



UNITED STATES FASHION INDUSTRY ASSOCIATION

Statement of the
United States Fashion Industry Association
To the
U.S. International Trade Commission
Regarding the
Trans-Pacific Partnership Agreement: Likely Impact on the U.S. Economy and on
Specific Industry Sectors
Investigation No. TPA-105-001

Thank you for the opportunity for the U.S. Fashion Industry Association (USFIA) to appear today and share our perspective on the likely impact of the proposed Trans-Pacific Partnership Agreement (TPP) on the U.S. fashion industry. The fashion industry is a dynamic and global industry – and our member companies have long faced some of the highest duties and some of the most protectionist provisions in U.S. trade agreements. I think we provide a unique perspective. I am joined today by our Washington Counsel, David Spooner. David is a partner with the law firm, Barnes Thornburg, and you may remember that he also was the textile negotiator during CAFTA and other negotiations.

The United States Fashion Industry Association (USFIA)

Just a few words about USFIA. We represent the fashion industry -- textile and apparel brands, retailers, importers, and wholesalers based in the United States and doing business globally. Founded in 1989 with the goal of eliminating the global apparel quota system, USFIA now works to eliminate the tariff and non-tariff barriers that impede the industry's ability to trade freely and create economic opportunities in the United States and abroad.

Let me emphasize that we are a global industry. USFIA members do not only import into the United States. The fashion industry includes global brands that consumers purchase around the world.

Our member companies manage supply chains that span the globe, so we have first-hand experience with the impact of market access barriers. Retailers and apparel brands rely on global supply chains. A bale of cotton may be grown in Texas, shipped to Europe to be made into yarn, shipped to Korea to be made into fabric, shipped to Vietnam to be made into apparel, and shipped back to the United States to be sold in a store back in Texas. But that garment also might be sold in Singapore, Tokyo, Dubai or London.

We support better market access, not just to boost U.S. exports or U.S. imports, but to facilitate global trade.

USFIA Recommendations to the TPP Negotiators

From the start, USFIA supported the TPP agreement and the opportunity the TPP represents as the first 21st-century free trade agreement. The TPP is the first agreement totally negotiated after the elimination of the global quota regime for textiles and apparel. It offered the opportunity to be the first agreement that recognized the importance of the entire supply chain to support U.S. jobs in the fashion industry.

USFIA continues to believe that the United States should change its negotiating stance to recognize the global value chain and the jobs created by American brands, retailers, and importers. Unfortunately, the TPP falls short. There are certainly benefits in the agreement for USFIA member companies, but the agreement maintains the basic restrictive provisions that have existed since the negotiation of NAFTA in the early 1990s, and which ignore the international scope of the fashion industry.

Our industry worked together through the TPP Apparel Coalition. The TPP Apparel Coalition called for the negotiation of an agreement that “generates new trade and investment opportunities for the benefit of workers, businesses, and families. These opportunities include buying and selling goods and services, sustaining and growing well-paying jobs, and providing high added value for the U.S. and TPP economies. To maximize benefits to companies, consumers, and workers, TPP negotiators should embrace a textile and apparel trade policy that facilitates today’s global value chains and the millions of American jobs that depend on them.”

USFIA also worked closely with our colleagues in the other TPP countries. Their apparel and retail organizations agreed with the message for the TPP to

include “commercially meaningful market access and flexibilities in the rules for the apparel industry that recognize the importance of global value chains to the competitiveness of the apparel supply chain.”

From this perspective, USFIA and our members applaud the conclusion of the TPP agreement. Nevertheless, we remain disappointed that the negotiators missed the opportunity to craft an agreement that recognizes the way that fashion brands and retailers do business. The lengthy duty phase-outs for many key products, and the reliance on a yarn-forward rule of origin, limit opportunities for our members to reach new consumers in the TPP countries and limit our opportunities to create jobs in the United States.

TPP's Potential Benefits

So what do our members see as the major benefits of TPP? Their objective is to provide apparel and products that consumers want to buy around the world. The TPP will help make these fashion products more affordable for consumers by eliminating the duties. With the average U.S. duty at sixteen percent, and peaks as high as 32 percent, there is the potential for substantial cost savings. American families will benefit.

And of course we are not just talking about U.S. duties. The elimination of duties in the other TPP countries will also provide a substantial benefit.

USFIA members are excited about the opportunities that the TPP will create in markets outside the United States. USFIA member companies do business in 170 countries around the world, and many of the TPP countries are significant markets for USFIA members. Japan, for example, is the second largest retail market in the world, with an annual value in excess of \$1.1 billion. Japan's tariffs on imported apparel commonly range as high as 16%. The TPP eliminates these peak tariffs, providing American apparel brands duty-free entry into Japan's lucrative and influential retail market.

We also see the potential for substantial growth in Vietnam and Malaysia. Both countries have young populations and will see their economies expand thanks to their participation in the TPP.

The TPP text also offers new opportunities to eliminate non-tariff barriers to trade. We look forward to working with our industry colleagues in the other TPP countries to harmonize the regulations and administrative requirements throughout TPP member countries. The goal – common standards where possible, and mutual recognition where it is not. We want to sell American brands in all the TPP countries and be able to ship our products without the need to repeat testing at each border or even to replace labels. That is the definition of the successful 21st century supply chain.

Key TPP provisions for apparel will have a limited impact in the short-term. The TPP rules of origin are particularly restrictive – offering a cut-and-sew rule of origin to only a few apparel products. This is substantially more restrictive than the CAFTA agreement, or other recently-negotiated Free Trade Agreements. For apparel -- only brassieres and synthetic fiber babywear are granted a cut-and-sew rule of origin. Travel goods classified in chapter 42 also have a cut-and sew-rule of origin. And the market access provisions for apparel extend the duty phase-out timing for as long as fifteen years – longer than in any other U.S.-negotiated Free Trade Agreement.

In an attempt to provide relief from the Agreement's yarn forward rule of origin, the TPP contains a "short supply list" that was the major focus of the negotiations. The short supply list contains yarns and fabrics that are not produced within the TPP countries, or that are produced in only very limited quantities. The Agreement permits apparel producers to source the yarns and fabrics on this list from outside the TPP region and to incorporate them into TPP-qualifying apparel.

USFIA and our members provided input to the negotiators to recommend products that we believe will be commercially meaningful to the industry. Some of these products are on the short supply list. Some of these approved inputs are high-end – such as performance outerwear fabrics, stretch wool blend fabrics and cashmere yarns and fabrics. Other inputs that our members plan to use are dress shirt fabrics, flannel fabrics and rayon. The TPP short supply list, as well as a special provision allowing immediate duty-free access for U.S. imports of certain dress shirts from Vietnam and Malaysia, should provide targeted opportunities for USFIA member companies.

Nevertheless, the short supply list, while lengthy, contains very narrowly-defined products and often includes a limitation on end use. If a yarn or fabric is unavailable in the TPP region and has therefore been placed on the TPP short

supply list, it makes no sense to place an end use restriction on the item. Certain nylon staple fiber, for example, is on the short supply list, but the TPP forbids the use of this fiber in baby socks and booties.

TPP's Missed Opportunities

Despite the Agreement's potential benefits, the TPP negotiators missed important opportunities to foster jobs at American brands and retailers. And we want to briefly mention these concerns as a reminder that the potential benefits to American consumers could be more substantial. We have four issues that we want to mention:

First and foremost among these missed opportunities is the Agreement's yarn forward rule of origin. The yarn forward rule of origin is more restrictive than the TPP origin rules for other manufactured products. With limited exceptions, the yarn forward rule requires apparel producers to source all of their yarns and fabrics from a TPP country.

In the TPP, the yarn forward rule severely limits the ability of the apparel sector to utilize the Agreement. We already have Free Trade Agreements with several TPP partners. For apparel, Mexico and Peru are proven western hemisphere suppliers to our member companies. We do not expect the TPP to change those supply chains. So we look to the new TPP countries for the major impact on the industry. But with the restrictive rules of origin, it is not a guarantee that companies will change their sourcing strategies.

Sourcing is a complicated balancing act – searching for the best product at a competitive price, but also guaranteeing compliance with quality, security, and social responsibility requirements. For most successful brands and retailers, another major element in sourcing decisions is agility -- the ability to make decisions about styles and colors as quickly as possible to match consumer demand. The TPP's long duty phase-outs for apparel and the yarn forward rule are designed to limit the ability of U.S. brands and retailers to react to new consumer demand and new market opportunities.

Second, there is a "missed opportunity" because there is no process to be able to make changes to the short supply list. Part of the evolution of the short supply concept in FTAs has been the recognition that this is a global industry.

Fashions change, and, while the TPP, like other free trade agreements, contains a short supply list, the TPP's short supply list contains many inputs with very detailed technical requirements that are *based on current styles*. As time goes by and as clothing styles change, and innovation creates new types of products, the TPP's short supply list will likely become less and less useful. The TPP, unlike any other free trade agreement, contains no way to update the list.

Third, the special "Earned Import Allowance" program that is only available for trousers made in Vietnam is overly complicated. This program permits trouser producers to source some fabric from outside the TPP region, if they also purchase U.S. trouser fabric. The Commission analyzes a similar program for the Dominican Republic that remains underutilized. So you already know that this type of program sounds good but is not necessarily attractive to the majority of brands and retailers. In this case, the TPP program is even more complicated and obviously it takes longer and is more expensive to ship U.S. fabric to Vietnam than to the Dominican Republic.

Finally, USFIA is concerned that the TPP's extremely complicated apparel rules will increase transaction costs for our member companies. One of the most obvious issues is the difficulty for U.S. Customs and Border Protection (CBP) to implement TPP's lengthy, detailed short supply list. We are disappointed that the negotiators did not include a provision in the agreement allowing a standard testing variance for blended yarns and fabrics. While the short supply list does include a range of fiber content percentages for blended products, the fact is that there still could be products disqualified from the short supply benefits if the testing shows a variation. For labeling purposes, this issue is resolved by the Federal Trade Commission by allowing a three percent variance. We think it is appropriate to build a similar variance in the implementation of the TPP short supply list.

If the TPP's complicated rules create confusion or delays at the border, as well as a raft of Customs inquiries, apparel brands may choose to source from other countries, or to not bother to claim TPP benefits. Even though some of the highest tariffs in the Tariff Schedule are charged on apparel imports, we continue to hear from some member companies that the compliance risks for FTA trade are sufficiently onerous that they do not claim the available duty-free benefits. This concern is reflected in the relatively low percentage of U.S. apparel imports that claim duty-free benefits. According to statistics from CBP, only 19.3 percent of the U.S. apparel imports during 2014 entered duty-free under a Free Trade Agreement or other preference program.

Even more importantly, the TPP text maintains enforcement strategies and mechanisms that ignore the revolution in enforcement since earlier free trade agreements were negotiated. In recent years, CBP has focused on tougher enforcement through reliance on “trusted trader” programs. Through these programs, our member companies invest millions of dollars, and hours of time, to work with CBP officials to provide details about how we do business and how we maintain compliance within our companies. USFIA and our members are pleased to work with Customs headquarters and with the Apparel, Footwear and Textile Center for Excellence and Expertise. But it is very disappointing that the 21st century TPP text does not explicitly recognize the importance of trusted trader programs for enforcement. Instead there are side letters with the major Asian apparel producers – Malaysia and Vietnam – that require time-consuming collection of data and additional paperwork that seem unlikely to improve actual compliance and that only complicates the rules of the TPP.

One last comment on the TPP labor provisions. USFIA and our member companies support the inclusion of labor commitments in the TPP. Our companies remain at the forefront of global initiatives to improve working conditions and to support the workers. We are committed to labor and social responsibility compliance. But we are concerned about the provision that allows the United States to withdraw concessions from Vietnam if Vietnam fails to implement a detailed labor plan. The apparel sector will likely be the target of any U.S. retaliatory measures under the TPP labor provisions. After all, apparel has some of the highest duties and some of the longest phase-outs. But, the threat that the U.S. can suspend tariff concessions for Vietnam at any time – for reasons having nothing to do with conditions at the factories run by our member companies’ business partners – apparel brands may hesitate to change their sourcing supply chains to shift to TPP-qualifying production in Vietnam. This would not only blunt the benefits to our sector, but also potentially diminish the positive impact of U.S. brands on working conditions in Vietnam.

Conclusion

USFIA and our members support the TPP. But our assessment is that the initial benefits are limited. Over time, as tariffs phase out, as our TPP partners develop more sophisticated production capabilities, and as the TPP countries improve regulatory harmonization, we anticipate the benefits will grow. Once again, thanks to the commissioners and to the staff for this opportunity to appear today. We look forward to your questions.