

Op-Ed: Unnoticed Jewels in the Congressional Trade Package

SJ Guest
Editorial



While the world focused on the Washington inside-the-Beltway drama surrounding Trade Promotion Authority (TPA) and the reauthorization of Trade Adjustment Assistance (TAA), Congress passed another trade bill that will have immediate, positive benefits for the economy, developing countries, and for U.S. companies in the travel goods, footwear and apparel industries.

Companies and sourcing professionals should look closely at the provisions of the Trade Preferences Extension Act of 2015 or risk missing out on meaningful opportunities for duty savings.

At its core, this law extends three important trade preference programs: the African Growth and Opportunity Act (AGOA), the Generalized System of Preferences (GSP), and the Haiti HOPE/HELP programs, adding long-term certainty for potential investors in Haiti, sub-Saharan Africa and in other developing countries.

Congress also included provisions in the law that create new duty savings opportunities for travel goods ranging from leather bags to backpacks and sports bags, as well as for performance footwear like trail running, trekking and hiking shoes lined with GORE-TEX fabric or another laminate or coating. The bill also creates new import classifications for ski jackets, snowboard pants and other recreational performance outerwear, which helps set the stage for future duty reductions.

These changes to U.S. trade law were not accidental. They are results of years of work by a coalition of private sector groups that law firm Sorini, Samet & Associates worked with. In particular, the American Apparel and Footwear Association (AAFA) and Travel Goods Association played key advocacy roles in expanding GSP to cover travel goods. And it was Outdoor Industry Association (OIA) that used its political savvy and technical tariff schedule expertise to craft uniquely non-controversial modifications to classifications on footwear and recreational performance outerwear products.

U.S. preferences programs are a fundamental trade tool to further U.S. foreign policy objectives while balancing the

interests of importers and domestic producers.

By helping the poorest countries in the world compete for a share of the U.S. market, we make friends, help raise standards of living, while offering U.S. companies new markets and suppliers. For example, I have worked with the Haitian private sector and government since we crafted the initial HOPE program in 2006, and since that time HOPE has created over 30,000 new, good-paying jobs in Haiti, the poorest country in the Western Hemisphere. By extending this program until 2030, Haiti will attract important new investment that will lead to the creation of tens of thousands of additional jobs.

The same should hold true for Ethiopia and other sub-Saharan African countries as a result of the AGOA extension. AGOA has recovered from a dip at the end of last decade, seeing exports of apparel to the U.S. grow from \$705 million in 2012 to \$930 million in 2014 for apparel. I hope to see this trend continue.

The third program extended is the Generalized System of Preferences (GSP). However, instead of simply extending the benefits crafted in 1974, SSA and our coalition partners convinced Congress to expand the scope of the program to travel goods, opening up tremendous opportunities for developing countries to capture a market that China presently dominates, accounting for over 70 percent of U.S. imports of travel goods.

Until this year, GSP provided important but limited incentives to source in developing countries. This is due to statutory exclusions of travel goods, apparel/textiles, and footwear – the items with the highest duties in the tariff schedule.

These exclusions were based on sensitivities from 1974 – when the U.S. economy, and the globalized supply chain – looked tremendously different. Thanks to an intense effort to educate Members of Congress on the importance of access to GSP, Congress removed the statutory exclusion on travel goods from the program. This change took the efforts of numerous U.S. companies, industry associations including AAFA, TGA and OIA, and the direct engagement of GSP beneficiary country governments to achieve. While a miniscule change to GSP, it took nearly four years and over 800 meetings to achieve.

Let's be clear: this expansion of GSP will allow countries, including the Philippines and Cambodia, which have relatively small footprints in the travel goods market, to compete with the current goliath of travel goods production, China, thanks to the duty savings that GSP opens up to these countries.

Another exciting change contained in this law is new footwear tariff breakouts for cutting edge footwear for outdoor and performance use. Many of the footwear categories in the tariff schedule are based on the Smoot Hawley Tariff Act of 1930, which was passed at a time when rubber soles were considered cutting-edge technology. Prior to this change, high-tech footwear designs were shoe-horned into 85-year-old tariff lines—pun intended!

For decades, footwear considered “performance” footwear, for example running shoes lined with GORE-TEX fabrics or another laminate or coating, were dumped into tariff categories with completely unrelated products like oil rigging and fire-fighting boots, and all of which were subject to an astronomical 37.5% tariff rate. Thanks to this change, performance footwear has its own new categories with 20 percent tariff rates, similar to the rates faced by traditional athletic footwear.

The second major change to the tariff code creates new 10-digit tariff breakouts for “recreational performance outerwear.” These changes were part of a bill called the U.S. OUTDOOR Act, which has been introduced in successive Congresses since 2008. Thanks to the work of OIA, AAFA and their member companies, the tariff schedule will be modernized to reflect the difference between the most technologically advanced weatherproof apparel and basic rainwear. Again, similar to performance footwear, the technology that is inherent in recreational performance outerwear advanced at a faster pace than the tariff schedule; but now these products, such as an Omni-Tech Columbia Sportswear jacket and a GORE-TEX-lined The North Face jacket, rightfully have categories all their own.

The Trade Preferences Extension Act of 2015 includes far more than extensions and tweaks to existing preference programs. Congress should be applauded for making a major amendment to the GSP program to reflect changes in import sensitivity for travel goods, and for modernizing the tariff schedule to ensure that U.S. footwear and outerwear companies will continue to design and manufacture innovative new products. I highly encourage all sourcing executives to consider the new opportunities presented by these meaningful changes to U.S. trade law.

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