



**we wear<sup>SM</sup> jobs**

January 13, 2012

Michael Beeman  
Deputy Assistant U.S. Trade Representative for Japan  
Office of the U.S. Trade Representative  
600 17<sup>th</sup> Street, NW  
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**RE: FR Notice Volume 76, Number 235, Page 76478 (December 7, 2011)  
- Request for Comments on Japan's Expression of Interest in the  
Proposed Trans-Pacific Partnership Trade Agreement**

Dear Mr. Beeman:

On behalf of the American Apparel & Footwear Association (AAFA), the national association of the apparel and footwear industries, and their suppliers, I am writing in strong support of Japan's request to join the proposed Trans-Pacific Partnership (TPP) Free Trade Agreement. Japan's participation in the TPP provides an opportunity to greatly expand the benefits of the TPP for U.S. workers, U.S. businesses, and U.S. consumers. Just as important, Japan's participation will provide an opportunity to address longstanding issues that are severely impacting the normally mutually-beneficial footwear, apparel, and textile relationship between the United States and Japan.

AAFA is the national trade association representing apparel, footwear and other sewn products companies, and their suppliers, which compete in the global market. AAFA's members produce, market, and sell apparel and footwear in virtually every country around the world, including Japan. The U.S. apparel and footwear industry employs over 4 million U.S. workers who support this global supply chain in research and development, design, manufacturing, compliance, sourcing, logistics, marketing, merchandising, and retail.

As with any free trade agreement, if negotiated correctly, the TPP has the potential to grow U.S. exports in our industry. U.S. manufacturers already sell over \$400 million worth of yarns and fabrics annually to the TPP region. U.S. yarn and fabric exports to Vietnam alone have grown 8 fold just since 2001 while U.S. yarn and fabric exports to Malaysia have more than doubled in the over the same period. The participation of Japan in this agreement is significant as U.S. manufacturers sold over \$250 million worth of yarns and fabrics to Japan in the year-ending October 31, 2011.

Likewise, U.S. cotton growers export over \$400 million worth cotton annually to the TPP region. Vietnam's and Malaysia's purchases of U.S. cotton have ballooned over 800% and over 500%, respectively, just since 2006. Japan has a huge impact here as well. Japan bought over \$121 million worth of U.S. cotton in 2011.

The TPP region also represents huge market potential for the remaining U.S. footwear, apparel, and travel goods manufacturers, and their U.S.-based suppliers. The TPP region, not including the United States, bought \$20 billion worth of apparel, footwear, and travel goods in 2010. Japan is a major game changer for U.S. manufacturers as Japan's huge market alone eclipses the entire rest of the TPP region, importing over \$35 billion worth of apparel, footwear, and travel goods in 2010.

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Yet, in order to truly benefit not only U.S. textile, apparel, and footwear manufacturers and the 400,000 U.S. workers they employ, but also the other 3.8 million U.S. workers directly employed by the U.S. footwear and apparel industry, the TPP must truly be a “21<sup>st</sup> century agreement.” Creating a new “NAFTA-style” agreement won’t provide any new benefits to anyone.

To explain exactly what we mean by a “21<sup>st</sup> century agreement,” we must first provide some background on the state of the U.S. apparel and footwear industry and today’s global value chains.

### **The U.S. Apparel and Footwear Industry Today**

Our industry is truly on the frontlines of globalization. In 1978, U.S. domestic footwear production supplied 47% of the U.S. footwear market. In 1991, domestic U.S. apparel production supplied 50% of the U.S. apparel market. Today, we import 99% of all footwear and 98% of all apparel sold in the United States. Although many of our members still make some product in the United States., it is made primarily for military and specialty markets as well as for export markets.

With the decline in U.S. apparel and footwear manufacturing, one would expect that the U.S. apparel and footwear industry suffered accordingly.

In reality, the U.S. apparel and footwear industry not only survived, but thrived, creating a vibrant U.S. apparel and footwear market in the process. In 1975, the U.S. apparel and footwear market totaled an impressive \$66.9 billion. In the last 35 years, though, the U.S. apparel and footwear market has quintupled in size, growing to \$338.1 billion in 2010.

To put the size of the U.S. apparel and footwear market in perspective, one must compare apparel and footwear with other well known industries. In 2010, Americans spent \$17 billion on bottled water, \$22 billion on video games, \$75 billion on fast food, \$127 billion on soda, \$175 billion on new cars, and \$277 billion on alcoholic beverages.

### **Today’s Apparel & Footwear Global Value Chains Support Millions of U.S. Jobs**

And while the actual garment or shoe might be assembled or sewn today in another country, most of the value of that product stays here, in the United States. In fact, only about 25 percent of the value of a garment or shoe, at retail, comes from the value of the materials and the direct manufacturing processes. In contrast, 75 percent of the value of the garment or shoe is the result of research and development, design, compliance, logistics, marketing, merchandising, and retail. Again, not only are such functions critical to the end product, but almost all of these high-paying, value-added jobs occur here in the United States.

Let’s put this global value chain in perspective.

In 1980, U.S. apparel and footwear manufacturers employed almost 1 million workers. Today, U.S. apparel and footwear manufacturers only employ 170,000 workers.

Yet, our industry today employs almost 4 million U.S. workers today. These Americans no longer work in the factory, but are often found in research and development, design, compliance, logistics, marketing, merchandising, and retail.

And these jobs are high-valued added jobs. The average hourly earnings for a worker in a U.S. apparel factory is \$11.82/hour, while the average hourly earnings for a worker in a U.S. apparel or footwear brand (U.S. wholesale apparel and piece good trade) is \$25.28/hour and the average hourly earnings for a worker in the retail side of the apparel and footwear business is \$14.38/hour. Likewise, the average hourly earnings for a worker in transportation and logistics, a key link in the apparel and footwear supply chain, is \$21.74/hour.

### **TPP – What Should a 21<sup>st</sup> Century Agreement Look Like?**

In order to support today's global apparel and footwear value chains, and the millions of U.S. workers who depend on them, the TPP must be a "21<sup>st</sup> century agreement."

So, what do we mean by a "21<sup>st</sup> century agreement?"

For footwear, this means building upon the successful approach embraced in all of the free trade agreements negotiated over the last decade. For footwear no longer made in the United States, the vast majority of the U.S. footwear market, this means immediate and reciprocal duty-free access under the most flexible rules of origin possible. For those footwear items still produced in the United States, the TPP agreement should recognize this fact and incorporate rules of origin and duty phase-out schedules accordingly. In most recent FTAs, for example, these "sensitive" items were subject to very restrictive rules of origin and very long, back-loaded, duty phase-out schedules.

For travel goods, this means building upon the successful approach embraced in CAFTA-DR and the KORUSFTA, immediate and reciprocal duty-free access under the most flexible rules of origin possible.

For apparel, this means breaking with the 20<sup>th</sup> century paradigm of "yarn-forward" rules of origin, which would require that all of the materials that go into a garment originate and be assembled in a TPP country to receive duty-free treatment. "Yarn-forward" ignores the realities of today's global value chains.

Just as important, "yarn-forward" has failed to provide any of the benefits its proponents claim for U.S. manufacturers and U.S. jobs. "Yarn-forward" is an "all or nothing" approach that requires all yarn and fabric, as well as all linings, sewing thread, elastomers and other trims, to be made in the TPP region. If any one of these inputs does not originate in the region, the whole garment is disqualified from duty benefits. For example, if all of the yarn and fabric is U.S.-made, but the sewing thread comes Korea, the entire garment loses all duty benefits. Past U.S. FTAs with the TPP countries have shown that such a "yarn-forward" or "all or nothing" approach does not spur new U.S. exports of yarns and fabrics. Instead, combined U.S. yarn and fabric exports to these 4 U.S. FTA partners – Australia, Chile, Peru, and Singapore – have remained virtually unchanged over the last decade. On the other hand, U.S. yarn and fabric exports to countries that are not subject to these "yarn-forward" "all or nothing" rules, but have a vibrant apparel industry, like Vietnam or Malaysia, or even China, have skyrocketed over the last decade.

Instead, the TPP should embrace more flexible and simple rules of origin for apparel. Specifically, the rules should:

- Base the rule of origin (ROO) for apparel on either a change in tariff heading (CTH) or a regional value-content (RVC) requirement. A change in tariff heading would require any product in an apparel chapter (chapters 61 and 62) to be transformed within the region from any heading outside of that chapter. With an RVC rule, the value of those processes (and the inputs they create) within the territories must account for a minimum percent [35%] of the total value of the garment with a specific value calculation.
- Limit tougher product-specific ROOs to sensitive products when necessary and appropriate, meaning there is data establishing sufficient availability of inputs in commercial quantities within the TPP territory;
- Allow outward processing of intermediary products and not penalize products that use TPP-country inputs;
- Harmonize the ROOs for all TPP countries, including those that currently have FTAs with the United States;
- Guarantee the "ability to cumulate" among all TPP partner countries to facilitate regional integration;
- Establish a transparent and commercially meaningful "Commercial Availability" [Short Supply] process; and
- Create a process to allow "cumulation" with other countries that have FTAs with all TPP countries.

Further, all apparel should receive immediate and reciprocal duty-free entry.

## Japan's Participation in the TPP – An Opportunity to Address Critical Supply Chain Issues

While the U.S.-Japan apparel, footwear, and textile partnership remains strong and healthy today, a number of critical supply chain issues must be addressed in order for this relationship to move to the next level through the TPP.

I would like to take this opportunity to focus on one of those issues, an issue we have been trying to fix for over 25 years. The quota levels for leather footwear imports into Japan are exceedingly small, only 12 million pairs are allowed for a billion pair a year market. Above-quota imports of leather footwear still face significant market access barriers. According to the latest Government of Japan Customs Tariff Schedule, the above-quota duty rates are the higher duty of either 30 percent *ad valorem* or 4,300 yen per pair (\$55.90 per pair based on January 10, 2012 conversion rates). Obviously, Japan always applies the higher of the two rates, the 4,300 yen per pair specific-rate. At \$59.90 per pair, the effective tariff rate actually ranges from 200-500% per pair on most leather shoe imports. This quota program must be ended immediately.

As with any long-term relationship, there are many other outstanding issues between the two countries that impact this important supply chain. As it approaches Japan's participation in the TPP, we urge the U.S. government to use as its guide its own annual *National Trade Estimates* reports on Japan over the last 10 years.

### Conclusion

We believe that the TPP can truly be a “win-win-win” for U.S. jobs, U.S. manufacturers, and the U.S. apparel and footwear industry, but only if the TPP is a “21<sup>st</sup> century agreement” that recognizes and embraces the realities of today's global apparel and footwear value chains and the 4 million U.S. jobs dependent on it. We strongly support the addition of Japan to the TPP as it can only enhance the benefits of TPP for the U.S. apparel and footwear industry. Further, Japan's inclusion provides the opportunity to address current critical problems facing the U.S.-Japan supply chain.

Thank you for your time and consideration in this matter. Please contact Nate Herman of my staff at 703-797-9062 or by e-mail at [nherman@wewear.org](mailto:nherman@wewear.org) if you have any questions or would like additional information.

Please accept my best regards,



Kevin M. Burke  
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