ACTIF

African Cotton & Textile Industries Federation

3A, TRV Plaza, Muthithi Road, Westlands, Nairobi, Kenya
PO Box 1249-00606, Sarit Centre, Nairobi Kenya.
Tel: 254-725-038884 / 733247052 Fax: 254 20 2022531
Email: info@cottonafrica.com Website: www.cottonafrica.com

Sep 18th, 2013

Prompt Renewal of AGOA for a Sustainably Long Period Is Essential to the Continued Success of the AGOA Textile and Apparel Industry

The African Cotton and Textile Industries Federation (ACTIF) respectfully urges Congress to act promptly to renew the African Growth and Opportunity Act (AGOA) for a sustainably long period (not less than 10 years), along with other modifications described below. It is imperative that AGOA should be extended well in advance of its September 30, 2015 expiration in order to avoid the instability, economic disruptions and job losses that are inherent in last-minute renewals.

ACTIF's membership represents the entire cotton-textile-apparel value chain from across Africa. The African cotton farmers, ginners, spinners, fabric manufacturers and garment producers who are ACTIF's members have the most to gain from the continued success of AGOA, and the most to lose if AGOA is allowed to collapse. The following recommendations are based on their hands-on experience building an industry and doing business under AGOA.

A. AGOA Has Been Hugely Successful, but Now Faces Unprecedented Challenges

AGOA has been rightfully praised as the cornerstone of U.S. trade and economic policy concerning Africa. During its first five years (2000-2004), AGOA had a transformative effect on Africa. This can be seen most clearly in the textile and apparel sector, where an estimated 300,000 new direct jobs and perhaps twice that number of indirect jobs in support sectors were created as a new industry was developed across Africa, including in Botswana, Ethiopia, Ghana, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Uganda, and Zambia. U.S. apparel imports from Africa more than doubled between 2000 and 2004. The lives of an estimated 5-10 million Africans were improved by AGOA as it helped build the regional cotton-textiles-apparel value chain. All of these accomplishments were at essentially zero cost to the U.S. Government, as the private sector responded to the duty-free incentives created by AGOA to invest and support the economic development of Africa by creating new jobs.

But AGOA's success began to fade with the expiration of the Multi-Fibre Arrangement (MFA) system of quotas on January 1, 2005, pursuant to the Uruguay Round Agreement on Textiles and Clothing. The infant AGOA apparel industry was for the first time exposed to unfettered competition from massive and well-established Asian apparel producers, many of which were state-subsidized or even government owned. Literally scores of mostly Chinese-owned apparel factories closed across Africa, and were reopened in China, Bangladesh, Cambodia and Vietnam. There was a wholesale transfer of more than 100,000 apparel jobs from Africa to Asia.

By 2010, U.S. apparel imports from Africa had fallen by more than half (-55%) from a 2004 high of $1.8 billion to just $789 million in 2010. At the same time apparel imports from Asia skyrocketed with the end of the MFA quotas: China was up 213% in 2010 over 2004, Vietnam up 129%, Bangladesh up 97%, and Cambodia up 56%. By 2010, these four Asian super-producers were exporting more than 50 times the volume of apparel as all of Africa combined.

Country/Region	**2004 Imports ($ million)**	**2010 Imports ($ million)**	**% Change 2004–2010**
Sub-Saharan Africa	$1,757	$790	-55%
China	$8,928	$27,975	+213%
Vietnam	$2,562	$5,877	+129%
Bangladesh	$1,998	$3,930	+97%
Cambodia	$1,429	$2,222	+56%

(*Source*: US Department of Commerce, Office of Textiles and Apparel.)

During the past several years, important policy initiatives have been undertaken by local African governments and regional economic communities, in active collaboration with ACTIF, the U.S. Agency for International Development (USAID) and various other international development entities. Most notably, Cotton-to-clothing regional strategies were developed with the technical assistance of the International Trade Centre (ITC), joint agency of the World Trade Organization and the United Nations. This work was aimed at enhancing the competitiveness of the African textile and apparel industry and to reinforce the linkages in its value chain.

The implementation of these strategies is currently being coordinated in Eastern and Southern Africa by the Secretariat of the Common Market for Southern and Eastern Africa (COMESA). Similar strategies are underway in West and Central Africa under the leadership of the West African Economic and Monetary Union (UEMOA) and the Economic Community of Central African States (ECCAS). In response to these initiatives, by 2012 U.S. apparel imports from Africa had begun to stabilize. With the renewal in August 2012 of the critical AGOA third-country fabric provision, there was reason for optimism that the African apparel industry created by AGOA would survive and might prosper once again.

Country	**2010 Imports ($ million)**	**2012 Imports ($ million)**	**% Growth 2010-2012**
Botswana	$11.560	$10.616	-8.2%
Ethiopia	$6.567	$10.199	55.3%
Kenya	$201.602	$254.232	26.1%
Lesotho	$280.754	$300.930	7.2%
Madagascar	$54.208	$41.195	-24.0%
Malawi	$10.389	$5.724	-44.9%
Mauritius	$119.654	$162.788	36.1%
South Africa	$6.484	$6.132	-5.4%
Swaziland	$93.488	$59.855	-35.9%
Tanzania	$1.913	$7.531	293.7%
Rest of Africa	$2.878	$4.974	72.8%
Total	**$789.497**	**$864.176**	**9.5%**

(*Source*: US Department of Commerce, Office of Textiles and Apparel.)

But to achieve this result and save the estimated 300,000 apparel sector jobs that are dependent upon AGOA, it is essential that Congress act promptly to extend AGOA beyond its September 30, 2015 expiration. Indeed, renewal of AGOA for a sustainably long period is an essential component to the success of the long-term strategies for creating the African cotton-textiles-clothing value chain by maintaining access to the United States, which is a critical export market, for these products.

B. Congress Should Promptly Renew AGOA for a Sustainably Long Period.

1. Investors Require Stability and Predictability.

While it is indisputable that AGOA has been successful in spurring economic development and reducing poverty in Africa, it is equally true that much remains to be done. One of the challenges that has prevented AGOA from accomplishing all that its creators hoped for is the fact that heretofore AGOA has been authorized for only a few years at a time. The current authorization of AGOA expires in only a little over two years on September 30, 2015. This series of short-term renewals has deterred investors by compounding the risks already inherent in investing in Africa. Most investors require at least a ten-year horizon to amortize a major investment, such as those necessary to build a new textile factory. The fact that Congress has never yet extended AGOA for at least the minimum of ten years required by investors is one of the major reasons the upstream textile production originally envisioned by the creators of AGOA has not yet materialized.

Accordingly, it is strongly recommended that Congress should renew AGOA for a sustainably long period. Renewal for 15-20 years is recommended, but in no event should AGOA be renewed for less than the ten years required to attract major new investments to the textile sector in Africa.

2. The AGOA Third-Country Fabric Provision Should Be Extended for the Full Term of AGOA's Renewal.

More than 95% of the apparel imports under AGOA are pursuant to the so-called "third-country fabric" rule of origin, which allows apparel manufacturers in AGOA less developed country (LDC) beneficiaries to utilize yarns and fabrics from any origin. Because U.S. apparel buyers typically mandate the type and source of the yarns and fabrics to be used in making their garments, it is essential to be able to utilize the specified inputs in order to get the U.S. orders. Although ACTIF fully supports the long-term goal of developing a vertically integrated textile-apparel value chain in Africa, the failure to authorize AGOA for a sustainably long period up to this point has prevented this from happening. Until sufficient upstream textile production capacity has been developed, it is critical that AGOA continue to allow African apparel producers to utilize the yarns and fabrics required by their U.S. buyers. Accordingly, it is essential that the third-country fabric provision be extended for the full term of the renewal of AGOA, *i.e.*, for 15-20 years but not less than ten years.

3. The Same Terms of Access Should Apply to All AGOA Beneficiaries.

ACTIF recommends that AGOA should be amended to allow all beneficiaries to utilize third-country yarns and fabrics. Such a step would also simplify the AGOA rules of origin and encourage further regional integration by allowing cumulative processing in South Africa and other AGOA countries, which is currently not permitted.

4. Congress Should Reiterate AGOA's Policy of Encouraging the Administration To Negotiate Regional FTAs with the AGOA Beneficiaries.

Since its original enactment in 2000, AGOA has encouraged the Administration to negotiate free trade agreements (FTAs) with AGOA countries as appropriate. Thirteen years later, the United States still has no FTAs with Africa. The one effort to reach an FTA with the Southern African Customs Union (SACU) proved unsuccessful.

But much progress has been made in Africa since the SACU negotiations were broken off. ACTIF believes the time has come for new FTA negotiations between AGOA countries and the United States as part of an effort to transition the U.S.-Africa trade relationship from unilateral preferences to reciprocal free trade. In order to reinforce ongoing efforts to encourage regional integration, ACTIF believes such FTAs should be negotiated with existing African Regional Economic Communities (RECs).

Accordingly, ACTIF urges Congress to reiterate and reinforce AGOA's policy of encouraging the negotiation of FTAs with AGOA countries, with emphasis on negotiating with existing RECs.

5. AGOA Should Create Additional Incentives for U.S. Buyers To Source Apparel from Africa.

When AGOA was originally enacted, it provided for quota-free and duty-free incentives for U.S. buyers to source apparel in Africa. But when the MFA quotas expired in 2005, AGOA's incentives were cut in half, and as noted above, the result was devastating as AGOA apparel exports to the United States fell by 55%.

ACTIF suggests that new incentives should be created for U.S. buyers to source apparel from Africa to offset the loss of the quota-free preference. For example, Congress could encourage USAID could expand the activities of the five African Competitiveness Hubs to include more assistance aimed at attracting U.S. apparel buyers to Africa.

6. Congress Should Renew AGOA Well in Advance of the September 30, 2015 Expiration.

Experience has demonstrated that it is critical that Congress take action to renew AGOA well in advance of the current expiration scheduled for September 30, 2015. Although measures to renew the AGOA third-country fabric provision were introduced in 2010 and 2011, Congress delayed taking action until August 2012, literally just weeks before the provision would have expired on September 30, 2012. Because U.S. apparel buyers typically place their orders up to nine months in advance, uncertainty over the fate of this critical provision forced U.S. apparel buyers to begin shifting their orders out of Africa to Asia beginning in early 2012, *i.e.*, nine months in advance of the expiration. U.S. apparel imports Africa fell off sharply, down by -12% during April-December 2012. African apparel producers were forced to lay off tens of thousands of workers.

The negative impact on Africa would be much, much worse if Congress were to delay taking action to renew the overall authorization of AGOA. Such delay would send all the wrong signals to both buyers and investors. Rather, Congress should act promptly to renew AGOA well before its September 30, 2015 expiration date, preferably before the end of 2014.

C. Conclusion

AGOA has made a profound impact on the economic development of Africa, but that impact has been undermined by changes in the global trade environment since 2005, especially the expiration of the MFA. The challenge to AGOA has been compounded by Congress' practice heretofore of renewing AGOA for only a few years at a time. If Congress delays renewing AGOA, its positive contribution to the development of Africa will wane and eventually disappear. But it is possible, with prompt renewal of AGOA on the terms suggested herein, to maintain AGOA's positive role in the reduction of poverty and the creation of economic opportunity for the poorest and least developed region of the world.

The members of ACTIF express their profound gratitude to the United States for AGOA and urge the United States to extend the absolutely critical policies that are enshrined in AGOA.

Respectfully,

Jaswinder Bedi
Chairman

Sep 18th, 2013