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United States Senate

Committee on Finance

Hearing on “U.S. Preference Programs: Options for Reform”

Tuesday, March 9, 2010

9:30 a.m.

219 Dirksen Senate Office Building

**Written comments for the record by the
Retail Industry Leaders Association (RILA)**

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The Retail Industry Leaders Association (RILA) appreciates the opportunity to submit written comments for today’s hearing on U.S. preference programs. RILA strongly supports Congressional action to enhance, simplify, harmonize, and add long-term predictability to the U.S. trade preference regime.

By way of background, RILA promotes consumer choice and economic freedom through public policy and industry operational excellence. Our members include the largest and fastest growing companies in the retail industry – retailers, product manufacturers, and service suppliers – which together account for more than \$1.5 trillion in annual sales. RILA members provide millions of jobs and operate more than 100,000 stores, manufacturing facilities and distribution centers domestically and abroad.

The retail sector, along with the suppliers and customers that it serves, is an essential part of the U.S. economy. Retailers meet the needs of U.S. consumers, and in doing so are essential drivers of the U.S. economy. We also serve the global market for consumer goods and bring U.S. products to the foreign markets where they operate. Retailers provide quality jobs at all employment levels with good benefits. The industry also offers a variety of rewarding professional careers, as well as opportunities for entry-level employment, part-time work, jobs for non-skilled workers, and management training.

Trade preference programs, including the Generalized System of Preferences (GSP), Andean Trade Preferences Act (ATPA), African Growth and Opportunity Act (AGOA), Caribbean Basin Trade Partnership Act (CBTPA) and other initiatives are important development tools. Reducing tariffs and establishing dependable sourcing options are also essential for successful retail supply chains. Retailers rely on these programs as part of their sourcing strategies, and RILA is committed to promoting flexible, meaningful and simple-to-use preference programs that will assist development in the world’s poorest countries and offer American families the opportunity to purchase a variety of high-quality products at affordable prices.

RILA has been working closely with an informal coalition of importers and development NGOs to support trade preference reform. RILA supports the consensus recommendations put forward by that group.

RILA also provides these further clarifications as Congress considers changes to the U.S. trade preference regime.

Trade Preferences for all Least Developed Countries

Congress should provide duty-free benefits to all least developed countries on all continents. The current patchwork of preference programs discriminates against some of the world's poorest countries. Congress should provide all of the poorest people with the opportunity to create a better future for themselves through trade and development. In particular, Congress should provide more trade preference benefits to Bangladesh and Cambodia. Poverty levels in Bangladesh and Cambodia are similar to those in Africa, and are worse by some indicators. Consider the following measures of poverty provided by the World Bank:

	Bangladesh	Cambodia	Sub-Saharan Africa
GNI per capita	\$470	\$540	\$952
% of malnourished children under 5	27	39	28
Literacy (% of population over 15)	47	74	59
Life expectancy at birth	64	59	51

Harmonized Preference Rules

The requirements, scope of product coverage, and rules of origin in the current patchwork of U.S. trade preference programs should be harmonized to promote consistency and integration. The current patchwork of preference programs makes it difficult for importers to utilize all the different programs. Some retailers don't have the resources to understand and follow a multitude of different rules to ensure compliance. The result is that these programs are under-utilized, particularly for smaller suppliers where complicated rules are a barrier to entry for investors looking for new suppliers. Importers will sometimes decide that it is safer and easier to stay with sourcing rules they already understand rather than attempt to decipher new rules that apply only to a particular small supplier market especially when the benefits are only short-term. Congress should harmonize the rules across programs so that they are simpler to use and are understood by both importers and beneficiary countries.

Simplified Rule of Origin

RILA believes that there should be one simple and straightforward 35% value-added rule of origin for all products, including textiles and apparel. There are numerous examples of uncertainty and unpredictability created by complicated rules of origin and their varying interpretations by U.S. Customs and Border Protection. To eliminate this uncertainty and unpredictability, RILA believes everyone would benefit from a simple 35 percent value-added rule of origin. For textiles and apparel, RILA believes that Congress should clarify in the statute that the traditional interpretation of value-added would apply, which means that the value of fabric would qualify if it is cut and sewn (or knit to shape) in an eligible country (regardless of where the fabric was made).

Broader Product Coverage

Preference programs should have broader product coverage to include those products that are most commonly produced in poor countries. U.S. tariff rates are often regressive, and poor

countries pay more in duty costs than their more developed counterparts. This is because typical products made in poor countries (such as textiles, apparel, footwear and agricultural products) face higher tariffs than the typical products made in advanced countries (such as high-tech products and heavy manufactured products, which are often duty-free).

As Ed Gresser with the Democratic Leadership Council has documented repeatedly, least developed countries such as Cambodia or Bangladesh face tariffs that are 15 times higher than those applied to wealthy nations and oil exporters. For example, according to Mr. Gresser, Bangladesh, Cambodia and Pakistan together send approximately \$9 billion a year in clothing and towels exports to the United States--and pay \$1.3 billion in tariffs on those shipments. Meanwhile, Britain and France ship more than ten times that amount--\$100 billion a year--to the United States in airplanes, wines, medicines, and information technologies, and pay approximately \$750 million in tariffs on those shipments. This disparity in tariff treatment on products typically made by poor countries underscores the need to expand the product coverage of U.S. preference programs.

Predictable Rules That Encourage Investment

RILA believes that there should be a clear and predictable standard and process to determine eligibility for countries and products. RILA recognizes that U.S. trade preference programs include eligibility for both countries and products to ensure that beneficiaries and the programs are meeting certain policy goals. These eligibility criteria are important, and it is equally important that predictability be built into the decision-making process so that users of these programs, such as retailers, can expect and plan for any changes to product or country coverage.

Congress should also enact a long-term extension of preference programs to foster longer-term investments and sustainable development. In recent years, Congress has provided short-term, last-minute renewals of preference programs. For example, the GSP, Andean and Caribbean Basin trade programs expire this year, and key provisions of the AGOA and HOPE programs are scheduled to be phased out in a few years. Such short-term durations and last minute extensions are disruptive, and the risk that benefits may expire or be withdrawn discourages long-term investment that developing countries desperately need to be able to benefit from the preference programs.

Creating a Bridge to Two-Way Trade—Trade Development Agreements

As Congress seeks to focus more trade preference benefits on LDCs, there should also be a strategic view to address country and product “graduations” that encourages additional bilateral and multilateral trade between and among the United States and developing countries, rather than eliminating duty-free treatment after certain thresholds are met.

Advanced developing countries are significant users of U.S. trade preference programs—and that is a positive development that should be encouraged. Rather than attempting to limit duty-free benefits for advanced developing countries, policymakers should seek to expand our trading relationships with those countries and encourage more bilateral and multilateral trade.

For example, RILA believes that there should be a new trade policy tool to encourage sustainable two-way trade with developing countries as they become more economically advanced. Trade preferences have been beneficial by introducing developing countries to the benefits of international trade, but those benefits are limited due to their inherent one-way structure, restrictive rules of origin and restrictive rules. Moreover, as countries become more developed, our trade preference programs discourage further growth by cutting off access to the U.S. market, rather than encourage further trade and development. RILA believes that Congress and the Administration should consider modifying our trade preference programs to provide clear incentives and timetables for trading partners that become more economically advanced to open their markets to U.S. goods, thereby creating opportunities for U.S. exporters and providing foreign consumers and businesses with high quality U.S. goods and services at competitive prices. This new trade policy tool could be called trade development agreements (TDAs) and would be a bridge to carry trading relationships from traditional one-way preference programs to long term and sustainable two-way trading relationships.

Whether this new trade tool is called a TDA or something else, it should provide significant benefits through trade liberalization in goods and services, transparency in regulatory trade practices, intellectual property protection, and other reductions in tariffs and non-tariff barriers. All of these areas will help to create dependable sourcing and export growth opportunities for retailers. To provide the most benefit, these trade tools should ultimately be comprehensive and commercially meaningful. TDAs should include: tariff eliminations, services trade liberalization, trade facilitation measures, strong intellectual property rights protections and flexible rules of origin.

New Preferences for Pakistan and Afghanistan

RILA supports meaningful trade preferences for Afghanistan and Pakistan to help create jobs and counter the recruitment efforts of the al Qaeda and Taliban. We urge Congress and the Administration to act expeditiously to enact Reconstruction Opportunity Zones (ROZ) legislation (S. 496, introduced by Senator Cantwell), and to expand and revise it in several areas, including expanding product and geographical coverage, limiting disclosure requirements, and finding a bipartisan and workable solution on labor conditions. The ROZ program represents an important opportunity for the United States to foster economic development, advance social stability, further security in the region and to make good on the promises of a closer economic relationship with Pakistan and Afghanistan.

For the ROZ initiative to be effective, duty-free treatment should be extended to all textile and apparel products, and especially to cotton trousers and shorts and cotton knit tops. These products are most likely to generate employment opportunities. Cotton knit shirts and cotton trousers are vitally important to Pakistan, yet these products face U.S. duties that average around 17 percent. Configuring the ROZ program to include these items will give Pakistan a fighting chance in this competitive industry.

We also urge Congress to revisit the limited areas in Pakistan that are eligible to use the ROZ program. Limiting ROZ investment to extremely remote areas that are experiencing intense conflict and are not yet mature for industrial growth would only delay job creation. Therefore,

we encourage you to consider expanding the geographic areas in Pakistan to include areas that are currently capable of production. All of Pakistan, not just the tribal areas on the Northwest Frontier, is being targeted by extremists.

RILA also notes that controversial and unworkable labor provisions included in the House-passed ROZ legislation has caused momentum for ROZ legislation to come to a screeching halt. RILA encourages policymakers to work with stakeholders to find a bipartisan solution for workable labor conditions, based on longstanding criteria in U.S. trade preference programs, including the Generalized System of Preference (GSP) and the African Growth and Opportunity Act (AGOA). RILA believes that S. 496 is a good basis to start considerations on any labor provisions included in the final ROZ legislation.

Expanded Trade Preferences for Haiti

RILA believes that Congress should act quickly to enhance trade benefits for Haiti under the HOPE program. After the devastating earthquake in Haiti in January 2010, RILA applauds Congress and the Administration for working together to try to enhance trade benefits for Haiti to aid the country in resuming apparel operations and encourage long-term rebuilding and investment. RILA welcomes the Administration's Plus One initiative for Haiti to encourage apparel importers to source from Haiti. To make this initiative a reality, RILA believes the Haitian Hemispheric Opportunity through Partnership Encouragement Act of 2008 (HOPE II) should be expanded by increasing trade preference level (TPL) limits for knit and woven apparel, removing existing exemptions under the TPLs, fixing the interpretation of the value-added rule of origin, and extending all the provisions of the HOPE program until 2020. The Caribbean Basin Trade Partnership Act (CBTPA) should also be renewed and extended until 2020.

Conclusion

RILA appreciates the opportunity to provide these comments, and we look forward to working with the Committee to promote, expand, and simplify trade preference programs to benefit the United States' poorest trading partners as well as American businesses and families that rely on competitively priced imports. If you have any additional questions, please contact me by phone at (703) 600-2046, or by email at stephanie.lester@rila.org.

Sincerely,



Stephanie Lester
Vice President, International Trade