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July 1, 2019

The Honorable Robert Lighthizer
U.S. Trade Representative
Office of the U.S. Trade Representative
Executive Office of the President
600 17th Street, NW
Washington, DC 20006

RE: Post-Hearing Comments - Proposed Determination of Action Pursuant to Section 301: China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation, Docket Number: USTR-2019-0004-0001

Dear Mr. Ambassador:

On behalf of the Travel Goods Association (TGA), I am submitting post-hearing comments on the Proposed Determination of Action Pursuant to Section 301 regarding China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation – Docket Number: USTR-2019-0004-0001.

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, as described in HTS Heading 4202 are defined as luggage, handbags, totes, backpacks, briefcases, wallets, smart phone cases, and related fashion accessories.

Our members also sell many other items related to travel. As such, we strongly oppose the inclusion of items on Tranche 4 related to travel, including plastic water and spray bottles (HTS 3924.90.56), clothes (HTS Chapters 61 & 62), shoes (HTS 64), luggage locks (HTS 8301.40.30), and travel clocks (under HTS 9105.11 and HTS 9105.91), and urge them to be withdrawn from any final list.

The imposition of punitive tariffs on these items will hurt our industry.

How do we know that? Because the administration has already imposed 25% punitive tariffs on the core of our industry – all travel goods. This 25% punitive tariff is on top of the incredibly high 17.6% to 20% tariffs we already pay on U.S. imports of travel goods.

And it is our industry, not China, that is feeling the pain.

President Trump says he wants to tax China to stop them from stealing U.S. technology and intellectual property. But, as we all have learned by now, China doesn't pay the tariffs, we do – in the form of a huge new hidden tax on our member companies and, in turn, their customers, hardworking American families.

So, what is the tax increase on the U.S. travel goods industry?

The first punitive tariffs, of 10%, were imposed on September 24, 2018. According to the most recent data available from the U.S. government, through April 30, the U.S. travel goods industry has had to pay an additional $288 million in taxes, in just 7 months. And that was before the administration increased the punitive tariff to 25% on May 10.

That is a lot of money for an industry that is only a $30 billion industry annually at retail.

U.S. travel goods firms didn't just eat these new taxes. That is impossible for an industry that is, except for a handful of major players, comprised of virtually all small and medium sized companies.

We have had to pass on these costs in the form of higher prices to our customers – hardworking American families – a price that every family has to pay as everyone owns a travel good. Or we have had to delay hiring, or layoff workers, in the face of squeezed margins and lower sales.

Why has this hurt our industry so much? 82% of all travel goods sold in the United States today are imported from China.

And there is no way to easily or quickly move the production of travel goods to other sourcing countries, especially more complicated and technical travel goods. There just isn't the capacity, or the capability, in the rest of the world to pick up the slack.

Further, virtually no travel goods are manufactured in the United States. This has been true for decades.

In fact, President Trump declared this to be the case in June 2017 when he granted duty-free access for U.S. imports of travel goods from developing countries under the U.S. Generalized System of Preferences program. GSP preferences can only be granted if there is no domestic production of a like or directly competitive product.

And, speaking of GSP, what's worse is that even the few alternative sources our industry has are under assault. On June 5, President Trump withdrew GSP benefits for India, the third largest supplier of travel goods to the U.S. market. A few weeks earlier, President Trump withdrew GSP benefits for Turkey. And the administration continues to review GSP eligibility for Indonesia and Thailand, two other major alternative suppliers for travel goods.

So, our members, with the increase of the punitive tariffs to 25% on May 10, are now faced with a situation where they have nowhere to go, nowhere to hide, and no way to absorb this 25% tax without raising prices, laying off workers, or going out of business.

In these post-hearing comments, I would like to share a very small subset of the actual examples of how these new taxes have hurt our industry, in the industry's own words.

1) <u>A small travel goods brand</u>

We are, were, a small 5-person travel goods brand. As you know, the 10% tariff on top of our already high duty rate has been a real burden.

I had to lay off my marketing manager and warehouse worker in October. I've had to reduce my marketing budget. My customer service person is now doing most of the pick and pack.

The luggage company that I was going to merge with to expand and grow went out of business the end of December because he could not absorb the 10% tariff much less the 25%. His customer told him that they could not accept a price increase and were reducing their luggage category.

My budgeted profits are way down and my bank is limiting my line of credit.

I'm moving as fast as I can to switch factories out of China but the productivity is quite low and now I'm unable to keep up with the demand from my largest customer.

2) <u>Small Travel Goods Retailer</u>

We are a small, family- owned business that has four employees.

<u>Our business is down this year</u>, January through May, about 10%. But, so far, the month of June, (which has traditionally been one of our 3 best months,) is down more than 30%. June's drop is definitely dramatic.

Many who travel are retired, and working with fixed retirement incomes. The perception of increased travel costs (now a full 25% higher) is a disincentive to plan trips.

3) <u>Small travel bag company</u>

If we stay in China and attempt to absorb the Tariff increase, then we would face a 68% drop in sales, lose some programs, and eventually close the "Bag" division and cut our staff of 120 to 70 employees.

<u>Moving is not easy either. There are many products we can't move. Even when we can move, this is a 2 year process of compliance; training; sampling; production…etc</u>.

<u>No matter what we do, we going to lose sales, and layoff workers, while trying to survive for the future</u>.

4) <u>Small Travel Goods Brand</u>

We are a small business that manufactures travel bags. Because of the increased tariffs, we have had to give up our warehouse. Our neighbor at the warehouse location will also be giving up his space due to the tariffs. Thus, I suspect we will have an increase in vacant commercial properties.

In addition, **<u>we have had to increase our prices which has led to slower sales</u>**. We have a shipment arriving soon, and we are having to draw on our line of credit just to pay the tariffs. This is a huge burden for our small company.

5) <u>Small Travel Goods Brand</u>

We are a small Midwest travel goods brand, which employs 50 plus people.

We have struggled over the past 6 months to find alternative manufacturing resources outside of China. This is a much more complicated process then can be explained in the brief amount of time provided. Costs will increase if we need to move. In fact, moving production to another Asian country will increase our direct costs by 12% over pre-tariff, and producing in the USA, even if possible, will increase our costs by 250%. Just as important, it will take time.

I can assure you that we know how to run our company. We operate in the real world; one in which we do not control the demand but respond to what our major retail partners dictate. This has caused us to cut back in some critical areas of marketing and planned personnel acquisitions. We have tabled many product launches in order to first gain knowledge of the impact higher retail prices will have on consumer purchases. It has also created a great deal of anxiety within our company and uncertainty as to how best address the situation, a situation out of our control and beyond our resources. Retailers are not universally accepting price increases. We have many yearly contracts that do not have a cost increase clause provided and, if they did, under what precedent would they have anticipated cost increases of 25% across the board.

I hope you get the point. **<u>We face an existential threat to our business and to the welfare of the community we help support</u>**.

6) <u>AND FINALLY, A Small Travel Goods Retailer</u>

The one word that marks the past months is "Uncertainty." Retail is always a world of change and a challenge of adapting to an ever-changing environment. But the Tariffs have definitely made those challenges much bigger for all of us.

I get emails on an almost daily basis reminding us of price increases that are taking effect on most of the goods in my store. Over 85% of the products in my store are currently impacted by the tariffs and almost all of those goods have seen price increases. Some of our manufacturers were able to absorb some of the tariffs at the 10% level, but no one can absorb the 25% increase. So almost all product is now seeing price increases (and some for the second or third time).

Since last October, our sales have been down from the previous year every single month. While I acknowledge that tariffs cannot be blamed for all of the sales decrease, they have certainly been a large part of the decline.

While the price increases have not had as large an impact on our lower priced luggage, we have found that they have had a large impact on our higher priced luggage. The consumer is not willing to take the price increase on a higher price bag as willingly as they are on a lower price bag. And as a specialty store, we are very dependent on the sales of our higher end goods to "pay the bills."

We are doing our best to cut expenses as much as possible. We did not hire additional help during the holidays like we normally do. For the current year, we hope to keep all of our current staff and are trying to make our employees the last ones to be impacted by our cost cuts.

It's disappointing that the message seems to be lost that it is the consumer who is ultimately paying the Tariff, not China. I continue to be supportive of the overall goal to hold China accountable for their trade practices. I am just having a very hard time seeing that Tariffs are the best way to achieve that goal.

And now that many other products will be added to the Tariff List, it seems that the American consumer ultimately pays a very high price for this continuing Trade War.

I wish I had a say in our supply chain but as a small retailer, I do not. Unfortunately almost all Travel Goods are made in China and it will be very difficult for our manufacturers to move production elsewhere. I would love to buy more American Made luggage but it does not currently exist and it is my understanding that it would take years to move any kind of production here.

As the third generation owner of my family's retail store, I know that there are constant challenges facing independent retailers like myself across our great country. I just feel the need to remind our administration that these trade decisions impact real businesses and real families across our country. **<u>Tariffs truly do hurt</u>**.

In conclusion, we support the Administration's efforts to improve the protection of intellectual property rights in China. However, this huge new hidden tax increase on travel goods, if it remains in place, will do nothing to achieve this goal. Instead, as these examples plainly demonstrate, it will devastate an industry that directly employs 100,000 American workers.

And the proposed imposition of up to 25% tariffs on all the remaining items our industry makes and sells – plastic water and spray bottles (HTS 3924.90.56), clothes (HTS Chapters 61 & 62), shoes (HTS 64), luggage locks (HTS 8301.40.30), and travel clocks (under HTS 9105.11 and HTS 9105.91) – would also not further that goal, but would only serve to put the remaining nails in the coffin for our industry.

Thank you for your time and consideration in this matter. Please contact me at nate@travel-goods.org or 202.853.9351 if you have any questions or would like additional information.

Sincerely,

Nate Herman
Director of Government Relations
Travel Goods Association (TGA)