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**On behalf of Arylessence Inc.
& the International Fragrance Association, North America**

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House Committee on Small Business Hearing:

Tangled in Red Tape: New Challenges for Small Manufacturers

March 18, 2015

Good Morning. My thanks to Chairman Chabot, Ranking Member Velazquez and the members of the Small Business Committee for inviting me to testify today on the regulatory challenges that small businesses like mine face.

My name is Cynthia Reichard, and I am the Executive Vice President of Arylessence. Arylessence is a leading and creatively driven U.S.-based fragrance and flavor company. We work in close partnership with our clients which include major consumer product and cosmetic companies to develop strategically inspired fragrances and flavors that transform our client's products into winning brands and consumers into passionate, loyal fans.

On behalf of Arylessence, I commend the efforts made by the Committee to alleviate burdensome regulations that significantly hinder innovation and growth, particularly for small businesses.

Mr. Chairman and members of the committee, I can unequivocally say that Arylessence has been hindered by unintended regulatory burdens. I would like to discuss a few of these with you today and focus on one in particular that my company and other fragrance houses continue to struggle with that is administered by the Occupational Safety & Health Administration (OSHA).

First, let me provide some background information on our company and the broader fragrance industry. Arylessence is a flavor and fragrance company that was founded in 1977 by my uncle. I am proud to say that we, like the majority of companies within our industry, are a family-owned and operated small business. When my uncle founded the company thirty eight years ago, he had a dream. He took out a mortgage on his house and a loan on his car, borrowed money from friends, and opened up shop with three employees. I am proud to say that Arylessence now has 120 full-time employees, 3 part-time employees and many contract employees at our headquarters in Marietta, Georgia. We develop and ship fragrances to over 1000 different manufacturers in the U.S. and across the globe. As a family-owned company, Arylessence cares deeply about its employees: we train and promote from within, offer excellent benefit programs at minimal costs, provide tuition reimbursement, and offer financial education, nutrition education, and on-site exercise programs.

I am proud to be here representing not only my company, but also the International Fragrance Association of North America or IFRA North America. IFRA North America is the principal trade association for the fragrance supplier industry in the U.S. and Canada. Like all IFRA North America members, Arylessence sources ingredients from around the globe and crafts unique fragrance formulations that are incorporated into a variety of consumer products including fine fragrances, personal care products such as lotions, soaps and shampoos, household and institutional cleaning products, and home care products including candles and air fresheners, just to name a few. Collectively, IFRA's North America's members comprise a \$1.6 billion industry responsible for more than 90 percent of all scents marketed in the U.S and Canada. The fragrance industry directly supports more than 720,000 jobs and an additional 240,000 small businesses in the U.S. alone.

You may not have ever thought about how scent plays an important role in the purchase of products, however, 75 percent of human emotions can be triggered by our sense of smell. Our sense of smell is critical to our wellbeing, and scent alone is a key consumer purchase driver.

Creating a fragrance requires a marriage of art and science. We deal extensively with thousands of different ingredients including natural materials such as essential oils like lavender and rose oil as well as man-made materials developed in laboratories and sourced from a variety of sustainable raw materials. As such, we - and our clients - face extensive regulations across several agencies including EPA, OSHA, FDA, DEA, DOT, and FAA. It's important to point out that these are just the federal regulations and that this list of acronyms does not include the myriad of extensive state and municipal regulations of which we must be prepared to comply.

The impact of complying with these regulations continues to raise the cost of doing business in the United States. Quite frankly, the cost associated with complying with the current regulatory landscape can effectively bar new companies from entering our industry today. These ever increasing burdens limit our reinvestment in our company and our ability to take even better care of our employees who have worked so hard to help us be where we are today.

Arylessence employs the equivalent of six full-time employees whose job functions are dedicated solely to regulatory and compliance issues. In addition, we are currently in the process of hiring an additional regulatory professional to ensure our ability to track and comply with all of the different regulations our industry and our clients industries face.

When the state of Georgia's unemployment rate more than doubled to over 10%, we worked hard to ensure that we did not have to lay off a single person within our workforce. Although it meant making difficult choices for our business, we are proud of the job security that we were able to afford our employees and their families.

While I can give you many examples of how existing laws and regulations have impacted our operations I will focus on one in particular. In 2008 we planned to purchase land and expand our operations by building a large new facility for research and development and hiring an additional 50 employees. As a result of the economic downturn and further exacerbated by costly compliance with new laws and regulations taking effect, we have delayed many of those plans for several years. Despite an improving economy, regulatory and compliance costs continue to limit our capital resources, and, unfortunately, our expansionary plans have been reduced and many of them remain in the planning stage today. Just think about how many jobs would have been created by that expansion and how this is happening across the USA.

The bottom line is that there are far too many regulations that impose far too heavy a burden on American small businesses like Arylessence.

In the last five years, our company has been facing some of the most economically significant laws and regulations. In particular we have faced rising health insurance premiums under the

Affordable Care Act, higher income taxation rates and a variety of rules and regulations administered by the Occupational Safety & Health Agency (OSHA).

Impact of the Affordable Care Act

Ninety-six percent of small businesses have faced rising health insurance premiums in the wake of the Affordable Care Act, and Arylessence is no different. Between 2012 and 2014 we experienced an average 13.6% annual increase in our health insurance premiums. For 2015, our provider has given us a premium increase of 41 percent. These increases have been discouraging and are detrimental to our bottom line. We are continuing to look at options and regrettably we are now in the position of having to pass some of these additional costs on to our employees.

Rising Income Tax Rates

Also like many small businesses, Arylessence has had to pay higher taxes. We are an S-Corporation and our income tax rate was raised from 35% to 39.6% to fund the Affordable Care Act. In 2014, our Federal tax bill alone increased exponentially. Think about how many people that would employ or how much equipment that would buy.

OSHA & The Globally Harmonized System of Classification & Labelling

Today I would like to focus my testimony and share our experience in complying with the OSHA's regulation known as the Hazard Communication Standard. This standard is OSHA's interpretation of the Globally Harmonized System of Classification and Labeling of Chemicals (GHS). An experience, that serves as an example of a burdensome regulation that has not resulted in safer workplaces. In fact, it has caused significant cost increases for our company.

GHS began as an international initiative to standardize the labeling and classification of hazardous chemicals in the workplace. GHS was billed and sold to the industry as a cost saving device that would make it easier for companies to exchange information globally. But the truth is the exact opposite: it has cost Arylessence significant amounts of money without adding any safety to consumers or employees.

In order to comply with GHS, a manufacturer or distributor must identify the chemicals present in their product shipments, and classify the risk of those chemicals based on a hierarchy established by GHS.

All of this information must be included on safety data sheets or "SDSs" and labels which must be affixed to product containers in the workplace. The labels must include color pictograms and a number of other informational elements including symbols, signal words, and lengthy hazard statements.

This is a complicated set of forms that required us to adjust our operations to comply.

Prior to GHS, most countries had their own individual regulations addressing the handling of chemicals in the workplace. With the increase in global commerce, the United Nations began a

new initiative, known as GHS, which aimed to ensure consistency and predictability for all companies that were operating globally and so that workers would have a clear understanding of what materials they were in contact with. The objective behind the regulation was reflected in its name; a Globally Harmonized System of the classification and labelling of chemicals.

OSHA adopted GHS in March of 2012 and unfortunately, like many other countries, interpreted the regulation in a unique way resulting in nonconformity with the global system. OSHA is currently in the latter part of the implementation phase.

Though there are many examples where OSHA deviated from GHS, one of the most difficult issues for my company, and the fragrance industry in particular, is the treatment of small or sample sized products. Despite the pleas of manufacturers to OSHA and even though other jurisdictions including Canada and the European Union allowed for an exemption for small bottles, OSHA elected to not give any special consideration. The result is a new, arduous, costly and incredibly burdensome process that has not increased safety and has hindered commerce.

In creating a fragrance for a customer, such as a honeysuckle scent for a hand lotion, Arylessence may ship a batch of 2-5 samples of honeysuckle fragrances to a potential customer. Each fragrance will be unique and contain different ingredients.

Unlike many industries that ship samples of chemical products in large containers, the fragrance industry typically deals in extremely small quantities. For example, the sample fragrances that are shipped generally measure 0.5 – 1.0 ounces and are contained in small vials.

Now, under the new GHS regulation, rather than requiring a safety data sheets on only those products purchased, each individual sample, no matter how small, must include a label and safety data sheet in order to comply with GHS.

On average, Arylessence sends out 10,000 samples per year, each of them a unique mixture of ingredients. And now, under the new regulation, on an annual basis we need to create 10,000 unique safety data sheets and labels for even half ounce samples of fragrances. And since the research and development of scents is done for no cost to our clients in the hopes of securing a production contract – this represents added cost that cannot be directly passed on to our customers.

Adding to these new costs is the fact that OSHA has issued no guidance in regard to how the labels must be affixed to small packaging or containers. We must fasten these labels to half and one-ounce bottles. The practicality of this is almost impossible and we have received no guidance from OSHA other than it must be done. Despite our pleas, OSHA has not provided an exemption on this issue like other jurisdictions. If we do not affix the label on this vial we will be out of compliance and are subject to facing severe fines from OSHA.

Additionally, there are significant implementation problems that OSHA has refused to address.

The computer technology to comply with this law did not exist when the implementation dates were announced. The industry is required to comply with GHS by June 1st of this year. By not phasing in the requirements, Arylessence has had to develop and implement new computer systems, purchase and install new printing devices, and must simultaneously get information from suppliers, complete the analysis to fill out the datasheets and labels, and send it along to our customers who also have the same compliance date.

GHS was sold to the industry as a cost savings initiative. In 2011, the Obama Administration estimated that GHS implementation would realize \$585 million in annualized savings for employers. In our experience, compliance with GHS has thus far taken us three years to implement and cost our small business well over \$500,000 and untold labor hours to implement.

The new GHS data sheet requirements have forced us to purchase databases of chemical ingredients. However, the information in these databases was not compatible with GHS formatting and so we had to marry the databases with our own proprietary software, which required a \$200,000 investment.

In addition, we had had to retool all of our hardware and documentation to meet the new GHS formats. Labeling has been a long-standing requirement for companies who deal with chemicals, and Arylessence previously invested in the requisite printing equipment, training, and supplies. Our equipment was effectively obsolete when the new regulations forced us to purchase new printers with enhanced color capabilities. The average cost of one of these industry-grade printers – capable of thousands of GHS labels per year is over \$20,000. We require five. This is happening across the country.

Arylessence and other members of IFRA North America have invested significant time and money literally reinventing the wheel to comply with GHS regulations, and yet, there is no clear solution in sight for many U.S. manufacturers with a looming implementation deadline of June 1, 2015.

Conclusion

Mr. Chairman, members of the committee, over the past eight years I have witnessed a shift in our industry. Associations like IFRA North America used to focus more resources on building business opportunities, networking, and raising awareness of this unique industry, but today they must largely focus on regulatory and policy issues.

Small businesses like ours continue to struggle despite a more positive economic outlook. This is largely due to the cost of increasing regulations: regulations like GHS that do not, in fact, result in safer workplaces, harmonized communications nor enhanced commerce.

U.S. manufacturers simply need an environment conducive to growing and creating jobs. We need economic stability, certainty and predictability and common-sense regulations that don't unfairly disadvantage small firms.

Arylessence along with all IFRA North America members follow the highest safety and environmental standards for fragrance manufacturing and fragrance ingredients. We are proud of this commitment and we are happy to comply with common sense regulations that ensure the safety of the environment, our employees, and our customers.

Arylessence and IFRANA stand ready to work with you in helping to support legislation that insures regulation without representation is replaced with understanding of impacts and proactive solutions.

Thank you again for this opportunity to share my experiences with the committee; I am happy to answer any questions you may have.

About Arylessence

Arylessence develops, creates and manufactures flavors and fragrances for a vast array of products including perfume and cologne, cleaning products, candles, shampoos, detergents, and lip balms. Our inventions are not sold directly to the consumer, but rather to an institutional or consumer product company where they are incorporated into the final product.

Arylessence was founded in 1977 and is a family-owned and operated small business. We have 120 full-time employees at our headquarters in Marietta, Georgia, and we provide products to over 1000 different customers in the U.S. and worldwide.

About IFRA North America

IFRA North America represents over 90% of all fragrances developed and sold in the United States and Canada. Their member companies create and manufacture fragrances and scents for home care, personal care, home design and industrial and institutional products, all of which are marketed by consumer goods companies. IFRA North America also represents companies that supply fragrance ingredients, such as essential oils and other raw materials, used in perfumery and fragrance mixtures.