

United States International Trade Commission

Textiles and Apparel: Effects of Special Rules for Haiti on Trade Markets and Industries

Investigation No. TR-5003-1
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June 2008



U.S. International Trade Commission

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**Address all communications to
Secretary to the Commission
United States International Trade Commission
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U.S. International Trade Commission

Washington, DC 20436

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This report was prepared principally by

Co-Project Leaders

Heidi Colby-Oizumi
heidi.colby@usitc.gov

and

William Deese
william.deese@usitc.gov

Principal Authors

William Deese, Heidi Colby-Oizumi, William Powers, and Laura Rodriguez

Special Assistance From

Brenda Carroll, Russell Duncan, William Donnelly, and Kimberlie Freund

Under the direction of

Dennis Rapkins, *Chief*
Chemicals and Textiles Division

ADDENDUM

Following Commission approval of this report and shortly before publication, Congress passed (over veto) the Food, Conservation, and Energy Act of 2008 (“the Act”) (Public Law No. 110-234), which amends the special rules for apparel and other textiles from Haiti in section 213A(b) of the Caribbean Basin Economic Recovery Act (CBERA) (19 U.S.C. 2703a(b)), including rules enacted in 2006 by the Haitian Hemispheric Opportunity through Partnership Encouragement (HOPE I) Act of 2006. The amendments were added in conference. They are contained in Part I of Subtitle D of Title XV of the Act, which can also be cited as the “Haitian Hemispheric Opportunity through Partnership Encouragement Act of 2008” or the “HOPE II Act”. In the conference report, the Conferees noted that the use of HOPE I to date “has been very limited,” and they attributed this to HOPE I’s “complex” value-added rule of origin.¹ To address the “deficiencies” in HOPE I, the conference report provided additional ways, under simplified rules, that Haitian apparel can qualify for duty-free treatment, and also authorized a new apparel-sector capacity building and monitoring program to benefit labor (the Technical Assistance Improvement and Compliance Needs Assessment and Remediation Program or “TAICNAR program” (see section 15403 of the Food, Conservation, and Energy Act)).²

The principal provisions relating to apparel and textile trade with Haiti are contained in section 15402 of the Act. These provisions amend section 213A(b) of CBERA in the following principal ways: (1) most apparel preferences are extended for 10 years, until September 30, 2018; (2) the existing value-added rule is retained until the original 5-year expiration date, but the quantitative cap is changed to 1.25 percent of total U.S. apparel imports for the duration of the provision; (3) the cap for woven apparel in HOPE I is expanded from 50 million square meters equivalent (SMEs) to 70 million SMEs; (4) a new knit apparel cap of 70 million SMEs is created, subject to exclusions for certain men’s/boys’ t-shirts and sweatshirts; (5) an uncapped benefit for certain articles (brassieres, luggage, headwear, and certain sleepwear) is created for wholly assembled or knit-to-shape in Haiti without regard to the source of the fabric; (6) an uncapped benefit is created for apparel wholly assembled or knit-to-shape in Haiti that meets a “3 for 1” earned import allowance (i.e., for every 3 SMEs of qualifying fabric purchased for apparel production by producers in Haiti, a 1 SME credit is received that can be used in the manufacture of apparel using non-qualifying fabric; the latter may enter the United States duty-free and not subject to quantitative limitations); (7) an uncapped benefit is created for apparel made from non-U.S. fabrics deemed to be in “short supply”; and (8) direct shipment from and co-production in the Dominican Republic is allowed.

This report, *Textiles and Apparel: Effects of Special Rules for Haiti on Trade Markets and Industries*, only addresses the provisions, issues related to, and the effects of HOPE I (referred to in the report as the HHOPE Act), as section 5003 of the original legislation required the USITC to report within 18 months of the enactment of the HOPE I Act (by June 20, 2008) on the effects of the amendments on trade markets and industries involving textiles and apparel in Haiti, the United States, and certain other countries. Thus, the report does not analyze the effects of the HOPE II Act passed by Congress on May 22, 2008.

¹ Conference report to accompany H.R. 2419, report 110-627 (May 13, 2008), at 1088.

² *Id.* at 1089.

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EXECUTIVE SUMMARY

The 2006 Haitian Hemispheric Opportunity through Partnership Encouragement (HHOPE) Act, which was signed into law on December 20, 2006 and became effective March 20, 2007, was designed to support development and employment growth in Haiti, the poorest country in the Western Hemisphere. The HHOPE Act provides expanded trade benefits beyond what the country receives under the Caribbean Basin Trade Partnership Act (CBTPA), extending duty-free treatment to U.S. imports of knit and woven apparel assembled in Haiti from U.S., Haitian, or global inputs, subject to eligibility requirements, and in most cases, value-added content requirements. The Act provides for more flexible sourcing alternatives than the CBTPA and has the potential to improve the competitiveness of Haitian manufacturers by allowing the use of lower cost raw materials, a primary cost component in the production of apparel.

The Haitian apparel industry, which consists of fewer than 20 firms and approximately 15,000 to 18,000 employees, benefits from an abundant low-cost labor force and proximity to the United States. Haitian apparel production, all of which is exported, accounts for approximately 68 percent of Haiti's total exports and 10 percent of its GDP. Challenges facing the industry, however, include political instability, infrastructure constraints, limited capital resources, increased competition from regional and global producers, and concerns over security and corruption. Moreover, Haitian apparel manufacturers must import all yarns, fabrics, pre-cut garment pieces, and other inputs to make apparel, as there is no domestic textile industry.

The United States is Haiti's largest trading partner, accounting for approximately 66 percent of total Haitian trade and over 90 percent of trade in textiles and apparel. While Haitian exports of apparel to the United States increased by value during 2005-2007, imports from Haiti still accounted for less than 1 percent of the value of total U.S. imports of apparel in 2007. U.S. apparel imports from Haiti consist mostly of high-volume, low-cost garments, such as basic cotton and man-made fiber knit shirts, cotton knit underwear, and woven bottoms (e.g. trousers, shorts, and similar garments).

The greatest impetus behind increased Haitian apparel exports to the United States was the CBTPA. In 2005, 71 percent (\$288 million) of U.S. imports of apparel from Haiti entered duty-free under the CBTPA, whereas in 2007, 93 percent (\$421 million) of U.S. imports from Haiti entered duty-free under the CBTPA. The CBTPA program, under which U.S. imports from Haiti grew 46 percent during 2005-2007, has contributed to a viable apparel manufacturing sector in Haiti and created a base from which the industry can benefit from the enhanced preferences afforded by the HHOPE Act.

Impact of the HHOPE Act

To date, the impact of the HHOPE Act on Haiti, the United States, and countries with which the United States has a free or preferential trade agreement has been minimal. The HHOPE Act apparently has provided some small benefits to Haiti in terms of increased employment and increased exports over what might have occurred in the absence of the Act. Some Haitian apparel firms have expanded operations, but there has been little

additional foreign investment. However, the Act appears to have contributed to increased interest in Haiti as a sourcing destination and has likely enhanced the co-production relationship between Haiti and the Dominican Republic.

U.S. imports under the HHOPE Act accounted for just 3 percent of total U.S. imports of apparel from Haiti in 2007. The short six-month period of observable data (the first shipments under the Act did not occur until July 2007) precludes reaching a definitive conclusion, but the small response to the Act suggests that there has been no effect on the U.S. market or industry. U.S. exports of textiles and apparel to Haiti declined in 2007, but this trend began prior to the Act.

The HHOPE Act has had little, if any, effect on trade markets and industries in countries that have a free or preferential trade agreement with the United States. The Dominican Republic is the country most likely affected by the Act, in a small but positive way, because textiles and apparel production in the Dominican Republic is integrated with Haitian apparel manufacturing. The textile and apparel industries in Haiti and the Dominican Republic enjoy a complementary relationship, with the Dominican Republic supplying textiles and washing and finishing¹ services, which are unavailable in Haiti. In addition to the United States, Haiti also exports apparel to U.S. FTA partners Canada, Mexico, and Australia. Haitian exports to these trading partners continued to increase in 2007, an indication that the Act has not resulted in a diversion of exports from these countries.

Because the Act was signed into law on December 20, 2006, and became effective only on March 20, 2007, some additional investment resulting from the Act is possible, given a likely lag between the effective date of the provisions and production from new investment. Industry sources note that the government of Haiti is taking initiatives to facilitate the reopening of closed apparel factories and that loans or other capital from development and multilateral organizations could enhance investment in the textiles and apparel sector.

Factors Affecting Use of the HHOPE Act Provisions

The limited amount of trade and investment under the HHOPE Act can be partially attributed to the brief time that the provisions have been in effect. The provisions of the Act became effective on March 20, 2007, and U.S. imports under these provisions did not begin until the second half of 2007. Industry sources contend that the complexity and ambiguity of the language of the Act contributed to this delay.

¹ Finishing includes processes such as heat-setting, embossing, pressing, napping, and the application of chemicals to the fabric.

Industry sources also indicate that the Act is unlikely to attract significant new investment because the duration of its benefits is limited.² Moreover, they indicate that the requirement that garments be shipped directly from Haiti adds additional time and costs for apparel that undergoes finishing processes in the Dominican Republic. They also view the 50-percent value-added requirement covering the larger share of apparel under the Act as disadvantageous; Haitian apparel producers assert that at this time, this requirement can be met for only a limited number of garment types. Industry sources also suggest that the addition of a tariff preference level for knit garments, the primary component of Haitian apparel production, would greatly enhance the benefits afforded by the Act.

Industry sources also cite continuing concerns about Haiti's political instability, non-compliance with labor standards, corruption, general safety, infrastructure needs, a lack of managerial expertise, and limited access to capital at favorable rates, which act as disincentives for investing in or sourcing from Haiti. They indicate that for many companies, the benefits provided by the HHOPE Act are simply not enough to offset such constraints.

² As noted in the addendum to this report, on May 22, 2008, Congress passed (over veto) the Food, Conservation, and Energy Act of 2008 (Public Law No. 110-234), which amends the special rules for apparel and other textiles from Haiti in section 213A(b) of the Caribbean Basin Economic Recovery Act (CBERA) (19 U.S.C. 2703a(b)). The new provisions expand benefits for U.S. apparel imports from Haiti and extend most apparel preferences for 10 years, until September 30, 2018.

CHAPTER 1

Background

Introduction

The Haitian Hemispheric Opportunity through Partnership Encouragement (HHOPE) Act amends the Caribbean Basin Economic Recovery Act and is set forth in Title V of the Tax Relief and Health Care Act of 2006, Public Law 109-432, approved by the President on December 20, 2006.¹ The HHOPE Act provides temporary duty-free access to the U.S. market for apparel produced in Haiti, subject to certain restrictions and quantitative limits. The apparel receiving beneficial tariff treatment may be made from inputs from any source as long as a specified share of the apparel's value is attributable to processing or materials originating in Haiti, the United States, or countries with which the United States has a free trade agreement (FTA) or preferential trade relationship. The general benefits of the HHOPE Act remain in effect for five years, but a special three-year provision grants duty-free entry to woven apparel manufactured in Haiti from inputs from any country and is not subject to the value-added requirement. The HHOPE Act seeks to promote employment and development in Haiti, the poorest country in the Western Hemisphere, and thus to contribute to the country's security and political stability.²

Scope and Approach

This report examines the effects of the HHOPE Act on the textile and apparel industries and markets in Haiti, the United States, and countries with which the United States has an FTA or preferential trading program (so-called "beneficiary countries"³). The report focuses primarily on the textile and apparel industries and markets in Haiti, the United States (Haiti's largest trading partner), and the Dominican Republic, which is believed to be Haiti's next largest trading partner after the United States. Pertinent issues concerning the other beneficiary countries are presented; however, Haiti has little trade with most of the other beneficiary countries, and information available to the Commission indicates that the HHOPE Act is unlikely to have any measurable effect on those countries.

¹ See appendix A for the full text of the legislation.

² CRS, *Haiti: Developments and U.S. Policy*, June 21, 2007, 19-37.

³ The term "beneficiary country" includes Haiti, the United States, and any country that is a party to a FTA with the United States (Australia, Bahrain, Canada, Chile, Dominican Republic, El Salvador, Guatemala, Honduras, Israel, Jordan, Mexico, Morocco, Nicaragua, and Singapore). It also includes beneficiary countries under the Caribbean Basin Trade Partnership Act (Antigua and Barbuda, Aruba, The Bahamas, Barbados, Belize, British Virgin Islands, Costa Rica, Dominica, Grenada, Guyana, Jamaica, Montserrat, Netherlands Antilles, Panama, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Trinidad and Tobago), the Andean Trade Promotion and Drug Eradication Act (Bolivia, Colombia, Ecuador, and Peru), and the African Growth and Opportunities Act (Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Chad, Congo (DROC), Congo (ROC), Djibouti, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, South Africa, Swaziland, Tanzania, Uganda, and Zambia).

Therefore, the effects on countries other than Haiti, the United States, and the Dominican Republic are not addressed at length in the report.

The report presents available information on Haiti's apparel industry and the types of garments manufactured in Haiti, mainly knit garments, such as t-shirts and sweatshirts, with a lesser amount of woven apparel, such as work uniforms. The report generally distinguishes between knit and woven apparel, because the HHOPE Act provides different benefits for these two categories of garments.

Statistics for trade among Haiti, the United States, and third countries (other beneficiary countries and key non-beneficiary countries) are reported for the 2005-2007 period,⁴ with the 2007 data including entries under the HHOPE Act. Data on trade between Haiti and third countries are limited by the fact that Haiti does not report sector-specific trade data. Haitian trade was estimated by examining other countries' reported imports from and exports to Haiti. This approach works well as long as other relevant countries report their trade data. Unfortunately, many Caribbean countries, including the Dominican Republic, do not report disaggregated trade data, and trade between two non-reporting countries cannot be captured.

In addition to available trade data, information was gathered through questionnaires. Questionnaires were sent to Haitian apparel manufacturers in July 2007, and seven completed questionnaires were returned, with one questionnaire providing the responses of two firms under the same ownership.⁵ The eight responding firms account for approximately 36 percent of the value of Haitian exports of apparel to the United States.⁶ Although the questionnaire responses did not provide quantitative information on the effects of the HHOPE Act on U.S. imports, they contained information relevant for the report on the Haitian apparel industry and its planned response to the HHOPE Act.

Commission staff also conducted telephone interviews with representatives of companies, industry associations, and government organizations in the United States, Haiti, and Canada. Commission staff obtained information about firms' business relationships and manufacturing operations in Haiti in recent years and since the implementation of the HHOPE Act, and surveyed industry sources about the effects of the legislation on U.S.-Haiti apparel trade and on other suppliers. In addition, the Commission held a hearing in connection with the investigation on November 8, 2007, with interested parties presenting testimony and written submissions.⁷

Incomplete data, combined with the short period since implementation of the HHOPE Act, limit the analysis in this report. The need to use other countries' data to derive Haiti's imports and exports is particularly problematic for the Dominican Republic, as firms doing business in Haiti and the Dominican Republic indicate that there is significant trade between the two countries. Also, imports under the HHOPE Act did not

⁴ Official U.S. Department of Commerce data are used for U.S. trade, and the Global Trade Atlas is used for third-country trade. Most, but not all, countries reported full-year 2007 data at the time of this report.

⁵ Data from U.S. Customs and Border Protection and information from a Haitian business association were used to identify potential Haitian apparel producers. Approximately 30 questionnaires were sent to firms potentially in operation. Some of the firms have likely gone out of business, and it is believed that fewer than 20 firms are currently manufacturing apparel.

⁶ Contractors for Gildan and Hanesbrands account for a large share of U.S. apparel imports from Haiti. Contractors for Hanesbrands, but not Gildan, responded to the Commission's questionnaire.

⁷ See appendix D for the calendar of public hearing.

begin until the second half of 2007, and 6 months of data is an insufficient period on which to base definitive conclusions.

The ultimate impact of the HHOPE Act will depend upon the extent to which Haitian manufacturers increase production and exports to the United States in response to the Act. Trade volumes and market shares are the key indicators of this response; new investment and changes in employment are also important. The magnitude of the response to the HHOPE Act will be influenced by the cost savings afforded to manufacturers, the duration of the benefits, and competition in the U.S. market by producers of similar garments from competing countries. Third-country markets will be affected to the extent that Haiti increases imports of fabric and other inputs from these sources or redirects exports away from these markets to the United States. The business climate in Haiti is also a determinant of manufacturers' ability and willingness to increase investment in Haiti. The approach used in this report is to present available information on these key indicators based on official trade data, telephone surveys, questionnaire responses submitted by Haitian manufacturers, hearing testimony, and submissions from private firms and other organizations with links to the Haitian apparel industry.⁸

The remainder of this chapter provides information on the HHOPE Act legislation and a country profile of Haiti. Chapter 2 provides background information on the textile and apparel sectors in Haiti, the United States, and other countries with which the United States has an FTA or special trade arrangement. The third and final chapter examines the apparent effects of the HHOPE Act on the trade markets and industries in Haiti, the United States, and other selected beneficiary countries.

Legislative Overview

Section 5002 of the HHOPE Act amends the Caribbean Basin Economic Recovery Act (CBERA)⁹ to provide special rules for apparel imported directly from Haiti for a five-year period from the date of enactment (i.e., from December 20, 2006 to December 19, 2011). These special rules for Haiti grant preferential treatment to U.S. imports of Haitian apparel, provided such apparel meets one of three technical specifications.

First, duty-free treatment is given to U.S. imports of apparel assembled or knit-to-shape in Haiti, regardless of the source of the fabric or other inputs used in production, provided that a specified percentage of the value of the apparel comes from processing in and/or inputs from Haiti, the United States, or any country with which the United States has an FTA or a preferential trading program. From the date of enactment through the third one-year period of the Act, the value-added requirement is 50 percent. In the fourth and fifth one-year periods, the value-added requirement increases to 55 and 60 percent, respectively.

Second, the HHOPE Act includes a single transformation rule for brassieres (HTS subheading 6212.10), in place for the duration of the Act, which allows for the components of these garments to be sourced from anywhere in the world, as long as the garments are both cut and sewn or otherwise assembled in Haiti, the United States, or both countries.

⁸ Positions of interested parties are summarized in appendix C.

⁹ See appendix A for the full text of the legislation.

The Act establishes an overall limit or cap on the total quantity of apparel imported under the above provisions in the first 1-year period to no more than 1 percent of the aggregate square meters equivalent (SMEs) of all apparel articles imported into the United States in the most recent 12-month period for which data are available. The cap is successively raised each year by 0.25 percent, for a final overall quantitative limit in the fifth and final 1-year period of 2 percent of total U.S. imports of apparel. The Committee for the Implementation of Textile Agreements (CITA) calculated the quantitative cap for the first initial applicable 1-year period (December 20, 2006 to December 19, 2007) at 238,785,275 SMEs.¹⁰ On December 11, 2007, CITA announced that the quantitative limit for the second 1-year period would be 313,000,534 SMEs.¹¹

Third, in addition to the aforementioned provisions for garments meeting the value-added requirement and brassieres, the HHOPE Act extends duty-free treatment for three years to a specified quantity of woven apparel from Haiti (chapter 62 of the HTS) that does not meet the aforementioned value-added content, up to 50 million SMEs in the first two 1-year periods and 33.5 million SMEs in the third 1-year period. Such woven apparel must be wholly assembled in Haiti but can be made from inputs from any country and is not subject to any value-added requirements. The quantity allowed under this provision of the Act is in addition to the overall quantitative limit noted above for brassieres and woven and knit garments meeting the value-added rule.

Notwithstanding the provisions of the HHOPE Act, apparel imports from Haiti may still enter the United States under the yarn-forward rule of origin established by the Caribbean Basin Trade Partnership Act (CBTPA)¹² (with certain exceptions). Imports under CBTPA generally qualify for duty-free treatment only if they are made entirely from inputs (fabrics) produced in Haiti, other CBTPA beneficiary countries, including former CBTPA countries that have now implemented the Central America-Dominican Republic-United States Free Trade Agreement (CAFTA-DR), or the United States from U.S. yarn.¹³ The yarn-forward rule has been a characteristic of a number of the FTAs and preferential trade arrangements the United States has negotiated with other countries. Provisions for apparel under the HHOPE Act are more liberal (see box 1.1 for a comparison of the rules of origin under CBTPA and the HHOPE Act). However, to be eligible for the preferential treatment established by the Act, Haiti must meet certain criteria, which include making progress toward establishing a market-based economy and the rule of law, eliminating barriers to U.S. trade and investment, establishing economic policies to reduce poverty and promote development, combating corruption and bribery, and protecting internationally recognized worker rights.¹⁴ The legislation also requires that Haiti implement a visa system, take measures to prevent transshipment, and keep accurate and complete records. On March 20, 2007, President Bush, in accordance with

¹⁰ 70 Fed. Reg. 14084 (March 26, 2007).

¹¹ 72 Fed. Reg. 71377 (December 17, 2007).

¹² The Food, Conservation, and Energy Act of 2008 (Public Law No. 110-234), passed May 22, 2008, extended the Caribbean Basin Trade Partnership Act (CBTPA) for two years, until September 30, 2010. Haiti currently exports most of its apparel to the United States under CBTPA.

¹³ The fibers used in the production of the yarn can be made in a third country. In addition, third-country fabrics and yarns may be used if a determination has been made that such fabrics or yarns are commercially unavailable in the United States or the beneficiary countries. CBTPA allows Haiti to claim preference under CBTPA for apparel made in Haiti that is shipped from or uses inputs from current CAFTA-DR countries (former CBTPA beneficiary countries).

¹⁴ Failure to make continual progress towards these goals may result in termination of preferential treatment afforded by the Act.

section 5002 of the HHOPE Act, issued a presidential proclamation indicating that Haiti had met these requirements,¹⁵ after which the special rules for Haiti went into effect.

On February 6, 2007, the Commission instituted investigation No. TR-5003-1, *Textiles and Apparel: Effects of Special Rules for Haiti on Trade Markets and Industries*, as required by section 5003 of the HHOPE Act, which directs the Commission to report to Congress within 18 months of the enactment of the Act on the effects of the amendments on trade markets and industries involving textiles and apparel in Haiti, the United States, and certain other countries.

Box 1.1

Comparison of the rules of origin for apparel under CBTPA and the HHOPE Act

The rules of origin for apparel articles under the CBTPA and the HHOPE Act differ significantly. In general, apparel imported into the United States under CBTPA must be made from U.S. yarn that is made into fabric in either the United States or a beneficiary country. However, the CBTPA allows for co-production arrangements between countries and indirect shipment to the United States. The approach of the HHOPE Act is to allow inputs from beneficiary or nonbeneficiary countries, as long as a portion of the value-added content of the garment is from Haiti, the United States, or other beneficiary countries. The value-added requirement increases in subsequent years of the Act. Both programs allow for certain exceptions, as noted below.

CBTPA - Required origin of inputs and processes, value-added requirements, and quantitative limits						
Article	Yarn	Fabric	Cutting	Assembly	Value-added	Quantitative Limit
Apparel	U.S.	U.S.	U.S./CBTPA ¹	CBTPA	N/A	No
Knit apparel	U.S.	U.S. or CBTPA	CBTPA	CBTPA	N/A	Yes
T-shirts	U.S.	CBTPA	CBTPA	CBTPA	N/A	Yes
Brassieres	Any country	U.S. (75%)	U.S./CBTPA	U.S./CBTPA	N/A	No
Apparel of yarns/fabrics in short supply	Any country	Any country	CBTPA	CBTPA	N/A	No
HHOPE - Required origin of inputs and processes, value-added requirements, and quantitative limits						
Article	Yarn	Fabric	Cutting	Assembly	Value-added	Quantitative Limit
Apparel	Any country	Any country	Any country	Haiti	50% or more beneficiary country content ²	Yes
Woven apparel	Any country	Any country	Any country	Haiti	No	Yes
Brassieres	Any country	Any country	Haiti/U.S.	Haiti/U.S.	No	Yes

¹ The use of U.S. thread is also required if the articles are cut and sewn or otherwise assembled in one or more CBTPA countries.

² As noted in the legislative overview, the value-added requirement increases from 50 percent to 55 percent in year four of the Act, and then to 60 percent in year five of the Act. Beneficiary countries include the United States, Haiti, and any country with which the United States has an FTA or preferential trading arrangement.

¹⁵ 72 Fed. Reg. 13655 (March 22, 2007).

Haiti Profile

Haiti's population totals approximately 8.7 million people, 2.1 million of whom live in the capital Port-au-Prince and its surrounding districts. Port-au-Prince and Cap-Haitien are its major ports (figure 1.1). Haiti shares the island of Hispaniola with the Dominican Republic. Urban areas are crowded, and Haiti's population density of 819 people per square mile ranks among the highest in the Western Hemisphere. Over half of the population lives in its mountainous rural areas and practices subsistence agriculture. In recent years, large numbers of Haitians have migrated abroad. Poor water quality, deforestation, and chemical contamination are serious concerns. Poverty and weak institutions are common throughout the country.

Figure 1.1 Map of Haiti



Political Environment

Haiti has a history of contentious politics, often mixed with violence. In 2004, fighting erupted when rebel groups challenged the government of Jean-Bertrand Aristide and took control of part of northern Haiti.¹⁶ President Aristide left the country in February 2004,

¹⁶ Library of Congress, "Country Profile: Haiti," May 2006, 7.

and violence escalated as rebels clashed with forces from the interim government and criminal activity went unchecked. A U.S.-led multilateral force protected foreign interests and attempted to restore order from February to July 2004. The United Nations Stabilization Mission in Haiti (MINUSTAH) replaced the multinational force and has continually deployed troops to Haiti since June 2004¹⁷ to ensure a secure and stable environment.

With MINUSTAH's support, Presidential elections were held in February 2006, and René Prével was elected for a five-year term. President Prével has advocated good governance, eradication of corruption, and economic development. However, his Lespwa (Hope) party lacks a majority in the national legislature and must form alliances to promote its policies.

Haiti lacks effective institutions for law enforcement, and armed violence and other crimes have disrupted normal civilian activities.¹⁸ Following criticism for its ineffectiveness, MINUSTAH implemented a more assertive approach to pacify armed groups in 2006, and the security situation has reportedly improved.¹⁹ Aid organizations have provided training for Haitian judges and prosecutors to increase their effectiveness in prosecuting criminal cases and reducing corruption. Establishing a secure environment where the rule of law is respected is considered essential for attracting investment to the country.²⁰

Economy

For the past few years, modest growth has returned to Haiti after a long economic downturn.²¹ The services sector and remittances from abroad are Haiti's primary sources of income. The apparel sector is the most important component of Haitian exports. World Bank data show that over one-half of all Haitians live on \$1 a day or less and that approximately three-fourths live on \$2 a day or less (table 1.1). Purchasing parity power (PPP) adjustments measure similar baskets of goods at international prices, and Haiti ranks as the poorest country in the Western Hemisphere by this measure. Nicaragua, the next poorest country in the region, has more than double the per capita GDP of Haiti. Haiti also has the most unequal distribution of income in the hemisphere as indicated by its high Gini coefficient (table 1.1).²² About two-thirds of the labor force engages in subsistence agriculture, street vending, or other activities in the informal sector.

¹⁷ United Nations Security Council Resolution 1780 (October, 15, 2007) extends the mandate of MINUSTAH until October 2008, with the intention of further renewal.

¹⁸ Refugees International, "Haiti: UN Civilian Police Require Executive Authority," March 14, 2006.

¹⁹ EIU, *Haiti: Country Report*, August 2007.

²⁰ EIU, *Haiti: Country Report*, February 2008.

²¹ The IMF reported that real Haitian GDP decreased an average of 0.7 percent a year over the last 40 years. IMF, *Haiti: 2007 Article IV Consultation*, 5.

²² The Gini coefficient is an index of inequality. If every household's income were the same, the Gini coefficient would be 0; if one household had all income and other households nothing, it would be 1.

TABLE 1.1 Poverty indicators

Source	Percent of population living on		GDP per capita PPP 2006 (US\$)	Gini coefficient
	≤ \$1/day	≤ \$2/day		
Haiti.....	54	78	1,712	0.59
Dominican Republic.....	3	16	8,813	0.52
El Salvador.....	19	41	5,525	0.52
Nicaragua.....	45	80	4,094	0.43
Latin America and Caribbean region.....	9	22	9,075	(^a)

Source: World Bank, World development indicators.

^a Not available.

After falling in 2004 due to political strife, Haiti's real GDP has grown by small amounts for three consecutive years (figure 1.2), registering a growth rate of 3.2 percent for the Haitian fiscal year ending September 2007. Services, agriculture, and manufacturing account for 56 percent, 26 percent, and 15 percent of Haitian output, respectively.²³ Apparel manufacturing accounts for about 65 percent of total manufacturing output.

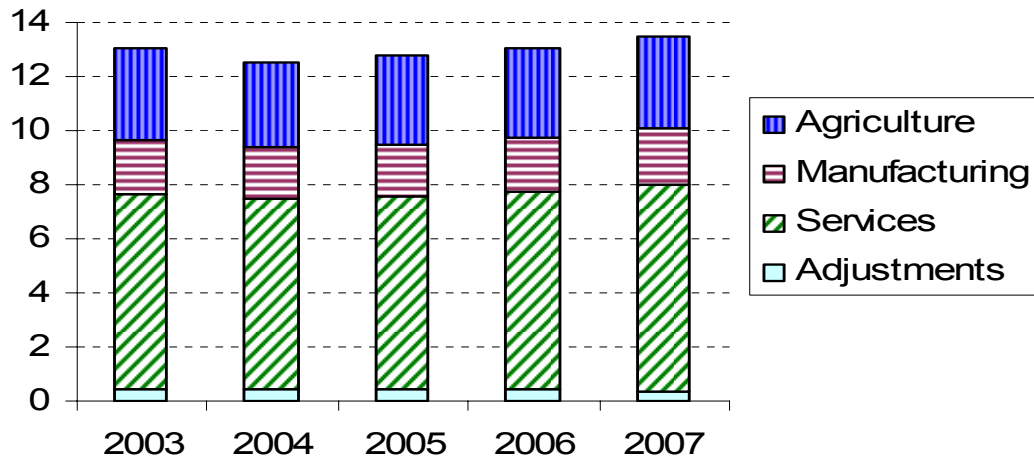
In recent years, the Haitian economy has been characterized by a negative trade balance, low but steady levels of investment, and consumption (both private household and government) that closely tracks GDP (figure 1.3). Haiti funds its high level of consumption relative to GDP and its trade deficit with remittances and, to a lesser extent, foreign aid.²⁴ There is little foreign direct investment.

The United States is Haiti's largest trading partner, accounting for approximately 66 percent of total Haitian trade and over 90 percent of trade in textiles and apparel. Haitian apparel production, all of which is exported, accounts for approximately 68 percent of its total exports, or 10 percent of its GDP. Haiti's largest import category is manufactured goods, which includes semi-finished goods. Over 95 percent of Haiti's manufacturing exports are made with imported inputs. Although Haiti exports mangoes, cocoa, and some other agricultural products, it is a net importer of food and imports all of its petroleum products. Its terms of trade (the price of exports relative to the price of imports) deteriorated in 2007 and early 2008 as prices for food and energy escalated relative to prices for apparel.

²³ Adjustments account for the remaining 3 percent. Adjustments are taxes less subsidies plus a correction for banking activity imputed to other branches of production.

²⁴ Remittances, which enter as a credit to the current account balance, are substantial, although estimates vary. The World Bank (World Development Indicators) estimates remittances at 20 percent of the Haitian GDP for 2006. The Inter-American Development Bank (*Haiti Remittance Survey*) puts the 2006 figure at closer to a third of GDP. Levels of remittances have been steadier than other income sources and have consistently exceeded the annual revenue from merchandise exports. If a country without external resources consumed at a level equal to its GDP, it would have no means to replenish its capital stock; consequently, levels of capital stock and GDP would fall in the future. The Haiti Remittance Survey indicates that Haitians do not invest their remittances but use them to cover daily expenses, which suggests that Haiti will need additional investment to maintain growth.

Figure 1.2 Real Haitian GDP^a (in billions of 1987 Haitian gourdes) and output by major sector, by Haitian fiscal years,^b 2003-2007

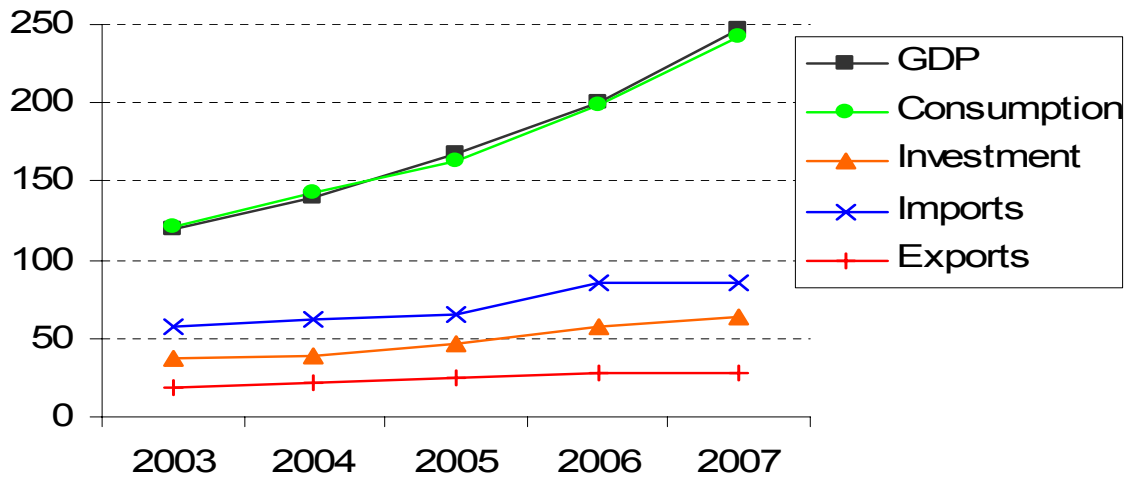


Source: *Les Comptes Economiques en 2007*, Haitian Ministry of Economy and Finance.

^a Total bar height represents GDP.

^b Haitian fiscal years are October through September.

Figure 1.3 Haitian GDP and its components in billions of current Haitian gourdes, by Haitian fiscal years^a 2003-2007

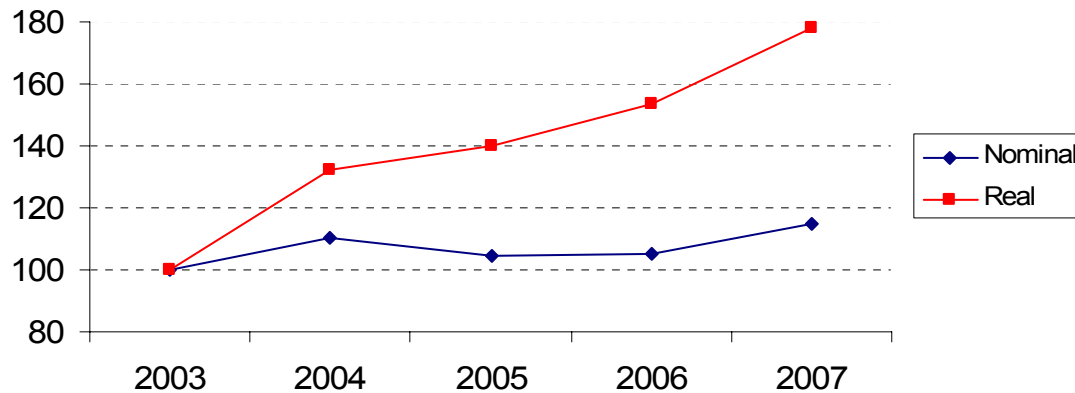


Source: *Les Comptes Economiques en 2007*, Haitian Ministry of Economy and Finance.

^a Haitian fiscal years are October through September.

Although Haiti previously experienced substantial inflation, the nominal value of the Haitian gourde has been steady since its central bank ceased financing governmental operations in 2004 (figure 1.4). The high level of remittances has contributed to an appreciating real exchange rate.²⁵

Figure 1.4 Real and nominal indexes of the U.S. dollar value of the Haitian gourde, 2003-2007



Source: IMF Financial Statistics.

Business Climate

Investment is more likely to occur in a favorable business climate, the main determinants of which are the cost of labor and other inputs, access to financing, and indirect costs. Although Haiti has plentiful low-cost labor, other aspects of its business climate tend to discourage investment.

Haitian regulations generally do not constrain investment, which is open to both Haitian nationals and foreigners, although government authorization is required to invest in certain sectors.²⁶ The government permits foreigners and Haitians to enter into joint ventures with each other and does not impose controls on capital flows. While Haitian law nominally protects private property, including patents, trademarks, and copyrights, weak enforcement, out-of-date laws, and inconsistent application of regulations by government officials jeopardize legal rights, and settlement of disputes is very slow.

One of Haiti's major assets is an abundant low-cost labor force.²⁷ World Bank data indicate that the Haitian labor force consists of approximately 3.8 million people and that

²⁵ The IMF (*Haiti: 2007*, 16-17) stated that Haiti's appreciating real exchange rate is a concern but did not recommend any intervention. A Haitian manufacturer in a questionnaire response stated that the appreciating exchange rate hindered his ability to price competitively in some markets. U.S. companies typically pay Haitian contractors in U.S. dollars, which would buy relatively less in the local Haitian market with the appreciating real exchange rate.

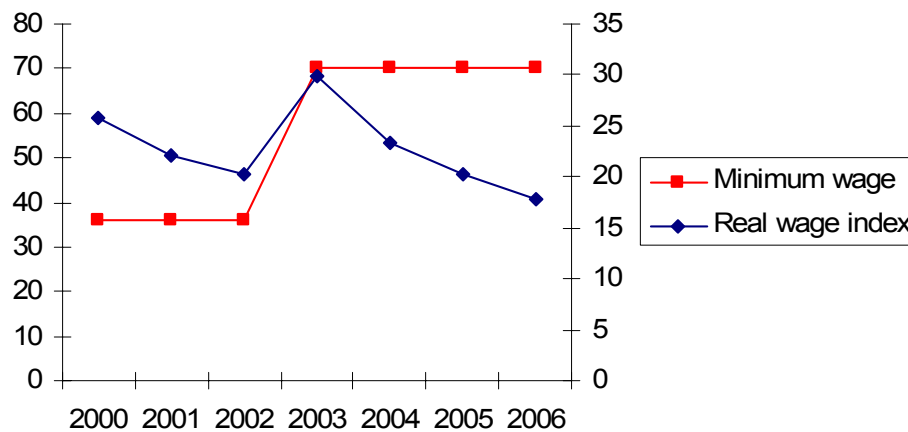
²⁶ Haiti has a commercial regulations code, which along with the constitution, delineates the boundaries under which business activity can take place. An investment code passed in 2002 removed any legal discrimination against foreign investors (U.S. and Foreign Commercial Service, 47).

²⁷ In regard to hiring, firing, arranging work schedules, and the non-salary costs of labor, Haiti compares well with other countries in the Latin America and Caribbean region.

about two-thirds of the population aged 15 to 64 participates in the labor force. Sector-specific wage rates are unavailable, but the IMF reports a standard minimum wage rate and a real wage index based on data from the Haitian government (figure 1.5). The declining wage index since 2003 indicates that prices for other goods and services have increased relative to wages; the 70 gourdes per day minimum wage equals approximately \$2 per day at the 2007 exchange rate. Many Haitians have little formal education, which limits the tasks and types of jobs that they can perform.²⁸

Haiti has a labor code based on guidelines from the International Labor Organization (ILO),²⁹ although mechanisms to enforce the labor code may be lacking.³⁰ In response to ongoing concerns about fair treatment of labor, the Haitian apparel assembly industry established a voluntary code of ethics.³¹ The ILO operates a project funded by the U.S. Department of Labor³² to improve productivity in the apparel assembly industry by improving working conditions.³³

Figure 1.5 Standard minimum wages (left axis in gourdes per day) and real wage index (right axis 1981=100)



Source: IMF, *Haiti: Selected Issues and Statistical Appendix*.

High interest rates and other factors restrict access to credit. The IMF reports that interest rates in Haiti for local-currency loans range from 30 to over 40 percent per year.³⁴ Haitian banks often require real property as collateral, which is problematic because Haiti lacks a land registry. Also, access to credit is limited because banks often lend only to their most trusted clients.³⁵

²⁸ For example, only slightly more than one half of the adult population is literate. CIA, *World Fact Book*.

²⁹ Embassy of the Republic of Haiti, "A Guide to Investing in Haiti."

³⁰ A U.S. industry source stated that Haiti lacks a Ministry of Labor, although the Ministry of Social Affairs handles some labor issues and that, reportedly, no Haitian authority is responsible for assuring compliance with the labor code.

³¹ U.S. Department of State, "Haiti: 2005 Investment Climate Statement."

³² See <http://www.ilo.org/public/english/protection/condtrav/workcond/haiti/haiti.htm>.

³³ The share of apparel workers that are in unions is unknown, but the executive director of the Haiti HOPE Commission reports that there is a strong union presence in the industry.

³⁴ IMF Financial Statistics.

³⁵ US&FCS, *Doing Business in Haiti*, 2006, 47.

U.S. firms have complained that corruption, particularly among customs officials, impedes development in Haiti,³⁶ and the perception of corruption deters investment. Transparency International ranks Haiti in 177th place out of 179 countries in its 2007 corruption perception index,³⁷ just below Uzbekistan but ahead of Iraq, Burma (Myanmar), and Somalia.³⁸ As stated above, President Préval has made fighting corruption a central part of his agenda, and incremental progress has reportedly been made. Investigations into corruption, money laundering, and financial crimes have begun, but prosecutions have not yet occurred.³⁹

In 2008, the World Bank's "Doing Business" project ranked Haiti 148 out of 178 economies (table 1.2).⁴⁰ Starting a business and acquiring the necessary licenses takes longer and costs more in Haiti than in most other countries. For example, the total time to build a warehouse and make it operational, including licensing, notifications, inspections, and utility hookups, is estimated at more than three years.⁴¹ Obtaining business licenses is a lengthy process,⁴² and Haitian manufacturers report that the Haitian government has only recently made efforts to streamline business licensing procedures to make Haiti more attractive to foreign manufacturers.⁴³ The number of documents required, time, and costs for both importing and exporting are greater in Haiti than in most other countries. Various duties and taxes on imports collectively add almost 35 percent to the price of imports sold at retail.⁴⁴ Firms that import machinery and semi-finished products that contribute to the development of certain priority sectors of the economy (such as apparel) are exempt from paying customs duties, although other fees and taxes may still apply.

³⁶ A U.S. industry source stated that Haitian firms can clear goods through customs more successfully than U.S. firms because Haitian customs inspectors realize that clearance problems may result in the loss of jobs for Haitians. He added that for this reason it is more efficient to use Haitian contractors than to invest directly.

³⁷ Transparency International. "Corruption Perceptions Index."

³⁸ Burma (Myanmar) and Somalia were tied at 179.

³⁹ US&FCS, *Doing Business in Haiti*, 2006, 43-33.

⁴⁰ This is Haiti's composite score on the 10 indicators, with a rank of one indicating the best score on a particular indicator. Haiti's 2007 rank was 142.

⁴¹ In the case of acquiring a building, one apparel producer states that a minimum of one year is required to install the equipment, make the electrical connections, train personal, and become fully operational. USITC hearing transcript, November 8, 2007, 61.

⁴² Apaid Apparel reports that it takes 3 to 4 months to obtain business licenses. Industry official, telephone interview by Commission staff, January 18, 2008. Island Apparel stated in its questionnaire that the Haitian government requirements for starting a business or beginning to ship are extremely complicated and deter new businesses from opening.

⁴³ The Haitian government is taking steps to improve the situation, although progress is slow. It has set up a "guichet unique," a one-stop office for establishing a business in downtown Port-au-Prince. IMF, *Haiti: Selected Issues and Statistical Appendix*, 16. Also, see News and Opinions on Situation in Haiti: Haiti Report for June 18, 2006.

⁴⁴ US&FCS, *Doing Business in Haiti*, 2006, 8.

TABLE 1.2 Haiti's "ease of doing business" rankings compared to 178 other economies

Indicator	2007 rank	2008 rank
Starting a business	166	170
Dealing with licenses	120	126
Employing workers	36	35
Registering property	125	128
Getting credit	111	115
Protecting investors	158	158
Paying taxes	95	96
Trading across borders	152	153
Enforcing contracts	94	95
Closing a business	146	148

Source: World Bank Group, Doing Business Project.

Finally, much of the infrastructure in Haiti is in poor condition. Only a quarter of Haiti's 2,583 miles of roads are paved.⁴⁵ The national supply of electricity is unreliable, and businesses frequently generate their own power with diesel engines. Much of Haiti's port infrastructure is also outdated, and it has the highest port fees in the hemisphere. The Haitian government may consider privatization of the ports,⁴⁶ but upgraded infrastructure and improved management are needed to make port operations more efficient. The United States is contributing to this effort and has committed funds to improve port security in Haiti.⁴⁷

⁴⁵ World Bank, World Development Indicators. Data on roadways is from 1999.

⁴⁶ US&FCS, *Doing Business in Haiti*, 2006, 8.

⁴⁷ USAID has committed \$2.35 million in assistance to improve security at Haitian ports. Other U.S. government agencies have also undertaken initiatives to improve port security in the Caribbean Basin. GAO, "Information on Port Security in the Caribbean Basin," 2007, 26. See also chapter 3 of the USITC's report in connection with inv. No. 332-496, *Caribbean Region: Review of Economic Growth and Development*.

CHAPTER 2

Trade Markets and Industries

Overview

The apparel sector is important to Haiti's economy. It is a small but resilient industry that is one of the few in the Western Hemisphere that increased exports to the United States during 2002-2006. In 2007, Haiti's apparel exports to the United States increased slightly by value, but declined 2 percent by quantity, the first decrease since 2002. Haitian producers benefit from an established apparel sector and low labor costs. The industry maintains manufacturing ties to the Dominican Republic and relies on the United States as a key export market for apparel. Challenges facing the industry include political instability, infrastructure constraints, and increased competition from regional and global producers. Haitian exports of apparel to the United States rose during 2005-2007, yet Haiti accounts for only a small share of the U.S. market for apparel. The Caribbean Basin Trade Partnership Act (CBTPA) was the primary impetus behind the overall increase in U.S. imports from Haiti, as imports under the HHOPE Act did not begin until the second half of 2007 and were relatively small. Haitian total exports are largely comprised of apparel. However, its trade is limited largely to exports to the United States, co-production with the Dominican Republic, and small but growing exports to the EU.

Haiti

Haitian Apparel Industry

Haiti offers competitive wages, an ample labor pool, and proximity to the United States, its largest apparel export market. Haiti's product quality, productivity, and pricing are considered to be generally similar to apparel produced in the rest of the region,¹ but its products tend to be more standardized and lower-priced. Apparel production is concentrated in Haiti's capital, Port-au-Prince.

Established for several decades, Haiti's apparel industry has experienced cycles of growth and contraction. The industry consisted of more than 100 firms and over 100,000 employees in the late 1980s.² Prolonged political instability, U.S. economic sanctions imposed during 1991-1994,³ and a U.N. trade embargo mandated in 1994 led to a downturn in Haitian apparel production.⁴ After the trade embargo was lifted in October

¹ Industry officials, telephone interviews by Commission staff, October 5, 2007, September 24, 2007, and September 26, 2007.

² US&FCS and U.S. Department of State, "Haiti: Apparel & Textiles," *Industry Sector Analysis*, March 3, 2003. Jean-Paul Faubert (USITC hearing transcript, November 8, 2007, 11) puts the peak number of employees at more than 60,000.

³ US&FCS and U.S. Department of State, "Haiti: Apparel & Textiles," March 3, 2003, and Jean-Paul Faubert (president, Sohacosa), telephone interview by Commission staff, September 25, 2007.

⁴ US&FCS and U.S. Department of State, "Haiti: Apparel & Textiles," March 3, 2003.

1994,⁵ Haiti's apparel sector rebounded. Since 2000, however, the sector has continued to face economic challenges triggered by political instability and growing international competition.⁶ In 2004, Haiti lost 5,000 apparel jobs.⁷ Industry sources report that Haiti's industry continued to contract following the expiration of the Agreement on Textiles and Clothing (ATC) on January 1, 2005.⁸ The subsequent abolition of quotas allowed lower cost suppliers such as China, India, and other Asian countries to boost their exports of clothing to the United States, thereby increasing competition for Haiti and other suppliers in the CBERA and CAFTA-DR region.⁹ According to one Haitian producer, most mid-sized plants of 300-400 employees closed, and in 2007, Haiti's apparel industry had fewer than 20 firms and only about 15,000 to 18,000 employees.¹⁰ Apparel companies that are doing relatively well and that likely are responsible for the increase in Haiti's exports during the past few years consist of a handful of relatively large Haitian-owned establishments in Port-au-Prince, such as Multi-tex, the Apaid Group, and Sohacos, which have been producing garments for U.S. and Canadian apparel companies for several years.¹¹

Despite the contraction of Haiti's apparel sector, some Haitian manufacturers report that the number of production workers increased by 28 percent during 2004-2006 and by 15 percent in January-June 2007 over the same period in 2006 (table 2.1).¹² Haitian apparel workers earn an average of \$0.49 to \$0.54 per hour,¹³ including fringe benefits (table 2.2);

⁵ U.S. Government official, telephone interview by Commission staff, March 26, 2007.

⁶ US&FCS and U.S. Department of State, "Haiti: Apparel & Textiles," March 3, 2003.

⁷ Fibre2Fashion, "Haiti: Apparel Industry Fails to Withstand Competition," March 29, 2005.

⁸ Haiti and the Dominican Republic lost 60,000 jobs in textiles and apparel during 2006-2007 according to Jose Torres (executive vice president, Association of the Free Trade Zones in the Dominican Republic). USITC hearing transcript, November 8, 2007, 24. In addition, U.S. apparel firms are increasingly sourcing from China and Cambodia because of their lower costs. Prices have reportedly dipped so low that companies must be able to produce in large volumes and have steady production to stay in business. Currently, only Haitian producers of t-shirts and sweatshirts have large volumes and sufficient funds for equipment. Industry official, telephone interview by Commission staff, September 25, 2007.

⁹ EIU, *Business Latin America*, "Manufacturing: Honduras," May 14, 2007; and EIU, *Dominican Republic: Country Report*, May 2007.

¹⁰ According to one Haitian industry representative, production ceased during the embargo, but the industry later recovered to approximately 22,000 employees before declining to 18,000 employees in 2006. Another industry representative estimated the number of employees in 2006 at 15,000.

USITC hearing transcript, November 8, 2007, 10-13, and 15.

Industry official, e-mail message to Commission staff, January 13, 2008.

¹² Based on information provided in questionnaire responses. Trends in employment may be misleading, however, because the information is gathered from a partial sample of firms and does not reflect firms no longer in business that did not submit questionnaire responses. Security breaches before and after President Jean Bertrand Aristide's departure in 2004 likely disrupted production and may have lowered the number of production workers below normal levels for that year. Jose Torres (executive vice president, Adozona) stated that since the end of quotas in 2005, apparel employment in Haiti, the Dominican Republic, and the entire Western Hemisphere has decreased (USITC hearing transcript, November 8, 2007, 24-25). George Sassine (executive vice president, HOPE Commission) stated that factories had closed in Haiti during the previous two years (USITC hearing transcript, November 8, 2007, 88). In contrast, Fritz Felchlin (president, Island Apparel) reported that the Haitian apparel industry has expanded since 2006 (USITC hearing transcript, November 8, 2007, 15).

¹³ These figures from industry sources compare to \$0.47 per hour as indicated by questionnaire responses.

TABLE 2.1 Employment information reported by Haitian manufacturers

	2004	2005	2006	2007
Number of production workers	4,381	4,870	5,606	6,378
Mean hours worked per worker	2,355	2,186	2,345	1,204
Mean hourly wage (Haitian gourdes).....	15	16	17	17
Mean hourly wage (current U.S. dollars)	0.42	0.45	0.47	0.47

Source: Calculated from data submitted in response to Commission questionnaires.

TABLE 2.2 Comparative average wage rates for apparel workers in selected countries (U.S. \$)

Country	Hourly wage rate
Haiti	\$0.49 to \$0.54
Costa Rica.....	\$2.70 to \$2.85
Dominican Republic	\$1.52 to \$1.65
Guatemala.....	\$1.65 to \$1.75
Honduras.....	\$1.48 to \$1.60
Nicaragua.....	\$0.88 to \$1.20
El Salvador.....	\$1.60 to \$1.70

Source: Compiled from information provided by industry sources.

Note: The average hourly rates for textile workers in all these countries usually exceed those for apparel workers. Apparel workers earn more than the national minimum wage rates in these countries.

The Haitian garment industry mainly supplies mass-produced commodity knit products with simple stitching work such as t-shirts and sweatshirts,¹⁴ although woven products (e.g., pants, shirts, and suits) account for about 20 percent of total apparel output. Generally, large volumes must be produced to maintain profitability because margins are low.¹⁵

Most Haitian garment firms are locally owned and assemble apparel as subcontractors for a small number of U.S. firms and one Canadian firm.¹⁶ A few years ago, U.S. apparel producers and retailers such as Hanesbrands, Russell, and Target, along with one leading Canadian apparel producer, Gildan, began importing apparel from Haiti to diversify their sourcing, especially as production costs rose in neighboring Caribbean and Central American countries.¹⁷ Hanesbrands and Gildan developed co-production activities in facilities along the northern part of the Haitian-Dominican border in Ouanaminthe, Haiti, and have been working with companies such as Grupo M, a large apparel manufacturer based in the Dominican Republic.¹⁸ The fabric inputs used to assemble apparel originate

¹⁴ Based on information provided in questionnaire responses and industry official, telephone interview by Commission staff, September 24, 2008. Because of the simple stitching work, the value-added content of many garments from Haiti tends to fall below 50 percent and is likely why Haitian industry representatives noted that the 50 percent value-added requirement for preferential duty treatment in the HHOPE Act is difficult to meet except for a few products.

¹⁵ USITC hearing transcript, November 8, 2007, 12.

¹⁶ US&FCS and U.S. Department of State, "Haiti: Apparel & Textiles," *Industry Sector Analysis*, March 3, 2003, and Jerry Cook (vice president, Hanesbrands), telephone interview by Commission staff, January 18, 2007.

¹⁷ Industry representative, telephone interview by Commission staff, September 26, 2007.

¹⁸ Grupo M also serves Levi Strauss & Co. and Vanity Fair and is seeking to work with other U.S. manufacturers to source from Haiti. Industry official, telephone interview by Commission staff,

mainly in the United States, but textile mills in the Dominican Republic have increasingly supplied such inputs since 2006. Industry sources note that the reliance of Haitian contractors on a small group of clients or on a single client limits their negotiating leverage and pressures them to reduce their profit margins.¹⁹

As noted, Haiti's underdeveloped infrastructure and limited resources are disadvantages for its apparel sector. Haitian manufacturers report that although infrastructure for manufacturing has expanded, it still falls short of the industry's needs.²⁰ For example, poorly maintained roads slow the transport of goods.²¹ The scarcity of water limits apparel manufacturing, particularly the production of jeans.²² Production remains concentrated in or near Port-au-Prince where water supplies are more abundant. Some Haitian manufacturers reported that there is no immediate remedy for the scarcity of water resources or of buildings to house factories.²³

Because of Haiti's limited water supply and underdeveloped infrastructure, its apparel sector lacks washing and finishing²⁴ operations; the closest such operations are in the Dominican Republic, about two hours away by car from Port-au-Prince.²⁵ Apparel sewn in Haiti is sent to the Dominican Republic for washing and finishing and then shipped back to Haiti before being exported to the United States in order to benefit from the HHOPE Act.²⁶

The available electricity is insufficient to run apparel manufacturing operations and further hinders Haitian apparel production. Despite a reported recent increase in the supply of electricity, it remains unreliable.²⁷ Electricity may be available from the power grid for 8 hours a day, but not for a full 24 hours. Haitian manufacturers report that each

October 5, 2007. Grupo M is part of a World Bank, International Finance Corporation (IFC) project targeting the company's competitiveness and sustainability. The IFC project provides corporate financing to Grupo M and financing for an export zone supported by Grupo M in Haiti. The project is aimed at creating employment and development in the garment sector in both countries. For more information on the IFC project, see <http://www.ifc.org/projects>. One hundred percent of Hanesbrands' Haitian production is co-production with the Dominican Republic. Hanesbrands sends U.S. yarns and fabrics cut in the United States to Haiti; about 50 percent are made into T-shirts and other knit apparel. Other apparel is made in Haiti from fabrics produced in the Dominican Republic from U.S. yarns under the CBTPA. Some U.S. fabric is exported to and cut in Haiti. Some products are packaged in Haiti, usually in bulk (non-bulk package items are more vulnerable to theft), while other items are sent to the Dominican Republic for final packaging. The company built an \$80 million mill in the Dominican Republic for such production. Industry official, telephone interview by Commission staff, January 18, 2007, and USITC hearing transcript, November 8, 2007, 73.

¹⁹ Industry official, e-mail message to Commission staff, January 13, 2008.

²⁰ Industry official, telephone interview by Commission staff, September 24, 2007.

²¹ Industry officials, telephone interviews by Commission staff, October 17, 2007 and January 17, 2008.

²² Industry officials, telephone interviews by Commission staff, September 26, 2007 and September 24, 2007.

²³ Jean-Paul Faubert and others at the hearing stated that there is currently a shortage of buildings in Haiti that are suitable for use as factories (hearing transcript, 46).

²⁴ Finishing includes processes such as heat-setting, embossing, pressing, napping, and the application of chemicals to the fabric.

²⁵ USITC hearing transcript, November 8, 2007, 73.

²⁶ USITC hearing transcript, November 8, 2007, 27.

²⁷ Industry official, telephone interview by Commission staff, January 18, 2008.

factory has to have the capacity to produce its own electricity. The costs to purchase and maintain generators and fuel reportedly reduce firms' profits.²⁸

Limited capital resources and the high cost of funds in Haiti also constrain apparel production. Interest rates for long-term loans reportedly exceed 30 percent, compared with rates averaging 11 to 12 percent in the rest of the Caribbean and just over 6 percent in Asia.²⁹ Several Haitian manufacturers report that they would use additional debt financing, if it were available at acceptable rates, to buy new equipment and expand or modernize their plants. Investment in modern machinery is required for efficient production.³⁰ Some Haitian apparel manufacturers state that loans or other capital from the World Bank and other multilateral organizations would help Haiti to develop and expand its capacity in textiles and apparel.³¹ The government of Haiti reportedly is establishing a loan-guarantee fund for Haitian factory owners who have closed their operations but want to reopen their facilities to take advantage of the HHOPE Act.³²

Inefficient customs operations further limit the efficiency of Haiti's apparel sector. A 2005 study by the World Bank assessing regional customs houses in Latin America and the Caribbean concluded that Haiti's customs agency ranked last in the region in terms of operational efficiency.³³ Most of Haiti's apparel exports are shipped from Port-au-Prince.³⁴ The many surcharges associated with moving goods through the port, combined with mismanagement, make Haiti's port costs high.³⁵ In addition, the lack of managerial expertise in apparel manufacturing in Haiti has also reportedly hampered production efficiency and quality control.³⁶ Management problems and poor business practices recently prompted one U.S. apparel producer to reduce the number of Haitian contractors it uses by half.³⁷

Haitian apparel manufacturers report that competition in global markets is primarily price-based.³⁸ Their principal competitors are firms in China and Nicaragua, but also producers in Vietnam, India, and Mexico, as they can offer lower prices on knit apparel products as well.³⁹ Haitian manufacturers claim that Nicaragua is a formidable competitor, because it is the only other low-cost country in the Western Hemisphere. It has favorable long-term tariff-preference levels under the CAFTA-DR and good facilities for large-scale production. Haitian manufacturers also claim that China's domestic production of low-priced raw materials and other inputs gives it an advantage over Haiti, which must import all of its inputs.

²⁸ Based on information provided in questionnaire responses.

²⁹ US&FCS and U.S. Department of State, "Haiti: Apparel & Textiles," *Industry Sector Analysis*, March 3, 2003, and Caribbean Central America Action, Notes from 30th Miami Conference on the Caribbean Basin, December 5, 2006.

³⁰ Based on information provided in questionnaire responses.

³¹ Industry official, telephone interview by Commission staff, September 24, 2007.

³² USITC hearing transcript, November 8, 2007, 88.

³³ Haitian exporters are required to collect 20 signatures of authorization, taking an average of 58 days to complete. Haitian importers must collect 35 signatures and wait 60 days. In contrast, the average for all Latin American and Caribbean countries is 30 days and 7 signatures for exporters, and 37 days and 11 signatures for importers. Miller, "Is HOPE too soon?" 2006.

³⁴ USITC hearing transcript, November 8, 2007, 52.

³⁵ USITC hearing transcript, November 8, 2007, 53, 57.

³⁶ Industry official, telephone interview by Commission staff, October 3, 2007.

³⁷ Industry official, telephone interview by Commission staff, October 3, 2007.

³⁸ Information is based on questionnaire responses completed by Haitian manufacturers.

³⁹ As noted, most of Haiti's apparel production is concentrated in commodity knit apparel products which are subject to keen competition from other suppliers.

Many small Haitian apparel manufacturers are struggling, as U.S. buyers increasingly seek full-package programs⁴⁰ that require fabric-cutting machines and high-tech equipment to track complex inventories and tasks.⁴¹ Only the Astralis Corporation, a consortium of Haitian companies established in 2006, and the Haitian-owned Apaid Group have begun offering full-package programs.⁴² Haitian firms that produce in small volumes usually lack the money, technical know-how, and managerial skills needed for full-package production.⁴³ This is also difficult to achieve for Haitian producers because they lack the economies of scale and domestic access to the raw materials (cotton, cellulose, or hydrocarbon derivatives) needed to produce yarns and fabrics in commercial quantities.⁴⁴ The yarns and fabrics used in Haiti's apparel production, which are imported mainly from the United States, are often priced higher than inputs produced in Asia.⁴⁵ Because Haitian manufacturers do not usually make their own sourcing decisions for fabric and other raw materials, they reportedly lack informed opinions about the substitutability or cost of fabric from different sources.⁴⁶

Of the firms responding to the Commission's questionnaire, only one firm reported a figure for the cost of raw materials. According to this producer, raw material costs are substantial and account for slightly more than two-thirds of the total cost of production. This response suggests that the provisions of the HHOPE Act, to the extent that they allow the use of lower cost raw materials (and to the extent that other firms have similar cost structures), could be important in improving the competitiveness of Haitian manufacturers. For those firms that did not report raw materials costs, the most significant cost item was labor, and as noted, Haiti boasts competitive labor rates.

Concerning future investment and orders, some Haitian manufacturers state that potential customers may refuse to consider locating in Haiti because of Haiti's image as a country troubled by political instability, poor security, and corruption.⁴⁷ One company stated that some customers are reluctant to contract with Haitian firms because they believe that security problems could erupt at any time and delay shipments.⁴⁸ A company representative from another firm stated that in 2006, there was a risk of personnel being

⁴⁰ Full package programs typically refer to sourcing arrangements that provide the entire range of garment manufacturing, from apparel design to all steps of textile production, apparel manufacture, and distribution of the finished garment (or a significant combination of these operations).

⁴¹ "Haiti: Apparel Industry Fails to Withstand Competition," <http://www.fibre2fashion.com>, March 29, 2005; and Hemlock, "Haiti Struggles to Save Its Apparel Industry," March 28, 2005.

⁴² Industry official, telephone interview by Commission staff, October 1, 2007; and Industry official, e-mail messages to Commission staff, January 13, 2008 and June 10, 2008.

⁴³ Industry official, telephone interview by Commission staff, September 25, 2007; and Fibre2Fashion, "Haiti: Apparel Industry Fails to Withstand Competition," March 29, 2005.

⁴⁴ The Services Group, "An Assessment of the Potential," May 26, 2003, 9.

⁴⁵ Industry official, telephone interviews by Commission staff, October 17, 2007 and January 17, 2008.

⁴⁶ Based on information provided in questionnaire responses. Only one of seven Haitian firms completing the section of the questionnaire on raw materials sourcing reported unambiguously that its own firm decided where to purchase raw materials. Another firm reported that it and its customers together make sourcing decisions. Other firms reported that the client or contract initiator makes the sourcing decisions.

⁴⁷ A representative of a large U.S. retail chain stated that, despite the HHOPE Act, the firm was leaving Haiti because of too many problems with corruption, safety, and non-compliance with labor standards. Industry representative, telephone interview by Commission staff, September 26, 2007.

⁴⁸ Based on information provided in questionnaire responses.

kidnapped or caught in the crossfire of gang fighting while traveling between work and home.⁴⁹ Theft is a basic risk, as in other countries, and some firms employ security services to guard company facilities at all times. Reportedly, corruption persists in different levels of the Haitian government and makes operating a business particularly difficult.⁵⁰

Haitian Trade

Lacking domestic inputs, Haitian manufacturers need to import yarns, fabrics, precut pieces of garments, and other inputs to make apparel. As indicated, the United States is the largest supplier of inputs for apparel manufactured in Haiti. U.S. FTA partners play a relatively minor role in supplying Haiti with inputs, while certain non-beneficiary partners have become increasingly important suppliers. In 2007, for example, exports from China and Hong Kong to Haiti of yarns and fabrics made from manmade staple fibers grew almost nine-fold (table 2.3), some of which may be attributed to the more liberal sourcing allowed under the HHOPE Act. Historically, the largest category by far of Haitian textile and apparel imports consisted of knit apparel pieces (HTS chapter 61); however, Haitian imports in this category decreased sharply from \$147 million in 2005 to \$31 million in 2007. The share of these imports held by the United States (99 percent in 2005 and 2006) fell to 95 percent in 2007, as the combined share held by China and Hong Kong grew to 4 percent. However, during 2005-2007, Haiti's imports of manmade fiber staple fibers, knit fabrics and knit cut apparel pieces together declined 71 percent from almost \$219 million to \$62 million. This decline likely reflected an increase in fabric produced and cut in the Dominican Republic from U.S. yarn, which was then shipped to Haiti for assembly (but not noted in the trade statistics), as discussed in the following section.

During 2005-2007, total U.S. exports of textiles and apparel to the entire CAFTA and CBERA region fell 15 percent to \$3.5 billion (table 2.4). It is likely that this decline can be attributed to growing yarn-spinning capacity in the region, especially in the Dominican Republic, a trend that preceded the implementation of the HHOPE Act. This conclusion is supported by the fact that total U.S. exports of yarn to the CAFTA/CBERA region rose 66 percent to \$1.0 billion during 2005-2007. U.S. exports of yarn to Haiti rose 14 percent from \$850,000 to just under \$1 million, and U.S. exports of yarn to the Dominican Republic more than tripled to \$203 million. The Dominican Republic has yarn spinning capacity and increased its domestic production of woven fabric from U.S. yarn during this same period.⁵¹ The fabric produced in the Dominican Republic from U.S. yarn was likely shipped to Haiti, where it was cut and sewn into apparel (statistical information is lacking). U.S. textile producers indicate that foreign importers are switching from yarns and fabrics made in the United States, Mexico or the CAFTA countries to Asian sources (particularly China) and have voiced concern that the HHOPE Act may exacerbate the decline in orders for fabrics and yarns used for trousers, polo

⁴⁹ Based on information provided in questionnaire responses.

⁵⁰ Based on information provided in questionnaire responses.

⁵¹ Industry official, e-mail message to Commission staff, March 11, 2008. One Haitian industry representative stated that U.S. companies have established textile facilities in the Dominican Republic and are importing yarn from the United States to the Dominican Republic and then producing fabric that is shipped to Haiti for further production. Consequently, U.S. shipments of textile products to Haiti have declined because they are being replaced textile products made in the Dominican Republic from U.S. yarn (which may not be noted in trade statistics). USITC hearing transcript, November 8, 2008, 55.

TABLE 2.3 Haitian imports from the United States and U.S. partner^a and non-partner countries, 2005-2007
(1,000 \$)

		2005	2006	2007
Manmade staple fibers including yarns and fabrics (HTS Chapter 55):				
United States.....	-	2,497	651	42
Guatemala	Partner	0	0	100
China & Hong Kong	Non-partner	1,288	865	7,549
Taiwan ^b	Non-partner	1,746	756	1,563
Other ^c	Non-partner	174	33	421
Total	-	5,704	2,305	9,675
Knitted or crocheted fabrics (HTS Chapter 60):				
United States.....	-	60,443	34,597	21,594
Mexico ^c	Partner	0	0	3
China & Hong Kong	Non-partner	1,895	548	364
South Korea ^b	Non-partner	2,133	433	0
Brazil ^b	Non-partner	1,545	1,021	0
Other ^b	Non-partner	685	0	22
Total	-	66,702	36,598	21,649
Knitted or crocheted apparel and clothing accessories (HTS Chapter 61):				
United States.....	-	145,785	118,870	29,159
Peru	Partner	0	0	157
Canada	Partner	0	7	1
Other ^c	Partner	21	58	1
China & Hong Kong	Non-partner	421	1,024	1,375
Other ^d	Non-partner	304	136	121
Total	-	146,531	120,095	30,814
Grand total	-	218,937	158,998	62,138

Source: USITC, Dataweb and Global Trade Atlas.

^aPartner and non-partner refer to whether or not the country has an FTA with the United States.

^bDoes not include data for December 2007.

^cDoes not include data for November and December 2007.

^dSome countries in this group did not report data for May-December 2007.

TABLE 2.4 U.S. exports of textiles and apparel^a to Haiti, the Dominican Republic, and CAFTA-DR countries, 2005-2007

Destination country	2005	2006	2007	2005-07 % change
	<i>U.S. exports (f.a.s.) (1,000 \$)</i>			
Haiti:				
Textiles & Apparel	221,515	170,491	61,228	-72
Total apparel.....	151,427	129,197	35,307	-77
Textile mill products.....	70,088	41,294	25,921	-63
Yarn.....	850	226	967	14
Fabric.....	66,368	37,640	23,066	-65
Made-up articles	2,871	3,428	1,888	-34
Dominican Republic:				
Textiles & Apparel	1,070,638	1,007,584	757,486	-29
Total apparel.....	464,128	356,007	205,736	-56
Textile mill products.....	606,510	651,577	551,750	-9
Yarn.....	50,542	145,992	203,052	302
Fabric.....	526,333	480,652	332,516	-37
Made-up articles	29,635	24,932	16,182	-45
CAFTA and CBERA Countries:				
Textiles & Apparel	4,146,550	3,825,550	3,505,301	-15
Total apparel.....	1,523,046	1,220,178	789,963	-48
Textile mill products.....	2,623,504	2,605,371	2,715,338	4
Yarn.....	620,668	815,991	1,028,260	66
Fabric.....	1,885,483	1,653,678	1,549,529	-18
Made-up articles	117,353	135,702	137,548	17

Source: USDOC, OTEXA.

^aMost of U.S. apparel exports to the CAFTA and CBERA countries are comprised of cut pieces.

shirts, and woven shirts.⁵² There is recognition, however, that the impact of the HHOPE Act “is yet to be fully or even barely felt” because it went into effect in March 2007 and apparel imports from Haiti entering under the program did not begin until July 2007.⁵³

Haiti’s total exports of knit and woven apparel increased 16 percent during 2005-2007, and the United States was the destination for 91 to 94 percent of such exports during this period (table 2.5). Among U.S. FTA partner countries, Canada, Mexico, and Australia absorbed approximately one-half of Haiti’s remaining apparel exports. The European Union (EU) surpassed Canada in 2006 and became the second largest destination for Haitian apparel exports after the United States. Exports to the EU, which grew 243 percent during 2005-2007, were comprised largely of knit t-shirts, singlets, tank tops, and similar garments (HTS heading 6109); the EU market for such items has been growing steadily. Knit garments under HTS heading 6109 and sweatshirts, pullovers, and similar garments (HTS heading 6110) were the most significant export items from Haiti to all markets.

⁵² USITC hearing transcript, November 8, 2007, 31-32.

⁵³ USITC hearing transcript, November 8, 2007, 30-31.

TABLE 2.5 Haitian exports of knit and woven apparel to the United States and U.S. partner^a and non-partner countries, 2005-2007 (1,000 \$)

		2005	2006	2007
Total	-	432,201	485,601	^b 499,690
United States	-	408,087	450,161	452,387
Canada	Partner	10,581	11,119	14,493
Mexico ^c	Partner	5,832	10,641	9,334
Australia.....	Partner	1,033	854	1,631
Other ^d	Partner	174	17	7
EU-27 ^e	Non-partner	6,084	12,412	20,851
Other ^d	Non-partner	410	397	986

Source: USITC, Dataweb and Global Trade Atlas.

^aPartner and non-partner indicate whether or not the country has an FTA with the United States.

^bHaiti's exports to the United States fell by quantity in 2007.

^cDoes not include data for November and December 2007.

^dSome countries in this category have only reported data through September 2007.

^eDoes not include data for December 2007.

Although the United States is Haiti's largest apparel export market, Haiti is a small supplier to the United States, accounting for less than one percent of total U.S. apparel imports in 2007 (and U.S. apparel imports under HHOPE account for a much smaller fraction of total U.S. apparel imports). Since the implementation of the CAFTA-DR, however, Haiti has become the leading CBERA beneficiary of apparel trade preferences under the CBTPA.⁵⁴ Haiti accounted for 89 percent of total U.S. apparel imports from the CBERA region in 2007, up from 83 percent in 2005. Further, Haiti was the only apparel supplier among CBERA and CAFTA-DR countries, except for Nicaragua,⁵⁵ whose apparel exports to the United States increased steadily by value during 2005-2007, rising 11 percent, from \$406.3 million to \$452.2 million (table 2.6). U.S. apparel imports from Haiti consist mostly of high-volume, low-cost garments, such as basic cotton and man-made fiber knit shirts, cotton knit underwear, and woven bottoms (trousers, shorts, and similar garments). Such garments have relatively simple stitching and predictable consumer demand. Their production involves large standardized runs, simple sewing tasks, and few styling changes. Such commodities are subject to keen competition from producers worldwide.

⁵⁴ CAFTA-DR as set forth under Public Law 109-53 (119 Stat. 462) of August 3, 2005, provides market access that is the same as or better than the access provided under CBERA. CAFTA-DR provides for significant and permanent enhancements of product eligibility as it relates to textiles and apparel. The FTA provides for the immediate elimination of duties on textiles and apparel that meet the rules of origin specified in the FTA, retroactive to January 1, 2004. Once a country becomes a member of CAFTA-DR, it is no longer a member of CBERA. Although Costa Rica has not yet ratified the CAFTA-DR, for the purposes of this report, U.S. apparel trade with Costa Rica is included in the CAFTA-DR grouping rather than the CBERA grouping.

⁵⁵ The increase in U.S. imports of apparel from Nicaragua can likely be attributed to the tariff preference level (TPL) that CAFTA-DR grants specifically to Nicaragua, because it has been the smallest and least-developed apparel supplier among the beneficiary countries. The TPL extends duty-free treatment for 10 years to a limited amount of cotton and manmade-fiber apparel made in Nicaragua from non-originating fabrics, provided that the fabrics are cut and sewn into garments in Nicaragua with regional thread. Imports that exceed the TPL level are subject to the higher Normal Trade Relations (NTR) rates of duty.

TABLE 2.6 U.S. textiles and apparel^a trade with CBERA and CAFTA-DR countries, 2005-2007 (1,000 \$)

Country	2005	2006	2007
<u>U.S. imports for consumption (customs value)</u>			
CBERA countries ^b			
Haiti total	406,340	449,683	452,206
Haiti under HOPE ^d	NA	NA	13,639
Haiti under CBTPA	288,438	364,365	420,523
Jamaica	56,495	48,861	36,612
All other	29,606	27,919	5,384
CBERA total	492,441	526,463	507,841
CAFTA-DR beneficiary countries ^c			
Honduras	2,629,051	2,445,447	2,517,892
El Salvador	1,646,420	1,433,174	1,507,424
Guatemala	1,830,973	1,678,274	1,463,152
Dominican Republic	1,855,016	1,550,491	1,060,795
Nicaragua	715,636	879,382	968,172
Costa Rica	491,590	479,495	431,548
CAFTA-DR Total	9,168,684	8,466,263	7,948,983
Total for all CAFTA-DR & CBERA countries	9,661,126	8,992,726	8,456,824
<u>U.S. exports for consumption (f.a.s. basis)</u>			
CBERA countries			
Haiti	221,515	170,491	61,228
Jamaica	46,399	49,273	31,073
All other	83,166	114,345	131,681
CBERA Total	351,080	334,109	223,982
CAFTA-DR beneficiary countries			
El Salvador	611,687	561,865	536,232
Dominican Republic	1,070,638	1,007,584	757,486
Guatemala	309,219	231,684	248,789
Honduras	1,427,024	1,360,883	1,451,141
Nicaragua	89,580	74,228	75,354
Costa Rica	286,322	255,197	212,317
CAFTA-DR Total	3,794,470	3,491,442	3,281,319
Total for all CAFTA-DR & CBERA countries	4,146,550	3,825,550	3,505,301

Source: USDOC, OTEXA.

^aU.S. textile and apparel imports and exports in this table are classified in HTS chapters 50-63.

^bCountries that were CBERA beneficiaries as of December 31, 2007 and not including CAFTA-DR countries.

^cCountries for which CAFTA-DR entered into force during 2006. Although Costa Rica did not ratify the CAFTA-DR in 2006, for the purposes of this report, U.S. apparel trade with Costa Rica is included in the CAFTA-DR grouping rather than the CBERA grouping.

^dTrade activity began in July 2007.

The steady increase in Haiti's apparel exports to the United States over the past several years can be largely attributed to preferential treatment offered by the CBTPA, which went into effect in 2000.⁵⁶ The share of U.S. apparel imports from Haiti that entered duty-free under the CBTPA grew rapidly during 2005-2007 (up 46 percent). In 2005, 71 percent (\$288 million) of U.S. imports of apparel from Haiti entered duty-free under the CBTPA, while in 2007, 93 percent (\$421 million) of U.S. imports from Haiti entered duty-free under the CBTPA. The CBTPA program has contributed to stability in the apparel sector in Haiti and is largely responsible for creating a manufacturing base with the potential to build upon the additional preferences afforded by HHOPE Act.

United States

U.S. Apparel Market

The United States is one of the world's largest markets for apparel. U.S. retail apparel purchases, including both domestically produced and imported items, total an estimated \$200 billion a year.⁵⁷ Imports account for almost 95 percent of apparent domestic consumption of apparel.⁵⁸ Increasingly, retailers are sourcing apparel directly from developing countries, as are many U.S. apparel firms that have reduced or eliminated domestic production altogether so as to focus on product design and marketing. As noted, Haiti is a small supplier of apparel to the U.S market and accounted for less than one percent of total U.S. imports of apparel (totaling \$74 billion) in 2007.

U.S. Trade

During 2005-2007, total U.S. imports of textiles and apparel from all sources rose 9 percent, from \$89.2 billion to \$96.4 billion (table 2.7).⁵⁹ Apparel imports accounted for 76 percent of total sector imports. U.S. imports of textiles and apparel from China, the world's largest textile and apparel producer and supplier of one-third of U.S. textile and apparel imports in 2007, rose 44 percent during the period to \$32.3 billion. The surge in imports from China is attributed to the expiration of quotas in 2005 that augmented the country's existing competitive advantages of abundant labor, low production costs, strong customer service, and the ability to make almost any type of textile product or garment at all quality levels and in large volumes. U.S. textile and apparel imports from Mexico, the second leading U.S. supplier, fell 22 percent during the period to \$5.6 billion. This

⁵⁶ The CBTPA granted duty-free treatment to: (1) apparel and luggage made of U.S. yarns and fabrics; (2) knit apparel made of materials formed in CBTPA countries from U.S. yarns, subject to certain caps (for the 1-year period ending on September 30, 2007, CBTPA granted duty-free entry to outerwear t-shirts up to a cap of 12 million dozen and other knit apparel up to a cap of 970 million SMEs); and (3) apparel made up of yarns or fabrics deemed to be in "short supply" either under the North American Free Trade Agreement (NAFTA) or as subsequently determined by the President. Imports of apparel made in CBTPA countries from a yarn or fabric deemed to be in short supply are eligible to enter free of duty, regardless of the source of the yarn or fabric.

⁵⁷ Industry official, e-mail message to Commission staff, March 12, 2008.

⁵⁸ Industry official, telephone interview by Commission staff, April 20, 2008.

⁵⁹ Note that these imports are quantified in terms of customs value, not retail value.

TABLE 2.7 U.S. trade in textiles and apparel^a with selected FTA partners and other countries, 2005-2007

Country	2005	2006	2007	2005-2007 % change
	(1,000 \$)			
World.....	89,205,496	93,278,703	96,406,950	8
China.....	22,405,219	27,067,622	32,320,824	44
CAFTA-DR beneficiary countries	7,522,265	7,033,089	6,441,559	-14
Mexico.....	7,246,285	6,376,319	5,625,512	-22
Canada	2,844,428	2,587,042	2,201,543	-23
SSA Countries ^b	1,486,238	1,315,455	1,316,250	-11
Peru	821,068	864,612	832,670	1
Haiti.....	406,340	449,683	452,206	11
Colombia.....	618,251	550,750	427,762	-31
Israel	544,415	483,428	411,313	-24
Australia	147,715	69,373	38,621	-74
Chile.....	32,457	34,040	26,351	-19
	(f.a.s. basis) (1,000 \$)			
World.....	16,616,427	16,702,404	15,955,984	-4
Canada	3,668,856	3,959,140	3,978,285	8
Mexico.....	4,692,653	4,390,350	3,854,314	-18
CAFTA-DR beneficiary countries	3,794,630	3,491,442	3,281,319	-14
China.....	363,748	449,720	489,243	35
Australia	143,833	146,364	173,742	21
Colombia.....	150,338	175,503	141,100	-6
SSA Countries.....	61,441	60,326	67,516	10
Haiti.....	221,515	38,468	61,228	-72
Israel	47,895	37,231	48,201	1
Chile.....	37,337	41,674	45,696	22
Peru	21,287	23,629	27,478	29

Source: USDOC, OTEXA.

^aU.S. textile and apparel imports and exports in this table are classified in HTS chapters 50-63.

^bThe Sub-Saharan Africa countries include: Angola; Benin; Botswana; Burkina Faso; Burundi; Cameroon; Cape Verde; Chad; Republic of Congo; Democratic Republic of Congo; Djibouti; Ethiopia; Gabon; The Gambia; Ghana; Guinea; Guinea-Bissau; Kenya; Lesotho; Liberia; Madagascar; Malawi; Mali; Mauritania; Mauritius; Mozambique; Namibia; Niger; Nigeria; Rwanda; Sao Tome and Principe; Senegal; Seychelles; Sierra Leone; South Africa; Swaziland; Tanzania; Uganda; Zambia.

decline can be attributed to rising production costs and the subsequent relocation of some apparel production to Central America and the Caribbean, as well as increased competition from China.⁶⁰ Likewise, U.S. imports of apparel from other FTA partners and non-partner suppliers declined during 2005-2007, which is also likely attributable to increased competition from China and other low-cost Asian suppliers. During the same period, U.S. exports of textiles and apparel fell 4 percent to just under \$16.0 billion.

U.S. Free Trade Partners and Countries in the Caribbean Basin

Apparel Industries and Trade

Haiti has some trade with non-U.S. NAFTA countries (Canada and Mexico) and CAFTA-DR countries (Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua), with the exception of trade with the Dominican Republic, such trade is small. There is also a small amount of trade between Haiti and Australia, but virtually no trade between Haiti and other countries with which the United States has an FTA.⁶¹ Likewise, Haiti essentially does not export apparel to CBTPA beneficiary countries⁶² and imports virtually no inputs from them.

As stated, Haiti lacks textile manufacturing and finishing capacities; it has integrated its apparel assembly activities with the Dominican Republic's textile manufacturing and finishing operations. The Dominican Republic does not report trade data on a disaggregated basis, and published statistics on the textile and apparel industry in the Dominican Republic are limited. Most Dominican textile and apparel firms are located in free trade zones, which have accounted for over 70 percent of the country's total exports in recent years and where U.S. firms are large investors.⁶³ Larger than its Haitian counterpart, the Dominican Republic's textile and apparel industry has contracted in recent years (table 2.8), principally because of competition from China since the elimination of quotas in January 2005. Employment dropped sharply during 2004-2005 (down 31 percent), and exports decreased by 10 percent between 2004 and 2005 and by another 16 percent between 2005 and 2006.⁶⁴

⁶⁰ Just-Style, "Mexico Slow To Move," April 18, 2007; EIU, *Consumer Goods Briefing & Forecasts*, "Mexico Consumer Goods: Competition and Investment," August 3, 2007; and Emerging Textiles, "Mexico's Apparel Industry Facing Grim Future," April 4, 2007.

⁶¹ The United States also has free trade agreements with Bahrain, Chile, Israel, Jordan, Morocco, and Singapore.

⁶² Beneficiary countries of the CBTPA (in addition to Haiti) include: Antigua and Barbuda, Aruba, The Bahamas, Barbados, Belize, the British Virgin Islands, Costa Rica, Dominica, Grenada, Guyana, Jamaica, Montserrat, Netherlands Antilles, Panama, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago.

⁶³ The Dominican Republic's National Council of Free Trade Zones publishes annual reports, which are available at <http://www.cnzfe.gov.do/>.

⁶⁴ EIU, *Business Latin America*, "Central America," September 23, 2007, 4; EIU, *Dominican Republic: Country Report*, August 2007, 33; and *BBC International Reports (Asia)*, "Taiwan to Encourage Textile Industry" July 5, 2007.

TABLE 2.8 Number of firms, employees, and exports from the textile and apparel sector located in free trade zones in the Dominican Republic, 2004-2006

	2004	2005	2006
Number of firms.....	281	226	198
Number of employees.....	131,978	91,491	79,365
Exports (thousands of nominal US\$).....	2,121	1,905	1,596

Source: Consejo Nacional de Zonas Francas de Exportación, Republica Dominicana, Informes Estadísticos 2005 y 2006.

CHAPTER 3

Effects of the HHOPE Act Amendments

Key Findings

Effect on Haitian Industry and Trade

The HHOPE Act (Act) has likely provided some benefits to Haiti in terms of increased employment and increased exports over what might have occurred in the absence of the Act. Moreover, the HHOPE Act appears to have created some interest in Haiti as a sourcing destination, particularly for companies already operating in Haiti under CBTPA. To date, however, such benefits have been small, and very few apparel imports entered the United States under the provisions of the Act during 2007. Some Haitian apparel firms have expanded operations, but new foreign investment has been limited. In its first year of implementation, the Act reportedly motivated a few companies to return some of their sourcing of apparel to Haiti from Asia.¹ However, other companies that had left Haiti chose not to return. Generally, U.S.-Haitian trade in textiles and apparel remains concentrated among a small number of U.S. firms and Haitian manufacturers with established operations. Although some industry sources contend that preferential access to the U.S. market is crucial to the success of the Haitian apparel sector,² the HHOPE Act alone is unlikely to guarantee the survival and expansion of apparel production in Haiti.

Key factors cited as contributing to the low response to the HHOPE Act to date are competition from other low-cost apparel suppliers, the short duration of benefits under the Act, and the perceived complexity of the Act. Furthermore, the preferential treatment granted by the Act may be insufficient to offset the domestic economic and political constraints previously discussed, e.g. poor infrastructure, the high cost of financing, scarcity of domestic inputs and resources (e.g., water and electricity), lack of managerial expertise, and concerns about political instability and corruption. Because of the time required to establish new operations in Haiti, it is still possible that additional capacity could be added during the current calendar year and imports under the HHOPE Act could grow.

Effect on the United States' Industry and Trade

The United States is a large importer of apparel, with China being its single largest supplier. In 2007, imports from Haiti totaled less than 1 percent of total U.S. apparel imports. U.S. imports under the HHOPE Act accounted for just 3 percent of total U.S. imports of apparel from Haiti. The small response in 2007 to the HHOPE Act suggests that the effects of the Act on the U.S. import market or U.S. industry have been negligible. U.S. exports of textiles and apparel to Haiti have continued to decline, a trend that began before implementation of the HHOPE Act. Haiti appears to be using fewer precut apparel

¹ Industry official, telephone interview by Commission staff, September 24, 2007.

² EIU, "Haiti Industry: Assembly Sector Faces Bleak Future," September 2, 2005; and USITC hearing transcript, November 8, 2007, 17.

pieces and is increasing its cut-and-sew operations, some of which use U.S. yarn (that was made into fabric in the Dominican Republic).

Effect on Caribbean Basin and Trade Partnership Act (CBTPA) Beneficiaries and Free Trade Agreement (FTA) Partners' Industry and Trade

Textiles and apparel production in the Dominican Republic is integrated with Haitian apparel manufacturing. To the extent that there has been an effect on the Dominican Republic from the HHOPE Act, it has likely been positive but very small. Nicaragua is Haiti's closest competitor in the region, but the limited response of Haitian manufacturers to the Act to date suggests that there has been little effect on Nicaragua. Although Haiti exports apparel mainly to the United States, 5 percent was also exported to U.S. FTA partners Canada, Mexico, and Australia in 2007. Haitian apparel exports to all non-U.S. beneficiary countries continued to increase in 2007 (up 13 percent over 2006 levels), suggesting that the Act has generally not diverted trade from these countries.

Effects of the HHOPE Act

Impact on Trade

U.S. Imports

In the first full calendar year following passage of the HHOPE Act, U.S. imports of textiles and apparel from Haiti rose by less than one-half of 1 percent over 2006 levels to \$452 million (table 3.1), the smallest increase in 7 years. In terms of quantity, U.S. imports of textiles and apparel from Haiti fell by 2 percent to 247 million SMEs.³ Steady growth in the value of Haiti's apparel exports to the United States in the years preceding the HHOPE Act has been attributed to preferential treatment granted by the CBTPA and Haiti's low labor costs. This growth trend was solidly in place before the HHOPE Act was enacted.

Haiti's first apparel shipments under the HHOPE Act entered the United States in July 2007, when the Haitian government issued its first visa under the Act.⁴ In 2007, U.S. imports of apparel under the HHOPE Act totaled \$13.6 million in 2007, or just 3 percent

³ In 2007, U.S. imports of textile and apparel by quantity totaled 52.1 billion SMEs, while imports of apparel alone totaled 23.3 billion SMEs. USDOC, OTEXA.

⁴ U.S. Customs and Border Protection official, e-mail message to Commission staff, March 10, 2008. In order for an importer to claim duty-free treatment for a shipment of apparel under HHOPE, an original visa issued by the government of Haiti must be presented to U.S. Customs and Border Protection at the time of entry, or withdrawal from a warehouse for consumption, into the customs territory of the United States. See also USCBP, Memorandum Concerning Implementation Information (TBS-07-006), March 20, 2007.

TABLE 3.1 Trade with beneficiary countries: U.S. apparel imports and Haitian textile and apparel imports, 2006 and 2007 (1,000 \$)

Country	U.S. apparel imports		Haitian textile and apparel imports	
	2006	2007	2006	2007
FTA Partners:				
Australia	45,521	9,623	0	0
Bahrain.....	85,064	69,539	0	0
Canada.....	1,173,179	965,980	72	55
Chile	25,667	12,147	6	3
Israel.....	241,563	190,011	0	^(b)
Jordan	1,252,178	1,144,592	0	0
Mexico	5,447,581	4,629,720	45	20
Morocco.....	100,703	89,394	0	^(b)
Oman.....	22,452	10,212	0	^(b)
Singapore	146,604	150,136	0	0
CAFTA countries:				
Dominican Republic.....	1,535,352	1,048,839	^(a)	^(a)
El Salvador	1,407,333	1,485,006	0	^(b)
Guatemala	1,666,342	1,450,998	47	149
Honduras	2,517,475	2,586,794	68	33
Nicaragua	879,310	967,805	0	^(c)
CBERA Countries:				
Antigua and Barbuda	13	12	0	^(b)
Aruba	3	1	3	0
Bahamas	24	16	21	^(b)
Barbados	119	77	1	^(b)
Belize.....	18,641	10,012	8	0
British Virgin Islands.....	77	4	0	0
Costa Rica	464,910	422,898	0	0
Dominica	26	151	0	0
Grenada	1	2	0	^(b)
Guyana.....	4,648	4,607	11	^(b)
Haiti	450,162	452,387	—	—
Jamaica	48,472	36,408	0	^(b)
Montserrat	1	0	0	^(b)
Netherlands Antilles.....	92	41	^(b)	^(b)
Panama	1,761	1,820	6	12
St. Kitts and Nevis	34	56	0	^(b)
St. Lucia	170	292	0	0
St. Vincent and the Grenadines.....	0	0	0	^(b)
Trinidad and Tobago	292	114	5	^(b)
USA.....	—	—	177,449	65,338

Sources: U.S. imports from USITC, Dataweb, HTS chapters 61–62; Haitian imports from Global Trade Atlas, HTS Chapters 50–63, excluding fibers; values based on partner exports.

^aNot reported but potentially large and possibly over \$100 million. See footnote 15.

^bNot available, but believed to be small or nil.

^cLess than \$500,000.

of total U.S. apparel imports from Haiti. Of these imports, more than one-half (56 percent) were cut and assembled in Haiti using fabric from nonbeneficiary countries⁵ (table 3.2). In terms of quantity, the 4.0 million SMEs imported under the Act in 2007 represented just 1.7 percent of the quantitative limit of 238.8 million SME.⁶

TABLE 3.2 U.S. imports under the HHOPE Act by input source, trade act category, and HTS chapter, 2007 (1,000 \$)

Source	Beneficiary-country fabric	Non-beneficiary-country fabric	Beneficiary-country components	Other ^b	Total
Source of inputs used in apparel ^a					
Trade act category:					
Knit and woven apparel meeting the value added requirements ^c	3,649	7,108	565	848	12,170
Woven apparel of non-beneficiary fabric ^d	-	532	-	936	1,468
Total	3,649	7,640	565	1,784	13,638
HTS chapter:					
61, Knit Apparel	3,649	-	565	449	4,663
62, Woven Apparel	-	7,640	-	1,335	8,975
Total	3,649	7,640	565	1,784	13,638
Trade act category					
	Knit and woven apparel meeting the valued added requirements, entry-specific claims	Knit and woven apparel meeting the value added requirements, aggregate claims	Woven apparel of non-beneficiary fabric, not meeting the value added requirements		Total
HTS chapter:					
61, Knit Apparel	468	4,195	-		4,664
62, Woven Apparel	7,461	47	1,468		8,975
Total	7,929	4,242	1,468		13,638

Source: Compiled from official Customs data.

Note: Some categories may not add to the totals shown due to rounding.

^aThe source is determined by visa category. HHOPE Act entries fall into one of seven visa categories, which indicate the processes completed in Haiti or other countries (i.e., cutting, sewing, knit-to-shape, or assembly) and the source of the fabrics and/or components. For example, an item of Chapter 62 imported under 9820.61.25, visa category 2 indicates a woven garment (Chapter 62) that was cut and assembled in Haiti from non-beneficiary country fabric (visa category 2) that meets the specified value-added requirements of the HHOPE Act on an individual entry basis (HTS subheading 9820.61.25).

^bThis catch-all category is used with imports that do not fall into to one of the defined categories, such as when a combination of beneficiary and non-beneficiary fabric was used.

^cIncludes both HTS code 9820.61.25 for entry-specific claims and HTS code 9820.61.30 for aggregate claims. See footnote 6.

^dIncludes HTS code 9820.62.05 for imports of woven apparel assembled in Haiti but not meeting the value-added requirements.

In 2007, Haitian apparel makers shipped garments to the United States under three trade act categories (designated HTS subheadings that were created for duty-free imports under the HHOPE Act). Pursuant to the provisions of the Act discussed in Chapter 1, the first

⁵ As noted in Chapter 1, the term “beneficiary country” includes Haiti, the United States, and any country with which the United States has an FTA or preferential trading program.

⁶ The HHOPE Act specifies the maximum quantity that can enter each year under the Act. See the Legislative Overview in chapter 1 for details.

two categories allow Haitian apparel to enter the United States duty free, provided a specified percentage (initially 50 percent) of the value of such apparel comes from a beneficiary country (HTS subheadings 9820.61.30 and 9820.61.25).⁷ These provisions apply equally to knit and woven apparel and are in effect for five years, until December 19, 2011. U.S. imports from Haiti under these categories totaled \$12.2 million in 2007, of which only \$4.7 million was knit apparel. The third category allows duty-free entry for woven apparel from Haiti that does not meet the value-added requirement (HTS subheading 9820.62.05). Although this category is subject to more liberal rules of origin and potentially allows for greater cost savings, it is in effect for only three years, until December 19, 2009. The United States imported only \$1.5 million of woven apparel under this provision in 2007. A fourth category covering brassieres cut and sewn or otherwise assembled in Haiti, the United States, or both countries, from inputs from anywhere in the world (HTS subheading 9820.62.12) was not utilized in 2007.

Although the Haitian apparel industry is largely concentrated in knit garment production, the response to the HHOPE Act by manufacturers of knit apparel was less than the response by woven apparel manufacturers. The share of knit apparel imports under the Act (34.1 percent) is much lower than the share of knit apparel in overall U.S. apparel imports from Haiti (88.0 percent). During 2006-2007, total U.S. imports of knit apparel from Haiti declined by just over 1 percent, while U.S. imports of one of Haiti's leading apparel products, knit cotton underwear, declined by 34 percent in terms of value to \$67.3 million.⁸ One Haitian manufacturer stated in its questionnaire submission that the knit provisions of the Act are not attractive enough to create substantial interest in sourcing knit products from Haiti. Another Haitian manufacturer noted that the HHOPE Act has not generated investment by producers of knit apparel, because in some cases, the product mix of a company does not allow it to meet the value-added requirement.⁹

The principal area of growth in Haitian production and exports to the United States since passage of the HHOPE Act was in woven garments, especially woven shirts, pants, and uniforms. In particular, U.S. imports of all woven apparel from Haiti grew by over 13 percent, while U.S. imports of woven cotton and man-made fiber trousers and slacks from Haiti rose 17 percent in terms of value to \$51.3 million (or 11.4 million SMEs) in 2007. This increase may be related to the Act, which allows at least a portion of fabric inputs to be produced anywhere in the world (and in the case of the 3-year woven provision, without restrictions on the value-added content). In fact, 85 percent imports of woven apparel under the Act were made exclusively of nonbeneficiary country fabric (with the remainder likely made from a combination of beneficiary and nonbeneficiary fabric). Reportedly, the increased flexibility in using foreign fabrics was a significant incentive for some U.S. apparel producers to produce in Haiti and import garments under

⁷ Apparel may enter duty-free under HTS subheading 9820.61.25, a provision covering knit and woven apparel meeting the value-added requirements of the Act on an entry-specific basis, or HTS subheading 9820.61.30, covering knit and woven apparel meeting the value-added requirements through an aggregated claim. An entry-specific claim is one that indicates that each specific entry or shipment of goods meets the applicable value added requirements. An aggregated claim is one that meets the value-added requirements by aggregating the costs of materials and processing for all apparel articles of a producer (wholly assembled or knit to shape in Haiti) that are entered in the initial applicable one-year period.

⁸ According to industry sources, this decline can likely be attributed to the shifting of production of some cotton underwear from Haiti to Honduras because of a business decision unrelated to the HHOPE Act by a U.S. apparel producer. Industry representative, e-mail message to Commission staff, February 20, 2008 and industry representative, telephone interview by Commission staff, October 5, 2007.

⁹ Sohacosa, written submission to the USITC, January 12, 2008.

the HHOPE Act in 2007.¹⁰ Some U.S. companies that imported apparel under the Act plan to increase their sourcing of fabrics from Asia, many of which are unavailable in the United States.¹¹

Most imports of woven apparel entered under the provisions of the Act requiring a 50-percent value-added content. Only \$1.5 million in imports entered under the specific provision exclusively for woven apparel that permits inputs from any country to be used without value-added restrictions. This represents only 10.8 percent of all imports that entered under the HHOPE Act, or 16.4 percent of total entries of woven apparel under the Act. In terms of quantity, these imports accounted for only 1.5 percent of the 50 million SMEs limit allocated specifically for this provision. It is notable that more woven apparel was imported under the provisions requiring some beneficiary content, given that the provision allowing unrestricted sourcing and fewer limits on processing would have allowed for greater cost savings. However, Haitian manufacturers noted in hearing testimony that woven garments generally have more manual operations, and hence a higher labor content, than knit garments.¹² Therefore, this difference in the production process could make it relatively easy for woven apparel to meet the requirement that 50 percent of value-added content come from beneficiary countries.

U.S. Exports

In addition to the limited volume of U.S. imports under HHOPE to date, 2007 trade figures suggest that the Act has had minimal effect on U.S. exports to Haiti (down 72 percent). As noted in Chapter 2, the decline in U.S. exports of textiles and apparel to Haiti is largely attributable to Haitian manufacturers using more fabric from the Dominican Republic (some of which is made from U.S. yarn), a trend that began prior to passage of the Haiti HOPE Act.

Trade with Other Beneficiary Countries

To the extent that trade under the HHOPE Act affects other beneficiary countries, it would happen through two channels: (1) by displacing other countries' apparel exports to the United States, and (2) by generating new demand for apparel inputs in Haiti. Nicaraguan apparel producers are the closest competitors to Haitian apparel firms, as Nicaragua has a similar industry and cost structure.¹³ However, any effects on Nicaragua are likely negligible, owing to the small response of Haitian manufacturers to the Act to date and the fact that Haiti's imports under the Act are small compared with Nicaragua's apparel exports to the United States, which totaled \$967.8 million in 2007 (table 3.1). Other CBTPA apparel-producing countries and beneficiary countries like Mexico are even less likely affected by U.S. imports from Haiti under the Act, because they are higher value-added suppliers.

The Dominican Republic is likely to be the main beneficiary of any increased Haitian demand for beneficiary country inputs,¹⁴ as it is already a key supplier to the Haitian

¹⁰ Industry official, telephone interview by Commission staff, October 5, 2007.

¹¹ Industry officials, telephone interviews by Commission staff, September 24, 2007, and October 5, 2007.

¹² USITC hearing transcript, November 8, 2007, 98.

¹³ Ozden, "Caribbean Basin Initiative Beneficiary Countries and the Apparel Sector," 2006, 5-7.

¹⁴ In 2007, 89.3 percent of U.S. imports under the Act entered under provisions that require a percentage of content from beneficiary countries. The \$12.1 million that entered under these

industry.¹⁵ As Haiti's textiles and apparel industry is closely linked with that of the Dominican Republic, which provides Haiti with textile and apparel inputs and washing and finishing services for Haitian-produced apparel, increased apparel trade under the Act is likely to generate a small positive effect on production and trade in the Dominican Republic. In the absence of trade data (the Dominican Republic does not report disaggregated trade statistics), it is impossible to quantify how Dominican exports to and imports from Haiti have been influenced by trade under the Act to date.¹⁶ Other large regional suppliers may also see increased demand, particularly Mexico, Guatemala, and Honduras, which are already moderately sized exporters to Haiti.

Impact on Employment

The HHOPE Act appears to have contributed to some increase in employment in Haiti. Although one Haitian manufacturer stated that almost 3,000 new jobs in Haiti could be attributed to the Act,¹⁷ this firm also stated that Haiti's increased political stability helped boost employment. Another Haitian manufacturer estimated that the Act would create 3,000 to 4,000 additional jobs in the woven apparel sector, but only about 1,000 additional jobs in the knit apparel sector in 2008.¹⁸ Some companies with existing operations in Haiti expanded apparel production, particularly of woven garments, and hired additional workers in 2007 in response to the Act.¹⁹ Other industry sources claim that the Act has increased employment in Haiti, but did not provide specific numbers.²⁰

Impact on Investment

There were few reports of new capital investment in Haiti's textile and apparel sector in 2007. In questionnaire responses, some Haitian manufacturers reported making or planning small to moderate additional investments in response to the Act;²¹ foreign

provisions required about \$4 million in beneficiary country content, given an estimated two-thirds cost share of materials in production costs and at least 50 percent value added from beneficiary materials or processing. In addition to increased demand for beneficiary inputs, demand for nonbeneficiary inputs may increase as well.

¹⁵ Although the United States is also a primary supplier, it is a relatively high-cost supplier, and demand for U.S. inputs has been declining.

¹⁶ Neither Haiti nor the Dominican Republic report bilateral trade data, so the extent of their bilateral trade is unknown, but Haiti's reported imports of knit apparel inputs from other sources declined by about \$160 million from 2005 to 2007, and knit apparel output remained roughly constant. At the same time, anecdotal evidence suggests the Dominican Republic considerably increased knit exports to Haiti.

¹⁷ USITC hearing transcript, November 8, 2007, 87.

¹⁸ Sohacosa, written submission to the USITC, January 12, 2008, 2-3.

¹⁹ Several Haitian manufacturers responded that they were expanding or planning to expand production in the near future. One firm reported that it plans to hire an additional 240 workers in early 2008. Another firm reported that it will hire additional workers when new equipment is installed. A manufacturer of woven apparel reported hiring about 200 employees in 2007, with plans to hire more in 2008.

²⁰ USITC hearing transcript, November 8, 2007, 16.

²¹ One firm reported increasing space and adding new product lines. Another firm reported acquiring about 200 machines from a foreign investor and diversifying into the production of pants after previously making only polo shirts. A manufacturer of woven apparel reported increasing capacity and the capability to produce different styles.

investment has been limited.²² As the HHOPE Commission indicated, “in its current form, the HOPE Act is helpful, but not sufficient to attract significant new investment . . . short-term temporary benefits are not sufficient to give investors confidence to make long-term commitments.”²³

Additional growth in response to the Act could still occur because some investments have not yet had time to affect production. Because approximately one year is needed to establish new apparel plants in Haiti, some planned expansions are expected to become operational in 2008, or possibly in 2009. Nevertheless, given the level of benefits provided by the Act and the difficulties associated with operating in Haiti, significant additional investment is not expected. Foreign and domestic firms that are aware of the HHOPE Act have likely already begun most investment that will be generated in response to the Act, and future growth is likely to slow substantially in the later years of the Act as the remaining period of benefits diminishes.

Possible Factors Limiting the Response to the HHOPE Act

A number of factors likely contributed to the low level of imports to date under the HHOPE Act, including strong competition in the U.S. import market, Haiti’s difficult business climate, the short period of trade activity under the Act to date, the short duration of benefits, the perceived complexity of the provisions, and issues with the technical requirements of the Act.

Strong competition from other apparel-producing countries is a key factor affecting U.S. imports from Haiti. As reported in Chapter 2, U.S. imports of textiles and apparel from China increased 44 percent, and China now supplies about one third of total U.S. imports of textiles and apparel.²⁴ China, which can manufacture a wide range of apparel at competitive prices, has a domestic supply of raw materials and more advanced infrastructure than Haiti. In addition, countries such as Vietnam, Cambodia, Nicaragua, and India are shipping to the United States large volumes of the same types of garments that Haiti is producing.

The difficult Haitian business climate may also have restricted investment under the Act. As noted in the “Business Climate” section in Chapter 1 of this report, Haiti performs

²² The available evidence suggests that about six foreign firms will begin operation in Haiti because of the HHOPE Act. Sohacosa, a Haitian apparel producer, reports that three foreign plants, two Korean-owned and one U.S.-owned, should be operating in early 2008. (Sohacosa, written submission to the USITC, January 12, 2008.) Questionnaire responses also indicate that a few firms from the Dominican Republic and Guatemala have set up operations to manufacture woven apparel.

²³ See Appendix C, Position of Interested Parties, Haiti HOPE Commission.

²⁴ U.S. imports from China could increase further in 2009 after the expiration of the Memorandum of Understanding (MOU) between China and the United States Concerning Trade in Textile and Apparel Products. The MOU, which took effect on January 1, 2006, established 21 quotas on imports of textiles and apparel from China (covering 34 textile and apparel product categories). The memorandum of understanding extends through December, 31, 2008, at which time the right of the United States to invoke safeguards under China’s WTO membership accession agreement expires.

poorly on many factors that investors find important.²⁵ International firms, in particular, which have a range of investment options, are more likely to invest in countries with a better business climate. In addition, the perceived benefits afforded by the HHOPE Act may not be large enough to stimulate investment (see text box 3.1 for an estimate of the cost savings provided by the Act). As noted, there is a lack of access to capital at low interest rates in Haiti,²⁶ which increases the cost of new investment financed from debt and decreases the likelihood that a potential project will be profitable. It is possible that investors²⁷ have not taken advantage of the Act because they perceive that it may not provide a large enough benefit to be lucrative.

In addition, the small amount of trade under the HHOPE Act in 2007 can be attributed, in part, to the fact that the principal provisions did not become effective until March 20, 2007, and the first official shipment under the Act did not occur until July 2007. The short six-month period of imports under the Act precludes a definitive analysis of the causes of the limited trade, but the time required to set up new productive capacity likely contributed to the small response in 2007. Haitian apparel manufacturers indicate in their questionnaire responses that at least one year is required to install equipment, train staff, and make a plant operational, which suggests not enough time was available to complete the investment process during 2007. Thus, production and exports could increase if additional investment becomes operational during 2008 or 2009.

Questionnaire responses, industry interviews, written submissions, and academic literature all suggest that the five-year duration of the HHOPE Act is too short to promote significant new investment, particularly considering the lengthy time required to bring new production capacity on line. Extending the benefit period could attract additional investors, particularly foreign investors, but also Haitians, to Haiti's apparel sector. Several studies of preferential trade in the Caribbean have concluded that time limits for U.S. preferences generate uncertainty and constrain trade and investment.²⁸ Typically, investors need a longer stream of benefits to amortize their investment. Several industry representatives indicated that a minimum of 10 years is needed to attract investment to Haiti's textile and apparel sector.²⁹ In a written submission to the Commission, the Association des Industries d'Haiti also stated that extending the benefit period would encourage investment.

The perceived complexity of the HHOPE Act provisions may also have hindered imports under the Act. Industry representatives report that the complexity and ambiguity of the

²⁵ For a detailed examination of infrastructure in Haiti and in other Caribbean countries, see World Bank, "A Time to Choose," 2005, Chapter 8. Both Haitian and U.S. firms have stated that Haiti could benefit from development assistance to help it to overcome problems related to the business climate.

²⁶ Haitian firms facing high interest rates value income received in the immediate future more than income received in the distant future and, if they were able to finance a desired expansion, may still be willing to invest even when the total benefit period is limited to three or five years.

²⁷ Haitian manufacturers stated in their questionnaire responses that their foreign clients often own and control the low-cost raw materials used in apparel production. As such, benefits accrue to the importer of record, who receives duty-free access to the U.S. market under the HHOPE Act, and the Haitian contract manufacturer may not receive higher prices. Thus, the HHOPE Act provides few incentives for capital investment, although the contract manufacturer may still benefit from an increased number of contracts.

²⁸ See World Bank, "A Time to Choose," 2005, 77; and Devlin et al., *The Emergence of China: Opportunities and Challenges for Latin America and the Caribbean*, 2005, 189.

²⁹ USITC hearing transcript, November 8, 2007, 46. Levi Strauss & Co. stated that the company would expand its production in Haiti if the Act were extended for a much longer time, Levi Strauss & Co., written submission to the USITC, February 7, 2008, 1.

language of the Act³⁰ and the complicated rules reportedly contributed to the delay in imports under the Act.³¹ In questionnaire responses and hearing testimony, industry sources reported difficulties in understanding and qualifying for the provisions.³² Numerous Haitian apparel manufacturers stated that application of the Act was complicated, describing the statutory language as ambiguous and difficult to interpret, and saying that an experienced lawyer was needed to read and apply the provisions.³³ One Haitian manufacturer stated in its questionnaire response that the rules concerning the aggregation method and applicable time periods were complicated and that it was unclear if the company could use the provisions. Several U.S. and Canadian apparel companies also reported that complexity and required paperwork discouraged them from expanding their purchasing or contracting in Haiti under the Act.³⁴ Moreover, some U.S. apparel companies indicated that the requirement that apparel be shipped directly from Haiti to the United States to receive preferential duty-treatment, instead of from the Dominican Republic, discouraged them from taking advantage of the Act because it imposed extra transportation costs.³⁵ Changing the rules to allow apparel manufactured in Haiti but washed and finished in the Dominican Republic to be shipped directly from the Dominican Republic and still qualify for duty-free entry could spur some additional investment. In terms of the technical specifications of the Act, industry representatives also view the 50-percent value-added requirement as a disadvantage for apparel produced in Haiti. This requirement reportedly can be met for only a limited number of garment types at this time.³⁶ Industry sources also indicate that in light of the predominance of knit apparel in the Haitian industry, a tariff preference level for knit garments would greatly enhance the benefits of the Act.

³⁰ Industry official, telephone interview by Commission staff, October 5, 2007.

³¹ Industry official, telephone interview by Commission staff, September 25, 2007.

³² USITC hearing transcript, November 8, 2007, 23 and 33–34.

³³ Industry official, telephone interview by Commission staff, October 1, 2007.

³⁴ Industry officials, telephone interviews by Commission staff, October 3, 2007, September 26, 2007, and October 5, 2007. A U.S. association representative also reported that the complexity of the visa process, complex in-house compliance issues, complicated paperwork, and complex woven apparel benefits have caused some U.S. apparel importers to adopt a “wait and see” approach to Haiti. Industry official, telephone interview by Commission staff, September 26, 2007.

³⁵ Industry official, telephone interview by Commission staff, September 26, 2007.

³⁶ Industry officials, telephone interviews by Commission staff, October 1, 2007, September 26, 2007, September 24, 2007, and October 3, 2007.

Box 3.1

Illustrative estimate of cost savings under the HHOPE Act

The supply response to the HHOPE Act (Act) depends to an extent on the cost savings provided to apparel manufacturers by the Act, which is difficult to quantify given the scant trade and production data. Ideally, cost savings could be estimated by combining data on production cost shares for fabric inputs with import price data. For example, if questionnaires reported that fabric and yarn inputs accounted for 50 percent of apparel production costs, and Haitian trade data reported that the least-cost fabric source costs 50 percent less than the source Haiti used prior to the HHOPE Act, then a reasonable estimate of the costs savings would be 25 percent. Unfortunately, neither questionnaire data nor Haitian trade data are adequate for this calculation.¹ An illustrative estimate of the cost savings under the HHOPE Act can be derived by using two alternative data sources: U.S. input-output data on apparel production cost shares and Nicaraguan import cost data. U.S. cost shares were adjusted to reflect materials costs reported by Haitian apparel manufacturers and the share of woven fabric from Haiti in U.S. imports under these provisions.² Nicaraguan import prices are used because multiple sources, including questionnaire responses, indicate that Nicaragua is the country closest to Haiti in production structure, quality, and price. Thus, cost ratios for nonbeneficiary to beneficiary inputs should be broadly similar across the two countries. Nicaraguan import prices of inputs to apparel production and the resulting cost advantage for nonbeneficiary sources over beneficiary sources are shown in the table below. Applying the estimated cost shares to these import cost advantages, the resulting overall production costs savings (using entirely nonbeneficiary inputs) is about 40 percent. This overstates the cost savings, because almost all U.S. imports under the HHOPE Act require 50 percent of inputs from beneficiary sources; thus, the estimated cost saving under the program is about 20 percent.³

Nicaraguan textile and apparel import prices and quantity, by region^a

HTS	Description	Import price (dollar per kilogram)				Nonbeneficiary cost advantage ^d (percent)
		China	Other Asia ^b	Latin America & Caribbean ^c	United States	
54	Manmade filaments including yarns and fabrics	0.73	0.87	2.61	17.90	71.98
55	Manmade staple fibers including yarns and fabrics	1.24	4.50	3.51	2.00	38.00
5801	Woven pile and chenille fabric	1.77	— ^e	4.49	9.37	60.61
60	Knit and crocheted fabrics	0.40	— ^e	2.86	2.00	80.00
61	Knit Apparel	1.43	14.88	8.54	9.40	83.26
62	Woven Apparel	1.11	13.29	14.67	19.29	92.43
	Average ^f	1.13	2.07	3.92	14.68	

Source: World Trade Atlas

^aEach region includes all applicable countries for which Nicaragua reports nonnegligible imports.

^b"Other Asia" includes nonbeneficiary countries in Asia, including Bangladesh, Hong Kong, India, Indonesia, Pakistan, Taiwan, Thailand, and Vietnam.

^c"Latin America and Caribbean" includes beneficiary countries in Latin America, including Colombia, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, Mexico, and Panama.

^dThe nonbeneficiary cost advantage is equal to the share of the price of the cheapest beneficiary source that would be saved by using the cheapest nonbeneficiary source (always China). For example, Chinese knit fabric (at \$0.40) represents an 80-percent cost advantage over the cheapest beneficiary knit fabric (at \$2.00).

^eNo imports were reported from this region.

^fThe average is weighted to reflect import quantities in these sectors, and is not the simple average of columnar values.

¹ Information from Haitian manufacturers indicates that material costs are approximately two-thirds of production costs, but cost shares for particular yarn and fabric inputs are unknown. As noted in chapter 1, Haitian trade data also have shortcomings. First, Haitian imports must be estimated from "mirror" exports from other countries to Haiti; and second, no bilateral trade data are available for the Dominican Republic, an important Haitian trade partner.

² This procedure produces the following cost shares for inputs to apparel production: manmade fibers, 2 percent; manmade staple fibers, 2 percent; woven fabric 44.8 percent; knit fabric 20.2 percent; knit apparel, 6.2 percent; and woven apparel 13.8 percent.

³ These potential cost savings will depend upon whether the cost share of materials and the estimated cost savings from using nonbeneficiary sources are applicable to all Haitian firms. Also, as stated in chapter 1, the value-added requirements increase to 55 and 60 percent, respectively, in the fourth and fifth years of the Act, which will reduce the cost savings in those years.

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APPENDIX A
Haiti Hope Act

PUBLIC LAW 109-432—DEC. 20, 2006

TAX RELIEF AND HEALTH CARE ACT OF 2006

in Cotton, Wool, Man-Made Fiber, Non-Cotton Vegetable Fiber and Silk Blend Textiles and Textile Products Between the Governments of the United States of America and the Socialist Republic of Vietnam, entered into on July 17, 2003.

(2) DISPUTE SETTLEMENT UNDERSTANDING.—The term “Dispute Settlement Understanding” means the Understanding on Rules and Procedures Governing the Settlement of Disputes referred to in section 101(d)(16) of the Uruguay Round Agreements Act (19 U.S.C. 3511(d)(16)).

(3) INTERESTED PERSON.—The term “interested person” includes, but is not limited to, domestic firms and workers, representatives of consumer interests, United States product exporters, and any industrial user of any goods or services that may be affected by action taken under section 4006(b).

(4) PROHIBITED SUBSIDY.—

(A) IN GENERAL.—The term “prohibited subsidy” means a subsidy described in article 3.1 of the Agreement on Subsidies and Countervailing Measures.

(B) SUBSIDY.—The term “subsidy” means a subsidy within the meaning of article 1.1 of the Agreement on Subsidies and Countervailing Measures.

(C) AGREEMENT ON SUBSIDIES AND COUNTERVAILING MEASURES.—The term “Agreement on Subsidies and Countervailing Measures” means the Agreement on Subsidies and Countervailing Measures referred to in section 101(d)(12) of the Uruguay Round Agreements Act (19 U.S.C. 3511(d)(12)).

(5) TEXTILE OR APPAREL PRODUCT.—The term “textile or apparel product” means a good listed in the Annex to the Agreement on Textiles and Clothing referred to in section 101(d)(4) of the Uruguay Round Agreements Act (19 U.S.C. 3511(d)(4)).

(6) TRADE REPRESENTATIVE.—The term “Trade Representative” means the United States Trade Representative.

TITLE V—HAITI

SEC. 5001. SHORT TITLE.

This title may be cited as the “Haitian Hemispheric Opportunity through Partnership Encouragement Act of 2006”.

SEC. 5002. TRADE BENEFITS FOR HAITI.

(a) IN GENERAL.—The Caribbean Basin Economic Recovery Act (19 U.S.C. 2701 et seq.) is amended by inserting after section 213 the following new section:

“SEC. 213A. SPECIAL RULES FOR HAITI.

“(a) DEFINITIONS.—In this section:

“(1) APPLICABLE 1-YEAR PERIOD.—

“(A) IN GENERAL.—The term “applicable 1-year period” means each of the 1-year periods described in subparagraphs (B) through (F).

“(B) INITIAL APPLICABLE 1-YEAR PERIOD.—The term ‘initial applicable 1-year period’ means the 1-year period beginning on the date of the enactment of the Haitian Hemispheric Opportunity through Partnership Encouragement Act of 2006.

Haitian
Hemispheric
Opportunity
through
Partnership
Encouragement
Act of 2006.
19 USC 2701
note.

19 USC 2703a.

“(C) SECOND APPLICABLE 1-YEAR PERIOD.—The term ‘second applicable 1-year period’ means the 1-year period beginning on the day after the last day of the initial applicable 1-year period.

“(D) THIRD APPLICABLE 1-YEAR PERIOD.—The term ‘third applicable 1-year period’ means the 1-year period beginning on the day after the last day of the second applicable 1-year period.

“(E) FOURTH APPLICABLE 1-YEAR PERIOD.—The term ‘fourth applicable 1-year period’ means the 1-year period beginning on the day after the last day of the third applicable 1-year period.

“(F) FIFTH APPLICABLE 1-YEAR PERIOD.—The term ‘fifth applicable 1-year period’ means the 1-year period beginning on the day after the last day of the fourth applicable 1-year period.

“(2) ENTER; ENTRY.—The terms ‘enter’ and ‘entry’ refer to the entry, or withdrawal from warehouse for consumption, in the customs territory of the United States.

“(b) APPAREL ARTICLES.—

“(1) IN GENERAL.—In addition to any other preferential treatment under this title, apparel articles described in paragraph (2) of a producer or entity controlling production that are imported directly from Haiti shall enter the United States free of duty during an applicable 1-year period, subject to the limitations set forth in paragraphs (2) and (3), if Haiti has met the requirements of subsections (d) and (e).

“(2) APPAREL ARTICLES DESCRIBED.—

“(A) IN GENERAL.—In any applicable 1-year period, apparel articles described in this paragraph are apparel articles that are wholly assembled, or are knit-to-shape, in Haiti from any combination of fabrics, fabric components, components knit-to-shape, and yarns, only if, for each entry in the applicable 1-year period, the sum of—

“(i) the cost or value of the materials produced in Haiti or one or more countries described in subparagraph (C), or any combination thereof, plus

“(ii) the direct costs of processing operations (as defined in section 213(a)(3)) performed in Haiti or one or more countries described in subparagraph (C), or any combination thereof,

is not less than the applicable percentage (as defined in subparagraph (E)(i)) of the declared customs value of such apparel articles.

“(B) DEDUCTIONS.—In calculating cost or value under subparagraph (A)(i), there shall be deducted the cost or value of—

“(i) any foreign materials that are used in the production of the apparel articles in Haiti; and

“(ii) any foreign materials that are used in the production of the materials described in subparagraph (A)(i).

“(C) COUNTRIES DESCRIBED.—The countries referred to in subparagraph (A) are the following:

“(i) The United States.

“(ii) Any country that is a party to a free trade agreement with the United States that is in effect

on the date of the enactment of the Haitian Hemispheric Opportunity through Partnership Encouragement Act of 2006, or that enters into force under the Bipartisan Trade Promotion Authority Act of 2002 (19 U.S.C. 3801 et seq.).

“(iii) Any country designated as a beneficiary country under section 213(b)(5)(B) of this Act.

“(iv) Any country designated as a beneficiary country under section 506A(a)(1) of the Trade Act of 1974 (19 U.S.C. 2466a(a)(1)), if a finding has been made by the President or the President’s designee, and published in the Federal Register, that the country has satisfied the requirements of section 113 of the African Growth and Opportunity Act (19 U.S.C. 3722).

“(v) Any country designated as a beneficiary country under section 204(b)(6)(B) of the Andean Trade Preference Act (19 U.S.C. 3203(b)(6)(B)).

“(D) ANNUAL AGGREGATION.—

“(i) INITIAL APPLICABLE 1-YEAR PERIOD.—In the initial applicable 1-year period, the requirements under subparagraph (A) relating to applicable percentage may also be met for articles of a producer or an entity controlling production that enter during the initial applicable 1-year period by aggregating—

“(I) the cost or value of materials under clause (i) of subparagraph (A), and

“(II) the direct costs of processing operations under clause (ii) of subparagraph (A), of all apparel articles of that producer or entity controlling production that are wholly assembled, or are knit-to-shape, in Haiti and are entered during the initial applicable 1-year period.

“(ii) OTHER APPLICABLE 1-YEAR PERIODS.—In each of the second, third, fourth, and fifth applicable 1-year periods, the requirements under subparagraph (A) relating to applicable percentage may also be met for articles of a producer or an entity controlling production that enter during the applicable 1-year period by aggregating—

“(I) the cost or value of materials under clause (i) of subparagraph (A), and

“(II) the direct costs of processing operations under clause (ii) of subparagraph (A), of all apparel articles of that producer or entity controlling production that are wholly assembled, or are knit-to-shape, in Haiti and are entered during the preceding applicable 1-year period.

“(iii) DEDUCTIONS.—In calculating cost or value under clause (i)(I) or (ii)(I), there shall be deducted the cost or value of—

“(I) any foreign materials that are used in the production of the apparel articles in Haiti; and

“(II) any foreign materials that are used in the production of the materials described in clause (i)(I) or (ii)(I) (as the case may be).

President.
Federal Register,
publication.

“(iv) INCLUSION IN CALCULATION OF OTHER ARTICLES RECEIVING PREFERENTIAL TREATMENT.—(I) The entry of a woven apparel article receiving preferential treatment under paragraph (4) is not included in an annual aggregation under clause (i) or (ii).

“(II) Entries of articles receiving preferential treatment under paragraph (5) are not included in an annual aggregation under clause (i) or (ii) unless the producer or entity controlling production elects, at the time the annual aggregation calculation is made, to include such entries in such aggregation.

“(III) Entries of apparel articles that receive preferential treatment under any provision of law other than this subsection or are subject to the ‘General’ column 1 rate of duty under the HTS are not included in an annual aggregation under clause (i) or (ii) unless the producer or entity controlling production elects, at the time the annual aggregation calculation is made, to include such entries in such aggregation.

“(E) DEFINITIONS.—In this paragraph:

“(i) APPLICABLE PERCENTAGE.—The term ‘applicable percentage’ means—

“(I) 50 percent or more during the initial applicable 1-year period, the second applicable 1-year period, and the third applicable 1-year period;

“(II) 55 percent or more during the fourth applicable 1-year period; and

“(III) 60 percent or more during the fifth applicable 1-year period.

“(ii) FOREIGN MATERIAL.—The term ‘foreign material’ means a material produced in a country other than Haiti or any country described in subparagraph (C).

“(F) DEVELOPMENT OF PROCEDURE TO ENSURE COMPLIANCE.—

“(i) IN GENERAL.—The Bureau of Customs and Border Protection of the Department of Homeland Security shall develop and implement methods and procedures to ensure ongoing compliance with the requirements set forth in subparagraphs (A) and (D).

“(ii) NONCOMPLIANCE.—If the Bureau of Customs and Border Protection finds that a producer or an entity controlling production has not satisfied such requirements in any applicable 1-year period, either for individual entries entered pursuant to subparagraph (A) or for entries entered in aggregate pursuant to subparagraph (D), then apparel articles described in subparagraph (A) of that producer or entity shall be ineligible for preferential treatment under paragraph (1) during any succeeding applicable 1-year period until—

“(I) the cost or value of materials under clause (i) of subparagraph (A), plus

“(II) the direct costs of processing operations under clause (ii) of subparagraph (A),

of that producer or entity controlling production, is not less than the applicable percentage under subparagraph (E)(i), plus 10 percent, of the aggregate declared customs value of all apparel articles of that producer or entity controlling production that are wholly assembled, or are knit-to-shape, in Haiti and are entered during the preceding applicable 1-year period.

“(iii) RETROACTIVE APPLICATION OF DUTY-FREE TREATMENT.—If—

“(I) a producer or an entity controlling production is ineligible for preferential treatment under paragraph (1) in an applicable 1-year period because that producer or entity controlling production did not satisfy the requirements of subparagraph (A) or (D), and

“(II) that producer or entity controlling production satisfies the requirements of clause (ii) of this subparagraph in that applicable 1-year period, then, notwithstanding section 514 of the Tariff Act of 1930 (19 U.S.C. 1514) or any other provision of law, upon proper request filed with the Bureau of Customs and Border Protection before the 90th day after the Bureau of Customs and Border Protection determines that subclause (II) applies, the entry of any articles—

“(aa) that was made during that applicable 1-year period, and

“(bb) with respect to which there would have been preferential treatment under paragraph (1) if the producer or entity controlling production had satisfied the requirements in subparagraph (A) or (D) (as the case may be),

shall be liquidated or reliquidated as though such preferential treatment under paragraph (1) applied to such entry.

“(G) FABRICS NOT AVAILABLE IN COMMERCIAL QUANTITIES.—

“(i) IN GENERAL.—For purposes of determining the applicable percentage under subparagraph (A) or (D), there may be included in that percentage—

“(I) the cost of fabrics or yarns to the extent that apparel articles of such fabrics or yarns would be eligible for preferential treatment, without regard to the source of the fabrics or yarns, under Annex 401 of the NAFTA; and

“(II) the cost of fabrics or yarns that are designated as not being available in commercial quantities for purposes of—

“(aa) section 213(b)(2)(A)(v) of this Act,

“(bb) section 112(b)(5) of the African Growth and Opportunity Act,

“(cc) section 204(b)(3)(B)(i)(III) or (ii) of the Andean Trade Preference Act, or

“(dd) any other provision, relating to determining whether a textile or apparel article is an originating good eligible for preferential treatment, of a law that implements

a free trade agreement that enters into force under the Bipartisan Trade Promotion Authority Act of 2002,

without regard to the source of the fabrics or yarns.

“(ii) REMOVAL OF DESIGNATION OF FABRICS OR YARNS NOT AVAILABLE IN COMMERCIAL QUANTITIES.—If the President determines that—

President.

“(I) any fabric or yarn described in clause (i)(I) was determined to be eligible for preferential treatment, or

“(II) any fabric or yarn described in clause (i)(II) was designated as not being available in commercial quantities,

on the basis of fraud, the President is authorized to remove the eligibility or designation (as the case may be) of that fabric or yarn with respect to articles entered after such removal.

“(3) QUANTITATIVE LIMITATIONS.—The preferential treatment described in paragraph (1) shall be extended, during each of the applicable 1-year periods set forth in the following table, to not more than the corresponding percentage of the aggregate square meter equivalents of all apparel articles imported into the United States in the most recent 12-month period for which data are available:

“During the:	the corresponding percentage is:
“initial applicable 1-year period	1 percent.
“second applicable 1-year period	1.25 percent.
“third applicable 1-year period	1.5 percent.
“fourth applicable 1-year period	1.75 percent.
“fifth applicable 1-year period	2 percent.

No preferential treatment shall be provided under paragraph (1) after the last day of the fifth applicable 1-year period.

“(4) SPECIAL RULE FOR WOVEN APPAREL.—In the case of apparel articles classifiable under chapter 62 of the HTS (other than articles classifiable under subheading 6212.10 of the HTS), as in effect on the date of the enactment of the Haitian Hemispheric Opportunity through Partnership Encouragement Act of 2006, that do not qualify for preferential treatment under paragraph (1) because they do not meet the percentage requirements under paragraph (2)(A), (2)(B), or (2)(D), the preferential treatment under paragraph (1)—

Extension.
Deadlines.

“(A) shall be extended, in addition to the quantities permitted under paragraph (3) to—

“(i) not more than 50,000,000 square meter equivalents of such apparel articles for the initial applicable 1-year period;

“(ii) not more than 50,000,000 square meter equivalents of such apparel articles for the second applicable 1-year period; and

“(iii) not more than 33,500,000 square meter equivalents for the third applicable 1-year period; and

“(B) may not be extended to such apparel articles after the last day of the third applicable 1-year period.

“(5) SPECIAL RULE FOR BRASSIERES.—The preferential treatment under paragraph (1) shall, subject to the limitations under

paragraph (3), be extended to any article classifiable under heading 6212.10 of the HTS, if the article is both cut and sewn or otherwise assembled in Haiti or the United States, or both, without regard to the source of the fabric or components from which the article is made, and if Haiti has met the requirements of subsections (d) and (e).

“(c) SPECIAL RULE FOR CERTAIN WIRE HARNESS AUTOMOTIVE COMPONENTS.—

(1) IN GENERAL.—Any wire harness automotive component that is the product or manufacture of Haiti and is imported directly from Haiti into the customs territory of the United States shall enter the United States free of duty, during the 5-year period beginning on the date of the enactment of the Haitian Hemispheric Opportunity through Partnership Encouragement Act of 2006, if Haiti has met the requirements of subsection (d) and if the sum of—

“(A) the cost or value of the materials produced in Haiti or one or more countries described in subsection (b)(2)(C), or any combination thereof, plus

“(B) the direct costs of processing operations (as defined in section 213(a)(3)) performed in Haiti or the United States, or both,

is not less than 50 percent of the declared customs value of such wire harness automotive component.

“(2) WIRE HARNESS AUTOMOTIVE COMPONENT.—For purposes of this subsection, the term “wire harness automotive component” means any article provided for in subheading 8544.30.00 of the HTS, as in effect on the date of the enactment of the Haitian Hemispheric Opportunity through Partnership Encouragement Act of 2006.

“(d) ELIGIBILITY REQUIREMENTS.—

“(1) IN GENERAL.—Haiti shall be eligible for preferential treatment under this section if the President determines and certifies to Congress that Haiti—

“(A) has established, or is making continual progress toward establishing—

“(i) a market-based economy that protects private property rights, incorporates an open rules-based trading system, and minimizes government interference in the economy through measures such as price controls, subsidies, and government ownership of economic assets;

“(ii) the rule of law, political pluralism, and the right to due process, a fair trial, and equal protection under the law;

“(iii) the elimination of barriers to United States trade and investment, including by—

“(I) the provision of national treatment and measures to create an environment conducive to domestic and foreign investment;

“(II) the protection of intellectual property; and

“(III) the resolution of bilateral trade and investment disputes;

“(iv) economic policies to reduce poverty, increase the availability of health care and educational opportunities, expand physical infrastructure, promote the development of private enterprise, and encourage

President.
Certification.

the formation of capital markets through microcredit or other programs;

“(v) a system to combat corruption and bribery, such as signing and implementing the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions; and

“(vi) protection of internationally recognized worker rights, including the right of association, the right to organize and bargain collectively, a prohibition on the use of any form of forced or compulsory labor, a minimum age for the employment of children, and acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health;

“(B) does not engage in activities that undermine United States national security or foreign policy interests; and

“(C) does not engage in gross violations of internationally recognized human rights or provide support for acts of international terrorism and cooperates in international efforts to eliminate human rights violations and terrorist activities.

President.

“(2) TIME LIMIT FOR DETERMINATION.—The President shall determine whether Haiti meets the requirements of paragraph (1) not later than 90 days after the date of the enactment of the Haitian Hemispheric Opportunity through Partnership Encouragement Act of 2006.

President.
Termination.

“(3) CONTINUING COMPLIANCE.—If the President determines that Haiti is not making continual progress in meeting the requirements described in paragraph (1)(A), the President shall terminate the preferential treatment under this section.

“(e) CONDITIONS REGARDING ENFORCEMENT OF CIRCUMVENTION.—

President.
Certification.

“(1) IN GENERAL.—The preferential treatment under subsection (b)(1) shall not apply unless the President certifies to Congress that Haiti is meeting the following conditions:

“(A) Haiti has adopted an effective visa system, domestic laws, and enforcement procedures applicable to articles described in subsection (b) to prevent unlawful transshipment of the articles and the use of counterfeit documents relating to the importation of the articles into the United States.

“(B) Haiti has enacted legislation or promulgated regulations that would permit the Bureau of Customs and Border Protection verification teams to have the access necessary to investigate thoroughly allegations of transshipment through such country.

Reports.

“(C) Haiti agrees to report, on a timely basis, at the request of the Bureau of Customs and Border Protection, on the total exports from and imports into that country of articles described in subsection (b), consistent with the manner in which the records are kept by Haiti.

“(D) Haiti agrees to cooperate fully with the United States to address and take action necessary to prevent circumvention as provided in Article 5 of the Agreement on Textiles and Clothing.

“(E) Haiti agrees to require all producers and exporters of articles described in subsection (b) in that country to maintain complete records of the production and the export of such articles, including materials used in the production, for at least 5 years after the production or export (as the case may be).”

Records.

“(F) Haiti agrees to report, on a timely basis, at the request of the Bureau of Customs and Border Protection, documentation establishing the country of origin of articles described in subsection (b) as used by that country in implementing an effective visa system.”

Reports.

“(2) DEFINITION OF TRANSSHIPMENT.—Transshipment within the meaning of this subsection has occurred when preferential treatment for a textile or apparel article under this section has been claimed on the basis of material false information concerning the country of origin, manufacture, processing, or assembly of the article or any of its components. For purposes of this paragraph, false information is material if disclosure of the true information would mean or would have meant that the article is or was ineligible for preferential treatment under this section.”

“(f) REGULATIONS.—The President shall issue regulations to carry out this section not later than 180 days after the date of the enactment of the Haitian Hemispheric Opportunity through Partnership Encouragement Act of 2006. The President shall consult with the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate in preparing such regulations.”

President.
Deadline.

SEC. 5003. ITC STUDY.

The International Trade Commission shall, not later than 18 months after the date of the enactment of this Act, submit a report to Congress on the effects of the amendments made by this Act on the trade markets and industries, involving textile and apparel articles, of Haiti, the countries described in clauses (ii) and (iii) of section 213A(b)(2)(C) of the Caribbean Basin Economic Recovery Act (as added by section 5002 of this Act), and the United States.

Reports.

SEC. 5004. SENSE OF CONGRESS ON INTERPRETATION OF TEXTILE AND APPAREL PROVISIONS FOR HAITI.

It is the sense of the Congress that the executive branch, particularly the Committee for the Implementation of Textile Agreements (CITA), the Bureau of Customs and Border Protection of the Department of Homeland Security, and the Department of Commerce, should interpret, implement, and enforce the provisions of section 213A(b) of the Caribbean Basin Economic Recovery Act, as added by section 5002 of this Act, relating to preferential treatment of textile and apparel articles, broadly in order to expand trade by maximizing opportunities for imports of such articles from Haiti.

SEC. 5005. TECHNICAL AMENDMENTS.

(a) CBI.—Section 213(b)(2)(A)(v) of the Caribbean Basin Economic Recovery Act (19 U.S.C. 2703(b)(2)(A)(v)) is amended by adding at the end the following new subclause:

“(III) If the President determines that any fabric or yarn was determined to be eligible for preferential

President.

treatment under subclause (I) on the basis of fraud, the President is authorized to remove that designation from that fabric or yarn with respect to articles entered after such removal.”.

19 USC 3203. (b) ATPA.—Section 204(b)(3)(B) of the Andean Trade Preference Act (19 U.S.C. 3202(b)(3)(B)) is amended by adding at the end the following new clause:

President. “(viii) REMOVAL OF DESIGNATION OF FABRICS OR YARNS NOT AVAILABLE IN COMMERCIAL QUANTITIES.— If the President determines that any fabric or yarn was determined to be eligible for preferential treatment under clause (i)(III) or (ii) on the basis of fraud, the President is authorized to remove that designation from that fabric or yarn with respect to articles entered after such removal.”.

19 USC 2703 note.

SEC. 5006. EFFECTIVE DATE.

This title and the amendments made by this title apply to articles entered, or withdrawn from warehouse for consumption, on or after the 15th day after the date of the enactment of this Act.

Africa
Investment
Incentive Act of
2006.

TITLE VI—AFRICAN GROWTH AND OPPORTUNITY ACT

19 USC 3701 note.

SEC. 6001. SHORT TITLE.

This title may be referred to as the “Africa Investment Incentive Act of 2006”.

SEC. 6002. PREFERENTIAL TREATMENT OF APPAREL PRODUCTS OF LESSER DEVELOPED COUNTRIES.

(a) IN GENERAL.—Section 112 of the African Growth and Opportunity Act (19 U.S.C. 3721) is amended—

(1) by redesignating subsections (c) through (f) as subsections (d) through (g);

(2) in subsection (b)—

(A) in the matter preceding paragraph (1), by striking “The” and inserting “Subject to subsection (c), the” ; and

(B) by striking subparagraph (B) and redesignating subparagraph (C) as subparagraph (B); and

(3) by inserting after subsection (b) the following new subsection:

“(c) LESSER DEVELOPED COUNTRIES.—

“(1) PREFERENTIAL TREATMENT OF PRODUCTS THROUGH SEPTEMBER 30, 2012.—

“(A) PRODUCTS COVERED.—In addition to the products described in subsection (b), and subject to paragraph (2), the preferential treatment described in subsection (a) shall apply through September 30, 2012, to apparel articles wholly assembled, or knit-to-shape and wholly assembled, or both, in one or more lesser developed beneficiary sub-Saharan African countries, regardless of the country of origin of the fabric or the yarn used to make such articles, in an amount not to exceed the applicable percentage of

APPENDIX B
***Federal Register* Notice**

requested comments as to how it should proceed with those portions of the October 24, 2003, final ID upon which the Commission did not take a position.

On February 21, 2006, Philips filed comments pursuant to the Commission's January 17, 2006, order. On the same day, respondents jointly filed comments. On February 23, 2006, the IA filed his comments, in which he requested, *inter alia*, that all parties be given the opportunity to respond to the comments filed by the private parties. On March 10, 2006, Philips filed a memorandum in reply to respondents' February 21, 2006, comments.

On March 21, 2006, the Commission issued an order directing the parties to file responses to the comments of the private parties filed on February 21, 2006. The Commission also denied Philips' motion to file its March 10, 2006, reply memorandum without prejudice to its re-submission as part of Philips' response. On April 18, 2006, all parties filed response comments pursuant to the Commission's March 21, 2006, order.

On April 25, 2006, Philips filed a motion for leave to reply, with attached reply, to the response comments filed by the IA on April 18, 2006. On May 2, 2006, respondents filed an opposition to Philips's motion for leave to reply to the IA's response comments. In its discretion, the Commission has determined to grant Philips' motion for leave to reply and to deny respondents' request to reopen the record for further discovery.

Having reviewed the record in this investigation, including the parties' written submissions, the Commission has determined to reverse the ALJ's findings of patent misuse *per se* on theories of price fixing and price discrimination, has determined to reverse the ALJ's findings of patent misuse under the rule of reason standard, and has found a violation of section 337 of the Tariff Act of 1930, 19 U.S.C. 1337. The Commission has further determined that the appropriate form of relief is a general exclusion order prohibiting the unlicensed entry for consumption of recordable and rewritable compact discs that infringe the claims in issue of the six patents asserted by Philips in this investigation. The Commission has also determined to issue four cease and desist orders directed to domestic respondents Princo America Corporation; Gigastorage Corporation USA; Linberg; and DiscsDirect.Com.

The Commission has also determined that the public interest factors enumerated in subsections (d), (f), and (g) of section 337 of the Tariff Act of

1930 (19 U.S.C. 1337(d), (f), and (g)) do not preclude the issuance of the aforementioned general exclusion order and cease and desist orders, and that the recordable and rewritable compact discs in question may be imported into the United States during the period of Presidential review under bond in the amount of US\$0.06 per such article. The general exclusion order, cease and desist orders, and Commission opinion supporting its determination were delivered to the United States Trade Representative on the date of issuance.

This action is taken under the authority of section 337 of the Tariff Act of 1930, as amended (19 U.S.C. 1337), the Administrative Procedure Act, 5 U.S.C. 551 et seq., and sections 210.45–210.51 of the Commission's Rules of Practice and Procedure (19 CFR 210.45–210.51).

By order of the Commission.

Issued: February 5, 2007.

Marilyn R. Abbott,

Secretary to the Commission.

[FR Doc. E7–2196 Filed 2–8–07; 8:45 am]

BILLING CODE 7020–02–P

INTERNATIONAL TRADE COMMISSION

[Investigation No. TR–5003–1]

Textiles and Apparel: Effects of Special Rules for Haiti on Trade Markets and Industries

AGENCY: United States International Trade Commission.

ACTION: Institution of investigation and scheduling of hearing.

SUMMARY: Pursuant to section 5003 of the Tax Relief and Health Care Act of 2006, signed by the President on December 20, 2006 (Public Law 109–432), the Commission instituted investigation No. TR–5003–1, Textiles and Apparel: Effects of Special Rules for Haiti on Trade Markets and Industries, for the purpose of submitting a report to Congress on the effects of the amendments made by the act on the trade markets and industries, involving textile and apparel articles, of Haiti, the countries described in clauses (ii) and (iii) of section 213A(b)(2)(C) of the Caribbean Basin Economic Recovery Act (as added by section 5002 of this Act), and the United States.

DATES:

October 23, 2007: Deadline for filing requests to appear at the public hearing.

October 25, 2007: Deadline for filing pre-hearing briefs and statements.

November 8, 2007, 9:30 am: Public hearing.

February 7, 2008: Deadline for written statements, including any post-hearing briefs.

June 20, 2008: Deadline for transmittal of Commission report to Congress.

ADDRESSES: All Commission offices, including the Commission's hearing rooms, are located in the United States International Trade Commission Building, 500 E Street SW., Washington, DC. All written submissions, including requests to appear at the hearing, statements, and briefs, should be addressed to the Secretary, United States International Trade Commission, 500 E Street SW., Washington, DC 20436. The public record for this investigation may be viewed on the Commission's electronic docket (EDIS) at <http://edis.usitc.gov>.

FOR FURTHER INFORMATION CONTACT:

Information specific to this investigation may be obtained from Project Leaders William Deese (202–205–2626; william.deese@usitc.gov) and Russell Duncan (202–708–4727; russell.duncan@usitc.gov). For information on the legal aspects of these investigations, contact William Gearhart of the Office of the General Counsel (202–205–3091; william.gearhart@usitc.gov). The media should contact Margaret O'Laughlin of the Office of External Relations (202–205–1819; margaret.olaughlin@usitc.gov).

General information concerning the Commission may also be obtained by accessing its Internet server (<http://www.usitc.gov>). Hearing-impaired individuals may obtain information on this matter by contacting the Commission's TDD terminal on 202–205–1810. Persons with mobility impairments who will need special assistance in gaining access to the Commission should contact the Office of the Secretary at 202–205–2000.

Background: Title V of the Tax Relief and Health Care Act of 2006 (TRHCA), which may also be cited as the Haitian Hemispheric Opportunity through Partnership Encouragement Act of 2006, provides certain trade benefits for Haiti. These benefits are set forth in section 5002 of the TRHCA in the form of an amendment to the Caribbean Basin Economic Recovery Act (CBERA) (19 U.S.C. 2701 *et seq.*) that adds a new section 213A entitled "Special Rules for Haiti." Section 5003 of TRHCA directs the Commission to submit a report to Congress on the effects of the amendments made by the act on the trade markets and industries, involving textile and apparel articles, of Haiti, the countries described in clauses (ii) and

(iii) of section 213A(b)(2)(C) of CBERA (as added by section 5002 of this Act), and the United States. The Commission must provide its report to Congress by June 20, 2008.

Public Hearing: A public hearing in connection with the investigation will be held at the U.S. International Trade Commission Building, 500 E Street SW., Washington, DC beginning at 9:30 a.m. on November 8, 2007. Requests to appear at the public hearing should be filed with the Secretary no later than 5:15 p.m., October 23, 2007, in accordance with the requirements in the "Submissions" section below. In the event that, as of the close of business on October 23, 2007, no witnesses are scheduled to appear at the hearing, the hearing will be canceled. Any person interested in attending the hearing as an observer or non-participant may call the Secretary (202-205-2000) after October 24, 2007, to determine whether the hearing will be held.

Statements and Briefs: In lieu of or in addition to participating in the hearing, interested parties are invited to submit written statements or briefs concerning the investigation in accordance with the requirements in the "Submissions" section below. Any pre-hearing briefs or statements should be filed not later than 5:15 p.m., October 25, 2007. The deadline for filing any other written statements, including post-hearing briefs or statements, is the close of business on February 7, 2008.

Submissions: All written submissions, including requests to appear at the hearing, statements, and briefs, should be addressed to the Secretary to the Commission and must conform with the provisions of section 201.8 of the Commission's Rules of Practice and Procedure (19 CFR 201.8). Section 201.8 of the rules requires that a signed original (or a copy designated as an original) and fourteen (14) copies of each document be filed. In the event that confidential treatment of the document is requested, at least four (4) additional copies must be filed, in which the confidential information must be deleted (see the following paragraph for further information regarding confidential business information). The Commission's rules do not authorize filing submissions with the Secretary by facsimile or electronic means, except to the extent permitted by section 201.8 of the Commission's Rules (19 CFR 201.8) (see Handbook for Electronic Filing Procedures, http://www.usitc.gov/secretary/fed_reg_notices/rules/documents/handbook_on_electronic_filing.pdf). Persons with questions regarding electronic filing should contact the

Secretary (202-205-2000 or edis@usitc.gov).

Any submissions that contain confidential business information must also conform with the requirements of section 201.6 of the Commission's Rules of Practice and Procedure (19 CFR 201.6). Section 201.6 of the rules requires that the cover of the document and the individual pages be clearly marked as to whether they are the "confidential" or "nonconfidential" version, and that the confidential business information be clearly identified by means of brackets. All written submissions, except for confidential business information, will be made available in the Office of the Secretary to the Commission for inspection by interested parties.

The Commission does not intend to include any confidential business or national security confidential information in the report it sends to the Congress. Accordingly, any confidential business information received by the Commission in this investigation and used in preparing the report will not be published in a manner that would reveal the operations of the firm supplying the information.

Issued: February 6, 2007.

By order of the Commission.

Marilyn R. Abbott,

Secretary to the Commission.

[FR Doc. E7-2197 Filed 2-8-07; 8:45 am]

BILLING CODE 7020-02-P

DEPARTMENT OF JUSTICE

Office of Justice Programs

[OMB Number 1121-0310]

National Institute of Justice; Agency Information Collection Activities Proposed Collection; Comment Requested

ACTION: 60-day notice of information collection under review: Evaluation of Impacts of Federal Casework Programs.

The Department of Justice, Office of Justice Programs, National Institute of Justice (NIJ) will be submitting the following information collection request to the Office of Management and Budget (OMB) for review and approval in accordance with the Paperwork Reduction Act of 1995. The proposed information collection is published to obtain comments from the public and affected agencies. Comments are encouraged and will be accepted for "sixty days" until April 10, 2007. This process is conducted in accordance with 5 CFR 1320.10.

If you have comments, especially on the estimated public burden or associated response time, suggestions, or need a copy of the proposed information collection instrument with instructions or additional information, please contact Kathy Browning, Office of Justice Programs, National Institute of Justice, (202) 616-4786.

Written comments and suggestions from the public and affected agencies concerning the proposed collection of information are encouraged. Your comments should address one or more of the following four points:

- Evaluate whether the proposed collection of information is necessary for the proper performance of the functions of the agency, including whether the information will have practical utility;
- Evaluate the accuracy of the agencies' estimate of the burden of the proposed collection of information, including the validity of the methodology and assumptions used;
- Enhance the quality, utility, and clarity of the information to be collected; and,
- Minimize the burden of the collection of information on those who are to respond, including through the use of appropriate automated, electronic, mechanical, or other technological collection techniques or other forms of information technology, e.g. permitting electronic submission of responses.

Overview of This Information Collection

(1) *Type of Information Collection:* New collection.

(2) *Title of the Form/Collection:*

Evaluation of Impact of Federal Casework Programs—

Prosecutor Survey;

Law Enforcement Survey;

*Lab Personnel Survey.

*There are three versions of the lab survey, each tailored to the respective type of lab.

(3) Not Applicable.

(4) Affected public who will be asked or required to respond are: Prosecutors, Law Enforcement Officials, and Forensic Laboratory personnel from agencies within the jurisdiction represented by the grantees.

The National Institute of Justice uses this information to assess the impacts and cost-effectiveness of the Forensic Casework DNA Backlog Programs over time and to diagnose performance problems in current casework programs. This evaluation will help decision makers be better informed to not only diagnose program performance problems, but also to better understand

APPENDIX C

Position of Interested Parties

American Manufacturing Trade Action Coalition (AMTAC) and National Council of Textile Organizations (NCTO)

AMTAC is a trade association with substantial participation from producers in the U.S. textile and apparel sectors. NCTO is a lobbying group that represents the interests of the U.S. textile sector.

AMTAC expressed concern about competition from Haiti, which is the lowest-cost apparel manufacturer in the Western Hemisphere and whose apparel exports to the United States grew over the past year. AMTAC considers the rules of origin in the HHOPE Act to be unenforceable and predicts that U.S. exports of components and fabrics to Haiti will greatly diminish and possibly cease altogether as a result of the Act.

AMTAC and NCTO stated at the hearing and in a joint post-hearing brief how they would structure a preference program to serve the interests of both Haiti and the U.S. textile and apparel industry. They would not oppose an extension of CBTPA benefits or granting permanent unilateral preferences to Haiti that are similar to those in the Central America Dominican Republic Free Trade Agreement (CAFTA-DR). They said that their approach would improve the benefits for Haiti without disrupting existing trade preferences in the region. They also said that unless quotas on apparel exports from China (set to expire on January 1, 2009) are extended, “no permutation of a preference program for Haiti will achieve the desired result.”

Proposals in the post-hearing brief are modeled after the Pakistan/Afghanistan Reconstruction Opportunity Zone Program. One suggestion is to grant Haiti unlimited access for “apparel goods which are typically sourced in Asia and for which the U.S. textile industry no longer makes yarns and fabrics.” This approach would replace the HHOPE Act’s value-added rule with a single transformation rule. They estimate that this group of products totaled almost \$28 billion in U.S. imports last year. A second approach would be to extend special financing by relevant U.S. institutions for textile and apparel trade with Haiti and “to establish a program to provide economic and infrastructure assistance to the Republic of Haiti.”

Association des Industries d’Haiti (ADIH)

The Association of Haitian Industries (ADIH) is comprised of apparel and other manufacturers. Its mission is to develop and promote Haiti’s manufacturing sector globally. It said that the HHOPE Act has benefited Haiti’s apparel sector but that it “contains some fundamental shortcomings preventing it from attaining the expectations of the U.S. legislators and those of the Haitian people.” ADIH states that the HHOPE Act mainly benefits the few companies that manufacture apparel from woven fabric, while the impact on knit apparel production is negligible. Other shortcomings are the “complexity of the value-added

requirements and implicit penalties for companies not claiming benefits during the first year of the law.”

ADIIH suggests several ways to improve the HHOPE Act. It states that, in the absence of CBTPA preferences, the 1-percent cap on U.S. apparel imports under the HHOPE Act would be quickly filled; therefore, CBTPA preferences should be extended or the cap under the HHOPE Act should be raised. It states that lowering the value-added requirements for regional inputs to 35 percent would, in its opinion, stimulate investment in infrastructure. ADIIH believes that penalizing companies not exporting in the first year of the HHOPE Act (as companies that begin using HHOPE in later years will have to meet an increased value-added requirement) is counter-productive and should be eliminated. It states that extending the benefit period and increasing the TPL would encourage investment. Establishing a special TPL for knit apparel made from manmade fibers would greatly benefit Haiti. They state that special benefits for non-apparel textile products such as bed sheets, comforters, and pillowcases should be included. ADIIH also suggests that a single transformation rule covering the same products as CAFTA-DR would be beneficial. Finally, they encourage facilitating co-production between Haiti and the Dominican Republic because Haiti lacks the capacity to produce textiles and to finish apparel. The ADIIH remarks that acquiring capacity in these areas over the long term would ensure continued job creation in Haiti.

Association of Free Trade Zones in the Dominican Republic (ADOZONA)

ADOZONA represents the interests of Dominican free trade zones, where over 70 percent of the total exports of the Dominican Republic originate. It noted that Haiti and the Dominican Republic are linked geographically, socially, and economically and that many Dominican companies have “long-standing co-production relationships with partner facilities in Haiti.” It said that: “the island needs to be viewed as a whole since the production schemes that have developed between Haiti and the Dominican Republic are the direct result of previous U.S. trade policy. The continual changes in policy without due consideration of real life manufacturing operations in the country severely disrupt the ability of both Haiti and the DR to successfully compete.” ADOZONA said that the HHOPE Act can have positive effects on the U.S., Haitian, and Dominican economies, but offered the following changes to increase the benefits of the Act:

1. Extending the program from the original 3-year period to at least 10 years
2. Increasing the overall cap on qualifying imports
3. Providing for a TPL for garments made from synthetic knit fabric
4. Expanding the list of products that benefit from the program to include made-ups and miscellaneous articles in Chapter 63 of the HTS
5. Reducing the value-added requirement to 35 percent
6. Revising the language of the bill to avoid “ambiguous interpretation”
7. Modifying the “imported directly” provision to allow shipments of goods that are HHOPE compliant to be exported from the Dominican Republic.

Haiti HOPE Commission

The Haiti HOPE Commission comprises Haitian government entities (Haitian Ministry of Finance, Ministry of Commerce and Industry, and Ministry of Social Affairs), private sector organizations (the Haitian Association of Industries, the American Chamber of Commerce, and the Association of Free Trade Zones), and three labor union leaders.

In its prehearing brief, the Haiti HOPE Commission said that “in its current form, the HHOPE Act is helpful, but not sufficient to attract significant new investment.” The Haiti HOPE Commission indicated that expanding U.S. apparel imports from China makes it increasingly difficult for the Haitian apparel sector to compete and said that, regarding trade preferences for Haiti, “short-term temporary benefits are not sufficient to give investors confidence to make long-term commitments.” The Haiti HOPE Commission recommends expanding and modifying the HHOPE Act to extend the benefits for a longer time (possibly permanently), raise the 1-percent cap on duty-free apparel exports to the United States progressively to at least 4 percent, and fix the value-added rule so that the legal requirements for value-added content remain constant from year to year.

Hanesbrands

Hanesbrands has produced apparel in Haiti for over seven years, primarily through production-sharing arrangements with the Dominican Republic. Hanesbrands said that it appreciates the positive intentions underlying the HHOPE Act, but said that the current Act provides only extremely limited benefits and that the Act’s goals are not ultimately achieved. For example, the TPL for woven goods provides a limited opportunity for a small segment of the industry without benefiting the larger knit apparel segment. It expressed the view that the TPL model will create some jobs but not spur investment in infrastructure. However, it said that the regional value-added requirement has become “almost unworkable due to the manner in which it is being interpreted by Customs and Border Protection.” Hanesbrands, which has invested in the apparel sectors in both Haiti and the Dominican Republic, suggested that co-processing in Haiti and the Dominican Republic be allowed, and said that it is problematic that apparel assembled in Haiti and then finished in the Dominican Republic cannot enter the United States under the provisions of the HHOPE Act without first being re-transported to Haiti.

Hanesbrands identified several other constraints on development in Haiti that need to be addressed. Programs are needed to improve security, develop sound infrastructure, and upgrade workforce skills. It would be helpful to include a trade-capacity component in the legislation to assist Haiti to develop the necessary infrastructure, including ports. Hanesbrands believes that the HHOPE Act should be extended for 10 years. It concludes: “the bill needs to be amended and purposefully implemented to make the program simpler, with clear and transparent rules, incentives to invest and an extended timeframe to make the investment worthwhile.”

Island Apparel

Island Apparel uses woven fabric to make industrial work uniforms in Haiti for U.S. companies. It said that the HHOPE Act has positively affected the business climate in both Haiti and the United States regarding sourcing apparel from Haiti. It indicated that before the HHOPE Act, business was declining, but sales grew by 15 percent last year. The HHOPE Act reportedly allows Island Apparel to offer its customers “a wider assortment of third country fabrics at prices competitive with the Far East.” Additionally, after two decades of declining employment in the apparel assembly sector in Haiti, the company notes that job opportunities began to increase after passage of the HHOPE Act. These jobs are in established factories, but an extension of the HHOPE Act would encourage additional investment. Island Apparel suggests that if HHOPE Act trade preferences were extended or made permanent, many U.S. apparel companies would not only shift sourcing to Haiti, but also invest in vertically integrated operations.

Island Apparel states that it is crucial for the industry that the HHOPE Act be extended, particularly in light of competition from Asia and the end of quotas on textiles and apparel from China in 2009. Island Apparel states that “any preferences to Haiti transcend normal trade policy and should be viewed more as a humanitarian gesture.” It adds that extending trade preferences to Haiti benefits the United States because Haitian firms buy trim items (thread, pockets, and zippers) and machinery from the United States.

Levi Strauss

Levi Strauss & Co. (LS&CO) states in its post-hearing submission that it has imported small quantities of apparel from Haiti under the HHOPE Act and that it intends to increase such imports gradually. Due to the lack of a fabric industry in Haiti, LS&CO intends to use third-country fabric from Mexico and Asia. It regards the short duration of the HHOPE Act as a major limitation and would only expand its production in Haiti if the HHOPE Act were extended for a much longer time. Additionally, LS&CO suggests that the HHOPE Act could be “significantly improved by allowing co-production of apparel in both Haiti and the Dominican Republic, including sewing and finishing operations.”

Mexican National Chamber of Textile Industries (CANAINTEX)

CANAINTEX anticipates that the HHOPE Act will “open opportunities for Mexican textile producers to supply Western Hemisphere customers,” although it cannot yet determine any effects on the Mexican textile industry. CANAINTEX said it is “committed to the development of an integrated, competitive textile and apparel chain linking producers and suppliers in the Western Hemisphere” and believes that this can be best accomplished “through extended cumulation linking

U.S. FTA partners in the hemisphere.” CANAINTEX expressed concern that the inclusion of all U.S. FTA partners under cumulation provisions, along with the use of a value added system, “significantly increase[s] the potential for fraudulent shipments.” At the same time, CANAINTEX asserted that the HHOPE Act’s “annual audit feature significantly raises transaction costs for U.S. importers and may effectively discourage acceptance and utilization of cumulation as a viable procurement strategy.” CANAINTEX indicated that it supports revising the HHOPE Act to include “an extended cumulation system among U.S. FTA partners in the Western Hemisphere, based on rules of origin that promote deeper integration among hemispheric producers.”

Multi Wear

Multi Wear, a Haitian manufacturer, states that, although the HHOPE Act permits greater access to the U.S. market, several shortcomings prevent it from achieving its intended goals. It notes problems including the legislation’s confusing rules of origin and references to eligible entities and extremely strict manner in which the Customs and Border Protection interpreted the statute.

Multi Wear notes that apparel must be sent to the Dominican Republic for finishing because Haiti does not have a finishing industry. It says that such apparel is not permitted to enter the United States under the HHOPE Act unless it is transported back to Haiti first. Multi Wear suggested that the HHOPE Act be amended to allow direct exportation from the Dominican Republic until Haiti is able to invest in a finishing industry.

To increase investment and job opportunities in Haiti, Multi Wear states that the bill should be extended for at least ten years and that investors should not be penalized for not participating in the first year. Multi Wear states that the regional value-added requirement is difficult to achieve and should be lowered to 35 percent for the first three years, with a 5 percent increase every two years thereafter up to a cap of 50 percent.

Finally, Multi Wear states that “trade alone cannot help bring [Haiti] out of poverty” and suggests that a foreign aid component to fund infrastructure and trade capacity building incentives be included with the trade legislation.

Société Haitienne de Couture (Sohacosa)

Sohacosa is a fully Haitian-owned company with sister firms Palm Apparel S.A., and REC Manufacturing. It states that knit apparel accounts for the majority of apparel production in Haiti, but that the HHOPE Act provisions for such apparel are too restrictive to promote investment in the sector. Sohacosa observes that knit fabric is not produced in Haiti; the timeframe for the woven TPL is short; companies not claiming HHOPE Act benefits in the first year are penalized; and CAFTA-DR affords more generous, simpler benefits to Nicaragua. To correct these problems, Sohacosa suggested the following amendments to the HHOPE Act:

1. Reduce the value-added requirements of regional inputs to 35 percent for knit apparel, as under U.S. free trade agreements with Israel and Jordan
2. Add a TPL (similar to the one for woven apparel) for knit apparel made from manmade fiber
3. Gradually increase the woven TPL instead of decreasing it
4. Extend all the benefits for a period of ten years
5. Simplify the law to allow local assembly plants to claim HHOPE Act benefits directly (not transferring benefits to their clients would enable local companies to attract new business and to expand their existing operations)
6. Renew the CBTPA before it expires in 2008 or double the HHOPE Act cap, starting at 2 percent of total U.S. apparel imports and gradually increasing it to 4 percent
7. Eliminate the penalty in the second and subsequent years for new participants.

In its post-hearing brief, Sohacosa states that the increased production in the woven apparel sector is attributable to the HHOPE Act, but that the Act has had no effect on the knit apparel industry. Sohacosa estimates that, in 2008, approximately 1,000 new jobs will be created in the knit sector, and 3,000-4,000 new jobs will be created in the woven apparel sector. Sohacosa states that attracting new customers is difficult because they do not see any opportunity to use the HHOPE Act for knits.

APPENDIX D
Calendar of Public Hearing

CALENDAR OF PUBLIC HEARING

Those listed below appeared as witnesses at the United States International Trade Commission's hearing:

Subject: Textiles and Apparel: Effects of Special Rules for Haiti on Trade Markets and Industries

Inv. No.: TR-5003-1

Date and Time: November 8, 2007 - 9:30 a.m.

Sessions were held in connection with this investigation in the Main Hearing Room (room 101), 500 E Street, S.W., Washington, D.C.

FOREIGN QUASI-GOVERNMENTAL APPEARANCE:

**Haitian Hemispheric Opportunity through
Partnership Encouragement (HOPE) Commission
Port-au-Prince, Haiti**

**Georges Sassine, Executive Director, HOPE Commission; *and* Vice President,
Association des Industries d'Haiti**

ORGANIZATION AND WITNESS:

Societe Haitienne de Couture S.A. ("SOHACOSA");
Palm Apparel S.A.;
REC Manufacturing S.A.
Port-au-Prince, Haiti

Jean-Paul Faubert, Vice President, SOHACOSA

Island Apparel
Athens, GA

Fritz Felchlin, President

ORGANIZATION AND WITNESS:

Hanesbrands Inc.
Winston-Salem, NC

Jerry Cook, Vice President, Government and Trade
Relations

Asociación Dominicana de Zonas Francas, Inc. (“ADOZONA”)
Santo Domingo, Dominican Republic

Joseph Blumberg, Vice President, Grupo M; *and*
Member of ADOZONA

Jose M. Torres, Executive Vice President, ADOZONA

National Council of Textile Organizations (“NCTO”)
Washington, D.C.

Cass Johnson, President

American Manufacturing Trade Action Coalition (“AMTAC”)
Washington, D.C.

Auggie Tantillo, Executive Director

Cámara Nacional de la Industria Textil
Mexico, D.F.

Maureen R. Smith, Senior Vice President,
Jefferson Waterman International

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