August 24, 2022

The Honorable David S. Johanson
Chair, U.S. International Trade Commission
500 E Street Southwest
Washington, D.C. 20436

Re: Economic Impact of Section 232 and 301 Tariffs on U.S. Industries, Investigation Number 332-591

Dear Mr. Johanson:

The Footwear Distributors & Retailers of America (FDRA) writes to provide comments to the U.S. International Trade Commission (USITC) as it conducts its investigation into the Economic Impact of Section 232 and 301 Tariffs on U.S. Industries.

FDRA is the footwear industry's trade and business association, representing more than 500 footwear companies and brands across the U.S. This includes the majority of U.S. footwear manufacturers and over 95 percent of the industry. FDRA has served the footwear industry for more than 75 years, and our members include a broad and diverse cross section of the companies that make and sell shoes, from small family-owned businesses to global brands that reach consumers around the world.

The added 301 tariffs, imposed by the Trump Administration and continued by the Biden Administration, place a tremendous burden on U.S. footwear companies and their consumers. The added tariffs hit our industry particularly hard, because even before 301 tariffs took effect, shoe tariff rates were incredibly high. Footwear tariff rates average 12 percent – compared to 1.9 percent for other imported consumer goods – and many rates reach 37.5 percent, 48 percent, and 67 percent (37.5% + 90¢/pair). High footwear tariff rates were put in place in the 1930s to protect domestic manufacturing but have remained in effect despite 99 percent of all footwear production occurring outside of the U.S. for decades now. This means that American individuals and families are forced to pay an unnecessary hidden tax on a product they must buy as a necessity. In addition, since some of the highest rates in the entire U.S. Tariff Code fall on low-value shoes and children's shoes, working-class families bear much of the burden for paying these hidden taxes.

As the USITC considers the 301 tariff impact on footwear companies and consumers, FDRA encourages the Commission to consider the following points:

- **For those few children's shoes with relatively lower rates, the 301 tariffs meant drastic rate increases**. With the added 301 tariffs, the tariff rate doubled for certain children's casual shoes and slippers. The rate more than tripled for certain plastic sandals, wool slippers, and infant crib shoes. Families must buy multiple pairs of shoes a year for each child as the children's feet grow throughout the year. The burden of the 301 tariffs falls disproportionately on these families.

- **We are now seeing the sharpest gains in footwear prices in 42 years**. Trends in *duties per pair* are strongly correlated with average *landed costs* of footwear imports. Since implementation of 301 tariffs against China, average duties per pair on footwear imported from China are on track to rise 36.7 percent (compared to only 9.5 percent from the rest of the world). As average duties per pair from China jumped 38.6 percent year-over-year in June 2022, the average landed cost of footwear from China soared 34.6 percent year-over-year, the sharpest surge in more than a quarter century. This cost surge has come despite the yuan falling to a two-year low. In addition, tariffs are embedded into the first cost of a shoe, and the tariff impacts the price of the shoe each time it is marked up, both at wholesale and subsequently at retail. Trends in average landed costs of footwear imports are therefore strongly correlated with *retail footwear prices*. With landed costs of footwear imports on track to rise 11.3 precent in 2022, YTD retail footwear prices are up 5.8 percent versus the same first seven months of last year, on track to post the sharpest ascent since 1980. As inflation drives prices up further, big-box retailers and national chains are having to pass along these added costs to their consumers.

- **Small businesses are often the most reliant on China**. The considerable skill, experience, and infrastructure that already exists in China allows entry for all types of footwear companies at all price points. Therefore, many small and family-owned U.S. footwear businesses source 100 percent of their imports from China. While some of the largest footwear brands have been able to diversify production to the handful of other sourcing markets, like Vietnam and Indonesia, small companies have not.

- **The Trump Administration placed tariffs on nearly all leather upper footwear from China**. Chapter 6403, which covers leather uppers, now includes added tariffs for almost every single subheading. Footwear companies that produce leather footwear have seen huge sales declines in recent years, due to athleisure trends and less formal work attire following the pandemic. A small business selling men's dress shoes now faces the added pressure of a tariff rate that is nearly doubled with the 301 tariffs in place, going from 8.5 percent to 16 percent.

- **U.S. footwear manufacturers are also importers**. The less than 2 percent of U.S. footwear production that occurs in the U.S. is done almost exclusively by U.S. importers. These companies may produce a line of specialized high-end leather boots in the U.S., while also importing children's shoes that reflect a much larger percentage of their business. In addition, many U.S. footwear manufacturers source components from China to use in domestic footwear production. The 301 tariffs directly impact these U.S. manufacturers.

The 301 tariff burden has been impossible to avoid for most U.S. footwear businesses. Our industry faces significant challenges with any sourcing shift. Footwear production requires substantial capital investment and a large workforce dedicated to learning the intricate skill of shoemaking. It takes more than 100 touches to make a basic pair of leather dress shoes. Setting up a new factory involves years of planning and relationship building as well as integrating dozens of regional suppliers. Brands must also devote significant time and resources to ensuring that factories have the strongest labor, environmental, chemical safety, and product safety standards possible.

A sourcing country must have the factory base and infrastructure necessary to support footwear production and the efficient flow of goods across international borders. Even when final construction of footwear takes place outside of China, a vast majority of the materials and value of a finished shoe originates in China. It is likely that this will continue for the foreseeable future. In fact, even in an era of increased costs and sourcing diversification, China saw an increase in shoe exports to the US market in 2021 as stringent COVID lockdowns in Vietnam pushed American footwear sourcing demand back into China for the time being. American footwear consumers will continue to rely on affordable and steady supply for the near future.

There are simply not many sourcing options for footwear outside of China, because other countries have not yet developed the infrastructure, factories, and workforce needed to manufacture shoes on a scale demanded by U.S. consumers – 2.4 billion pairs of shoes a year, or 7.4 pairs for every person in America. It is therefore impossible for most companies and consumers to avoid the adverse economic impact that results from the added 301 tariffs.

Thank you again for the opportunity to provide input to the USITC on this critical issue.

Sincerely,

Matt Priest
President & CEO
Footwear Distributors and Retailers of America