american apparel & footwear association

February 5, 2016

Lisa R. Barton
Secretary
U.S. International Trade Commission
500 E Street SW
Washington, D.C. 20436

Re: Comments on Economic Impact of Trade Agreements. Investigation No. 332-555

Dear Secretary Barton:

On behalf of the American Apparel & Footwear Association (AAFA), I am pleased to submit these comments on the economic impact of trade agreements pursuant to the subject investigation.

AAFA is the national trade association representing apparel, footwear, and other sewn products companies, and their suppliers, which compete in the global market. Representing more than 1,000 world famous name brands, our membership includes 340 companies, drawn from throughout the supply chain. AAFA is the trusted public policy and political voice of the apparel and footwear industry, its management and shareholders, its four million U.S. workers, and its contribution of $360 billion in annual U.S. retail sales.

The U.S. apparel, footwear, and accessories industry is a vibrant industry engaged in U.S. manufacturing, exporting, importing, and global market access. In short, our members make and sell in the United States and around the world. Nearly every U.S. job in our industry depends on access to foreign customers, access to global supply chains, or both for its existence. With more than 95 percent of the world's population living outside U.S. borders, the importance of access to foreign markets for U.S. exports and U.S.-branded products is self-evident. Equally important are the U.S. job opportunities created by U.S. imports, particularly since studies have found that 70 percent of the retail value of U.S. fashion imports is attributed to U.S. value-added activities.[1]

It is with this context that we state that free trade agreements (FTAs) are critically important for the competitiveness of the U.S. apparel, footwear, and accessories industry. When they function well, FTAs can lower costs, open up new markets, and support trade-based employment. Conversely, FTAs that are poorly negotiated or implemented miss opportunities to accomplish those same goals.

Below are several observations and recommendations on how to improve the negotiation and operation of U.S. FTAs.

[1] See: http://www.tppapparelcoalition.org/uploads/021313_Moongate_Assoc_Global_Value_Chain_Report.pdf

First, we believe greater care should be taken to ensure that FTAs are aligned and are able to connect with each other. The current U.S. FTA system can best be described a as a "hub and spoke" approach where each FTA partner connects up to the United States, but FTA partners have limited ability to connect with each other AND the United States. Restrictive rules of origin – which are often negotiated to "limit the benefits" to the United States and a specific FTA partner – create and exacerbate this problem.

For example, garments made in Colombia and exported duty free to the United States are disqualified from duty free benefits if they contain inputs produced in Peru. Similarly, Peruvian garments that contain Colombian inputs are likewise disqualified. Yet, a few years earlier, under the Andean Trade Preferences and Drug Eradication Act (ATPDEA), such comingling of inputs was permitted and actively encouraged. Although provisions in both the Colombian and Peruvian FTAs envision the re-establishment of such co-mingling, no action has yet been taken to realize this goal. This is particularly frustrating given that Peru, Mexico, and Chile are now set to be linked through the Trans-Pacific Partnership (TPP) trade agreement or that Congress recently approved a long-term extension of legislation that provides duty free access for garments made in Haiti using co-mingling of Colombian and Peruvian inputs.

Restrictive rules also limit the potential for partnerships among FTA partners in footwear as well. For example, many U.S. shoe companies produce in the Dominican Republic. Yet those Dominican-made U.S. shoes are not able to be exported duty free to countries like Korea or Australia, even though those shoes contain U.S. content AND the United States has FTAs with those countries. Likewise, Korea, is not a supplier of footwear, but does make inputs that are used in shoes. Yet these Korean inputs often disqualify shoes made in other U.S. FTA partner countries.

Linking FTAs together more creatively to enable U.S. apparel and footwear companies to efficiently use their supply chains is not new. Provisions in several FTAs permit the use of Israeli inputs. The U.S./Central America-Dominican Republic Free Trade Agreement (CAFTA-DR) features a provision that enables the use of Mexican fabrics. European FTAs routinely feature such cummulation provisions. In fact, the recently released text of the new European-Vietnamese FTA qualifies Korean inputs – even though Korea is not a party to the agreement – for the rule of origin under that agreement.

Second, FTAs need to be kept updated, especially for the dynamic apparel and footwear industry. Restrictive rules of origin for apparel and footwear have usually meant that the economic and political assumptions that governed the industry during the negotiations dictate the terms of trade in perpetuity. For example, the economic conditions that existed when the North American Free Trade Agreement was concluded – global quotas and limited FTA competition – have long since disappeared. Yet the NAFTA apparel or footwear terms of trade have not been updated since 1992. Likewise, CAFTA-DR has seen only modest updates in the ten years since it entered into force.

The CAFTA-DR example is particularly troubling. One temporary provision – the U.S. Nicaragua Tariff Preference Level (TPL), which had shown strong success – was allowed to expire. Another

provision – the Dominican Republic Earned Import Allowance Program (EIAP), which has been the subject of multiple reports by the U.S. International Trade Commission documenting its failure – has been allowed to persist unchanged.

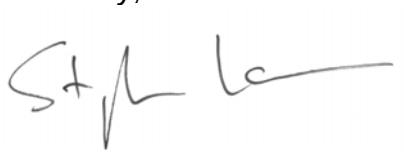
Third, more creative approaches are needed to ensure that FTAs are utilized more by the industry. AAFA has been studying utilization rates for some time. The percent of apparel that enters under U.S. FTAs (or preference programs) has been declining since 2004 and now equals only about 20 percent. This is distressing, especially since the number of FTAs (and preference programs) has increased since 2004. Our members report that complicated rules of origin, combined with burdensome recordkeeping provisions, has discouraged many companies from using these programs.

A similar situation exists in footwear. Utilization of FTAs is in the low single digits, primarily because few FTAs have been negotiated with countries that produce footwear. Outside of Mexico and the Dominican Republic, very little footwear is even eligible for consideration for FTA treatment. We believe this will change dramatically when the TPP, which includes Vietnam, the second largest source of footwear into the U.S., takes effect.

As a final note, we urge the Commission to continue measuring the value of FTAs on the benefits that accrue through imports as well. While we remain strong proponents of FTAs through the ability to open up foreign markets for U.S. exports and U.S. branded products, we find equal value in the ability of FTAs to open up the U.S. market as well. This is especially important because the U.S. still maintains high duties on a range of apparel, footwear, and travel goods products, and because reduction of those duties benefits U.S. consumers, particularly those at the lowest end of the income scale.

Thank you for your time and consideration in this matter. Please feel free to contact me at (202) 853-9347 or slamar@wewear.org if you have any questions or would like additional information.

Sincerely,



Stephen Lamar
Executive Vice President