European
Cultural
and Creative
Industries
Alliance

ECCIA Response to USTR Consultations 30.4.21

- **Docket No. USTR-2021-0004 – Proposed Action in Section 301 Investigation of Italy's Digital Services Tax**
- **Docket No. USTR-2021-0005 – Proposed Action in Section 301 Investigation of Spain's Digital Services Tax**
- **Docket No. USTR-2021-0007 – Proposed Action in Section 301 Investigation of the United Kingdom's Digital Services Tax**

1. The European Cultural and Creative Industries Alliance

The European Cultural and Creative Industries Alliance (ECCIA) is composed of six European cultural and creative industries organisations – Altagamma (Italy), Círculo Fortuny (Spain), Comité Colbert (France), Gustaf III Kommitté (Sweden), Meisterkreis (Germany) and Walpole (UK) – who between them represent over 600 luxury and high-end brands and cultural institutions from sectors including fashion, accessories, beauty, interiors, fine wines, china and glassware as well as automotive. Based on art, culture and creativity, ECCIA's work is underpinned by continuous innovation, a relentless focus on quality, sustainable business practices, highly skilled employment and strong exports abroad. Our members strive for the highest quality in all they do, from products and services to the customer experience.

Pre-Covid, the global luxury goods market was valued at $1.3 trillion, of which European luxury and high-end goods were worth $910 billion, accounting for 4% of Europe's GDP, 10% of its total exports, and employing over 2 million people in regional hubs and cities (Bain-Altagamma – Worldwide Luxury Market Monitor 2019).

On behalf of our members we welcome the opportunity to participate in the USTR review, to submit comments on the items included in the Annexes of the documents Docket No. USTR-2021-0004, Docket No. USTR-2021-0005 and Docket No. USTR-2021-0007 and to highlight the impact of the tariffs on US/EU/UK trade and Americans.

2. American and European Luxury Goods Trading Relationship

Despite China's rising dominance in the global luxury goods market, the US remains the largest luxury market in the world worth approximately $61 billion (Bain-Altagamma – Worldwide Luxury Market Monitor 2020).

Following a centuries old trading relationship, Americans are recognized for being highly discerning with a long-standing appreciation of the quality, craftsmanship, creativity and heritage of European luxury goods. They appreciate the finest perfumes from English gardens, suits from Italian tailors and handbags from Spanish leatherworkers, knowing that they are crafted with high labour standards and attention to the environment.

Distributed through a carefully managed network of well-known US owned department stores, independent neighbourhood boutiques, digital players and the brands' own stores across the country, European luxury brands on average export 20% – 25% of their products to North America.

In recognition of the importance of the market, European brands have invested heavily in their North American operations – nurturing long-standing relationships with their retail partners, creating thousands of sustainable jobs for US employees in retail, transportation, warehouses and client services, providing continuous training for employees as well as investing heavily in marketing which in turn drives the revenues of US-owned media houses and digital players.

Additionally, European luxury brand owners have also invested in American luxury and heritage brands, providing the capital and expertise as well as the established routes to market and networks to realize the potential of those businesses internationally. For example, global luxury conglomerate LVMH owns several US businesses including Marc Jacobs, Tiffany & Co. and Fenty Beauty by Rihanna.

This commercially successful relationship between European and US brands is also underpinned by a strong cultural relationship – customers on both sides of "the Pond" valuing the cultural ties between the brands, cultural partners and customers.

The US and European luxury goods markets enjoy a positive trading relationship, recognising the mutual value brought to both economies through decades of investment.

3. Mounting Trade Tensions and the Impact of Tariffs

Unfortunately, the long-standing American and European luxury goods trading relationship has been caught in the crossfire of mounting trade tensions including both the DST (the focus on this consultation) and the Boeing Airbus dispute. Both disputes involve sectors outside of the luxury and high-end industries but sadly this long-established and mutually beneficial trading relationship is a collateral victim and is suffering as a result.

We appreciate the Biden-Harris Administration's commitment to re-engage in multilateral discussions and promote a positive atmosphere through the temporary suspension of Airbus tariffs. We hope an agreement will be reached and that the tariff suspension will be made permanent.

We are now facing the potential introduction of tariffs for goods listed in the Annexes of the documents Docket No. USTR-2021-0004, Docket No. USTR-2021-0005 and Docket No. USTR-2021-0007, which could affect a significant proportion of the British and European luxury goods imports to the US.

We oppose inclusion of the following product categories and urge that they be deleted from the proposed lists:

- **Apparel**
- **Accessories (including gloves, hats, ties, belts)**
- **Handbags**
- **Footwear**
- **Eyewear**
- **Perfumes and cosmetics**
- **Glassware**
- **Jewellery**

The implementation of the tariffs will have a number of unforeseen and damaging effects on the American luxury goods trading relationship with the UK and EU as highlighted below.

Impact on US jobs and investments

Businesses are already under severe financial pressure from the COVID-19 crisis. The implementation of new tariffs on items listed in the Annexes of the documents Docket No. USTR-2021-0004, Docket No. USTR-2021-0005 and Docket No. USTR-2021-0007 will drive up operating costs at a time when every business is necessarily managing costs closely, prioritising support for employees, dealing with disrupted supply chains, and looking for areas to grow and add jobs. Direct job losses will expand to the entire retail ecosystem and impact workers at distribution centres, truckers, shippers and beyond.

The majority of European luxury goods businesses are small to medium enterprises (SMEs). They are disproportionally affected by existing tariffs and face difficult decisions should new tariffs come into place. The smaller players who supply a network of US based stores and boutiques have informed ECCIA that they will need to look at restructuring their US operations, leading to job losses. We have heard of businesses reconsidering investments in the US and even closing their US offices as the climate has become uncertain and operating costs have become commercially unviable. These businesses may necessarily instead look to opportunities in fast-growing regions – outside of the US – where demand is growing rapidly and operating costs are lower.

A blocker to the success story of free trade

European high-end and luxury brands recognise the value of the American market and have invested heavily in their operations and marketing, nurturing the network of distributors and providing exceptional customer choice and service. The trading relationship is an incredibly positive one with mutual benefit for both economies and the American worker and customer. However, the impact of the tariffs is a barrier to investment at a time when businesses are responding to the ongoing impact of the COVID-19 crisis.

Furthermore, for many SMEs, the US is their first international market, importantly supporting the US luxury goods market with a pipeline of innovative new brands which are particularly appealing to American customers. The side effect of tariffs is to create barriers to market entry at a time when businesses are carefully looking at their strategic investments and where they are most likely to be able to maximise their returns. Unfortunately, the consequence of these tariffs and the potential of further increases diverts investment to other fast-growing regions, where the barriers to entry are lower.

Rising costs can only be passed on to US consumers and will lead to contraction in goods volumes

The impact of the tariffs will undoubtedly and unfortunately create other collateral victims, as these tariffs will punish the American customer either as a direct result of price increases, as businesses are no longer able to absorb the costs of the tariffs or through limiting choice as businesses become increasingly unable to distribute those goods to the US as the cost of doing business continues to be prohibitive. Tariffs generally lead to higher prices and for the luxury industry, which has a relative price elasticity, there is a real risk of a contraction in volumes.

The artisanal nature of luxury products results in small profit margins and smaller economies of scale, particularly for SMEs. Other industries may partially recover tariff costs via purchase flows, but this is not always possible in the luxury market. American customers value and appreciate the quality of European luxury goods and while alternatives are available, they lack the allure, quality, heritage and cache of the European brands for this highly discerning customer base.

4. The Need to Support US-EU-UK Trade and Resolve Trade Disputes

The US is a priority market for the European luxury sector – American customers highly value quality, heritage and artisanal luxury goods and the potential for mutually beneficial trading has been well demonstrated prior to the introduction of the tariffs. The benefits to the US are significant – they include an increase in consumer choice, a lessoning reliance on Chinese manufactured goods, investment and support of the US retail, logistics and media sectors, support for US based jobs and the opportunity to share expertise which supports homegrown US luxury goods producers.

The luxury business model is export-orientated but involves high levels of investment given the importance of retail operations into offering the level of service and experience that is expected of luxury brands and is particularly sensitive to the effect of tariffs. Prior to the COVID-19 pandemic European luxury businesses were in significant expansion phases, with the US a priority, but at a time where businesses have been hit hard by this global crisis, the imposition of these additional tariffs on their products could be a fatal blow to further local investment.

ECCIA urges the US, UK and EU authorities to act quickly to de-escalate this trade war which unnecessary harms a commercially and culturally important trading relationship that dates back centuries and has a positive mutually prosperous future. We oppose the imposition of these additional tariffs and urge USTR to exclude them from any final tariff list.