

Testimony by Rick Helfenbein, AAFA President and CEO
Public Hearing re: USTR-2015-0013
Extending GSP Benefits for Travel Goods
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Thank you for providing us this opportunity to testify on the “deferred” question of extending the Administration’s June 30 preliminary Generalized System of Preferences (GSP) decision to **ALL** GSP developing countries.

AAFA, is the national trade association representing apparel, footwear, travel goods, and their suppliers, who compete in the global market. We represent more than 1,000 world famous name brands and about 340 companies. Our membership includes many U.S. companies that design, construct, market, and sell travel goods — as part of the \$36.5 billion dollar U.S. travel goods market.

AAFA strongly supports adding **all** travel goods items to the list of products eligible to be imported as duty-free from **all** GSP beneficiary countries. 42 years ago, when the GSP program was created, travel goods were excluded as a protected industry.

Since then **three things** have happened.

1. **The industry no longer has a significant manufacturing footprint in the United States and does not need protection.** Today, 99 out of 100 travel goods are imported. What we do accomplish for travel goods in the USA, is to add incredible value — in terms of design, quality control, marketing, and retail. In fact, the US travel goods industry directly employs 100,000 Americans in related jobs.
2. **China has become the dominant global producer** – China owns 85 percent of the U.S. market (by volume). Let me repeat that: China owns 85 percent of the U.S. market, meaning 8.5 out of 10 items are made there! The industry is looking for ways to diversify out of China. However, it is hard to leave, because China remains competitive in terms of price, logistics, and access to a supply chain that supports industry and has a high degree of productivity
3. **The travel goods industry has exploded** – It has become a big business. However, the number and the diversity is vastly different than what it was like in 1974. We all carry multiple travel goods, including items that weren’t even invented in 1974.

Clearly the GSP program, after 42 years of rest, is in need of an update for the travel goods sector. That’s why Congress eliminated the statutory restriction. It is in this environment that we face the question of what to do next, and that is why we are here today.

On June 30th, the Administration extended travel goods to African Growth and Opportunity Act (AGOA) countries, Nepal, and Cambodia. A few weeks ago you extended to Myanmar.

These are good first steps, but they are relatively small and, frankly, not enough to stimulate the development that would be most beneficial.

In fact of the 28 lines that we are seeking for ALL countries, the AGOA community already had 12 of them as duty-free for the past 15 years. Keep in mind, this is a 2 billion unit industry BUT only 200,000 units in total came from AGOA...that's NOT even 1 percent. So, our observation is that the privilege that you had extended, is not enough to make a significant industry difference and China, frankly, will continue its dominance of the travel goods industry.

We have four reasons why we believe in the need to extend to all eligible products from all eligible countries.

First, we need to provide a realistic and meaningful opportunity to move production out of China.

- GSP countries account for less than five percent of the U.S. market. China has 85 percent.
- Providing GSP travel goods eligibility will facilitate a more diversified supply chain, and will enable all these countries to expand their market share, thus supporting the goal of employment across the developing world.

Second, the competitiveness of these developing countries is undermined unless they get duty-free. Productivity in developing countries just can't match what the levels are in China. The elimination of duties will level the playing field so all can compete.

This adverse competitive dynamic will become even more challenging for GSP countries, as Vietnam gains duty-free access to the U.S. market under the TPP.

- Today, only a few GSP eligible countries have the ability to produce travel goods, particularly complex travel goods.
- Many AGOA countries and least developed countries (LDCs) simply lack the capacity and capabilities to compete with China. Given the choice, if other GSP countries aren't allowed on the playing field, production will be slow or more likely, hesitant to move. China will remain as the dominant force.
- To grant travel goods benefits to some of the countries, while denying it from the others, seems to fly against the core intent of the GSP program

Third, other developed countries that utilize the EU and Canadian GSP programs provide comparable access.

- Duty-free access for these categories of travel goods is featured prominently in all major “developed” country programs.
- Our members report that the provision of duty-free access by other countries, but not the United States, puts them at a disadvantage when bidding for factory capacity. Granting duty-free access for these products into the U.S. market will enable American companies that employ American workers to compete.

Fourth, there is no harm to U.S. production.

- As we already noted, these products are not considered import-sensitive, as so few travel goods are currently made in the United States.
- In fact, other trade agreements, including the forthcoming Trans-Pacific Partnership (TPP), recognize this by providing immediate duty-free access to the U.S. market with flexible rules of origin for these same products.
- Products that are, or could potentially be, made in the United States are for Berry Amendment or niche markets that do not face import competition.

In conclusion, let me reiterate that AAFA strongly supports adding **all** 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.

I look forward to taking your questions.