November 1, 2016

Erland Herfindahl
Deputy Assistant U.S. Trade Representative for the Generalized System of Preferences (GSP)
Office of the United States Trade Representative
600 17th Street NW
Washington, D.C. 20508

Docket Number: USTR-2015-0013

Dear Mr. Herfindahl:

On behalf of the American Apparel & Footwear Association (AAFA), I am providing these comments following the testimony of Rick Helfenbein, President and CEO of the American Apparel & Footwear Association, at the October 18 Travel Goods GSP eligibility hearing.

AAFA is the national trade association representing apparel, footwear, travel goods, and other sewn products companies, and their suppliers, which compete in the global market. Representing more than 1,000 world famous name brands, our membership includes 340 companies, drawn from throughout the supply chain. AAFA is the trusted public policy and political voice of the apparel, footwear, and travel goods industry, its management and shareholders, its four million U.S. workers, and its contribution of $361 billion in annual U.S. retail sales.

AAFA represents many U.S. companies that make, market, and sell travel goods for the $36.5 billion U.S. travel goods market. Many of our members submitted petitions, either individually or collectively, to add travel goods to the Generalized System of Preferences (GSP) program. These organizations strongly support adding **all** statutorily eligible travel goods – items like luggage, backpacks, purses, and wallets – to the list of products eligible to be imported duty-free from **all** GSP beneficiary countries.

At the outset, we wish to restate our very strong support for **the designation of all statutorily eligible travel goods articles for all GSP beneficiary developing countries (BDCs)**. The October 18 hearing provided a strong and convincing record that such a designation would not only satisfy all four statutory criteria outlined by the Administration, but also be the only way to ensure that several key statutory GSP criteria – notably those related to promoting development in developing countries – will be met.

740 6th Street, NW
3rd & 4th Floors
Washington, D.C. 20001

(202) 853-9080
(800) 520-2262
www.aafaglobal.org

Please consider the following themes that were developed extensively during the hearing:

A. Expansion of the June 30 Decision Will Support Development

Throughout the hearing, witnesses representing beneficiary countries and the business community stressed that the expansion of the travel goods designation would have tremendous positive impact on the BDCs that are currently excluded. In some cases, witnesses discussed the negative repercussion on development as a result of the June 30 decision. In many other cases, witnesses noted how the expansion would support development throughout these BDCs, including in impoverished areas.

Several witnesses noted how this mechanism has successfully worked as other developed countries – including Canada, Australia, Europe, and New Zealand – have extended similar preferences to BDCs. Of note, Mr. Ed Gresser, Assistant U.S. Trade Representative for Trade Policy and Economics, made a similar point with respect to the Philippines and a travel goods article classified in Chapter 4202. Noting that a primary goal of the U.S. GSP program is to foster economic development in developing countries through increased trade, Mr. Gresser made reference to a recently released USTR report *U.S. Trade Preference Programs: Reducing Poverty and Hunger in Developing Nations through Economic Growth.* Page 21-22 of that report states:

> One GSP import from the Philippines that has grown considerably is insulated beverage bags. U.S. imports of insulated bags from the Philippines under GSP have increased by almost 270 percent since 2010, totaling $17.5 million in 2015. Under GSP, the normal seven percent duty on these bags is eliminated for imports from the Philippines. In 2002, East-Cam Tech Corporation (ECTC) became the official manufacturer in the Philippines of Camelbak products. At its start, ECTC had only 300 skilled sewers. But over the years, ECTC has expanded to meet increasing demand for this product and now employs 1,500 workers. ECTC credits part of its growth to the GSP program, which has enhanced its competitive advantage over non-BDC sources.

Mr. Gresser further noted that the GSP program often tried "to extend greater coverage of preferences to beneficiary countries with greater developmental needs." Indeed, this would appear to be the rationale for the June 30 decision, which excluded more advanced developing countries from travel goods benefits.

Yet the irony of that decision is that more advanced developing countries – such as Mauritius or South Africa – enjoy preferences whereas their lesser developed counterparts – countries such as Georgia and Fiji (both of whom testified) – do not.[1] In fact, a point that was made throughout the hearing is that countries excluded from the June 30 decision have huge pockets of poverty and significant development needs. Clearly, designating travel goods for these other countries would have huge development impacts.

B. GSP Countries and Travel Goods Products in Question Are Diverse

Mr. Gresser probably said it best when he made the following statement during his opening remarks,

> With respect now to travel goods and GSP, the countries that produce travel goods are diverse, and so are the goods themselves.

We cannot stress this enough, and would note that this point was made by virtually every witness.

For example, each of the country witnesses in the second panel discussed in detail how – both in the statements and in follow up questions – an expansion would benefit their economies. They pointed to specific products, capabilities, and marketing strategies that differed between countries. Likewise, the company witnesses – while expressing similar sentiments with respect to diversification from China and the complexity of developing a commercially viable travel goods industry – pointed to differing strategies involving different supply chains, product mixes and construction, and companies.

Great product diversity continues, even within an individual 10-digit level HTS line, according to the VF witness Patrick Fox. He stated, “Our travel goods products cover the spectrum from some of the most advanced technical mountaineering products in the world to popular mass-market accessories enjoyed by travelers, students, and children alike. Across this spectrum of travel goods, the product-specific manufacturing requirements vary tremendously even across products within the same unique 10-digit HTS codes.”

This incredible diversity across countries, companies, and products suggests that expanding the designation of travel goods to all GSP countries will have little adverse consequences among GSP countries.

C. The Status Quo Benefits China

A central theme to the statements and much of the questioning is the continued dominance of China. As noted in the AAFA statement, China

[1] The 2015 CIA World Fact Book records Mauritius with a GDP per capita of $19,600, South Africa with $13,200, Georgia with $9,600, and Fiji with $9,100.

makes up 85 percent of U.S. travel goods imports (by volume), which is especially impressive given that 99 out of every 100 bags consumed in the U.S. is imported. Company after company indicated that the June 30 decision will NOT lead to sourcing changes, except possibly some additional production migrating to Cambodia and (because of a subsequent decision) Myanmar. Even in those cases, the amount of additional production in those countries will be miniscule compared to the continued dominance of China.

Conversely, many of the witnesses agreed that expanding the June 30 decision to all BDCs would significantly enable BDCs with capacity to compete against China while affording smaller BDCs the ability to expand their own niche markets. Moreover, full expansion would actually benefit Least Developed BDCs (LDBDCs) by enabling competitive supply chains to develop outside China and in other GSP BDCs. Among other things, fostering the growth of travel goods supply chains outside China would enable LDBDCs to better meet the GSP rules of origin.

As Patrick Fox noted,

> LDBDCs and African Growth and Opportunity Act (AGOA) countries will benefit if an alternative GSP travel goods supply chain develops. They will benefit over time as they develop the knowledge base, capability, and capacity to move up the travel goods value chain. Without creating an alternative GSP travel goods value chain across all GSP countries, China and Vietnam will simply retain their current production share.

Even Lesotho Ambassador Sebatane acknowledged this dynamic, stating "I think adding more countries would definitely enhance competition against China." Although he wasn't able to declare definitively what the impact would be on his own country, he fully grasped the way in which an expansion would actually impact China.

D. AGOA/LDBDC Countries Have Limited Ability to Benefit

There was near unanimous testimony that most of the AGOA/LDBDC countries have limited ability to take advantage of the June 30 decision. As noted previously, company witnesses indicated that there is insufficient capacity, skill-base, and infrastructure to develop a travel goods industry in the foreseeable future in African countries. These witnesses have current, direct experience producing products (including, in one case, limited quantities of travel goods in a special project). The consensus is that, while Africa is ripe for the development of a competitive apparel industry, it will take considerable time before travel goods production can become viable.

Several witnesses affirmed that the provision of duty-free access, without existing capabilities or the foundational elements to develop a competitive industry, would result in little economic activity. Indeed, as was noted in the AAFA submission, Africa's own experience bears this out. Since 2000, AGOA countries have had duty-free status for 12 of these travel goods, yet they collectively only export about 200,000 bags a year – or only one-one-hundredth of one percent of total U.S. imports.

E. The June 30 Decision Created a False Competitive Dynamic Among GSP Countries

We would also be remiss if we didn't point out that one of the adverse consequences of the Administration's June 30 decision, which was evident in the questioning, is the way in which GSP (and AGOA) countries were arbitrarily divided in to "have" and "have nots." That dynamic ignores the fact that one non-GSP country, China, dominates the industry, supplying more than 8 out of every 10 travel goods sold in the United States. Instead, the June 30 decision sets GSP countries against each other to fight over a mere five percent of the market, a pittance, instead of providing real opportunities for GSP countries to make significant inroads into the other 95 percent of the market.

In the words of the Commercial Minister from the Thailand Embassy, Dr. Benyasut, "The Administration's framing of this decision pits developing countries against each other. This is unfortunate."

The June 30 decision arbitrarily grouped Cambodia (and now Myanmar) – two countries that have capacities for some travel goods production – with a host of countries in Africa and elsewhere with little or no production.

Consequently, countries that had worked together to secure enactment of the statutory change, and which supported the expansion of the travel goods designation for all countries, are now working at cross purposes. For example, Ambassador Sebatane was quoted in an *Inside U.S. Trade*[2] article in July as saying that he was not opposed to all GSP beneficiaries being awarded that same access. Yet, his statement reflected a different perspective. Likewise, the Cambodian Ambassador signed on to a letter during the summer supporting the extension of duty-free status to all GSP countries. The Cambodian statement last month suddenly now reflects the opposite view.

Instead of dividing the countries, the Administration could have relied upon other mechanisms in U.S. trade policy that already allow for advantages to accrue naturally for GOA beneficiaries or LDBDCs, without denying the rest of the GSP BDCs the chance to develop their economies.

First, as was mentioned by several witnesses, AGOA/LDBDCs are not subject to competitive need limitations (CNLs). Thus, if a GSP BDC country were to

[2] See Inside U.S. Trade, July 7, 2016.

grow too competitive, it would risk loss of benefits through the CNL mechanism.

Second, the duration of the underlying trade preference programs provides an advantage to many of the countries that benefit from the June 30 decision. Interestingly, this advantage also addresses the major need that witnesses cited in the hearing – namely that these countries need more time to develop. The longer duration of the program for these countries provide longer term certainty for investors, which, together with an expansion to put more competitive pressure on China, could provide a basis for long-term growth.

Specifically, AGOA countries enjoy these preferences without interruption until 2025. Likewise, Nepal, which is expected to benefit from its own stand-alone trade preference program, will have uninterrupted access for six years.

Although Cambodia (and soon to be Myanmar) are subject to the shorter term GSP authorization (with expiration in 13 months), the level of their travel goods industry is much closer in comparison to the more advanced BDCs than it is to the LDBDCs.

F. The June 30 Decision Does Not Reflect Congressional Intent

As was discussed in the AAFA testimony, Congress removed the statutory exclusion for these categories of travel goods to update the GSP program. Congress made no indication that it was intending the removal of this statutory exemption to apply to any grouping of countries other than all current GSP beneficiaries. We noted that the removal of this statutory exclusion was made in Section 204 of the *Trade Preferences Extension Act of 2015*, a measure that also made separate changes to Haiti and African trade preferences. Had Congress wanted to restrict the application of Section 204, it would have done so. In fact, Congress did just that – with respect to certain cotton articles – in Section 202.

Reinforcing this point, since the June 30 hearing, both House and Senate members have written to the Administration declaring it was not Congressional intent to restrict the travel goods to just AGOA or LDBDC countries.

G. Answers to Questions

Finally, we would like to take this opportunity to address several questions that were submitted to us for inclusion in post hearing comments.

Q. If duty-free treatment is granted for all GSP beneficiaries, are you able to quantify how much production your members would shift out of non-GSP countries into GSP countries? Which non-GSP countries would the production shift from, and into which GSP beneficiaries do you anticipate most of the production would go?

A. Our members, both those who testified at the hearing and those who have shared their views with us separately, have not provided us a firm quantitative figure that we can aggregate. However, they all note that China dominates the sourcing of this industry, and that duty-free benefits for all GSP beneficiaries would enable diversification of sourcing of finished articles and the supply chains that support the production of those finished articles into many countries. All of these members indicate that the status quo would not incentivize, or even enable, sourcing of commercial scale in AGOA countries or many of the LDBDCs. In this situation, China would continue to dominate for the foreseeable future. However, several have stated, as was also stated in the hearing, that AGOA and LDBDC countries could see long-term opportunities if the designation is expanded and as skill sets, infrastructure, and supply chains are developed in these countries.

Q. Is there a typical price point for any of these products that you would say is the maximum dollar value of an imported good your members could see importing from an LDBDC? Specificity by Harmonized Tariff Schedule (HTS) tariff line would be very helpful.

A. Given the wide diversity of product within each HTS line, there is no typical price point that is common to all members. Members stressed that the critical factor is not price point per se, but the skill set and supply chain necessary to support the construction of a specific bag. These factors are also different from company to company inasmuch as the same factors will lead different companies to reach different conclusions about the viability of a particular product in a particular country.

*** * * * ***

In conclusion, we wish to convey our very strong appeal for the designation of all statutorily eligible travel goods for all GSP beneficiary developing countries.

Such a move is consistent with Congressional intent, is consistent with the statutory requirements, aligns with the written and oral testimony at hearings from throughout the year, and would enable our members to do the most to support development along with the creation of U.S. jobs.

Please contact me if you have any additional questions at slamar@aafaglobal.org or via phone at 202-853-9347.

Sincerely,

Stephen Lamar
Executive Vice President