

# Trans-Pacific Partnership Agreement (TPP) Stakeholders' Forum

*The supply chain structure for the apparel industry  
and the role of TPP*

Presented by Levi Strauss & Co.

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# Introduction

- Thanks for the opportunity to speak about the supply chain structure of our industry and potential benefits from TPP
- Speaking on behalf of LS&Co. and key trade associations representing the apparel industry, including:
  - American Apparel and Footwear Association (AAFA)
  - National Retail Federation (NRF)
  - United States Association of Importers of Textiles and Apparel (USA-ITA)
  - Outdoor Industry Association (OIA)
- Representing U.S. retailers, apparel brands, apparel manufacturers and importers and the millions of jobs they create throughout the value chain

# About Levi Strauss & Co. (LS&Co.)

- Based in San Francisco, California, one of the world's largest brand-name apparel marketers with sales in more than 110 countries
- Revenue of \$4.4 billion in 2011
- Apparel products sold under the Levi's<sup>®</sup>, Dockers<sup>®</sup> and dENiZEN<sup>™</sup> brands
- Global corporation with roughly 11,000 employees worldwide
- Global supply chain sourcing in about 40 countries, with no more than 20 percent of product manufactured in any one country

# Key Industry Interests in the TPP

- No Separate Textile Chapter or Negotiations
  - Textiles and Apparel are integrated in World Trade
  - No Separate Textiles/Apparel Negotiation in the Doha Round
  - No more quotas
- Flexible and Simple Rule of Origin (not yarn forward):
  - Reflects Global Supply Chains of the 21<sup>st</sup> Century Industry
  - Maximizes Industry Ability to Use TPP Now and in Future
- Immediate Duty Free Access
  - Lengthy Phase Outs Delay Benefits of the TPP

# Realities of LS&Co.'s Sourcing Model

- Market in 110 countries and source in about 40 countries = truly global with complex supply chain
- Flexibility is critical to sourcing model = need ability to source from a variety of suppliers who can meet our complex demands for fashion, quality, speed to market, etc.
- Inputs are not commodities that are interchangeable (e.g., denim quality varies and different mills offer varying levels of quality and design features)
- Key concerns include: skilled labor, cost, availability of inputs, speed to market, quality of production, and infrastructure (electricity, roads, ports, etc.)

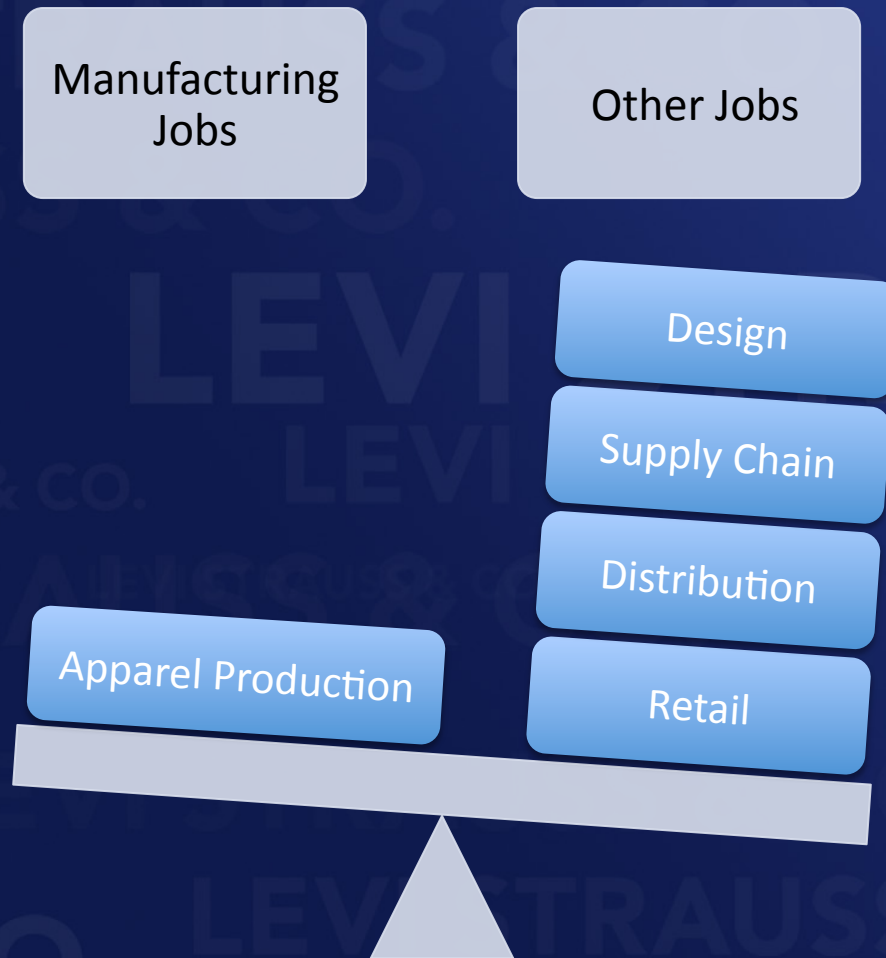
# Benefits of a Meaningful Agreement

- First FTA negotiated after the complete elimination of special protection and quotas could provide opportunity for industry
- Chance to realize a 21<sup>st</sup> century trade agreement that recognizes the realities of global supply chains
- Opportunity to craft an agreement with a liberal rule of origin that will open markets, promote trade, and create incentives for investment in TPP countries
- Chance to build in cumulation with all TPP partners to the advantage of the region from a more efficient supply chain
- Opportunity to reduce border taxes that fall disproportionately on apparel products and harm consumers

# Benefits of a Meaningful Agreement

- Chance to recognize that the apparel industry no longer needs special treatment; that the apparel industry has no special or unique issues since the end of quotas (e.g., transshipment, compliance)
- Potential to strengthen intellectual property protection
- Opportunity to achieve regulatory coherence and reduce administrative burdens in the supply chain
- Potential for job creation throughout the entire value-chain including designers, manufacturers, transportation, IT, distribution centers and retailers

# Job creation throughout the value chain



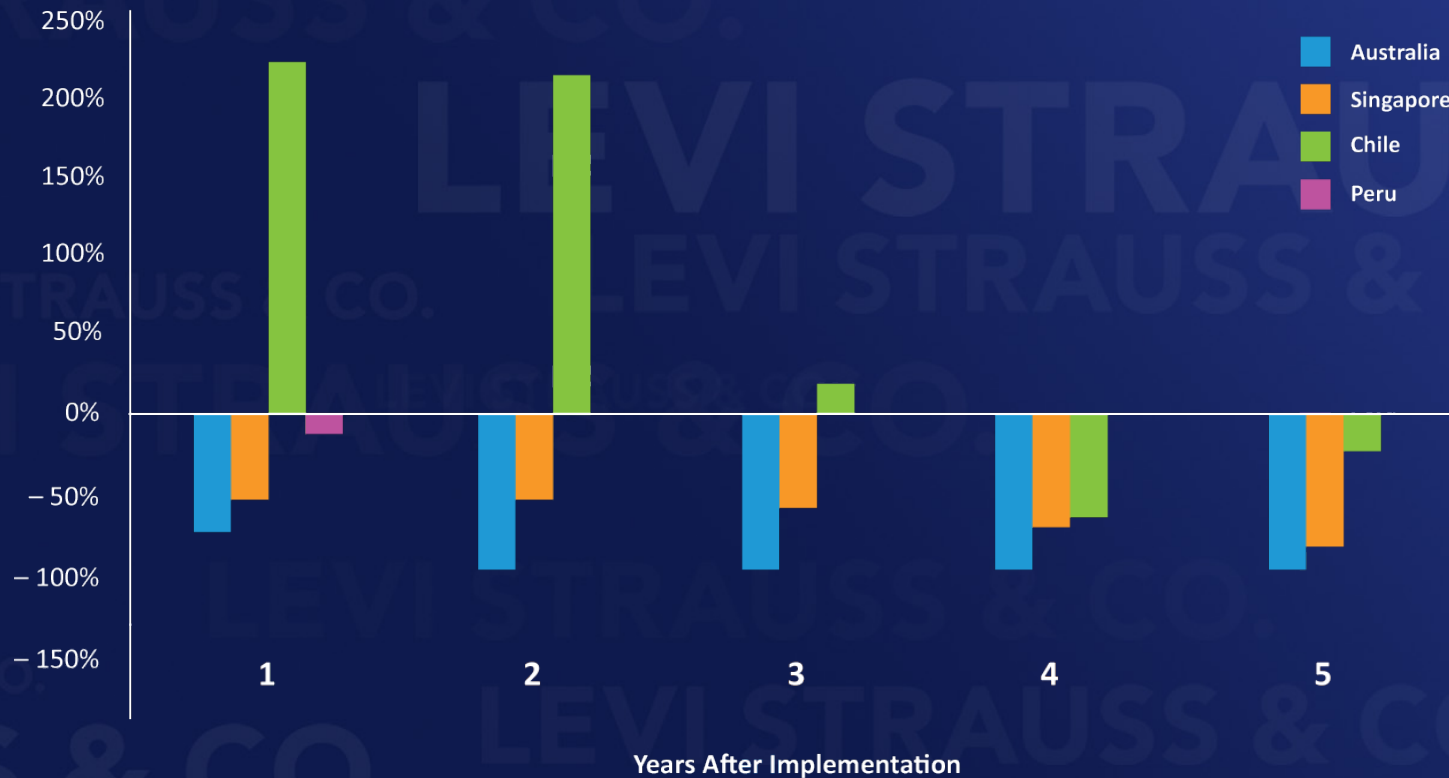
# Consequences of a Meaningless Agreement

- Without a liberal and simple rule of origin and other benefits for the apparel industry the TPP will:
  - Produce no new trade in our sector
  - Suppress market access offers from other industries
  - Be administratively burdensome and reduce speed to market
  - Hinder interest in investment (business likes flexibility)
- Past FTAs with strict rules yielded little benefit
  - AGOA's requirement to use local denim fabric resulted in a move away from production of denim apparel in Africa
  - The US-Australia, Singapore and Chile FTAs have failed to achieve expanded trade in apparel for those countries
  - Only FTAs with neighboring countries have had positive results

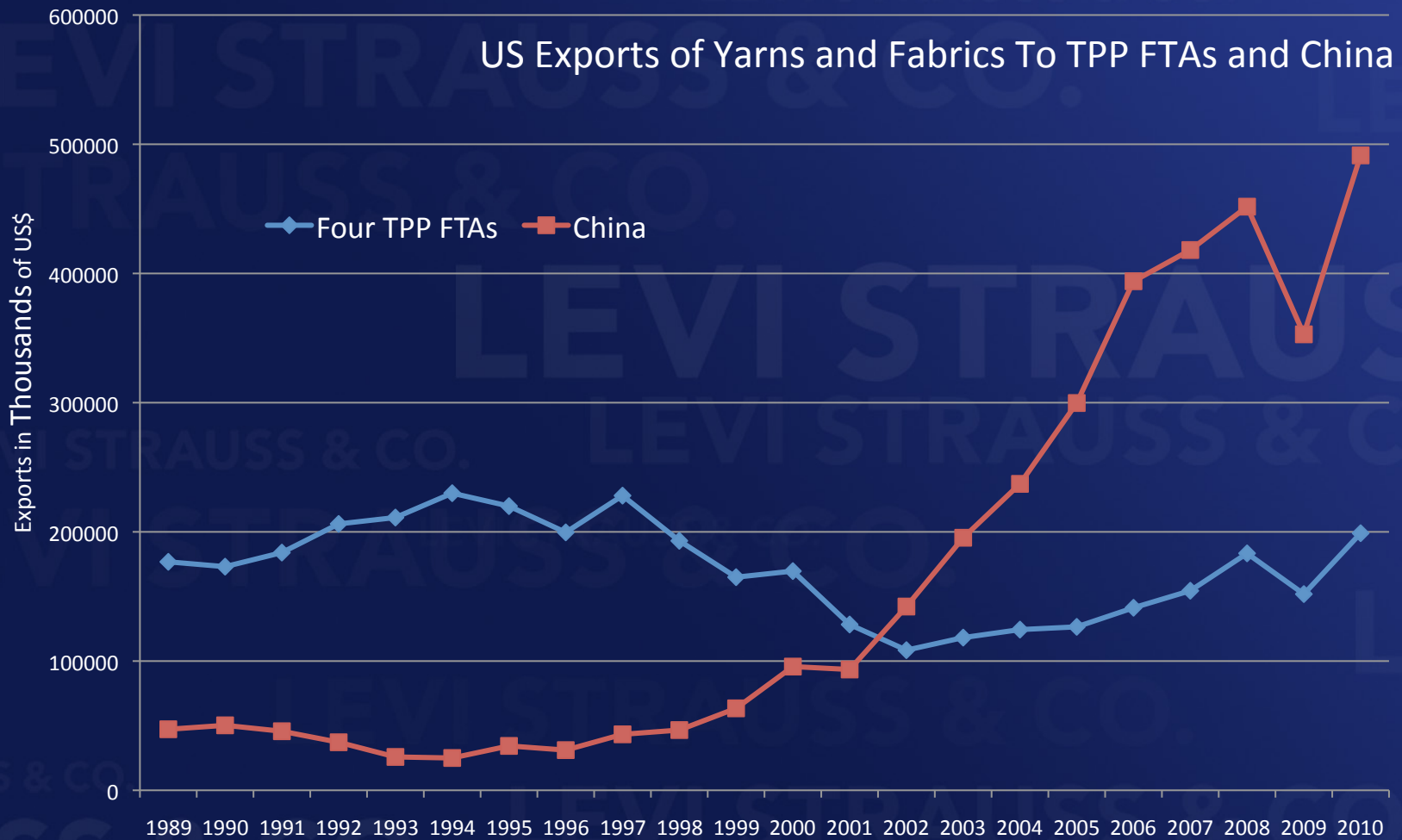
# Consequences of a Meaningless Agreement

Existing TPP partner FTAs with YF rule have failed to expand trade

Percent US Apparel Import Growth of 4 TPP FTAs



# US Export of Yarn and Fabric to TPP FTAs and China



# Key Sourcing Variables

- Cost (inputs, transportation, tariffs, etc.)
- Speed to Market
- Availability and skill of labor that meets our worker rights standards
- Ability to produce to specifications including aesthetics, style, trends, seasonal innovation
- Flexibility to deal with unforeseen circumstances (natural disasters, political unrest, currency fluctuation, etc.)

# Liberal, Flexible and Simple Rules of Origin Are Critical

- Without favorable rules the industry does not utilize trade agreements
- Efficient cut and sew operations with access to a diversity of fabric/material allows us to be the most competitive
- We are driven by market realities and need to adjust sourcing strategy to adapt; yarn forward restricts our flexibility
- A yarn forward rule would bind industry to current trade patterns and dampen potential growth in the sector
- Strict rules add cost and complications making the supply chain cumbersome, often negating benefits from trade agreements

# In Sum: Advantages of Liberal Rules of Origin, Disadvantages of Restrictive Rules

## Liberal Rules:

- Provide value to consumers
- Increase competitiveness
- Diversify and improve the supply chain
- Create jobs
- Drive investment in line with market realities
- Deliver the commitment to the 21<sup>st</sup> century

## Restrictive Rules:

- Do not consider supply chain realities
- Administratively burdensome
- Reduce speed to market
- Drive up cost
- Limit interest in investment
- Will suppress valuable market access offers in other sectors

# Thanks

- We are hopeful that the TPP will provide our industry with the tools we need to grow and prosper in the 21<sup>st</sup> century providing jobs and benefits to workers throughout the value chain and quality products at affordable prices to our consumers
- Thank you for your time

# Contacts

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