in Section II, we propose that USTR, working with Congress, reform the GSP program to include the following:

- **Broaden the benefits of GSP for LDCs and low-income and other economically vulnerable countries by providing 100% duty-free access for all exports.**

- **Make GSP permanent.**

- **Use a negative list product designation so that preferential market access is granted without a petition process, as under the Andean preference program.**

- **Eliminate the competitive need limit, which creates a glass ceiling for competitive GSP beneficiaries and often acts to discourage investment.**

- **Provide targeted trade capacity building, including through programs designed to address infrastructure gaps, financing shortfalls, beneficiary government policies that impede development, and corruption.**

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[36] "President Discusses G8 Summit, Progress in Africa," June 30, 2005. *See* www.whitehouse.gov/news/releases/2005/06/20050630.html.

[37] One of the few countries to have ratified all 12 UN Conventions on Counterrorism, the Philippines was designated as a major non-NATO ally by the United States in October 2003. "Background Note: Philippines." U.S. Department of State, Bureau of East Asian and Pacific Affairs, September 2005. *See* www.state.gov/r/pa/ei/bgn/2794.htm.

[38] "U.S. Extends Trade Benefits to Tsunami-hit Countries and Iraq," June 30, 2005. *See* www.ustr.gov/Document_Library/Press_Releases/2005/June.

# 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**

**September 5, 2006**

Submitted by:

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## I. Introduction

The Coalition for GSP (Coalition) submits this written statement 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 August 8, 2006, pages 45079-45080).

The Coalition is a diverse group of U.S. companies and trade associations that use the GSP program. We include large companies – retailers and manufacturers – and many small businesses, importers as well as manufacturers. The GSP program is an integral part of our businesses. Our members import a wide range of goods under GSP, including food products, chemicals, motor vehicle parts, jewelry, batteries, house wares, wood and wood products.

Coalition members are very concerned about the impact that removal or reduction of GSP benefits for the 13 targeted countries and the 83 competitive need limit (CNL) waivers would have on the exporting beneficiary developing countries (BDCs) as well as U.S. manufacturers and consumers. We urge the Trade Policy Staff Committee (TPSC) to weigh these expected adverse impacts carefully in its deliberations.

## II. Selection Criteria to Determine Review Countries

As the *Federal Register* notice points out, the GSP statute authorizes the President to withdraw, suspend or limit GSP benefits for any BDC based on the effect of the action on furthering export-led economic development, the competitiveness of the BDC, and the BDC's level of economic development. The Coalition strongly believes that, on the basis of these criteria, withdrawal, suspension or limitation of GSP benefits provided to most if not all of the 13 targeted countries would have adverse impacts on their exports and, consequently, their economic development; that the BDCs are not yet competitive relative to power-house exporters located in Asia, for example; and that the BDCs remain quite poor when viewed through the lens of their per capita gross national product and living standards.

To select countries for the current review, USTR created a subset of the statute's "competitiveness" criteria that may suggest a BDC meets the broader criteria for "graduation," in whole or in part, from the GSP program. This subset of criteria would target BDCs that are "upper middle income economies" (as identified by the World Bank) *and* which also account for more than $100 million in total U.S. imports under GSP in 2005 (Group 1), *or* BDCs whose total goods exports accounted for more than 0.25 percent of world goods exports in 2005, as reported by the World Trade Organization (Group 2). It is our understanding that

USTR is asking whether an upper middle income country that exports more than $100 million duty-free to the United States is sufficiently competitive to continue such exports to the United States and development related to those exports in the absence of GSP benefits. In addition, USTR is asking whether a BDC that is a lower income country but accounts for a certain share of world trade can remain competitive and continue to develop on the basis of export-related growth in the absence of GSP benefits.[1]

Coalition members have direct experience importing from eight countries that were selected for this review on the basis of this subset of criteria. Those eight countries are Argentina, Brazil, India, Indonesia, Thailand, the Philippines, South Africa, and Turkey.[2] While experience varies with the country, we can tell the TPSC that each of these countries, absent GSP benefits, would not be competitive exporters of the products we import from them, and that development related to exports would be adversely impacted. Our experiences and concerns are described in detail in the next section of these comments.

## III. Likely Effects of Country Graduations

USTR states in its *Federal Register* notice that the TPSC seeks to determine whether major beneficiaries of the GSP program have expanded exports or have progressed in their economic development to such an extent that their GSP benefits should be limited, suspended or withdrawn. The Committee needs to take several recent developments in the market into consideration, developments that affect the data and might lead one to conclude that GSP benefits are no longer needed. In addition, the Committee must understand with whom each of the exporters in these BDCs compete, and factor that into its impact analysis. Again, we focus our comments on those eight countries under review for which we have direct experience.

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1 We have two concerns about the degree to which this second subset of criteria provides a clear picture of a country's competitiveness in the absence of GSP benefits. First, many of the lower-middle income countries under review that account for more than 0.25 percent of world exports do so primarily as a result of their sheer size, not because of advanced competitiveness. Not surprisingly, then, India and Brazil, which are large countries (based on population) would naturally be larger exporters than Burundi or Sri Lanka, for example. Second, the data include important export products not eligible for GSP benefits -- like textiles, apparel, footwear, steel – that biases upwards the country's world export "presence" and are not relevant to the question of how competitive an exporter of GSP-eligible products a BDC would be absent GSP benefits.

2 The Coalition takes no position with respect to the need for continued GSP benefits for the other countries that are the subject of this review, only because our members do not source from those countries and therefore cannot attest to the competitiveness of their exports absent GSP benefits.

A. Export Value Trends

It is important to remember that prior to 2001, GSP was in effect in fits and starts. The uncertainty associated with renewal of the program by Congress took a toll on usage of the program by importers. Uncertain whether duty-free benefits would be available, many importers looked to non-BDC countries for sourcing supplies of products that would otherwise have been imported under GSP. The import data show this clearly. From 1994-2001, U.S. imports under GSP *declined* at an average annual rate of 2.2 percent. But after the program was renewed in 2001 for five and a half years, U.S. imports from GSP beneficiaries *increased* at an average annual rate of 11.0 percent. Trends for imports from the 13 countries now under review also show the value of long-term extensions. From 1994-2001, imports under GSP from the 13 countries were virtually flat, increasing at an average annual rate of 0.5 percent, but increased at an average annual rate of 17.2 percent from 2001 onward. Thus, strong recent increases in imports from any given country under GSP are more likely attributable to the stability of the program over the last five years rather than a sign of increased competitiveness of any single BDC's exports.

A second important recent development in the market that biases the data is the strong increases in the prices of commodities that are imported under GSP or that are used to produce goods imported under GSP. Notable are the increases in the prices of copper and precious metals, to name just two. Within the past year alone, gold prices have increased 42.2 percent; silver is up 74.6 percent, platinum prices are up 38.3 percent; copper prices have doubled.[3] This means that the import values of goods made with copper – magnet wire from Brazil, for example -- and gold, platinum and silver – jewelry from India, e.g. – have increased dramatically as well. Large increases in the values of Brazil's copper magnet wire exports or India's jewelry exports are not therefore necessarily an indication of increased competitiveness. (It must also be added that the duty savings from GSP are all the more important to these BDC exporters given the higher costs of the products they are exporting.)

B. Competitiveness Absent GSP

The fundamental question underlying this review is whether the BDCs that are the object of it can continue to export to the United States at present levels absent the duty preference afforded by GSP. The answer is "No." As noted above, for products that incorporate raw materials experiencing rapid increases in prices, the duty-savings afforded by GSP are crucial to competitiveness in the U.S. market. But a more significant factor is the fact – it is a fact – that China can produce virtually every product eligible for GSP benefits cheaply, quickly and at

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[3] *The Wall Street Journal*, Commodity Futures and Cash Prices Table, August 22, 2006.

acceptable, even superior, quality levels. More often than not, duty-free treatment under GSP is all that encourages importers to source a product from a GSP BDC rather than China.

One clear example of the shift to China that would likely result from loss of GSP benefits is jewelry. In 2005, U.S. companies used GSP to import approximately $2.75 billion worth of jewelry (HTS number 7113.19.50—jewelry of precious metal, other than silver). India, Thailand, and Turkey, traditional suppliers of these products, account for about 90 percent of total imports under GSP from this category. Despite the fact that U.S. importers avoid a 5.5 percent tariff by sourcing from GSP beneficiaries—and can do so in unlimited quantities as a result of the competitive need limit (CNL) waivers—imports from China have grown faster than imports from GSP beneficiaries from 2004 through the first six months of 2006. Were these three countries to lose GSP benefits in whole or in part, jewelry sourcing would largely shift to China.

A related question is whether loss of GSP benefits for these countries will focus the program's benefits more squarely on least developed BDCs. Again, the answer is "No." As the Coalition has noted in a previous submission to USTR, the choice for U.S. importers of products from the eight beneficiaries with which we have direct experience is not India vs. Nepal, or Brazil vs. Lesotho, it is India vs. China and Brazil vs. China. If either 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 be other GSP beneficiaries.

There are really only two ways to expand the least developed countries' use of the GSP program. The first is to renew the program, as is, for a long period of time. Table 1 shows that imports under GSP expanded significantly for least developed BDCs only after Congress renewed the program for more than five years.

**Table 1**
**Average Annual Increases in U.S. Imports under GSP from Selected Beneficiary Countries**

| | 1994-2001 Stop-and-Start Renewal Period | 2001-2005 Stable Renewal Period |
|---|---|---|
| Guyana | -0.6% | +85.1% |
| Lesotho | -73.2% | +63.7% |
| Kenya | -5.5% | +14.3% |

Source: U.S. Census Bureau

A second way to encourage more sourcing from least developed BDCs is to revise the programs cumulation provisions to permit cumulation among all GSP BDCs (rather than just a few, as is now the case) to meet the 35 percent value added rule of origin for GSP benefits.

## IV. Likely Effects of Loss of Competitive Need Limit Waivers

USTR asks whether changed circumstances merit the termination of any (or all) of the current CNL waivers now in effect. While some of the current waivers might not be necessary, as countries no longer export significant quantities of the products for which they have a waiver, many waivers should be continued because the circumstances under which they were initially granted have not changed. The fact that these waivers have been in effect for a long time without challenge to date by a U.S industry demonstrates that the waivers do not adversely affect U.S. industry and that the waivers should not be rescinded on that basis.

In addition, as consumers of the products imported under the waivers, members of the Coalition affirm that those imports free of duty thanks to GSP continue to be in the national economic interest of the United States. Absent the CNL waivers, Coalition members would need to seriously evaluate shifts in sourcing to other suppliers. For many products imported by Coalition members, no other BDC is a viable alternative source of the same product.[4] Rather, alternative sources are developed countries of Asia, and China figures predominantly on the alternative supplier list (see Table 2).

[4] In other words, the United States has not imported the product from another BDC over the last four years, or if it has, the volumes are so small as to suggest that the quality or capacity are not sufficient to substitute for the BDC to whom the waiver is provided. We also excluded as viable alternative sources of supply those BDCs subject to this review: the uncertainty associated with their continued GSP benefits makes sourcing from them less attractive to importers of products now benefiting from the CNL waiver.

**Table 2**
**Selected CNL Waiver Products with No Viable Alternate GSP Supplier**

| HTS Number | Description | BDC | MFN Tariff Rate | GSP Savings (thousands) | Most Likely Alternative Source |
|---|---|---|---|---|---|
| 1202.20.40 | Peanuts | Argentina | .066 $/kg | $13.2 | None |
| 4107.19.50 | Leather | Argentina | 2.8% | 1,070.0 | China |
| 4203.21.20 | Batting gloves | Indonesia | 3.0% | 439.7 | China |
| 4412.13.40 | Plywood | Indonesia | 8.0% | 4,597.2 | Malaysia |
| 4602.10.16 | Baskets/bags | Philippines | 5.0% | 174.0 | China |
| 4602.10.18 | Baskets/bags | Philippines | 4.5% | 520.7 | China |
| 4602.10.80 | Baskets/bags | Philippines | 2.3% | 80.4 | China |
| 6702.90.65 | Artificial flowers | Thailand | 17.0% | 72.1 | China |
| 7113.11.20 | Silver jewelry | Thailand | 13.5% | 7,210.1 | China |
| 7113.11.50 | Silver jewelry | Thailand | 5.0% | 4,170.8 | China |
| 7113.19.25 | Gold jewelry | India | 5.8% | 330.5 | Italy |
| 7113.19.50 | Precious metal jewelry | India, Thailand, Turkey | 5.5% | 135,562.8 | China |
| 7202.93.80 | Ferroniobium | Brazil | 5.0% | 2,679.5 | Canada |
| 8407.34.18 | M.V. engines | Brazil | 2.5% | 0.5 | Japan |
| 8407.34.48 | M. V. engines | Brazil | 2.5% | 1.1 | Canada |
| 8409.91.30 | M.V. cylinder heads | Brazil | 2.5% | 118.8 | Mexico |
| 8414.51.30 | Ceiling fans | Thailand | 4.7% | 211.4 | China |
| 8483.10.30 | Camshafts/ crankshafts | Brazil | 2.5% | 1,716.6 | Japan |
| 8525.40.80 | Video cameras | Indonesia | 2.1% | 1,756.2 | Japan |
| 8527.21.10 | Radio-tape players | Brazil | 2.0% | 7.2 | Mexico |
| 8527.31.40 | Radios | Indonesia | 1.0% | 0.5 | China |
| 8527.39.00 | Radios | Indonesia | 3.0% | 6,641.2 | Malaysia |
| 8527.90.95 | Radios | Philippines | 6.0% | 0.5 | Mexico |
| 8528.12.28 | Color TVs | Thailand | 3.9% | 6,641.2 | Malaysia |
| 8529.90.01 | TV tuner circuits | Indonesia | 3.0% | 0.3 | Japan |
| 8529.90.29 | TV tuners | Indonesia | 3.0% | 18.3 | Mexico |
| 8544.30.00 | M.V. ignition wiring | Philippines | 5.0% | 7,413.8 | Mexico |
| 8708.39.50 | Brake parts | Brazil | 2.5% | 5,591.8 | Canada |
| 9001.30.00 | Contact lenses | Indonesia | 2.0% | 4.4 | Ireland |
| 9405.50.20 | Lamps | India | 2.0% | 3.0 | China |
| 9405.50.30 | Lamps | India | 2.9% | 1,118.9 | China |
| 9405.50.40 | Lamps | India | 5.7% | 2,689.7 | China |
| 9613.10.10 | Cigarette lighters | Philippines | 8.0% | 91.0 | France |

Source: U.S. Census Bureau

The shift of sourcing to poorer beneficiaries is unlikely even in categories where American companies already import from other BDCs. We have already detailed the case of jewelry above, but many other products require the CNL waivers to stay competitive with China, who already dominates U.S. imports of many of these categories.

For example, bags and baskets from the Philippines receive three different CNL waivers (HTS numbers 4602.10.16, 4602.10.18, 4602.10.80) and forego duties between 2.3 percent and 5.0 percent. Although the Philippines ranks second in imports in each of these categories, goods from China accounted for 46-80 percent of total U.S. imports in 2005. Ghana, one of the top GSP producers of bags and baskets other than the Philippines, accounted for less than 1 percent of total imports. Given China's clearly established position as the market leader for these products, it is unlikely that GSP BDCs like Ghana would gain if the Philippines lost its the CNL waiver.

## V. Overall Impact American Companies and Workers

Coalition members believe it is very important for the TPSC to consider the impact on American consumers and manufacturers – on the national economic interest – in the Committee's review. 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. Loss of GSP will have an adverse impact on these constituencies that must also be weighed carefully by the Committee.

As noted previously, U.S. manufacturers incorporate raw materials imported under GSP in many products. Indeed, raw materials and components further processed in the United States account for more than two thirds of GSP imports. They use ferroalloys from Brazil and Kazakhstan for steel production and aluminum ingots for the aluminum they produce in the United States. They incorporate leather from Argentina into furniture made in North Carolina. The U.S. motor vehicle industry incorporates nearly $1.7 billion worth of duty-free parts and components into motor vehicles manufactured in the United States. And American farmers benefit from the duty-free savings afforded by the program to agricultural chemicals used to make fertilizer and herbicides in the United States.

The duty savings afforded by GSP are significant. For example, GSP benefits save consumers from paying a 12.5 percent duty on flashlights from Thailand and duties of up to 13.5 percent on jewelry from India, Thailand, and Turkey. By importing parts and components under GSP, the U.S. motor vehicle industry saves millions of dollars on tariffs, including approximately $7.4 million on ignition wiring sets from the Philippines and $7.3 million on brake parts and camshafts from Brazil.

Numerous small businesses owe their continued competitiveness to the GSP program. The duty savings afforded by GSP for many products used by these companies may appear modest in the aggregate, but at the company level the savings can make the difference between profitability and survival in tough markets.

Thus, a decision by the TPSC to limit, suspend, or withdraw benefits from the BDCs subject to this review, or to withdraw current CNL waivers for products, such as jewelry and automotive parts, will in turn have a negative effect on Americans manufacturers and consumers, a negative impact that is too significant to dismiss.

## VI. Conclusion

The Coalition appreciates the concerns that gave rise to this review and appreciates the opportunity to provide substantive input to the Committee's deliberations. GSP is an important program that benefits not only BDCs but Americans as well. These broader benefits and the negative impacts associated with reducing the benefits afforded current BDCs under the program must be considered. To avert negative impacts on these consumers and manufacturers, and to avoid shifts in trade to non-GSP countries, we strongly urge the Committee to continue GSP benefits for, at a minimum, Argentina, Brazil, India, Indonesia, Thailand, the Philippines, South Africa, and Turkey. We also urge you to continue the CNL waivers for the individual HTS items discussed in this submission.

# Daltonian Flooring Inc.

130 Executive Drive
Calhoun, GA 30701
706-602-7478
706-602-7823


September 5, 2006

Marideth J. Sandler, Chairman
GSP Subcommittee of the Trade Policy Staff Committee
Office of the U.S. Trade Representative
600 17th Street NW
Washington, DC 20506

Dear Chairman Sandler,

As an importer, I am pleased to submit this statement in support of the Generalized System of Preferences (GSP) program in response to the GSP Subcommittee's Request for Public Comments to determine whether major beneficiaries of the program have expanded exports or have progressed in their economic development to the extent that their eligibility should be limited, suspended, or withdrawn. We know first-hand how important GSP is for U.S. businesses.

We urge the Administration to exercise caution as it approaches the decisions on whether to remove countries such as Brazil or India from the GSP program. <u>If your decision is to remove or suspend these countries, we urge you to do so with sufficient prior notice that allows U.S. importers to find other suitable suppliers. I suggest AT LEAST one year.</u> While these larger beneficiary countries have progressed economically due to their participation in the GSP program, an abrupt cut-off from the program would not only cause serious hardship for these countries without a corresponding benefit to the least developed countries, but would harm U.S. importers as well. It does not necessarily follow that U.S. businesses will switch suppliers from a larger GSP country to a least developed country, ESPECIALLY in the short run. In fact, the least developed countries often lack the production capability as well as the infrastructure to become a reliable source for many products now sourced from Brazil, India or one of the other larger beneficiary countries. A decision to remove one or more of these countries is probably a lose-lose proposition without adequate lead time to find other sourcing.

As an importer of GSP products, we are keenly aware of the valuable role GSP has played in the past 20 years. It has added to the robust trade flows that fuel our economy. Removal of the major GSP players from the program now will greatly diminish GSP's effectiveness, with negative repercussions for these countries, as well as for US companies that source from these GSP beneficiaries and for consumers who ultimately will pay the price when duties are imposed. We believe Brazil, India and the other countries you have identified for review are

essential to GSP. If you so decide, they should have a phased removal from the program.

We encourage the Administration not to focus too narrowly on any single statutory criteria. GSP decisions must be made in a broader context that takes into account the profoundly negative impact of suddenly withdrawing trade benefits. For example, for many small US companies, GSP - with its duty free treatment for production inputs from developing countries - is the single element that allows them to remain competitive and profitable in increasingly tight markets. A sudden loss of GSP benefits for the products will be a significant event for these companies.

We also urge the GSP Subcommittee and the Administration to complete this review and announce the outcome as soon as possible to allow US companies time to make adjustments. It is our understanding that the decisions on whether to terminate competitive need limit waivers on specific products will take effect immediately upon announcement of the decision. We ask you to reconsider this policy and consider the disruptive impact such an immediate implementation would cause for US companies who will have to bear the brunt of an unexpected imposition of duties on products already in the pipeline.

At the same time, as this review proceeds, it is important that the Administration work closely with Congress to ensure a timely, orderly, and long-term renewal of the program. This cannot be stated too strongly. The delayed, sporadic and uncertain renewals of the past were very damaging to many US businesses and counterproductive to the goals of the GSP program. The financial and administrative burdens created by lapses in the GSP program are a serious drain on Customs, importers, and my fellow brokers. We hope you will utilize every resource to assure a timely renewal of the program

Thank you for allowing us to express our views.

Sincerely,

Kay M. Wallace
Controller
Daltonian Flooring Inc.

**EASTBANK TRADING COMPANY**
577 Mulberry Street, Suite 1200
P. O. Box 6174
Macon, GA 31208-6174
Phone (478)745-4040
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September 5, 2006

Marideth J. Sandler, Chairman
GSP Subcommittee of the Trade Policy Staff Committee
Office of the U.S. Trade Representative
600 17th Street NW
Washington, DC 20506

Dear Chairman Sandler,

As an importer, I am pleased to submit this statement in support of the Generalized System of Preferences (GSP) program in response to the GSP Subcommittee's Request for Public Comments to determine whether major beneficiaries of the program have expanded exports or have progressed in their economic development to the extent that their eligibility should be limited, suspended, or withdrawn. We know first-hand how important GSP is for U.S. businesses.

We urge the Administration to exercise caution as it approaches the decisions on whether to remove countries such as Brazil or India from the GSP program. <u>If your decision is to remove or suspend these countries, we urge you to do so with sufficient prior notice that allows U.S. importers to find other suitable suppliers. I suggest AT LEAST one year.</u> While these larger beneficiary countries have progressed economically due to their participation in the GSP program, an abrupt cut-off from the program would not only cause serious hardship for these countries without a corresponding benefit to the least developed countries, but would harm U.S. importers as well. It does not necessarily follow that U.S. businesses will switch suppliers from a larger GSP country to a least developed country, ESPECIALLY in the short run. In fact, the least developed countries often lack the production capability as well as the infrastructure to become a reliable source for many products now sourced from Brazil, India or one of the other larger beneficiary countries. A decision to remove one or more of these countries is probably a lose-lose proposition without adequate lead time to find other sourcing.

As an importer of GSP products, we are keenly aware of the valuable role GSP has played in the past 20 years. It has added to the robust trade flows that fuel our economy. Removal of the major GSP players from the program now will greatly diminish GSP's effectiveness, with negative repercussions for these countries, as well as for US companies that source from these GSP beneficiaries and for consumers who ultimately will pay the price when duties are imposed. We believe Brazil, India and the other countries you have identified for review are

essential to GSP. If you so decide, they should have a phased removal from the program.

We encourage the Administration not to focus too narrowly on any single statutory criteria. GSP decisions must be made in a broader context that takes into account the profoundly negative impact of suddenly withdrawing trade benefits. For example, for many small US companies, GSP - with its duty free treatment for production inputs from developing countries - is the single element that allows them to remain competitive and profitable in increasingly tight markets. A sudden loss of GSP benefits for the products will be a significant event for these companies.

We also urge the GSP Subcommittee and the Administration to complete this review and announce the outcome as soon as possible to allow US companies time to make adjustments. It is our understanding that the decisions on whether to terminate competitive need limit waivers on specific products will take effect immediately upon announcement of the decision. We ask you to reconsider this policy and consider the disruptive impact such an immediate implementation would cause for US companies who will have to bear the brunt of an unexpected imposition of duties on products already in the pipeline.

At the same time, as this review proceeds, it is important that the Administration work closely with Congress to ensure a timely, orderly, and long-term renewal of the program. This cannot be stated too strongly. The delayed, sporadic and uncertain renewals of the past were very damaging to many US businesses and counterproductive to the goals of the GSP program. The financial and administrative burdens created by lapses in the GSP program are a serious drain on Customs, importers, and my fellow brokers. We hope you will utilize every resource to assure a timely renewal of the program

Thank you for allowing us to express our views.

Sincerely,

Linda Nobles
Traffic Manager
Eastbank Trading Co.

GE

**James A. (Del) Renigar**
Counsel, International Policy & Trade Regulation

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Washington, DC 20004
USA

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Del.Renigar@ge.com

September 5, 2006

Ms. Marideth J. Sandler
Chairwoman, GSP Subcommittee of the
Trade Policy Staff Committee
Office of the U.S. Trade Representative
USTR Annex
Room F-220
1724 F. Street, NW
Washington, D.C. 20508

By electronic submission: FR0052@ustr.eop.gov

## Subject: 2006 GSP Eligibility and CNL Waiver Review

Dear Members of the GSP Committee:

The General Electric Company ("GE") appreciates the opportunity to submit written comments pertaining to the eligibility review of certain Generalized System of Preferences ("GSP") beneficiaries as notified in the Federal Register (FR Doc. E6-12870, August 8, 2006).

GE is a diversified technology, media, and financial services company that ranks among the oldest and largest in the United States. Today, GE operates through six businesses that produce goods and services ranging from aircraft engines, power generation, water processing, and security technology to medical imaging, business and consumer financing, media content, and advanced material. GE has operations in over 100 countries, employs more than 300,000 people, and enjoyed revenues of more than $150 billion in 2005.

**Comments on GSP Eligibility for Certain Countries**

The GSP Subcommittee requested written comments on the eligibility status of the following 13 GSP beneficiary developing countries: Argentina, Brazil, Croatia, India, Indonesia, Kazakhstan, Philippines, Romania, Russia, South Africa, Thailand, Turkey, and Venezuela.

GE supports the continued eligibility of these countries and believes that these beneficiaries, while having enjoyed considerable economic development, should maintain their current status for several reasons:

- GSP has been an important factor in fostering the economic development of beneficiary countries, including all of the countries under review. And while

GSP has helped many of the beneficiaries increase their competitiveness in certain sectors, none of the economies under review has developed to the point where GSP benefits are no longer needed in many other sectors that remain underdeveloped. As a result, the absolute withdrawal of any of these countries from GSP would not be appropriate at this time. Instead, the existing mechanism of selective "graduation" of particular sectors that become highly competitive through application of the competitive need limitation ("CNL") is the appropriate means of recognizing the success of GSP in specific sectors.

- Eligibility in the program nurtures a set of conditions that is advantageous to U.S. exporters as well as to beneficiary countries. As countries develop economically under the auspices of GSP, their markets improve and become increasingly attractive to U.S. exports. Each of the countries currently under review is an important market for GE; we expect to achieve 60% of our growth in emerging markets in the foreseeable future. Consequently, we expect that removing GSP benefits could have an adverse effect on GE and similarly-situated American companies. Moreover, to the extent that other developed countries continue to provide preferential trade treatment to these beneficiaries, those developed countries and their companies may enjoy a more favorable environment in the beneficiary countries.

- GSP ensures that U.S. companies have access to intermediary products from beneficiary countries on the same terms as are available to competitors in other developed countries that grant them preferential status. Suspension of GSP would, in the absence of reciprocal action by other developed countries, place U.S. companies and their workers at a disadvantage with respect to competitors in countries that continue to grant preferential trade status. Additionally, American consumers benefit from lower prices as a result of GSP eligibility. In the event that GSP is withdrawn from these countries, both U.S. firms, workers and consumers would find themselves at an economic disadvantage.

- The withdrawal of GSP eligibility would contribute to an environment in which further progress on multilateral trade liberalization would be more difficult. Conversely, maintenance of GSP pending conclusion of multilateral negotiations preserves an important incentive for developing countries to play a constructive role in reaching a satisfactory result. Any changes in GSP that result in a more negative atmosphere would only serve to jeopardize the cooperation of developing countries. If a final decision on GSP is made after the end of the negotiation, then the full value of that program is at risk for non-cooperating beneficiary countries.

**Conclusion**

In light of these reasons, GE urges USTR to maintain the eligibility of the thirteen countries subject to review. .

Thank you for your consideration,

James A. (Del) Renigar
Counsel, International Policy & Trade Regulation

# SEND THE LIGHT

September 5, 2006

Marideth J. Sandler, Chairman
GSP Subcommittee of the Trade Policy Staff Committee
Office of the U.S. Trade Representative
600 17th Street NW
Washington, DC 20506

Dear Chairman Sandler,

As an importer, I am pleased to submit this statement in support of the Generalized System of Preferences (GSP) program in response to the GSP Subcommittee's Request for Public Comments to determine whether major beneficiaries of the program have expanded exports or have progressed in their economic development to the extent that their eligibility should be limited, suspended, or withdrawn. We know first-hand how important GSP is for U.S. businesses.

We urge the Administration to exercise caution as it approaches the decisions on whether to remove countries such as Brazil or India from the GSP program. <u>If your decision is to remove or suspend these countries, we urge you to do so with sufficient prior notice that allows U.S. importers to find other suitable suppliers. I suggest AT LEAST one year.</u> While these larger beneficiary countries have progressed economically due to their participation in the GSP program, an abrupt cut-off from the program would not only cause serious hardship for these countries without a corresponding benefit to the least developed countries, but would harm U.S. importers as well. It does not necessarily follow that U.S. businesses will switch suppliers from a larger GSP country to a least developed country, ESPECIALLY in the short run. In fact, the least developed countries often lack the production capability as well as the infrastructure to become a reliable source for many products now sourced from Brazil, India or one of the other larger beneficiary countries. A decision to remove one or more of these countries is probably a lose-lose proposition without adequate lead time to find other sourcing.

As an importer of GSP products, we are keenly aware of the valuable role GSP has played in the past 20 years. It has added to the robust trade flows that fuel our economy. Removal of the major GSP players from the program now will greatly diminish GSP's effectiveness, with negative repercussions for these countries, as well as for US companies that source from these GSP beneficiaries and for consumers who ultimately will pay the price when duties are imposed. We believe Brazil, India and the other countries you have identified for review are essential to GSP. If you so decide, they should have a phased removal from the program.

We encourage the Administration not to focus too narrowly on any single statutory criteria. GSP decisions must be made in a broader context that takes into account the profoundly negative impact of suddenly withdrawing trade benefits. For example, for

**Send The Light Inc.** 129 Mobilization Drive, Waynesboro, GA, 30830,U.S.A. **Tel:** 706-554-5827 **Fax:** 706-554-7444 **E-mail:** usa@stl.org **Web:** www.stl.org

many small US companies, GSP - with its duty free treatment for production inputs from developing countries - is the single element that allows them to remain competitive and profitable in increasingly tight markets. A sudden loss of GSP benefits for the products will be a significant event for these companies.

We also urge the GSP Subcommittee and the Administration to complete this review and announce the outcome as soon as possible to allow US companies time to make adjustments. It is our understanding that the decisions on whether to terminate competitive need limit waivers on specific products will take effect immediately upon announcement of the decision. We ask you to reconsider this policy and consider the disruptive impact such an immediate implementation would cause for US companies who will have to bear the brunt of an unexpected imposition of duties on products already in the pipeline.

At the same time, as this review proceeds, it is important that the Administration work closely with Congress to ensure a timely, orderly, and long-term renewal of the program. This cannot be stated too strongly. The delayed, sporadic and uncertain renewals of the past were very damaging to many US businesses and counterproductive to the goals of the GSP program. The financial and administrative burdens created by lapses in the GSP program are a serious drain on Customs, importers, and my fellow brokers. We hope you will utilize every resource to assure a timely renewal of the program

Thank you for allowing us to express our views.

Sincerely,

IMPORT/EXPORT MANAGER.

**GSP PRODUCTS OF IMPORTANCE TO GMA**

## Brazil

| HTS_NUM | Description | Tariff Rate (% Value) | Tariff Rate ($/kg) |
|---|---|---|---|
| 174090 | Confections or sweetmeats ready for consumption | 6.5% | 0 |
| 22029010 | Chocolate milk drink | 17.0% | |
| 29232020 | Lecethins and phosophoaminolipids | 5.0% | |
| 38249028 | Misc. chemical compounds | 6.5% | |
| 73261900 | Steel ball bearings | 2.9% | |
| 9042020 | Paprika, dried or crushed or ground | 0.0% | 0.03 |
| 9042076 | Fruits of the genus capsicum, ground, nesoi | 0.0% | 0.05 |

## India

| HTS_NUM | Description | Tariff Rate (% Value) | Tariff Rate ($/kg) |
|---|---|---|---|
| 19023000 | Other pasta | 6.5% | |
| 3907600010 | Bottle-grade polyethylene terephthalate (PET) resin | 6.5% | |
| 9042076** | Fruits of the genus capsicum, ground, nesoi | 0.0% | 0.05 |
| 9042060 | Fruits of the genus Capsicum, other than paprika or anaheim and ancho pepper, not ground | 0.0% | 0.025 |
| 9109960 | Spices, nesi | 1.9% | 0 |
| 9109100 | Mixtures of spices | 1.9% | 0 |
| 9042020 | Paprika, dried or crushed or ground | 0.0% | 0.03 |
| 9101040 | Ginger, ground | 0.0% | 0.01 |

## Argentina

| HTS_NUM | Description | Tariff Rate (% Value) | Tariff Rate ($/kg) |
|---|---|---|---|
| 2023010 | Frozen cooked beef | 6.5% | |
| 17049000 | Confectionary--fruit snacks | 7% | |
| 21041000 | Soups and broths | 3.20% | |

## Thailand

| HTS_NUM | Description | Tariff Rate (% Value) | Tariff Rate ($/kg) |
|---|---|---|---|
| 3907600010 | Bottle-grade polyethylene terephthalate (PET) resin | 6.5% | |

## Indonesia

| HTS_NUM | Description | Tariff Rate (% Value) | Tariff Rate ($/kg) |
|---|---|---|---|
| 3907600010 | Bottle-grade polyethylene terephthalate (PET) resin | 6.5% | |

September 5, 2006

Ms. Marideth J. Sandler
Executive Director for the GSP Program
Chairman, GSP Subcommittee of the Trade Policy Staff Committee
Office of the U.S. Trade Representative
USTR Annex, Room F-220
1724 F Street, NW
Washington, DC 20508

**EMAIL**: FR0052@USTR.EOP.GOV

**RE: 2006 GSP Eligibility and CNL Waiver Review (71 Federal Register 45079, August 8, 2006)**

Dear Chairman Sandler:

On behalf of the Grocery Manufacturers Association (GMA), I am pleased to provide the following comments on country and product eligibility under the Generalized System of Preferences (GSP) program. GMA supports the GSP program and encourages USTR to conduct this review with an eye towards increasing both the competitiveness of all GSP beneficiaries as well as U.S. manufacturers that utilize the program.

GMA represents the world's leading branded food, beverage and consumer products companies. Since 1908, GMA has been an advocate for its members on public policy issues and has championed initiatives to increase industry-wide productivity and growth. GMA member companies employ more than 2.5 million workers in all 50 states and account for more than $680 billion in sales. The Association is led by a board of member company chief executives.

**General Comments**

GMA believes that the GSP program is an important tool to promote the economic development of many less developed countries. While we understand the importance of reviewing the GSP program in order to ensure that all eligible countries receive equal benefits, we question the methodology of this particular review. Instead of looking at the customary criteria for graduation from the GSP program, USTR appears to have selected a few arbitrary development indicators to differentiate the thirteen countries singled out for specific attention in this review.

Historically, countries would be graduated from the GSP program when they achieved "high income status" as defined by the World Bank, or as a result of a country's economic development and trade competitiveness. In this review, USTR has decided to evaluate both upper-middle income economies as well as those countries whose share of world goods exports exceeds 0.25%. These new economic indicators have had the effect of sweeping in both low-income countries such as India and lower-middle income countries such as Brazil, Indonesia, the Philippines, Kazakhstan and Thailand. We do not believe that countries such as India, with an annual Gross National Income of below $875, should be removed from the GSP program. Low and lower middle income countries like those mentioned above are exactly the countries that should and do benefit most from the elimination of duties on key exports.

In order to enhance the distribution of benefits under the GSP program, we recommend that USTR undertake a review of <u>all</u> preference programs with the aim of harmonizing these programs in the most liberal and transparent manner possible. For instance, we note that African Growth and Opportunity Act (AGOA) beneficiaries are exempt from competitive needs limitations. In addition AGOA beneficiaries receive duty free benefits on 1200 more products than GSP beneficiary countries. In many cases, the additional products are those which GSP beneficiaries would also be competitive such as food and consumer products. For example, many least developed countries are prohibited from shipping sugar under the GSP program. Exempting least developed countries from the sugar Tariff-Rate Quota, would certainly lead to a more equitable distribution of GSP benefits.

**Specific Products of Interest**
GMA member companies rely on the GSP program largely for access to duty free imports of raw materials which are incorporated into many finished food and consumer products. **Please see attached a list of products of importance to GMA member companies.** Although the tariffs on these products are relatively low (below ten percent), there is no guarantee that GMA companies would continue to source from beneficiary countries were the tariffs to return to their MFN levels. Profit margins in the food industry are slim, and are under pressure due to rising costs associated increased fuel and commodity prices. In instances where there are very limited competitive alternative sources of products, such as spices from India, denial of GSP benefits would result in cost increases throughout the food chain and ultimately, higher prices for consumers. We believe therefore, that removal of these products from the GSP program would be detrimental to both food and consumer product manufacturers and developing country beneficiaries.

Of particular importance to food and consumer product manufactures is the availability of bottle-grade polyethylene tererphthalate (PET) resin (HTS 3907.60.0010), which is used to manufacturer plastic bottles and packages. India, Indonesia and Thailand account for 18% of U.S. PET imports. Currently the MFN tariff on PET resin is 6.5%. With over $121 million of bottle-grade PET resin imports from GSP countries in 2005, a 6.5% tariff would cost U.S. importers in excess of $8 million dollars. Reduced competition would allow other PET suppliers to increase their margins by roughly 6 to 7 cents per pound. As a result, U.S. consumers could end up paying an additional $600 million in packaging costs annually. Consequently, we recommend maintaining the GSP benefits for bottle-grade PET resin for Indonesia, India and Thailand.

**CNL Waivers**

In 2003, USTR granted a competitive needs limitation (CNL) waiver for Argentine peanuts (shelled, in-shell, blanched or otherwise prepared). The GSP concession reduces the tariff to zero on peanuts within Argentina's 43,901 ton quota. While GMA companies source the majority of their peanuts from the United States, it is important to maintain alternate sources of supply in case of unforeseen crop failure. To this end, we recommend maintaining the CNL waiver for Argentina.

**Conclusion**

GMA appreciates the opportunity to comment on the review of the Generalized System of Preferences program. GMA companies benefit from the GSP program, and the program is an important trade and development tool. We believe that countries should not be arbitrarily graduated from the program upon the conclusion of this review. Rather, USTR should conduct a more thorough review of all preference programs in order to improve their efficacy, transparency and economic benefit to developing countries.

Sincerely,

Sarah F. Thorn

Sarah F. Thorn
Senior Director, International Trade

**National Confectioners Association ◆ Chocolate Manufacturers Association**
8320 Old Courthouse Road ◆ Suite 300 ◆ Vienna, VA 22182
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Fax: 703 / 790-5752

September 5, 2006

Marideth J. Sandler
Executive Director for the GSP Program
Chairman, GSP Subcommittee of the Trade Policy Staff Committee
Office of the US Trade Representative
1724 F Street NW
Washington, DC 20508

*Submitted via Electronic Mail: FR0052@USTR.EOP.GOV*

**United States Confectionery and Chocolate Industries' Comments**
**Concerning the Eligibility of Certain GSP Beneficiaries**

*FR Doc E6-12870*

This statement is submitted by the National Confectioners Association and the Chocolate Manufacturers Association (NCA and CMA) in response to USTR's request for comments on the eligibility of major GSP beneficiaries.

Four hundred companies, all members of the Chocolate Manufacturers Association and the National Confectioners Association, manufacture more than 90% of the chocolate and confectionery products in the United States. Another 250 companies supply those manufacturers. The industries are represented in 35 states with particular concentration in California, Colorado, Florida, Georgia, Illinois, Louisiana, New Jersey, New York, Pennsylvania, Tennessee and Texas. Over 56,000 jobs in the US are directly involved in the manufacture of confectionery and chocolate products. The employment effect triples when the distribution and sale of these products is taken into consideration.

The US confectionery and chocolate industries have made free trade and the maintenance of an open US market an operating principle for over 20 years. Our industries support duty-free access for imports from developing countries to support economic development goals and to maintain access to high-quality, world price commodities and intermediate goods that are key ingredients for our manufacturers.

- **Twenty nine developing countries supply 89% of US imports of raw cane sugar. However, only one-third of sugar imports from developing countries enter the US duty-free. Duty-free access is denied to major beneficiaries such as Argentina and Brazil. All GSP countries should have duty-free access to the United States for sugar imports.**

- **GSP major beneficiaries are an important source of cocoa raw materials used by the confectionery industry and GSP benefits should continue.**

- **Imports of sugar confectionery and chocolate confectionery from major beneficiaries of GSP[1] account for less than 1% of the US market and it is therefore not necessary to remove their eligibility.**

[1] Imports of confectionery and cocoa inputs from "major beneficiaries of the GSP program" as defined by USTR include Argentina, Brazil, Croatia, India, Indonesia, Kazakhstan, Philippines, Romania, Russia, South Africa, Thailand, Turkey and Venezuela. There were no recorded GSP-eligible confectionery or cocoa imports from Kazakhstan or Romania in 2005.

## I. Support for continuation and expansion of GSP benefits for imports of sugar

In 2005, US imports of raw cane sugar under HS code 1701.1110 totaled more than $547 million. Of the 33 countries that supply the US market with sugar, twenty nine developing countries supplied 89% of US imports. Five of the major GSP beneficiaries are sugar supplying countries. However, two of the five – Argentina and Brazil – are excluded from duty-free access. Sugar from these countries enters at the higher MFN rate of 1.4606 cents/kg. As a result, while nearly all imported sugar is sourced from developing countries, only one-third – or $177 million – enters the US duty-free.

Raw cane sugar enters the US under a tariff-rate quota which limits the quantity imported by eligible countries. Given that quantitative limits already exist for imports from developing countries, in-quota rates for commodities should be duty-free from all quota eligible developing countries. **All GSP countries should have duty-free access to the US for sugar imports. We strongly support continuation of the GSP benefits for sugar from South Africa and Thailand, as well as reinstatement of GSP benefits for sugar sourced from Argentina and Brazil.**

Table A: **GLOBAL IMPORTS INTO THE US OF RAW CANE SUGAR**

| Source Country | 2005 Total US Imports | 2005 GSP Imports | Notes |
|---|---|---|---|
| **Brazil** | $115,497,945 | $0 | **Sugar excluded from GSP** |
| Dominican Rep | $77,355,995 | $0 | **Sugar excluded from GSP** |
| **Philippines** | $56,834,489 | $56,834,489 | |
| Australia | $40,498,499 | | Not a GSP beneficiary |
| Guatemala | $40,265,229 | $9,305,284 | |
| El Salvador | $24,773,892 | $0 | |
| Colombia | $21,079,902 | $10,889,104 | |
| Panama | $20,577,673 | $11,125,684 | |
| **Argentina** | $19,425,649 | $0 | **Sugar excluded from GSP** |
| Swaziland | $15,105,624 | $15,105,624 | |
| Peru | $15,023,583 | $15,023,583 | |
| Nicaragua | $13,011,664 | | Not a GSP beneficiary |
| **South Africa** | $12,933,017 | $12,933,017 | |
| Bolivia | $7,165,356 | $4,054,342 | |
| Honduras | $5,688,529 | $0 | |
| Uruguay | $5,593,158 | $5,593,158 | |
| Mozambique | $5,507,992 | $5,507,992 | |
| Zimbabwe | $5,251,313 | $5,251,313 | |
| Taiwan | $5,117,238 | | Not a GSP beneficiary |
| Ecuador | $4,927,071 | $0 | |
| Belize | $4,890,060 | $0 | |
| **Thailand** | $4,421,095 | $4,421,095 | |
| Fiji | $4,063,915 | $4,063,915 | |
| Costa Rica | $3,188,972 | $0 | |
| Paraguay | $2,774,429 | $2,774,429 | |
| Papua New Guinea | $2,766,358 | $2,766,358 | |
| Congo (ROC) | $2,620,854 | $2,620,854 | |
| Malawi | $2,607,352 | $2,595,852 | |
| Mauritius | $2,507,161 | $2,433,130 | |
| Cote d`Ivoire | $2,436,000 | $2,436,000 | |
| Jamaica | $1,238,011 | $0 | |
| Guyana | $1,179,770 | $1,179,770 | |
| Mexico | $815,393 | | Not a GSP beneficiary |
| **TOTAL** | **$547.1 million** | **$176.9 million** | |

## II. Cocoa inputs are important to US industry

In 2005, GSP-eligible imports into the US of cocoa inputs from the major beneficiaries were entered under six tariff lines as outlined in Table B below. GSP-eligible imports of cocoa inputs from the major beneficiaries totaled more than $24 million. More than one-quarter of US imports of *defatted cocoa paste* is sourced from major beneficiaries. Similarly, major beneficiaries account for 9% of the import of *unsweetened cocoa powder*. Brazil is one of the leading sources of these important inputs, and the industry has worked for many years to assist Brazil with sustainable cocoa production. **We support continuation of GSP benefits for the major beneficiaries in order to encourage value-added cocoa production in developing countries and to make these important cocoa inputs available to US industry at the lowest possible cost.**

Table B: **US Imports of Cocoa Inputs from Major Beneficiaries of the GSP-Program**

| *USHTS* | *Description of Cocoa Input* | *2005 US global imports* | *2005 GSP-eligible imports from major beneficiaries* | *% of global imports* |
|---|---|---|---|---|
| 18032000 | Defatted cocoa paste | $32,638,709 | **$8,545,289** | **26.2%** |
| 18050000 | Unsweetened cocoa powder | $180,268,817 | **$15,836,977** | **8.8%** |
| 18061043 | Cocoa powder subject to GN 15 | $14,137 | **$14,137** | **100.0%** |
| 18062050 | Bulk chocolate preps with no milk solids | $119,719,271 | **$3,266** | **0.0%** |
| 18062060 | Confectionery coatings | $27,867,729 | **$2,680** | **0.0%** |
| 18069001 | Cocoa preps subject to GN 15 | $327,810 | **$9,105** | **2.8%** |
| **TOTALS** | | **$360.8 million** | **$24.4 million** | **6.8%** |

## III. Imports of finished confectionery from major beneficiaries

In 2005, US consumption of sugar confectionery and chocolate confectionery totaled more than $17.5 billion. Of that, imports into the US totaled $1.8 billion, or 10.3% of the US market. In the same period, duty-free imports of confectionery from the major beneficiaries of the GSP program totaled nearly $154 million representing less than 9% of all US imports of confectionery products, and less than 1% of all confectionery consumed in the United States. While imports of certain specific types of confectionery products from major beneficiaries together may account for as much as one-third of US imports, their overall presence in the US market is small. **Therefore, we do not believe it necessary to remove finished confectionery products or individual country beneficiaries from the GSP program.**

Table C: **US Imports of Finished Confectionery Products from Major Beneficiaries of the GSP-Program**

| *USHTS* | *Description of Finished Confectionery Product* | *2005 US global imports* | *2005 GSP-eligible imports from major beneficiaries* | *% of global imports* |
|---|---|---|---|---|
| 17041000 | Chewing gum | $138,251,332 | **$5,669,466** | **4.1%** |
| 17049035 | Sugar confectionery | $980,862,285 | **$90,608,863** | **9.2%** |
| 18063100 | Filled chocolate confectionery bars | $187,061,572 | **$7,233,342** | **3.9%** |
| 18063230 | Unfilled chocolate confectionery bars with no milk solids | $48,406,355 | **$1,424,521** | **2.9%** |
| 18063290 | Unfilled chocolate confectionery bars | $77,758,729 | **$28,987,022** | **37.3%** |
| 18069090 | Other chocolate confectionery | $405,949,807 | **$19,717,795** | **4.9%** |
| **TOTALS** | | **$1.8 billion** | **$153.6 million** | **8.5%** |

On behalf of our members, we appreciate the opportunity to comment in support of continuing GSP benefits for key developing countries.

Sincerely,

Lawrence Graham

Lawrence T. Graham
President, National Confectioners Association

Lynn M. Bragg

Lynn Bragg
President, Chocolate Manufacturers Association

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Original via email to FR0052@USTR.EOP.GOV

September 5, 2006

Ambassador Susan C. Schwab
United States Trade Representative
Executive Office of the President
600 17th Street, NW
Washington DC 20508

Re: *Response to Request for Public Comment on the U.S. Generalized System of Preferences*

Dear Ambassador Schwab:

In response to your request of August 7, 2006 for public comment on the U.S. Generalized System of Preferences ("GSP"), the Industry Trade Advisory Committee for Chemicals, Pharmaceuticals, and Health/Science Products and Services (ITAC 3) is pleased to offer the following comments:

(1) ITAC 3 recommends that the GSP program be modified to ensure that advanced developing countries in their entirety, or in some instances by sector, that can no longer justify the benefits GSP provides, graduate from the program. ITAC 3 believes that GSP should apply broadly only to the least developed countries as defined by section 502 (a)(2) of the Trade Act of 1974 as delineated in the Tariff Schedule.

(2) We believe that as part of this reform GSP needs to allow countries to graduate by sector or perhaps by Harmonized Tariff Schedule Chapter. For instance, an otherwise underdeveloped country could have a fully developed chemical industry, meaning that this sector should not be granted GSP benefits, while the rest of its economy may continue to be eligible for GSP treatment.

(3) We also feel strongly that the benefits of the GSP program should not be extended to countries that disregard intellectual property rights or countries that erect discriminatory technical barriers to trade (TBT) that serve to limit our industries' trade opportunities. The priority watch list should be more closely evaluated to assess progress made enforcing intellectual property rights.

(4) In order to ensure that beneficiary countries do not receive an inappropriate competitive position in relation to U.S. producers, ITAC 3 believes that GSP should require that beneficiaries effectively implement key environmental protections comparable to U.S. environmental laws that impact on our sector, such as the Toxics Release Inventory.

(5) It would also be beneficial to use GSP as a vehicle to help control the proliferation of weapons of mass destruction. Eligible countries, in conjunction with the Commerce Department's Bureau of Industry and Security, should be mandated to develop effective export controls as well as adopt the Chemical Weapons Convention and other like programs as appropriate. As a measurement tool, the current reporting systems required by the U.S. Congress and other reporting bodies should be used in GSP decisions.

(6) To be sure that all of the requirements for GSP eligibility are being met, we recommend that a requirement for an annual audit of each eligible country be part of the revised program to ensure robust compliance with the intent of the law. Failure during the audit should cause GSP benefits to be suspended pending compliance.

(7) It would be helpful if the Trade Policy Staff Committee were mandated to give early and on-going updates to ITAC 3 concerning pending GSP actions, including proposed product inclusions or exclusions, and competitive need limit exclusions, graduations, and waivers, that affect our sector. The Committee should also be willing to accept comments, from our ITAC or the public, any time during the process, up to the final deadline, as new information becomes available.

(8) The annually adjusted competitive need limit (CNL) de minimis waiver dollar limit should also take into account percent of total quantity imported when values are low but market penetration by the eligible article is high. The current law specifies that an article can be terminated from GSP eligibility for any eligible country if the dollar value of imports from that country in a given year exceeds the competitive need limits of either (1) an annually adjusted maximum value (currently set at $125 million) or (2) 50% of the value of total imports of that article. There is also a statutory waiver if the total value of that country's eligible imports of the article are below an annually adjusted de minimis value (currently $18 million). In many instances, that de minimis waiver dollar threshold exceeds the total U.S. market for an individual product, but the eligible product might not trigger the 50% CNL. We suggest that CNL waiver provisions be adjusted to prevent waivers when the total value of the eligible imports exceeds 50% of apparent US consumption of the article, and not just 50% of total imports. This would allow import sensitivity of an article to be considered automatically, without the need for domestic producers to challenge waiver applications or seek complete disqualification of the article in an annual review.

(9) Consideration should be given to requiring the GSP Subcommittee to ensure that GSP recommendations are consistent with other U.S. trade actions and policies, especially antidumping and countervailing duty investigations. These other trade relief actions against an article should establish a presumption of GSP trade-sensitivity of an article, rather than simply considered a mechanism to address isolated unfair pricing of the article from a particular country. If an industry has been materially injured or threatened by reason of dumped or subsidized imports from any country, it is presumptively vulnerable to duty free imports from GSP countries, unless strong evidence is demonstrated to the contrary. This is an underlying reason for the current GSP disqualification if there is a safeguard duty or national security tariff in place (19 USC 2463(b)(2)), and the same rationale should apply to antidumping and countervailing duty orders.

(10) It would be helpful if the criteria for evaluating "import sensitivity" were clarified in the reauthorization law so that petitioners could better understand the process.

(11) The reauthorization should give consideration to automatically suspending GSP benefits during any year that the dollar value competitive need limitation is exceeded (without consideration of any applicable waivers), and not wait until the following year. The CNL figure is a proxy to show that the foreign industry has achieved a higher level of development, so that when imports exceed those levels, continuation of the benefit is unnecessary. It should not be necessary to wait until a future date for the adjustment to occur, in light of the increased timeliness of trade data since the date the original GSP statute was enacted. Should there be a strong case to be made for granting an extraordinary waiver, the proponent should carry the burden of making that case to USTR, rather than continuing the benefit in place for several more months, potentially harming domestic competitors.

(12) ITAC 3 agrees with criticism that the GSP program, in its current form, is taken advantage of disproportionately by advanced developing countries. Although the result is unintended, we fear these benefits are a disincentive to many countries to agree to trade liberalization efforts through the World Trade Organization negotiations, as well as other fora such as the FTAA. Many of the advanced developing countries maintain very high tariffs on imports from the U.S. and other OECD countries, but enjoy tariff free access to a significant part of the U.S. market through GSP. As aptly demonstrated by numerous UN studies, it would be better for those countries, the United States, and the worlds' trading system, if they were obliged to lower their tariffs.

By the same token, changes in the program should be crafted so as to assure that tariff benefits would truly shift to the least developed countries, rather than simply causing sourcing to shift to China. We recognize that a dramatic modification of eligibility criteria and graduation rules, particularly in Eastern Asia, could easily cause US importers to seek out the low priced dutiable alternative from highly developed Chinese competitors, rendering GSP irrelevant. We support modifications of the program which encourage and reward such steps, while preventing the adverse impact on domestic producers of continued GSP for more advanced beneficiaries or non-beneficiaries.

(13) We are also concerned that the rules of origin in our current GSP regime are not adequate to assure the U.S. Government that the benefits of the program are truly reserved for the eligible participants. ITAC 3 has long opposed value content rules of origin and would hope that this review would allow for a change in this methodology. We would propose that the rules for chapters 28 through 39 contained in the Andean Free Trade Agreement be adopted for eligibility purposes for a product to receive benefits under this program. Such action would also be another step in our often stated goal of harmonizing all of the rules of origin in chapters 28 - 39 that the United States applies across all of our various trade programs and agreements.

(14) We encourage the Administration to work to modify GSP so that it focuses on the needs of least developed countries while sending a signal to advanced developing countries that they need to play a more constructive role in both multilateral and bilateral negotiations, as well

as address intellectual property rights and TBT issues. We believe that these changes would strike the right balance between advancing U.S. trade interests and U.S. foreign aid interests.

(15) We agree with the USTR's commitment to address the GSP program in the context of current global trading conditions during this reauthorization cycle. Our comments concern measures the current GSP program should effectively address either now or in the near future to meet the intent of the law and allow for a reasonable transition period. If the current GSP program is reauthorized unconditionally, it should be for no more than two years and include a mandate that a full policy and process review be finished before the next reauthorization is considered. We would hope that the Administration carefully considers our suggestions before proposing any GSP actions. The US chemical industry is already under significant domestic pressure. Many companies in our industry have configured their supply chains under the GSP program as currently structured. Any new conditions placed on GSP should provide these companies with adequate time to transition to whatever new conditions are adopted.

Some sectors within our ITAC need progress on IPR issues, hence our suggestion to consider a sectoral approach.

Thank you for the opportunity to comment on this important program. We truly believe that the GSP program needs to be modified and request that the factors mentioned above be taken into consideration.

Very truly yours,

V.M. (Jim) DeLisi, Chairman
ITAC 3

cc: Honorable Carlos M Gutierrez
Secretary of Commerce

Kohler Co., Kohler, Wisconsin 53044 Founded in 1873 920-457-4441 Fax 920-459-1745 david.kohler@kohler.com
Import Duties

KOHLER.

David Kohler
Group President
Kitchen & Bath Group

August 31, 2006

Dear Ms. Sandler:

I am writing in regard to your review of legislation to extend the Generalized System of Preferences (GSP) trade program for the United States, currently set to expire on December 31, 2006. Your committee also is reviewing thirteen countries for continued benefit under GSP and has asked for public comment. I believe the GSP program provides a significant benefit to the U.S. economy, helping create balanced global development, or *smart trading*. The GSP program is doing its job. But that job is not finished.

Kohler Co. is a global leader in the manufacture of kitchen and bath products, engines and power generation systems, cabinetry, tile and home furnishings, and international host to award-winning hospitality and world-class golf destinations. From the thirteen countries under review, we import the following products into the United States:

| Country | GSP Product(s) | HTSUS Code |
|---|---|---|
| Argentina | Engine Parts | 8409.91.99 |
| Brazil | | |
| Croatia | | |
| India | Oil/Fuel Filters | 8421.23.00 |
| Indonesia | Framed and Unframed Mirrors | 7009.92.10 & 7009.92.50 |
| Kazakhstan | | |
| Philippines | | |
| Romania | | |
| Russian Federation | | |
| South Africa | Shower Door Parts | 3925.90.00 |
| Thailand | Vitreous China; Mirrors | 6910.10.00 & 7006.00.40 |
| Turkey | Vitreous China; Stone Flooring | 6910.10.00 & 6802.92.00 |
| Venezuela | | |

In the future we hope to import additional products from these countries, specifically from the Philippines, Russia and perhaps Brazil. Much of our product is sold to consumers through the nation's leading retailers (Home Depot, Lowe's), independent builders, Kohler showrooms, Baker Stores, and independent small businesses.

Import Duties

Kohler Co. is one of America's oldest and largest privately held companies, based in Kohler, Wisconsin. The company employs more than 31,000 associates on six continents, operates plants in 49 worldwide locations, and has dozens of sales offices around the globe. We are committed to preserving and creating jobs in the U.S., where more than half of our employees live and work.

Several of our current and potential source countries - Thailand, Philippines, Singapore and Indonesia - are members of ASEAN, the ten-member Association of Southeast Asian Nations that is collectively the United States' fourth largest export market. Thailand, for example, thrives in large part because its biggest export partner is the United States.

Under the Enterprise for ASEAN Initiative (EAI) announced by President George W. Bush in October 2002, the U.S. Government is seeking to further strengthen U.S. trade and investment ties to ASEAN, both bilaterally and regionally. The Administration has been negotiating a Free Trade Agreement (FTA) with Thailand since 2003 under the premise that with many of Thailand's products already entering the U.S. market duty-free under the GSP, an FTA will make duty-free treatment a two-way street. What is implied here is that the GSP – or similar provisions – will remain.

Turkey is not nearly as well established in trading with the U.S. as Thailand. U.S. imports from Turkey amounted to $5.2 billion in 2005, approximately half of which are textiles. Kohler imports of vitreous china as toilets and sinks add up to just over one-tenth of 1% this amount. Two-way trade between the two countries was $9.5 billion in 2005. Keeping GSP benefits in place for Turkey encourages further trade with the United States.

At a minimum we request the continued duty-free treatment of vitreous china and stone flooring product. Far better is to extend the entire GSP program. In doing so, our nation grants not only market access, but legal access too. The implications of complying with a legal system cannot be underrated - it is the backbone for instituting institutional reform. With extremism and unrest growing in countries like Indonesia and Turkey, unemployment brought on by canceling the GSP will only fuel that flame. The promise of change is heard loud and clear among the disaffected – those without jobs, money, and few options. Employed workers throughout the world are good for the United States.

Encouraged by continued access to our markets and the possibilities that come with it, countries like Indonesia, Thailand and Turkey become consumers as well as producers. This clearly creates new opportunities for U.S. goods and services. Those opportunities enable improved quality of life, the rule of law and everything it enhances: better business, investment and consuming climates; improved infrastructure; better education; better health care; institutional reform; consumer rights; human rights; labor rights; environmental best practices; and so on. Prematurely ending the GSP provisions would cut short the important work of this development tool. It may negatively impact U.S. consumers through higher prices, and it will disable an important vehicle our government has for continuing free trade with bilateral agreements.

I urge you to extend the GSP program and its benefits for Argentina, Brazil, India, Indonesia, Russia, South Africa, Thailand, Turkey and the Philippines.

Sincerely,

D. Kohler

David Kohler
Group President – K&B Group

Ms. Marideth J. Sandler
Executive Director for the GSP Program
Chairman, GSP Subcommittee of the Trade Policy

cc: Senator Russ Feingold
Senator Herb Kohl
Congressman Tom Petri
Herbert V. Kohler, Jr.

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September 4, 2006

Subcommittee, Office of the United States Trade Representative
USTR Annex, Room F220
1724 F Street, NW.,
Washington, DC 20508
FR0052@USTR.EOP.GOV

Ladies and Gentlemen:

On behalf of Moen Incorporated, I urge you to push for immediate renewal of the Generalized System of Preferences (GSP). Expiration of this valuable program on December 31, 2006 would have a significantly negative impact on our company's operations and on those of hundreds of other U.S. companies. Quite simply, failure to renew the GSP would increase costs for U.S. businesses and consumers at a time when the U.S. economy hardly needs higher cost pressures.

Moen Incorporated is a U.S. corporation wholly owned by Fortune Brands, Inc., which is also a U.S. corporation. Moen Incorporated has facilities in North Carolina, Ohio, Pennsylvania, and Nevada and provides over 3,000 U.S. based manufacturing jobs. In total, Moen Incorporated's parent company employs more than 26,000 people in the United States.

As you know, the GSP provides duty-free treatment on imports of eligible articles from developing countries and territories. The GSP was designed to (1) foster economic development in developing countries through increased trade rather than foreign aid; (2) promote U.S. trade interests by encouraging beneficiaries to open their markets and comply more fully with international trading rules; and (3) help maintain U.S. international competitiveness by lowering costs for U.S. businesses, as well as lowering prices for American consumers.

U.S. companies need stability in order to make sound business decisions. The uncertainty of knowing when and if the GSP will be renewed makes it difficult for those companies such as Moen Incorporated who rely upon the GSP program to make long-term plans. For this reason, we urge you to support immediate renewal of the GSP for a length of at least two (2) years.

We also urge support for the continued inclusion of Turkey in the GSP program. Moen Incorporated relies on the GSP in Turkey to keep our products competitive.

Thank you for your consideration of this request. If you or your staff would like to discuss this further, I can be reached at 440 962-2050.

Sincerely yours,

Richard E Posey

Richard E. Posey
President & CEO
Moen Incorporated

MONSANTO

Michael D. Dykes, DVM
Vice President
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September 5, 2006

Ambassador Susan C. Schwab
United States Trade Representative
Executive Office of the President
600 17th Street, NW
Washington DC 20508

Re: *Response to Request for Public Comment on the U.S. Generalized System of Preferences*

Dear Ambassador Schwab:

Monsanto Company appreciates the opportunity to submit comments in response to the Office of the United States Trade Representative (USTR) and the Trade Policy Staff Committee (TPSC) August 8, 2006 Federal Register request for written comments on the Generalized System of Preferences (GSP) program. Based in St. Louis, Missouri, Monsanto is a leading agricultural technology company that provides innovative products to farmers to increase their productivity.

In the Federal Register notice, it was stated that comments were sought on the eligibility status of certain GSP beneficiary countries based on their level of economic development or trade competitiveness as a result of expanded exports. The notice also requested any additional information that would be relevant to reviewing GSP eligibility. It is in the spirit of additional relevant information that Monsanto Company offers its comments to focus on criteria such as a recipient country's competitiveness in the agricultural sector, the enforcement of intellectual property rights and the elimination of non-tariff trade barriers.

The GSP program has been a useful tool for facilitating trade with developing economies and Monsanto has developed and maintained commercial ties with many GSP beneficiary countries. As a unilateral grant of tariff concessions offered by the United States for the benefit of these countries and, potentially, to the detriment of other trade interests, it is critical that the obligations placed on beneficiary countries be strictly upheld.

It is clear that certain GSP beneficiary countries have well-developed agricultural sectors. Production of soybeans and cotton -- two of the major crop sectors that Monsanto's technology has benefited -- has increased dramatically in several of the GSP recipient countries on which you have requested comments. For example, over the past decade, Brazil has become one of the top global competitors in soybean production and last year Brazil surpassed the United States in total soybean export volume to become the world's largest exporter of soybeans. When GSP recipient countries become such dominant players in the global market, we believe these commercial realities should be taken into consideration during the annual review process for GSP benefits.

We also believe there is the need for more vigorous exercise of the current statutory authority under GSP to ensure that beneficiary countries are in strict compliance with the eligibility criteria. To this end, the current

GSP annual review of country compliance with eligibility standards, as well as a review of product eligibility, can be improved and strengthened. The reality is that countries face very few, if any, consequences for violations of the eligibility criteria. This has clearly been the case with regard to intellectual property rights protection.

As a technology company, our investment in research and development to bring new tools – improved seed and biotechnology traits – to farmers is predicated on the protection of our intellectual property. Equally important, our U.S. farmer customers should be protected from competing with nations that allow the use of illegally pirated seeds and traits for which no technology fee can be collected. U.S. companies and growers are offered little protection in return for the extension of GSP when patents are unreasonably or improperly delayed, avoided or compromised by the GSP recipient. More rigorous eligibility criteria would result in greater compliance with the intellectual property protection requirements prior to the extension of GSP to a country.

In determining whether developing countries are eligible for preferential treatment under the GSP program, it is essential for the U.S. Government to ensure that these countries are protecting the intellectual property rights of agricultural seed and biotechnology products. First, it is critically important that GSP countries have laws in place that offer adequate protection for intellectual property of agricultural biotechnology products. Second, GSP countries should demonstrate the allocation of appropriate resources to ensure timely consideration of patent applications under those laws. Failure on the part of a GSP country to review applications and issue patents in a timely manner compromises the positions of U.S. companies and growers as it limits effective enforcement options. Third, GSP countries should vigorously enforce intellectual property laws and the associated rights for products of agricultural biotechnology both prior to and after regulatory approval in a meaningful and robust way to actively combat piracy in their countries.

Failure of GSP countries to address the pirating of agricultural biotechnology products places U.S. farmers at a competitive disadvantage. U.S. farmers suffer this competitive disadvantage because GSP recipient countries allow their farmers to pirate technology and do not provide technology providers the due process to enforce their patent rights against those seeds and biotechnology products. It is inconsistent with U.S. policy and unfair to U.S. farmers to reward these countries by extending preferential treatment in tariff reductions.

This issue is particularly salient with America's soybean, cotton and corn producers. According to USDA statistics, approximately 89 percent of soybeans, 83 percent of cotton and 61 percent of corn grown domestically in the United States is produced through agricultural biotechnology. These very crops are also grown using these same technologies under conditions which allow growers to use pirated versions in numerous GSP recipient countries without regard or obligation to the cost of the technology.

Furthermore, in the global marketplace, a number of the GSP recipient countries, including Argentina, Brazil and India, are extremely advanced and competitive in cotton and soybeans. As the U.S. Government has communicated previously, improvements in intellectual property protection will also yield important long term benefits for these countries by driving investment and creating high quality jobs.

This more comprehensive review of a country's progress in enforcement of intellectual property rights should prove to be useful in accurately determining its compliance with its GSP and other trade commitments. With an accurate assessment of the current state-of-play vis-à-vis intellectual property within the borders of a GSP recipient, greater consequences for poor performance in intellectual property enforcement could be justified. Through the harmonization of the GSP review and other mechanisms the U.S. government utilizes to review intellectual property rights enforcement the overall GSP would be improved.

For instance, the Special 301 process requires USTR to investigate countries that deny adequate and effective protection of intellectual property as well as those countries that deny fair and equitable market access for U.S. exporters that rely on intellectual property protections. Countries that have the most onerous or egregious enforcement conditions and those where conditions have the greatest adverse impact on U.S. products are placed on *Priority Watch List*. By being placed on the list, those countries are placed under greater scrutiny by USTR; however, there are no immediate consequences for those countries that are placed on this list.

Furthermore, through the Special 301, USTR is required to maintain a *Watch List* of countries, a second tier list of those countries where the intellectual property infractions are less egregious.

We believe that by directly connecting the Special 301 process -- and more specifically the two watch lists -- with GSP eligibility, would provide more incentive for countries to make greater strides to enforce intellectual property within their borders. Those countries that are on the *Priority Watch List* should not receive GSP benefits until they have undertaken the necessary steps to protect intellectual property to be removed from the *Priority Watch List*. In addition, those countries on the *Watch List* should only receive partial GSP benefits until they demonstrate enough progress on intellectual property protections to merit removal from it.

GSP benefits should not be extended to those countries that erect non-tariff trade barriers or engage in compulsory pricing schemes in the agricultural sector which negatively impact U.S. farmers and ranchers. As more countries lower their tariff rates for agricultural products, there will undoubtedly be a significant increase in the utilization of non-tariff barriers to block U.S. agricultural exports. A proactive way to address this issue would be by directly linking the benefits of GSP to the goal of reducing the use of non-tariff trade barriers.

In closing, while we believe the GSP program has merit, it must be strengthened to focus upon the statutory obligations with which recipient countries must comply. We support focusing more closely on a recipient's overall competitiveness in the agricultural sector, on intellectual property protection of seeds and traits and the reduction of non-tariff trade barriers and compulsory pricing schemes in agriculture. We also support the removal of GSP benefits for countries when it is clear they have failed to adequately address these criteria.

Thank you for this opportunity to comment on the GSP program.

Sincerely,

Michael D. Dykes, DVM
Vice President, Government Affairs

**National Association of Manufacturers**

September 5, 2006

Ms. Marideth Sandler
Executive Director, GSP Program
GSP Subcommittee of the
Trade Policy Staff Committee
Office of the U.S. Trade Representative
1724 F Street NW
Washington, DC 20508
Via E-mail: FR0052@ustr.eop.gov

RE: Comments of the National Association of Manufacturers on the Generalized System of Preferences (GSP) Program

Dear GSP Subcommittee of the Trade Policy Staff Committee:

The National Association of Manufacturers (NAM) represents the U.S. manufacturing industry, and is comprised of thousands of firms in all manufacturing sectors and in all 50 states. We are pleased to have this opportunity to share the NAM's views with regard to the Generalized System of Preferences (GSP) program, which expires at the end of this year. The NAM applauds the first review of this important program in over twenty years to ensure that GSP is administered as originally intended by Congress.

GSP is a very important trade preference program created and maintained by the United States to promote the economic development of developing countries through trade. Because of the duty-savings from imports from these countries, many U.S. manufacturers have an incentive to buy from developing countries under GSP. The program is particularly important for manufacturers who can't source domestically and can't meet the de minimis requirement for a duty suspension bill.

Although GSP provides preferential duty-free entry for products from 133 designated beneficiary countries, we understand that the vast majority of the benefits are enjoyed by only a handful of eligible countries. We also understand that the GSP should benefit the countries that need it the most. Thus, we understand that this review of the GSP program should find ways to get more countries to benefit from the program.

At the Hong Kong World Trade Organization (WTO) Ministerial in December 2005, there was a political commitment by Trade Ministers, including the United States, to provide duty-free/quota-free market access for at least 97 percent of tariff lines from Least Developed Countries (LDCs).

Ministers also agreed to take steps to progressively expand beyond 97 percent– but to take into account any impact on other developing countries at similar levels of development as LDCs.

The implementation of this political commitment was agreed to be accomplished on an autonomous basis, through countries' respective preferential trade regime, such as GSP. The United States certainly needs to live up to the commitment it made to LDCs at the Hong Kong WTO Ministerial. Additionally, the U.S is currently negotiating or has negotiated bi-lateral free trade agreements with several countries that enjoy GSP or other U.S. preference programs like the Andean Trade Preferences Act (ATPA). This should be taken under consideration during this review.

Notwithstanding these important considerations, the NAM wants to stress another dimension of the program – its contribution toward reducing costs for U.S. manufacturers and its ability to help improve the competitiveness of manufacturing in America. This is particularly significant in instances in which components are imported into the United States and are then incorporated into U.S. manufactured goods that become more competitive because of the duty-free input. Many of these components probably have no U.S. counterpart, and eliminating GSP benefits for them simply means that the U.S. company must pay a higher duty which must then be passed on to its customers through a price increase.

Thus, we urge you to undertake a careful review of the products that are covered by GSP to ensure that we do not raise costs for U.S. manufacturers. While we understand the requirements of the law, we want to ensure that this review of the GSP program does not hamper the competitiveness of U.S. firms.

The NAM appreciates the opportunity to provide our views on the GSP program and we support its renewal.

Sincerely,

Christopher Wenk
Director
International Trade Policy

September 5, 2006

Ambassador Susan Schwab
United States Trade Representative
600 17th Street, NW
Washington, DC 20508

Submitted by electronic mail to *FR0052@ustr.eop.gov*

Dear Ambassador Schwab:

I write in response to USTR's August 8 *Federal Register* notice to indicate that the National Electrical Manufacturers Association (NEMA) supports renewal of the Generalized System of Preferences (GSP) program. U.S. electrical equipment manufacturers have benefited greatly from the duty-free import of crucial imports under the GSP, and allowing the program to expire would have serious negative implications for our members' international competitiveness.

The worldwide elimination of tariffs on electrical products is a basic NEMA goal, and we are among those who are extremely frustrated by the failure of World Trade Organization Doha Development Agenda (DDA) negotiations to proceed due to impasses in less substantial, non-industrial market access talks. Nevertheless, while we understand that some might want to use the GSP as a bargaining chip to coax other governments into more constructive DDA engagement, unilaterally hurting our own competitiveness (and putting a lot of people out of work around the world) would not prove to be a wise step in practice.

Indeed, our preference is to continue working closely with the U.S. government and foreign counterparts to pursue reciprocal electrical equipment tariff elimination through as many sectoral, international, regional and bilateral initiatives as possible. We have scored several free trade agreement successes for our members in recent years, and we look forward to working with you and your staff to achieve others sooner rather than later.

NEMA is the trade association of choice for the North American electrical manufacturing industry, including the subsidiaries of many European-based corporations. Domestic production of electrical products sold worldwide exceeds $120 billion. Founded in 1926 and headquartered near Washington, D.C., its 430 member companies manufacture products used in the generation, transmission and distribution, control, and use of electricity. These products are used in utility, medical, industrial, commercial, institutional, and residential applications. In addition to its

National Electrical
Manufacturers Association
www.nema.org
1300 North 17th Street, Suite 1752
Rosslyn, VA 22209
703. 841.3200
Fax 703.841.5900

headquarters in Rosslyn, Virginia, USA, NEMA also has offices in Beijing, Sao Paulo, and Mexico City.

Thank you for your consideration of these remarks.

Sincerely,

John Meakem
Manager, International Trade

National Retail Federation
*The Voice of Retail Worldwide*

September 5, 2006

Marideth J. Sandler
Executive Director for the GSP Program,
Chairman, GSP Subcommittee of the Trade Policy Staff Committee
Office of the U.S. Trade Representative
600 17th Street, NW
Washington, DC 20508

Re: 2006 GSP Eligibility and CNL Waiver Review

Dear Ms. Sandler:

The National Retail Federation (NRF) submits this statement on behalf of its member companies in the U.S. retail industry for above referenced review. NRF is the world's largest retail trade association, with membership that comprises all retail formats and channels of distribution including department, specialty, discount, catalog, Internet, independent stores, chain restaurants, drug stores and grocery stores as well as the industry's key trading partners of retail goods and services. NRF represents an industry with more than 1.4 million U.S. retail establishments, more than 23 million employees—about one in five American workers—and 2005 sales of $4.4 trillion. As the industry umbrella group, NRF also represents more than 100 state, national and international retail associations.

The Generalized System of Preferences (GSP) is an important component of American retailers' global sourcing strategies. NRF and its members strongly urge the GSP Subcommittee to not eliminate or reduce GSP benefits for any beneficiary developing countries. In addition, we urge the GSP Subcommittee not to eliminate any current competitive need limitation (CNL) waivers, particularly those on consumer goods. Doing so could result in higher prices for consumers, increased imports from China, and likely little benefit for lesser-developed countries.

U.S. retailers import billions of dollars of consumer goods under GSP each year. The types of products imported under GSP span a wide spectrum, from camcorders to decorative baskets to jewelry. The duty savings under GSP helps to keep prices low for our customers who are increasingly strapped by higher fuel prices and related increases in the cost of food and other consumer staples. GSP also provides retailers an opportunity to source quality goods from a wide range of countries by keeping costs competitive with products sourced from non-beneficiary developing countries, such as China.

Liberty Place
325 7th Street NW, Suite 1100
Washington, DC 20004
800.NRF.HOW2 (800.673.4692)
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www.nrf.com

## THE IMPORTANCE TO RETAILERS OF GSP EXTENDED TO THE 13 COUNTRIES SUBJECT TO THIS REVIEW

In 2005, U.S. imports of consumer products under GSP from the 13 targeted beneficiary developing countries (BDCs) totaled more than $6.1 billion[1], saving retailers and consumers millions of dollars in tariffs. The duty-free savings under GSP provide a significant advantage to these imports over goods produced in other low-cost countries, such as China.

**Table 1**
**Consumer Product* Imports under GSP from BDCs Subject to Review, 2005**

| Country | Value of Imports (Millions) | Top Consumer Product |
|---|---|---|
| India | $2,307.3 | Jewelry |
| Thailand | 1,809.1 | Jewelry |
| Indonesia | 686.6 | Jewelry |
| Turkey | 492.1 | Jewelry |
| Philippines | 237.9 | Misc. household goods |
| Brazil | 237.7 | Cookware, house and garden wares, tools |
| Croatia | 114.8 | Jewelry |
| South Africa | 85.6 | Jewelry |
| Romania | 60.6 | Jewelry |
| Russia | 38.5 | Toiletries & cosmetics |
| Argentina | 30.2 | Nontextile apparel and household goods |
| Venezuela | 20.4 | Cookware, house and garden wares, tools |
| Kazakhstan | 6.5 | Jewelry |

* Excludes computers and automobiles.
Source: U.S. Bureau of the Census.

As illustrated in Table 1, jewelry is by far the largest consumer product category imported under GSP. Total jewelry imports under GSP topped $3.4 billion in 2005[2], saving an estimated $200 million in duties.

At one time it was common to buy jewelry from dedicated jewelry stores. Today, jewelry is sold in a wide range of retail formats: department stores, discount stores, and warehouse club and supercenter stores and even “wholesale” over the Internet. Price is a major consideration for consumers and competition is fierce

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1 Derived from U.S. Bureau of the Census data. Consumer products defined as products under end-use categories 40000-42110.

2 Products classified under subheadings 7113-7117 of the U.S. Harmonized Tariff Schedule.

within the retail industry to provide stylish, high-quality products at the lowest prices. Moreover, there are signs that the jewelry market is softening as the economy slows and consumers curtail their spending. Such slowdowns will only increasing the competition among retailers as consumers scour stores for bargains.

But even as consumers demand lower and lower prices, retailers and their suppliers are squeezed at the other end by rising prices of precious metals and diamonds. Within the past year alone, gold prices have increased 42.2 percent; silver is up 74.6 percent, and platinum prices are up 38.3 percent.[3] Diamond prices are dramatically up since January 2004 and are expected to continue to rise rapidly.[4] These prices are impacting jewelry prices at the retail level and are driving consumers to search more aggressively for bargains. In addition, these rapid price increases are a major factor in the rapid increase of the value of imports of jewelry under GSP. Unfortunately, import statistics for most jewelry do not account for the quantity of jewelry imported under GSP, which would likely show moderate growth in the quantity of jewelry exported to the United States under GSP.

The duty savings from GSP have provided retailers and importers a huge incentive to source jewelry from BDCs. In fact, GSP is the major reason for the large growth of the Indian and Thai jewelry industries, which employ tens of thousands of people. On average, GSP saves importers and retailers approximately seven percent on each item of jewelry—a significant savings, especially on higher-priced items, such as diamond rings and earrings. That duty savings translates into lower prices for consumers.

However, the elimination of GSP benefits will result in price increases for consumers and a shift in trade to China. Removing jewelry benefits for India and the other targeted countries would eliminate the competitive advantage (the 7 percent tariff savings) those countries have over competing producers. More than likely, prices will increase as production shifts to other, more expensive countries. Unfortunately, sourcing from other, smaller BDCs is not an option due to quality issues that are not up to the standards American retailers and consumers demand.

China is a large and growing supplier of jewelry to the U.S. market, accounting for 20 percent of total jewelry imports. Although labor costs in the Chinese jewelry industry are slightly higher than those in India or Thailand, the quality of work and the ease of doing business with Chinese suppliers are greatly superior. In addition, labor costs are relatively fixed per unit. Labor costs roughly the same to produce a $100 diamond ring as it does to produce a $5,000 ring. With India no longer having a 7

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3 *The Wall Street Journal*, Commodity Futures and Cash Prices Table, August 22, 2006.

4 Danielle Rossingh and Saijel Kishan, "Diamonds to Outpace Metals as Scarcity, Asia Sales Boost Prices," *Bloomberg News*, August 7, 2006, http://www.bloomberg.com/apps/news?pid=20601087&sid=aDEsqQnA.tZg&refer=worldwide_news.

percent duty-free advantage over China, most retailers and importers will choose China's higher quality products at slightly more expensive prices.

For these reasons, NRF urges the Trade Policy Staff Committee not to eliminate GSP benefits—particularly on jewelry—for the 13 countries currently under review. In the highly competitive jewelry market, retailers and importers will look to maintain competitive prices on highly quality goods. Most of the jewelry trade will shift to China, threatening the jobs of thousands of workers in the jewelry industry of India, Thailand, and the other BDCs. Eliminating benefits for these countries will benefit only China at the expense of all GSP beneficiaries.

Although jewelry is one of many consumer products imported under GSP, the story is the same for many others products like flashlights, glassware, picture frames, and cookware. Retailers import many of these products under GSP because the duty-free savings keeps prices low and competitive. In addition, GSP provides retailers with the opportunity to spread product sourcing across a large number of countries. But with the elimination of duty-free treatment, retailers will be forced to find other options to keep prices low and competitive. In most cases the answer to that dilemma is China.

In its request for comments, the GSP Subcommittee implies that reducing or eliminating GSP benefits for some of the program's largest BDCs will result in increased benefits for developing countries that traditionally have not been major traders under the program. NRF feels this expectation is false and, in fact, removal of GSP benefits for the targeted countries will likely result in fewer benefits for all BDCs, and to the benefit of China. NRF is also concerned that the Administration is conducting this review without any impact analysis by the U.S. International Trade Commission. We clearly believe that such analysis would clearly show that the only winner from this review would be China.

**REVIEW OF COMPETITIVE NEED LIMITATION WAIVERS**

Currently, there are more than two-dozen competitive need limitation (CNL) waivers on consumer products under the GSP program. Several of those waivers may currently be unnecessary because the level of trade is well below the CNL thresholds. That said, NRF feels that many waivers on consumer products are still necessary and urges the GSP Subcommittee to maintain the CNL waivers listed below.

| HTS | Description | Country |
|---|---|---|
| 4203.21.20 | Batting gloves, of leather or of composition leather | Indonesia |
| 4412.13.40 | Plywood sheets n/o 6 mm thick, with specified tropical wood outer ply, with face ply nesoi, not surface-covered beyond clear/transparent | Indonesia |
| 4602.10.16 | Baskets and bags of rattan or palm leaf other than wickerwork | Philippines |
| 6702.90.65 | Artificial flowers/foliage/fruit & pts thereof; articles of artif. flowers, etc.; all the foregoing of materials o/than plast./feath./mmf | Thailand |
| 6905.10.00 | Ceramic roofing tiles | Venezuela |
| 7113.11.20 | Silver articles of jewelry and parts thereof, nesoi, valued not over $18 per dozen pieces or parts | Thailand |
| 7113.11.50 | Silver articles of jewelry and parts thereof, nesoi, valued over $18 per dozen pieces or parts | Thailand |
| 7113.19.10 | Precious metal (o/than silver) rope, curb, etc. in continuous lengths, whether or not plated/clad precious metal, for jewelry manufacture | Peru |
| 7113.19.25 | Gold mixed link necklaces and neck chains | India |
| 7113.19.29 | Gold necklaces and neck chains (o/than of rope or mixed links) | India |
| 7113.19.29 | Gold necklaces and neck chains (o/than of rope or mixed links) | Turkey |
| 7113.19.50 | Precious metal (o/than silver) articles of jewelry and parts thereo, whether or not plated or clad with precious metal, nesoi | India |
| 7113.19.50 | Precious metal (o/than silver) articles of jewelry and parts thereo, whether or not plated or clad with precious metal, nesoi | Thailand |
| 7113.19.50 | Precious metal (o/than silver) articles of jewelry and parts thereo, whether or not plated or clad with precious metal, nesoi | Turkey |
| 7418.19.10 | Copper, table, kitchen or other household articles and parts thereof, coated or plated w/precious metals | India |
| 7418.19.20 | Copper-zinc alloy (brass), table, kitchen or other household articles and parts thereof, not coated or plated w/precious metals | India |
| 7418.19.50 | Copper (o/than brass), table kitchen or other household articles and parts thereof, not coated or plated w/precious metals | India |
| 8525.40.80 | Still image video cameras (other than digital) and other video camera recorders | Indonesia |
| 8528.12.28 | Non-high definition color television reception app., nonprojection, w/CRT, video display diag. over 35.56 cm, incorporating a VCR or player | Thailand |
| 9001.30.00 | Contact lenses | Indonesia |

This list covers a wide range of products sold in a number of retail stores: from batting gloves (sporting goods stores), to plywood and roofing tiles (home improvement stores), to contact lenses (health and personal care stores). The CNL waivers allow retailers and importers to continue sourcing these products from GSP BDCs, while providing consumers quality products at competitive prices.

The duty savings provided under GSP for these products are significant. For example, the tariff on artificial flowers (6702.90.65) is 17 percent. For ceramic roofing tiles (6905.10.00) and plywood (4412.13.40), the tariffs are 13.5 percent and 8 percent, respectively. The unlimited duty-free access for these products under the CNL waivers provides these countries with a major competitive advantage over other major producers of consumer products, such as China or Malaysia. The duty savings helps retailers to provide American consumers the high quality products they demand at competitive prices.

The level of trade under GSP for most of these products is significant. If the CNL waivers were revoked, most of these products would likely exceed the CNL waivers and lose GSP benefits completely. Unfortunately, this would result in higher prices for consumers and a shift in trade to China, Malaysia, and other non-GSP beneficiaries, *not* a shift in trade to least developed BDCs.

There are currently nine CNL waivers covering jewelry products. As previously mentioned, the loss of GSP benefits for jewelry from India, Thailand, and other top GSP beneficiaries will lead to a shift in trade to China, not a transfers of sourcing to least developed BDCs. The elimination of the CNL waivers will have the same effect. Without the competitive advantage GSP beneficiaries have, retailers and importers will look to source jewelry products from China, where the quality and ease of doing business are superior.

China is already a major producer of many of the other consumer products covered by CNL waivers, such as baskets and copper kitchen/household items. For other products, such as camcorders and televisions, other Asian producers like Malaysia are major producers. Eliminating the CNL waivers will only eliminate the competitive advantage GSP countries have over China and Malaysia. China and Malaysia are more attractive than lesser-developed BDCs because the quality of their products and the ease of doing business are superior. As a result, trade for most of these products will shift to China or Malaysia at the expense of other GSP countries.

In conclusion, reducing any GSP benefits or CNL waivers would negatively impact the entire GSP program, U.S. retailers, and U.S. consumers. The biggest winner would be China. Since this transfer of sourcing is not, apparently, the goal of this review, NRF and its member companies urge the GSP Subcommittee to refrain from reducing or eliminating any benefits or CNL waivers under the GSP program.

Should the Subcommittee require any additional information, please do not hesitate to contact me.

Sincerely,

Erik D. Autor

Erik Autor
Vice President,
International Trade Counsel

**From:** bob@aro-sac.com
**Sent:** Friday, September 01, 2006 9:37 AM
**To:** FN-USTR-FR0052
**Subject:** 2006 GSP Eligibility and CNL Waiver Review
As an owner of one of the very few remaining Jewelry manufacturers left in the USA , I strongly urge the USTR Panel to support cancelling of all Duty Free trade benefits for ALL jewelry costume and other from India and all other countries under GSP.
The existing GSP benefits are the cause of all the losses we as manufacturers are facing and losses of jobs in manufacturing. These supposed benefits have only helped the retailers by lowering their costs but have not saved the retail price at all!
I strongly urge you to not renew the GSP benefits for ALL jewelry costume and other from India and all other countries under GSP.

Thanking you,

Sincerely,

Robert A. Montaquila
President

Aro-Sac, Inc.
1 Warren Avenue
North Providence, RI  02911

Tel: 401-231-6655
Fax: 401-231-7130
e-mail: bob@aro-sac.com

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56 West 45th Street
Suite 705
New York, NY 10036

September 5, 2006

GSP Subcommittee
Office of the United States Trade Representative
USTR Annex, Room F–220
1724 F Street, NW.
Washington, DC 20508

Via Email
"2006 GSP Eligibility and CNL Waiver Review"

**RE:** Initiation of Reviews and Request for Comments on the Eligibility of Certain GSP Beneficiaries and Existing Competitive Need Limitation (CNL) Waivers.
Federal Register on August 8, 2006 (Volume 71, Number 152)

Dear Sir / Madam:

PPG Industries, Inc. (PPG) and its affiliate Transitions Optical, Inc. (Transitions Optical) submit the following comments on the recently issued Notice on Initiation of Reviews and Request for Comments on the Eligibility of Certain Generalized System of Preferences (GSP) Beneficiaries and Existing Competitive Need Limitation (CNL) Waivers (published in the Federal Register on August 8, 2006; Volume 71, Number 152).

**Summary of Comments**

PPG and Transitions Optical are aware that the Office of the United States Trade Representative (USTR) is reviewing the Generalized System of Preferences (GSP) program in light of expected Congressional consideration of the program's reauthorization. The GSP program is scheduled to expire December 31, 2006. PPG and Transitions Optical are also aware that the USTR is conducting a review of existing competitive need limitation (CNL) waivers and requesting comments on whether any waivers should be terminated, pursuant to section 503(d)(5) of the Act (19 U.S.C. 2463(d)(5)), because they are no longer warranted due to changed circumstances.

PPG is a global leader in the production and distribution of protective coatings, aircraft transparencies, aerospace coatings and sealants, flat and fabricated glass, continuous-strand fiber glass, chlor-alkali and specialty chemicals. Transitions Optical, with whom PPG is a majority parent, was the first company to successfully commercialize a plastic photochromic lens in 1990. Transitions® Lenses are the premier recommended photochromic lens worldwide. Transitions Optical operates manufacturing facilities in Pinellas Park; FL, Tuam, Ireland; and in Adelaide, Australia. In addition, Transitions Optical operates facilities in three countries that are beneficiaries of the GSP program: Laguna, Philippines; Sumare, Brazil; and Chonburi, Thailand. Transitions Optical also operates international sales offices in Cambridge, Canada and nine other countries.

PPG and Transitions Optical urge the USTR to recommend to Congress the extension and continuation of the GSP and CNL programs. PPG and Transitions Optical believe these programs provide both the desired benefits with beneficiary countries that they were designed to provide, and also provide benefits for US companies, their employees and consumers.

**PPG and Transitions Optical Manufacture Quality Products**

PPG is a leading diversified manufacturer that supplies products and services around the world. PPG products include protective and decorative coatings, sealants, adhesives, metal pretreatment products, flat glass, fabricated glass products, continuous-strand fiber glass products, and industrial and specialty chemicals. PPG employs more than 21,000 individuals in manufacturing facilities located in the United States, and another 13,000 around the world.

Transitions Optical manufactures and markets plastic photochromic ophthalmic lenses. Over the past 15 years, Transitions Optical has remained committed to advancing photochromic lens technology in order to provide the most comfortable, convenient protection from ultraviolet radiation and glare. As a result, Transitions® Lenses have become the most recommended photochromic lenses worldwide.

Founded in 1990, Transitions Optical had a production workforce consisting of less than 50 workers and only one lens manufacturer partner. Today the company employs over 1,200 workers worldwide and has partnerships with nearly a dozen lens manufacturers to offer more than 100 lens options in the fastest-growing categories of lens materials and lens designs.

**PPG and Transitions Optical Support the GSP AND CNL Programs**

PPG and Transitions Optical urge the USTR to recommend to Congress the extension and continuation of the GSP and CNL programs.

The GSP program is scheduled to expire on December 31 2006. PPG and Transitions Optical understand that certain specific beneficiary countries are prompting the USTR's particular interest in reviewing the GSP program. Those countries include Argentina, Brazil, Croatia, India, Indonesia, Kazakhstan, Philippines, Romania, Russia, South Africa, Thailand, Turkey and Venezuela. Further, PPG and Transitions Optical understand the review will consider the countries that, in 2005, exceeded $100 million in exports to the U.S. under GSP and were either classified as an upper-middle-income economy by the World Bank or accounted for more than 0.25% of world goods exports according to the World Trade Organization.

In addition, PPG and Transitions Optical are aware that the USTR is inquiring as to whether any of the 83 existing competitive need limitation (CNL) waivers are no longer warranted due to changed circumstances. Transitions Optical operates facilities in the following GSP program beneficiary countries with CNL waivers: Brazil, the Philippines and Thailand.

PPG and Transitions Optical support the underlying concept of the GSP program; namely, to promote economic growth in the developing world and provide preferential duty-free entry for products from the designated beneficiary countries. PPG and Transitions Optical contend that the program, in their experience with the several designated beneficiary countries where they operate facilities, has produced the desired benefits and results it was designed to provide, as well as benefits for US manufacturers, their employees and consumers.

In PPG's and Transition Optical's opinion, the GSP program should not be limited, suspended, or withdrawn. Further, PPG and Transition Optical urge the USTR to continue the current CNL waiver program. Should these programs be limited, suspended, or withdrawn, PPG and Transitions Optical anticipate substantial disruptions in relationships with the affected beneficiary countries; a significant increase in costs for certain key materials used in manufacturing activities; and potential impacts on employment at the company's US facilities.

**Maintaining GSP and CNL Programs Avoids Adverse US Company Impact**

US firms, like PPG and Transitions Optical, have made a number of investment, trade and manufacturing decisions based, in part, on the existence of programs like the GSP and CNL. Limiting, suspending or withdrawing these programs will have wide-ranging effects. Unfortunately, those effects will be felt not only in the countries who are no longer beneficiaries of the programs, but by US companies who made business decisions based, in part, on the benefits those programs provide.

For example, Transitions Optical currently receives finished goods and substrates produced at Transitions Optical facilities in Thailand and Philippines. The substrates received from overseas are used in manufacturing processes in the company's Pinellas Park, FL facility. If the GSP program should be limited, suspended or withdrawn, Transitions Optical would be forced to consider transfer of certain production activities to
company manufacturing facilities located outside the US, which in turn would reduce the company's US employment.

Further, PPG and Transitions Optical suggest that actions aimed at limiting, suspending, or withdrawing the GSP and CNL programs would provide competitive advantage to foreign companies located, for example, in the European Economic Community (EEC). It is likely that any effort made by the US to limit, suspend, or withdraw the GSP and CNL programs will not be matched by the EEC. In that case, it is likely that more substrates produced in facilities located in Thailand or Philippines would be diverted to EEC-based facilities, which would adversely affect the US workforce in favor of EEC workers.

Clearly, limiting, suspending or withdrawing these programs will cause disruption and significant costs for US-based manufacturers. These costs, if borne by the affected companies, will make the companies less competitive both here and abroad; negatively impact their employment; and reduce their shareholders' value. PPG and Transitions Optical support maintaining the GSP and CNL programs to avoid disruptive and costly impacts to US based firms.

Finally, PPG and Transitions Optical urge the USTR to recommend to Congress the extension and continuation of the GSP and CNL programs. PPG and Transitions Optical believe these programs provide both the desired benefits with beneficiary countries that they were designed to provide, and also provide benefits for US companies, their employees and consumers.

**PPG and Transitions Optical Are a Resource**

Thank you in advance for your attention to and consideration of these comments. If you have questions regarding this petition, please contact Michael Ruggeri (727-545-0400, Ext. 7190).

Sincerely,

Richard C. Elias
President
Transitions Optical, Inc.

RETAIL INDUSTRY LEADERS ASSOCIATION
Retail's Future…Educate, Innovate, Advocate

1700 N. Moore Street, Suite 2250, Arlington, VA 22209
Phone: 703-841-2300 Fax: 703-841-1184

September 5, 2006

**BY ELECTRONIC MAIL**
Marideth J. Sandler
Chair, GSP Subcommittee
Office of the U.S. Trade Representative
600 17th Street, NW
Washington, DC 20508

**Re: 2005 GSP Review – Written Comments**

Dear Ms. Sandler:

RILA is pleased to respond to the USTR's request for additional public comment, 71 Fed. Reg. 45,079 (August 8, 2006), regarding the operation of the Generalized System of Preferences (GSP) program. As explained more fully below, RILA supports a timely renewal of the GSP program and opposes any limitation, suspension or withdrawal of the eligibility of major GSP beneficiaries.

By way of background, RILA represents the nation's most successful and innovative retailer and supplier companies -- the leaders of the retail industry. Retail is the second largest sector in the U.S. economy, employing 12% of the nation's workforce and conducting $3.8 trillion in annual sales. RILA's retail and supplier companies operate 100,000 stores, manufacturing facilities and distribution centers in every congressional district in every state, as well as internationally. They pay billions of dollars in federal, state and local taxes and collect and remit billions more in sales taxes. They are also leading corporate citizens with some of the nation's most far-reaching community outreach and corporate social responsibility initiatives.

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RILA members sell a wide range of goods imported under the GSP and other preference programs.

## Importance of the GSP Program

Our November 2005 letter responding to the first request for public comment in the 2005 GSP Review described the many benefits of the program and urged its prompt, full renewal. Attributes of the GSP that matter most in this regard include:

- **It promotes economic development** by boosting the export trade of developing countries around the world, improving the economies of some of the world's poorest nations. Economic growth contributes to political stability in these nations and thereby furthers U.S. foreign policy goals. The political and commercial relationships fostered by the GSP are important ones.

- **It advances sound economic policies around the world.** In order to qualify for GSP benefits, developing countries must meet conditions on market access, worker rights, and protection of intellectual property. The United States has successfully used the GSP as leverage for reforms that directly benefit U.S. labor and industry.

- **It helps American industries remain competitive**. Many U.S. manufacturers import raw materials and production inputs using the GSP. The competitiveness of U.S. production facilities is bolstered by the ability to import duty-free products like auto parts, raw cane sugar, chemicals, refrigerator compressors, copper cathodes, leather upholstery, thermostats, ferrochromium, furniture parts, unwrought zinc, leather footwear uppers, printed circuits, and many others. These low-cost inputs enable U.S. manufacturers to remain competitive despite relatively high U.S. labor costs. Many American workers owe their jobs to the GSP.

- **It benefits consumers.** Many consumer products, from electronics to food products, are imported duty-free under the GSP. Consumer goods comprise more than a quarter of GSP imports. Consumers also see reduced prices on products made in the United States using GSP-eligible imported inputs. Because the program only covers non-import-sensitive products, consumers reap this benefit without any associated harm to U.S. workers or import-sensitive sectors.

Accordingly, we urged a timely and long-term renewal of the program. The program must be renewed without first lapsing, because even short or threatened lapses add costs and cause price instability. Inability to predict whether GSP benefits will be renewed in advance drives importers and retailers to increase prices to protect themselves, and consumers are the ultimate losers. We also urged the longest possible period of reauthorization. The program is most effective when importers and retailers know its duty-free benefits will be available when the need to import arises. While predictable duty savings under the GSP can be incorporated into pricing decisions, such pass-through is severely compromised when there is a risk that the program will expire in the middle of the order-to-delivery process. This is especially true for prices advertised in catalogues, and for encouraging sourcing from countries that do not yet have the infrastructure or production capability to be competitive suppliers of GSP-eligible products.

## Treatment of Larger Beneficiaries

As to the question posed in this second request for public comment, we urged in November 2005 that the eligibility of larger beneficiaries be left intact. Our view remains the same, as do the reasons underlying it. U.S. consumers and producers benefit from duty-free imports from these larger beneficiaries. An informal survey of some of our members has documented at least $178 million annually in extra import duties that would be triggered by graduating the larger beneficiary countries. Introducing a new tax of such magnitude on import commerce would be painful and unfair.

It is important to bear in mind that retail sourcing evolves, of necessity, at a slow pace. Retailers need larger beneficiary countries to remain eligible in order to transition over time toward broader reliance on other, less developed beneficiary countries. Such a transition, undoubtedly desirable, is already complicated by the periodic lapses and uncertainty associated with the GSP program as a whole. For example, if the program is given another short-term renewal, retailers will be hard-pressed to convince their merchants to make any kind of investment in sourcing from smaller beneficiary countries based on GSP savings. The effective period must be long enough to provide confidence that transition-related investments will be recouped. And disruptive changes striking at the heart of the program's current economic benefits will reduce confidence even more.

Expelling successful participants in the midst of a "development round" of multilateral negotiations would be a regressive step indeed. Nor is there any basis to assume that trade opportunities taken away from more advanced developing countries will necessarily flow to LDCs; in fact, there are many reasons to assume otherwise. We are aware that the approach some of the larger beneficiaries have taken in WTO negotiations has caused concern. But limiting or withdrawing GSP eligibility would be a gross over-reaction and unlikely to produce the desired change in negotiating tactics. On the contrary, it would remove a useful tool (the annual GSP country practices review) for promoting beneficial reforms in the countries in question.

In sum, there is no sound basis, either internal or external to the GSP program, for utilizing the statutory authority to limit, suspend or withdraw the eligibility of larger beneficiaries at this time.

## Conclusion

While originally focused on assisting developing countries, the GSP program has evolved into an important contributor to U.S. competitiveness and consumer welfare. 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. Utilizing the statutory authority to limit, suspend or withdraw the eligibility of larger beneficiaries would punish consumers, retailers and domestic manufacturers while doing little to improve the operation of the program or the trade opportunities of the remaining beneficiary countries. We urge the Subcommittee and the TPSC to reject such a radical step.

* * *

RILA appreciates this further opportunity to comment in the ongoing GSP Review. If you have any questions on the foregoing, please contact Al Thompson, Vice President - Global Supply Chain Policy at (703) 600-2013 or allen.thompson@retail-leaders.org.

Sincerely,

Lori Denham,

Executive Vice President - Public Affairs

**From:** Michelle Wellner [mwellner@ibbusa.com]
**Sent:** Tuesday, September 05, 2006 9:48 AM
**To:** FN-USTR-FR0052
**Subject:** 2006 GSP Eligibility and CNL Waiver Review
Subject "2006 GSP Eligibility and CNL Waiver Review"

Company Name: International Bullion
Address: 14051 NW 14th Street, Sunrise , FL
Email Address: mwellner@ibbusa.com
Country: USA
Nature of Business: Silver Jewelery
Products Imported to the US: Sterling Silver 92.5
(HS code) (7113.11.50), (7113.11.20)
Impact on the business if GSP would be revoked
If the GSP is revoked this will have a major impact on our business as our pricing will have to be readjusted which is very difficult to our customers who have programs at certain prices already. We have already had to take price increases this year due to the drastic increase in the cost of silver. This reinstatement of duty will dramatically affect the silver business in the US if pricing again increases due to added costs.

Michelle Wellner
Dir. of Merchandising & Product Development
IBB Group of Companies
14051 NW 14th Street
Sunrise, FL 33323
Ph. (954) 660-6900, x 2008
Fax (954) 660 6946
MWellner@ibbusa.com

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Southern States, Inc.
30 Georgia Avenue, Hampton, GA. 30228
770-946-4562 ; 770-946-8106 Fax

September 5, 2006

Marideth J. Sandler, Chairman
GSP Subcommittee of the Trade Policy Staff Committee
Office of the U.S. Trade Representative
600 17th Street NW
Washington, DC 20506

Dear Chairman Sandler,

As an importer, I am pleased to submit this statement in support of the Generalized System of Preferences (GSP) program in response to the GSP Subcommittee's Request for Public Comments to determine whether major beneficiaries of the program have expanded exports or have progressed in their economic development to the extent that their eligibility should be limited, suspended, or withdrawn. We know first-hand how important GSP is for U.S. businesses.

We urge the Administration to exercise caution as it approaches the decisions on whether to remove countries such as Brazil or India from the GSP program. <u>If your decision is to remove or suspend these countries, we urge you to do so with sufficient prior notice that allows U.S. importers to find other suitable suppliers. I suggest AT LEAST one year.</u> While these larger beneficiary countries have progressed economically due to their participation in the GSP program, an abrupt cut-off from the program would not only cause serious hardship for these countries without a corresponding benefit to the least developed countries, but would harm U.S. importers as well. It does not necessarily follow that U.S. businesses will switch suppliers from a larger GSP country to a least developed country, ESPECIALLY in the short run. In fact, the least developed countries often lack the production capability as well as the infrastructure to become a reliable source for many products now sourced from Brazil, India or one of the other larger beneficiary countries. A decision to remove one or more of these countries is probably a lose-lose proposition without adequate lead time to find other sourcing.

As an importer of GSP products, we are keenly aware of the valuable role GSP has played in the past 20 years. It has added to the robust trade flows that fuel our economy. Removal of the major GSP players from the program now will greatly diminish GSP's effectiveness, with negative repercussions for these countries, as well as for US companies that source from these GSP beneficiaries and for consumers who ultimately will pay the price when duties are imposed. We believe Brazil, India and the other countries you have identified for review are essential to GSP. If you so decide, they should have a phased removal from the program.

We encourage the Administration not to focus too narrowly on any single statutory criteria. GSP decisions must be made in a broader context that takes into account the profoundly negative impact of suddenly withdrawing trade benefits. For example, for many small US companies, GSP - with its duty free treatment for production inputs from developing countries - is the single element that allows them to remain competitive and profitable in increasingly tight markets. A sudden loss of GSP benefits for the products will be a significant event for these companies.

We also urge the GSP Subcommittee and the Administration to complete this review and announce the outcome as soon as possible to allow US companies time to make adjustments. It is our understanding that the decisions on whether to terminate competitive need limit waivers on specific products will take effect immediately upon announcement of the decision. We ask you to reconsider this policy and consider the disruptive impact such an immediate implementation would cause for US companies who will have to bear the brunt of an unexpected imposition of duties on products already in the pipeline.

At the same time, as this review proceeds, it is important that the Administration work closely with Congress to ensure a timely, orderly, and long-term renewal of the program. This cannot be stated too strongly. The delayed, sporadic and uncertain renewals of the past were very damaging to many US businesses and counterproductive to the goals of the GSP program. The financial and administrative burdens created by lapses in the GSP program are a serious drain on Customs, importers, and my fellow brokers. We hope you will utilize every resource to assure a timely renewal of the program

Thank you for allowing us to express our views.

Sincerely,

Larry Bevell
Purchasing Manager
770-946-4562 Ext 337
770-897-0012 Fax

**From:** Michael Steinmetz [Michael.Steinmetz@lsdco.com]
**Sent:** Tuesday, September 05, 2006 4:36 PM
**To:** FN-USTR-FR0052
**Subject:** RE: GSP appeal submit.doc

There is an additional factor that has come up but is not reflected in this or, I am sure, many other appeal documents. According to recent information, it is possible that while GSP will continue there will be a waiver issued that will no longer allow product from India to be considered under GSP. I do not yet have all the information of said waiver but am given to understand that this would take effect immediately and not at year end, and could be as early as November.

We are now in the midst of the jewelry season and issuing such a waiver would be placing a severe hardship on the jewelry industry where our price structure can no longer be changed to our customers and yet we may very well find ourselves in the position of paying 6% more for our imported product. There are many pieces on which we do not make much more than a 6% profit and this would most severely hamper our financial structure.

I urge you to have this considered before irreversible decisions causing untold financial hardships are taken.

Michael Steinmetz

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**From:** Michael Steinmetz
**Sent:** Wednesday, August 30, 2006 10:29 AM
**To:** fr0052@ustr.eop.gov
**Subject:** GSP appeal submit.doc

<< File: GSP appeal submit.doc >>

STERLING JEWELERS Inc.

September 5, 2006

**RE: 2006 General System of Preferences (GSP) Eligibility Review**

VIA E-MAIL

Marideth J. Sandler
Executive Director of the GSP Program,
Chairman, GSP Subcommittee of the Trade Policy Staff Committee
Office of the U.S. Trade Representative
600 17th Street, NW
Washington, D.C.

Dear Ms. Sandler:

Sterling Jewelers Inc. submits this statement for the above referenced review. Sterling operates 1,257 stores in 50 states as of July 29, 2006 and is the largest US specialty retail jeweler by sales having approximately 3.9% share of the $59 billion total jewelry market, and 8.2% of the specialty jewelry market. Sterling's mall stores trade nationwide as Kay Jewelers, and regionally under a number of well-established and recognized names. Destination superstores trade as Jared The Galleria Of Jewelry.

The GSP is an important component of US companies' global sourcing strategy and we strongly urge the GSP subcommittee not to eliminate or reduce GSP benefits for any beneficiary developing countries. Doing so could result in higher prices for consumers. For example, the US market accounts for approximately 50% of worldwide jewelry sales and total jewelry imports under GSP, from countries such as India, exceeded $3.4 billion in 2005, saving an estimated $211 million in duties. GSP benefits reduce Indian import costs by approximately 6%, which can directly translate into lower prices for consumers. In addition, the duty-free savings under GSP provide an advantage over jewelry produced in other low-cost countries, such as China. Retaining India as part of the GSP program is vital as it is a principal supplier of jewelry products to US jewelers today.

Sterling has been a longtime supporter of free-market policy and trade liberalization. We continue our history of supporting open markets by joining dozens of our retail industry colleagues in calling for long-term renewal of GSP for all current user countries.

Respectfully yours,

Mark Light
President and CEO

**375 Ghent Road**
**Akron OH 44333**
**(330) 668-5000**

**PUBLIC VERSION**

# Comments of The Home Depot to the GSP Subcommittee of the Trade Policy Staff Committee re: Initiation of Reviews and Request for Comments on the Eligibility of Certain GSP Beneficiaries and Existing Competitive Need Limitation (CNL) Waivers

**September 19, 2006**

*Submitted by:*

The Home Depot
2455 Paces Ferry Road
Atlanta, GA 30339
Contact: Kerry Shultz
Tel. 770/433-8211, ext. 83951
Fax. 770/384-3037

**Comments of The Home Depot to the GSP Subcommittee of the Trade Policy Staff Committee re: Initiation of Reviews and Request for Comments on the Eligibility of Certain GSP Beneficiaries and Existing Competitive Need Limitation (CNL) Waivers**

**September 19, 2006**

These comments are submitted by The Home Depot in accordance with the *Federal Register* announcement of August 8, 2006 (Volume 71, Number 152) by the GSP Subcommittee of the Trade Policy Staff Committee (TPSC) regarding the Generalized System of Preferences (GSP): Initiation of Reviews and Request for Public Comments.

In 2005, Home Depot imported from [***]

Home Depot's imports from GSP beneficiary countries in 2005 included:

[***]

The specific products by GSP beneficiary country of origin are as follows:

[***]

[***]

[***]

[*** ]

## About The Home Depot

At the end of the first quarter, The Home Depot operated a total of 2,051 retail stores, which included The Home Depot stores with 1,807 stores in the United States (including the Commonwealth of Puerto Rico and the territory of the U.S. Virgin Islands), 141 stores in Canada, and 56 stores in Mexico. The company also operates 34 EXPO Design Centers, 11 The Home Depot Landscape Supply stores, and two The Home Depot Floor Stores. Through its Home Depot Supply[SM] businesses, The Home Depot is also one of the largest diversified wholesale distributors in the United States, with more than 900 locations, including 10 Contractors' Warehouse locations, in the United States and Canada offering products and services for building, improving and maintaining homes, businesses and municipal infrastructures.

The Company employs approximately 355,000 associates and has been recognized by FORTUNE magazine as the No. 1 Most Admired Specialty Retailer and the No. 13 Most Admired Corporation in America for 2006. The Home Depot's stock is traded on the New York Stock Exchange (NYSE: HD) and is included in the Dow Jones industrial average and Standard & Poor's 500 index.

[***].

SUBJECT: **2006 GSP Eligibility and CNL Waiver Review**
FROM: **Rafael Lourenço, U.S. Chamber of Commerce**
TO: **USTR GSP Subcommittee**

Dear GSP Subcommittee Officer,

Below are the comments on the GSP Program (71 Fed. Reg. 45079) from the U.S. Chamber of Commerce, the Brazil U.S. Business Council, the U.S. India Business Council, and the Association of American Chambers of Commerce in Latin America (AACCLA). If further information is needed to conclude the submission process please do not hesitate to contact me; also, if you could confirm the receipt of this submission it would be highly appreciated.

Best,

***Rafael Lourenço***
Associate Manager, Western Hemisphere Affairs
U.S. Chamber of Commerce
Phone:(202) 463-5427
Fax: (202) 463-3126
rlourenco@uschamber.com

September 5, 2006

GSP Subcommittee
Trade Policy Staff Committee
Office of the United States Trade Representative
USTR Annex
Room F-220
1724 F Street, N.W.
Washington, D.C. 20508

Re: Request for Public Comment on the GSP Program (71 Fed. Reg. 45079)

Dear Members of the Subcommittee:

On behalf of the U.S. Chamber of Commerce, the Association of American Chambers of Commerce in Latin America (AACCLA), the Brazil-U.S. Business Council, and the U.S.-India Business Council, we would like to voice our strong support for the continuation of the U.S. Generalized System of Preferences (GSP) program. Responding to some particular issues raised in public discussion of the program's future, we also highlight the importance of maintaining GSP benefits for Brazil and India.

Since the GSP program was instituted in 1976, it has served as a valuable tool to promote economic development in some of the least developed nations around the world. It has created mutually beneficial economic ties with strategically important countries around the world and contributed to the growth of U.S. industry as well as the quality of life of U.S. consumers.

**Trade Not Aid**

According to the World Bank, trade is way of promoting development that has been shown to reduce poverty by allowing countries grow faster than their less internationally-oriented counterparts. The GSP program promotes sustainable development in beneficiary countries by helping foster the growth of export-oriented industries. The program has helped create complementary trade-related industries that provide crucial economic inputs for U.S. industry and support tens of thousands of good-paying jobs in the poorest countries around the world. The positive impact of the program is widespread. Under the GSP program, 133 countries export 4,650 products worth $26.7 billion to the United States duty free. GSP spells economic opportunity for countries in dire need of economic development and creates an economic linkage with the U.S. that promotes stronger diplomatic and commercial ties in strategic regions around the world.

**Providing Low Cost Inputs for U.S. Industry**

As U.S. companies face increasing competition in our home market and abroad, GSP helps level the playing field and keep U.S. manufactured goods competitive. Indeed, GSP strengthens U.S. competitiveness by providing reliable low-cost inputs for U.S. industry, including many chemicals, minerals, and climate-specific fruits and vegetable products imported under the program.

GSP imports of automotive engine parts from Brazil and PET resin from India are telling examples of the importance of the program for U.S. industry. The U.S. automotive industry benefits from being able to import engine parts from Brazil duty free under the program. In a low-margin business like the auto industry, the absence of tariffs on these products makes an important difference as our auto sector restructures itself to maintain its competitiveness and profitability.

For the food, beverage, and consumer products industry, GSP provides duty-free imports of Bottle-Grade PET Resin from India used for packaging a wide range of consumer goods, such as carbonated soft drinks, juices, bottled water, salad dressing, peanut butter, shampoo, and liquid soap. Exclusion of GSP benefits from India will effectively raise the tariff from zero to 6.5%, with sourcing likely switching to more developed or industrialized exporters. In a competitive global economy, this may translate into higher production costs, shifts in material sourcing, and a whole host of hidden costs associated with the necessary adjustments within the industry. The ultimate result will be increased prices for consumers and potentially negative economic consequences for developing-country exporters. Maintaining GSP benefits helps keep

U.S. industry competitive by continuing longstanding, mutually beneficial sourcing relationships fostered and sustained by the GSP program. Indeed, rather than sending a message about the importance of constructive engagement on the WTO, a decision not to renew GSP benefits primarily punishes U.S. firms.

**Leverage for Intellectual Property Enforcement**

GSP serves as valuable leverage for the protection of U.S. intellectual property (IP) abroad by tying continued tariff-free access to the U.S. market to effective IP protection. While IP belonging to U.S. companies continues to be susceptible to counterfeiting and piracy around the world, the GSP program's conditionality places an effective resource at our disposal when it comes to working with beneficiary countries to secure improvements in IP protections and enforcement. For example, USTR's review of Brazil's GSP benefits last year led to concrete progress in the enforcement of U.S. copyrights. Without GSP, the United States will lose important leverage in these growing markets for protecting and enforcing U.S. industry's IP rights, increasing our reliance on the arduous WTO dispute resolution process for relief.

**A Positive Factor in U.S. Ties to Brazil and India**

GSP has been an important factor in promoting stronger commercial and diplomatic ties with Brazil and India. These countries are among the most important emerging markets for U.S. business worldwide, and the commercial ties forged by the program have helped create a more welcoming environment for U.S. goods and investments.

Both India and Brazil have progressed considerably toward becoming upper-middle-income economies when viewed from a GDP per capita basis, but they still suffer from extreme income disparities between the rich and poor, as well as stark internal differences in the level of economic development between various regions. In Brazil, for example, 15% of GSP exports come from the poverty-stricken northeast of the country, where GDP per capita is squarely in the lower-income category. Promoting greater ties between businesses in less developed regions of these countries and their U.S. counterparts through GSP trade not only creates important allies and partners but helps these countries disperse the economic benefits of trade more broadly and promotes economic stability.

**Cost/Benefit Analysis and Impact on the Trade Deficit**

While considering whether to continue to extend GSP to the many beneficiaries world wide, it is important to keep both the costs and benefits of the program in perspective. Here are the facts:

- The combined GSP exports of the 133 beneficiary countries account for only 1.6%[1] of U.S. imports.

[1] U.S. International Trade Commission Dataweb

- GSP imports account for less than 3.5% of the total trade deficit.
- Together, U.S. imports from Brazil and India under the GSP program account for only $7.81 billion, or 0.22% and 0.25% of total U.S. imports in 2005, respectively.

Clearly, the benefits of the GSP program for U.S. foreign policy and commercial interests are substantial. Removing GSP benefits from Brazil and India will only serve to strengthen the hand of the forces overseas that argue against greater ties with the United States at a time when we need to solidify relationships with these important partners.

**Conclusion**

In summary, by offering a helping hand to partners in the developing world, GSP allows the United States to develop diverse low-cost sources of inputs for our manufacturing base while strengthening protection of U.S. intellectual property. GSP also creates a positive economic interdependence based on mutual interest that improves the overall environment for U.S. exporters and investors in some of the fastest growing countries in the developing world. For these reasons, our organizations strongly urge the GSP Subcommittee to support the continuation of the GSP program and voice our support for the continued inclusion of Brazil and India in the program.

USA ITA

**UNITED STATES ASSOCIATION OF IMPORTERS OF TEXTILES AND APPAREL**

HEADQUARTERS:
13 EAST 16TH STREET, 6TH FL.
NEW YORK, NY 10003
212-463-0089
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2100 L STREET, NW
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WASHINGTON, D.C. 20037
202-638-7640
FAX: 202-419-0487


September 5, 2006

GSP Subcommittee of the
Trade Policy Staff Committee
Office of the U.S. Trade Representative
1724 F Street, N.W., Room F-200
Washington, D.C. 20508

Re: Written Comments in Response to the GSP Review on Eligibility of Certain GSP Beneficiaries, 71 Fed. Reg. 45079 (August 8, 2006)

Dear Members of the Subcommittee:

The United States Association of Importers of Textiles and Apparel (USA-ITA) is a trade association with more than two hundred member companies, representing apparel manufacturers, distributors, retailers, importers and related service providers, such as shipping lines and customs brokers. USA-ITA hereby submits its views in response to the review of the Generalized System of Preferences program announced by the Office of the U.S. Trade Representative on August 8, 2006. The association believes that the review should focus on ensuring that the program meets its original development objectives and is concerned that the apparent focus is on excluding beneficiary developing countries (BDCs) and reducing needed benefits. With this letter, USA-ITA provides its recommendations.

USA-ITA member companies account for as much as $100 billion in U.S. apparel sales annually and source goods from around the world. In particular, USA-ITA member companies source goods from the developing countries that are the target audience for the GSP program.

USA-ITA feels strongly that the way to ensure that the GSP program provides real benefits to the countries most in need of its assistance is to expand the coverage of the program to the turnkey industries in which these countries can most readily succeed and to provide stability to the program through a long-term extension. Graduating countries from the existing program, which excludes key products like textiles and apparel, will not open meaningful opportunities for the least developed beneficiary countries. We address product coverage, graduation and long-term extension in our comments below.

**Product Coverage**

Textile and apparel products have been expressly excluded from consideration for benefits under the U.S. GSP program since its inception in 1975. As originally drafted, the U.S. GSP law barred benefits for products "subject to textile agreements." In 1996, with the international quota program scheduled to expire at the end of 2004 and the reference to "textile agreements" therefore about to be rendered meaningless, the Congress amended the exception for textiles and apparel to say that the President may not designate any textile or apparel article as an eligible article if it was not eligible on January 1, 1994, the year before the quota phase out process began. The result is that even though textile and apparel products are now truly inside the WTO and no longer the awkward exception to WTO rules, the most important program the United States has to help developing countries further their economic development remains out of reach.

Notably, currently 16 industrial countries have GSP programs. Other major developed countries, particularly the European Union, but also Japan, include textile and apparel products in their GSP programs.

There would be significant benefits for both the least developed countries and the United States if it were to apply the GSP program to textile and apparel products. It would mean that we could have a single program for providing preferential access to the U.S. market, rather than a confusing set of regional programs. The various regional programs contain different origin rules and different paperwork requirements, as well as different expiration dates. All of that undermines the ability of both less sophisticated and highly experienced companies to ensure that they are complying with the rules and preparing the proper documents, and to do so efficiently.

Moreover, given the conditions imposed as a prerequisite for participation in the GSP program, including protection of internationally recognized worker rights, adequate and effective protection of intellectual property rights, and elimination of barriers to trade in services and in investment, developing countries would likely have a greater incentive to meet those conditions if textile and apparel products were included under GSP eligibility. This is leverage we have not had with many of these countries – and this is an important element in the sourcing decision for U.S. companies. As importers and retailers, USA-ITA members take into serious consideration the working standards and the level of compliance in every country where we do business. The support from the requirements for GSP countries would be a win-win for the United States, U.S. companies, and the developing countries.

We recognize that textile and apparel products have not been included in GSP due to the opposition from the U.S. textile industry. However, since the elimination of the quota system in 2005, there is a new political dynamic. Representatives of the U.S. textile industry have been quoted as saying they want to help the developing world maintain their share of the international production of textile and apparel products, especially vis-à-vis China. The simplest and most effective way is to enhance the competitiveness of the textile and apparel sectors in developing countries is to maintain the GSP program and to support GSP status for textile and apparel products. Indeed, including textile and apparel products as eligible articles under the GSP program represents the **positive** approach to help developing countries, as opposed to the protectionist approach.

**Graduation**

USA-ITA notes that in the Federal Register notice announcing the review, USTR states that in identifying which countries might be graduated from the program the Trade Policy Staff Committee looked at each country's total volume of trade under the GSP program, the World Bank's classification of the country's level of income, and the country's share of world goods exports. USA-ITA questions whether these criteria truly distinguish between "developing" for which the program remains essential and other countries on an objective, neutral and reasonable basis.

Thus, USTR is focusing on those GSP beneficiary countries for which the total value of U.S. imports under GSP exceeded $100 million in 2005, and (a) which the World Bank classified as an upper-middle-income economy in 2005; or (b) that accounted for more than 0.25 percent of world goods exports in 2005, as reported by the World Trade Organization. Yet, these absolute figures do not take into account the size and population of a country. Clearly, countries the size and population of India or Brazil will always have a higher volume and value of exports that much smaller BDCs, such as Croatia. That means that the criteria USTR states it is focusing on make it much more likely that larger, more populous countries will be graduated from the program than other countries. Further, for countries with large populations, again like India and Brazil, the mere fact that it exports $100 million to the United States under the GSP program or that it accounts for 0.25 percent of world exports does not mean that it has ceased to be a developing country, much less that the country will be able to maintain the trade it has developed if the benefits are eliminated. Simply put, a country's absolute exports or share of world goods exports has no necessary relation to its competitive, development or financial needs to which the GSP program should respond. Basing a graduation decision solely on absolute export figures unfairly penalizes large countries simply for being large. For example, as noted in a very recently issued report by the Congressional Research Service, "India has more people living in abject poverty (some 385 million) than do Latin America and Africa combined." RL33529 (July 31, 2006), at 21. Clearly, graduating a country like that makes no sense.

USA-ITA is also frankly concerned about the message that would be sent to all of our trading partners if countries like India and Brazil were graduated from GSP this fall. All indications are that this would be interpreted as retribution for the roles these countries have played as leaders of the developing countries in the World Trade Organization's Doha Development Agenda, and perhaps, with respect to Brazil, for its continued pursuit of U.S. compliance with respect to cotton subsidies. No doubt the words of Administration officials and Members of Congress expressly threatening Brazil with loss of GSP status if it pursued the cotton subsidies compensation and stating that any renewal of GSP should not include Brazil and India because of their roles in trade negotiations, will be recalled and viewed as related. That is not a good omen for forward movement in those important multilateral negotiations. The GSP program must be administered based upon its ultimate objective, to promote the trade and export earnings of developing countries for the furtherance of the economic development.

**Long-term/Permanent Extension**

The extent to which the GSP program can be successful is also directly related to the confidence U.S. importers and investors in GSP beneficiary industries have in the program. So long as the program is subject to stops and starts, with the availability of preferences uncertain or at best subject to delays, business is discouraged. The most recent renewal of the program, for five years (although the first of those years was a retroactive renewal), finally marked an increase in trade under the program. Before that, during a period when the program underwent numerous lapses and very short term renewals, use of the program actually declined. USA-ITA therefore strongly urges the Administration to actively support a permanent authorization of the program, with enhanced product coverage, but certainly no less than a ten year extension.

**Conclusion**

For all these reasons, USA-ITA strongly recommends that the GSP Subcommittee reject graduation of any developing countries from the program at this time and support an immediate permanent renewal and reform of the GSP program to make textile and apparel products fully eligible for the program's duty-free benefits.

With the Doha negotiations temporarily suspended, action by the United States to provide a positive signal by maintaining and expanding substantive economic benefits to developing countries is particularly crucial. USA-ITA stands ready to work closely with the GSP Subcommittee and with the

Congress to reform and renew the GSP program, and to make it a more vibrant part of U.S. trade policy to assist developing countries.

Respectfully,

Laura E. Jones
Executive Director

**From:** Koffi Assouan [koffi@moinc.com]
**Sent:** Tuesday, September 05, 2006 3:20 PM
**To:** FN-USTR-FR0052
**Subject:** 2006 GSP Eligibilty and CNL Waiver Review

1620 I Street, NW
Suite 615
Washington, DC 20006
Phone 202.463.8493
Fax 202.463.8497

1 September 2006

To: [response to Fed Reg Notice]

**RE: Comments regarding the future of the General System of Preferences (GSP)**

JBC International hereby submits the following comments on behalf of the Wine Institute and the California Association of Wine Grape Growers (CAWG). The Wine Institute is the public policy advocacy association of California wineries. Wine Institute brings together the resources of 900 wineries and affiliated businesses to support legislative and regulatory advocacy, international market development, media relations, scientific research, and education programs that benefit the entire California wine industry. The California Association of Wine Grape Growers (CAWG) is an advocate for farmers, providing leadership on public policies, research and education programs, sustainable farming practices and trade policy to enhance the California winegrape growing business and our communities.

The members of Wine Institute and CAWG support the termination of the GSP program.

Respectfully submitted,

James B. Clawson

WIRESOURCE

September 5, 2006

Marideth J. Sandler, Chairman
GSP Subcommittee of the Trade Policy Staff Committee
Office of the U.S. Trade Representative
600 17th Street NW
Washington, DC 20506

Dear Chairman Sandler,

As an importer, I am pleased to submit this statement in support of the Generalized System of Preferences (GSP) program in response to the GSP Subcommittee's Request for Public Comments to determine whether major beneficiaries of the program have expanded exports or have progressed in their economic development to the extent that their eligibility should be limited, suspended, or withdrawn. We know first-hand how important GSP is for U.S. businesses.

We urge the Administration to exercise caution as it approaches the decisions on whether to remove countries such as Brazil or India from the GSP program. If your decision is to remove or suspend these countries, we urge you to do so with sufficient prior notice that allows U.S. importers to find other suitable suppliers. I suggest AT LEAST one year. While these larger beneficiary countries have progressed economically due to their participation in the GSP program, an abrupt cut-off from the program would not only cause serious hardship for these countries without a corresponding benefit to the least developed countries, but would harm U.S. importers as well. It does not necessarily follow that U.S. businesses will switch suppliers from a larger GSP country to a least developed country, ESPECIALLY in the short run. In fact, the least developed countries often lack the production capability as well as the infrastructure to become a reliable source for many products now sourced from Brazil, India or one of the other larger beneficiary countries. A decision to remove one or more of these countries is probably a lose-lose proposition without adequate lead time to find other sourcing.

As an importer of GSP products, we are keenly aware of the valuable role GSP has played in the past 20 years. It has added to the robust trade flows that fuel our economy. Removal of the major GSP players from the program now will greatly diminish GSP's effectiveness, with negative repercussions for these countries, as well as for US companies that source from these GSP beneficiaries and for consumers who ultimately will pay the price when duties are imposed. We believe Brazil, India and the other countries you have identified for review are

1095 POWERS PLACE ▪ ALPHARETTA, GA 30004 ▪ 770-346-0810 ▪ FAX: 770-346-9258

essential to GSP. If you so decide, they should have a phased removal from the program.

We encourage the Administration not to focus too narrowly on any single statutory criteria. GSP decisions must be made in a broader context that takes into account the profoundly negative impact of suddenly withdrawing trade benefits. For example, for many small US companies, GSP - with its duty free treatment for production inputs from developing countries - is the single element that allows them to remain competitive and profitable in increasingly tight markets. A sudden loss of GSP benefits for the products will be a significant event for these companies.

We also urge the GSP Subcommittee and the Administration to complete this review and announce the outcome as soon as possible to allow US companies time to make adjustments. It is our understanding that the decisions on whether to terminate competitive need limit waivers on specific products will take effect immediately upon announcement of the decision. We ask you to reconsider this policy and consider the disruptive impact such an immediate implementation would cause for US companies who will have to bear the brunt of an unexpected imposition of duties on products already in the pipeline.

At the same time, as this review proceeds, it is important that the Administration work closely with Congress to ensure a timely, orderly, and long-term renewal of the program. This cannot be stated too strongly. The delayed, sporadic and uncertain renewals of the past were very damaging to many US businesses and counterproductive to the goals of the GSP program. The financial and administrative burdens created by lapses in the GSP program are a serious drain on Customs, importers, and my fellow brokers. We hope you will utilize every resource to assure a timely renewal of the program

Thank you for allowing us to express our views.

Sincerely,

Bradley J. Russell
President
The Wire Source, LLC