



**we wear® jobs**

February 13, 2015

The Honorable Michael Froman  
United States Trade Representative  
Office of the United States Trade Representative  
600 17th Street NW  
Washington, DC 20508

Dear Mr. Ambassador:

On behalf of the U.S. legwear industry, I am writing to **urge inclusion of a knit to shape (KTS) rule of origin (ROO) provision in the Trans Pacific Partnership (TPP) trade agreement for legwear.** Such provisions would give U.S. legwear companies the ability to take advantage of the TPP.

U.S. legwear companies represent one of the most vibrant segments of the U.S. textile and apparel industry. They collectively employ about 24,000 Americans, including more than 10,000 in U.S. factories, producing an essential product worth \$7.6 billion. Through the power of global supply chains, they have been able to service a dynamic consumer and fashion market while maintaining a healthy manufacturing footprint in the United States.

Allowing legwear products to use a KTS rule, rather than relying on more restrictive rules, would create balanced opportunities for all segments of the U.S. legwear industry - exporters, manufacturers, and importers. Legwear companies depend on complicated global supply chains to meet the ever-changing fashion requirements. Strict origin requirements no longer support flexible sourcing and manufacturing needed today.

For your convenience, I am attaching copies of earlier correspondence on this issue where you will find additional detail.

We understand that you are crafting a balanced approach to take into account the needs of various sectors of the textile and apparel industry. Key to that approach is making sure the end result contains the provisions that enables trade-based economic activity. Fashioning a KTS rule for legwear is vital to ensure that this agreement translates into jobs for our legwear members, especially since it has the support of both domestic manufacturers and those with a global supply chains.

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Suite 1200  
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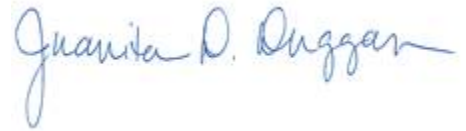
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As you conclude the TPP, it is imperative that such provisions be included in the final agreement.

Sincerely,

A handwritten signature in blue ink that reads "Juanita D. Duggan". The signature is fluid and cursive, with the first name being the most prominent.

Juanita D. Duggan  
President and CEO

Cc: The Honorable Penny Pritzker, U.S. Secretary of Commerce

Attachment



**we wear° legwear**

August 26, 2014

The Honorable Michael Froman  
U.S. Trade Representative  
Office of the U.S. Trade Representative  
600 17th St, NW  
Washington, DC 20508

**RE: Correction to 8/18/14 NCTO Letter on Legwear and the TPP**

Dear Ambassador Froman,

On behalf of the American Apparel & Footwear Association's (AAFA) Legwear Committee, representing the U.S. legwear industry, we are writing to express urgent concerns with the letter you received August 18, 2014 from the National Council of Textile Organizations (NCTO). That letter presents a number of bogus claims and misleading data in reference to the U.S. legwear industry's Knit-to-Shape rule of origin proposal for sock and hosiery (legwear) products under the Trans-Pacific Partnership (TPP).

As you move into the final stages of the TPP negotiations, we wish to bring the following points to your attention:

**A. AAFA is the Only Representative of the U.S. Legwear Industry**

Following the dissolution of The Hosiery Association in 2013, which resulted in the majority of U.S. legwear producers joining legwear companies who were already members of AAFA, our association has emerged as the only representative of the U.S. Legwear industry in the United States. The AAFA Legwear Committee is the only organized spokesperson for those who actually manufacture U.S. legwear and for those who export U.S. legwear.

The U.S. legwear industry is one of the most vibrant domestic apparel manufacturing bases, numbering 10,000 Americans working in U.S. sock and hosiery factories. Additionally, our members help employ more than 14,000 Americans in wholesale trade, dealing with both exports and imports of essential sock and hosiery products. The U.S. legwear industry represents a \$7.6 billion consumer base, is a significant portion of the U.S. apparel economy, and is one of its only growing domestic apparel manufacturing sectors.

While there are few companies in NCTO who make socks, NCTO **does not** represent the U.S. legwear industry.

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## **B. The U.S. Legwear Industry Has Asked for a Knit-to-Shape Rule in the TPP.**

The U.S. Legwear industry requests that the final rule of origin for the TPP be built on a Knit-to-Shape model. We have detailed this request in a previous letter, a copy of which is attached.

The AAFA Legwear Committee developed this position based on the needs of U.S. legwear companies, especially those who export U.S. legwear to TPP countries. We conducted extensive discussions, held in-person meetings, and polled internally to determine the best rule of origin to meet the needs of the U.S. legwear industry in the TPP and **to support jobs in the United States**. The strong consensus opinion was for a Knit-to-Shape rule of origin.

Our support for a Knit-to-Shape rule is grounded in the simple fact that, by every measure, the Yarn Forward concept does not work for the U.S. legwear industry. As we outlined in that letter, the inputs that make U.S. socks and hosiery popular with global consumers today are not available in a commercially meaningful capacity in the TPP region. Without a Knit-to-Shape rule, which gives U.S. sock and hosiery makers access to the full combination of U.S. and foreign yarns and inputs, U.S. legwear manufacturers will **NOT BE ABLE** to compete under the TPP. Moreover, without a Knit-to-Shape rule for the TPP, many U.S.-manufactured legwear products will be disqualified, which will eventually cost U.S. jobs

While we understand that NCTO supports a Yarn Forward rule of origin, this is the perspective of U.S. textile companies, not U.S. legwear companies. Moreover, NCTO's defense of the Yarn Forward rule is built on several fallacies:

### **1. Despite NCTO's Claims, Yarn Forward Rules in U.S. FTA's Have Not Been a "Successful Formula"**

**First**, the Yarn Forward rule of origin is, in fact, failing to stimulate trade in legwear even among the North American Free Trade Agreement (NAFTA) and Central America Free Trade Agreement (CAFTA) countries. According to the U.S. International Trade Commission (USITC), imports of legwear from these free trade partners has been stagnant over the 9 years that CAFTA has been in effect. During that same period, the share of U.S. legwear imports from the CAFTA/NAFTA region has plummeted from about 37 percent to just under 25 percent. From an import perspective, this model is simply no longer working.

We identified these import numbers because the NCTO letter presented a narrower set of import trade data, taken out of context, to create the illusion that trade was occurring in legwear with this region. On this point, the NCTO letter also suggests that a robust deal with TPP countries will bring about "a dramatic erosion of preference benefits for our Western Hemisphere trading partners." Such a concern, while often stated, is not well founded. For example, one of the countries cited as a potential "victim" of such preference erosion – Haiti – has only exported \$540 worth of actual socks to the United States since 2005. Likewise, Vietnam, which is often cited as the main beneficiary of such preference erosion claims, is low on the list of legwear suppliers to the United States primarily because it has low production capacity. As a source of legwear,

Vietnam is surpassed by countries that are hardly known as sock powerhouses, like Bulgaria, and it is not even in the top 10 hosiery suppliers.

**Second**, Yarn Forward is failing to work for U.S. legwear from an export perspective as well. The data backs this up. Over the same 9-year period cited above, U.S. legwear exports to major Yarn Forward FTA export markets (Canada, Korea, Australia, and Singapore) have actually dropped 2 percent. At the same time, U.S. apparel exports to those same countries have more than doubled. Had the legwear provisions in these FTAs been tailored differently, such as using the Knit-to-Shape rule, U.S. legwear exports to these FTA countries would have experienced positive growth as well. We should learn from the stagnant performance of U.S. legwear exports in our existing FTAs if we want to create a robust TPP that will provide opportunities for substantially increasing U.S. legwear exports.

**Third**, Yarn Forward even falls short as an investment magnet. The NCTO letter points to a number of investment announcements over the past 10 months in U.S. yarn spinning capacity “valued at over \$700 million” as “a testament to the success of the Yarn Forward rule”. This does not tell the full story. At least \$218 million of this investment is by a Chinese company that plans to export industrial cotton yarn from South Carolina to China, due to Chinese regulations restricting imports of raw cotton but not of cotton yarn (Source: <http://www.textileworld.com/Issues/2014/March-April/Features/U.S. Textiles-Investments Abound>). Other investments represent efforts to secure favorable investment incentives, take advantage of relatively inexpensive energy, or support the dedicated vertical supply chains of offshore companies. While AAFA applauds the creation of American jobs, a large portion of this new investment in U.S. yarn clearly has nothing to do with Yarn Forward rules in U.S. FTAs and most of it will be inaccessible for our legwear members.

## **2. NCTO’s Characterization of Knit-to-Shape Proposal is Inaccurate**

To contrast against the Yarn Forward rule, NCTO characterizes the U.S. legwear industry’s Knit-to-Shape proposal as an “assembly” rule of origin. In this context it is saying that the full tube could be knit elsewhere, imported into the region, and merely “assembled”. That is patently wrong. Legwear production undergoes a single transformation from the yarn stage to the finished apparel stage. Think of your grandmother knitting you a sock. There is no creation of knit fabric that she then cuts out and assembles. She starts with a ball of yarn and after a lot of knitting and purling, a completed sock is hanging on the needles. This is the process to which “Knit-to-Shape” refers. It must be understood that Knit-to-Shape means qualifying products must be Knit-to-Shape within the TPP region. A Knit-to-Shape rule is not an assembly rule of origin.

In addition, the NCTO letter claims that the Yarn Forward rule “ensures that the highest value-added elements of the production chain originate within the contracting FTA countries.” The simple fact is that in legwear production, the value-add is in the knitting to shape. By definition, a Knit-to-Shape rule keeps that value-add within the contracting FTA [partner] countries.

NCTO also refers to the Knit-to-Shape proposal as a “wholesome change from the normal U.S. free trade agreement (FTA) origin rule for textiles.” This is incorrect. U.S. FTAs, including those characterized as Yarn Forward, are full of exceptions to the Yarn Forward rule of origin, including Knit-to-Shape. These exceptions have been included for a variety of reasons, including the unavailability of inputs. In fact, a Knit-to-Shape rule of origin has been established in most U.S. FTAs from NAFTA onward for a specific product category, brassieres, because of the lack of available inputs for brasserie manufacturing in current U.S. FTA regions.

Additionally, the NCTO letter states that a Knit-to-Shape rule of origin would “...undermine existing domestic production capacity...” If NCTO is referring to legwear, this is an inaccurate statement. A Knit-to-Shape rule of origin, by allowing U.S.-manufactured legwear exports to qualify for TPP benefits, will only support and grow existing domestic production capacity. U.S. legwear manufacturers will be able to export more product. Those companies, in turn, will be able to buy more yarn from both U.S. and foreign suppliers. Conversely, without this flexibility, those U.S. legwear manufacturers will be highly incentivized to locate their legwear production elsewhere to ensure continued access to the global supply chains crucial to their competitiveness.

### **3. NCTO’s Characterization of the USTR Yarn Forward Proposal for TPP is Patently False**

NCTO points to USTR’s TPP proposal as following the same formula used in previous Yarn Forward-based agreements. This is simply not true. The Yarn Forward TPP proposal is actually significantly more restrictive than in prior FTAs. The absence of two well-established provisions from previous FTAs in the current USTR TPP proposal has the effect of destroying the export market potential of a number of our members. While these provisions alone – the origination exemption for Chapter 56 gimped yarn and the Israeli nylon filament provision – do not serve the needs of all the U.S. legwear industry, they have anchored significant legwear manufacturing in the United States.

As such, a final TPP agreement that incorporates the current USTR proposal would not only prevent U.S. legwear manufacturers from enjoying preferential access to some of their most important export markets, it would also severely undercut the very same supply chains the USTR proposal is purportedly intended to help. The U.S. legwear industry’s Knit-to-Shape rule of origin proposal, on the other hand, would not only prevent the destruction of these well-established supply chains, it would recognize, and promote, today’s innovative U.S. legwear manufacturing industry.

The NCTO letter also references the short supply list within the USTR Yarn Forward proposal. While we appreciate that the current version of the short supply project may have some value to some companies, the current list has largely excluded any provisions for U.S. legwear companies. The U.S. legwear industry attempted to use this short supply option, and all requests were rejected by USTR. The resulting limited short supply list now appears unlikely to benefit sufficient legwear production for duty benefits within the U.S. and other TPP countries.

Far from “recognizing the concerns of all parties”, if the USTR Yarn Forward proposal with short supply lists as we understand they are currently envisioned were to enter into effect today, most U.S.-manufactured legwear would still not qualify for TPP benefits. Further, the stagnant approach being offered by this model fails to allow for innovation and product development in the U.S. legwear industry because there is no dynamism to the list. Once it is complete, the short supply list will never change. That is simply not an option the dynamic U.S. legwear industry can use.

**4. Yarn Supply in TPP Countries is NOT Adequate to Support U.S. Legwear Manufacturers Competing in the Global Marketplace**

NCTO’s letter alludes to the capacity of TPP countries in “production of apparel yarns” as a justification for a Yarn Forward rule for legwear. While the U.S. textile industry and those in other TPP countries are quite adequate at producing large quantities of commodity yarn (e.g. open end cotton), referring to these “apparel yarns” as related to the production of exportable socks and hosiery is a useless comparison. The reason U.S. legwear manufacturers have been so successful at domestic production compared to the general apparel world is that they continually innovate, producing complicated products for very specific purposes. These complicated products often use eight or more different types of yarn, and require the global sourcing of some of these inputs that are not commercially available in needed quantities within many regions. Under a strict Yarn Forward rule, if even one of the yarns used in a legwear product comes from outside the TPP region, the entire product (even if all other components are U.S.) will be disqualified from duty benefits.

In addition, while we are pleased that the other TPP countries (Malaysia, Peru, Mexico, and Vietnam) are attracting this “apparel yarn” investment (as NCTO takes pains to point out), what we are talking about are U.S. jobs, U.S. workers, and U.S. exports that exist today. Our industry has sock and hosiery companies providing U.S. manufacturing jobs throughout the Southeast all the way to California. We are interested in ensuring that the goods made in these factories qualify for export under the TPP.

**C. A Yarn Forward Rule for Legwear in the TPP will Deny Duty Benefits and Stunt Growth for U.S.-Manufactured Legwear, while a Knit-to-Shape Rule Will Encourage Exports and Grow U.S. Jobs.**

We strongly believe it is well-past time for USTR to examine carefully the realities of legwear manufacturing supply chains and support U.S. legwear exports under TPP with a Knit-to-Shape rule of origin. Comparing the past 3-5 years to the previous 50 years, today’s consumer buys one pair of highly technical socks for a higher price instead of buying a 6-pack of simple tube socks. World consumers are driving the success of U.S. legwear manufacturing by purchasing specialized and high fashion socks requiring global inputs, not the kind of commodity socks and hosiery that historically worked under a Yarn Forward rule. A Knit-to-Shape rule in the TPP will allow U.S. legwear manufacturers and their employees to continue building their success on this trend and capture a competitive advantage in the global market.

We respectfully ask that you consider the position of those in the U.S. legwear industry as you construct provisions that will affect the U.S. legwear industry.

Thank you for your attention to this important matter. Please direct any questions to David Lapidus of my staff at [DLapidus@wewear.org](mailto:DLapidus@wewear.org).

Sincerely,

A handwritten signature in blue ink that reads "Juanita D. Duggan". The signature is fluid and cursive, with the first name being the most prominent.

Juanita D. Duggan  
President and CEO  
American Apparel & Footwear Association (AAFA)

**CC:** - Wendy Cutler  
- Barbara Weisel  
- Doug Bell  
- Gail Strickler

**ATTACHMENT:** U.S. Legwear Industry Request for Knit-to-Shape





## **we wear<sup>®</sup> legwear**

July 2, 2014

The Honorable Michael Froman  
U.S. Trade Representative  
Office of the U.S. Trade Representative  
600 17<sup>th</sup> St, NW  
Washington, DC 20508

Dear Ambassador Froman,

On behalf of the American Apparel & Footwear Association's (AAFA) Legwear Committee, representing the U.S. legwear industry, we are writing to ask you to ensure that the production of U.S. legwear exports and imports is supported through the Trans-Pacific Partnership (TPP).

As the TPP negotiations begin transitioning to their "end game", we are greatly concerned that legwear production in the TPP region will be adversely affected by the U.S. government ignoring the supply chain realities of U.S. domestic and international manufacturing.

The AAFA Legwear Committee formed when previous members of the dissolved The Hosiery Association (THA) joined AAFA. The Legwear Committee is now the only organized spokesperson for the industry, which is one of the most vibrant domestic apparel manufacturing bases, numbering 10,000 Americans working in U.S. sock and hosiery factories. Additionally, our members help employ more than 14,000 Americans in wholesale trade, dealing with both exports and imports of essential sock and hosiery products. All in all, the U.S. legwear industry represents a \$7.6 billion consumer base, and is a significant portion of the U.S. apparel economy.

There are several issues of importance being negotiated in TPP that could provide great benefit, or great loss, to the U.S. legwear industry, depending on the positions advanced by the U.S. government and the outcome of the overall agreement.

One of these issues is the Rule of Origin (ROO) that will be required for legwear products to qualify for duty-benefits under TPP. Our industry's supply chain has undeniably diversified over the last few decades. A universe of yarns and fibers are now sourced from all over the world, and used directly in U.S. domestic and international production. This diversification has occurred for a number of reasons, including, but not limited to, the fact that some of these inputs are not available in many countries at all, including the countries within the TPP region. Additionally, in some cases where there is availability, the quality is not comparable. Much domestic and international production depends on the ability to globally source certain yarns and fibers – and our industry's overall production (along with the number of Americans employed) will excel given greater ability to globally source inputs.

A ROO that relies on a knit-to-shape provision for legwear would increase actual production and employment in TPP countries, by stipulating that all inputs could be globally sourced but that production from the knit to shape process forward must take place in the TPP region. In this way, the many U.S. legwear companies that already produce both domestically and internationally could reap the benefits of the TPP by increasing their production in the TPP region, without having to move production to non-TPP regions in order to keep up with international competitors.

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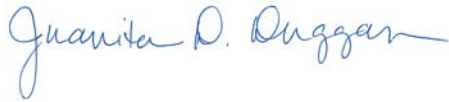
[www.wewear.org](http://www.wewear.org)

A knit-to-shape ROO would also ensure that the allowance of global sourcing for certain yarn and fiber inputs, including gimped yarn, as has been done in every FTA since NAFTA, will continue. Requiring gimped yarn to originate, as is the current U.S. negotiating position, would end up disqualifying many U.S. legwear products, undercutting several key U.S. export platforms.

We want to preserve existing jobs in the United States. We want to give U.S. manufacturers a fair shot at exporting their goods to other TPP countries. Therefore, we are asking you to consider the benefits of increased, sustainable production within the TPP region when reviewing the merits of a knit-to-shape ROO, for the legwear HTS codes indicated in the attached appendix.

Thank you for your attention to this important matter. Please direct any questions to David Lapidus of my staff at [DLapidus@wewear.org](mailto:DLapidus@wewear.org).

Sincerely,

A handwritten signature in blue ink that reads "Juanita D. Duggan". The signature is fluid and cursive, with the first letters of each word being capitalized and prominent.

Juanita D. Duggan  
President and CEO  
American Apparel & Footwear Association (AAFA)

**Attached: Appendix of Legwear HTS Codes**

## **Appendix of Legwear HTS Codes**

6111.20.6050 – Babies Socks & Booties of Knit Cotton

6111.30.5050 – Babies' Socks & Booties of Knit Synthetic Fibers

6111.90.5050 – Babies' Socks & Booties of Knit Artificial Fibers

6115.10 – Graduated compression hosiery (for example, stockings for varicose veins)

6115.21 – Other panty hose & tights of synthetic fibers, measuring per single yarn less than 67 decitex

6115.22 – Other panty hose & tights of synthetic fibers, measuring per single yarn 67 decitex or more

6115.29 – Other panty hose & tights of other textile materials

6115.30 – Other women's full-length or knee-length hosiery, measuring per single yarn less than 67 decitex

6115.94 – Socks & Stockings of Wool & Fine Animal Hair

6115.95 – Socks & Stockings of Cotton

6115.96 – Socks & Stockings of Synthetic Fibers

6115.99 – Socks & Stockings of Other Textile Materials