TRANS-PACIFIC PARTNERSHIP AGREEMENT HOLDS POTENTIAL FOR RETAILERS AND AMERICAN FAMILIES

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NRF® NATIONAL RETAIL FEDERATION®

THE TRADE PARTNERSHIP

This report was prepared by The Trade Partnership for the National Retail Federation.

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I. Introduction

The Trans-Pacific Partnership is a trade agreement recently negotiated by the United States with 11 countries in the Asia-Pacific region. It establishes strong rules affecting trade between the United States and Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam. These countries currently account for 39 percent of U.S. goods and services exports and 35 percent of U.S. goods and services imports.[1] The United States already has free trade agreements with six TPP countries (Australia, Canada, Chile, Mexico, Peru and Singapore), which are already fully in effect or nearly so. The TPP potential really lies in the addition of five new FTA partners: Japan, Malaysia, New Zealand, Vietnam and Brunei.

U.S. retailers are the primary direct link between American families, workers and producers in the TPP countries. Retailers buy apparel, footwear, consumer electronics, food products and many other consumer goods from suppliers in TPP countries. Some U.S. retailers maintain stores in TPP countries that they supply with goods purchased locally but also from U.S. manufacturers. There are close to 7 million trade-related retail jobs.[2]

The TPP will affect retailers and their customers in several ways:

1. by getting rid of unnecessary and sometimes high costs of doing business with and in TPP countries,

2. by providing assurance (and reassurance) that foreign suppliers produce goods that measure up to U.S. consumer protection, labor and environmental standards,

3. and by helping to grow the U.S. economy in general.

But the TPP can only deliver these benefits to U.S. retailers and consumers if Congress approves legislation implementing it. This paper describes why the National Retail Federation believes the TPP merits such approval.

[1] Derived from U.S. Bureau of the Census data, for 2014 (the most recent year for which services data by country are available). The shares are actually higher than reported here: The United States does not publish U.S. services export or import data for Peru, Brunei or Vietnam.

[2] NRF, Trade Matters 2015

II. Overview of TPP Provisions of Key Interest to Retailers and American Families

The TPP is the most comprehensive trade agreement negotiated by the United States to date. It contains 30 chapters and four annexes. By comparison, the U.S.-Korea free trade agreement, the last FTA implemented by the United States, has 24 chapters and three annexes. TPP covers new areas of importance to all U.S. industries and consumers, including new disciplines on state-owned enterprises, provisions designed to make it easier for small and medium-sized enterprises to use the agreement, business facilitation and regulatory coherence designed to foster the growth of regional supply chains, and digital trade, which continues to become the new medium for delivering goods and services.

Some TPP chapters will have a direct positive impact on retailers and American families by cutting costly barriers to trade on consumer goods sold by retailers in our stores. Removing barriers allows retailers to pass savings on to U.S. consumers. Others will benefit retailers and consumers less directly, for example by making U.S. manufacturing workers more competitive suppliers of machinery and equipment, which in turn boosts their wages and spending power.

Several TPP chapters offer U.S. retailers and their customers the greatest potential direct benefits.

Import taxes. Retailers buy goods from all over the world, to sell in their U.S. stores and at their stores in other countries. All too frequently, those goods bear the costs of high tariffs — otherwise known as taxes — imposed by the importing country (including the United States).

Over time, the TPP eliminates nearly all[3] U.S. and TPP partner tariffs affecting imports of goods. This includes items such as apparel, footwear, travel goods and food products. U.S. tariffs on these goods are frequently in the double-digit range (see Table 1 in Section 3 below). Those costs find their way into the retail prices of the affected goods.

Trade facilitation. Opaque or onerous customs procedures, red tape and delays in processing goods through customs are just some of the "sand in the gears" of trade that raise the cost of exporting and importing. Those costs get embedded into the price of affected goods as they make their ways to retail store shelves: The TPP contains provisions designed to reduce these costs.

For example, it mandates that parties publish all customs laws, regulations and procedures on the Internet, in English wherever possible. Customs authorities must do all they can to move shipments quickly through ports and provide expedited treatment to express delivery shipments. TPP promotes paperless trading between businesses and the government, including electronic customs forms, and provides for electronic authentication and signatures for commercial transactions. Moving to electronic processing will reduce the time it takes to fill out and process forms, making it easier, and less expensive, for both governments and shippers. One study found that these and other trade transaction costs can add from 2 to 15 percent to the costs of the traded good.[4]

E-commerce. Online retailers (and increasingly many so-called "traditional" bricks-and-mortar retailers) sell goods over the Internet, including electronic goods such as software, music, video, e-books and games, but also physical goods like apparel, footwear, food products and home furnishings. This selling format knows — or should know — no national boundaries. Online retail sales in the Asia-Pacific region have been growing at

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[3] Imports of many consumer goods will need to meet strict and sometimes complicated rules of origin to qualify for duty-free treatment when they enter the United States. If the goods do not meet those rules, they may still be imported but retailers (and consumers) will need to pay the duties.

[4] Peter Walkenhorst and Tadashi Yasui, "Quantitative Assessment of the Benefits of Trade Facilitation," Chapter 1 in Quantitative Methods for Assessing the Effects of Non-tariff Measures and Trade Facilitation, edited by Philippa S. Dee, Michael J. Ferrantino, 2005.

rates in excess of 35 percent annually.[5] The TPP contains a whole chapter devoted to e-commerce that stipulates that parties will not assess customs duties on electronic transmissions, including content transmitted electronically. TPP parties agree to protect personal information of those using e-commerce.

Cross-border data flows. Retailers need to be able to transfer data from stores in one country to operations in another, most frequently facilities in the United States. Such data includes employee records as well as inventory and other sales-related data. The rapid growth of online retail sales internationally also necessitates the transfer of data across borders. The TPP provisions will ensure that retailers can transfer data from one TPP party to another, subject to legitimate security or privacy concerns. It guarantees that companies will not have to build expensive and unnecessarily redundant data centers in every market they seek to serve, the costs of which would of necessity get passed along to consumers in the form of higher prices for the goods they buy.

Intellectual property rights protections. Some retailers develop their own branded products for sale in their stores. When they open stores abroad and sell those goods, U.S. retailers want to know that their intellectual property will be respected and protected. They also want to guard against the sale of counterfeited goods in their stores, both in the United States and abroad. One study estimates that copycats and counterfeiters cost retailers between $300 million and $400 million annually.[6] The TPP contains strong provisions for closing loopholes used by counterfeiters and for civil and administrative procedures and remedies for violations of intellectual property rights, including criminal prosecution of such violations. Strong enforcement of intellectual property rights will protect consumers from purchasing counterfeit goods, which do not meet product safety requirements and could be harmful.

Investment protection. A number of American retailers have stores in dozens of other countries, including TPP parties. Still others would like to open such stores to take advantage of the potential growth in the consumer markets expected in several TPP partners. The TPP contains provisions that would protect these investments. Importantly, it requires that TPP parties treat investment from sources in other TPP parties no less favorably than it treats investment from sources in its own country. This means, for example, that U.S. retailers will finally be able to open stores more easily abroad, benefiting foreign consumers who want to purchase U.S. brands.

Food safety. Retailers who sell food products must be especially careful about the safety of those products. Ensuring that their suppliers adhere to strict U.S. food safety laws and regulations is paramount. The TPP will help to ensure that other TPP countries better align their food safety systems with those of the United States.

Labor and environment protections. Retailers that source goods globally demand that their foreign suppliers adhere to codes of conduct that typically govern the business those suppliers do with U.S. retailers. They stipulate retailers' requirements for how foreign factories treat their workforce and how those factories ensure that their production does not harm the local environment. TPP will make it much easier for retailers to ensure that factories in TPP countries adhere to labor and environment conditions in their codes of conduct. TPP requires parties to ban the use of child and forced labor, establish a minimum wage and maximum hours of work, ban workplace discrimination, give workers the right to form a union and bargain collectively, and require workplace safety. TPP contains provisions that will require parties to protect and conserve elephants, rhinos, whales, dolphins, sharks and sea turtles, among others, prohibit subsidies that contribute to overfishing, and otherwise combat illegal fishing and logging.

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[5] Matt Lindner, "Global e-commerce sales set to grow 25% in 2015," Internet Retailer, July 29, 2015, https://www.internetretailer.com/2015/07/29/global-e-commerce-set-grow-25-2015.

[6] NetNames, "Counting the Cost of Counterfeiting: A NetNames Report," October 2015.

III. What TPP Will Mean for Retailers and American Families

If implemented, TPP will have a positive impact on retailers and American families in a number of ways. First, as noted above, current trade with TPP parties contains a number of hurdles, all of which add to the costs of doing business with suppliers in these countries. Those costs get embedded into the prices of goods consumers buy in U.S. stores. Where TPP eliminates those hurdles, the costs disappear, enabling retailers to lower product prices. Alternatively, retailers may sell a higher quality substitute good at the price of the lower quality good it replaces. Either way, U.S. consumers win.

The best examples of costly hurdles are the tariffs assessed by the United States on imports into the country. The United States will cut roughly 6,000 U.S. tariffs on imports after the agreement is fully implemented. In 2015, the United States collected nearly $6 billion in tariffs on imports from TPP countries (again, most of that was on imports from TPP countries with which the United States does not yet have an FTA).[7]

Importantly, an estimated 70 percent of those taxes were assessed on U.S. imports of consumer goods — goods bought by American families at U.S. retail stores. And half of that was on imports of apparel.[8] The cost of these tariffs deposited into the U.S. Treasury gets passed along to consumers in the form of higher prices.

While overall average U.S. tariffs are low (1.5 percent in 2015), for some consumer goods they are very high. U.S. tariffs on apparel range up to 32 percent; and on footwear, up to 67.5 percent. Even average rates are many multiples of the much-touted total of 1.5 percent (see Table 1). The impact of these tariffs falls most heavily on low-income American families. Spending by low-income households on consumer goods (e.g., food, apparel, footwear, home appliances, electronics, toys, etc.) accounts for nearly 40 percent of their average income, compared with just 10 percent for upper-income households.[9] Higher tariffs disproportionately impact these families.

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7 Data pulled from the U.S. Bureau of the Census by The Trade Partnership.

8 Derived by The Trade Partnership from U.S. Bureau of the Census data.

9 "Lower income" households are those falling into the lowest 20 percent of household incomes (before taxes) in 2014. "Upper income" households are those falling into the highest 20 percent of household incomes. See U.S. Department of Labor, Bureau of Labor Statistics, "Consumer Expenditure Survey," http://www.bls.gov/cex/#tables_long.

Table 1

U.S. import taxes on selected consumer goods imported from TPP countries, 2015
(Million of U.S. dollars and percent; based on HTS-2 categories)

	Value of Import Tariffs	Trade-Weighted Tariff Rate
Knit apparel	**$1,334.8**	**15.61%**
Woven apparel	**758.5**	**10.33%**
Footware	**576.4**	**11.73%**
Leather handbags, travel goods, etc.	**129.3**	**9.35%**
Jewelry	**68.3**	**4.23%**
Watches	**65.4**	**6.48%**
Hats, headgear	**13.8**	**4.21%**
Estimated consumer goods, total	**4,176.7**	
Total, all goods	**5,954.0**	

Source: The Trade Partnership derived from U.S. Census data.

The TPP promises to eliminate most of these duties (again, subject to some complicated rules of origin in the case of apparel and automobiles), many on the day the TPP goes into effect in the United States and the rest over time. The elimination of these costly taxes will lead to lower consumer prices or broader product selection. The U.S. retail industry is highly competitive[10] — too competitive to afford retailers the luxury of padding their profit margins with the duty savings. While some may use the savings to upgrade their product offerings, others will lower prices.

Another benefit American families can expect from the TPP is higher wages. One comprehensive assessment of the potential economic impact of the TPP on the United States concluded that it likely would increase the wages of skilled workers (who make up 60 percent of the labor force) by 0.63 percent, and of unskilled workers (who account for the 40 percent balance of the labor force) by 0.37 percent.[11] This equates to an estimated $350 in annual pay for an average skilled worker, and nearly $120 extra annual pay for an average unskilled worker.[12]

Overall, lower prices and higher wages will contribute to greater household spending power. The TPP could boost annual spending power for the United States as a whole by $131 billion,[13] or more than $1,000 per household per year.

[10] Food and beverage stores, in particular, have relatively low rates of profit: 1.7 percent in 2015. Apparel retailers had 5.5 percent; all retailing in general saw 3.3 percent, compared to 7.9 percent for manufacturing. U.S. Bureau of the Census, Quarterly Financial Report, http://www.census.gov/econ/qfr/.

[11] Peter A. Petri and Michael G. Plummer, "The Economic Effects of the Trans-Pacific Partnership: New Estimates," Peterson Institute for International Economics Working Paper 16-2, January 2016, Pp. 13-14.

[12] Derived by The Trade Partnership from U.S. Bureau of the Census, Current Population Survey data for Total Money Earnings in 2014 by Educational Attainment.

[13] Ibid.

IV. In a Nutshell ...

The TPP will have a significant positive impact on American families, workers and the retailers who seek to provide them with a wide range of goods at affordable prices. It will lower costs across global supply chains in the TPP region, and those lower costs will be reflected in U.S. price tags and improved product mixes. Families will benefit from greater spending power, both from lower prices and from higher wages.

But none of these benefits will materialize unless Congress acts to approve the TPP. NRF supports the TPP and calls upon Congress to pass legislation enacting the agreement so that American families, workers, retailers and the economy can begin to realize the agreement's benefits.

About NRF

NRF is the world's largest retail trade association, representing discount and department stores, home goods and specialty stores, Main Street merchants, grocers, wholesalers, chain restaurants and Internet retailers from the United States and more than 45 countries. Retail is the nation's largest private sector employer, supporting one in four U.S. jobs — 42 million working Americans. Contributing $2.6 trillion to annual GDP, retail is a daily barometer for the nation's economy. NRF's This is Retail campaign highlights the industry's opportunities for life-long careers, how retailers strengthen communities, and the critical role that retail plays in driving innovation. nrf.com

About The Trade Partnership

The Trade Partnership is an economic and trade consulting firm dedicated to the vision that an economy's competitiveness is best enhanced by working with its trading partners to expand and liberalize world trade. Since 1991, The Trade Partnership has provided high-quality economic and trade policy tools to improve the U.S. retail sector's competitiveness through trade. These tools include research and analysis that helps policy makers understand the benefits to local economies, workers and consumers of liberalizing barriers to trade, including technical and other non-tariff barriers.

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