A number of major agreements, including the Transpacific Partnership and Transatlantic Trade and Investment Partnership, could dramatically alter how textiles, apparel and footwear are traded and sourced around the globe.

New trade policies: how will they affect our industry?

The world is effectively getting 'smaller', with apparel, textiles and footwear typically crossing multiple borders before they reach consumers. Trade agreements, tariffs and partnerships have a huge influence on where factories locate or where brands choose to source from, with those benefitting from favourable conditions able to better compete or undercut rivals.

While talks can be arduous and drawn out, there are currently a number of important regimes being debated, including the Trans-Pacific Partnership (TPP) and Transatlantic Trade and Investment Partnership (TTIP). New rules that apply to the European Union (EU)'s Generalised Scheme of Preferences (GSP) will also affect sourcing.

For manufacturers, brands and retailers these throw up a number of important questions: Which deals will affect me and how? What changes will I need to make to the way my business operates and who will pay? How can I take advantage of the possible benefits?

Unfortunately, the answers are not yet clear: the talks are strictly confidential, so businesses need to arm themselves with the relevant information on what is being debated and how they might need to act so they are prepared when the time comes.

The longrunning TPP debate

One of the biggest deals under debate and due to conclude at the end of 2014 (although it has already run beyond a number of deadlines) is the TPP, which includes the US, Australia, Brunei, Canada, Chile, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam, Japan and now potentially South Korea. These countries are estimated to be responsible for 40% of the world's GDP and 26 % of the world's trade.

The TPP aims to lift barriers to doing business overseas and boost economic growth by eliminating tariffs on goods and services, removing non-tariff barriers and harmonising regulations. For Asian countries, opening up North America could give access to some of the world's biggest spenders, and for the US, an agreement could boost its automotive trade with Japan. China is not included as it is negotiating a separate bilateral investment treaty with the US as well as other agreements in Asia.

For textile and apparel companies, the TPP is particularly important. While typical duties on goods imported into the US average at about 1.5%, rates for apparel, textile and footwear far exceed that. Rates for certain categories of footwear can be more than 60%.

"Tough issues are still on the table relating to rules of origin and market access provisions – they describe how fast the duties are going to be reduced, and customs provisions, for instance what kind of requirements you need to clear a good," says Steve Lamar, executive vice-president of the American Apparel & Footwear Association (AAFA) and responsible for lobbying strategies on international trade.

One of the key debates is about origin: how much of the apparel manufacture needs to happen in the TPP zone for it to qualify for favourable [zero] tariffs?

Many US brands and apparel importers are campaigning for the 'cut and sew' rule to apply. This would mean the yarn and textiles could be made anywhere, and the apparel is merely put together in the TPP zone. This would make sourcing destinations within the TPP cheaper as import tariffs would be eliminated. The TPP Apparel Coalition, which includes the AAFA and the Outdoor Industry Association, is pushing for

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this reform. "Today's consumers expect a wide variety of fashionable apparel and flexibility in sourcing is vital to meet design specifications and consumer demands," the organisations state.

The 'yarn forward' rule – where the whole process including yarn manufacture would have to take place in the TPP to qualify for the benefits – is being pushed by US yarn and textile manufacturers who feel they will be less competitive in the market if material from elsewhere in Asia effectively becomes cheaper. Vietnam is seen as the greatest 'threat' – duty-free access could also make it more attractive to countries in the North American Free Trade Agreement or the Central American-Dominican Republic Free Trade Agreement, such as Mexico and Canada, where the bulk of US-made textiles [one third of total production] is exported.

If this route is decided on it would have implications for the supply chain: it is likely firms in non-TPP countries would buy spinning mills in the TPP – a number of Chinese and Taiwanese companies have already purchased yarn operations in Vietnam in recent months for that reason.

The Vietnam Textile and Apparel Association (Vitas) estimates that 98% of the cotton yarn its members used to make clothes in 2012 was imported, particularly from China, as was 88% of the finished fabrics. Vietnamese garment manufacturers have said they expect TPP negotiators to agree that Vietnam, along with Malaysia and Mexico, will be able to continue to import raw materials from non-TPP member countries and receive duty-free status.

Footwear tariffs

Footwear is another hot topic, and is again centred on Vietnam. As the world's second biggest footwear exporter after China some, particularly in the US, believe that reducing tariffs will give it an unfair advantage, while others say it will benefit consumers by lowering prices and helping to create jobs.

A group led by US-based sportswear brand New Balance, which still has some domestic manufacturing, has petitioned for tariffs to remain. "Vietnam doesn't need a reduction in tariffs to continue to thrive," said its director of public affairs, Matt LeBretton. "We need tariffs to remain in place for our ability to continue to operate here. It is a very simple argument."

The Footwear Distributors and Retailers of America (FDRA) however has claimed that elimination of footwear duties will have no impact on employment in the US since 99% of athletic footwear sold in the US is made overseas, taxed at rates that can reach 67.5%. FDRA president Matt Priest claims "almost 100%" of the US footwear industry supports a TPP agreement that eliminates duties from the Pacific Rim countries. Nike, which makes most of its shoes in Vietnam and Indonesia, is also a vocal protagonist.



Nike supports the elimination of footwear tariffs in the TPP; its biggest production centre is in Vietnam.

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The FDRA argues that benefits will be passed on to consumers: "Normally, the import cost of a shoe is multiplied three times to derive the retail price. Assuming the entire industry is using a similar formula, and if duties are eliminated across the board, thereby lowering import costs, then it follows that the retail prices must also drop."

Vietnam's Leather and Footwear Association (LEFASO) has said the TPP could generate one million new jobs for the industry. However, footwear manufacturers there might have to lessen their reliance on raw materials from China, depending on the final terms of the deal, alter the sub-contract production mode and increase the ratio of domestically-made products to benefit.

Elsewhere, benefits are less clear cut. An adviser to the Mexican footwear manufacturing industry, Alberto Lerín, says shoemakers in the states of Jalisco and Guanajuato are still hopeful that their products will be excluded from TPP. He said footwear companies in Mexico's two most important shoe-producing states were preparing a formal request. It would mean they would have no free access to other TPP markets, but what interests them is that their TPP trading partners, particularly Vietnam, would have no free trade access to Mexico. "Before the removal of quotas on imports from China at the end of 2011, Vietnam was the biggest exporter of shoes to Mexico," he said.

Mr Lamar admits there are likely to be "intense discussions" in 2014 on the Rules of Origin (ROO) and market access provisions. "Will duties come off quickly or will they come off over a 10 to 15 year period and how will that occur?" he queried.

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GSP: winners and losers

Businesses importing into Europe will also see a number of changes, as of 1 January 2014 for any countries affected by the EU's Generalised Scheme of Preferences. The EU introduced the GSP, a preferential market access scheme aimed at providing developing countries with an added advantage, in 1999. Of the 177 countries that previously benefitted from preferential access, only 90 remain from this date. Countries that have been excluded include Brazil, Argentina, Russia and the Ukraine and will now be exempt from the 20% reduction on the 12% duties (to total 9.6%) that the GSP affords.

The GSP+ was launched in 2006 as an incentive scheme for particularly vulnerable countries that have implemented key international conventions on sustainable development, labour rights and good governance.

Towards the end of 2013, the European Apparel and Textile Confederation (Euratex) campaigned against Pakistan's bid to be included. "In Euratex's opinion, not all [countries considered for inclusion] fulfil the necessary conditions," said its president, Alberto Paccanelli. "This is certainly the case in Pakistan, one of the leading world exporters and a country that has a dominant position in the EU market for a considerable number of textile products."

Nevertheless, the EC in December agreed that Pakistan could be included – a move Mr Paccinelli described as "creating additional imbalance in the EU market to the detriment of EU companies in favour of one of their major competitors".

"I get quite a lot of questions on sourcing in Pakistan – there is a renewed interest," said Antonio Barberi Ettaro, a senior consultant on international trade to the EC. "There's quite a big difference between 12% or 9.6% and 0%; Pakistan is very glad to have it. The Philippines have also been admitted to GSP+ after some pressure from their clothing industry."

Myanmar was reinstated to the GSP in July 2013 after being removed in 1997 due to systematic violations of the principles of the International Labour Organization (ILO) Convention on forced labour, a decision which was reversed after an ILO conference voted to lift its negative opinion on the country in June 2012.

"The EC is mandated to make agreements but they still have to be ratified by European parliament and member states and I reckon this will take between 18 and 24 months," added Mr Barberi. "The free trade agreement (FTA) with India has not been signed yet but most want it because a lot of people have their production in India. Every couple of months there's a rumour that it's been signed – it would really help the duties on apparel to come down and European companies cannot wait for this to go through."



EC outlines plan to boost European textiles industry

The European Commission in December outlined an action plan that aims to boost the long-term competitiveness of the European textile industry.

The 11-stage plan looks at the fashion and high-end sectors and sets out initiatives, to be implemented over the "next few years", that will enable it to better compete on a global stage.

Two 'stages' focus on skills and training – setting up Europe-wide apprenticeship schemes and encouraging young people to enter the industry.

The EC will offer IT help to help companies to keep pace with the increasing use of mobile devices and a growing demand for content. It will also encourage the development of clusters of similar manufacturers to foster innovation.

To deter counterfeiting, a 'Stop fakes' campaign will launch in member states; customs officials will be offered more training; and customs relationships with countries such as China and Hong Kong will be reinforced. Trademark registration would be more accessible, cheaper and more efficient.

A helpdesk, MERCOSUR IPR SME, will be launched at the end of this year to help SMEs better understand IPR protection in key markets, and SMEs will have improved access to finance and loans.

Euratex president Alberto Paccanelli said: "The most important objective is to create an environment in which our companies operating in the various industrial value chains are able to successfully compete in a globalised world and are encouraged to maintain investments and re-invest in Europe."

A similar deal with Vietnam is being negotiated. "There is a real sense of urgency in these negations – it seems like the EC would like to close this deal in 2014," said Mr Barberi. "Here, duties would go from 9.6 to 0% but there are always the rules of origin discussions that come around the corner."

It is not just the country-specific deals that could affect apparel and footwear companies: from the start of this year, textiles, apparel, footwear and machinery from China and textiles from India will be exempt from benefits: the EU has identified these categories as being "so competitive that they no longer need support to be successfully exported to the EU".

The US's Generalized System of Preferences (GSP) is a similar duty preference programme providing duty-free access to the US market to developing countries that meet certain criteria, such as labour rights and intellectual property rights protection. However, it lapsed in July 2013 due to Congressional gridlock with unclear timing for renewal, though it is thought it will be reinstated "as soon as possible".

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Sticking points for TTIP

The other main agreement under discussion and one which also accounts for about 40% of worldwide trade is the TTIP, launched in July 2013. It will make trade between EU countries and the US easier and has been described as the "biggest bilateral trade deal ever". The European Commission (EC) says TTIP could boost the EU's economy by €120 billion, the US economy by €90 billion and the rest of the world by €100 billion per year.

The EU is one of the top destinations for US exports of yarns, fabrics and apparel and US brands import yarns and fabrics from the EU to manufacture 'Made in the US' garments.

Currently, tariffs on textiles imported into the US are among the highest of all products; 10% for footwear and 13% to 15% for apparel although they can be as high as 28.2% for a man-made fibre coat and 32% for a man-made fibre T-shirt. This has not hampered growth particularly – European apparel and textile exports to the US grew from €2.8 billion in 2009 to €3.7 billion in 2011. For US companies importing into the EU, duties are not as steep, but for both sides, a duty reduction would be beneficial.

Euratex, the political voice of more than 181,000 companies, estimated that exports from the EU to the US could grow between 2.5% and 3.5% as a result of TTIP.

With the talks at an early stage, textile bodies and apparel companies are hoping they will have the opportunity to influence direction as negotiators discuss with stakeholders and advisers. In mid-December 2013 the AAFA and Euratex published a joint letter addressed to Michael Froman, US trade representative, and Karel De Gucht, European Commissioner for Trade, outlining the most pressing topics and to which there is expected to be an official response early this year.

Mr Froman has said of the deal: "The biggest opportunity, but also the hardest challenge, is getting our hands around the regulatory and standards piece. We're not talking about lowering health, safety and environmental standards on either side of the Atlantic. But both the US and Europe have well-regulated markets that come to slightly different conclusions, and that creates unnecessary frictions for trade."

Labelling policies

One area that needs to be consolidated or resolved is labelling. Care labelling for apparel is mandatory in the US but voluntary for those in the EU and the care symbols are also slightly different. "One of the things we've been urging is that either the US and EU recognise each other's or they adopt a common approach," says the AAFA's Mr Lamar, "so were not having duplicated requirements which impose a lot of costs and add a lot of burden to companies trying to service both markets."

For the US, companies need a permanent label, in English, that provides fibre content by percentage for fibres more that 5% [less than 5% can be labelled as other fibres]. It needs to state countries of origin, the manufacturer or importer ID and care instructions. For footwear the only requirement is country of origin, and there are exceptions for animal products – wool, fur and leather. "I'd like to remind companies that it will cost 15 cents to get it right but $500,000 dollars if you get it wrong," warns Marie D'Avignon, manager of government relations for AAFA.

The main mistakes companies make in terms of labels when importing into the EU are: not writing the fibre content in all EU languages that the garment is exported to, not adhering to the correct sequence and symbols for care labels, using brand names such as Lycra and not using manufacturers' full addresses. An incoming rule states that if the product contains any leather it needs to state 'contains animal parts of non-textile origin' in all relevant languages.

To comply with the languages rule – non adherence can result in fines of up to €40,000 – clothing companies such as H&M and C&A have lengthy labels. "We can always advise on the law, the practice and what is being controlled," says Mr Barberi. "There is a working group currently discussing ecolabelling – but in France there is a law that already prohibits products being labelled as organic if they do not take into account the chemicals used. France is also keen on carbon footprint labelling, and has passed the baton to the EU to look at the issue."

Safety and chemicals

In addition, rulings such as the US's Conflict Minerals Rule, which came into effect January 1, 2013, are causing some confusion. It requires companies to identify minerals that originate in the Democratic Republic of the Congo or adjoining countries, the proceeds from which could be used to finance armed groups in the region. For apparel companies, this might mean the metal that zips and buttons are made from and could require greater scrutiny of supply chains.

The US and the EU maintain varying approaches to flammability that result in differing standards with respect to test methods, fabrics and product coverage. Similarly, standards on phthalates treat certain garments (primarily children's sleepwear) differently, subjecting them to different standards.

Variations also occur in how the two treat chemicals, meaning those preparing to take advantage of any incoming benefits need to be

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NEW TRADE DEALS AT A GLANCE

AGREEMENT/ACT	COUNTRY/IES	WHAT'S THE ISSUE?	TIME FRAME
TPP	12 including the US, Japan, Vietnam, Australia and Mexico	Could affect sourcing and manufacturing locations	End of 2014, although previous deadlines have not been met
TTIP	EU and US	Could significantly boost textile and apparel trade	Next round is March 2014
GSP (Europe)	EU plus 90 countries (reduced from 177)	Pakistan more attractive for sourcing. Brazil, Argentina etc., could lose out	As of January 1, 2014
Affordable Footwear Act	US	Duties on low-cost and children's shoes could be eliminated	Introduced to Congress October 2013
Miscellaneous Tariff Bill	US	Suspends import tariffs on products that have no domestic manufacturing	Ongoing

aware of the differences until agreement is reached. The US has federal laws governing chemicals, while state laws might insist on tighter reporting or control. California in particular has its own standards that companies need to be aware of. Its Proposition 65 rule requires that businesses provide clear warnings whenever exposing the public to an 'unsafe level' of a listed substance. The list is regularly updated, for instance the plasticiser diisononyl phthalate (added to plastics to increase flexibility and used in coated fabrics and footwear) was added in December, although industry groups including BASF have written to oppose its listing as a carcinogen.

The states of Washington and Maine are also deliberating a renewed focus on chemicals, "one of the main concerns to us" says Ms D'Avignon. "Both states are collecting information on what chemicals are in products so they can decide how to regulate it. August 2014 will be a big reporting deadline for companies with sales of more than $1 million but less than $250 million – and this applies directly to products that are in contact with the skin such as apparel and footwear."

Across the Atlantic, companies must keep an eye on the REACH chemical directive, which is more than 8,000 pages long and growing and includes registration obligations. "Retailers will ask manufacturers to name any Substances of Very High Concern, of which there are 151," warns Mr Barberi. "There is an obligation to tell your next partner in the supply chain. You should really take this into account." As an indication of the lack of transparency that can occur in complex supply chains, the big brands behind the Zero Discharge of Hazardous Chemicals (ZDHC) project – including Nike, adidas, Puma and New Balance – as a group found banned substances such as azo dyes, chlorobenzenes, heavy metals, phthalates and short-chained paraffins in their supply chains on first inspection in 2012 – they are now working to eliminate these altogether.

The non-governmental organisation which 'inspired' ZDHC's creation, Greenpeace, is also keen on checking Article 33 – the 'right to know' for consumers – which dictates that the retailer has to answer questions on chemicals within 45 days. "We advise companies [that wish to start importing into the EU] to take REACH publication seriously and start an action plan now," warns Mr Barberi. "Analyse your current



Ignacio Garcia Bercero, chief EU negotiator for the TTIP, met NGOs, unions, consumer groups and businesses during a week of talks in December.

European Union, 2014

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status, define your strategy, estimate costs, make a budget, implement a system, conduct risk analysis, internally train employees and communicate results. Only by doing this will you be able to effectively manage chemicals and take steps towards REACH compliance."

TTIP third round

The third round of TTIP negotiations were held last December in Washington and were described as "satisfactory" by the EU's chief negotiator, Ignacio Garcia Bercero. "We remain on track to deliver an ambitious trade and investment deal that should boost our economies, deliver growth and more importantly jobs for both Europeans and Americans at a time when it is most needed," he said.

On the subject of textiles and apparel, he added: "We have discussed rules of origin but haven't as yet worked them out. We have been focusing on what we aim to do, we did have conversations but those conversations will continue into 2014."

EU negotiators will now work with US counterparts on the wording of provisions designed to make it easier to comply with each other's existing rules. The end of this third round marks the conclusion of the initial phase and paves the way for Mr Gucht and Mr Froman to hold a political 'stocktaking' meeting in March this year.

Time frames?

With the TPP and TTIP talks happening behind closed doors, it is very difficult to gauge exactly where they are up to, who is standing up for which opinion and where the pressures are coming from. A draft of the third round of TPP negotiations leaked by WikiLeaks brought criticism from the media and public; the TTIP has also been accused of being too secretive and pandering to the needs of big corporations.

It could also take a while until the partnerships come into force as, once agreed, they have to go through technical reviews and consultations and be ratified by the various governments. "Now's the time to think about them and help shape them, but you might not be able to harvest the gains for some period of time," says Mr Lamar.

Mr Barberi estimates most free trade agreements can take up to five years before they finally come into effect. "My advice is do your research and when you're looking at route to market, don't forget that you must first look at any regulatory environment, whether legislation or standards, and in many ways you may have to design your product to fit those standards," he adds.

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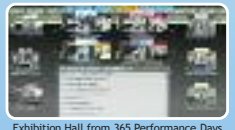
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