

AAFA/TGA GSP Testimony, June 19, 2018
USTR GSP Country Practice Hearings on India, Indonesia, and Thailand
Docket Numbers: USTR-2018-0006, USTR-2018-0007 and USTR-2018-0012

Thank you for the opportunity to testify today.

My name is Nate Herman. I am the Senior Vice President for Supply Chain at the American Apparel & Footwear Association (AAFA), the national association of the apparel and footwear industry.

AAFA represents more than 300 companies and 1,000 world famous name brands. Our industry employs nearly four million U.S. workers, and contributes more than \$384 billion in annual U.S. retail sales.

I am also testifying today on behalf of the Travel Goods Association (TGA).

TGA is the international organization for the travel goods industry. Members include manufacturers, distributors, retailers, promoters, sales representatives and suppliers of luggage and travel products, casual bags, briefcases and computer bags, and business and travel accessories for travelers.

Travel goods are defined as luggage, handbags, backpacks, briefcases, and related fashion accessories.

Travel goods are new to the Generalized System of Preferences (GSP) program. Less than a year ago, on July 1, 2017, President Trump declared that U.S. travel goods imports were duty-free from all GSP countries.

The addition was a huge deal for our members. Virtually all travel goods sold in the United States are imported.

Yet, because travel goods are a relatively small industry, only \$31.3 billion at retail in 2017, we have not been able to start industries in other countries. Instead, travel goods have been forced to compete for factory capacity with the much larger and more powerful apparel and footwear industry in China.

Until GSP, China alone controlled 85% of all U.S. travel goods imports.

And we pay a high tax on those travel goods imports, paying an effective duty rate of 12.3%, with most duties ranging between 17.6% and 20%.

Duty-free access under GSP gave the industry its first real opportunity to diversify away from China. The percentage of U.S. imports of travel goods from GSP countries has grown significantly, from 5% of imports before GSP, to 8% today, and still growing.

During that same period, China's share of imports has dropped to 81%.

Based on data from the first four months of 2018, U.S. companies importing travel goods are likely to save almost \$200 million in duties in 2018 thanks to GSP, savings that will translate into lower prices for U.S. consumers and more jobs for U.S. workers.

For each country, I will provide specific examples of how companies have been impacted by GSP, and how they will be impacted if GSP is withdrawn.

Before I do, I want to note that the addition of travel goods to GSP represented a five-year odyssey that ended in the first, and only, major expansion of the GSP program since its inception 44-years ago.

It took three years of intense lobbying, including over 1,000 Hill visits, to get Congress to approve legislation to make travel goods eligible for GSP. In every meeting, and in every leave behind, we noted that India, Indonesia, and Thailand would be among the major beneficiaries of adding travel goods to the program. We NEVER received opposition to any of those countries benefitting from the change.

After Congressional approval, we went through a year-long administrative process to formally add travel goods to GSP. During that entire process, which included a public comment process and a public hearing, no one objected to providing travel goods benefits to India, Indonesia, or Thailand.

Unfortunately, the Obama administration in June 2016 decided to only add travel goods for least-developed countries (and AGOA countries). That decision created a firestorm, not only with the industry, but with numerous bi-partisan supporters in Congress who wrote letters and asked questions at Congressional hearings stating that Congressional intent was to provide travel goods benefits for ALL GSP countries, including India, Indonesia, and Thailand.

We went through another year-long administrative process that spanned two administrations, with another public hearing, and another public comment period. Again, not a single objection to providing travel goods benefits to Indian, Indonesia, or Thailand.

And, again, on July 1, 2017, President Trump declared that U.S. travel goods imports were duty-free from all GSP countries.

On the specific country reviews:

Thailand

Thailand has long been in the luggage business. The addition of travel goods to the GSP program put Thailand back on the map as a major supplier, making it the 7th largest supplier of travel goods under GSP.

The loss of GSP for Thailand would hurt U.S. travel goods firms and their American workers.

Talking with one small luggage manufacturer, for example, they employ 12 workers, with a significant amount of their sourcing from Thailand. Withdraw of GSP benefits would be devastating for their company as they either have to charge higher prices, and lose business, or try to absorb the high duties, by laying off workers.

India

India is the #1 supplier of travel goods under GSP, and the third largest supplier overall after China and Vietnam. U.S. travel goods imports from India have grown steadily since travel goods were added to GSP.

As described by one AAFA member, a medium-sized private label fashion accessories company located in NY, with over 1,000 American employees:

- We have moved production from China due to GSP (mens wallets)
- We will continue to move production to India (mens belts)
- GSP has greatly motivated us to look at India as a destination for belt production
- GSP has provided us with significant additional manufacturing options
- Our customers (most retailers) understand GSP and expect cost savings from India production
- The retailers then pass on cost savings to consumers

This story is typical across our industry from brands, manufacturers, and retailers, both large and small.

Indonesia

Indonesia is 5th largest supplier of travel goods under GSP. Indonesia had already established a reputation as producer of quality travel goods – handbags, totes, backpacks.

For Indonesia, I will provide thoughts from two members, both higher end travel goods brands:

The comments from the first travel goods brand gives good insight into how GSP impacts sourcing decisions:

1) GSP not only helps diversify out of China but also helps diversify enterprise-wide risks resulting from having too much volume in a single country. Indonesia is a good sourcing country for travel goods that can produce a quality product on day 1. Its a good hedge even against other non-GSP countries (e.g. Vietnam) of which most companies have now heavily diversified into, increasing enterprise wide risks.

2) While we have diversified out of China with the extension of GSP, some of the volumes have gone to lesser developed countries that still need more time and infrastructure improvements before they can produce to the level of a Vietnam or Indonesia. Even Philippines has not lived up to its expectations in terms of quality. Cambodia and Myanmar require an additional month of lead time for supply chain planning. As we move to shorten our product development cycle, which is essential to competing in luxury goods, this extra lead time becomes even more problematic.

3) Removing Indonesia from GSP will push volumes back into China as other countries are not able to produce the high quality product we expect.

4) Travel goods are not produced in the US and do not pose a risk to US jobs. And so if GSP were withdrawn, removing this category from the potential benefit does more harm then good as it increases costs to consumers.

The example of the 2nd higher-end travel goods brand bears these points out:

- Since 2016, the share of product they import from Indonesia has quadrupled, from 4% to 15%.
- During the same period, China's share dropped from 53% to 19%

In conclusion, I would like to reiterate five main points:

- 1) Virtually all travel goods sold in the United States today are imported;
- 2) For the reasons cited above, China dominates the travel goods industry. Before GSP, China accounted for 85% of all U.S. travel goods imports;

- 3) We pay high taxes on these imports, with duties on most travel goods ranging between 17.6% and 20%;
- 4) With GSP, the industry had its first real opportunity to diversify away from China. The first year of benefits has already born this out; and, finally,
- 5) Through the five-year struggle to add travel goods to GSP, no one objected to providing travel goods benefits for India, Indonesia, or Thailand.

Thank you again for the opportunity to testify. I would be happy to answer any questions.