Testimony of Stephen Lamar
Appearing on Behalf of
Accessories Council
American Apparel & Footwear Association
Council of Fashion Designers of America
Travel Goods Association

GSP Hearing on Indonesia
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Thank you for the opportunity to testify today.

My name is Steve Lamar. I am the Executive Vice President at the American Apparel & Footwear Association (AAFA), the national association of the apparel and footwear industry. I am also testifying today on behalf of the Travel Goods Association (TGA), the Accessories Council, and the Council of Fashion Designers of America (CFDA).

The Accessories Council is a not-for-profit, international trade organization established in 1994. Our mission is to stimulate global consumer awareness and demand for fashion accessory products. The Council serves the industry globally which generates over $50.8 billion dollars annually in the United States alone. Over the past 20 years, membership has grown internationally to include over 280 companies and organizations, representing the world's leading brand names, designers, publications, retailers and associated providers for the accessories, eyewear and footwear industries.

AAFA is the national trade association representing apparel, footwear and other sewn products companies, and their suppliers, which compete in the global market. Representing more than 1,000 world famous name brands, we are the trusted public policy and political voice of the apparel and footwear industry, its management and shareholders, its nearly four million U.S. workers, and its contribution of more than $400 billion in annual U.S. retail sales. AAFA provides exclusive expertise in trade, brand protection, and supply chain & manufacturing to help our members navigate the complex regulatory environment and lower costs. Members gain unparalleled access to information and exclusive insights on regulation and policy, and premier opportunities for networking and collaboration.

CFDA is a not-for-profit trade association, founded in 1962, whose membership consists of more than 500 of America's foremost womenswear, menswear, jewelry and accessory designers. Its mission is to strengthen the impact of American fashion in the global economy.

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.

Together our members span the industry of U.S. companies that make, market, and sell travel goods, which we define broadly as luggage, handbags, backpacks, briefcases, and related fashion accessories.

We are appearing today to urge that Indonesia not lose their GSP eligibility status with respect to travel goods and related fashion accessories. GSP benefits for U.S. travel goods and accessories imports from Indonesia have benefitted American businesses, American workers, and American consumers. GSP benefits with respect to these countries will continue to be important in the years to come. We are sensitive to the underlying intellectual property rights concerns and will do everything we can to encourage the Government of Indonesia to improve its intellectual property rights protection.

Through the power of global value chains, the travel goods industry supports approximately 100,000 U.S. workers – in such diverse areas as design, compliance, marketing, IT, and retail. Although there are some manufacturing activities, which are supported by imports, there is virtually no large scale commercial travel goods production in the United States, nor has there been for decades.

At more than 99 percent important penetration, by volume, the travel goods industry today is largely dependent upon China. Until July 2017, when President Trump declared all eligible U.S. travel goods imports duty-free from all GSP countries, China's share of the U.S. import market was 85%. Companies in the travel goods industry had few viable options (besides Vietnam) for the large scale commercial production of travel goods outside of China. Much of the industrial capacity – not just for final assembly but also for materials and components – has been concentrated in China for years. Long term development of specialized skill sets, especially for more complex items, and convenient shipping only added to China's advantage. Finally, the industry's relatively small size – compared to larger industries, such as apparel, footwear, toys, and electronics – made it difficult for travel goods producers to develop factory capacity in other countries.

Making travel goods eligible for GSP duty free benefits in countries such as Indonesia changed all that.

Our members pay a high tax on travel goods imports. In June 2017, the month before President Trump's historic determination, travel goods were assessed an effective average duty rate of 12.7%, with most duties ranging between 17.6% and 20%. Compare this to the average for all goods imported into the United States: 1.4%

Duty-free access under GSP gave the industry its first real opportunity to diversify away from China to build factory capacity and skills in other countries, and to save on our crushing duty burden. And the industry has taken advantage of that opportunity. Since 2017, China's share of the U.S. travel goods import market has dropped 3 percentage points – to 82 percent, and it continues to drop.

These duty savings now mean that companies can invest in the development of factory capacity in countries other than China. As one would expect, the drop in China's market share has been accompanied by an increase in the market share of GSP countries. The percentage of U.S. imports of travel goods from GSP countries has grown significantly in the past few months, from 5 percent of imports before GSP, to just under 9 percent today. And it is still growing.

Consumers are also poised to see the benefits. Lower duty bills mean companies can pass along the savings in the form of lower prices or invest in innovation and design to deliver high valued products at the same price point. Of course, companies can also return those duty savings to shareholders in the form of dividends or employees in the form of new hires and salary increases. Based on data from the first nine 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.

In the past few months, GSP's ability to help companies diversify from China has taken on added significance as the Administration has now included all travel goods on Tranche 3 of the China Section 301 punitive tariffs. Starting in September, the high volume of travel goods still being imported from China face a 10 percent additional tariff (that is on top of the already high tariff). This punitive tariff rises to 25% in 33 days.

To see how dramatic this impact is, let's look back at the tariff rates I mentioned before. In June 2017, the average rate was 12.7%. In July 2017, when the proclamation for travel goods for all GSP countries took effect, the average rate dropped to 11.7% and it has remained below 12% for every month through August 2018 (and had even dropped below 11% on three occasions). Yet, in September 2018, when the new 10% China 301 took effect for the last 6 days of the month, the tariff rate shot back up to 12.2%.

There is no question that the China tariffs have now offset the gains companies were starting to make through the GSP program. This will get many times worse in just a few weeks as the punitive tariff rate more than doubles to 25%. This is bad enough as it introduces new costs that are not easily absorbed by supply chains that already operate on razor thin margins. But removing GSP from Indonesia, especially since other top GSP travel goods suppliers are also facing GSP reviews, would be devastating to the industry and the American companies, workers, and consumers it serves.

Let me share some country specific information for Indonesia:

While we are sympathetic to the concerns raised with respect to intellectual property rights in Indonesia, and urge the Indonesian Government to improve IPR protections, we don't support removal of GSP benefits for travel goods imports from Indonesia.

Indonesia is the 5th largest, and one of the fastest growing (27.8 percent increase in first nine months of 2018), suppliers 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:

- 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.

- 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.

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

- Travel goods are not produced in the US and do not pose a risk to US jobs. If GSP were withdrawn, removing this category from the potential benefit does more harm than 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. China dominates the travel goods industry, and will continue to do so without GSP;

3. We pay high taxes on these imports, with duties on most travel goods ranging between 17.6% and 20%; and

4. With GSP, the industry had its first real opportunity to diversify away from China.

5. The China 301 tariffs on travel goods, makes GSP for travel goods more important than ever.

For these reasons, we urge that GSP for travel goods be left intact for Indonesia.

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