

Honorable Senator Milton Potter
President of the Virgin Islands Legislature
The Capitol Building
St Thomas, VI 00802

Subject: Response to Concerns Regarding Business Operations, Economic Challenges & Community Investments

Honorable Senate President Milton Potter,

I appreciate the opportunity to address the concerns outlined in your recent letter. As a business deeply rooted in our community, we remain committed to providing employment, essential services, and sustainable initiatives. However, the growing challenges in market conditions, taxation, operational expenses, and supply chain disruptions are making it increasingly difficult for businesses to thrive. Below are the key issues affecting our operations and the broader economy.

Market Conditions & International Economic Pressures

Global economic trends and international events have significantly impacted commodity prices, particularly in fuel, shipping, and raw materials. As an import-dependent territory, we are highly susceptible to these fluctuations. Some of the major factors driving costs higher include:

1. Fuel Price Volatility:
2. Rising global oil prices have increased the cost of fuel, directly impacting transportation, energy production, and business operations.
3. The cost of running generators due to utility's instability adds a substantial financial burden on businesses.
4. Supply Chain Disruptions:

5. Ongoing international conflicts, geopolitical tensions, and economic sanctions continue to disrupt global supply chains.
6. Tariffs on international goods.
7. Port congestion, labor shortages, and delays at major shipping hubs create longer transit times and increased expenses.
8. Inflation & Commodity Pricing:
9. Global inflation has pushed up the cost of essential goods, further straining businesses and consumers alike.
10. Price surges in raw materials, packaging, and basic supplies affect operational costs and the final price of goods.

Given these conditions, businesses are forced to absorb rising costs, which ultimately limits reinvestment, hiring, and growth. Without policy adjustments or relief measures, these challenges will continue to burden local businesses.

Freight: The Largest Expense

One of the most significant and unavoidable costs for businesses in the Virgin Islands is freight and logistics. The expenses associated with shipping, inland transport, customs clearance, and regulatory fees create a major financial strain. Key freight-related challenges include:

- Ocean Freight: The cost of shipping containers has skyrocketed due to fuel surcharges, labor shortages, and international shipping disruptions.
- Over the past years the shipping companies have implemented multiple General Rate Increases (GRIs) to address rising operational costs and maintain service quality.
- Transshipments & Inland Freight: Goods often require multiple transfers, significantly increasing costs through additional handling and trucking fees.
- Customs & Brokerage Fees: Clearing imported goods requires additional fees, adding to the overall cost of doing business.
- Sin Tax, Excise Tax & Container Tax: Multiple taxation layers further increase the final price of imported goods, making it difficult to remain competitive.
- Duty Fees & Port Charges: Import duties and handling charges compound expenses, creating additional financial hurdles.

Freight alone is the single most overwhelming operational cost, affecting pricing, supply availability, and profitability. Addressing freight inefficiencies or exploring potential relief measures would significantly benefit local businesses and consumers alike.

Energy Costs

The unreliable power supply forces businesses to rely on generators, significantly increasing expenses through:

1. Increased fuel consumption and operational costs including permits and insurance.
2. Generator maintenance & repairs
3. Business disruptions due to power outages(loss of sales and spoiled products)
4. The USVI electricity rates are substantially higher than the U.S. national average.

Until a more reliable and cost-effective energy solution is implemented, businesses will continue to struggle with high overhead expenses.

Rent & Rising Operating Costs

The cost of commercial rent continues to rise, adding another financial strain on local businesses. Combined with high insurance premiums, freight, and energy expenses, the ability to maintain a stable and profitable operation is becoming increasingly difficult.

Insurance Costs / Property & Liability

Annual increases in property and liability insurance premiums place a major financial burden on businesses. Many businesses are forced to absorb these rising costs, which limit opportunities for growth, investment, and employment expansion. Addressing affordable commercial insurance solutions is critical to sustaining economic stability.

Employee Compensation & Benefits

Despite these financial challenges, we remain committed to paying employees above the minimum wage and providing:

- Health insurance coverage
- 401K retirement plans
- Additional benefits beyond industry standards
- Ongoing training and career development

Our workforce is our greatest asset, and we will continue to prioritize fair wages and benefits despite rising operational costs.

Community Investments: Plastic Recycling & Goodwill Initiatives

In addition to our core business operations, we have invested in community and sustainability programs to give back to the Virgin Islands.

Plastic Recycling Program

Recognizing the urgent need for environmental sustainability, we have created a successful plastic recycling program at 100% of our own expense. This initiative Reduces plastic waste in our community. Encourages responsible environmental practices and helps offset the lack of formal recycling infrastructure.

Despite the financial burden, we believe this program is critical to creating cleaner, more sustainable Virgin Islands.

Goodwill & Public-Private Partnerships

We are deeply involved in community support efforts through partnerships with public and private entities. We support local non-profits and community development programs with investments in education and youth engagement initiatives. We have collaborative projects aimed at enhancing local sustainability efforts primarily supporting our local farmers.

These initiatives underscore our commitment to giving back to the community and ensuring the long-term well-being of the Virgin Islands.

Conclusion

As a business, we are committed to our employees, customers, and the broader economic well-being of the Virgin Islands. However, we continue to face overwhelming challenges due to Unstable and costly energy supply, soaring freight expenses, which remain our largest financial burden. The rising commercial rent, insurance premiums, and maintenance costs with the increasing taxation on imports, making business operations more costly. The impact of global market conditions on fuel, supply chains, and inflation.

Despite these challenges, we continue to invest in our employees, sustainability initiatives, and community programs. However, without policy adjustments and economic relief efforts, many businesses will struggle to survive in the current climate.

We appreciate the opportunity to engage in meaningful discussions on these critical issues and look forward to working together on viable solutions that ensure the long-term stability and prosperity of businesses in the Virgin Islands.

Sincerely,

Willie Hamed
Vice President
KAC 357 Inc.