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

Before the
House Foreign Affairs Committee
Terrorism, Non-Proliferation, and Trade & Asia and the Pacific Subcommittees
On the
Trans-Pacific Partnership (TPP): Challenges and Potential

May 17, 2012

Thank you for providing us this opportunity to provide written testimony for today's hearing titled "The Trans-Pacific Partnership (TPP): Challenges and Potential." We believe that, if negotiators embrace the goal of creating a "21st century agreement," the TPP holds immense potential to grow the U.S. apparel and footwear industry, create U.S. jobs, and support the U.S. economy.

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.

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 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 over the same period.

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.

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 2011.

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 3.6 million U.S. workers directly employed by the U.S. footwear and apparel industry, the TPP must truly be a "21st century agreement."

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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 U.S., 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 36 years, though, the U.S. apparel and footwear market has more than quintupled in size, growing to $350.3 billion in 2011.

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 (the latest data available), 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 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 comprised 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 165,000 workers.

Yet, our industry today employs almost 4 million U.S. workers. 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 2011 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 $25.36/hour and the average hourly earnings for a worker in the retail side of the apparel and footwear business is $14.49/hour. Likewise, the average hourly earnings for a worker in transportation and logistics, a key link in the apparel and footwear supply chain, is $21.64/hour.

TPP – What Should a 21st 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 "21st century agreement."

For footwear, this means creating an agreement that reflects the fact that the vast majority of the U.S. footwear market is supplied by footwear no longer made in the United States. For these items, the TPP should incorporate immediate and reciprocal duty-free access under the most flexible rules of origin possible, preferably a tariff-shift rule at the HTS heading or sub-heading level.

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, preferably a tariff-shift rule at the HTS heading or sub-heading level.

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 sewing thread, elastomerics and other trims, to be made in the TPP region. If one 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 "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.

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.

Thank you for your time and consideration in this matter.

Please contact Nate Herman at 703-797-9062 or by e-mail at nherman@wewear.org if you have any questions or would like additional information.