Trade War & the Impact on Footwear

Matt Priest, President & CEO, Footwear Distributors & Retailers of America (FDRA)
The U.S./China Trade War & the Impact on Footwear
“Don’t play checkers in a chess world.”

- Ron Vara
“Ride the stock market cycle — or be run over,"

- Ron Vara
“Only the Chinese can turn a leather sofa into an acid bath, a baby crib into a lethal weapon, and a cellphone battery into heart-piercing shrapnel.”

- Ron Vara
“Only the Chinese can turn a leather sofa into an acid bath, a baby crib into a lethal weapon, and a cellphone battery into heart-piercing shrapnel.”

- Ron Vara
“You’ve got to be nuts to eat Chinese food.”

- Ron Vara
Ron Vara
Navarro
Peter Navarro
Peter Navarro Invented an Expert for His Books, Based on Himself

President Trump’s trade adviser frequently cited Ron Vara, a fictional source who was a critic of China, in his writings.
## Market Action

<table>
<thead>
<tr>
<th>Index</th>
<th>Description</th>
<th>Value</th>
<th>Change</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dow Jones Industrials</td>
<td>(.DJIA)</td>
<td>25,534.76</td>
<td>-745.15</td>
<td>-2.84%</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>(.SPX)</td>
<td>2,844.98</td>
<td>-81.34</td>
<td>-2.78%</td>
</tr>
<tr>
<td>Nasdaq Composite</td>
<td>(.NCOMP)</td>
<td>7,780.72</td>
<td>-235.64</td>
<td>-2.94%</td>
</tr>
</tbody>
</table>

### Tariff Shock for Retailers

- 5YR YLD: 1.499%  
- 10YR YLD: 1.591%  
- 30YR YLD: 2.030%

**Callon Petroleum (CPE):**
- 1,100@ 4.22  
- 0.35
August 28, 2019

The Honorable Donald J. Trump
President of the United States
The White House
Washington, DC 20500

Dear Mr. President:

On behalf of the American footwear industry, we urge you to cancel the new, added footwear tariffs set to take effect on September 1st and December 15th of this year.

Although tariffs on some products from China will be delayed until December, the majority of footwear products face an added 15% tariff on September 1st. This American tax is on top of already-high footwear tariffs that average 11 percent and reach 67 percent on some shoes. The highest tariff rates generally fall on lower-value shoes and children’s shoes, driving up costs for hardworking American families.

There is no doubt that tariffs act as hidden taxes paid by American individuals and families. When import costs rise and fall on imported footwear — whether based on the price of materials, transportation, labor, or tariffs — those cost increases or savings are almost immediately passed on to consumers. As U.S. Government data in the chart below demonstrates, U.S. import taxes directly impact consumer prices.

As more than 170 footwear companies stated in our May 20th letter to you, the new tariffs impact every type of shoe and every single segment of our society. This added 15 percent tax will cost U.S. footwear consumers an additional $4 billion every year, according to our industry’s trade association, the Footwear Distributors & Retailers of America (FDRA). The September 1st tariffs on footwear will also mean these massive tax increases hit tens of millions of Americans when they purchase shoes during the holiday season.

We understand that delaying some of the tariffs to December was done to avoid the full tax increase on $300 billion in goods that would hit American consumers during the holidays, and we appreciate your decision to delay tariffs on certain footwear items. However, imposing tariffs in September on the majority of all footwear products from China — including nearly every type of leather shoe — will make it impossible for hardworking American individuals and families to escape the harm that comes from these tax increases. Moreover, the producers that have a more diversified sourcing profile and rely less on China are hit with punitive tariffs first, as a result of the Office of the United States Trade Representative’s (USTR) 25 percent import penetration criteria.

Some within the administration have argued that China ultimately pays the tariffs, instead of U.S. consumers, because China can just devalue its currency to respond to added costs. This is simply not true when it comes to our industry, because import prices are almost always quoted and negotiated in U.S. dollars not RMB. For RMB valuation alone to offset the 15 percent tariff increase for some shoes, the currency would have to drop by more than 40 percent.

We are very concerned that this tariff action will create further economic uncertainty. An economic downturn will take away disposable income from U.S. consumers, even as they have to pay more for products. When consumers have less money to spend, we sell fewer shoes and this hurts U.S. businesses. The tariff threat on China has the potential to drive up prices in other footwear sourcing countries, as demand has spiked with limited production capacity. As a result, U.S. consumers could face higher prices even before the new tariffs take effect.

This uncertain the China trade war has brought to our industry is stifling U.S. growth and halting capital investment in jobs, infrastructure, technologies, and more competitive pricing for our customers. On behalf of our hundreds of millions of American footwear consumers and hundreds of thousands of employees, we ask that you immediately terminate the scheduled tariffs increase on footwear.

Sincerely,

[Signatures]

ACI International
Adidas
Ash’s Shoes
Aldo USA, Inc.
Allen Edmonds
Altra
AND1
Aravon
Avia
b.c.c.
Badgley Mischka Footwear
Bally
BC International
Bensies Shoes
Bettery Johnson
BIGSTON, INC.
Bionica Footwear
Birkenstock USA
Black Diamond Group
Blondi
Bionik Milsos
BOGS

Bern Handcrafted Footwear
Brooks Sports
Bolts Shoes
Brees
Calms
Cameron
Calson Investment, Ltd.
Camuto Group
Carolina Footwear
Cat Footwear
CELL Enterprises, Inc
Charo
Chinese Laundry
CL By Laundry
Claire's
Cobbler’s Creations
Cobra Fuma Btt.
Columbia Sportswear
Comfortiva
Converse
Corcoran
Cove Shoe Company
Creative International
Cres Inc.
Dansko
Dearfoams
Deckers Brands
Deer Stags
Designer Brands
Dexter Bowling Footwear
Diba Fair East, LLC
Dirty Laundry
Deckers Footwear
Dolce Vita
Double H Boots
Dr. Martens AirWair USA LLC
Dr. Scholls
Durham
Dynasty Footwear
E.S. Deligne’s Inc
Earth Shoes
ECCO USA
Elan Pale International
Famous Footwear
Fanyfonics
Fashion Footwear Association of New York
Feiyue Footwear
Filz
Fleet Feet Augustas
White House Economic Advisor Navarro is **WRONG**.
The recent Chinese currency devaluation does NOT cover the cost of the additional 10% tariffs.

Yuan devaluation only provides a $0.55 benefit on a basic pair of women's hiking shoes.

A 10% devaluation of the yuan against the U.S. dollar would reduce the final basic hiking shoe manufacturing cost by only 2.75%, or $0.55. This is because only 27.5% of the shoe’s cost is paid in yuan, while the remaining cost of the shoe is paid in three other currencies.

Even with the devaluation, the 10% additional tariff increases the landed cost of this shoe by $2.38 and pushes up the retail price by another $7.00.

A 10% yuan depreciation takes this basic shoe down to $19.45 manufactured cost. Add $1.50 for transportation to the U.S., plus the current 11% duty ($2.35), and the landed cost of this shoe into the U.S. would be $23.30. Adding the White House’s additional 10% tariff increase, it creates a new cost of $25.68.

Note: Using the White House’s own methodology for their argument, we ignore other marketplace factors like negotiations and contracts, to examine their claim that Yuan devaluation covers the entire cost of the additional 10% shoe duty.
U.S. Imports from China Surge over last 20 Years...

Source: USITC
Widening the U.S. Trade Deficit with China to a Record

Source: USITC
Timeline of U.S.-China trade dispute (1/2)

January 2018  The U.S. announces 30% tariff on imported solar panels and large residential washing machines

March 23, 2018  Tariffs of 25% on steel and 10% on aluminum from all nations, including China, take effect

April 2, 2018  China imposes tariffs on U.S. imports worth $3 billion in response to the U.S. tariffs on steel and aluminum

May 20, 2018  U.S. and China reportedly reach an agreement and put the tariffs on hold while they work out the details

June 15, 2018  Trump imposes tariffs on $50 billion in Chinese goods: duties on $34 billion of goods took effect on July 6 (list 1), while those on a separate list of products worth $16 billion apply on August 23 (list 2)

June 15, 2018  China retaliates with tariffs on $50 billion of U.S. goods, targeting U.S. agricultural and manufactured products

Sept. 24, 2018  List 3 tariffs take effect: U.S. imposes tariffs on $200 billion of Chinese imports and China imposes tariffs on $60 billion of U.S. products

Dec. 14, 2018  China agrees to temporarily lower tariffs on U.S. autos and buy U.S. soybeans

Timeline of U.S.-China trade dispute (2/2)

- **June 1, 2019**: Chinese retaliatory tariff increases on $60 billion of American imports take effect.
- **June 29, 2019**: Presidents Trump and Xi met at the G20 Summit and agreed to cancel planned tariff increases, but the countries did not reach a trade deal.
- **August 13, 2019**: President Trump delays a planned tariff increase of 10% on certain imports from China, including toys, cell phones, and computers, until December 15.
- **August 23, 2019**: In response to an announcement from China of additional retaliatory tariffs on $75 billion of US imports, President Trump threatens to raise planned and current tariffs by 5%.
- **September 1, 2019**: US tariffs of 15% on $125 billion in Chinese imports, including clothing, produce, and other goods, take effect; China levies tariffs on products including US crude oil, soybeans, beef, and pork.
- **September 4, 2019**: China and the US agree to hold high-level trade negotiations in October 2019.
- **October 15, 2019**: President Trump announced on Sept. 11 that his administration would delay a planned tariff increase of 5% on $250 billion in Chinese imports from Oct. 1 until this date.
- **December 15, 2019**: The US plans to levy 15% tariffs on an additional $160 billion in Chinese imports; after these tariffs take effect, almost all imports from China will have tariffs in place.

Share of U.S. Imports from China Subject to 301 Tariffs

**1st tranche hits**  
$34B (6% of imports)  
w/ a 25% tariff

**2nd tranche hits**  
$16B (9% of imports)  
w/ a 25% tariff

**3rd tranche hits**  
$200B (49% of imports)  
w/ a 10% then a 25% tariff*

**4th tranche hits**  
$300B (100% of imports)  
w/ a 15% tariff

Sources: USTR & Federal Register.  
* 3rd tranche tariff increased to 25% on June 15, 2019.
Trump Promises to Hike Tariffs—again—on almost all Goods from China

...during the talks the U.S. will start, on September 1st, putting a small additional Tariff of 10% on the remaining 300 Billion Dollars of goods and products coming from China into our Country. This does not include the 250 Billion Dollars already Tariffed at 25%...

10:26 AM - 1 Aug 2019
China continues to dominate U.S. footwear imports, accounting for 67% of the market. Vietnam follows with 19%, Indonesia with 5%, Cambodia with 2%, Italy, India, and the Rest of World each with 1%, and the Rest of the World with 5%. In 2019, 2.55 billion pairs were imported. Source: USITC. * FDRA forecast.
Already, Tariffs on Children’s Shoes are Disproportionately High
Impact of Higher Tariffs on Footwear from China

Source: USITC.  * FDRA forecasts.
Impact of Higher Tariffs on Footwear from China

Source: USITC. * FDRA forecasts.
Hypothetical Example of Impact to Consumers

A popular “skate” canvas sneaker

Current retail price at $49.99.
New 15% Import Tax Retail Price Would be $60.98.

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<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Estimated Avg. Landed Cost</td>
<td>$11.47</td>
</tr>
<tr>
<td>Current Duty Rate</td>
<td>8.96%</td>
</tr>
<tr>
<td>Duty Dollar Amount</td>
<td>$1.03</td>
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<tr>
<td>Final Estimated Import Cost*</td>
<td>$12.50</td>
</tr>
<tr>
<td><strong>Current Retail Price</strong></td>
<td><strong>$49.99</strong></td>
</tr>
<tr>
<td>Additional Duty by Pres. Trump</td>
<td>15%</td>
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<tr>
<td>New Duty Dollar Amount</td>
<td>$2.75</td>
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<tr>
<td>New Final Import Cost</td>
<td>$14.22</td>
</tr>
<tr>
<td><strong>New Retail Price</strong></td>
<td><strong>$60.98</strong></td>
</tr>
</tbody>
</table>

Source: FDRA
Duties Paid on Chinese Footwear Imports Poised to Surge with New Duty Hike

Source: USITC. * FDRA forecasts.
$2.9 Billion
$5.2 Billion
Section 301 Product Exclusion Requests before the USTR

<table>
<thead>
<tr>
<th># of Product Exclusion Requests</th>
<th>Pending</th>
<th>Denied</th>
<th>Approved</th>
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</thead>
<tbody>
<tr>
<td>Tranche 1</td>
<td>10,000</td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Tranche 2</td>
<td>2,000</td>
<td>1,000</td>
<td>1,000</td>
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<tr>
<td>Tranche 3</td>
<td>25,000</td>
<td>10,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Tranche 4</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Sources: USTR, Federal Register, & George Mason U.
Section 301 Product Exclusion Requests before the USTR

Shares of Product Exclusion Requests

- Tranche 1
  - Pending
  - Denied
  - Approved

- Tranche 2
  - Pending
  - Denied
  - Approved

- Tranche 3
  - Pending
  - Denied
  - Approved

- Tranche 4
  - Pending
  - Denied
  - Approved

Sources: USTR, Federal Register, & George Mason U.
Retail Footwear Prices Trend with Import Costs

Price Index (1982-84 = 100)

Sources: Bureau of Labor Statistics & FDRA analysis of USITC data.
Retail Footwear Prices Trend with Duty Costs

Sources: Bureau of Labor Statistics & FDRA analysis of USITC data.
Consumer Spending on Footwear Typically Contracts in or Soon After a Recession

Six in 10 Americans expect a recession and higher prices as Trump’s approval rating slips, Washington Post-ABC News poll finds

By Tolupe Olorunniwa and Scott Clement

September 10, 2019 at 3:00 a.m. PDT

President Trump is ending a tumultuous summer with his approval rating slipping back from a July high as Americans express widespread concern about the trade war with China and a majority of voters now expect a recession within the next year, according to a new Washington Post-ABC News poll.

The survey highlights how one of Trump’s central arguments for reelection — the strong U.S. economy — is beginning to show signs of potential turmoil as voters express fears that the escalating trade dispute with China will end up raising the price
Art of the Tease – Will they or won’t they?
The Office of the US Trade Representative released a statement after the call saying that the two sides “made headway on specific issues” and “are close to finalizing some sections of the agreement”.

“We are looking probably to be ahead of schedule to sign a very big portion of the China deal, and we’ll call it phase one but it’s a very big portion,” Trump said. “That would take care of the farmers. It would take care of some of the other things. It will also take care of a lot of the banking needs.

“So we’re about, I would say, a little bit ahead of schedule, maybe a lot ahead of schedule,” the president said, adding the deal would “probably” be signed.
China Economy

Donald Trump, Xi Jinping set for November 17 meeting in Chile to sign interim trade war deal: source

• Chinese President Xi Jinping and US President Donald Trump set to meet on the sidelines of the Apec summit in Chile next month, a source says

• The two state leaders are expected to sign an interim trade deal ‘if everything goes smoothly’

Zhou Xin
Published: 8:00pm, 29 Oct. 2019
The U.S./China Trade War & the Impact on Footwear

Stay tuned and stay active!

We need you!