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

March 12, 2004

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.-Australia Free Trade Agreement, reflecting majority and minority advisory opinions on the proposed Agreement.

Sincerely,

Fawn Evenson
Chair, ISAC-8

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

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

March 2004

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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.-Australia 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, brief and computer cases, handbags, and flatgoods), and leather tanneries, to react differently to the U.S.-Australia Free Trade Agreement. Even within an industry, there can be divergent views, as with footwear. The U.S. nonrubber footwear industry strongly supports the U.S.-Australia Free Trade Agreement (FTA), while the U.S. rubber footwear industry takes no position. The U.S. travel goods industry, while supporting the non-textile travel goods provisions of the FTA, strongly opposes the extremely restrictive yarn forward rules of origin for textile travel goods. The provisions on textile travel goods effectively render the agreement useless for U.S. textile travel goods firms. While the U.S. leather tanning industry would ordinarily be against any FTA, the industry is neutral on the U.S.-Australia FTA because of the insignificance of Central America 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

ISAC 8 industries over the past few decades have become global industries, where our products are made and sold all over the world. As a result, ISAC 8 fully supports the efforts of the U.S. government to negotiate free trade agreements. All of the members of ISAC 8 and the U.S. industries they represent, however, hope that regulations as well as documentation and certification requirements will be simplified and harmonized among all trade agreements. Consistency among free trade agreements on the rules of origin, documentation, and other requirements are very important to ISAC 8 industries. 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. In turn, everyone, from the U.S. government officials negotiating the agreement and the Congressional staffers approving it, to the Customs officials enforcing it and, most importantly, the U.S. footwear, travel goods and leather firms utilizing the agreement, would benefit.

Footwear

The American Apparel & Footwear Association (AAFA) and the Rubber & Plastics Footwear Manufacturers Association (RPFMA) reached an agreement in the fall of 2002 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 has failed to become law, the agreement was enshrined in the newly expanded Andean Trade Promotion & Drug Eradication Act (ATPDEA) and partially enshrined in the U.S.-Chile Free Trade Agreement.

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 two years, RPFMA 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 footwear[1] 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 "substantial transformation"-style rules of origin. 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 that 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.

[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.

Leather Products/Travel Goods (i.e. luggage, brief and computer cases, handbags, backpacks, purses, travel and duffle bags, flatgoods, wallets, and other travel goods products)
The U.S. travel goods industry has undergone 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 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 very small group of U.S. manufacturers that remain, have dramatically cut costs. Throughout this process, U.S. travel goods firms have learned that removing trade barriers for ALL travel goods (both textile and non-textile), no matter where they are made or sold, has become one of the keys to remaining competitive both in the U.S. travel goods market and worldwide.

As a result, the U.S. travel goods industry formally launched a new trade policy on June 3, 2003. As part of its new trade policy, the U.S. travel goods industry demands that ALL travel goods (both textile and non-textile) be treated the same in all future trade agreements. Specifically, ALL travel goods (as described in HTS 4202) should receive reciprocal duty-free access (either immediately or within a reasonable period of time) under a simple and flexible "substantial transformation" rule of origin.

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

Market Access
Footwear
The U.S. footwear industry strongly supports the U.S.-Australia FTA because the FTA fully embodies the agreement reached between AAFA and RPFMA, specifically: 1) restrictive rules of origin and a 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. Although a value-added requirement (35 percent) requirement exists in

the rules of origin for the non-17 footwear items in the FTA, the U.S. footwear industry has since indicated to U.S. negotiators that it now supports a straightforward and simple substantial transformation rule of origin for the non-17 footwear items without any value-added requirement. We appreciate the hard work of all of the U.S. government negotiators in ensuring that the U.S.-Australia FTA fully embodies the U.S. footwear industry agreement.

Travel Goods
The U.S. travel goods industry strongly opposes the textile travel goods provisions of the U.S.-Australia FTA. The extremely restrictive yarn-forward rule of origin for textile travel goods effectively renders the FTA useless for U.S. textile travel goods firms. The U.S. travel goods industry does, however, support the immediate and reciprocal duty-free entry provisions and simple and flexible "substantial transformation"-style rules of origin for non-textile travel goods in the FTA. Overall, U.S. travel goods industry is deeply disappointed that the U.S. government failed to heed the industry's express desire to have ALL travel goods (both textile and non-textile) be duty-free immediately under simple and flexible rules of origin. Treating ALL travel goods the same would greatly simplify the FTA for U.S. travel goods firms, making the FTA more consistent and reducing additional and onerous burdens that would prevent U.S. travel goods firms from fully utilizing and benefiting from the FTA.

Leather
While the U.S. leather tanning industry would ordinarily be against any FTA, the industry is neutral on the U.S.-Australia FTA because of the insignificance of Central America 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.-Australia 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, Member of the Board, New Grange Group LLC
- Mitchell Cooper, Esq., Counsel, Rubber & Plastics Footwear Manufacturers Association
- Sudeepto (Killick) Datta, Chair & Chief Executive Officer, Global Brand Marketing, Inc.
- James Davis, President, New Balance Athletic Shoe, Inc.

- 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.
- Sara Mayes, President, Fashion Accessories Shippers Association (FASA)/Gemini Shippers Association
- Charles Myers, President, Leather Industries of America
- John O'Neil, Advisor, Norcross Safety Products