National Retail Federation
The Voice of Retail Worldwide

Guatemala Apparel and Textile Exporters Commission (VESTEX)
Apparel Sourcing Show

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Buenos Dias. My name is Erik Autor, Vice President and International Trade Counsel to the National Retail Federation in Washington, DC. I very much appreciate the opportunity to speak to you today about the DR-CAFTA agreement, and I wish to thank VESTEX for the invitation to participate in the 16th annual Apparel Sourcing Show.

The National Retail Federation is the world's largest retail trade association with over 2,300 members representing the entire spectrum of the retail industry. Our member companies in apparel retail account for a great deal of business in Guatemala and the rest of Central America. The U.S. retail industry has supported the creation and development of strong business relationships with the region. Retailers have been actively involved during the negotiation, passage and implementation of the DR-CAFTA agreement. We pushed for a good, commercially-viable agreement that would promote trade and investment with the region; that was compatible with and able to respond to the realities and challenges of global apparel production; and that could be the basis for building a competitive Western-Hemisphere production platform for textiles and apparel.

Now, more than one year after the agreement entered into force, the question before us is whether our ambitious objectives have been met. Unfortunately, I must conclude that in most respects the answer is no. I will first explain why I and most in the retail industry have come to this conclusion, and then discuss the reasons for this situation and the challenges we face as a result.

Comparing apparel import statistics for January 2006 and January 2007, total U.S. imports from the six DR-CAFTA countries dropped from $537 million to $511 million. Looking at individual countries, imports from Honduras are essentially flat and have dropped for Costa Rica, the Dominican Republic, El Salvador, and Guatemala. Only Nicaragua, the smallest exporter in the region, has seen a significant increase in exports to the United States. More broadly, every country has seen a steady decline in its exports to the United States since 2004, except Nicaragua. Indeed, U.S. apparel imports from the region as a whole

dropped from $9.56 billion in 2004 to $9.47 billion in 2006. These statistics show that we have not seen the expected increase in trade with the DR-CAFTA region as a result of the free trade agreement. Equally disturbing, the overall trade under DR-CAFTA largely reflects a shift from trade that had occurred under the Caribbean Basin Trade Partnership Act. In other words, you are not gaining new ground.

One has to ask the question why this situation has arisen, notwithstanding an agreement that promised DR-CAFTA apparel manufacturers new opportunities for access to the U.S. market. Some point to increased competition from China and the impact of the end of global quotas as the reason behind the stagnation of trade with the region. I would argue that the real culprit is an overly restrictive rule of origin and slow implementation of key provisions such as cumulation.

Using political pressure from its allies in the U.S. Congress, the U.S. textile industry succeeded in getting a yarn-forward rule of origin in every free trade agreement since the Chile FTA, with the exception of the Jordan FTA. During negotiation of the DR-CAFTA, U.S. apparel retailers, importers, and manufacturers argued for more flexible rules, such as a tariff-shift rule of origin that reflected the rules for other products. During the course of negotiations, we realized that we were going to be stuck with a yarn-forward rule, and that we would have to seek additional flexibility to ensure that you could get the inputs needed to supply your apparel industry. These additional flexibilities included a single transformation rule for specific products, such as brassieres, short supply procedures, tariff preference levels, and, most importantly, the ability to cumulate inputs from Mexico and other FTA partner countries in the production of qualifying apparel.

Evidence for the importance of these additional flexibilities to the commercial viability of the agreement is shown by the fact that Nicaragua has been able to increase its exports to the U.S. because it alone received a generous tariff preference level. However, the most important component – cumulation – was not only severely limited under the DR-CAFTA, both in scope and quantitatively, but it still has not been implemented. While the U.S. and Mexico have completed the required customs cooperation agreement, Mexico and the DR-CAFTA countries are still working on the reverse cumulation agreements. Moreover, there are still questions about some critical elements – how will the United States sign-off on reverse cumulation; how will U.S. Customs administer the process; what will be CECATEC's internal allocation plan; and when and how will the Dominican Republic get to use cumulation? The world is moving quickly, and your industry can ill-afford this delay.

More generally, the fact that U.S. trade in textiles and apparel has fallen under every single free trade agreement that is subject to the yarn-forward rule of origin, has to lead one to the conclusion that this rule of origin simply does not work. Let's take for example the U.S.-Australia FTA. The Australia FTA is the

perfect agreement if one compares it to what the textile industry says it wants – a strict yarn-forward rule of origin, with no additional flexibilities, and a 15-year phaseout of duties. However, while Australia has an apparel industry, it has no textile industry to speak of, and would have to use U.S. yarn and fabric to make qualifying apparel. It should come as no surprise that there is no trade under this agreement. Moreover, an opportunity for U.S. apparel manufacturers to sell into the wealthy Australian market was lost.

This situation should also concern U.S. textile producers, especially with respect to DR-CAFTA. If an agreement cannot work for the textile industry's customers – apparel manufacturers and retailers – then it cannot work for them. But instead of abandoning this model, the U.S. textile industry still clings to this unworkable rule and simply blames China for their problems.

I am merely a trade lawyer who operates in the realm of trade policy. You are the industry experts and know better than anything I could tell you what is required to be competitive in the post-quota world. You know that successful suppliers to the U.S. apparel market must be able to offer full package production – to move up the value chain in a business that is increasingly focused on fashion forward. This requires flexibility in meeting customer orders; an integrated textile and apparel industry or easy access to a wide selection of inputs; cost competitiveness; speed and reliability in execution; being able to offer your customers top quality service from product design to supply chain management.

Unfortunately, the DR-CAFTA rules of origin are designed to continue the cut and sew production model of the Caribbean Basin Initiative, which is largely incompatible with full package production. Thanks to the U.S. textile industry, you are forced to compete under terms set by your suppliers rather than your customers. The textile industry has decided what you will be allowed to make. This situation is obviously entirely backwards and hurts your competitiveness.

In addition, you are operating in an environment of stricter security and greater compliance requirements. You have only one port operating under the Container Security Initiative – San Pedro Sula, and have to provide extensive documentation to claim your preference. As you know, any delay moving goods to your U.S. customers could undermine one of your competitive strengths – proximity to market.

Complying with overly complicated rules of origin also increases costs, a serious problem when this is one of your competitors' advantages. The inflexibility of these rules also makes it harder to move up the value chain in apparel production. If you are stuck competing in the commodity apparel market, making what you have traditionally made – cotton bottoms, T-shirts, and underwear – you will continue to be squeezed on price and will find yourselves losing out to your Asian competitors.

These are obviously daunting challenges that will require a great deal of creativity on your part to make this work. To use an American expression – when you are given lemons, try to make lemonade. Without intending to sound trite, to do this successfully, you need to focus on what you can do to make yourselves more competitive – by understanding the market and your customer. The prescription offered by the U.S. textile industry – trying to handicap Asian producers – will do nothing to enhance your competitiveness.

Before I conclude, I do want to point out another issue – that of labor compliance. It is clear that adherence to labor standards in the region has improved substantially. The development of WRAP and other compliance programs has helped considerably. Nonetheless, perception has not necessarily kept up with reality. I will give you two examples that highlight the seriousness of this problem. Just yesterday, I received an email from a student in Wisconsin asking for help with an assignment – the topic – why do retailers do so much business with sweatshops? This question falls in the category of a prosecutor asking "when did you stop beating your wife?"

The second example occurred a few weeks ago when I attended a breakfast with Congressman Sander Levin, the influential chairman of the subcommittee in the U.S. House of Representatives with responsibility for international trade matters. I asked him a question about pending legislation, and he used the opportunity to castigate retailers over the issue of labor rights. He cited an article published the previous day in the New York Times about the alleged abuse a Guatemalan woman had suffered working in an apparel factory here. Congressman Levin's criticism of the retail industry for doing business in Guatemala under these circumstances is premised on his belief that there continues to be a serious problem in the region. Congressman Levin is a powerful politician who is in a position to make it very difficult for my member companies and your industry to do business, unless he is shown that he is operating under a misperception as to the nature and scope of the problem.

In conclusion, your industries face a very difficult, but not insurmountable situation. You know what needs to be done, notwithstanding the obstacles that stand in your way. It is in the interests of U.S. apparel retailers to support you in your efforts to develop your industry in a way that ensures your future competitiveness in the global economy. Contrary to popular perception, retailers do not want to do all their business in China. Retailers want sourcing options. But, at the end of the day, those options must make business sense in order to be a viable part of retailers' sourcing plans.