



**U.S. International Trade Commission
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RE: ITC Inv. Nos. TA-131-038 and TA-2104-030 - U.S.- Trans-Pacific Partnership Free Trade Agreement Including Japan: Advice on the Probable Economic Effect of Providing Duty-Free Treatment for Imports

On behalf of Outdoor Industry Association (OIA), thank you for the opportunity to testify in front of the United States International Trade Commission (USITC) on this important topic today. OIA supports the core objectives for achieving free trade between participating countries in the Trans-Pacific Partnership (TPP). We see Japan's entrance into the TPP negotiations as a potentially positive development that may offer benefits for the outdoor industry.

OIA is the trade association for more than 1,200 companies across the United States, including suppliers, manufacturers and retailers of outdoor products. The outdoor industry generates more than \$646 billion in consumer spending and accounts for 6.1 million direct jobs in the United States. OIA members are the leading global innovators of performance textiles, apparel, footwear, equipment and their growth and success is dependent on complex global supply chains and trade policies that reflect those realities. To ensure our industry's competitiveness, the Trans-Pacific Partnership (TPP) must also reflect those realities and truly represent a 21st Century trade agreement.

OIA promotes a balanced trade agenda, representative of its diverse membership of importers and domestic manufacturers and retailers of all sizes. A balanced trade agenda seeks the elimination of trade barriers, including tariffs, on outdoor products that have no commercially viable production in the United States. For those products that are produced domestically, OIA supports federal policies that aid U.S. manufacturers and help them transition to competition in a global economy.

I would like to take a moment to express our appreciation for the relationship we have developed with the ITC over several years of working together towards a goal of modernizing the U.S. Harmonized Tariff Schedule to accommodate the rapid innovations in the outdoor industry. Your technical expertise, coordination with other agencies such as Customs and Border Patrol (CBP) and collaboration with members of the United States Congress have been invaluable in helping us develop initiatives and proposals that will foster and promote a new era of federal trade policies.



The TPP presents a unique opportunity to reevaluate the traditional trade paradigms that have guided federal policy for decades. The region is ripe with emerging markets for American goods and services, including those offered by the outdoor industry. Many of OIA's member companies are already deeply integrated within the region and are excited about the benefits the TPP could provide. Japan's entrance into the negotiations offers many additional possibilities for the outdoor industry. For outdoor companies that manufacture their products in the United States, Japan is one of the top export markets and has potential for significant growth. For the companies that utilize global value chains to bring their products to market, many high-tech yarns and fabrics are sourced from Japan. The possibility of preferential duty treatment would present the opportunity for significant cost savings that would be reinvested in American jobs, American innovation and ultimately lower retail prices for American consumers.

The outdoor industry's priorities for Japan's entrance into TPP are as follows:

1. Reciprocal preferential market access, with most outdoor apparel and footwear that utilize Japanese fabrics and are then cut and sewn or otherwise transformed in the TPP region receiving immediate duty free access; and a duty phase-out schedule that is reflective of import sensitive products manufactured by U.S. domestic producers that allows these companies to adjust to more intense competition from imports;
2. Elimination of Japan's tariff rate quota on leather footwear; and
3. Regulatory harmonization.

Reciprocal Preferential Market Access

First, OIA believes that reciprocal preferential market access, specifically the mutual elimination of import tariffs on most outdoor goods that utilize inputs from Japan and are manufactured in the TPP region, with the exception of certain products manufactured in the U.S., will have a positive economic effect on U.S. based outdoor businesses, foster the growth of American jobs in our industry and will promote the significant economic contribution the outdoor industry makes to the U.S. economy.

Japan is also an important export market for outdoor industry companies that manufacture products in the U.S. For many outdoor companies that produce domestically, Japan is a top retail market with potential for significant growth. These domestic manufacturers, however, face stiff competition from China, Vietnam and other countries where low wages, lax environmental and labor enforcement and industry subsidization distort costs and provide an unfair advantage. Therefore duty elimination on those products that are sourced within the United States in commercially meaningful volumes would be harmful in the near-term. OIA therefore encourages that tariffs on these products are phased out over a longer period of time, allowing U.S. manufacturers adequate time to adjust to more intense



competition from imports and for the U.S. government to press China and others on reform of their unfair trade practices.

Japan's tariff rate quota (TRQ)

Second, since 1952, U.S. domestic leather footwear exports to Japan have been severely restricted by a tariff rate quota (TRQ) that only permits 12 million pairs annually (applied globally).¹ A 17- 24% duty is applied to leather footwear imports that fall within the quota; however a tariff of 4,300 yen or 30% (whichever is greater) is applied to those pairs outside of the quota, equating to about \$45 per pair of shoes. U.S. domestic leather footwear manufactures and their suppliers would greatly benefit from elimination of this protectionist practice. U.S. manufacturing in this segment of the footwear industry has been increasing, and Japan promises to be an even more important market for OIA members in the future. Accordingly, we encourage USTR to seek elimination of the TRQ under the TPP.

To put this in perspective, the average unit price of American made leather footwear imported into Japan in 2012 was \$20.19 per pair. As a result, a tariff of \$45 per pair would be equivalent to over 220 percent.

Japan's total import market for footwear was 629 million pairs in 2012, valued at approximately \$4.8 billion; approximately 38 million pairs were leather.² This equates to less than one pair of imported leather shoes (or .3 pair) per person in Japan.³ In comparison, the United States imports nearly two pairs of leather shoes (or 1.8 pairs) per person. In all, the U.S. imports about six times more pairs of shoes per person than Japan.⁴

Free trade agreements should optimize benefits for all parties. Not only would enhanced market access into Japan's leather footwear market result in more balanced trade in footwear but it would augment U.S. production, export volumes and raw leather purchases from domestic tanneries. Subsequently, this is likely to lead to increased economic benefit for U.S. outdoor companies and the potential for growth in American jobs.

Japan's TRQ has been identified in USTR's annual National Trade Estimates (NTE) on Foreign Barriers to Trade report since the 1980's. The TPP negotiations provide an ideal opportunity to resolve this long-standing issue.

Japan has provided preferential treatment for leather footwear for other TPP partners in bi-lateral agreements. The most expansive access was given to Mexico in 2005 through their Economic

¹ Initially the TRQ only allowed 6 million pairs and was raised around 2000 to 12 million.

² Import data was collected from Japan's Ministry of Finance, at <http://www.customs.go.jp/toukei/srch/indexe.htm>.

³ The CIA Factbook estimates that Japan's population is 127,253,075 people (July 2013).

⁴ The CIA Factbook estimates that the United States' population is 316,668,567 people. In 2012, the U.S imported 2.3 billion pairs of shoes (ITC Dataweb).



Partnership Agreement. Mexico was afforded its own TRQ that gradually increased in volume while the applied duty rate on pairs that fell outside the quota was gradually reduced from a 5% base rate. All duties on leather footwear exports from Mexico will be eliminated by 2015.

Peru, Vietnam, Malaysia, Brunei Darussalam and Chile have also received preferential treatment from Japan for leather footwear through bilateral agreements, including duty phase-outs over varying time periods. Considering the preferential treatment afforded to these TPP partners over the past decade, we believe the United States should receive similar market access no less generous than that enjoyed by Japan's other trading partners currently involved in the TPP negotiations.

Regulatory Harmonization

Finally, achieving regulatory harmonization across the TPP region, specifically with Japan, would greatly benefit outdoor companies, especially if the current administrative burdens are minimized. Presently, outdoor products like tents, camping stoves and climbing or mountaineering equipment are delayed entry into the Japanese market or are not able to be sold due to the varying regulatory testing procedures and processes.

For example, Cascade Designs, a small business headquartered in Seattle, WA and domestic manufacturer of outdoor gear has been unable to sell its canister stoves in Japan, yet is able to sell its liquid fuel stoves, cookware and accessories. The Japan Gas Appliances Inspection Association's (JIA) regulations are not translated into English and appear to be designed to be particularly costly and difficult for non-domestic manufactures to gain approval. Moreover, regulations under JIA are extremely costly and burdensome in comparison to other regulatory agencies such as Certification Experts (CE) in Europe, Australian Gas Association (AGA) in Australia and the Korean Gas Safety (KGS) in Korea in that the number of stoves that must be presented for inspection and frequency of factory visits for inspection is much higher.

Delays and barriers to market like these are unnecessary; they are costly and negatively affect product cycle planning for all outdoor companies who sell products into Japan. Designing synonymous testing standards for future regulations and mutual acceptance of current standards under the TPP would be extremely advantageous for the outdoor industry and its consumers.

Thank you again for the opportunity to testify today. We hope that the TPP is negotiated in a way that reflects the reality and complexities of the global supply chain and will benefit the outdoor industry and its consumers. We look forward to working with you during this process.