REMARKS TO THE AMERICAN APPAREL & FOOTWEAR ASSOCIATION STRATEGIC SOURCING, CUSTOMS, AND LOGISTICS INTEGRATION CONFERENCE

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As prepared for delivery

Introduction

Thank you, Juanita, for that warm introduction and for inviting me to be part of the important conversation you are having this week. Thank you, as well, for your leadership of this outstanding organization.

USTR has a valued relationship with the American Apparel & Footwear Association ("AAFA") and its Members. This is in no small part because you have been engaged in almost every aspect of our trade agenda, from the elimination of tariff and non-tariff trade barriers through the World Trade Organization and in our free trade agreements, to our efforts to protect intellectual property and labor rights around the globe. AAFA's Members operate in every region of the world and consistently seek to utilize every trade agreement that we negotiate. AAFA has been a critical voice in educating USTR about the problems manufacturers are experiencing on the ground—as they seek to integrate their supply chains—and the disciplines we might negotiate to address those problems.

AAFA has been a strong supporter of the Trans-Pacific Partnership agreement, or TPP, through the TPP Apparel Coalition. AAFA has also been a strong supporter of T-TIP, the Transatlantic Trade and Investment Partnership, and identified several negotiation priorities for that agreement, including elimination of all tariffs, harmonization of labeling and product safety requirements, and customs facilitation. Finally, USTR appreciates AAFA's vocal support for Trade Promotion Authority and other important pieces of trade legislation that Congress is considering right now.

Because AAFA has been such a consistent and reliable voice in those negotiations, I want to spend some time updating you on their status. But I would also like to spend some time explaining why President Obama is so focused on trade as a key component of his broader economic agenda. I would then like to provide you with a brief update on (1) the status of various pieces of trade legislation currently pending before Congress, including Trade Promotion Authority; (2) our trade facilitation work at the World Trade Organization; and (3) how we are addressing the concerns of AAFA and its members in China. With this, I hope you will understand both the high level of ambition, and the high standards, we are seeking to uphold through our trade policy.

The Economic Case for Trade

Our nation's trade agenda is extremely ambitious. It is ambitious both because it requires us to push for progress on multiple fronts, with multiple trading partners, and because of the high standards we are seeking in every agreement that we negotiate. The Obama Administration has embraced this level of ambition around trade policy in no small part because of the extent to which trade has contributed to our economic recovery.

Six years ago, we were losing 800,000 jobs a month, unemployment was on its way to 10 percent, and the financial system and housing market were in shambles. Now, we have seen 60 months of job creation—the longest, uninterrupted span in U.S. recorded history. Private-sector employment is up by 11.2 million since February 2010, with manufacturing employment up 877,000 jobs over the same time frame.

Under President Obama's economic leadership, U.S. exports have grown two and a half times faster than the economy as a whole and contributed nearly one-third of our total economic growth. This increase in exports has, in turn, supported better paying jobs for our workers. Export-related jobs pay, on average, 13-18 percent more than non-export jobs.

Smart trade policy does not just lower the cost of a bag of groceries for American families, it puts more money into middle class pockets by reducing the cost of consumer goods across the board. For this reason, our trade agenda is central to the President's broader economic agenda: to level the playing field for the middle class.

TPA & AGOA/GSP Renewal

As I am sure most of you already know, the past few months have been game-changing on the trade policy front. President Obama made a strong and compelling case for an ambitious trade agenda in his State of the Union Address in January. In that address, he underscored the importance of the United States raising trade and investment standards across the globe. And he called on the United States Congress to pass Trade Promotion Authority, or TPA, to advance these efforts.

TPA is the way Congress gives direction to the President on three things: (1) the negotiating objectives he should seek to achieve in every trade agreement; (2) how he should go about consulting with Congress when negotiating trade agreements; and (3) the process by which Congress will approve trade agreements. Congress has granted every President since FDR—Republican and Democrat—the authority necessary to ensure that the United States takes the lead in shaping the global trading system. The President has asked Congress to pass TPA. The Republican leadership in Congress has indicated that this is something they want to work on with the President. We are working on a bipartisan basis to get that done, and we believe that the leadership in Congress will introduce the legislation soon. We will then eagerly await its expeditious review and approval.

The Administration has also urged Congress to renew the African Growth and Opportunity Act, or AGOA, which expires later this year, and the Generalized System of Preferences, which lapsed in July 2013.

We know that AGOA, in particular, is of special importance to AAFA and those AAFA members who source apparel and footwear products duty-free from AGOA beneficiaries. We appreciate all of the input you have given us over the past year as we have undertaken a review of the AGOA program to identify ways in which we could improve it. That review has focused on how to make AGOA more meaningful for all stakeholders, including both African beneficiaries and their partners among U.S. apparel and footwear brands and retailers. We have worked closely with Congress in this effort and are hopeful that a prospective AGOA renewal bill will include provisions to improve the operation of the program.

TFA

While tariffs have progressively fallen around the globe, one of the major challenges that companies face abroad are the non-tariff barriers and inefficient border procedures that hamper the movement of goods. As AAFA and its Members are well aware, in 2014, the United States worked tirelessly with the World Trade Organization ("WTO") to conclude the preparatory work necessary to enable the WTO Members to individually ratify the WTO Trade Facilitation Agreement or "TFA." The TFA—the first multilateral agreement concluded in the 20-year history of the WTO —contains broad provisions intended to simplify and make more transparent customs and border procedures. It will lower trade barriers by as much as 15 percent in some countries.

Implementation of the TFA is widely recognized as having the potential to significantly reduce the time and costs associated with moving goods across borders. Ultimately, we believe the TFA sets the stage for more efficient customs and border procedures that could have dramatic results around the globe.

Importantly, to fully reap these benefits, WTO Members need to ensure that this agreement enters into force and is fully implemented. The United States is working closely to encourage our trading partners to ratify this agreement as soon as possible—and we hope that the private sector will join us in calling for timely entry into force of this historic agreement. For this to happen, two-thirds of the WTO's 160 Members need to notify the WTO that they have ratified the agreement. As of last month, only four countries (Hong Kong, Mauritius, Singapore, and the United States) had done so, but we are making every effort to ensure that the TFA enters into force by the end of this year.

TPP

At the top of our negotiating agenda right now are two regional trade agreements, the Trans-Pacific Partnership agreement, TPP, and the Transatlantic Trade and Investment Partnership, or T-TIP. Let me talk first about TPP.

TPP is a free trade agreement that we are negotiating with 11 countries in the Asia Pacific region. Countries that will be part of this agreement from day one range from the U.S. to Japan to Australia to Malaysia, Vietnam and Chile. [Also Canada, Mexico, Peru, Singapore, New Zealand and Brunei.] When completed, TPP will give United States exporters, consumers, and investors access to some of the most dynamic, fastest growing economies in the world, which are the source of 40% of the world's total economic output.

It is critical that we help define the rules of the road for trade in the Asia Pacific—the world's fastest growing region. Right now, American autoworkers are handicapped by tariffs that can reach 30 percent in Malaysia. American farmers are forced to contend with tariffs as high as 40 percent on poultry in Vietnam. More broadly, the foreign competitors of our manufacturers are benefitting from trade deals that allow them to sell their products to consumers in these markets with significantly lower tariffs than those applied to goods coming from our country.

TPP will eliminate not only these tariff barriers to U.S. trade, but also be the most (1) comprehensive; (2) high-standard; and (3) modern trade agreement the US has ever negotiated.

It will be comprehensive because it will cover the full range of goods, products, services, and investment that we seek to protect through our trade agreements.

It will be high-standard because it will build on the strongest commitments we have made to date in the area of intellectual property, investment, and competition. It will also include the highest and most enforceable labor and environment standards of any trade agreement to foster a level playing field.

And finally, it will be a trade agreement for the 21st Century insofar as it attacks new trade barriers our businesses are facing like unfair competition from State-owned enterprises. It will also eliminate barriers to digital trade and e-commerce, as well as ensure that our exporters and consumers will benefit from a free and open internet.

TPP Textiles and Footwear

As everyone in this room knows, the traditional trade disciplines we are negotiating in the TPP will have significant implications for the AAFA and its members. Our goals for the TPP are to encourage regional production and trade, as well as regional economic integration. When fully implemented, the TPP will open up duty-free sourcing opportunities for qualifying goods from Vietnam, our second largest, and fastest growing, major supplier of apparel. All qualifying goods will receive a significant duty reduction on the first day the agreement is in force, with a significant portion going to zero immediately. The TPP will also permit full “cumulation” of inputs, meaning that inputs and production from across the free trade region will qualify as originating, and thereby be entitled to duty preferences.

The TPP will also open up export opportunities for Made-In-America and Made-in-TPP apparel in Japan, our second largest non-FTA export market. Right now, apparel exports face duties as high as 12 percent in Japan, and in the range of 20 percent in Malaysia and Vietnam. When the TPP is fully implemented, those duties will be reduced or eliminated.

On footwear specifically, we will continue to rely on your input and feedback as we seek an outcome that both supports Made-in-America goods and enhances market access opportunities for U.S. exporters throughout the Asia-Pacific region. Many of your companies face tariffs of up to 188 percent in Japan on leather footwear and travel goods as a result of Japan’s tariff rate quotas. These tariffs and quotas will be eliminated on full implementation of the TPP for qualifying goods, giving you the opportunity to expand access to a market eager for Made-in-America products, and in doing so, to support more good jobs here at home.

We have worked very closely with AAFA and its members to ensure that the TPP agreement works to address your critical interests and that it balances the sometimes competing interests of our domestic stakeholders, as well as the interests of our trading partners. For example, the textiles market access package is supplemented by rules-of-origin and customs-cooperation commitments. In the context of rules of origin, the "short supply" list of exceptions to the normal yarn-forward rule of origin was the result of extensive consultations with AAFA members and with other stakeholders. We believe it is a solid reflection of the realities of commercial souring arrangements within the region. Further, our textile chapter will work to ensure that the benefits of the agreement accrue to the TPP Parties and that strong anti-circumvention measures will be in place to ensure the integrity of the agreement.

T-TIP

As I mentioned before, we are also currently negotiating a free trade agreement with the European Union called the Transatlantic Trade and Investment Partnership, or T-TIP. This agreement will make it easier and less costly for U.S. businesses to export to our single largest export market: the EU. The agreement will support hundreds of thousands of new jobs on both continents and will be designed to preserve our high levels of health, safety, and environment protection.

The Customs and Trade Facilitation Chapter in T-TIP is aimed at cutting red tape at the border for both our exporters and our importers. We want to introduce faster, cheaper, and easier processes at the border to help move goods and make it easier for firms to build their international business.

Our goal in the TTIP Customs Chapter is to go beyond what we have achieved in the WTO Trade Facilitation Agreement about which I just spoke. We are seeking to obtain new commitments that may break ground in an FTA. Those issues fall into two categories: (1) those that may be needed to forge a path for EU/US relations, and (2) those issues that may not be about that relationship, but about setting the new best practice for the rest of the trading system. In T-TIP, we are seeking to negotiate "TFA Plus" commitments around advance rulings, expedited shipments, and appeals, among others. We are also trying to establish a new groundbreaking provision on *de minimis* shipment value. This would allow orders below a *de* *minimis* value to move freely from sale to delivery, without customs documents or paying duties and taxes.

This is a tall order. But we believe that agreement on best practices between the EU and the US will have a force multiplier effect on the rest of the multilateral players which we recognize, so we will continue to do our best to capitalize on this opportunity.

China

Of course, we are not only seeking to eliminate barriers through the negotiation of new trade agreements. We are also actively seeking to eliminate trade barriers at the bilateral level. Let me mention one of the most significant trading partners: China.

We were pleased to learn last year that AAFA and the China Chamber of Commerce for Import and Export of Textiles and Apparel (CCCT) signed a Memorandum of Understanding to facilitate trade and investment information between your respective partnerships. We believe that this partnership will create a forum in which the AAFA members can amplify their concerns about product safety, labeling, and intellectual property protection to the Chinese government.

Trademark counterfeiting and copyright piracy in China represent one of the most widespread intellectual property challenges that we face today. We see Chinese counterfeits in physical and online markets not only in China but around the world as well.

In the context of our Notorious Markets and Special 301 processes, we have appreciated helpful submissions from AAFA, particularly regarding problems AAFA members are facing with the Chinese website Taobao. As recently as the fall of 2014, there appeared to be momentum toward mutual agreement between AAFA and Taobao on improving the site's takedown procedures. We were disappointed to learn last week that Taobao has reversed course on this issue. We are particularly troubled by reports from AAFA members that Taobao takedown procedures are unclear, difficult to use, and slow. We also believe that Taobao's continued failure to engage with administrative and criminal enforcement authorities is cause for heightened concern.

In the 2014 Notorious Markets List that we issued in March of this year, we identified ongoing concerns regarding Taobao and urged Taobao to work with rights holders to address those concerns. We will continue to urge Taobao to get things back on track, as well as to rely on AAFA members to continue to alert us to their experience in this and other notorious markets.

Our IP engagement with China goes well beyond our work in the Notorious Markets and Special 301 contexts. Counterfeiting and piracy in China are also a major focus for USTR and the Department of Commerce in the Joint Commission on Commerce and Trade, the "JCCT," and the Treasury and State-led Strategic & Economic Dialogue. Like AAFA, we were pleased that the Chinese government has begun to publicly acknowledge the issue of counterfeits, as it did in the JCCT this year.

But we know that this is a problem that requires more than mere acknowledgment, it requires sustained effort and effective action. The United States is pleased that China has agreed to cooperate on joint cross-border enforcement efforts on counterfeit goods, and we hope to build on these efforts in the coming year.

A key component of our trade relationship with China is enforcement. When China appears to act inconsistently with its trade obligations, we have used the WTO dispute settlement process to hold it accountable. The most recent example is the dispute we filed against China's "Demonstration Bases-Common Service Platform" export subsidy program. Through this platform China appears to be giving prohibited export subsidies to companies spanning a diverse group of industries, including textiles. Under this program, China designates certain industrial clusters in these sectors as being "demonstration bases," which is contingent on them exporting their product. Once designated, they're eligible for subsidized services provided by the "common service platform." For example, a Chinese textile firm in a demonstration base is qualified for subsidized IT services, subsidized product design services and subsidized training services for its employees, showing them how to use yarn spinning techniques and weaving technologies. All of these services, provided for free or at a discount, undermine fair and rules-based competition.

As a systemic matter, export contingent subsidies are strictly prohibit under the WTO system because of their trade distorting effects. We expect China to play by the rules. We have held consultations with China on this matter and have requested the WTO Dispute Settlement Body to establish a panel to look into this program.

Conclusion

I hope I have given you a better sense of what people mean when they describe President Obama's trade agenda as ambitious. I also hope I have given you a sense of how we are responding to the particular concerns of AAFA and its Members. Now, I promised to set aside some time for questions, and I am happy to take them now.