



AFFORDABLE FOOTWEAR ACT (AFA)

U.S. FAMILIES AND RETAILERS NEED AFA PASSED NOW

Q. Why does the AFA need to be enacted now?

Answers:

1. American consumers, particularly hard-working families, are facing unprecedented economic hardships. This is one direct, immediate and simple way to provide some relief to consumers in an uncertain economic environment. There is no reason to maintain a regressive tax on footwear – a basic necessity of life. These tariffs do not protect a single U.S. job and, perversely, hit hardest those least able to afford it. This regressive tax has burdened American families for far too long.
2. U.S. retailers are similarly facing a difficult economic environment. February 2009 Bureau of Labor Statistics data show unemployment at 9.2% in the retail sector. Retailers lost nearly 600,000 jobs in 2008, and many are facing bankruptcy.
3. U.S. Customs and Border Protection (CBP), because of a desire to change a prior sanctioned policy to allow fabric bottoms on shoes to reduce the rate of duty, is pressing to move forward with a tariff reclassification that would force footwear importers to actually pay hundreds of millions of dollars in increased duties. The AFA would address the tariff reclassification sought by CBP, while simultaneously eliminating existing duties on the underlying footwear that would be affected by the reclassification, thus mitigating the impact of such a decision on the ability of Americans to afford every day and recreational shoes covered by the bill.
4. In the omnibus trade legislation passed in December 2006, 27 types of shoes had their duties suspended through the miscellaneous trade bill (MTB) process. On December 31, 2009, those duties will snap back to the original high rates, and the items may not receive duty suspension extensions, imposing large new duties on certain footwear if AFA is not passed.

Q. How do we know AFA duty reduction savings will be passed along to consumers?

Answers:

1. The U.S. Consumer Price Index (CPI) for footwear over the past decade tracks closely with the average cost of a pair of imported shoes from China. This is to be expected since 99 percent of shoes are imported overall, and some 90 percent come from China (about 5 percent come from Vietnam). Thus, except for high-end leather shoes and some specialty items (*e.g.* about 1 percent of shoe imports come from Italy), prices in the footwear market are determined by the import cost from China. The greatest divergence from this tracking trend just occurred in 2008, when import prices from China increased (mostly due to the appreciation of the Chinese currency) and consumer prices remained static. Due to the weak consumer economy, retailers have been unable to pass on these cost increases, and are facing great economic stress, losses in profitability, job cuts and bankruptcies. Therefore, if the duty costs were removed, given the traditional trends and intense retail competition in the marketplace, reductions in costs

would be passed on to consumers. In fact the International Trade Commission (ITC) agrees and has concluded that savings would be passed on to consumers.¹

2. Mass-market footwear retailers typically follow customary pricing practices that are based on the first cost. Normally, the first cost (or import cost) of a shoe is multiplied three times to derive the retail price. Assuming the entire industry is using a similar formula, and if duties are eliminated across the board, thereby lowering import costs, then it follows that the retail prices must also drop. Again, competitive pressures ensure that retailers will reflect lower costs in their retail prices.

Q. How does the AFA protect and create jobs?

Answers:

1. U.S. footwear retailers are seeing a steep drop-off in consumer spending, and lowering costs through broad duty reductions on their products will help boost sales and allow stores to remain open, and give Americans an opportunity to find and keep a job in the retail sector.
2. Moreover, the underlying assumption in the jobs estimate presented by Obama Administration advisers Romer-Bernstein on January 9, 2009² for the stimulus package is that one percent of GDP represents one million U.S. jobs. Based upon this model, the \$2.4 billion of incremental savings created by AFA (\$817 million in duties³ multiplied by three to derive the retail impact of the duty reduction) should produce an incremental 18,000 full time jobs.
3. The legislation would also protect U.S. footwear manufacturing jobs by: 1) not including any footwear items still made in the United States in the legislation (thereby keeping the high import duties on those footwear items in place); and 2) providing additional protections that would prevent importers from tariff engineering around the high-duties on those few footwear items still manufactured in the United States (see below). Again, that is why the remaining domestic footwear manufacturing industry supports this legislation.

Q. What about the cost?

Answers:

1. AFA is not inexpensive. In the 110th Congress the Congressional Budget Office (CBO) estimated that AFA would result in \$613 million in lost revenue in 2009. Keep in mind this revenue is raised by a regressive tax that hits low-income families the hardest.
2. Keep also in mind that the tax savings to consumers outweighs the cost of the bill by roughly three to one, owing to the retail price mark-up described above. A reduction in duties of approximately \$800 million results in a savings to consumers of roughly three times that amount, or approximately \$2.4 billion, that will be spent elsewhere in the economy.

AFA, CHINA AND THE WTO

Q. Does giving away the AFA tariffs unilaterally affect our trade negotiation leverage?

Answers:

1. No. Whenever possible, the United States should certainly exert leverage with China on trade issues. However, in this particular case, there is simply no leverage to apply. Even with the original 1930's Smoot-Hawley tariffs still in place (tariffs that go up to the equivalent of 67 percent), China has a de facto monopoly on producing most shoe types. China supplied some 2 billion of the total 2.25 billion pairs of

¹ U.S. International Trade Commission: "*The Economic Effects of Significant U.S. Import Restraints: Fifth Update*," Publication No. 3906, February 2007

² *The Job Impact of the American Recovery and Reinvestment Plan*

³ CBO AFA score for 2009 – 110th Congress

footwear imported into the United States last year.⁴ That is approximately 90 percent of the total; and, an even higher percentage of the lower-priced footwear that AFA addresses comes from China (in excess of 95 percent).

2. Further, no matter what happens in the Doha Round or any other FTA, China will maintain its monopoly on shoe trade. There is no market access to be bargained with China on footwear – they already have full access in the form of a 95 percent market share. That is also why the Chinese have shown no interest in a U.S. proposal to eliminate all tariffs in the footwear sector – they have no economic stake in the U.S. tariff structure as the U.S. consumer is the one who bears the costs of the tariffs.
3. The only potential leverage on shoes in the Doha Round applies to shoe-types manufactured in a broad range of countries and in the United States – none of those shoe-types are included in AFA.

Q. If China has not been a good actor on trade, why are we helping them now?

Answers:

1. We are not helping China. The Chinese do not pay the \$1.7 billion in annual footwear duties; U.S. consumers pay these duties, which are a regressive tax on a basic necessity. These taxes are regressive because the highest tariff rates apply to the least expensive types of shoes.
2. Jobs will not go to China. Not one U.S. manufacturing job is at stake with AFA. Less than one percent of shoes are made in this country, and those manufacturers are completely protected by this legislation – and indeed support it. In fact, U.S. retail and other types of employment will benefit from the bill.

Q. Are we raising tariffs in violation of our WTO commitments with this legislation?

Answers:

1. No. This legislation does not affect any bound tariff rates – period. Aside from eliminating duties on a large number of shoes that have nothing to do with the fabric outsole issue, the bill also codifies what CBP intends to do regarding the reclassification of fabric outsoles. CBP has indicated for some time that it believes that the fabric outsole designation should be revoked. It is unlikely CBP would be pursuing a policy it believed is WTO-inconsistent.
2. In practice, AFA would instruct CBP to disregard fabric outsoles for the protected class of domestically manufactured footwear. Essentially this legislation would render fabric outsoles unnecessary and irrelevant – that is why one company (which has the patent for that process, and does not make shoes) is so concerned.

Q. Are we applying a new discriminatory practice to “like products” of footwear?

Answers:

1. No. Footwear is already treated in discriminatory ways in the tariff schedule. Currently, importers are allowed to tariff engineer around high duties by applying a textile (fabric) bottom on shoes. AFA instructs CBP to disregard fabric outsole tariff engineering for these remaining U.S.-produced tariff lines. This is why the remaining U.S. producers support AFA.
2. In the context of U.S. trade negotiations, preference programs, and duty suspensions, the U.S. Government has acknowledged and codified protections for a designated number of footwear tariff lines that are still produced in the United States.

⁴ OTEXA, Department of Commerce