

**Address by Juanita Duggan  
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American Chamber of Commerce  
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*As prepared for delivery*

Thank you, Sally.

It is a privilege to address the friends and members of the American Chamber of Commerce in Hong Kong.

U.S. and Hong Kong businesses have shared a special relationship over the years, and these strong ties and mutual interests are particularly strong in the industry I represent, the apparel and footwear industry.

Members of the American Apparel & Footwear Association are the retailers, manufacturers, and companies who make fashion a more than \$360 billion industry in the U.S. We represent more than 1,000 brands with four million workers in the United States and millions more worldwide.

Hong Kong is an important hub for sourcing in Asia.

Hong Kong is also the gateway to the burgeoning Asian market.

AAFA members know they can come to Hong Kong confident they'll find the partnerships they need, whether they are sourcing from or selling to Asia.

For decades now, this relationship has been good for manufacturers and workers in Asia, designers and marketers in the United States, and consumers throughout the world.

The fact is we are a global industry. And as our association is comprised of global brands, we have a global perspective.

That perspective makes us a universally recognized authority on apparel and fashion industry issues. We take this responsibility seriously. We are always mindful of the many people who count on us to chart a steady course in Washington and with countless governments around the world.

I am particularly proud to be here this week to open our Hong Kong Executive Summit. We are convening leaders of our industry from the region to share ideas and anticipate future challenges.

Some of those challenges are new. Others we have encountered before.

For example, in the area of social responsibility. This remains an important part of who we are as an industry.

We are engaged in a process of continuous improvement. The collapse of the Rana Plaza in Bangladesh in 2013 was a heart-wrenching tragedy. Fair observers agree that we responded well. As a first responder, AAFA's early initiatives became the model for programs that today are improving safety standards in Bangladesh. Today, the industry has two initiatives bringing companies from all over the world together to work on long-term improvements in Bangladesh.

As an industry, we need to ensure that everybody in our supply chain — owners, workers, everyone — is treated with dignity. Upholding these social responsibilities is not only the right thing to do, it is part of doing good business. And the reality is it is no longer good enough to be compliant.

So while the industry is moving in the right direction with social responsibility, we could do more.

And we aspire to do more. Part of the role of an association is to lead the way. That is one of the reasons we're in Asia and hosting this Summit. Asia matters in how we're going to get there.

Two other issues about which we are concerned are trade negotiations and counterfeiting.

Driving policy on them requires a solid understanding of the political climate in the United States, and how that affects our industry now as well as in the future.

In my 30 years working in Washington, I've witnessed and been part of some of the toughest political fights in town.

So, I have been asked to give you my "take" on the American political scene — a Washington insider's assessment.

Today is one year and 12 days until the 2016 U.S. presidential and Congressional elections.

Every time Americans go to the polls is a time of change. New office holders bring new viewpoints and new agendas, whether on trade, or manufacturing, or a host of other policy areas that can change the cost and calculations of business for businesses all over the world. But I don't believe I have to tell you that this election will be particularly hard-fought.

I won't make predictions or discuss candidates — not even to touch on their wildly different personal styles. I will offer some perspective on the current climate in Washington and its impact.

Fierce partisanship is Washington's new normal. Don't expect this election to change that.

In Congress, the House of Representatives currently has a Republican majority, and that is not going to change, in spite of the chaos you read about.

The Senate is Republican as well, but could change hands to the Democrats in 2016 and back to Republican an election or two after that. This makes the Senate more volatile, with the result that the Senate is less likely to make major decisions.

But even if the election produces one-party control of the Congress and the White House, don't count on the end of gridlock.

Institutionally, the House, the Senate, and White House's interests often are in conflict, leading to frequent stalemates and finger pointing. There is an old adage in the House of Representatives that says the enemy is not the other party, the enemy is the Senate.

Optimists might think a new White House will change this dynamic and get things done, and count on a Republican president to at least make something move. This is unlikely.

One-party control of both the White House and Congress historically does not last. Voters don't like it and typically break it up within a few election cycles. Voters threw out one-party majorities under Clinton, under Bush, and under Obama.

Speaking of the unpredictable, just a few weeks ago, John Boehner, the House Speaker and the number three to the Presidency, announced he would step down. It was initially done to create stability, but it didn't happen that way.

Paul Ryan, the former Vice Presidential candidate, will be elected this week as House Speaker.

His tenure will be as rocky as his predecessor.

And while it will be important that the House not be consumed with a leadership struggle during the critical early months of next year, the essential dynamics of factions in the House will not change.

The last thing the Republicans should want is a leadership vacuum in the last year of the Obama Administration and leading up to the next election.

We shall see.

Layer onto this a volatile presidential race. Don't believe anything you hear until next July, when the two major parties select their nominees. The conventional wisdom that a Republican would replace President Obama is not reliable – there are too many variables.

But whatever way Washington goes next year, the role of a trade association is to be prepared, and the best way to be prepared is to develop relationships. That's how we create a strong political brand with high and broad credibility – not only in Washington, but with governments worldwide.

We build relationships according to the needs of our members. By cultivating these relationships, we ensure that, when AAFA members have something to say, the right people hear them. I believe that an industry must always be ready for any political outcome.

One area where bipartisan relationships are essential is in trade policy.

Today, we eagerly await the details of the Trans-Pacific Partnership agreement – or TPP.

We are hopeful that the final agreement will come through with increased opportunities for our industry. As we said at the time that talks were concluded, free trade agreements have the potential to help the clothing and shoe industry access new markets, new suppliers, and new customers. And nations of the TPP represent nearly 40 percent of the world's economy.

There are a few things we need to remember about what lies ahead for the TPP. 1) Congress must approve free trade agreements before they go into effect. Given all the dynamics and the pressure of the 2016 election, this vote is likely going to be a year from now – or longer. Yet, many people are talking about it like it's going to happen in the next few months. 2) Still, even with passage, it can take several years before it is fully implemented. And the other 11 countries must also ratify it.

I will tell you that during this process, AAFA will be at the table, and we are going to be forceful in articulating our industry's needs in this debate.

But, let me take a step back for moment – and get outside the TPP and outside the details of duties and timetables.

I'd like to talk about trade more broadly. Let's imagine the U.S. government could wipe away the current agreements and start over. What would U.S. trade policy look like if we had the luxury of starting all over again?

My members will tell you that trade agreements need to be more cohesive.

For our industry, past free trade agreements resulted in disjointed standards and requirements. At best, these were inconsistent; at worst, they conflicted one with another.

It is very challenging to work around different agreements in the course of sourcing or setting up supply chains.

The inconsistencies can create absurd situations.

For example, the members of our industry have developed strong regional supply chains in the Western Hemisphere. But they must deal with a region that is split into six very different trade agreements and one preference program. And with a small number of limited exceptions, those agreements and the program don't talk with each other.

This makes no sense.

Perhaps a better model is one offered by the European Union. When they negotiate new trade deals, they link them up to their previous free trade agreements.

One of the significant sticking points that TPP negotiators encountered during their talks was over intellectual property rights and enforcement, an issue of grave concern to our members. I have talked so far about social responsibility, American politics, and the challenges and opportunities in the global trading system. This is the final issue I wanted to discuss with you — counterfeits.

Since taking over as AAFA president, I have made combating counterfeits a top priority. Some of this work has made headlines as we have challenged platforms that facilitate the sale of obvious knockoffs.

Branded design theft inflicts both reputational and financial harm to our companies. Apparel, footwear, and accessory producers collectively comprise the number one victim of global counterfeiting. Fake copies of our member's products are the most seized items by U.S. Customs.

We believe that failure to fight piracy and product infringement will threaten the very viability of the global apparel industry.

We have been dissatisfied with the response of one particular retailer to our requests for enforcement of intellectual property rights. As I am sure you can guess, I am speaking of online retailer Alibaba.

This is why, earlier this month, AAFA formally recommended that the United States Trade Representative place Alibaba and its Taobao platform back on the U.S. government's Notorious Markets list.

We do not take this action hastily. Our recommendation comes after years of trying to work with Alibaba. And it comes after months of underscoring to Alibaba as well as to U.S. authorities, the seriousness of this issue to our industry.

When the U.S. Trade Representative removed Alibaba from the Notorious Markets list in 2012, USTR asked us to continue to work with the company and report back.

That's what we did. We tried in every way we could to make the relationship work. But we got nowhere.

So in April, we sent formal complaints to the U.S. Trade Representative and the Securities and Exchange Commission calling attention to the issue.

In July, I wrote to Alibaba Executive Chairman Jack Ma and called on him to work with AAFA on new, transparent, and easy-to-use takedown procedures. Neither Mr. Ma nor any of his executives responded to that call.

A rules-based trading system with rigorous enforcement is in every legitimate player's interest. We are fighting for rigorous enforcement.

Our membership wants to be on the Alibaba platforms, but the platform's counterfeit problems are vast.

Even as we continue to encourage members to participate in whatever it is Alibaba offers to take down counterfeits, our brands tell us that they have encountered nightmarish problems when they seek Alibaba's help in removing items that blatantly rip off their proprietary products. For our smaller and medium-sized members, Alibaba's obstacles are too great for them even to participate.

Imagine this scenario: You're a popular American brand looking to sell your products to eager consumers around the world. Alibaba offers a way to connect with that new customer base. But one day you discover that an account on Alibaba's site TaoBao is offering what they claim are your wares — for a fraction of your prices. Looking at the pictures, they are obviously fake.

So, you try go through the process of having the fake item removed.

Here's what that experience is like, according to our members:

First, you are required to register your brand with Alibaba. This seemingly simple process is most always marked by delays, submissions and resubmissions of brand authenticating documents, and repeated and unexplained rejections. Counterfeiters have a much easier and faster route to get illicit goods to market than legitimate brand owners have to protect them.

Assume you succeed in registering. Now, you can submit a request to take down a fake product.

But, brand owners often receive no acknowledgement of receipt or confirmation of action when they flag a suspected counterfeit. This leaves them in the frustrating position of having to follow up repeatedly to learn whether Alibaba has even noticed the complaint and, if so, what it did about it.

But following up or filing a second report is deemed as creating duplicative, frivolous complaints and result in black marks on the brand owner's Alibaba account. Follow-up inquiries diminish the complainer's credibility in Alibaba's system, which then hurts the brand owner's classification with Alibaba as a "good faith reporter," reducing its ability in the future to bust counterfeiters.

Now, perhaps the product is removed from the site. The problem is the next day, the exact same item with the exact same picture will be for sale again, but this time the logo showing that the item is a counterfeit has a black bar covering it.

It is obviously the same product. But Alibaba says it cannot take down this counterfeit item because it can't be proven to be a branded product.

This is what we mean by a broken system. This is not a solution.

No one in our industry believes that that Alibaba's process offers any protection.

All of the burden of this opaque, convoluted, Catch-22 process falls on the brand. To date, despite requesting that they develop a reporting process that is transparent, comprehensible, and fast, we have received no assurance from Alibaba that any of its trap-door-and-booby-trap-filled system will change.

Their only response is to defend the minutiae of their broken system.

That's been the nature of all our conversations with them. It's reinforced in their public statements to the U.S. government.

What remains constant is that counterfeits remain rampant, and our concerns remain unaddressed.

Our sole goal is to take down counterfeits.

In an official filing, Alibaba stated that we are asking them to change the "fundamental aspects" of their business model. That is only true if counterfeits are their fundamental business.

For our part, we have the responsibility to protect our members. Producing the shoes and clothing the world needs should not require our members to spend precious resources to enforce the law. That is not feasible, realistic, or fair.

Whether or not Alibaba joins us in this campaign against counterfeits, we will continue to use every tool at our disposal to combat efforts of others to profit from breaking the law. We will do this until counterfeiters get the message and find a new line of work.

My message here isn't about any particular country or region – it's broad. We want our members to do lots of business in all Asian markets. We want them to sell on ecommerce sites like Alibaba. But we want those sites to offer legitimate goods.

It is my hope that Alibaba management will see our action as a wake up call for meaningful reforms. We want Alibaba to work with us to address the problem, not talk about how much money they've spent on useless measures.

We want Alibaba to reform, genuinely reform, so our members can embrace the platform as a market of integrity. We look forward to the day when our members can confidently rely on Alibaba to connect consumers to the quality goods consumers want to purchase.

I fail to understand why Mr. Ma and his associates do not see cleaning up the Alibaba site as in their best interest.

In closing, I want to emphasize again the importance of the relationship between Hong Kong and U.S. businesses to both sides.

The vast volume of business that our industry transacts here... the centrality of Hong Kong in the flow of the global trade we conduct... all of this activity tells how much we mean to one another.

Ours is not a relationship of winners and losers but of partners each of whom does better because of the other.

Working together, the future for both of us can be brilliant.

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