



FOOTWEAR DISTRIBUTORS AND RETAILERS OF AMERICA

## Footwear Duty Simplification Proposal

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### OVERVIEW:

There are an astounding 436 footwear classifications at the 10-digit level found in Chapter 64 of the United States Harmonized Tariff Schedule (USHTS). This complicated and outdated system requires countless personnel, financial and other resources to ensure full compliance for the over 2.3 billion pairs of shoes imported into the United States every year. In theory, the USHTS provides clear classification of any imported product to insure the proper duty rate is applied; duty rates that are designed to protect domestic production that competes with the imported product. With very little domestic production of footwear in the United States, the complex web of classifications and descriptions do nothing more than stifle innovation and hamper creativity.

In order to address this issue, FDRA Chairman Rick Muskat is proposing the establishment of a more streamlined and simplified tariff system that provides clarity and clear understanding when classifying footwear. The purpose of this white paper is to outline a specific option where we hone in on establishing broader definitions at the four-digit level within the USHTS and apply the average duty rate found within this grouping to all footwear imported in under the four-digit grouping. From there, we can propose reducing the number of classifications from 436 to six.

The initial goal of this project is to assemble a new footwear tariff regime that is as revenue neutral to the U.S. Government as possible. The other, and more important goal is to build consensus within the footwear industry in support of the initiative from both a broad conceptual and detailed perspective. Trying to balance a new program that doesn't raise duties for individual companies without providing savings in other areas is important to guaranteeing broad consensus and support. FDRA members must be comfortable with the specific details of the proposal that may impact their overall duty obligation profile.

*In addition to creating a single duty rate for each heading within Chapter 64 (with exceptions for the subheading considered "sensitive", we will strive to eliminate as many of the existing subheadings as possible. The HS itself has a total of 26 six-digit subheadings. While it may not be realistic to expect to be able to truncate Chapter 64 to that degree, it is worth the effort. A list of the 26 subheadings is attached.*

*This approach will eliminate many of the more difficult definitional issues we currently face. It would eliminate foxing and foxing-like bands. It will not eliminate all of these concerns since sports footwear, athletic footwear, over the ankle footwear, etc. are classification factors at the HS. Further issues relating to materials will not be eliminated. Although not all issues will be eliminated, their effect will be minimized because a change in classification within a heading will not change the duty rate. Note that this will be the practical impact of the one duty rate per heading approach even if we are not able to reduce the number of subheadings dramatically.*

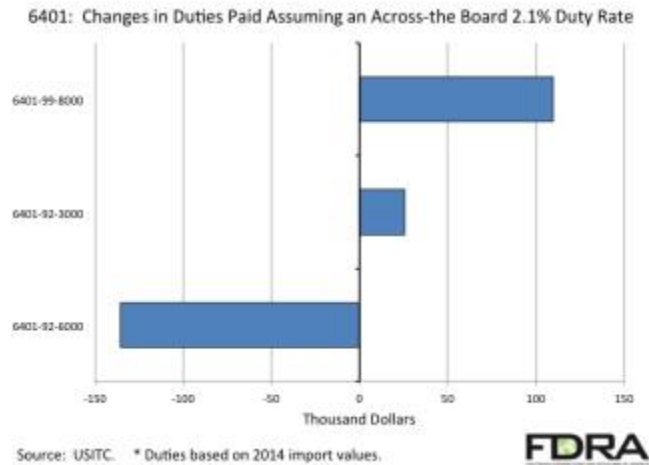
*It is important to keep in mind that not every complexity in Chapter 64 is designed to affect the duty rate. In some cases, the complexity is at the statistical level. In these cases, the likelihood is that some interest, Government or private sector, has requested the detail. The statistical breakouts are totally within the jurisdiction of a committee chaired by the International Trade Commission (ITC). The committee makes changes annually. If there are particular statistical difficulties, we can go to the ITC separate from this project.*

### DETAILS:

Using 2014 import data, FDRA has analyzed each of the six groupings of classifications at the four-digit level and created an average, weighted duty rate against each of these groupings. Unused classifications were removed as were any tariff codes deemed sensitive by the remaining domestic industry here in the United States. What follows is a brief synopsis per each four-digit grouping including graphic representation outlining the number of classifications that will see an increase in tariffs against those lines that will experience a decrease.

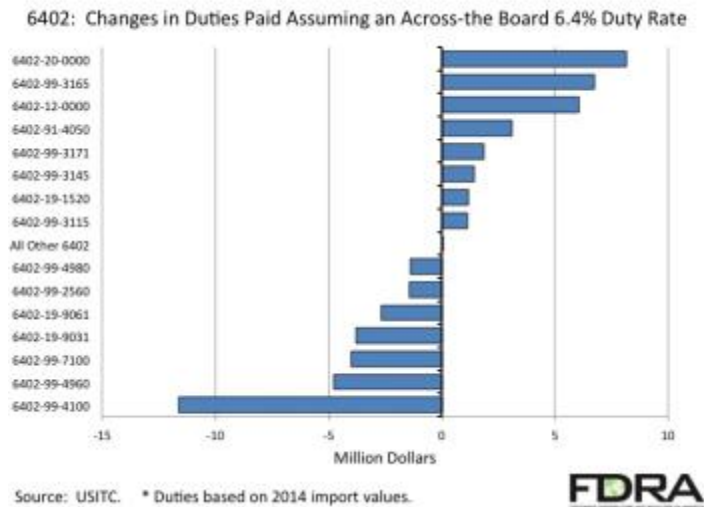
**6401** Comprises four 10-digit codes, but only one of which currently is charged duties. If one spreads the 6401-weighted average duty rate of 2.1% across all four codes, you can see in chart below that several types of footwear will see an increase in duties. For example, 6401.99.8000 would go from duty free to a duty rate of 2.1%. Conversely, certain PVC boots would drop from 4.6% to 2.1%, saving thousands for those importers.

**Chart 1**



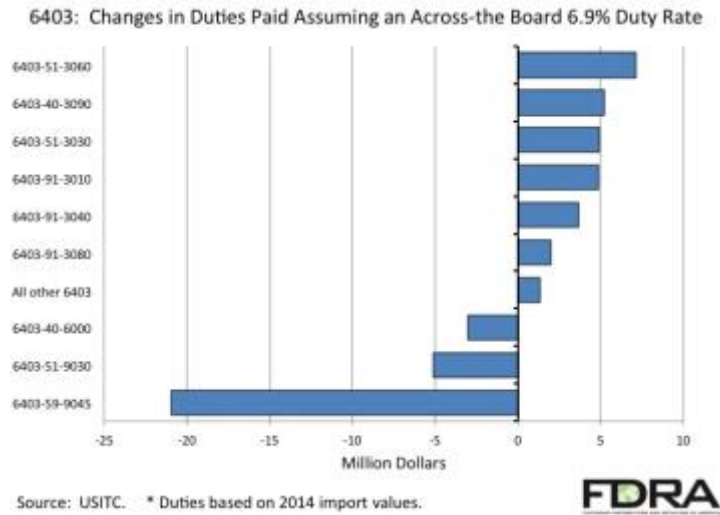
**6402** comprises 125 10-digit codes, but only 63 are currently imported into the US. The 6402-weighted average duty rate is 6.4%. The impact of this change can be seen below (Chart 2). Most problematic in 6402 is the raising of duties from free to 6.4% on zoris. FDRA believes that a number of importers only import zoris, so these companies will negatively react to the raising of duties on their products without the benefit of realizing savings elsewhere within their footwear portfolio. A closer look at Chart 2 shows that certain slip-ons (6402.99.41) will see duties decrease from 12.5% to 6.4%.

**Chart 2**



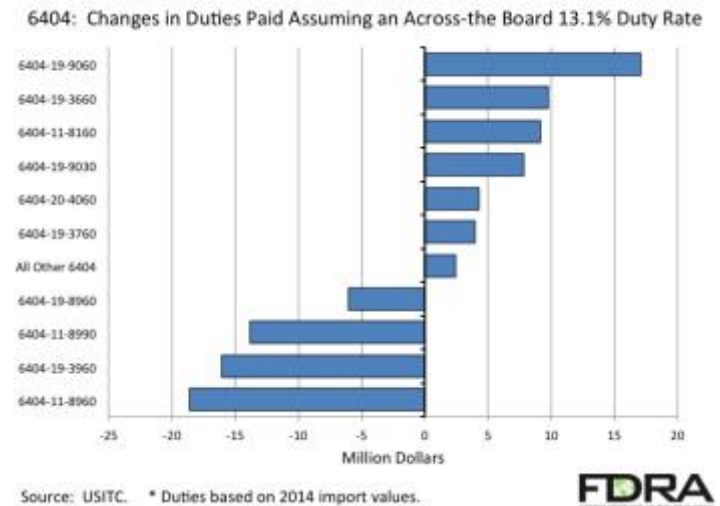
**6403** comprises 88 10-digit codes, but only 64 are currently imported into the US. The 6403-weighted average duty rate is 6.9%. The biggest ‘loser’ of the adjustment in 6403 would be welt boots, such as the boots made by Wolverine Worldwide and LaCrosse. Those boots (6403.51.3060) would go from 5% to 6.9%. On the other end of the spectrum would be women’s leather shoes/outsoles (6403.59.9045) which would see its duty rate drop from 10% to 6.9%.

**Chart 3**



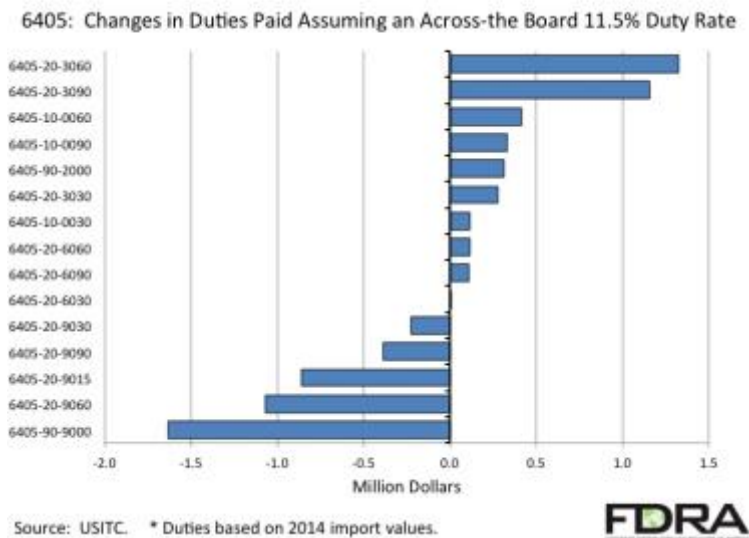
**6404** comprises 157 10-digit codes, but only 120 are currently imported into the US. The 6404-weighted average duty rate is 13.1%. For 6404, women’s non-athletic textile upper footwear would migrate from 9% to 13.1% whereas, non-branded athletic footwear (6404.11.8960) would see its duty rate drop from 90c/pair + 20% to 13.1%.

**Chart 4**



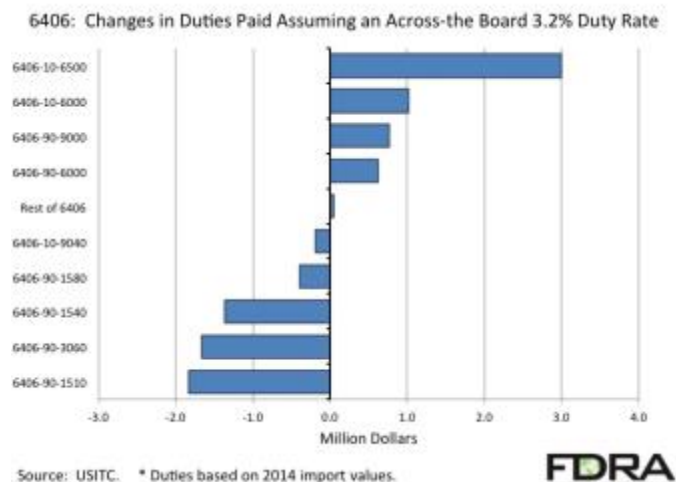
**6405** contains fifteen 10-digit codes, with all fifteen currently imported into the US. The 6405-weighted average duty rate is 11.5%. Under 6405, textile upper/outsole footwear (6405.20.3060) would see an increase in its duty rate from 7.5% to 11.5%. The biggest ‘winner’ from the change would be plastic upper/textile outsole footwear found in 6405.90.9000. Duties for these shoes would drop from 12.5% to 11.5%.

**Chart 5**



**6406** comprises 47 10-digit codes, but only 32 are currently imported into the US. The 6406-weighted average duty rate is 3.2% for this category that captures footwear parts. This basket is not nearly as important as the others and captures very little trade in relation to fully formed footwear that is imported.

**Chart 6**



## **SUMMARY:**

The purpose of this paper and its underlying methodology is to begin the discussion in earnest regarding ways in which the US Government can streamline the footwear classification system. There is no doubt that the consolidation of so many codes into six distinct baskets will create 'winners' and 'losers'. It is important that we solicit and entertain the ideas, input, and concerns of all FDRA members as we continue to consider the options that will provide success. From here, FDRA will reach out to a group of footwear companies and professionals to help provide feedback on the initiative, the aforementioned methodology, and the appropriate path forward.

Make no mistake, the system is broken. Established in 1930, the USHTS has undergone constant revisions, additions, and rewrites creating a system that is arcane and at times unusable. Like a dilapidated house that is constantly having additions added to the original structure, all the while not receiving any renovations, the layout of Chapter 64 is confusing, nonsensical, and in disrepair. FDRA is determined to find a solution that works for all and provides a clear way to classify footwear in the United States.

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