Pre-Hearing Brief from the Footwear Distributors & Retailers of America to the U.S. International Trade Commission
Investigation No. 332-325
The Economic Effects of Significant U.S. Import Restraints: Ninth Update

January 30, 2017

On behalf of the Footwear Distributors & Retailers of America (FDRA), thank you for the opportunity to testify about significant U.S. import restraints that negatively impact footwear companies and consumers. Founded in 1944 by the U.S. footwear industry, FDRA remains the largest U.S. footwear trade association, representing more than 130 footwear companies and 250 brands. FDRA supports the entire footwear supply chain and serves the width of the industry, from small family-owned footwear businesses to manufacturers and retailers to global brands reaching consumers worldwide.

The testimony of FDRA will focus on the incredibly high U.S. footwear tariffs and their economic impact on American consumers and businesses. It will also address the complex and outdated footwear chapter of the Harmonized Tariff Schedule of the United States (HTS), which greatly restrains our industry.

The Importance of Global Supply Chains to the U.S. Footwear Industry

The member companies that constitute FDRA depend on global supply chains to deliver footwear to U.S. consumers. In 2015 alone, the industry sourced an astounding 2.5 billion pairs of shoes for the U.S. market.[1] That translates into approximately 7.7 pairs of shoes for every man, woman, and child in America. This is a higher per-capita figure than any other economy, with the U.S. as the largest market for footwear.

Global footwear supply chains made possible delivering these 2.5 billion annual pairs of shoes to the U.S., and it is the value, choice, and innovation demanded by U.S. consumers that require our industry to utilize a global supply chain model. This model allows for the footwear industry to invest in jobs and innovation here in America, and it supports hundreds of thousands of U.S. individuals and families who work in research and development, design, administration, marketing, transportation, logistics, and retail.

The shift away from large-scale U.S. footwear production occurred decades ago. Today, approximately 99 percent of shoes are imported, although the majority of the value of footwear is still created in the U.S. The remaining one percent of U.S. manufacturing is done to meet a very limited segment of the market including U.S. military boots and some high-end leather footwear.

Footwear tariffs, among the highest of any tariffs placed on U.S. consumer goods, have not kept manufacturing jobs in the U.S. Instead, these tariffs limit the ability of U.S. footwear companies to compete globally and result in consumers paying higher costs for shoes.

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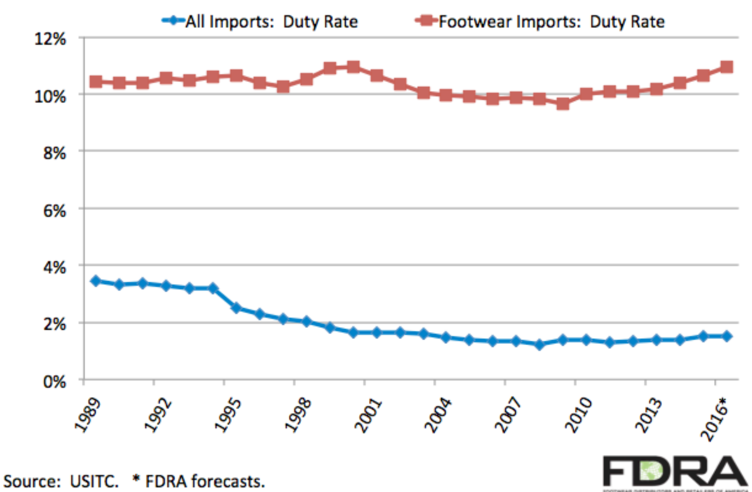
[1] Source: Office of Textiles and Apparel (OTEXA), Department of Commerce
http://otexa.trade.gov/FLT/imports/cat10.htm

The Remaining Legacy of Smoot-Hawley

The Smoot-Hawley Tariff Act of 1930 dramatically raised tariffs on imported products, as a result of lobbying by interest groups that favored U.S. protectionism, and was signed into law by President Herbert Hoover against the recommendations of economists. The Act worsened the Great Depression, and in the decades that followed its enactment, the U.S. worked to remove or reduce these unreasonably high tariffs. The high tariffs for footwear, however, remain one of the few lasting legacies of Smoot-Hawley.

While tariffs on most consumer goods average just 1.5 percent, tariffs on footwear average 11 percent (see Figure 1). Depending on the type of shoe and the material used to manufacture the shoe, these tariffs can reach rates as high as 37.5 percent, 48 percent, and 67.5 percent.

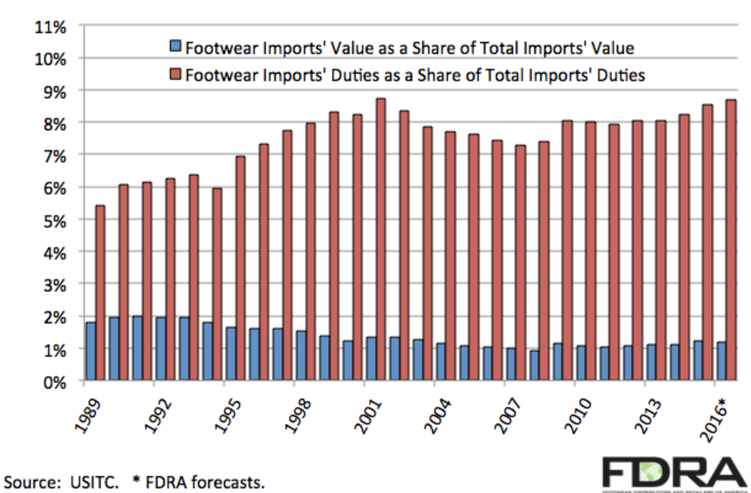
Figure 1: Duty Rate Comparison of Footwear Imports vs. All Imports



Source: USITC. * FDRA forecasts.

Though footwear imports account for only one percent of the value of all U.S. imports, they currently generate more than eight percent of all tariff revenue for the U.S. Government (see Figure 2).

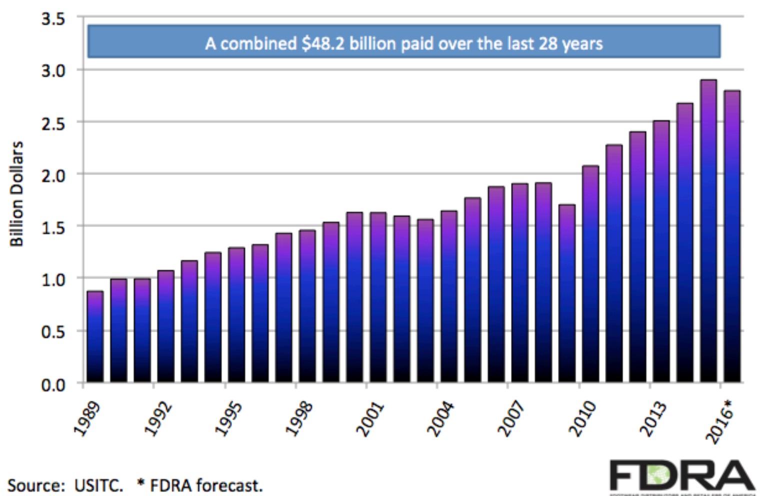
Figure 2: Footwear Imports Pay an Undue Burden of Total US Import Duties



Source: USITC. * FDRA forecasts.

Over the last 28 years, the industry has paid $48.2 billion in footwear tariffs to the U.S. Government (see Figure 3). In 2015 alone, the footwear industry paid $2.9 billion, an increase of 8 percent over 2014 and far higher than the U.S. footwear industry's 2014 U.S. sales growth as a percent.

Figure 3: Duties Paid on US Footwear Imports



This restrictive U.S. tariff regime is clearly not what drives sourcing decisions in our industry, since the manufacturing shift occurred despite high footwear tariffs remaining in place since the 1930s. Even operating under these high tariffs, companies make sourcing decisions based on the needs of the market and the demand, value, innovation, and choice important to American consumers.

It is counterintuitive that these high tariffs, ostensibly put in place to protect domestic production, apply to products even where there is not a single U.S. worker making the product.

With the enactment in May 2016 of the American Manufacturing Competitiveness Act (Public Law 114-159), Congress created a new Miscellaneous Tariff Bill (MTB) process for temporary and limited duty relief on imported products including some footwear. In expressing the need for the new process, Congress found that the HTS "imposes duties on imported goods for which there is no domestic availability or insufficient domestic availability [and] the imposition of duties on such goods creates artificial distortions in the economy of the United States that negatively affect United States manufacturers and consumers." Likewise, legislation in previous Congresses that would eliminate tariffs on certain children's footwear gained strong bipartisan support in both the House and Senate.[2]

Footwear tariffs limit the ability of U.S. companies to expand, compete, and innovate and prevent the industry from creating good-paying U.S. jobs. In addition, the majority of today's U.S. footwear manufacturers are also importers, and these tariffs limit revenue

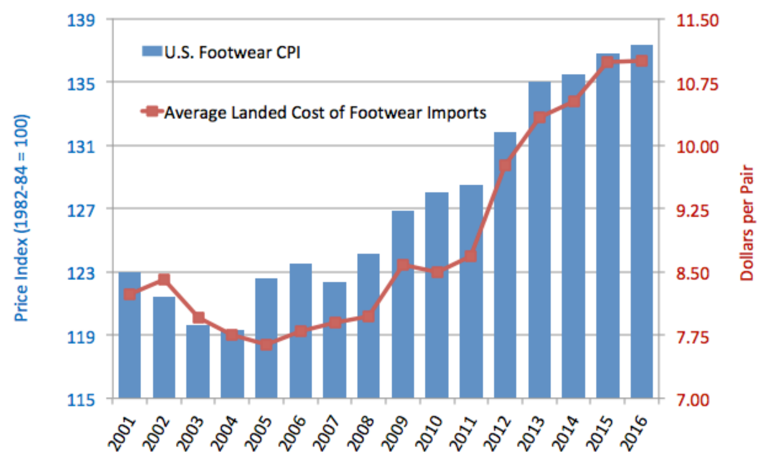
[2] The Affordable Footwear Act (H.R. 1708 and S. 1633 in the 113th Congress, H.R. 2697 and S. 1069 in the 112th Congress, H.R. 4316 and S. 730 in the 111th Congress, and H.R. 3934 and S. 2372 in the 110th Congress)

that could otherwise be invested back into these domestic manufacturing operations.

The economic effect of these tariffs on consumers is significant, unnecessarily driving up footwear costs. As the Commission assesses the effect of U.S. import restraints on households with different incomes for the ninth edition of this critical report, FDRA believes it would be particularly useful to consider the disproportionate burden footwear tariffs place on households with lower incomes.

The industry's multi-billion dollar tariff burden drives up the costs of shoes at retail for every footwear consumer. The consumer price index for footwear tracks closely with the average landed costs, which includes duties, taxes, and transportation costs paid by companies shipping footwear to the U.S. market (see Figure 4). Operating as a hidden tax on consumers, the tariff is imbedded in the overall cost of the shoe and its effect is multiplied at retail, resulting in nearly $7.5 billion a year in added cost for consumers.

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



Sources: USITC & BLS

Not only do tariffs act as a hidden tax, they are regressive, having the greatest impact on working class individuals and families. They are regressive for the simple fact that they are a tax on a product that everyone must buy and that almost always originates from overseas sources. The average American consumer is forced to pay this tax, even though for the most part, there is not a domestic substitute.

These tariffs are also regressive because higher tariff rates often fall on lower value shoes and children's shoes. The tariffs applied to leather shoes and other high quality and higher priced imports are significantly lower. 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 it disproportionately affects working class individuals and families.

FDRA believes Congress and the administration should focus on reducing U.S. footwear tariffs, considering the real cost of tariffs to both American businesses attempting to compete in a global economy and American consumers.

The Burdens of Chapter 64 of the Harmonized Tariff Schedule of the United States

In addition to significant import restraints in the form of high tariffs for footwear, Chapter 64 of the HTS, the footwear chapter, imposes one of the biggest challenges on the industry today. With 436 different footwear classifications at the 10-digit HTS level, ensuring full compliance for the classification of 2.5 billion pairs of shoes annually requires countless customs classification specialists and financial resources. Chapter 64 totals 46 pages in length, and the Informed Compliance Publication provided by U.S. Customs and Border Protection (CBP) totals 63 pages in length. By way of comparison, Canada's Chapter 64 encompasses only 13 pages and the EU's only six pages. The time, administrative staff, and resources needed to navigate the complex and outdated web of article descriptions and classifications in the U.S. HTS diverts resources that could otherwise be used for job creation and innovation in other areas.

This frustrating classification construct burdens footwear companies and CBP with confusing classification codes, arcane concepts, and outdated product descriptions. As FDRA has previously testified to the Commission, the HTS still classifies basic white Keds and Converse All-Star sneakers as "athletic shoes," though Converse All Star sneakers have not been worn in a professional basketball game in almost 40 years. With 436 different ways to classify footwear entrenched in a footwear tariff system launched in 1930, no one should be surprised that such an arcane system has failed to keep up with the new and emerging designs and developments of the 21st century.

In fact, the high duty rates and complex classification system actually incentivizes designing shoes based on qualifying for lower duty rates rather than solely on the needs and desires of consumers. This often requires the use of less innovative materials or the absence of important features and protections against the elements, directly impacting the quality and innovation that could be achieved for U.S. consumers.

FDRA believes the Commission's report plays a critical role in examining, not only the U.S. tariff burden on our industry, but CBP procedures that operate as import restraints. To this end, it is important to highlight the challenges to footwear companies created by the complexities of the HTS. FDRA supports efforts to improve and streamline Chapter 64 of the HTS so that it better serves footwear consumers and companies. To this end, FDRA is in the process of formulating a proposal that would revise Chapter 64 to alleviate some of its complexities, and we look forward to working with the USITC on this issue.

Conclusion

FDRA appreciates the opportunity to provide testimony on the impact of tariffs on companies and consumers and the complexities of the HTS as it relates to footwear. We stand ready to work with the Commission as it prepares the ninth update of this important report on significant import restraints.