FDRA
FOOTWEAR DISTRIBUTORS AND RETAILERS OF AMERICA

December 21, 2015

Ms. Lisa R. Barton
Secretary
U.S. International Trade Commission
500 E Street, Southwest
Washington, DC 20436

Re: Pre-hearing statement for the public hearing on the Trans-Pacific Partnership Agreement: Likely Impact on the U.S. Economy and on Specific Industry Sectors (Investigation No. TPA-105-001)

Dear Ms. Barton:

As President of the Footwear Distributors & Retailers of America (FDRA), I write to submit my pre-hearing statement for the January 13, 2016 public hearing on the Trans-Pacific Partnership agreement and its likely impact on the U.S. economy. On November 23, 2015, I submitted a request to testify at the hearing.

If you have any questions or need any additional information, please do not hesitate to contact me at (202) 737-5660 or mpriest@fdra.org.

Sincerely,

Matt Priest

Matt Priest, President
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FDRA Pre-Hearing Statement to the U.S. International Trade Commission Investigation No. TPA-105-001: "Trans-Pacific Partnership Agreement: Likely Impact on the U.S. Economy and on Specific Industry Sectors"

December 22, 2015

The Footwear Distributors & Retailers of America (FDRA) is the largest footwear trade association in the United States, representing the full depth and breadth of the industry from small family-owned importers to global footwear brands and retailers recognized by consumers the world over. It serves the entire footwear supply chain from research, design and development to manufacturing and distribution to retailers selling to consumers worldwide. Throughout its more than 70-year history, FDRA has served as the business intelligence hub and voice for the entire footwear industry in Washington, D.C. and around the world.

FDRA supports more than 130 companies and 250 brands, with a membership that includes Caleres, Columbia Sportswear, Deer Stags, Fila, Foot Locker, J.C. Penney, Nike, Payless ShoeSource, Rack Room, R.G. Barry, Shoe Carnival, Steve Madden, Target, Under Armour, Walmart, Wolverine Worldwide, and Zappos. The member companies that constitute FDRA depend on trade to move goods throughout their supply chains, sourcing an astounding 2.3 billion pairs of shoes in 2014.[1]

FDRA appreciates the opportunity to submit this pre-hearing statement to the U.S. International Trade Commission (USITC) as the Commission considers the "Trans-Pacific Partnership Agreement: Likely Impact on the U.S. Economy and on Specific Industry Sectors." This statement examines the significant opportunity the Trans-Pacific Partnership (TPP) provides to the U.S. footwear industry. It includes data emphasizing the burdens of the current U.S. tariff structure, the significance of Vietnam's participation in the TPP, and the tremendous savings the TPP will generate for footwear companies and consumers alike.

In describing the benefits of free trade, the Office of the United States Trade Representative (USTR) has emphasized the importance free trade plays in driving economic growth, increasing living standards, supporting jobs and providing affordable goods and services for American families.[2] The Office of the USTR has described the TPP as writing the rules for global trade, rules that "will help increase Made-in-America exports, grow the American economy, support well-paying American jobs, and strengthen the American middle class."[3] In the view of FDRA, the footwear provisions of the TPP are critical to achieving each of these four goals.

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[1] Source: Office of Textiles and Apparel (OTEXA), Department of Commerce
http://otexa.trade.gov/FLT/imports/cat10.htm

[2] Source: United States Trade Representative
https://ustr.gov/about-us/benefits-trade

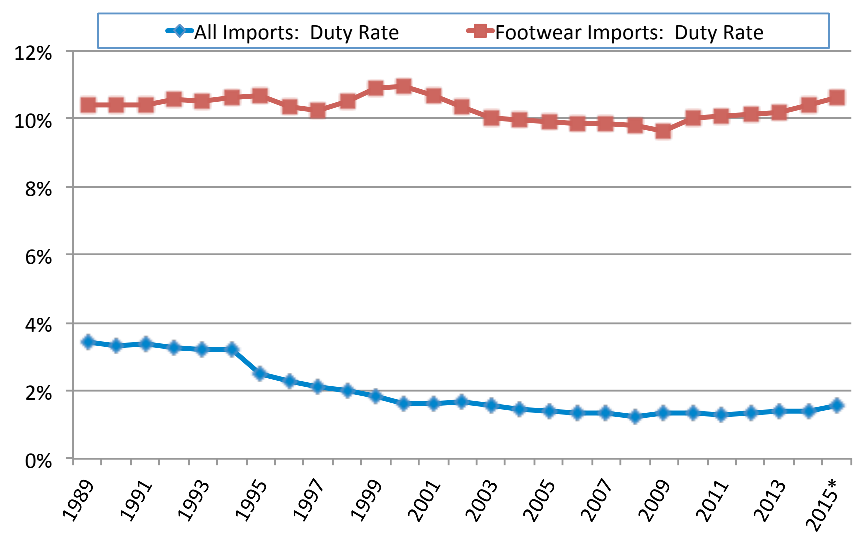
[3] Source: United States Trade Representative
https://ustr.gov/TPP/

Since 80 percent of goods from TPP countries already enter the U.S. duty free, eliminating the high footwear duties on TPP countries is essential in order for the agreement to deliver new export opportunities to American companies, small businesses, and farmers. In fact, the Office of the USTR has identified more than 18,000 tax cuts the agreement will create for American businesses that want to sell more U.S. products overseas.[4] In our estimation, those cuts could not have been accomplished without the support of the footwear industry for substantive and immediate cuts in U.S. footwear import tariffs. For the U.S. footwear industry, in particular, tariff elimination in the TPP will strengthen job creation, offer greater value to consumers, and help facilitate industry initiatives for responsible sourcing.

Footwear Duties: Background

One of the few remaining legacies of the Smoot-Hawley Tariff Act of 1930 is that duties on footwear are higher than those on almost any consumer product sold in America. With an average tariff of just 1.5 percent on all imported consumer goods, a vast majority of products crossing the American border at our nation's ports and docks enter duty free. In comparison, footwear tariffs average over 10 percent (see Figure 1), and can reach up to 37.5 percent, 48 percent and 67.5 percent depending on the type of shoe and the materials used to manufacture the shoe.

Figure 1: Duty Rate Comparison of Footwear Imports vs. All Imports



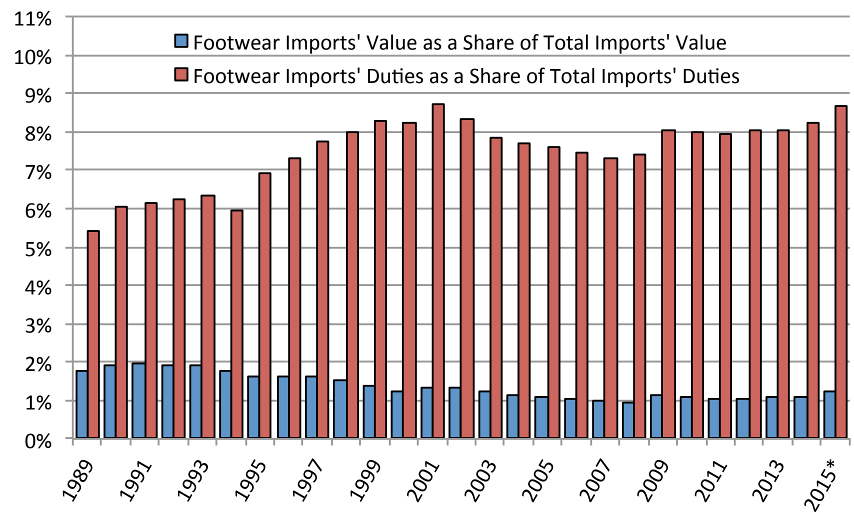
Source: USITC. * FDRA forecast.

[4] Source: United States Trade Representative
https://ustr.gov/tpp/

Chapter 64 of the Harmonized Tariff Schedule of the United States (USHTS), the footwear chapter, is 46 pages in length, covering an astronomical 436 individual tariff lines at the 10-digit level for footwear. The Informed Compliance Publication provided by U.S. Customs and Border Protection (CBP) is 63 pages long. This complex and frustrating classification construct burdens footwear companies and CBP with confusing classification codes, arcane concepts, and out-of-date product descriptions. For example, the USHTS classifies classic Converse All-Star sneakers and basic white Keds as athletic shoes.

Moreover, although footwear imports comprise only about one percent of the value of all U.S. imports, the federal government relies on the industry for more than eight percent of all tariff revenue (see Figure 2). Clearly, footwear consumers are overtaxed on a product they have to buy, and more often than not, can only buy from foreign sources. In the 21st century it seems that the largest importer of footwear in the world should not be in the business of taxing the companies that import those shoes and the consumers that buy them.

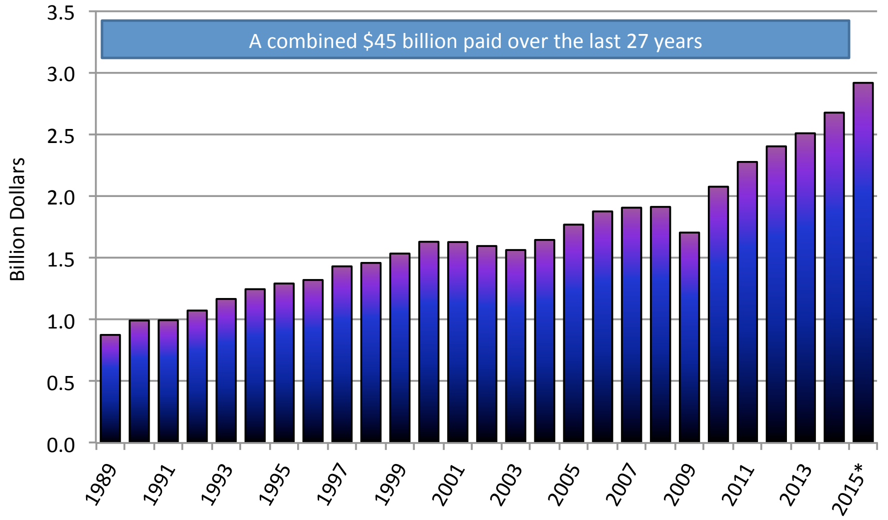
Figure 2: Footwear Imports Pay an Undue Burden of Total US Import Duties



Source: USITC. * FDRA forecast.

In 2014, footwear companies paid a record-breaking **$2.7 billion** in footwear duties. This marked a 6.6 percent increase over 2013, higher than the footwear industry's 2014 U.S. sales growth as a percent. Over the last 27 years, the industry has paid **$45 billion** in tariffs (See Figure 3).

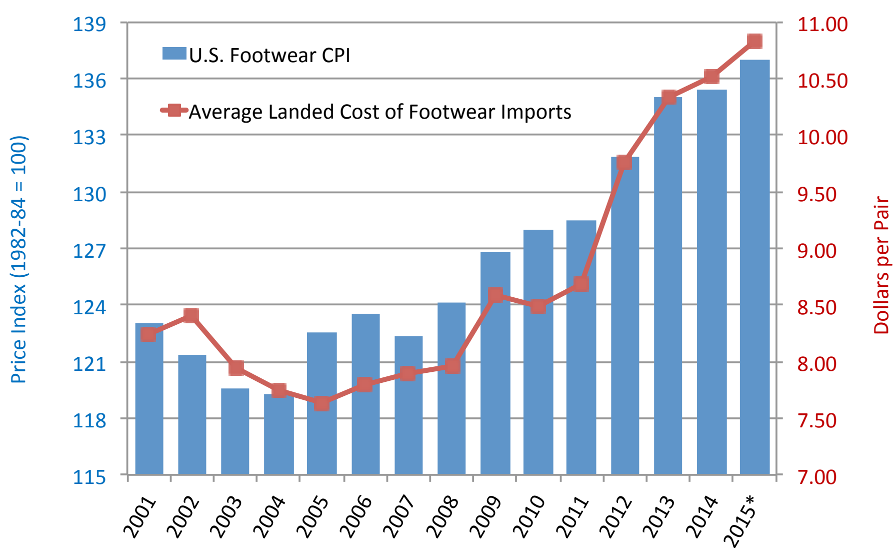
Figure 3: Duties Paid on US Footwear Imports



Source: USITC. * FDRA forecast.

The industry's multi-billion dollar tariff burden drives up the costs of shoes at retail for every footwear consumer. As shown in Figure 4, the consumer price index for footwear tracks closely with the average landed costs (duties, taxes, transportation costs, etc.) paid by companies shipping footwear to the U.S. market. It is clear that as Freight on Board (FOB) footwear prices rise, the consumer is directly impacted with increased costs at retail. High tariffs contribute to the overall cost of footwear in a direct and dramatic way.

Figure 4: Higher Landed Costs of Footwear Imports Passed on to Consumers



Sources: USITC & BLS. * Based on year-to-date data.

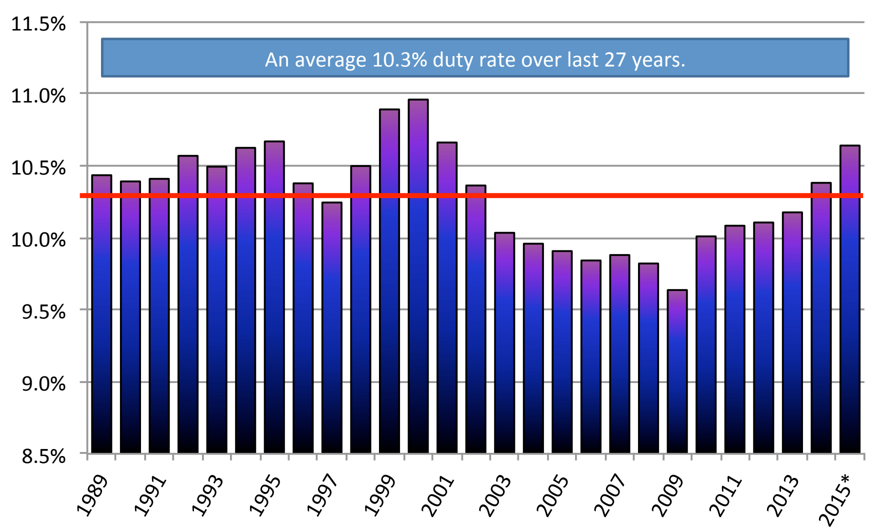
Tariffs on footwear are also considered regressive in two distinct ways. As stated before, the tariffs are regressive for the simple fact that they are a tax on a product everyone must buy and that almost always originates from overseas sources. The average American consumer is forced to pay this tax, imbedded in the overall cost of the shoes, even though for the most part, there is not a domestic substitute.

The tariffs are also regressive because lower tariff rates are applied to leather shoes and other high quality and higher priced imports. The highest duty rates often fall on low cost shoes and children's shoes. While the U.S. government taxes a pair of men's leather dress loafers at 8.5 percent, children's sneakers are hit with rates of 20 percent and 48 percent. This regressive tariff system impacts millions of U.S. consumers who purchase shoes each year but disproportionately affects working class individuals and families.

High footwear tariffs also limit the potential for U.S. job creation and stifle innovation. As the Chairman, CEO & President of Michigan-based Wolverine Worldwide, Blake W. Krueger, stated on February 10, 2015, "We constantly strive to design and build the very best products, all the while working to provide our consumers the best value. These tariffs amount to a hidden tax. If we can get these duties removed through TPP we can ultimately provide an even better value to our consumers, and at the same time create more jobs across the country." The President and CEO of Ohio-based footwear company R.G. Barry, Greg Tunney, has said, "These tariffs are job killers, reducing our revenues and impacting our ability to expand economic opportunity. Worse, they raise prices on consumers and make us less competitive against other companies and brands around the world." He stressed the importance of the TPP for the industry to become more globally competitive.

The Smoot-Hawley Tariff Act of 1930 introduced these duties during a time in which the U.S. had a large domestic footwear manufacturing base. Today, however, an estimated 99 percent of all footwear sold in the U.S. is imported. While most U.S. industries have seen the extraordinarily high tariff rates of Smoot-Hawley removed or reduced over time, the U.S. footwear industry has not, and the duty rate for footwear imports has averaged 10.3% for the last 27 years (see Figure 5). The TPP is the first free trade agreement in a generation to provide meaningful tariff relief for U.S. footwear companies and has the potential to be the most impactful agreement in our industry's history.

Figure 5: US Footwear Import Duties as a Share of Footwear Imports

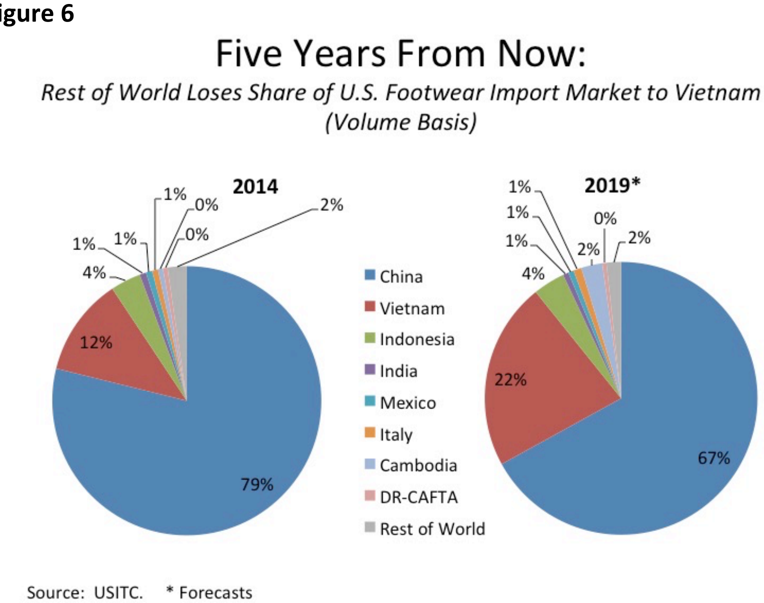


Source: USITC. * FDRA forecast.

The Importance of Vietnam in TPP

As drafted, the TPP will remove almost all duties on footwear produced in TPP countries, with the majority eliminated the first year of the agreement's implementation. Duties on the remaining 18 items will be phased out over the first 12 years of the agreement. The duty relief provided in the TPP will greatly benefit U.S. footwear companies because Vietnam, a TPP partner country, has become a major footwear supplier to the U.S. marketplace. Vietnam is second only to China as a source of footwear for U.S. consumers, manufacturing 12 percent of U.S. imports in 2014 and growing rapidly year over year. In fact, U.S. footwear companies continue to shift production from China to Vietnam, resulting in a 19 percent volume increase in Vietnamese footwear exports to the U.S. in 2014. A vast majority of FDRA members currently source in Vietnam with plans to increase orders with factories in Vietnam in the near future. FDRA estimates that by the year 2019, Vietnam will supply 22 percent of the volume of all U.S. footwear imports (see Figure 6).

Figure 6

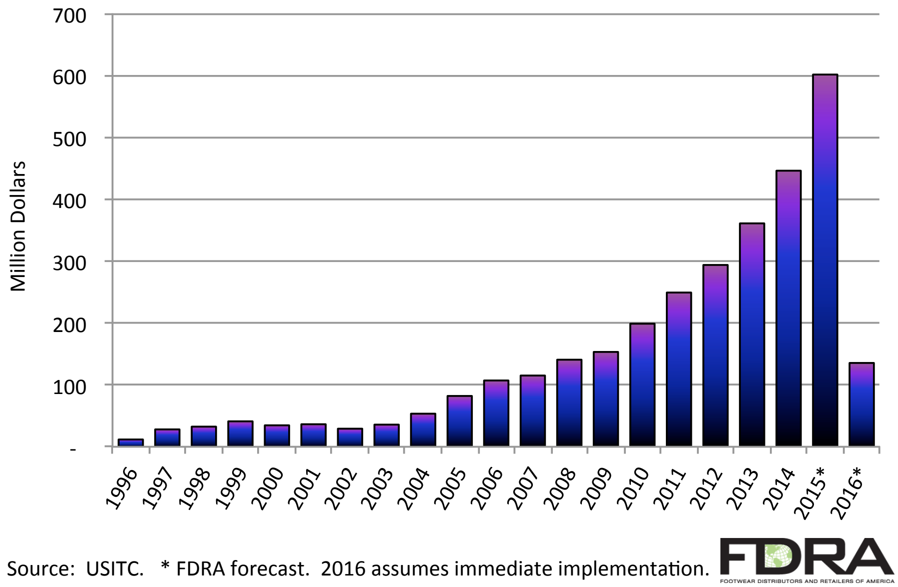


Of the $2.7 billion in duties collected on U.S. footwear imports in 2014, $448,751,757 were paid on U.S. imports of footwear from countries party to the TPP. Of the almost $449 million collected from these 11 nations, $445,851,709 were paid on Vietnamese exports of footwear to the U.S. in 2014 – over 99% of the duties applied to these imports. So, needless to say, Vietnam's involvement in the TPP is paramount to FDRA's support of this agreement and provides the greatest potential for far-reaching benefits for many in the industry.

Savings, Industry Investment, & Job Creation

FDRA estimates that these duty reductions will generate more than **$450 million** in savings for the industry in the first year of TPP implementation and over **$6 billion** the first decade alone (see Figure 7). These savings will strengthen U.S. job creation and provide greater value to American footwear consumers alike.

Figure 7: Footwear Imports from Vietnam: Duties Already Paid, & Duties Paid Post-TPP



Source: USITC. * FDRA forecast. 2016 assumes immediate implementation.

FDRA is often asked about the certainty of whether or not duty savings are passed on to consumers. To answer this important question it is vital to understand the diverse and dynamic U.S. footwear industry. For some segments of the industry, the savings will quickly make their way to consumers through the hyper-competitive nature of the mass retail footwear market. Companies like Walmart, Payless ShoeSource, Target and others fiercely compete for the business of cost-conscious footwear buyers on a daily basis. This competition will lead to more competitive pricing.

In other segments of our industry, there will be additional investments in innovation. With such high duty rates and a complex classification system, FDRA members are incentivized to design shoes that qualify for lower duty rates. This often leads to the use of less innovative materials or the absence of important features and protections against the elements. For those types of shoes, those that are made in Vietnam and that meet the rule of origin, one might find greater innovation and higher quality for consumers. It will be exciting to see how footwear used for outdoor activities, for example, will be even more innovative and dynamic in the years to come.

TPP duty savings will also help footwear companies create and expand jobs throughout the U.S. Whether in direct investments in new jobs from TPP duty savings or the movement of additional units with more competitive pricing, American footwear jobs in the global footwear supply chain will increase in many different areas. There are hundreds of thousands of good paying footwear jobs in retail, design, innovation, marketing, trucking, administration, warehousing, manufacturing, and logistics. Each of these jobs plays an important role in supporting families and communities all across this nation.

The leading global American footwear brand, Nike Inc., made this important announcement in relation to job creation and TPP in a release on May 8, 2015[5]:

"The company announced its intention to accelerate investment in advanced footwear manufacturing in the United States, if TPA is passed and a TPP agreement is finalized. Footwear tariff relief would allow Nike to accelerate development of new advanced manufacturing methods and a domestic supply chain to support U.S. based manufacturing. This advanced manufacturing model is expected to lead to the creation of up to 10,000 manufacturing and engineering jobs in addition to thousands of construction jobs and up to 40,000 indirect supply chain and service jobs in the United States over the next decade."

It does not take an advanced degree to understand that jobs are created when companies can eliminate burdensome costs within their supply chains. With trade currently supporting one in five jobs in America, including the hundreds of thousands of employees who work in the U.S. footwear industry, FDRA expects a dramatically positive impact on job creation for U.S. footwear retailers, brands, and even American footwear manufacturers, a majority of which import footwear from Vietnam as well.

Export Opportunities Through Japanese TRQ Elimination

The TPP also provides increased export opportunities for footwear manufacturers in the United States as it sets out to eliminate Japan's Tariff Rate Quota (TRQ) on leather footwear. Japan currently imposes an annual quota of 12 million pairs of leather shoes (2 percent of the total Japanese footwear market), which severely restricts the ability of U.S. footwear companies to access the Japanese market. Once the quota limit is reached, American businesses seeking to export footwear to Japan often face a burdensome 100 to 300 percent surcharge per pair on U.S. manufactured shoes and U.S. brands. While the agreement does not ultimately remove duties on these American footwear products, the dismantling of the TRQ will provide better market access to Japan, increasing exports and enhancing manufacturing job growth.

Bipartisan Support for Tariff Reduction

Reducing the large tariff burden on the U.S. footwear industry has received large bipartisan support in Congress. In a July 2013 letter to the USTR, 47 members of Congress stated, "Immediate, meaningful duty elimination upon implementation of the TPP and establishing straight-forward and uncomplicated rules of origin for footwear would allow U.S. brands to reinvest import duty and paperwork savings in innovation

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5 http://news.nike.com/news/nike-welcomes-president-obama-to-its-world-headquarters

and maintain global competitiveness. Perhaps, most importantly, these outdated tariffs result in an unfair burden on American families." In a November 2013 letter to the USTR, 14 senators wrote, "The immediate elimination of footwear tariffs in TPP, therefore, provides an opportunity to bargain for commitments that will benefit U.S. exporters and save money for U.S. companies and consumers, without negatively affecting U.S. manufacturing." In addition, there has been strong, bipartisan support for the Affordable Footwear Act, legislation introduced in previous Congresses to eliminate footwear duties on children's shoes. The most recent House version (H.R. 1708, the Affordable Footwear Act of 2013), introduced by Rep. Lynn Jenkins (R-KS) in the 113th Congress, gained 51 cosponsors from both political parties and every region of the country. It is clear that eliminating duties on products American consumers have to buy is a policy supported by Members of the House and Senate.

Conclusion

The Trans-Pacific Partnership will provide significant tariff relief for an industry heavily and disproportionately burdened by duties. The agreement will also eliminate the Japanese TRQ, expanding market access for U.S. footwear. The estimated $450 million in savings from duty elimination that the TPP will provide in year one, and the $6 billion it will generate over the first decade, will expand and strengthen footwear jobs across the industry's supply chain, increase innovation, reduce tariff engineering, and deliver greater value to American footwear consumers. This is a once-in-a-lifetime opportunity for both U.S. footwear companies and their consumers to reap the benefits of a positive, impactful, and historic agreement. It is quite possible that we will look back on these days as the start of the final dismantling of an archaic, repressive, and confusing tariff structure that has only served to hamper innovation, stifle job creation, and drive up costs for American consumers. For these reasons, FDRA strongly supports passing the TPP and urges the U.S. to implement the agreement as soon as possible.