

CHAPTER 14

LEATHER GOODS INCLUDING SHOES AND GARMENTS

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INTRODUCTION

NAFTA addresses the different competitive circumstances of the leather, leather products and footwear industries. The agreement recognises that the footwear and leather products industries already experience intense import competition. To address these circumstances, NAFTA provides extended tariff staging and safeguard provisions against import surges from either of the three member countries. These provisions are designed to allow those sectors of the industry experiencing strong import competition sufficient time to adjust to any additional imports generated by NAFTA. Duty reductions under NAFTA assist exports in this sector among the three member countries.

The Canadian footwear industry is mostly made up of small companies which lack economies of scale, financial and management resources, and have limited design capability. Canadian manufacturers concentrate on leather boots and shoes in the medium and high price ranges. There has been a substantial increase in the number of footwear imports, especially from the newly industrialised countries, which are able to produce leather at lower costs. There will continue to be increased competition from imports in this low growth market. The use of synthetic soles and textile uppers, especially in athletic footwear, is increasingly taking away demand from the leather footwear market.

Canadian leather garment producers only hold 10 % of the domestic market. As with footwear, newly industrialised countries and Asian countries are making up an increasingly significant portion of this market. The demand for leather is driven by fashion trends, changes in disposable income and, ultimately, price.

Mexico's leather-processing industry is diversified. This labour intensive Mexican sector has faced stiff international competition from imports of low-cost Asian products. As incomes in Mexico rise, demand for products of higher quality and style should grow.

Total US product shipments have remained flat for the last several years, with half of these being luggage. Exports in the leather products industry represent 10 % of product shipments. Because labour costs represent such a high proportion of total production costs, these industries encounter significant import competition.

The US footwear industry consists of about 350 companies. Production has declined at a compound annual rate of about 5.5 % since 1968. The US industry is not competitive except in few types made of leather and in high price categories. Foreign producers with lower labour costs have captured 87 % of the domestic market by volume.

CANADA

Tariffs (%)

<u>Items:</u>	<u>MFN</u>	<u>GPT</u>	<u>US/Mexico</u>
Apparel	20.6 (BPT = 15.8)	15	6.7-12
Footwear	22.8 (BPT = 18.3)	X	9.1-20.5
Footwear parts	12.5	8	4.9-7.2
Gloves	23.1 (BPT = 18)	16.5	7.5-13.2
Gloves, kid	10.5	7.5	3.3-6
Belts	13.9	10	4.5-6
Trunks, suitcases, briefcases	16 (BPT = 12.5)	11	0-8.8
Wallets, purses, cases	12.7	9	0-7.2
Knapsacks, bags	16.3	11.5	0-9.2
Other clothing accessories	11.6	8	3.7-4.8

X - same as MFN tariff

Standards

There are no mandatory standards at present for this sector in Canada. Voluntary regulations are found with the Canadian General Standards Board.

Labelling

Leather products, including footwear, have no labelling requirements, except for country of origin requirements, as discussed in the documentation section below.

If the product is labelled, it must be in a manner which is “neither false or deceptive”, according to section 5 of the Act.

The province of Quebec has additional requirements concerning the use of the French language on all products marketed within its jurisdiction. Information on French requirements may be obtained from the office de la Langue Francaise, found in Section III of this guide.

Packaging

For pre-packaged products, according to the Consumer Packaging and Labelling Act and Regulations, all packages must be manufactured, constructed, or displayed in such a manner that a consumer may not reasonably be misled with respect to the quality or quantity of the product it contains. Labels on pre-packaged products must show:

- the identity and principal place of business of the person by or for whom the pre-packaged product was manufactured or produced for resale;
- the identity of the pre-packaged product in terms of its common or generic name or in terms of its function;
- such information respecting the nature, quality, age, size, material content, composition, geographic origin, performance, use or method of manufacture or production of the pre-packaged product as may be prescribed.

Questions on the Act may be directed to the Merchandise Standards Division, Industry Canada, found under Section III of this guide.

Marketing and Distribution

The retail market is dominated by a limited number of large department stores and chain stores (which usually focus on particular product lines) that are also significant importers. Discount stores are rising in popularity at the expense of the large department stores. Canadian retailers prefer to buy directly from foreign producers and manufacturers. Smaller retailers do not usually volumes which would justify buying direct.

Footwear is marketed to a small number of major retail organisations and departments stores for a large share of its sales. Small shoe stores, chains and speciality shoe stores generally carry a higher proportion of domestic shoes than do the larger distributors.

Canadian producers are competitive with foreign counterparts in high quality, winter-related and protective footwear, mid- and high end footwear, and their ability to adjust to fast-changing domestic market demands.

As an example of the strength of the import market for this sector, the latest available data suggests that the import market for footwear into Canada is US \$693 million.

Documentation

Goods imported into Canada have mandatory documentation requirements. These are:

- Form B3, Canada Customs Coding (two copies required for an automated Customs office, three if not). It is important to fill in this form properly, especially since it is here where the importer shows the tariff treatment for his goods;
- cargo control document - manifest, waybill or other approved document that must be obtained from carrier or forwarder (two copies);
- commercial invoice, indicating the buyer and seller of the goods, price paid or payable, adequate description, including quantity, of goods contained in the shipment, together with a Canada Custom invoice containing the remaining required data (two copies), or a fully completed Canada Customs invoice, or an invoice containing all data listed by Customs.

Revenue Canada requires that certain leather products, including gloves and footwear, imported into Canada be clearly labelled as to their country of origin, in English or French; this must be clearly located on the product. If the consumer will ultimately buy the good in a container, then it is acceptable that the container only be marked. Canadian importers are responsible for ensuring that the goods they are importing comply with the marking requirements at the time they import the goods. Please verify with a Canada Customs office concerning your product's marking requirements.

Trade Associations

Footwear Council of Canada
Toronto, Ontario Tel. (416) 595-5333
Fax (416) 595-8226

Luggage, Leathergoods, Handbags and Accessories Association of Canada
Scarborough, Ontario Tel. (416) 491-5844
Fax (416) 496-9329

Shoe Manufacturers' Association of Canada
Montreal, Quebec Tel. (514) 937-8118
Fax (514) 937-7066

Tanners Association of Canada
Toronto, Ontario Tel. (416) 463-3118
Fax (416) 466-1277

Trade Fairs

Mode Accessories International Exposition
January, September
Toronto

North American Fur & Fashion Expo
May
Montreal

Outerwear Expo
March
Montreal

Preselection Show
June, December
Toronto

MEXICO

Tariffs (%)

<u>Items:</u>	<u>General</u>	<u>US/Canada</u>
Apparel	20	C
Footwear	20	A/B+/C
Footwear parts	15	A/B/C
Gloves	15	C
Gloves, kid	15	C
Belts	20	A
Trunks, suitcases, briefcases	20	C
Wallets, purses, cases	20	C
Knapsacks, bags	20	C
Other clothing accessories	20	A

A - duties fully eliminated on January 1, 1994

B - duties removed in five equal stages of 20% annually to full elimination by 1998

B+ - duties removed in seven stages: 20% in the first year then 10% annually to full elimination by 2001

C - duties removed in ten equal stages of 10% annually to full elimination by 2003

Standards

There are voluntary standards applicable to this sector, as found in SECOFI's Catalogue of Official Mexican Standards, Volume I, Classification A. A sampling of the range of standards applicable to this sector include size designation of garments, shrinkage determination methods, fire resistance determination for textile products, graphical symbolism for care of piece goods and clothing, determination of resistance to grain cracking in leather, physical test of leather waterproofness for boot and shoe sole leather, shoe lace specifications, and other standards. The exporter is strongly urged to contact the Direccion General de Normas at SECOFI, the relevant Mexican sector association, or a knowledgeable Mexican importer, about the most current standards applicable to his product.

Labelling

Leather products and products having the appearance of leather are subject to special labelling requirements in Mexico. According to Mexico's Ley de Proteccion al

Consumidor (consumer protection law), leather products must meet specific labelling requirements, which are enforced at the border. Labels must be affixed to the product and not just to the packaging. There is no requirement for a certificate of compliance.

The minimum labelling requirements for leather products are:

- name of exporter;
- materials (general or specific definition and, if applicable, finishing);
- country of origin;
- name and address of importer; and
- Federal Taxpayer Number of the importer and/or registration number of the chamber of commerce to which he/she belongs.

Packaging

There are no official packaging requirements for imported products to Mexico. Please check with your Mexican broker or importer for developments in this area.

Marketing and Distribution

For consumer goods, price is an important consideration in buying decisions by lower-income groups in Mexico. For middle and higher income groups, style and quality are more important. As incomes in Mexico rise, purchases by this segment of the economy will also grow.

The growth in department and speciality stores in malls in this country means that there are new retail and distribution opportunities for this sector, specifically in mall shoe stores and clothing stores.

Documentation

Goods imported into Mexico must be accompanied by standard documentation, as follows:

- commercial invoice (in Spanish, if prepared in English, the Spanish translation may follow original text on invoice or translation may accompany invoice) with original and several copies;
- packing list (if more than one package shipped) with at least four copies;
- bills of lading with one original for importer and one for customs broker.

The invoice must be complete and accurate. It must include:

- place and date of issue;
- complete name and addresses of the buyer or importer in Mexico, and the exporter;
- description of merchandise, including marks, numbers, types, and quantities;
- freight and insurance charges;
- price and total value of shipment;
- signature (manual), name, and title of exporter; and
- shipper's invoice number and customer's order number.

The invoice should be sent ahead to the importer/broker/agent, in order to obtain special permits (if necessary) if shipped by sea or land, or it should accompany goods if shipped by air.

The packing list includes:

- number of packages, and detailed list of goods in each package;
- net, gross, and legal weight of each package and total shipment, in metric units, along with volume or measurements of each package and total shipment.

The bill of lading has information such as:

- types of packages in shipment and their weights and measurements;
- names and addresses of the shipper and importer, or customs broker;
- ports of origin and destination;
- description of goods;
- list of charges, including freight;
- number of bills of lading in full set; and
- carrier's official acknowledgement of receipt on board of goods for shipment.

Trade Associations

Camara Nacional de la Industria del Calzado
(Footwear industry national chamber)
Mexico City Tel. (5) 533-6255, 525-4960
Fax (5) 511-5054

Camara Nacional de la Industria del Vestido
(Garment industry national chamber)
Mexico City Tel. (5) 588-7822, 588-7664
Fax (5) 578-6210

Camara Nacional de la Industria de la Curtiduria
(Tannery industry national chamber)
Mexico City Tel. (5) 564-6600, 564-4866
Fax (5) 574-2552/5

Trade Fairs

APICE (footwear industry)
September
Guadalajara

Expo Piel (leather arts and apparel)

Exposicion Nacional del Calzado (national wholesale footwear show)
May/October
Guadalajara

Sapica (footwear & leather items)
May
Leon

Selec Moda Primavera/Verano (spring/summer footwear)
Mexico City

UNITED STATES

Tariffs (%)

<u>Items:</u>	<u>General</u>	<u>GSP</u>	<u>CBI</u>	<u>Canada/Mexico</u>
Apparel	4.7-6	0-6	0-5.3	0-5.4
Footwear	2.5-37.5	2.5-37.5	2.5-37.5	0-30
Footwear parts	3.7-10	0-10	0-10	0-8
Gloves	14	14	0	5.6-12.6
Gloves, kid	14	14	0	5.6-12.6
Belts	5.3	0	0	0-2.1
Trunks, suitcases, briefcases	8	8	7	0-7.2
Wallets, purses, cases	4.7-8	0-8	0-7	0-7.2
Knapsacks, bags	6.8	6.8	6	0-6.1
Other clothing accessories	0-5.6	0	0	0-2.2

Standards

A garment may not be imported into the US if it fails to conform to an applicable flammability standard issued under the Flammable Fabrics Act, administered by the Consumer Product Safety Commission.

Please also refer to guides under the labelling section below.

Labelling

The Federal Trade Commission (FTC) has guides for shoe content labelling. Under the guidelines, the term “leather” and other terms suggestive of leather may be used in labelling only when the shoes are composed in all substantial parts of top grain leather; this term may not be used if the shoes are made from split or ground pulverised, or shredded leather. If such is the case, the term may be used only if qualified as to leather type, or by specifying which parts are made of top grain leather. No misleading name or mark may be used on labelling to convey that the shoes are made of a certain type of material when they are not. The labels, stamps or tags must be embedded in or attached to the product itself until final sale to consumer. Simulated or imitation leather, and embossed or processed leather (which may simulate the appearance of a different type of leather), must be labelled as such. Innersoles of non-leather material which are concealed from view, but also contain other visible parts of leather, must bear a label clearly disclosing the presence of the non-leather innersole.

Please consult the FTC about specific guidelines for your product.

Packaging

An important function of packaging is to pack the product in a way to enable US Customs to examine, weigh, measure, and release the goods promptly. Therefore, show the exact quantity of each item of goods in each box or other package, put marks and numbers on each package, and show those marks on your invoice opposite the itemisation of goods contained in the corresponding package.

Marketing and Distribution

There are many suppliers and international competitors in the US leather goods market; however, there are niche opportunities for suppliers. Success in this sector depends on factors like quality, competitive pricing, timely delivery, and reliability.

Distribution includes large department stores, chain stores which focus on particular product lines, and individual leather goods retailers.

The size of the import market into the United States for leather goods is approximately US \$12.3 billion.

Documentation

Within five working days of the date of arrival of a shipment at a US port of entry, entry documents must be filed, which consist of:

- a commercial invoice, or pro forma invoice when the commercial invoice cannot be produced;
- packing lists, if appropriate;
- evidence of right to make entry (bill of lading, air waybill, shipping receipt, carrier's certificate); and
- Entry Manifest, Customs Form 7533; or Application and Special Permit for Immediate Delivery, Customs Form 3461; or other form of merchandise release required by the district director.

A requirement of US Customs is that a good entering the United States, or its container (if the good reaches the final purchaser in a container) must be marked with its country of origin. An exception to this rule is an article which is to be processed in the US by the

importer and not intended for sale in its imported form, or an article incapable of being marked. The manufacturer should check with US Customs to verify which situation applies to his product.

Trade Associations

Footwear Distributors & Retailers of America
Washington Tel. (212) 737-5660
Fax (212) 638-2615

Footwear Industries of America
Washington Tel. (202) 789-1420
Fax (212) 789-4058

Leather Apparel Association
New York Tel. (212) 924-8895
Fax (212) 727-1218

Leather Industries of America
Washington Tel. (202) 342-8086
Fax (212) 342-9063

Luggage & Leather Goods Manufacturers of America
New York Tel. (212) 695-2340
Fax (212) 643-8021

National Luggage Dealers Association
New York Tel./Fax (212) 684-1610

National Shoe Retailers Association
Columbia, Maryland Tel. (410) 381-8282
Fax (410) 381-1167

Sporting Goods Manufacturers Association
North Palm Beach, Florida Tel. (407) 842-4100
Fax (407) 863-8984

Trade Fairs

Fashion Accessories Expo
January, May, August - New York

February, August - Las Vegas

The Footwear Show (part of The Supershow)

February

Atlanta, Georgia

International Fashion Boutique Show

January, June, August, October

New York

International Jeanswear & Sportswear Show

March, September

Miami

Middle Atlantic Shoe Market

January, June, August

Various Eastern US states

Mode Accessories International Exposition

January, September

Toronto

Western Shoe Associates International Buying Markets

February, August

Las Vegas

Western Shoe Associates Shoe & Accessory Market

January, June

Long Beach, California

SOURCES OF INFORMATION ABOUT THIS SECTOR

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“Industry Profile: Footwear”, Industry Canada, 1990.

“Industry Profile: Leather Tanning”, Industry Canada, 1990.

“MEXICO Business, The Portable Encyclopaedia for Doing Business with Mexico”, World Trade Press (San Rafael, California), 1994.

“1995 Tradeshow Week Data Book”, Tradeshow Week: New Jersey, 1994.

“North American Free Trade Agreement Opportunities for US Industries: NAFTA Industry Sector Reports”, US Department of Commerce, International Trade Administration, 1993.