

Footwear Companies Impacted by Extra Duties

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WASHINGTON — Congressional paralysis on key duty suspension legislation has forced U.S. footwear, textile and apparel companies to change their business plans and absorb more than four months of increases in production costs, with no immediate relief in sight.

Congress let legislation expire at the end of the year that suspended duties on millions of dollars worth of certain imported components used to make footwear, apparel and yarns and fabrics.

As a result, footwear brands and retailers, yarn spinners and fabric firms have had to pay more than tens of thousands of dollars in duties since Jan. 1, which has forced many companies to either find alternative components and redevelop entire production lines or absorb the costs and raise prices.

With duties spiking by as much as 37.5 percent on hiking boots, many footwear companies are redesigning boots to move them into lower tariff categories, said Nate Herman, VP of international trade for the American Apparel & Footwear Association, whose footwear members include New Balance, Skechers USA, Inc., SG Footwear Inc. and Jones Apparel Group Inc., which has several brands including Nine West.

Herman said approximately 15 to 20 footwear companies have been impacted in their hiking boots styles and many are redesigning hiking boots from textile uppers to leather uppers to get lower duty rates.

“Leather is more expensive and the other issue is waterproof, but if the tariff goes from 37.5 percent to between 8.5 to 10 percent, it makes up for the extra cost of the leather,” Herman said. “The issue though is it is a whole different look when you add leather and you have to try to find a way to thread that needle because they created a whole market for textile upper hiking boots and now you have to work around that.

“Even the companies that prepared and bought a lot of inventory have burned through that inventory and have to come up with alternatives,” Herman said. “Nobody thought this would happen.”

The House introduced a bill in late December that would renew the expiring tariff suspensions for three years on more than 600 imported products but the Senate has not yet introduced a bill. The bill, which must be renewed by Congress periodically, is meant to help domestic manufacturers compete by giving them tariff breaks on components such as certain yarns, fibers and footwear that are no longer made in the U.S. and must be imported.

“They are dealing with it, but I think there is an anxiety there,” said Matt Priest, president of the Footwear Distributors & Retailers of America, whose footwear retail members include Brown Shoe Co., Collective Brands Inc. and Zappos.com. “We’ve got entire lines that were utilizing [the MTB tariff suspension], especially boot companies, that are now gone away.”

Priest said a footwear company based in Montana built its entire business on importing hiking boots under the duty suspension bill.

“I think there is a discussion now [industry wide] about whether they should design out of it or increase the cost of footwear,” Priest said.

Other companies across the spectrum have had to make alternative plans over the past four months.

“One of our member companies said if this does not get fixed, it will be an annual cost of over \$150,000,” said David Trumbull, VP of international trade at the National Textile Association, whose members are knitters that use man-made fiber yarns. “Another company said they have already paid in the tens of thousands of dollars.”

Trumbull said most textile companies are simply absorbing the costs because contracts were made and prices were set months ago.

"It's coming right off their bottom line now," he said. "For the time being they have no other option than to absorb the costs and pray that this will get fixed and done retroactively."

Jim Chesnutt, president and CEO of National Spinning Co., imports several acrylic fiber categories and has been a beneficiary of the MTB process for years.

Chesnutt, who purchases 25 million pounds of acrylic fiber a year at an average price of \$1.50 per pound is now facing a 7.5 percent duty on about two-thirds of the total he imports and a duty of 4.3 percent on the other third.

"It's a huge cost," Chesnutt said. "It's been exacerbated by the fact that acrylic prices are exploding and there is a worldwide shortage. We've got some producers who can't get enough raw materials to run their plants in Europe."

Chesnutt said he has been working with customers to substitute acrylic fiber for some other fiber, like polyester or rayon.

"There is no easy answer right now," Chesnutt said.