

ISAC-8
Industry Sector Advisory Committee for
Footwear, Leather, and Leather Products

February 26, 2003

Secretary Donald Evans
U.S. Department of Commerce
1401 Constitution Avenue, N.W.
Washington, DC 20230

The Honorable Robert B. Zoellick
United States Trade Representative
600 17th Street, N.W.
Washington, D.C. 20508

Dear Secretary Evans & Ambassador Zoellick:

Pursuant to Section 2104 (e) of the Trade Act of 2002 and Section 135 (e) of the Trade Act of 1974, as amended, I am pleased to transmit the report of the Industry Sector Advisory Committee on Footwear, Leather and Leather Products for Trade Policy Matters (ISAC-8) on the U.S.-Chile Free Trade Agreement, reflecting majority and minority advisory opinions on the proposed Agreement.

Sincerely,

Fawn Evenson
Chair, ISAC-8

The U.S.-Chile Free Trade Agreement (FTA)

Report of the
Industry Sector Advisory Committee on Footwear, Leather and Leather Products (ISAC-8)
February 2003

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Industry Sector Advisory Committee on Footwear, Leather and Leather Products (ISAC-8)

Advisory Committee Report to the President, the Congress and the United States Trade Representative on the U.S.-Chile Free Trade Agreement

I. Purpose of the Committee Report

Section 2104 (e) of the Trade Act of 2002 requires that advisory committees provide the President, the U.S. Trade Representative, and Congress with reports required under Section 135 (e)(1) of the Trade Act of 1974, as amended, not later than 30 days after the President notifies Congress of his intent to enter into an agreement.

Under Section 135 (e) of the Trade Act of 1974, as amended, the report of the Advisory Committee for Trade Policy and Negotiations and each appropriate policy advisory committee must include an advisory opinion as to whether and to what extent the agreement promotes the economic interests of the United States and achieves the applicable overall and principle negotiating objectives set forth in the Trade Act of 2002.

The report of the appropriate sectoral or functional committee must also include an advisory opinion as to whether the agreement provides for equity and reciprocity within the sectoral or functional area.

Pursuant to these requirements, ISAC-8 hereby submits the following report.

II. Executive Summary of Committee Report

The members of ISAC-8 reflect the views of a variety of industries at different stages in their development, which causes each industry represented on the committee, footwear, leather products (i.e. travel goods – luggage, handbags, and flatgoods), and leather tanneries, to react differently to the U.S.-Chile Free Trade Agreement. Even within an industry, there can be divergent views, as with footwear. The U.S. nonrubber footwear industry supports the U.S.-Chile Free Trade Agreement (FTA), while the rubber footwear industry takes no position. The U.S. travel goods industry is neutral on the FTA because of the economic insignificance of Chile to the industry and, even though concessions were made, those concessions were at least reciprocal. While the industry would ordinarily be against any FTA, the U.S. leather industry is neutral on the U.S.-Chile Free Trade Agreement because of the economic insignificance of Chile as both a potential export market and as a potential source for competition for the U.S. industry.

III. Brief Description of the Mandate of ISAC-8

The Committee advises the Secretary of Commerce and the USTR concerning the trade matters

referred to in Sections 101, 102, and 124 of the Trade Act of 1974, as amended; with respect to the operation of any trade agreement once entered into; and with respect to other matters arising in connection with the development, implementation, and administration of the trade policy of the United States including those matters referred to in Reorganization Plan Number 3 of 1979 and Executive Order 12188, and the priorities for actions thereunder.

In particular, the Committee provides detailed policy and technical advice, information, and recommendations to the Secretary and the USTR regarding trade barriers and implementation of trade agreements negotiated under Sections 101 or 102 of the Trade Act of 1974, as amended, and Sections 1102 and 1103 of the 1988 Trade Act, which affect the products of its sector; and performs such other advisory functions relevant to U.S. trade policy as may be requested by the Secretary and the USTR or their designees.

IV. Negotiating Objectives and Priorities of ISAC-8

All of the members of ISAC 8 and the industries they represent hope that regulations as well as documentation and certification requirements would also be simplified and harmonized among all future trade agreements. Currently, every trade agreement or trade preference program has a different set of regulations governing rules of origin, requires a different certificate of origin, and requires different supporting documentation to meet the rules of origin. With implementation of simplified and harmonized rules of origin, this nightmare could be avoided in all future agreements and everyone would benefit. The U.S. footwear industry, as discussed in more detail below, has already proposed a single set of rules of origin for all future agreements.

Furthermore, despite the fact that the rules of origin for travel goods imports (luggage, handbags, flatgoods, etc.) under most current trade agreements and trade preference arrangements are essentially the same, every agreement has a different set of regulations that require different certificates of origin and supporting documentation. The time and expertise currently needed by U.S. Trade Representative (USTR) staff, International Trade Administration (ITA) staff, Congressional staff, and U.S. Customs Service staff, let alone U.S. footwear, travel goods, and leather firms in their attempts to comply with all of the different regulations, certificates, and documentation would all be relics of the past. Instead, USTR can offer harmonized and consistent rules of origin in all future trade agreements which Congressional staff can easily understand (since they will have seen it before) and translate into law, which will lead to significantly less confusion when Customs develops the regulations (they can use the same certificate of origin and require the same type of supporting documentation for all future agreements), which will make it easier for Customs to enforce the regulations, which will have significantly simplified the entire process for U.S. footwear, travel goods, and leather firms so that they can fully utilize the advantages of the free trade agreement.

Footwear

The American Apparel & Footwear Association (AAFA) and the Rubber & Plastics Footwear Manufacturers Association (RPFMA) have recently reached an agreement on U.S. footwear trade policy. The agreement grew out of negotiations surrounding a provision of the 2002 Miscellaneous Trade Bill that would have provided duty-free entry to virtually all footwear under the Caribbean Basin Trade Partnership Act (CBTPA). Even though the Miscellaneous

Trade Bill eventually failed to pass Congress before the end of 2002, the agreement was enshrined in the newly expanded Andean Trade Promotion & Drug Eradication Act (ATPDEA).

The Agreement

Over the last twenty years, the number of U.S. manufacturers of footwear has dropped significantly. As a result, while the nonrubber footwear industry (which represents more than 90 percent of the footwear sold in the United States) has moved towards free trade, the rubber footwear industry remains supportive of protections in trade agreements that it hopes will help the remaining small number of U.S. manufacturers of rubber footwear to stay competitive in today's economy.

In preparation for the Doha Round and the many trade agreements that have been proposed over the last year, RPFMA recently conducted a survey of its members to determine what rubber footwear items were still being produced in the United States. The survey found that only 17 specific, individual types of rubber/fabric and plastic/protective footwear¹ are still manufactured in the United States. The survey found that other items, while classified as rubber/fabric or plastic/protective footwear in the Harmonized Tariff Schedule (HTS), are no longer produced in the United States. At around the same time, members of the AAFA, which represents the U.S. nonrubber footwear industry, voted to enact a new free trade policy for the association. AAFA's new free trade policy states that AAFA will lobby for the elimination of tariffs and non-tariff barriers on all nonrubber footwear in the U.S. and around the world.

As enshrined in the ATPDEA, the footwear agreement allows for all footwear, except the 17 specified rubber/fabric and plastic/protective footwear items, to go duty-free immediately. This means that all nonrubber and many rubber/fabric and plastic/protective footwear items (95 percent of all footwear sold in the United States) can go duty-free immediately under any trade agreement. Furthermore, this footwear will be subject to simple and reasonable rules of origin that mimics the Generalized System of Preferences (GSP) rules of origin, i.e. substantial transformation with a 35% regional value content requirement. Tariffs on the 17 specific rubber/fabric and plastic/protective rubber footwear items would remain untouched if at all possible; if not possible, they would be phased out, preferably on a non-linear basis, over the longest period permitted in a given free trade agreement, and would be subject to the much more restrictive rules of origin than currently exist under the North American Free Trade Agreement (NAFTA). Since ATPDEA is a trade preference arrangement, the 17 specific rubber/fabric and plastic/protective rubber footwear items were actually excluded entirely from the benefits of the program.

Leather Products (i.e. luggage, handbags, flatgoods, and other travel goods products)

The U.S. travel goods industry is undergoing a difficult transition. The events of September 11, 2001 and the resulting U.S. economic recession hit the travel dependent-travel goods industry very hard, forcing many firms to downsize or to leave the industry entirely through bankruptcy. The remaining firms have survived for a number of reasons, including the elimination of quotas

¹ Based on the Harmonized Tariff Schedule of the United States (HTSUS), the following 17 rubber/fabric and plastic/protective footwear items should receive special and differential treatment as part of any agreement are: 6401.10.00, 6401.91.00, 6401.92.90, 6401.99.30, 6401.99.60, 6401.99.90, 6402.30.50, 6402.30.70, 6402.30.80, 6402.91.50, 6402.91.80, 6402.91.90, 6402.99.20, 6402.99.80, 6402.99.90, 6404.11.90, 6404.19.20.

on textile travel goods from all World Trade Organization (WTO) member countries on January 1, 2002. The elimination of quotas has allowed U.S. travel goods firms to respond to an increasingly discriminating U.S. consumer by offering a wider variety of high-quality products at lower prices. At the same time, U.S. travel goods firms, including the small group of U.S. manufacturers that remain, have dramatically cut costs and excess. Even with their cost-cutting, many U.S. manufacturers have been only able to survive thanks to the relatively high tariffs placed on imported travel goods products. Hence, the U.S. travel-goods industry goals are to actively fight against the re-imposition of quotas on imported textile travel goods while attempting to maintain the current tariff structure on imported travel goods -- essentially a status-quo position. If the industry is forced to accept a free trade agreement, the agreement must at least be reciprocal, offering U.S. travel goods manufacturers at least equal if not better access to a foreign market than given foreign manufacturers to the U.S. market.

Leather

The U.S. leather industry has suffered significantly over the last decade due to foreign competition and the fact that many of their customers, U.S. footwear and travel goods manufacturers, have moved offshore. Most of the few leather tanneries that remain have survived by specializing in high-end automotive and furniture upholstery leather. The U.S. leather industry has and will continue to fight to have foreign countries eliminate export restraints on cattle hides, the principal raw material in the leather industry. The U.S. leather industry also continues to attack foreign subsidies that artificially support leather-using industries (i.e. footwear, travel goods) in foreign countries. Finally, the U.S. leather industry actively promotes the opening of foreign markets to U.S. leather.

V. Advisory Committee Opinion on Agreement

(May comment overall or on elements or chapters of an agreement, e.g., Market Access, Agriculture, Services, Intellectual Property, Government Procurement, Investment, Dispute Settlement, etc. Committees may also indicate “no position” if appropriate.)

Market Access

Footwear

The U.S. footwear industry generally supports the U.S.-Chile FTA because the FTA embodies the agreement reached between AAFA and RPFMA, specifically: 1) restrictive rules of origin and a backloaded 10-year tariff phase-out schedule (as demanded by RPFMA) for the 17 rubber/fabric and plastic protective footwear items specified in the agreement reached between AAFA and RPFMA and 2) immediate duty-elimination and simple and reasonable rules of origin for all nonrubber footwear items and all rubber/fabric and plastic/protective footwear items not specified in the 17 items.

Travel Goods

The U.S. travel goods industry is essentially neutral on the U.S.-Chile FTA because: a) Chile is not an economically significant export market or import supplier; b) the FTA offers better than reciprocal access to the Chilean market (U.S. travel goods enter Chile duty-free immediately while Chilean travel goods entering the United States have duty-phaseouts stretching to 10 years

in some cases); and c) the rules of origin on Chilean textile travel goods (requiring the use of U.S. nylon) render use of the FTA economically infeasible.

Leather

While the industry would ordinarily be against any FTA, the U.S. leather industry is neutral on the U.S.-Chile Free Trade Agreement because of the economic insignificance of Chile as both a potential export market and as a potential source for competition for the U.S. industry.

Agriculture, Services, Government Procurement, Investment, Dispute Settlement, etc.

No position.

Intellectual Property

ISAC-8 unanimously supports the U.S.-Chile Free Trade Agreement's Intellectual Property provisions because those provisions support the strong enforcement of trademark protections, which are very important to the value of products made by ISAC-8 industries.

VI. Membership of Committee

The members of ISAC-8 include:

- Fawn Evenson (Chair), President – Footwear Division, American Apparel & Footwear Association
- Nathanael (Nate) Herman (Vice-Chair), International Trade & Customs Specialist, Travel Goods Association
- J. Richard Abraham, Member of the Board, Airway Industries, Inc. (Atlantic Luggage)
- John E. Callanan, Chief Operating Officer, New Grange Group LLC
- Mitchell Cooper, Esq., Counsel, Rubber & Plastics Footwear Manufacturers Association
- Sudepto (Killick) Datta, Chair & Chief Executive Officer, Global Brand Marketing, Inc.
- James Davis, President, New Balance Athletic Shoe, Inc.
- Michael (Micky) Hennessey, Immediate Past President, Munro & Company
- Rolf Kaufman, Vice Chair, Wellco Enterprises, Inc.
- Michael Korchmar, President, The Leather Specialty Company
- Henry (Skip) Kotkins, Jr., President, Skyway Luggage Company
- Bernard Leifer, President & Chief Executive Officer, S.G. Footwear, Inc.
- Charles Myers, President, Leather Industries of America
- John O'Neil, Advisor, Norcross Safety Products