american apparel & footwear association

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January 13, 2012

Kent Shigetomi
Director for Mexico, NAFTA, and the Caribbean
Office of the U.S. Trade Representative
600 17th Street, NW
Washington, DC 20508

RE: FR Notice Volume 76, Number 235, Page 76479 (December 7, 2011) - Request for Comments on Mexico's Expression of Interest in the Proposed Trans-Pacific Partnership Trade Agreement

Dear Mr. Shigetomi:

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 Mexico's request to join the proposed Trans-Pacific Partnership (TPP) Free Trade Agreement. Mexico's participation in the TPP not only provides an opportunity to greatly expand the benefits of the TPP for U.S. workers, U.S. businesses, and U.S. consumers, but also provides the opportunity for a much-need update to the current North American Free Trade Agreement (NAFTA), to bring the agreement in line with today's market realities. Just as important, Mexico's participation will provide an opportunity to address critical supply chain issues that are severely impacting the normally mutually-beneficial apparel, footwear, and textile relationship between the United States and Mexico.

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 Mexico. 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 Mexico in this agreement represents a game changer. U.S. manufacturers sold almost $3.5 billion worth of yarns and fabrics to Mexico in the year-ending October 31, 2011, making Mexico the largest market for U.S. textiles in the world. And, after many years of decline, exports to Mexico are starting to grow again.

Likewise, U.S. cotton growers export over $400 million worth of 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. Mexico is a game-changer here as well. Mexico is the third largest market for U.S. cotton, buying over $700 million worth of U.S. cotton in 2011.

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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 an astounding $20 billion worth of apparel, footwear, and travel goods in 2010. Again, Mexico's addition could open the door to significant new opportunities as Mexico imported over $3 billion worth of apparel, footwear, and travel goods in 2010.

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 "21st century agreement." Creating a new "NAFTA-style" agreement won't provide any new benefits to anyone.

To explain exactly what we mean by a "21st 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 21st Century Agreement Look Like? Not Like NAFTA

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 "21st century agreement." Again, with Mexico's possible participation in the TPP, this means a sharp break with the rules embodied in NAFTA. While NAFTA was "state of the art" in 1994, NAFTA does not reflect the realities of today's global economy. Moreover, NAFTA did not contain any of the mechanisms necessary to make it a "living" agreement. To put this in perspective, is anyone today still using the "state of the art" computer they had on their desk in 1994?

So, what do we mean by a "21st 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 20th 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, elastomerics 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.

Mexico’s Participation in the TPP – An Opportunity to Address Critical Supply Chain Issues

While the U.S.-Mexico 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.

Mexico has recently imposed burdensome import documentation requirements to substantiate preference claims under NAFTA. We understand there have been multiple instances over the last year when Mexican authorities have sought documentation well in excess of that which is required under NAFTA. While we understand the need for proper enforcement, this zealousness, by exceeding the scope of the requirements, has severely damaged the ability of U.S. textile exporters to ship to Mexico under NAFTA.

On the U.S. side, we urge the U.S. government to make the current cross-border trucking pilot permanent. The ability to move product quickly, safely, and efficiently across the border is critical to the future success of the U.S.-Mexico apparel, footwear, and textile partnership.

Finally, as we move forward with Mexico’s participation in the TPP, we urge the Mexican government to refrain from imposing unjustified and/or WTO-illegal restraints on apparel, footwear, and textile imports such as dumping or safeguard duties or new customs documentation requirements or procedures. We applaud Mexico for achieving a strong first step in this effort when it removed, as scheduled, long-standing dumping duties on imports of apparel and footwear from China in December 2011.

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 Mexico’s participation in the TPP, we urge the U.S. government to use as its guide its own annual *National Trade Estimates* reports on Mexico 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 “21st 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 Mexico to the TPP as it can only enhance the benefits of TPP for the U.S. apparel and footwear industry. Further, Mexico’s inclusion provides the opportunity to modernize NAFTA to reflect today’s global realities as well as the opportunity to address current critical problems facing the U.S.-Mexico 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 if you have any questions or would like additional information.

Please accept my best regards,

Kevin M. Burke

Kevin M. Burke
President & CEO