



we wearSM jobs

**Written Testimony
Submitted by the
American Apparel & Footwear Association (AAFA)**

**Before the
House Ways & Means Committee
On
President Obama's Trade Policy Agenda and
The Future of U.S. Trade Negotiations**

February 29, 2012

Thank you for providing us this opportunity to provide written testimony for today's hearing titled "President Obama's Trade Policy Agenda and The Future of U.S. Trade Negotiations". We believe that, if done correctly, U.S. trade policy holds immense potential to grow the U.S. apparel and footwear industry, create U.S. jobs, help hardworking American families, and support the U.S. economy.

Imports are Good for American Workers, American Families, and American Businesses

The American Apparel & Footwear Association (AAFA) is the national trade association representing the apparel and footwear industries, and their suppliers. Our members produce and market sewn products throughout the United States and the world. In short, our members make everywhere and sell everywhere.

And despite many rumors of our demise, the U.S. apparel and footwear industry today is still a major industry, employing millions of people in the United States.

The basic premise is this: When we wear clothing and footwear, we wear more than the garments and shoes themselves. We wear the innovation and intellectual property that make the shoes and clothes better. We wear the socially responsible and sustainable supply chains and the product safety systems that make the clothes and shoes safer and more responsible. And we wear the U.S. jobs involved in creating and delivering an ever wider variety of clothes and shoes to hardworking American families at lower prices.

And when we talk of jobs in the 21st century U.S. apparel and footwear industry, we are talking about 4 million U.S. workers. These are the Americans - seen and unseen - who design shoes and clothes, perform R&D, cut and sew, oversee production, handle customs and logistics, ensure compliance, market and merchandise product, and work on the sales floor. And these numbers don't even include the thousands of jobs of U.S. workers in transportation, distribution, warehousing, and logistics who support our industry.

With 98 percent import penetration in apparel and 99 percent import penetration in footwear, these 4 million U.S. workers are almost entirely dependent upon U.S. imports.

In fact, about 75 percent of the retail value of most clothing and footwear comes from pre- and post-production activities in the United States. So when we wear our clothing and shoes, we wear the realization that imports create jobs in the United States in addition to creating consumer choice and affordable style.

And these jobs are high-valued added jobs. The average hourly earnings for a worker in a U.S. apparel factory is \$11.96/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 \$25.35/hour and the average hourly earnings for a worker in the retail side of the apparel

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and footwear business is \$14.50/hour. Likewise, the average hourly earnings for a worker in transportation and logistics, a key link in the apparel and footwear supply chain, is \$21.65/hour.

We wear also the knowledge that this industry -- often described as a "sunset" industry by those who only view an industry's value through its U.S. manufacturing footprint -- is the largest consumer products industry in the United States. With annual sales of \$340 billion, we outstrip many other "big" industries, including the \$17 billion spent on bottled water, the \$22 billion spent on video games, the \$75 billion spent on fast food, the \$127 billion spent on soda, the \$175 billion spent on new cars, and the \$277 billion spent on alcoholic beverages.

And while we are proud of our domestic manufacturers and the jobs they support, many of which equip our servicemen and servicewomen with the uniforms and boots to protect them in the field, we are also proud of the many other high value, well-paying U.S. jobs our members provide.

As such, we believe that the U.S. trade policy agenda and future U.S. trade negotiations must reflect the reality that imports, and trade overall, are good for American families, American workers, American businesses, and the American economy.

U.S. trade policy must be fundamentally realigned to incorporate this reality, including:

1) Realigning Trade Policy to Help U.S. Workers, U.S. Families, & U.S. Businesses

As previously noted, 99% of all shoes and 98% of all clothing sold in the United States today is imported. Yet, the United States still continues to charge duties on U.S. imports of footwear and apparel, much of which has not been manufactured in the United States for decades, if ever. And these import duties are high. While duties on all U.S. imports average a low 1.5%, duties on U.S. imports of footwear average 11% and duties on U.S. imports of apparel average 13%.

These duties aren't paid by the foreign country or the foreign exporter. They are paid by the U.S. company, who must incorporate that import duty into the price they charge U.S. consumers. And these duties are regressive, with the highest duties on apparel and footwear, with some as high as 67.5%, falling on the lowest-cost clothes and shoes. What's worse is that these import duties act as a hidden tax on hardworking American families, with most not knowing that 10, 20, 30% of the price they pay at the cash register for one of life's necessities is because of import duties.

These high import duties, which protect no one, also serve as a disincentive to U.S. companies to invest in new technologies and new products. Not only do the import duties raise the price of shoes and clothes, meaning that U.S. companies sell less, but the high import duties can price the most technologically-advanced clothing and shoes out of the market altogether.

Thankfully, a fast-growing number of progressively-minded members of Congress are introducing and championing legislation that recognizes that these import duties protect no one and only serve to hurt hardworking American families, American workers, and American businesses.

As such, we urge the Committee to support these efforts by quickly considering and approving the following legislation:

- Affordable Footwear Act (H.R. 2697) – This bi-partisan, commonsense legislation temporarily eliminates the import duties on low-cost footwear, children's shoes, and other types of high-dutied footwear no longer made in the United States, or about 1/3 all of footwear import duties.
- U.S. OUTDOOR Act (H.R. 2071) – This bi-partisan legislation would temporarily eliminate the import duties on certain types of "recreational performance outerwear." This outerwear has never been made in the United States and represents the most technologically-advanced outerwear on the market today.

We also urge the Committee to immediately re-start the Miscellaneous Tariff Bill (MTB) process as well as quickly approve legislation that would renew the hundreds of MTB provisions expiring at the end of this year. The MTB process is a non-controversial and bi-partisan process that allows for the temporary elimination of import duties on products no longer manufactured in the United States, like many types of footwear and apparel. Just as important, the MTB process recognizes the reality of today's global supply

chains by creating a mechanism to allow for the import, duty-free, of critical inputs no longer made in the United States that are used in U.S. manufacturing, including U.S. footwear, apparel, and textile manufacturing.

2) Realigning U.S. Trade Policy to Help the Countries that Need it Most While Also Helping U.S. Workers, U.S. Businesses and U.S. Families

U.S. trade policy can be a powerful tool, not only to help U.S. workers, U.S. consumers, and U.S. businesses, but also to help the world's poorest countries rise out of poverty. Not only is helping the poorest countries rise out of poverty the right thing to do, and a core American value, but it also serves America's interests on four other fronts: 1) creating new markets for U.S. products, U.S. agriculture, and U.S. services; 2) promoting America's security; 3) lowering the costs of products for hardworking American families, and 4) helping U.S. companies better compete in the global economy.

At the same, it has been proven time and again over the last two centuries that apparel and footwear are the first stepping stones towards industrialization and building a viable economy. Not only is this truth woven into the fabric of American history, this story has played out more recently in Taiwan, Korea, Costa Rica, India, Indonesia, and now China.

Yet, Congress' key trade policy tool to promote development, the Generalized System of Preferences (GSP) program, statutorily excludes apparel, footwear, and related fashion products like travel goods from receiving any benefits. Starting with the African Growth & Opportunity Act (AGOA) and the Andean Trade Promotion & Drug Eradication Act (ATPDEA) a decade ago and most recently with the Haiti HOPE/HELP Acts, however, Congress has begun recognize the key role the apparel and footwear industries can play in development.

As such, we urge the Committee to quickly consider and approve the SAVE Act (H.R. 2387), bi-partisan, commonsense legislation that would allow duty-free access to the U.S. market for apparel from the Philippines, a key U.S. ally and former U.S. colony, as long as the apparel, for the most part, is assembled with U.S.-made fabrics.

Further, we urge the Committee to tackle overall trade preference reform to ensure that the world's poorest countries obtain real and meaningful access to the U.S. market for the products they are most likely to produce – apparel and footwear – for all of the reasons outlined previously. A good first step for the Committee would be to quickly consider and approve legislation similar to the Asia-South Pacific Trade Preferences Act (S. 1443).

3) Realigning FTA Negotiations to Reflect Today's Global Economy

We applaud the Obama administration for embarking on an ambitious effort to conclude negotiations towards a 21st century Trans-Pacific Partnership (TPP) Free Trade Agreement. We believe, however, that President Obama is missing two key ingredients that are necessary for making these efforts a success.

First, the Committee must quickly consider and approve Trade Promotion Authority (TPA). TPA enables the Obama administration to negotiate in good faith with our TPP partners. More importantly, TPA makes clear not only to the Obama administration, but to our TPP partners the priorities of the United States in negotiating a commercially-meaningful, 21st century TPP agreement.

Second, we urge the Obama administration to recognize and we urge the Committee to make clear that the successful conclusion of negotiations towards a 21st century TPP agreement requires the United States to abandon policies that clearly don't help U.S. workers, U.S. companies, or U.S. families, policies that clearly don't work in today's global economy.

The U.S. government's continued pursuit of 20th century "yarn-forward"-style rules for apparel and textiles in the TPP is one such failed policy that must be abandoned immediately. Almost two decades of U.S. trade policy have proven that "yarn-forward" rules have failed to promote trade. Despite the proliferation of U.S. free trade agreements over the last two decades that have embraced the "yarn-forward" rules for apparel, the percentage of U.S. apparel imports from our FTA partners continues to fall

precipitously, from 40.3% of total U.S. apparel imports in 2001 to a record low of 17.2% in 2011. The “benefits” of “yarn-forward” have failed to materialize on the export side either. For example, U.S. textile exports to the four TPP partner countries with whom the United States already has FTAs – Australia, Chile, Peru, and Singapore – actually fell slightly (-0.1%) between 1999 (shortly before the FTAs were implemented) and 2011. The bottom line is that antiquated “yarn-forward” rules don’t reflect the realities of today’s global economy, where apparel is made everywhere and sold everywhere, using textiles and other inputs made anywhere.

Meanwhile, claims that U.S. textile manufacturers can only compete in a lopsided playing field in FTAs when given the “protections” of a “yarn-forward” rule just don’t live up to the numbers. While U.S. textile exports to the four TPP FTA countries fell slightly between 1999 and 2011, U.S. textile exports to another country with whom we don’t have an FTA or “yarn-forward” rules – China – surged 658.7%, more than sextupling in just over a decade. And this isn’t just small potatoes. U.S. textile manufacturers exported over \$1.1 billion worth of yarns and fabrics to China in 2011, making China the 2nd largest market for U.S. yarn and the 3rd largest market for U.S. fabric.

“Yarn-forward” rules don’t help U.S. manufacturers. To the contrary, such restrictive rules hurt U.S. manufacturers. As with many great U.S. industries, the China numbers also show that U.S. textile manufacturers can not only survive, but thrive when given a level playing field. Imagine what duty-free access to these markets could do to boost U.S. textile exports to new heights.

Just as important, dogged pursuit of 20th century “yarn-forward” rules in the TPP not only hurts the U.S. apparel industry and the millions of U.S. workers the industry employs, it also severely impairs the ability of the United States to reach the many goals it hopes to achieve in the negotiations.

Over 60% of the duties our current TPP partners pay on their exports to the United States are on apparel. For TPP partner Vietnam, that number exceeds 80%.

As such, negotiations over the apparel provisions cannot be done in a vacuum. Decisions over granting meaningful access to the U.S. apparel market will directly impact the ability of the United States to secure meaningful market access in the TPP countries for U.S. agriculture, U.S. manufacturing, and U.S. services, as well as securing robust provisions on the Internet, State-Owned Enterprises (SOEs), labor rights, the environment, intellectual property rights (IPR), and investment.

Despite this fact, the U.S. government continues to attempt to negotiate the apparel provisions of the TPP in a vacuum. The Obama administration must recognize and the Committee must make clear that the continuation of this policy will serve no one’s interest. Such a policy will not only harm the millions of U.S. workers in the apparel industry, but also the countless millions of farmers and workers employed in U.S. agriculture, U.S. manufacturing, and U.S. services.

4) Realigning U.S. Trade Policy to Create a Predictable Business Environment

Congress has long used trade policy in a concerted effort to make U.S. farmers, U.S. manufacturers, and U.S. businesses more competitive in the global economy. Yet many of those efforts have fallen far short of expectations. The lofty goals behind such programs as the African Growth and Opportunity Act (AGOA), the Miscellaneous Tariff Bill (MTB), the cotton and wool trust funds, the Andean Trade Promotion & Drug Eradication Act (ATPDEA) as well as behind key provisions in U.S. FTAs like the U.S./Central America-Dominican Republic Free Trade Agreement (CAFTA-DR) have not been realized.

These programs and provisions have fallen short of expectation not because the core concepts underpinning the programs were wrong, but because either 1) they included provisions legislated by Congress, or interpreted by the administration, that did not reflect economic realities or 2) key provisions have not been renewed in a timely manner. Both of these points go to the heart of what is necessary for a successful U.S. trade policy – a predictable business environment.

On the first point, we would like to highlight two examples. The first is the so-called “abundant supply” mechanism in the apparel provisions under AGOA. The mechanism was based on the laudable goal of creating a vertical textile and apparel industry in Africa. However, the timeline for achieving that goal did

not reflect the realities of the global apparel industry. So, instead, of creating a vertical industry in Africa, the provision, before it was subsequently removed by Congress, only served to drive many U.S. apparel brands and retailers out of Africa, many of whom have never returned. The second is a provision created by Congress under CAFTA-DR that is intended to grow U.S. denim fabric exports to and U.S. jeans imports from the Dominican Republic. The so-called “DR 2:1” program was modeled on a similar, successful program with Nicaragua under CAFTA-DR. However, because of an overly restrictive interpretation of the rule by the U.S. government that failed to take into account the realities of the industry or the market, the program has failed miserably.

On the second point, companies in the U.S. apparel and footwear industry make sourcing or manufacturing decisions 9-12 months before any product is actually delivered. This timeline is necessary to meet the sometimes contradictory demands of just-in-time inventory and quick replenishment required in today’s market. So, for example, when Congress renews the Andean Trade Promotion & Drug Eradication Act (ATPDEA) multiple times for 6 months, 8 months, 10 months, or 2 months, and then allows ATPDEA to lapse altogether only to retroactively renew the program 8 months later, it is no surprise that U.S. apparel imports from Colombia have slid 72.3% and U.S. textile exports have fallen 40.4% since 2004. Likewise, Congress allowed the cotton and wool trust funds, two successful programs designed to enable U.S. cotton shirt and wool suit manufacturers to recover the cost of the high import duties on key inputs (cotton shirting fabrics and wool) no longer made in the United States to expire in 2010. Despite desperate pleas from these U.S. manufacturers, who now have no choice but to bear the full brunt of these import duties on critical inputs, Congress has failed to renew these programs.

The U.S. apparel and footwear industry is not alone in needing such a predictable business environment. As such, AAFA urges the Committee to quickly consider and approve:

- AGOA 3rd Country Fabric Provision – This provision, which expires September 30, 2012, accounts for virtually all apparel trade under AGOA. Many apparel firms have already canceled orders for fall 2012 because of concern that Congress won’t renew the provision.
- Renewal of the cotton and wool trust funds – As previously stated, these programs are critical to U.S. cotton shirt and wool suit manufacturers and the thousands of U.S. workers they employ.
- Nicaragua TPL Provision – While this provision does not expire until 2014, many U.S. apparel companies have started to suspend orders based on concerns that the provision won’t be renewed by Congress.
- CAFTA-DR Fixes – These fixes, supported by the entire U.S. textile and apparel supply chain, and every CAFTA-DR partner, have been waiting for Congressional approval for over a year.

5) Realigning Customs to Better Reflect Today’s Global Economy

The approximately 4 million U.S. workers employed U.S. apparel and footwear industry depend on trade. Yet, the agency tasked with managing trade flows, U.S. Customs and Border Protection (CBP), for a variety of reasons, has made that trade more difficult. The industry has embraced CBP programs to enhance security and improve commercial enforcement, participating in programs such as C-TPAT at a much higher degree than most other industries. Despite those efforts, the industry remains subject to a much higher level of scrutiny by CBP than most other industries.

We urge the Committee to quickly consider and approve customs reauthorization legislation that would 1) rebalance CBP’s role between trade facilitation and security and 2) employ account management and other programs to reduce to immense burden of commercial enforcement on the industry.

We believe that U.S. trade policy and future U.S. trade negotiations can truly be a “win-win-win-win” for U.S. worker, U.S. manufacturers, U.S. consumers, and the U.S. apparel and footwear industry, but only if that trade policy recognizes and embraces the realities of today’s global apparel and footwear value chains and the 4 million U.S. jobs dependent on it.

Thank you for your time and consideration in this matter.

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