

New trade policies: how will they affect us?

The world is effectively getting 'smaller', with shoes typically crossing multiple borders before they reach consumers. Trade agreements, tariffs and partnerships have a huge influence on where factories locate or where brands choose to source from, with those benefitting from favourable conditions able to better compete or undercut rivals.

While talks can be arduous and drawn out, there are currently a number of important regimes being debated, including the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP). New rules that apply to the European Union (EU)'s Generalised Scheme of Preferences (GSP) will also affect sourcing.

For manufacturers, brands and retailers these elicit a number of important questions: Which deals will affect me? What changes will I need to make to the way my business operates and who will pay? How can I take advantage of the benefits? Unfortunately, the answers are not clear: the talks are

A number of major agreements, including the Transpacific Partnership and Transatlantic Trade and Investment Partnership, could alter how footwear is sourced and traded around the globe.

confidential, so businesses need to arm themselves with the relevant information on what is being debated and how they might need to act so they are prepared when the time comes.

The long-running TPP debate

One of the biggest deals under debate and due to conclude at the end of 2014 (although it has already run beyond a number of deadlines) is the TPP, which includes the US,

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Australia, Brunei, Canada, Chile, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam, Japan and now potentially South Korea. These countries are estimated to be responsible for 40% of the world's GDP and 26% of the world's trade.

The TPP aims to lift barriers to doing business overseas and boost economic growth by eliminating tariffs on goods and services, removing non-tariff barriers and harmonising regulations. For Asian countries, opening up North America could give access to some of the world's biggest spenders, and for the US, an agreement could boost its automotive trade with Japan. China is not included as it is negotiating a separate bilateral investment treaty with the US as well as other agreements in Asia.

For footwear companies, the TPP is particularly important. While typical duties on goods imported into the US average at about 1.5%, rates for footwear far exceed that; certain categories can be beyond 60%.

"Tough issues are still on the table relating to rules of origin and market access provisions – they describe how fast the duties are going to be reduced, and customs provisions, for instance what kind of requirements you need to clear a good," says Steve Lamar, executive vice-president of the American Apparel & Footwear Association (AAFA) and responsible for lobbying strategies on international trade.

Footwear tariffs

The footwear debate is centred on Vietnam. As the world's second-biggest footwear exporter after China, some believe that reducing tariffs will give it an unfair advantage, while others say it will benefit consumers by lowering prices and helping to create jobs.

A group led by US-based sportswear brand New Balance, which still has some domestic manufacturing, has petitioned for tariffs to remain. "Vietnam doesn't need a reduction in tariffs to continue to thrive," says its director of public affairs, Matt LeBretton. "We need tariffs to remain in place for our ability to continue to operate here. It is a very simple argument."

The Footwear Distributors and Retailers of America (FDRA) however has claimed that elimination of footwear duties will have no impact on employment in the US since 99% of athletic footwear sold in the US is made overseas, taxed at rates that can reach 67.5%. FDRA president Matt Priest claims "almost 100%" of the US footwear industry supports a TPP agreement that eliminates duties from the Pacific Rim countries. Nike, which makes most of its shoes in Vietnam and Indonesia, is also a vocal protagonist.

The FDRA argues that benefits will be passed on to consumers: "Normally, the 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."

Vietnam's Leather and Footwear Association (LEFASO) has said the TPP could generate one million new jobs for the industry. However, footwear manufacturers there might have to lessen their reliance on raw materials from China, depending on the final terms of the deal, alter the sub-contract production mode and increase the ratio of domestically-made products to benefit.

Elsewhere, benefits are less clear cut. An adviser to the Mexican footwear manufacturing industry, Alberto Lerín, says

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shoemakers in the states of Jalisco and Guanajuato are still hopeful that their products will be excluded from the TPP. He said footwear companies in Mexico's two most important shoe-producing states were preparing a formal request. It would mean they would have no free access to other TPP markets, but what interests them is that their TPP trading partners, particularly Vietnam, would have no free trade access to Mexico. "Before the removal of quotas on imports from China at the end of 2011, Vietnam was the biggest exporter of shoes to Mexico," he said.

Mr Lamar admits there are likely to be "intense discussions" this year on the Rules of Origin (ROO) and market access provisions. "Will duties come off quickly or will they come off over a 10 to 15 year period and how will that occur?" he asks.

GSP: winners and losers

Countries affected by the EU's GSP will also start to see changes, as an overhaul came into effect on at the start of 2014. Introduced in 1999, the GSP is a preferential market access scheme aimed at providing developing countries with an added advantage. Of the 177 countries that previously benefitted from preferential access, only 90 remain from this date. Countries that have been excluded include Brazil, Argentina, Russia and the Ukraine and will now be exempt from the 20% reduction on the 12% duties (to total 9.6%) that the GSP affords.

The GSP+ was launched in 2006 as an incentive scheme for particularly vulnerable countries that have implemented key international conventions on sustainable development, labour

rights and good governance.

Towards the end of 2013, the European Apparel and Textile Confederation (Euratex) campaigned against Pakistan's bid to be included, saying it did not fulfil the necessary conditions and was already a leading exporter. Nevertheless, the EC in December agreed that Pakistan could be included, which the Pakistani government has said could boost its relatively small footwear industry.

"I get quite a lot of questions on sourcing in Pakistan – there is a renewed interest," said Antonio Barberi Ettaro, a senior consultant on international trade to the EC. "There's quite a big difference between 12% or 9.6% and 0%; Pakistan is very glad to have it. The Philippines have also been admitted to GSP+ after some pressure from their clothing industry."

The Philippines' Department of Trade and Industry estimates inclusion could boost its footwear industry by \$28 million a year.

"The EC is mandated to make agreements but they still have to be ratified by European parliament and member states and I reckon this will take between 18 and 24 months," added Mr Barberi, adding that many companies are eagerly awaiting the free trade agreement (FTA) with India.

A similar deal with Vietnam is being negotiated. "There is a real sense of urgency in these negotiations – it seems the EC would like to close this deal in 2014," said Mr Barberi. "Here, duties would go from 9.6 to 0% but there are always the rules of origin discussions that come around the corner."

Vietnamese footwear exports hit a record \$8.4 billion in 2013, according to the Vietnam Leather, Footwear, and





Nike supports the elimination of footwear tariffs in the TPP; its biggest production centre is in Vietnam. CREDIT: NIKE

Handbag Association, an increase of 15% over 2012. Due to the expected advantages that will come from the GSP, TPP and other FTAs, the association has set an export target of \$12 billion for 2014 – an increase of 40% over 2013.

At the third round of talks, held in Brussels in November 2013, negotiators “made good headway” on the Vietnamese FTA. Three areas – customs and trade facilitation, technical barriers to trade and competition (anti-trust and mergers) – saw “particular progress” with the teams being able to conclude their technical work and reach agreement. The next round of negotiations will be held in Hanoi in March.

Sector by sector

It is not just the country-specific deals that could affect footwear companies: from the start of this year, footwear and machinery from China is also exempt from benefits – the EU has identified these categories as being “so competitive that they no longer need support to be successfully exported to the EU”.

The US’s Generalized System of Preferences (GSP) is a similar duty preference programme providing duty-free access to the US market to developing countries that meet certain criteria, such as labour rights and intellectual property rights protection. However, it lapsed in July 2013 due to Congressional gridlock with unclear timing for renewal, though it is thought it will be reinstated “as soon as possible”. Footwear has always been excluded from this GSP even though many of GSP’s beneficiaries produce footwear. In 2013, FDRA began campaigning to include footwear, in a limited capacity. It says this would save the US industry over \$100 million in import taxes each year.

US-specific

The US has its own tussles. The Affordable Footwear Act, introduced in 2009 with bipartisan support, would remove the duties on one-third of footwear imports, focusing on the mass-

produced items and children’s shoes. High-end luxury shoes are taxed at the lowest rate, usually around 12%, while more basic, mass-produced shoes can be taxed up to 48%.

“Removing import duties on the shoes bought every day will put needed money back into the hands of consumers,” says Blake Krueger, CEO of Wolverine and chairman of the FDRA. The association, among others, also campaigns for the miscellaneous tariff bill (MTB) that suspends import tariffs on products that have no domestic manufacturing.

“FDRA has been working behind the scenes to ensure all 40 miscellaneous tariffs related to footwear get high consideration and I think we are making good strides,” says Mr Priest. The most recent MTB expired at the end of 2012, and included 17 footwear bills that were up for extension. The House introduced an MTB on January 1, 2013 but did not see final passage.

Sticking points for TTIP

The other big global agreement under discussion and one which also accounts for about 40% of worldwide trade is the TTIP, launched in July 2013. It will make trade between EU countries and the US easier and has been described as the “biggest bilateral trade deal ever”. The European Commission says TTIP could boost the EU’s economy by €120 billion, the US economy by €90 billion and the rest of the world by €100 billion per year.

With the talks at an early stage, industry bodies are hoping they will have the opportunity to influence direction as negotiators discuss with stakeholders and advisers. In mid-December last year the AAFA and Euratex published a joint letter addressed to Michael Froman, US trade representative, and Karel De Gucht, European Commissioner for Trade, outlining the most pressing topics and to which there is expected to be an official response early this year.

Mr Froman has said of the deal: “The biggest opportunity, but also the hardest challenge, is getting our hands around the regulatory and standards piece. Both the US and Europe have

well-regulated markets that come to slightly different conclusions, and that creates unnecessary frictions for trade."

Safety and chemicals

The US and the EU maintain varying approaches to flammability that result in differing standards with respect to test methods, fabrics and product coverage. Similarly, standards on phthalates treat certain items of apparel differently, subjecting them to different standards. Variations also occur in how the two treat chemicals, meaning those preparing to take advantage of any incoming benefits need to be aware of the differences until agreement is reached.

The US has federal laws governing chemicals, while state laws might insist on tighter reporting or control. California in particular has its own standards that companies need to be aware of. Its Proposition 65 rule requires that businesses provide clear warnings whenever exposing the public to an 'unsafe level' of a listed substance. The list is regularly updated, for instance the plasticiser diisononyl phthalate (added to plastics to increase flexibility and used in footwear) was added in December, although industry groups including BASF have written to oppose its listing as a carcinogen.

The states of Washington and Maine are also deliberating a renewed focus on chemicals, "one of the main concerns to us", says Marie D'Avignon, manager of government relations for AAFA. "Both states are collecting information on what chemicals are in products so they can decide how to regulate it. August 2014 will be a big reporting deadline for companies with sales of more than \$1 million but less than \$250 million – and this applies directly to products that are in contact with the skin such as footwear."

Across the Atlantic, companies must keep an eye on the REACH chemical directive, which is more than 8,000 pages long and growing and includes registration obligations. "Retailers will ask manufacturers to name any Substances of Very High Concern, of which there are 151," warns Mr Barberi. "There is an obligation to tell your next partner in the supply chain. You should really take this into account." As an indication of the lack of transparency that can occur in complex supply chains, the big brands behind the Zero Discharge of Hazardous Chemicals (ZDHC) project – including Nike, adidas, Puma and New Balance – as a group found banned substances such as azo dyes, chlorobenzenes, heavy metals and phthalates in their supply chains on first inspection in 2012 and they are now working to eliminate these altogether.

The non-governmental organisation which 'inspired' ZDHC's creation, Greenpeace, is also keen on checking Article 33 – the 'right to know' for consumers – which dictates that the retailer has to answer questions on chemicals within 45 days. "We advise companies [that wish to start importing into the EU] to take REACH publication seriously and start an action plan now," warns Mr Barberi. "Analyse your current status, define your strategy, estimate costs, make a budget, implement a system, conduct risk analysis, internally train employees and communicate results."

The third round of TTIP negotiations was held last December in Washington and was described as "satisfactory" by the EU's chief negotiator, Ignacio Garcia Bercero. "We remain on track to deliver an ambitious trade and investment deal that should boost our economies, deliver growth and more importantly jobs for both Europeans and Americans at a time when it is



Ignacio Garcia Bercero, chief EU negotiator for the TTIP, met NGOs, unions, consumer groups and businesses during a week of talks in December. CREDIT: EUROPEAN UNION

most needed," he said.

EU negotiators will now work with US counterparts on the wording of provisions designed to make it easier to comply with each other's rules. The end of this third round marks the conclusion of the initial phase and paves the way for Mr Gucht and Mr Froman to hold a political 'stocktaking' meeting in March this year.

Time frames?

With the TPP and TTIP talks happening behind closed doors, it is very difficult to gauge exactly where they are up to, who is standing up for which opinion and where the pressures are coming from. A draft of the third round of TPP negotiations leaked by WikiLeaks brought criticism from the media and public; the TTIP has also been accused of being too secretive and pandering to the whims of big corporations.

It could also take a while until the partnerships come into force as, once agreed, they have to go through technical reviews and consultations and be ratified by the various governments. "Now's the time to think about them and help shape them, but you might not be able to harvest the gains for some period of time," says Mr Lamar.

Mr Barberi estimates most free trade agreements can take up to five years before they finally come into effect. "My advice is do your research and when you're looking at route to market, don't forget that you must first look at any regulatory environment, whether legislation or standards, and in many ways you may have to design your product to fit those standards," he adds. 