S. HRG. 113–622

THE AFRICAN GROWTH AND OPPORTUNITY ACT AT 14: THE ROAD AHEAD

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

ONE HUNDRED THIRTEENTH CONGRESS

SECOND SESSION

JULY 30, 2014

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PUBLISHING OFFICE

94–133—PDF WASHINGTON : 2015

For sale by the Superintendent of Documents, U.S. Government Publishing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

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THE AFRICAN GROWTH AND OPPORTUNITY ACT AT 14: THE ROAD AHEAD

WEDNESDAY, JULY 30, 2014

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 2:12 p.m., in room SD–215, Dirksen Senate Office Building, Hon. Ron Wyden (chairman of the committee) presiding.

Present: Senators Stabenow, Cantwell, Cardin, Hatch, Crapo, Thune, and Isakson.

Also present: Democratic Staff: David Eggleston, Legislative Fellow; Jason Park, International Trade Counsel; and Jayme White, Chief Advisor for International Competitiveness and Innovation. Republican Staff: Richard Chovanec, Detailee; Everett Eissenstat, Chief International Trade Counsel; Rebecca Eubank, International Trade Analyst; Kevin Rosenbaum, Detailee; and Shane Warren, International Trade Counsel.

OPENING STATEMENT OF HON. RON WYDEN, A U.S. SENATOR FROM OREGON, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. The committee will come to order.

I would like to start this afternoon by thanking Ambassador Froman for joining us here today to discuss the African Growth and Opportunity Act.

The President and the administration, in my view, have done a significant amount of good work with respect to America's economic relationship with sub-Saharan Africa, and the Finance Committee is looking forward to continuing to work with you, Ambassador Froman, as we pursue these issues in the days ahead.

More than 14 years ago, the Congress passed the African Growth and Opportunity Act, which, of course, is known as AGOA. For the first time, the United States established a trade policy that was specific to sub-Saharan Africa. AGOA was designed by a bipartisan group of lawmakers with the goal of fostering opportunities for African entrepreneurship and strengthening its job-creating trade ties with our country. Today the law allows almost all products from eligible African countries to be imported duty-free.

AGOA, in my view, has been a success, and it ought to be renewed and strengthened in the same way that it was established, colleagues, and that is through bipartisan work and cooperation.

Our hearing is especially timely, because African leaders arrive in the Nation's capital next week as part of the AGOA forum. So now is a good time to begin to assess how AGOA and other preference programs like the Generalized System of Preferences fit into the larger trade puzzle.

Much, of course, in sub-Saharan Africa has changed in the 14 years in which AGOA has been implemented. In the wake of the great recession, Africa is a bright spot in the global economy. Over the past decade, economic growth in sub-Saharan Africa has bested the world's average growth rate by 2 percent. In that time span, six of the world's 10 fastest-growing economies were in Africa.

There is also clear evidence that AGOA has been a success. In 2000, trade between the United States and Africa stood at less than $30 billion. It more than tripled over the following decade as exports diversified and grew, supporting job growth in both our country and in Africa. Some of the growth in trade was the increase in West African oil production and exports which would have occurred with or without AGOA. But even if you choose to take oil out of the equation, AGOA is responsible for significant growth and diversification among African exports.

While AGOA is going to remain a program that is primarily intended to help Africa chart its own economic course, AGOA benefits our country as well. As sub-Saharan African economies have grown, in part because of this program, the region's buying power has gotten stronger. That is good for American exporters.

There are more than 100,000 red, white, and blue American jobs tied to AGOA. American exports to sub-Saharan Africa grew about 250 percent since the program's inception, particularly benefitting aerospace, auto, and agricultural jobs here at home.

The expiration of AGOA in September 2015 gives this Congress, the administration, and other stakeholders a chance to see where the program stands, to look at what works, and to develop plans to help AGOA adapt to Africa's fast-changing economic landscape.

The evaluation process has to start early. That is why the Finance Committee is choosing to hold this hearing more than a year before AGOA's expiration date. African apparel manufacturers who benefit from the program often receive orders up to 9 months in advance, but they are not going to get these orders if there is uncertainty about when AGOA expires. Failing to renew and perhaps reshape AGOA in a timely manner could reverse important economic gains made over the last decade and a half, and no member of this committee, Democrat or Republican, wants that to happen.

The Congress needs to explore ways to improve AGOA to further drive growth in a broader range of African exports. One method to consider is expanding the array of products that AGOA covers. Another option is making it easier for producers to draw from a bigger variety of sources in the manufacturing process.

Our goal should be for AGOA to help increase the value of Africa's exports and promote growth and diversity in even more African countries. That way they can better compete with the economic hotbeds in the Asia-Pacific region and around the world.

It is also important to recognize that, even with enhancements, AGOA is not a silver bullet for development. It has to be part of an overall strategy to increase trade ties, boost investment, and particularly cut burdensome red tape. The administration has recognized this as a priority as well, launching programs such as Power Africa and Trade Africa.

The Overseas Private Investment Corporation, the Millennium Challenge Corporation, and the Export-Import Bank, in my view, all play significant roles in a comprehensive American approach to African development. The committee will do its part by looking for ways to enhance AGOA's impact in the months ahead.

The fact remains that it is Africa and Africa alone that holds the power to continue to increase its people's living standards. The best way to accomplish that is to improve governance on the continent. Improving governance, strengthening the rule of law, cutting needless and burdensome regulation—all of these will help Africa attract investment.

I want to conclude by simply saying that any AGOA 2.0 ought to be crafted in a way that complements efforts by African governments to improve the lives of their people. Fortunately, there are promising ideas to be heard. This committee is looking for ways to put them into practice. Senator Hatch and I have already had discussions about how we can work together in a bipartisan way.

[The prepared statement of Chairman Wyden appears in the appendix.]

The CHAIRMAN. Senator Hatch, we look forward to your statement.

OPENING STATEMENT OF HON. ORRIN G. HATCH, A U.S. SENATOR FROM UTAH

Senator HATCH. Thank you, Mr. Chairman.

Welcome, Ambassador Froman. We appreciate you and the hard work you are doing. This is an important hearing, and I appreciate you coming and agreeing to participate.

Before addressing today's topic, I really want to discuss our efforts to renew Trade Promotion Authority, or TPA. I have been raising this with you and the administration now for years, and, frankly, I cannot quite understand why the administration does not get behind you and get this done.

I joined with my colleagues in the House and the Senate on a bipartisan basis to come up with the Trade Priorities Act. That bill renews and modernizes TPA. It is a bipartisan bill. It is something that makes a lot of sense. But shortly after introduction, the Finance Committee held a hearing on the bill, and, at that time, they wrote to you, Ambassador Froman, and formally requested that you appear at the hearing.

Despite the President's call for TPA renewal, no one from the administration attended. At the time, I noted how important it was for the administration to publicly and forcefully advocate for congressional renewal of TPA, and, over the next several months, I urged you and others in the administration to be more active in advocating for TPA—for TPA renewal, that is—making it clear that the legislative window was rapidly closing. Despite my various calls for action and the calls of other Senators on this committee, the administration's efforts have been anemic in this regard. As a result, we are, 6 months later, no closer to considering TPA legislation than we were in January.

Now, I do not have to tell you, Mr. Ambassador, that without TPA, the administration lacks congressional authority to negotiate and conclude trade agreements, and, if the administration chooses to negotiate and conclude a trade agreement, such as the Trans-Pacific Partnership, even in principal, without having TPA, they are going to be doing it without Congress's authorization, and I would like to see Congress involved.

And if this happens, I doubt Congress would grant such an agreement the fast-track procedural benefits associated with TPA. At that point, Congress may simply consider the agreement on its merits under its regular rules and procedures, and that might not be very good, at least considering some of the past things that have happened.

I think the President's trade agenda is at risk if we do not do this. Now, I am disappointed in the efforts I have seen thus far, and I hope they will improve in the future. I support AGOA.

Mr. Chairman, I ask that my full remarks be placed in the record.

The CHAIRMAN. Without objection, so ordered.

Senator HATCH. But I am for AGOA. It is something that we ought to do, something we must do. We do that because it is a great thing for African countries that are involved, and it is the right thing for us as well. So I am going to support that as strongly as I can and support you in your efforts to get that done. But I really want to bring home once again how important TPA really is, and we should not keep putting it off.

I presume the President, if he wants to do it at all, will probably try to do it in the lame duck session. It is called lame duck for a variety of reasons, one of which is, hardly anything ever gets done there. That has not always been the case. There have been some things done there.

But I am really concerned about it, because I think that it puts you and your work way behind, as far as I am concerned, at least as far as getting congressional approval, which is essential in these matters.

But in any event, Mr. Chairman, I intend to support you and Ambassador Froman on AGOA and get that done as soon as we can.

The CHAIRMAN. Thank you, Senator Hatch. I just want you to know of my very strong interest in working closely with you on trade policy.

[The prepared statement of Senator Hatch appears in the appendix.]

The CHAIRMAN. What we are doing now is talking to all of those who have had a great interest in trade policy, and this is business and labor and environmental people and people who are concerned about health causes and digital goods. The list—Senator Isakson, because he has been very involved in this area—goes on and on.

The whole point of these discussions, apropos of Senator Hatch's important concern here, is the better the TPA, the better future trade agreements are going to be, and that is enormously important to my State, where about one out of six jobs depends on international commerce. And the trade jobs pay better than do the non-trade jobs.

I just want Senator Hatch and all our colleagues on both sides of the aisle to know that we are going to pursue very vigorously these discussions with all of those who have had an interest in trade policy so we can get the best, best possible TPA, because we know that is going to pay big dividends as we go forward with a whole host of these trade issues.

So thank you, Senator Hatch.

The sole witness at our hearing today will be the United States Trade Representative, Michael Froman. It is his second appearance in front of the committee in recent months. We thank you for that.

Ambassador Froman, it is our usual practice, as you know, to make your prepared statement a part of the record, and we would like to ask you to use 5 minutes or so to summarize your concerns, because I know colleagues have a number of questions.

So, welcome.

STATEMENT OF HON. MICHAEL FROMAN, UNITED STATES TRADE REPRESENTATIVE, EXECUTIVE OFFICE OF THE PRESIDENT, WASHINGTON, DC

Ambassador FROMAN. Thank you very much, Chairman Wyden, Ranking Member Hatch, members of the committee, and thank you for inviting me here today to testify about AGOA.

AGOA, as you have noted, has been the cornerstone of America's economic engagement with sub-Saharan Africa for the past 14 years, and it has had some very important successes. U.S. imports from AGOA countries have grown from $8.2 billion in 2001 to $26.8 billion in 2013, a threefold increase.

Non-oil AGOA trade has increased almost fourfold during the same period, from $1.4 billion to almost $5 billion. U.S. direct foreign investment stock in sub-Saharan Africa has also increased from approximately $9 billion to $35 billion. And, according to the African Coalition on Trade, AGOA-related investment has resulted in the creation of some 300,000 jobs in sub-Saharan Africa and almost 120,000 jobs here in the United States.

But there clearly is more work to be done. Utilization of AGOA is low and uneven. The bulk of U.S. imports under AGOA come from a handful of countries, and, although we are beginning to see diversification, exports under the program are still concentrated in a relatively few sectors.

Finally, while the growth in exports has been impressive over the life of AGOA, in absolute terms, the level of exports is quite low. We can and must do better. And, to that end, last August I launched a comprehensive review of AGOA to examine both its successes over the last 14 years, as well as areas where it might be improved. And, as we undertook this exercise, we were mindful too that the Africa of 2000 is not the Africa of 2014.

Six of the 10 fastest-growing economies in the world are in Africa, and African countries are increasingly moving away from unilateral preference programs and entering into reciprocal trading relationships, including with the European Union. As we think about AGOA's future, we need to consider how the U.S.-Africa trade relationship should evolve over time as well.

We draw three main conclusions from our review. First, while tariff preferences are important, they are not sufficient. African countries face constraints to trade that include inadequate and high-cost infrastructure, particularly in the energy and transportation sectors; burdensome customs procedures and other border barriers impacting Africa's regional and global trade; difficulties complying with agriculture safety and marketing standards, including sanitary and phytosanitary standards; limited skilled labor; and low productivity and competitiveness in non-oil value-added products. And, despite growing business interest in Africa, AGOA countries also continue to face difficulties finding partners in the United States.

For AGOA to reach its full potential, it must be situated at the core of a comprehensive trade and investment strategy, an AGOA compact that targets the full range of supply-side constraints to trade in Africa, that creates new markets for African products, harnesses growing private-sector interest in trade and investment, and promotes regional integration and value-added production.

Now, this also includes moving forward with implementation of the WTO Trade Facilitation Agreement concluded in Bali last year, which, by OECD estimates, could lower costs for developing countries in trade by up to 15 percent if fully implemented.

Second, there are some areas in which the AGOA program itself can be updated and improved. This, of course, is the province of Congress, but the findings of our review may be helpful as you consider these issues.

For example, the length of extension. Our research suggests that it is important to extend the program for a sufficient period of time to encourage investment in critical industries in Africa.

Product coverage. As you said, Mr. Chairman, most AGOA beneficiaries enjoy duty-free treatment for virtually all of their products: 97.5 percent of the tariff lines are covered. However, there are still 316 tariff lines that continue to lie outside the program, and we believe that Congress should consider whether any new products can now be added to the program, keeping in mind domestic sensitivities.

Rules of origin. AGOA has some of the most flexible rules of origin of any preference program. There are, however, areas of the program where flexibility has been constrained. For example, there are limits on accumulation of labor costs across AGOA countries and a cap on the use of U.S. inputs in meeting the requisite regional value content rules. Elimination of these limits could also encourage greater integration into regional and U.S.-Africa value chains.

Eligibility criteria. AGOA's eligibility criteria have played an important role in raising standards and improving the rule of law throughout the continent. However, they have not been updated since AGOA was first established. Updating these criteria, for example, to include provisions relating to eliminating unwarranted SPS barriers and employment discrimination, could be an important way to modernize the program.

Eligibility review processes. AGOA's mechanism for ensuring that countries meet eligibility criteria currently is all or nothing. An approach that allows for partial and more immediate withdrawal may allow the administration to take a more tailored and nimble approach to drive positive changes in beneficiary countries.

We look forward to working with you to explore these and other issues in the process of moving forward with renewal.

Third and finally, while the administration remains firmly committed to securing AGOA renewal, we need to begin working with our African partners to develop a vision of a trade relationship that goes beyond one-way preferences in the mid- to long-term. As I said, today's world is different from the one when AGOA was first enacted, both in Africa and in its relations with major trading partners.

Against this backdrop, we need to consider the way ahead and how different tools, from unilateral preference programs to reciprocal trade agreements, might evolve to be used with different partners to help us achieve our goals of broad-based economic growth and prosperity.

With that, let me thank you again for the invitation to testify, and I am happy to take your questions.

The CHAIRMAN. Thank you very much, Ambassador Froman.

[The prepared statement of Ambassador Froman appears in the appendix.]

The CHAIRMAN. Let us talk about China's growing influence in Africa, first of all. While AGOA has resulted in an increase of U.S.-Africa trade since 2000, it appears that China's engagement with this fast-growing region has far surpassed our country. From 2000 to 2011, there was a 14-fold increase in Africa's trade with China compared to just a threefold increase during the same period for the United States and China.

What are the consequences, in your view, to sub-Saharan Africa and the U.S. interests if China is significantly enhancing its economic footprint in Africa and we are lagging behind?

Ambassador FROMAN. Well, we firmly believe that Africa ought to have good trade and investment relationships with everybody, whether it is China or India or Turkey or any number of other countries, the European Union, who are active in the continent, and it is up to the Africans to determine what kind of relationships they want to have and how to define those relationships to ensure that they work in their interests.

Our experience has been that the more that other countries like China are active in Africa, the more Africans want the U.S. involved as well, because they know that we are not interested in just taking resources out of the continent. We are also interested in investing in human resources in the continent.

The CHAIRMAN. If you might, give a couple of specifics. What are the administration's key proposals to enhance the value of AGOA and strengthen trade and economic ties between our country and sub-Saharan Africa?

What would be the top two priorities, say?

Ambassador FROMAN. Well, with regard to AGOA, as I mentioned, I think we need to look at both changes to the program itself with regard to eligibility criteria, product coverage, duration, and rules of origin, but then I think, very importantly, we need to situate it in the context of other policies that help address the supply-side constraints.

For example, with regard to infrastructure, we are very active in helping to promote Power Africa to enhance electricity, access to affordable and reliable electricity, which is a key factor in the competitiveness of African firms being able to engage in the global economy.

The CHAIRMAN. Let me see if I can get a couple of others in.

One, with respect to how to improve reciprocity with developing countries, you talk about the need to move toward more reciprocal arrangements with emerging market countries rather than remaining satisfied just handing out these tariff preferences, and I strongly agree with that. And certainly there are legitimate questions about whether South Africa is ready to graduate from the program given the size of its economy.

Is it time for Congress and the administration to consider whether countries like India, Thailand, Brazil, and Turkey are also ready to graduate from the Generalized System of Preferences program?

Ambassador FROMAN. Well, I think the application of the GSP program is something that we need to think through and work on with Congress, stakeholders, and our trading partners.

I note that both the European Union and Canada have recently reformed their GSP programs and have graduated a number of emerging economies. We have not done so. But I think we need to look at how do we move toward a better set of relationships with some of our key partners.

We had some experience in trying to negotiate reciprocal arrangements in Africa with the South African Customs Union in early 2000. And one of the lessons we learned out of that experience is that, if the countries really are not ready for our kind of FTA, then it is not going to be a productive exercise.

So I think we need to think through this. We need to work with you and our trading partners and our stakeholders to determine how best to move forward, taking into account different countries at different levels of development. In the meantime, we need to work with our trading partners to address bilateral trade issues so that we are not put at a competitive disadvantage vis-à-vis our competitors who may already have those relationships.

The CHAIRMAN. Ambassador Froman, let me close this round by asking you a question about human rights. It is my view that Senator Cardin, a very valued member of this committee, has done a great service by constantly coming back to this matter of human rights and trade. I would be interested in your thoughts about how the administration can use AGOA eligibility criteria to better battle human rights infringements.

As you know, Uganda recently took a step that was not only in the wrong direction, but I think a global affront. It passed anti-gay legislation that I think contradicts globally understood human rights.

How is the administration leveraging the eligibility criteria found in AGOA to address policies like the one I have mentioned in Uganda and elsewhere that are inconsistent with human rights and AGOA's criteria?

Ambassador FROMAN. Well, first of all, the administration has spoken out and will continue to speak out around the world about the importance of implementing internationally recognized human rights, including with regard to LGBT individuals. We take this very seriously. We have taken a number of steps vis-à-vis Uganda, in particular, as you mentioned, in terms of pulling back in certain areas of cooperation.

I wrote to my counterpart in February about this issue, and we are engaged with Uganda, along with the other agencies of the U.S. Government, on this issue to try to make progress. And we have made it clear that, in regards to respect for human rights, the criteria is that countries should not engage in gross violations of internationally recognized human rights, and we intend to take that seriously as part of our annual AGOA review process.

The CHAIRMAN. My time has expired.

Senator Hatch?

Senator HATCH. Thank you, Mr. Chairman.

Ambassador Froman, as you know, I introduced the renewal of Trade Promotion Authority, which specifically authorized ongoing trade negotiations. But TPA authority is not limited to those negotiations; it also opens up opportunities to negotiate new trade agreements with any nation willing and able to meet Congress's standards, including sub-Saharan Africa.

Now, if you ever receive TPA, would you consider initiating trade negotiations with nations in sub-Saharan Africa, and, if so, which nations do you think you would consider?

Ambassador FROMAN. Well, as I said, I think we need to very much look at this issue and figure out whether it makes sense to try to move toward more reciprocal trading arrangements with various countries. We had this experience in the 2000s which proved to be unproductive trying to do an FTA with the Southern African Customs Union.

At the same time, much has changed since then. Many countries have signed Free Trade Agreements or Economic Partnership Agreements with the European Union. The EPAs with the European Union tend to be of a different standard than our FTAs. They tend not to include services necessarily or intellectual property rights or labor and environmental issues. And we would have to determine whether there is a model for reciprocal trade relationships with the countries that you mention, that you allude to, that make sense given our standards.

Senator HATCH. You testified, I think, about the importance of full implementation of the WTO Trade Facilitation Agreement to economic growth for Africa and in Africa. For that reason, I have to say I am extremely disappointed that India appears to be going back on the deal it agreed to in Bali.

With respect to AGOA legislation, what changes could we make that would best incentivize beneficiary countries to fully embrace the necessary trade facilitation reforms?

Ambassador FROMAN. Well, we are quite concerned about the current situation at the WTO around the implementation of the Bali agreement and the Trade Facilitation Agreement. We have been engaged with other countries, including in sub-Saharan Africa, about the Trade Facilitation Agreement, and I am gratified that the African countries are quite interested in the Trade Facilitation Agreement and what it means for improving their competitiveness.

There is a limited time left before the deadline comes, midnight tomorrow night, for the implementation of the Trade Facilitation Agreement, and I certainly encourage the other countries that are currently holding up that agreement—it is a very small number of countries that have expressed their willingness to break that consensus—I encourage them to come back to the table and support the consensus that would bring so many development benefits to countries, including in sub-Saharan Africa, and the failure of which will have serious ramifications for the multilateral trading system itself.

So we are encouraged on that.

Senator HATCH. Last week the European Union completed an Economic Partnership Agreement with the Southern African Development Community, which is a group of countries in southern Africa, including South Africa. As a part of that agreement, the southern African countries agreed to protect 251 geographical indications, or GIs, from the E.U.

Now, this raises serious concerns. The E.U. has aggressively been using trade agreements to inappropriately protect generic terms around the world. Essentially, the E.U. is using its trade agreements to undercut market access for U.S. producers of products that use common names such as cheddar, parmesan, and mozzarella.

While the TPA bill I introduced has provisions to address these practices, I would like to know what you are doing to combat this threat and to ensure U.S. producers do not lose market access opportunities overseas due to the E.U.'s inappropriate use of GI protection.

Ambassador FROMAN. We completely are in agreement with you about the importance of addressing this issue. We are doing so in TTIP directly with the E.U., but also in TPP and in our other bilateral discussions.

The point that we make to all of our trading partners is that the trademark system and the common name system that we have in the United States works very well, including for European producers of these products, but their GI system does not work for our producers of these products. So we are pushing very hard to make clear that we would find that unacceptable in a trade agreement.

Senator HATCH. According to the International Trade Commission's AGOA report released in April of this year, 24 out of 39 countries eligible for AGOA benefits report utilization rates of 10 percent or less, and 21 countries had utilization rates of less than 1 percent. South Africa, the beneficiary with the highest program utilization, was only at 31 percent.

So what are the most significant constraints to AGOA beneficiary country utilization of the AGOA program?

Ambassador FROMAN. I think that underscores the importance of addressing the supply-side constraints that are preventing full usage of AGOA, for example, hard infrastructure, the lack of roads, supports, and reliable, affordable electricity—and Power Africa is very much directed at that effort.

Soft infrastructure. Right now, you get to a border. You may wait for days to cross the customs plaza. It does not have a computer system that can talk to the next customs plaza. You wait another few days to get through there, and, by the time you get through the two customs plazas, you have added a great deal of cost to your shipment, and maybe your shipment is spoiled.

So coming together, having single IT systems that can speak to each other, that can link customs organizations, that can get to a single customs crossing, we are addressing that through Trade Africa and some of the work that we are doing on that.

Issues around capacity building, having the USDA help strengthen laboratories in sub-Saharan Africa, and inspectors to help farmers meet our SPS standards and our other standards—those are all things that we can do to help increase the utilization of AGOA. Again, the review that we have done over the last year shows that these tariff preferences, while important, are simply not enough, that we have to address the other issues.

The last thing I would say is, on the demand side, many of these are small countries and small markets, and it is important that they succeed in their efforts to integrate regionally with their neighbors, and we are promoting regional integration in Africa, including by working with the East African community, for example, on a regional investment arrangement.

Then they have a larger market for their products, it is more efficient for them, and they can produce more competitive products.

Senator HATCH. Thank you, sir.

The CHAIRMAN. Thank you, Senator Hatch.

Senator Isakson?

Senator ISAKSON. Mr. Chairman, if I can, on a point of personal privilege, I would like to acknowledge the presence of Congresswoman Karen Bass from California, who is in the audience today. She is a steadfast worker on behalf of the African continent and U.S.-Africa relations and traveled with Ambassador Froman and myself to Ethiopia last year to the African summits.

The CHAIRMAN. And to keep our tradition of bipartisanship, let me second your comment, Senator Isakson, because I am very much aware of the Congresswoman's good work, and we are glad to have her here today as well.

Please go ahead with your questions.

Senator ISAKSON. Thank you, Mr. Chairman.

Three great things have happened on the continent of Africa in the last 25 years. One, under the Clinton administration, AGOA was negotiated and implemented.

Number two, under President Bush's initiative, PEPFAR (the U.S. President's Emergency Plan for AIDS Relief) was established, which is the greatest single humanitarian accomplishment, I think, in terms of health, in the history of mankind.

Then, third and most importantly, the Millennium Challenge Corporation has allowed many African countries to be able to develop the infrastructure necessary to be good trading partners.

I think former Chairman, now Ranking Member Hatch's point on TPA should be noted to this extent. AGOA is a nonreciprocal trade agreement. So it is not affected by TPA. But the stated goals of AGOA are to establish, hopefully, trade relationships and free trade agreements with African countries by building and developing, which would be subject to Trade Promotion Authority.

So I think, every time we look the other way and put off the inevitable—that is, giving the President the authority under TPA that he needs, as well as the clear signal that trade is important to the Congress of the United States—we run the risk that we are not going to ever be able to cash in on the tax dollars of the American people that are invested in PEPFAR, the Millennium Challenge Corporation, or in AGOA.

So I think Senator Hatch makes an outstanding point. We always talk about how we are going to get around to TPA, but I think, when you talk about things like AGOA, which was predicated on building relationships toward a future free trade agreement, it shows you that time is of the essence in terms of doing that.

That is a speech. That was not a question. You can comment or not comment. I will give you your choice on that.

On the human rights question asked by the chairman, I want to brag about Ambassador Froman for a minute. Last year, in Addis Ababa, Ethiopia, he had to leave early, and he came up to me and said, "Would you go meet with Swaziland for a minute and explain to them if they don't get their act together in terms of worker rights, there could be consequences?"

Do you remember that?

Ambassador FROMAN. I do indeed.

Senator ISAKSON. So I went and met with Swaziland to explain to them that beating up on workers and denying them the right to organization and physically abusing them would be a violation of principles the United States felt they need to meet.

To the Ambassador's credit, last month, I believe they were dropped from compliance with AGOA. Is that correct?

Ambassador FROMAN. That is correct.

Senator ISAKSON. Which leads me to the question I will require you to answer. As we go into this current period between now and next September and the next iteration of AGOA, should we not have a tiered way for somebody to come back, like Swaziland, to get back into the AGOA agreement? Because right now, as I understand it, it is cold turkey and there is no really tiered structure where compliance can bring them back into AGOA. Is that correct?

Ambassador FROMAN. That is correct, in that it is an all or nothing kind of switch. And that is one of the ideas that we are proposing as Congress considers the renewal of AGOA, that it would be worth looking at ways to have other more flexible ways of limiting access and doing things in different time periods than currently exist, and we have had success.

We have turned off AGOA for political issues, such as coups, for a number of countries over its history—Mauritania, Cote d'Ivoire, Guinea, Niger, Madagascar, and Mali—and those countries all were re-entered into AGOA. They were allowed to rejoin AGOA and become eligible again as they moved toward democratic elections and democratic transitions.

So we certainly want to have the ability to both incentivize them, to engage them in better policies, and, when they do so, to reward them by giving them access again to the AGOA program.

Senator ISAKSON. I know that the length of the extension of the next AGOA agreement is certainly an issue that was discussed at Addis Ababa, from 15 and 17 years out to shorter periods of time, like 3 or 4. But it seems like, to me, if we are ever going to get to the goal, which is a foundation for free trade agreements with African countries that are compliant, we ought to have some tiered levels of accomplishment or participation so that we can go from an AGOA agreement which is nonreciprocal to a true free trade agreement with those countries.

Would you agree with that?

Ambassador FROMAN. Well, I think that bears a lot of looking at. Yes. I think we need to work with you to think through exactly how to do that, on both what the duration should be and how we think about different tiers of countries who may be more or less ready to engage in reciprocal trade arrangements.

At the same time, we want to take into account regional supply chains or regional value chains. If we do an FTA with one country, do we not want to make sure we are not disrupting important integration that is going on in the region as well?

So these are complicated issues that we very much look forward to working with you on.

Senator ISAKSON. My last point, Mr. Chairman.

From my experience in Africa, getting the African countries to recognize intellectual property protection, worker rights, standards like we do in the United States, pay attention to corruption and have a more stable environment in which to trade, is the biggest single asset for the African countries to grow and prosper under the next future AGOA agreement.

I commend the Ambassador for the work that he has done and pledge to work with him in any way possible to facilitate an extension of that agreement.

Thank you, Mr. Chairman.

The CHAIRMAN. I do not want to make this a bouquet-tossing contest, but let me throw the commendations back to you, Senator Isakson, because I know you have put a lot of years into this effort at fostering trade relations with Africa, and I very much appreciate your leadership.

Senator Thune?

Senator THUNE. Ditto, Mr. Chairman. I also compliment my colleague from Georgia. He has worked really hard on a lot of these issues.

I appreciate you and Ranking Member Hatch holding the hearing today, and I thank Ambassador Froman for being here.

The last time that we did this was in 2012, and let me just say that AGOA is a great, important program that is helping the nations of sub-Saharan Africa raise their standards of living and adopt the rule of law. Since we did this the last time, we added South Sudan as an eligible country so that the citizens of that country can benefit from the greater market access for their products in the United States. So I hope this hearing will be the beginning of a process for considering reforms to AGOA before the program expires next September.

I would also say—and I am sure you have heard it before, but it is a point we cannot emphasize enough—we need TPA. You can negotiate the best agreements possible, TTIP and TPP, but we are not going to get them through Congress without Trade Promotion Authority, and I just hope that you and the administration will become fully engaged with Congress on that issue. For some reason, we have not been able to get that moving forward.

I wanted to ask a question, and it is not really AGOA-specific, but one of the challenges that we are facing in agriculture is making sure that our American ag technologies are available to help nations of the world feed their populations.

I do not think there is anywhere in the world where American technology, such as agricultural biotechnology, could be more useful than on the African continent. Yet we know that, in the past, cultivation of biotech crops has been hampered by the unwillingness of the E.U., which is a major African export market, to approve these products.

In the context of the ongoing TTIP negotiations, how can we ensure that the higher yields and other benefits of agricultural biotechnology will be available to the nations that need them the most and that these products, when exported again, will not be discriminated against?

Ambassador FROMAN. Well, this is a very important issue in our TTIP dialogue. We have made clear that we want to see SPS standards and other standards based on science.

The E.U. actually has its own law and its own procedure for approving biotech products. We prevailed in a WTO case against them for them not implementing that law sufficiently well. They have lost a European Court of Justice case, and our first step with them in TTIP is to encourage them to apply their own law and their own procedures to ensure that biotech products are evaluated on science and are processed accordingly.

Recently, as you may know, the E.U. took a decision that would allow countries in the E.U. to make their own individual decisions about the importation and cultivation of genetically engineered products, and we are hopeful that, as countries decide whether they want to allow that cultivation to occur, we will begin to see some progress in educating people about the safety of those products and that they will make progress in terms of market access in that regard.

Senator THUNE. I just think it is a huge issue. Europe is a huge export market for Africa, and, if you want to see the African people, countries on that continent, be able to better feed themselves, as well as to export and grow an economy, that issue is critically important.

So I hope that you will continue to impress upon your colleagues, in the trade negotiations with the Europeans at least, that opening up to these products which are proven to be safe is something that they should figure out a way to expedite.

I know that they have their own process, as you described, but sometimes those processes are very bureaucratic and, in many cases, used, I think, to protect agriculture on the European continent.

Just briefly, in your testimony, you talk about updating AGOA eligibility standards. You mentioned the unjustified sanitary and phytosanitary measures that have been adopted by some African nations. I am wondering if you could elaborate on some of those measures and how an updated AGOA might help to address them.

Ambassador FROMAN. Currently, among the eligibility criteria, AGOA partners are required to elimiate or to be making continual progress toward eliminating barriers to U.S. trade and investment.

So they already have an obligation to eliminate barriers to U.S. trade and investment.

What we have seen over the last few years are increasing barriers being erected around sanitary and phytosanitary standards. So one of the recommendations that we will make to Congress as you consider the renewal of AGOA is to explicitly mention the SPS standards as one of those barriers that we will take into account as we do the annual review of AGOA eligibility.

Senator THUNE. Mr. Chairman, my time has expired. Thank you.

The CHAIRMAN. Thank you.

Senator Cardin is next.

Senator CARDIN. Thank you, Mr. Chairman.

Ambassador Froman, thank you. I think the timing of this hearing is great, well in advance of the expiration of the AGOA law. I am pleased that we are working on this early.

I think it is important that a message be included in the meetings next week with African leaders that the Congress is very much engaged on strengthening the ties between Africa and the United States, and one of those is to look at tools that have worked, such as AGOA, look at strengthening it and making sure that those tools continue to be available. So I applaud you for that.

I know Chairman Wyden has already mentioned a subject that you and I have talked about, and I thank him for that, and that is that good governance and human rights need to be and are already part of the AGOA process, as you just pointed out in response to Senator Thune.

I would urge you that, as we look at improving and strengthening AGOA, part of that should be higher expectations on the good governance issues and ways to monitor the progress that is being made in these countries in a more effective way.

I want to ask a question on a second issue that we have talked about, and that deals with capacity building. We do invest today development assistance in African countries, some of which are exporting to us under AGOA.

How do you coordinate our development assistance—how do you deal with private-public partnerships as part of AGOA—so that countries can really take advantage of the AGOA laws?

It is one thing to have trade agreements. It is another thing to have the capacity to use those trade agreements in the best interests of your country, and in many of the African countries, they really do not have the capacity to deal with that.

So the question is, how do you use AGOA to further the capacity opportunities of these countries so that we really do develop growing economies, stable markets, a growing middle class to buy U.S. products—all of the above. How do we do that?

Ambassador FROMAN. Thank you for that question. And I think you will probably be hearing more about this this week around the AGOA forum and the leaders' summit.

But to preview that, let me just say we have a whole-of-government approach to what we are doing now on trade and investment in AGOA, and it recognizes the role of the State Department, the Commerce Department, USAID, MCC, USDA, the Trade and Development Agency, all working to address those supply-side constraints that I mentioned that will determine, in our view, whether AGOA is more successful going forward—even more successful than it has been in the past.

For example, on capacity building, one of the areas we have identified as a need is to train inspectors and to upgrade laboratories in sub-Saharan Africa so that they can work with farmers there to more successfully meet our sanitary and phytosanitary standards. And we are working with USAID and USDA on a capacity building program, to expand their capacity building program to achieve that objective.

We are also working to develop young entrepreneurs and to give them the access, the networks, the training that they need to be able to take advantage of that.

I had the honor this morning of meeting with 500 Mandela Washington fellows under our Young African Leaders Initiative. They are here in Washington this week. They have been in the country for a month or so, having internships around the country in various companies. They will be going back to Africa, networking among themselves.

There were 50,000 applications for this program. Five hundred people were selected from all over Africa, and this is a program that we are going to continue to build upon that helps create the entrepreneur class in these countries who have ties to the United States and who want to see their products make their way through AGOA to the U.S. market.

So we are using all of our interagency partners, MCC, through their compacts, building roads, working on constraints on growth, USAID, USDA, the Trade and Development Agency, OPIC, and the like, to address all the issues that go into Africa being able to take advantage of AGOA.

Senator CARDIN. Let me mention one of the major pluses of AGOA, and that is that it has helped women. Many of the people who have benefitted from these opportunities have been women. A lot of these fields are dominated by women.

So I would hope that part of our capacity building would be geared toward gender sensitivity on how women are treated in the economies of these countries.

Ambassador FROMAN. Absolutely. It is a key part of our human rights and our labor rights. In fact, one of the proposals we are making on the workers' rights piece of this is to include nondiscrimination, to upgrade the definition of internationally recognized workers' rights, as the ILO does, to include nondiscrimination as well.

There is also the African Women's Entrepreneurship program which the U.S. supports. It has been very effective in bringing together women entrepreneurs in Africa and markets here in the United States, including through the trade hubs, and we are looking at ways to build on that as well.

Senator CARDIN. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Cardin.

Senator Stabenow?

Senator STABENOW. Thank you very much, Mr. Chairman and distinguished Ranking Member. This is a really important hearing.

I think that it is clear that we want to get AGOA reauthorized.

Thank you, Ambassador Froman.

I wanted to follow up on the capacity issues and, first, underscore what Senator Cardin said in terms of leadership from women. As I have been focusing more on Africa as the chair of the Agriculture Committee, it is very clear that, first of all, agriculture is a huge economic driver in Africa and, secondly, that women are providing so much of the leadership, going from micro-loans to be able to support their families, to gardens for villages, to communities, to looking at how they now move out to export or to expand.

So I want to underscore, I think, the importance of capacity building as it relates to women in leadership. Also, I wonder if you might just talk a little bit more—because I think capacity challenges are so important in terms of what happens to hold countries back.

You mentioned transportation. We know that if you cannot move materials, you cannot move goods, you are not going to be able to take advantage of AGOA. We know that simple things like cold storage become an issue around meeting SPS standards.

By the way, I would also underscore what Senator Thune said in his comments on technology and, also, your efforts around barriers, using SPS standards as barriers, which I think is a really important issue to deal with as part of this agreement, because I do think that that is something that needs to be addressed.

But when you look more broadly at capacity building and our role in that or other organizations' roles and so on, how do you see the U.S. Government being involved in that? What are the tools, the other tools that we can be using to deal with the capacity issues so countries can fully utilize AGOA?

Ambassador FROMAN. I think we have a number of tools, and we are not starting from scratch. We have been involved in what we call Aid for Trade for quite some time. We were quite a generous donor on Aid for Trade. We are a leader globally in that area, and we also play a convening role in bringing other donors and multilateral development banks and other institutions to the table on that.

That is the approach we have taken here as well. Through this consultation process over the last year, we have heard from people about the importance of addressing the capacity building issues, as you mention, on women, on young entrepreneurs, on meeting SPS standards, meeting technical barriers of trade, technical standards as well, and we have something called the Standards Alliance which works with countries to help provide technical assistance to them, to train them on how to meet technical standards to address the U.S. market, and we are going to work with all of our interagency partners to do that.

But it is not something we have to do alone either. We are part of a larger donor community, part of a larger international community.

So, for example, on trade facilitation, which is a key part of this, we can bring together customs organizations so that they have the same procedures and have the same policies, actually have common information technology platforms. If you clear a shipment in Mombasa, you do not have to re-clear it every time it crosses a border in the East African community.

That is something we are doing through the WTO, with the African Development Bank, with the World Bank, as well as with the other donors. And we have played an active role in helping to identify those resources to make sure they are coordinated, and we work with the African countries on their needs assessments to be able to address those.

Senator STABENOW. Just quickly—my time is running out—I know that we have had a lot of U.S. agriculture companies that have been involved for a long time in Africa, and more and more all the time, and they are focusing on issues like drought resistance and water conservation and other issues.

We also have land grant colleges, like Michigan State University, my alma mater, that are very involved in research.

How are USTR and our partner agencies facilitating the exchange of knowledge and technical resources between U.S. agriculture and AGOA nations? Are there things we could be doing better there?

Ambassador FROMAN. Thank you. We are working with the rest of the interagency community. And Raj Shah, the head of USAID, in particular, has played a leading role, for example, on the new Alliance for Food Security and Nutrition, bringing to the table both U.S. research institutions and the U.S. private sector to invest in Africa, bring in technology, bring in technical training, to make sure that they can meet SPS standards, increase agricultural productivity, and develop those markets that ultimately will be both to the benefit of Africa in terms of development, but also will help them get access to global markets as well.

So we are working with all of our interagency partners to try to make sure we have a whole-of-government approach, a one-stop-shop approach. So, as we sit down with our African partners, we can look at all of their needs and what capacity constraints they face and bring the appropriate resources to bear.

Senator STABENOW. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Stabenow.

I also want to note that you and Senator Isakson had a very good hearing, I think it was yesterday, on the 2-year anniversary of the U.S.-Korea free trade agreement, and we know that you, as chair, and Senator Isakson are going to do an excellent job there. I am anxious to hear more about the lessons learned.

I have only one other question—and this will not surprise you, Ambassador Froman—and it is on the digital infrastructure of Africa, because I think Senator Stabenow is absolutely right about what we have always thought of with respect to the physical infrastructure. We talk about roads and rail and water, but we need to think about, for example, how an African farmer is going to get information about markets, for example, if they do not have any access to broadband.

So tell me, if you would, what is the administration doing in terms of working with Africa on infrastructure challenges, particularly as they relate to Internet-based infrastructure?

Ambassador FROMAN. As you know, Africa has been an area of great growth in this area. Over 50 percent of urban residents in Africa are now online. There are more than 50 million Facebook users in Africa, and mobile phone penetration, perhaps most importantly, has gone from 1 percent to 50 percent of the African population.

That is absolutely critical to the issue you mention about farmers, for example, and folks in rural Africa who are now getting information on their mobile phones about weather, about market prices, which can help them make decisions about what to plant and when to harvest and where to sell their product and at what prices, because of that connectivity.

There is certainly more to be done there, and it is one area we have been focused in particular on in our food security program, Feed the Future: technology and how to use Internet connectivity and mobile technology to help farmers achieve greater productivity.

Of course, it is one of the underlying issues behind Power Africa. We want to make sure that there is affordable, reliable electricity throughout the continent so that when people are charging their phones or getting online, they can stay connected to the rest of the world.

The CHAIRMAN. I am only going to make one point in wrapping up—and I think Senator Hatch and I do not have any further questions.

Generally, Mr. Ambassador, I think there has been a sense that AGOA was seen as the program that Congress created; this was essentially Congress's effort. And my view is, this administration has focused on AGOA in ways that no other has, in part by your interest, Mr. Ambassador, and certainly the President's.

So I think my judgment, as we leave now, given that history where people said, "Hey, I think this program, AGOA, is a good program, it is Congress's," is that it is clear now that the Obama administration owns AGOA too. I think that is very valuable.

The policy options you shared with the committee today are going to be taken seriously as we continue our work.

I always like to see if Senator Hatch wants to offer the last word, but we appreciate your cooperation.

Senator Hatch?

Senator HATCH. I appreciate the work you do. You are certainly an intelligent man, and I have no doubt that you will be able to accomplish whatever you decide to do.

I just want to make sure you have the tools to be able to do it, and that we have the tools up here to be able to help you.

So I have every confidence in you and wish you the very best.

The CHAIRMAN. With that, the Finance Committee is adjourned.

[Whereupon, at 3:10 p.m., the hearing was concluded.]

APPENDIX

Additional Material Submitted for the Record

Ambassador Michael Froman
United States Trade Representative
Written Statement
Senate Committee on Finance
July 30, 2014

Chairman Wyden, Ranking Member Hatch, Members of the Committee, thank you for inviting me here to today to testify about the African Growth and Opportunity Act (AGOA).

AGOA has been the cornerstone of America's economic engagement with sub-Saharan Africa over the past fourteen years. And it has had important success in meeting the objectives set by Congress, including increasing trade and investment between the United States and Africa. U.S. imports from AGOA countries have grown from $8.2 billion in 2001 to $26.8 billion in 2013, a threefold increase. Taking out trade in petroleum products, which is mainly driven by factors other than preference program benefits, AGOA trade has increased almost fourfold during the same time period from $1.4 billion in 2001 to $4.9 billion in 2013. In fact, studies comparing AGOA with unilateral preference programs administered by other countries have found that AGOA is more likely to lead to the export of new products in new sectors than other, similar programs.

AGOA's trade benefits and eligibility criteria have also contributed to improving business and investment climates in Africa. U.S. foreign direct investment (FDI) stock in sub-Saharan Africa increased from approximately $9 billion in 2001 to $35 billion in 2012. In the past, most FDI in sub-Saharan Africa was focused on natural resource extraction. However, from 2007 to 2012, the number of new FDI projects focused on natural resources declined, while the number of projects in the services and manufacturing sectors increased. AGOA's trade preferences have contributed to investment from many countries in non-traditional sectors, including in apparel and textiles during the program's earlier years and in more recent years, in the auto sector, value-added agricultural products and footwear, among others. This increase in investment has had a direct effect on jobs. According to the African Coalition on Trade (ACT), AGOA-related investment has resulted in the creation of some 300,000 jobs in sub-Saharan Africa and supported an estimated 117,000 jobs here in the United States.

However, the importance of AGOA cannot be understood solely through the numbers alone. It has to be understood through the impact on people's lives—like the remarkable women in Ethiopia, many of them former sex workers, who weave scarves and tool leather products for a Nashville-based company called "fashionABLE" or many others who have translated the market access under AGOA into a path to a better future.

But there is more work to be done. Utilization of AGOA is low and uneven. For example, the bulk of U.S. imports under AGOA come from a handful of countries—those exporting oil such as Nigeria and Angola and, on the non-oil side, by South Africa which exports luxury automobiles and a range of other products. In addition, although we are starting to see increasing diversification, exports under the program are still fairly concentrated in a few sectors. Finally, while the growth in exports has been impressive over the life of AGOA, in absolute terms the level of exports is extremely low—only $4.9 billion in non-oil exports across 40 eligible countries. We must and can do better.

To this end, at last year's AGOA Forum in Ethiopia, I announced the launch of a comprehensive review of the program to examine its successes over the last 14 years as well as its shortfalls, with the aim of identifying options for its improvement. As we undertook this exercise, we were mindful too that the world has changed since AGOA was first put in place. The Africa of 2000 is not the Africa of 2014. Africa is rising. Six of the ten fastest growing economies in the world are in Africa. The continent is no longer just an important sourcing center for our manufacturers and retailers—it is also a rapidly expanding market for U.S. products. Africa's relationships with its trading partners are also evolving. An increasing number of African countries are moving away from unilateral preferences and entering into reciprocal trading relationships, including with the European Union. As we think about AGOA's future, we need to consider how the U.S.-Africa trade relationship should evolve over time as well.

Over the course of the last year, USTR has engaged in extensive outreach and consultations with stakeholders both here in the United States and in Africa, government officials, business groups, civil society, NGOs, faith groups, think tanks, academics, the multilateral development banks and other international partners, as well as the range of agencies working on U.S.-Africa trade and investment across the U.S. government. We have drawn from this review three main conclusions:

First, tariff preferences alone are not sufficient to spur the kind of transformational change that we want to see. In particular, the utilization issues that we have seen with AGOA stem largely from factors that are not intrinsic to the program itself. African countries face constraints to trade that range from (1) inadequate and high cost infrastructure, particularly in the energy and transportation sectors; (2) burdensome customs procedures and other cross-border barriers impacting Africa's regional and global trade; (3) difficulties complying with agricultural, safety and marketing standards (including sanitary and phytosanitary requirements); (4) limited skilled labor; to (5) low productivity and competitiveness in non-oil, value-added products. These are just some examples of the supply-side constraints that our AGOA-eligible partners face. And, despite growing business interest in Africa, AGOA countries also continue to face difficulties finding buyers in the U.S. market.

For AGOA to reach its full potential, it must be linked to a broader, coordinated trade and development strategy that targets the full range of the supply-side constraints to trade in Africa, creates new markets for African products, harnesses growing private sector interest in trade and investment in Africa, and promotes regional integration and value-added production. This also includes moving forward with implementation of the WTO Trade Facilitation Agreement concluded in Bali last year, which, by OECD estimates, could lower trade costs for developing countries by up to 15 percent if fully implemented.

Second, there are a small number of discreet but important areas in which the AGOA program itself can be updated and improved. This, of course, is the province of the Congress, and it falls to you to examine further whether changes in these areas are warranted. But the findings of our review can be helpful as you consider these issues. For example:

- Length of Extension. Our research suggests that it is important to extend the program, including the third country fabric provisions, for a sufficient period to encourage investment in critical industries in Africa, including in textile production. For example, to vertically integrate in the apparel sector, investors in yarn and fabric production typically look to amortize their capital investments over a period in the range of 10 years. Without an assurance of stable market conditions over this period, investors could be less willing to take the plunge.

- Product coverage: Most AGOA beneficiaries enjoy duty-free treatment for virtually all (97.5 percent) of their products. However, there are 316 tariff lines that continue to lie outside the program, which could provide new market access for AGOA beneficiaries. We believe Congress should consider whether any new products can now be added to the program. Certainly, there is precedent for iterative expansion of AGOA – the program was expanded in 2006, for example, to include several hundred non-apparel textile products. However, most of the products currently excluded have historically been extremely import sensitive. Any consideration of expansion should take into account current domestic sensitivities.
- Rules of Origin: AGOA has some of the most flexible rules of origin of any preference program. There are, however, areas of the program where flexibility has been constrained. For example, there are limits on the "cumulation" of labor costs across all AGOA countries and on the use of U.S. inputs in meeting the requisite "regional value content" rules. Elimination of these limits could provide beneficiary countries important flexibility and also encourage greater integration into regional and U.S.-Africa value chains. We believe all of these options should be examined.
- Eligibility Criteria: AGOA's eligibility criteria have played an important role in raising standards and improving rule of law throughout the continent. However, they have not been updated since AGOA was first launched. They do not account for changes that have occurred since—for example, the rise in use of unwarranted sanitary and phytosanitary (SPS) barriers to block agricultural trade in countries around the world, including Africa. In addition, there have been changes in the definition of "internationally recognized labor rights" in U.S. trade policy. Updating these criteria could be an important way to modernize the program.
- Eligibility Review Processes: AGOA's mechanism for ensuring countries meet eligibility criteria is all-or-nothing. If a country is not meeting the criteria, the only option is total withdrawal of benefits. Moreover, any decision to withdraw must take effect the year following the one in which a decision is made. A more flexible approach, akin to that in GSP, allowing for partial and more immediate withdrawal may allow the Administration to take a more tailored and nimble approach to drive positive changes in beneficiary countries.

We look forward to working with you as you explore these and other issues in the process of moving forward with renewal.

Third, and finally, while the Administration remains firmly committed to securing AGOA renewal, we need to begin working with our African partners to develop a vision of a trade relationship that goes beyond one-way preferences in the mid- to long-term. As I said at the outset, today's world is different from the one when AGOA was first enacted 14 years ago, both in Africa and elsewhere. Importantly, developing countries' share of world trade is growing – having doubled from 16 percent to 32 percent between 1990 and 2010 – and some countries in the developing world are pulling out far ahead of others. These countries at the head of the pack – the emerging economies – have both a growing role in and responsibility for the global trading order. They also have an increased role to play in contributing to the development of their poorer neighbors. Against this backdrop, we need to consider important questions about the way ahead and how different tools – unilateral preference program, reciprocal trade agreements – might evolve to be used with different partners to help us achieve our goals of broad-based economic growth and prosperity. These are important issues and ones that must be decided with a view to strengthening and improving our trade and development ties. I look forward to working with this Committee to take up these issues.

With that, let me thank you again for the invitation to testify today. I am happy to take your questions.

UNITED STATES SENATE
COMMITTEE ON FINANCE HEARING
"The African Growth and Opportunity Act at 14: The Road Ahead"
July 30, 2014
Questions for the Honorable Michael Froman

Questions from Senator Hatch

Question 1:
Ambassador Froman, how would a broader Duty-Free Quota-Free program that extends AGOA-type benefits to all lesser-developed countries impact economic growth in the developing world?

Do you think that Congressional enactment of Duty-Free Quota-Free program might help us achieve an agreement on broader trade liberalization agreement in the World Trade Organization?

Answer:
As you know, in the context of the World Trade Organization, the United States, along with other developed countries, has committed to seek to improve Duty-Free Quota-Free (DFQF) coverage for least developed countries (LDCs). While there may be some benefits in terms of WTO dynamics by extending DFQF coverage, we view the challenges of progressing on Doha market liberalization as complex and multi-dimensional. For example, we are mindful that providing broad DFQF treatment to all LDCs could have consequences for certain U.S. preference beneficiaries, including in sub-Saharan Africa and Haiti, which needs to be carefully considered. Moreover, with recent developments raising questions about the implementation of the Bali package, the future of Doha is again in question. It is therefore difficult to assess with precision at this point the potential benefits of extending DFQF in terms of WTO negotiations.

Question 2:
Ambassador Froman, the South Africa legislature recently passed the Private Security Industry Regulation Amendment Bill. This legislation, if signed by President Zuma, would require foreign security services firms to give up at least 51% of their South African operations to a South African company. I'm concerned this legislation is inconsistent with South Africa's international trade commitments. And I'm particularly concerned because this seems to be part of a larger set of policies South Africa has undertaken to constrain international investment and restrict imports of goods and services. In short, South Africa is discriminating against U.S. companies while it continues to benefit from unilateral U.S. trade preferences.

How can we use the AGOA eligibility criteria to encourage countries like South Africa to increase, rather than impede, trade and investment ties between the United States and Sub-Saharan Africa?

Answer:
USTR is actively engaging South Africa on issues that affect our bilateral trade and investment relationship, including the Private Security Industry Regulation Amendment Bill. USG officials have raised the Private Security Industry Regulation Amendment Bill as well as other issues of

concern with senior South African officials, including with my South African counterpart. We will continue to press South Africa, including in our next U.S.-South Africa Trade and Investment Framework Agreement (TIFA) Council meeting, which is scheduled for this fall.

As you note, AGOA—and its eligibility criteria—also provide an opportunity for addressing issues that hamper trade and undermine development. As I mentioned in my testimony, we are looking forward to working with Congress, as it considers reauthorization of the AGOA program, on updating and modernizing the program, including with respect to the eligibility criteria.

Question 3:
I am very concerned about the state of intellectual property rights protection around the world. I think that, left unchecked, India's harmful intellectual property rights policies will set a model for other developing countries to follow, including countries in Africa. For example, following India's lead, South Africa's Draft Intellectual Property Policy includes a proposal for the inappropriate use of compulsory licensing.

When you testified before the Finance Committee at the beginning of May on the Administration's trade agenda, you assured us that once India's new government was in place, you planned to increase engagement on these issues. In June, I sent you a letter requesting that immediately following the conclusion of your Out of Cycle Review, you inform me in writing what actions are being taken to address these serious problems. As I stated in my letter, I would expect such actions to include the development of a written, meaningful and effective action plan with definite timetables for implementation.

What actions are you taking right now to ensure that India's new government will reverse course and change its policies that undermine U.S. holders of intellectual property rights?

Answer:
This year's Special 301 Report lays out our growing concerns with India's IP environment, and makes clear our intention to give special focus in the coming months to advancing our bilateral engagement on these issues. The new Indian government that just took office provides a unique opportunity to re-engage and work constructively towards progress. We are focusing resources on engagement with India to ensure that we seize and make the most of this critical bilateral opportunity for improved relations on IPR issues. Indeed, in early August, we sent an IPR-focused USTR delegation to India to continue our engagement on these issues. We look forward to continuing to consult with you as we take forward our efforts to promote a stronger IP regime—which we believe will help India meet its own development and growth objectives.

Questions from Senator Brown

Question 1:
Labor standards in Africa need significant improvement. According to International Labor Organization (ILO) estimates, child labor is far from being eradicated in Africa, particularly Sub-Saharan Africa, which has 28.4 percent of all 5-14 year olds involved in economic activity. In

addition, the African Development Bank estimates that 80 percent of Sub-Saharan Africa's labor force is in the informal sector, where workers do not have secure income or benefits. AGOA eligibility requirements include the protection of internationally recognized worker rights but defines these rights in an insufficiently broad manner. Will the Administration support the inclusion of clarifying language in AGOA that requires the elimination of the worst forms of child labor? And will the Administration support changes to AGOA to make explicit that "acceptable conditions of work" includes legally or contractually required pay, such as overtime, bonus and holiday pay, legally or contractually required pension contributions, health care, disability insurance?

Answer:
The Administration strongly supports the promotion of international labor standards among all of our trade partners. AGOA authorizes the President to designate countries to receive AGOA benefits only if they are meeting certain eligibility criteria. Among these are the criteria that beneficiaries have established, or are making continual progress toward establishing the protection of internationally recognized worker rights and the elimination of certain child labor practices. AGOA also provides that a country must implement its commitments to eliminate the worst forms of child labor. USTR, through its leadership of the inter-agency AGOA committee, annually reviews each country against this criteria. The annual interagency review is informed by public comment, agency engagement and regular fact finding by embassies and stakeholders on the ground. When problems are found, we collaborate with the AGOA country through both diplomatic engagement and technical assistance programs to address the issue. If countries do not address our concerns, they risk losing AGOA eligibility—as recently happened with Swaziland based on failure to uphold worker rights, particularly freedom of association. We look forward to working closely with Congress as it considers reauthorization of the AGOA program, including modifications it might make to the eligibility criteria.

Question 2:
According to the ILO, workplace discrimination based on gender, lifestyle, health status, and migrant status is common in Sub-Saharan Africa. Thirty-seven African countries have laws that ban homosexuality, and Uganda and Nigeria notably implemented archaic horrific anti-gay laws just this year. These laws and other forms of discrimination have significant economic consequences and are violations of AGOA eligibility requirements to not engage in gross violations of internationally recognized human rights. To ensure that countries meet all standards in the ILO Declaration of Fundamental Principles and Rights at Work, will the Administration support the addition of an explicit eligibility requirement for AGOA that requires countries to eliminate all forms of discrimination with respect to employment and occupation?

Answer:
As I mentioned in my testimony, AGOA's eligibility criteria have played an important role in raising standards and improving rule of law throughout the continent. However, they have not been updated since AGOA was first launched in 2000. They do not account for changes that have occurred since, including—for example, the rise in use of unwarranted sanitary and phytosanitary (SPS) barriers to block agricultural trade in countries around the world, including Africa, or changes in the way "internationally recognized labor rights" are viewed in U.S. trade policy. Updating these eligibility criteria and processes could be an important way to modernize the program.

Question 3:
Oil imports account for the vast majority of AGOA imports to the U.S., and according to CRS accounted for 77% of AGOA imports in 2013. Half of the 2013 petroleum imports came from Nigeria. You note in your testimony that AGOA exports are "concentrated in a few sectors," such as luxury cars and oil, and indicate the program should be more diverse. Is the Administration considering withdrawing preferences for luxury cars and oil and petroleum products?

Answer:
We do not believe that removing oil or automobiles from AGOA would help to increase utilization in other areas. Rather, as I indicated in my testimony, we believe that a key to unlocking the full potential of AGOA—including helping sub-Saharan countries diversify their exports—is to place the program at the core of a broader, coordinated trade and development strategy that targets the full range of the supply-side constraints to trade in Africa, creates new markets for African products, harnesses growing private sector interest in trade and investment in Africa, and promotes regional integration and value-added production. The Obama Administration is committed to developing such a strategy and to collaborating closely with Congress in that process.

Question 4:
Yarn-forward rules of origin for apparel and textile products is the standard included in nearly all U.S. FTAs but is not included in AGOA. There were nearly $1 billion of textile and apparel products imported under AGOA in 2013, but as a result of the program's third-party fabric provision, less than $100 million could be considered "yarn forward" imports. The third-party fabric provision in AGOA is specifically meant to benefit Lesser Developed Countries (LDCs), but some AGOA countries have expressed interest in expanding the provision to beyond LDCs. I am concerned that expanding the provision would come at the expenses of U.S. textile manufacturers. Is USTR consider expanding AGOA's third-party fabric provision beyond the current countries considered LDCs? Does the Administration believe the third-party fabric provision does enough to encourage and promote the establishment of a strong domestic African textile and apparel manufacturing base? What additional incentives could AGOA implement to ensure African textile and apparel production can eventually meet the "yarn forward" rule-of-origin that is standard in other U.S. FTAs?

Answer:
We are not advocating expanding the "third-country fabric" provision beyond the existing group of countries that benefit from that provision (the AGOA Lesser Developed Beneficiary Countries, or LDBCs). But we do believe that a longer-term extension of all of AGOA's provisions, including the third-country fabric provision, is important to continued trade, development, and economic growth in sub-Saharan Africa. The "third country fabric" provision has been beneficial for AGOA LDBCs, who continue to lack the basic yarn and fabric resources that would enable them to meet a yarn-forward rule of origin. At the same time, we agree that, over the medium- and long-term, it is important to identify ways that beneficiary countries can benefit from greater participation throughout supply chains, including in the production of yarns, textiles, and other input products. We are actively engaged, with African countries as well as other international partners, to identify strategies for helping beneficiary countries achieve this goal. As I mentioned in my testimony, we believe market access provisions, like AGOA, are an

important part of the puzzle, but not the whole answer. To encourage more investment in Africa in industries like yarn and textiles, and the trade that flows from that investment, we need to develop a more comprehensive trade and development strategy, of which AGOA is a central part. We look forward to working with you in formulating that strategy.

Question 5:
I applaud the Administration's work to ensure AGOA trading partners uphold the preference program's eligibility requirements, specifically Madagascar and Swaziland. Given that the Administration withdrew Madagascar's eligibility after a coup in 2009, will the Administration support the inclusion of an explicit democracy eligibility requirement for AGOA?

Answer: AGOA explicitly includes the following eligibility requirement – that a country "has established, or is making continual progress toward establishing . . . the rule of law, political pluralism, and the right to due process, a fair trial, and equal protection of law." We take this eligibility criteria seriously and have used it to press countries to make reforms relating to democracy. Countries that have undemocratic changes in government have been frequently removed from AGOA. Currently, the Central African Republic and Guinea Bissau are out of the program because of coups in those countries. Madagascar's elections and restoration of democracy led to that country's reinstatement in AGOA.

Questions from Senator Menendez

Question 1:
I support your efforts to begin considering how we can move from the unilateral trade preferences under AGOA to reciprocal trade agreements across Africa. Which countries do you believe represent the best prospects for such an arrangement? What criteria do you believe should be examined when considering such a transition?

Answer:
Countries in Africa are at differing levels of development and readiness for a reciprocal relationship. Both considerations are important in charting a way forward. We had some experience trying to negotiate an FTA with the Southern Africa Customs Union (SACU) from 2003-2006, for example, when the countries were not ready for an FTA with us, and that was ultimately not a productive exercise. The landscape is changing in Africa, however, and more countries are moving in that direction, as evidenced by the growing number of African countries that are negotiating and signing reciprocal agreements with other developed country partners. We are closely monitoring these changes and have begun a conversation with our African trading partners about the future of the U.S.-Africa trading relationship. In fact, this was a key agenda item in the 2014 AGOA Forum. I look forward to hearing further views of both the Africans and Congress on this critical question.

Question 2:
I recognize that levels of economic development vary widely across AGOA beneficiaries, but would like to note that some of our FTA partners in Central America have lower GDP per capita than some AGOA beneficiaries. Yet these Central American countries abide by

the full set of reciprocal provisions under CAFTA-DR while AGOA beneficiaries have a different, some would say more lenient, set of obligations. How can we best ensure that our trading partners at similar levels of development enjoy roughly equal access to the U.S. market, afford U.S. companies similar access to their markets, and uphold equally high standards on labor, the environment, and intellectual property? Does the Administration believe that there is a compelling economic or national security interest that would justify providing AGOA beneficiaries with unilateral benefits while requiring Central American countries at similar levels of development to abide by the higher standards of a free trade agreement?

Answer:
Our trading relationships with countries—whether in Africa or Central America— have evolved over time and changed to fit our needs and those of our trading partner countries. As you note, beginning in 2006, five countries in Central America (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua) and one country in the Caribbean (Dominican Republic) moved from unilateral trade preferences under the Caribbean Basin Economic Recovery Act and Caribbean Basin Trade Partnership Act to a reciprocal trading arrangement under the U.S.-Dominican Republic-Central America Free Trade Agreement (CAFTA-DR). However, a number of other countries in the region continue to benefit from those preference programs, such as Trinidad and Tobago, The Bahamas and Barbados.

In Africa, too, we are starting to see some countries beginning to move away from unilateral trading arrangements with developed countries, to more reciprocal arrangements. This is an important trend and one we are monitoring closely. While we believe it is important that we tailor our approach to each trading partner to the unique circumstances of each country, and our interests vis-à-vis that partner, we do believe it is important to begin discussions about how our relationship with our African partners should evolve over time, including the structure and timing of potential reciprocal arrangements. Congress is an important participant in these discussions. And I look forward to working with you in this regard.

Question 3:
I'm glad to hear that you and many of my Senate colleagues recognize that trade capacity building will be a critical part of improving usage of the AGOA program and thereby promoting economic growth in beneficiary countries. This is a critical aspect of economic statecraft, using our economic policy to further our foreign policy goals and vice versa. Aside from the work under Power Africa, does the administration have a coordinated strategy on trade capacity building in Africa? What is the interagency process to determine which projects to pursue and which agencies will be involved? Do we have a similar interagency process to identify constraints to growing trade between the U.S. and our other free trade partners?

Answer:
During the 2014 U.S.-Africa Leaders Summit, President Obama issued a Presidential Memorandum establishing a Steering Group on Africa Trade and Investment Capacity Building and tasking agencies to coordinate and develop a more comprehensive approach to their trade and capacity building activities both across the U.S. Government and with a range of partners. These partners include African governments, the private sector, regional economic communities, and international partners such as the African Development Bank.

Across all regions, USTR closely coordinates with U.S. agencies providing trade capacity building both through institutional mechanisms, such as our position on the boards of MCC and OPIC, and informally to ensure that trade capacity building support takes into account U.S. trade and investment policy objectives.

Question 4:
Ambassador Froman, since I have not yet received a sufficient answer to this question despite asking USTR several times, I feel compelled to ask it again now even though it is unrelated to AGOA. Last year I joined 59 other Senators in a letter to you and Secretary Lew asking the Administration to pursue enforceable disciplines on currency manipulation in trade agreements. A number of studies estimate large U.S. job losses due to currency manipulation by many of our major trading partners, so we in Congress are looking for a robust action plan from the Administration. Furthermore, I understand that USTR has not yet brought up currency manipulation in the TPP negotiations.

- When will USTR answer the Senate letter?
- When will USTR raise currency manipulation in the TPP negotiations?
- Do you agree that the U.S. should seek enforceable disciplines on currency manipulation in trade agreements?

Answer:
USTR and Treasury sent a joint reply on August 1, 2014. Currency remains a top priority for the President and the Administration. Treasury, which has the lead on currency issues, has worked actively in multilateral fora, including the G-7, G-20, and the International Monetary Fund, as well as through bilateral engagement, to address persistent exchange rate misalignments. The Administration has made progress in these fora, and we will continue to press for countries to move to market-determined exchange rates. We share the priority on which Congress places on the issue of currency, and Treasury, in coordination with USTR, will continue to consult with Congress and U.S. stakeholders on how best to achieve our policy objectives in this area.

Questions from Senator Cantwell

Question 1:
Private sector actors have voiced concern in relation to the considerable amount of uncertainty in relation to the duration of AGOA preferences. This trepidation is a result of the eligibility reviews and periodic reauthorizations that hinder investment in sub-Saharan Africa. In response to these concerns, some have suggested longer and uniform reauthorizations in the realm of 10-15 years for all AGOA preferences and more transparency during annual eligibility reviews. In light of these concern how would you restructure the reauthorization process while maintaining AGOA's leverage to encourage economic and political reform in the region?

Answer:
We agree that it is important to extend AGOA for a sufficient period to encourage investment in critical industries in Africa. For example, to vertically integrate in the apparel sector, investors in yarn and fabric production typically look to amortize their capital investments over a period in

the range of 10-12 years. Without an assurance of stable market conditions over this period, investors could be less willing to make significant commitments.

With respect to the question regarding additional transparency in the eligibility review process, we note that the eligibility criteria themselves are clearly set out in statute. Further, the Administration ensures that concerns about meeting eligibility criteria are clearly communicated to the countries involved.

As Congress considers reauthorization of AGOA, we look forward to working with you on ways to enhance certainty and encourage reforms across the region.

Question 2:

There is an emphasis on upgrading AGOA, including eligibility criteria. The role of digital trade is particularly important on the African continent, and US companies like Microsoft are taking an innovative approach to support work in Africa, using unlicensed TV spectrum to connect villages to the Internet. Similarly, training and support for young entrepreneurs, like the Young African Leaders Initiative and the Africa Women's Entrepreneurship Program are approaches that seem to be taking hold. Together as we review the eligibility criteria, it only makes sense to ensure that AGOA helps to create the enabling environment for technology to take hold and to embrace 21st-century solutions. This means the right mix of rule of law, due process and technical support—how do you expect to update AGOA to address these issues?

Answer:

We are committed to bringing AGOA into the 21st century, including by supporting the establishment of an appropriate enabling environment for digital trade and enhancing the ability of African entrepreneurs to participate more effectively in the global economy. As you note, this will require a mix of different kinds of efforts. For example, we will need to continue to work with our African trading partners to improve the regulatory and business environment, consistent with the direction set by Congress through the eligibility criteria. We will also need to continue to deploy—and improve our delivery of—a broad range of technical assistance and trade capacity building support to AGOA eligible countries, including in developing policy reforms supporting greater internet access and supporting programs that support greater mobilization from underrepresented groups like women exporters. For example, USAID is scaling trade hubs in each region of the continent. The African Women's Entrepreneurship Program will be establishing an export promotion program and three AWEP-WECREATE women's business centers in Africa over the next two years to address this need. Finally, we will also need to harness the great, and growing, private sector interest in partnering with the U.S. government and African stakeholders to create new opportunities for trade and investment. This kind of "AGOA Compact" is the centerpiece of the Administrations vision of AGOA in its next phase.

Question 3:

Since AGOA's passage, sub-Saharan Africa GDP growth averaged 5.7%, 2 points higher than the global average and nearly 3 points higher than the region's growth in the previous decade (1990-2000). Despite a high growth rate, many countries in the region have yet to move from a low-skill and export intensive industries to a more diversified manufacturing sector. This has yet to occur due to poor infrastructure, an insufficient supply of skilled labor, and inconsistent access to electricity. Funds totaling $4 billion have been allocated to agencies such as USAID and

MCC to support trade capacity efforts since 2001, but in 2011 GAO released a report urging USAID to reevaluate its trade capacity building program. In this round of reauthorization what type of strategy would you suggest for improving infrastructure and skilled job training in less advanced economies in the region?

Answer:
Inadequate infrastructure, particularly in the energy and transportation sectors, seriously impedes the ability of African firms to participate more fully in regional and global trade and hinders international investment in Africa. Human capacity constraints, including insufficient skilled labor, are also a key impediment, as are inefficient customs and border regimes, lack of technical capacity to meet U.S. food safety and marketing standards, and difficulties generating demand in the U.S. market. The Administration believes that, to unlock the full potential of AGOA, these supply side constraints to trade must be addressed through a coordinated, comprehensive trade and development strategy. We note, in this regard, that on August 4, 2014—at the start of the African Leaders Summit—President Obama signed a Presidential Memorandum establishing a Steering Group on Africa Trade and Investment Capacity Building, comprising representatives of all key U.S. agencies engaged in trade, trade capacity building, and investment activities with sub-Saharan Africa. The Memorandum tasks the agencies to work together to develop such a strategy with clearly stated goals and benchmarks. We will be working, in the coming months, towards this goal, and look forward to close collaboration with you as we do so.

Question 4:
Section 124 of AGOA states the need for the Export-Import Bank to continue to expand its financial commitments to its loan guarantee and insurance programs to African countries and commended the bank's work in the region. If the Export-Import Bank did not exist, how would this impact AGOA and sub-Saharan African countries?

Answer:
The fact that the Export-Import Bank was cited in the AGOA legislation is an indication of its importance to the framers of AGOA as a partner in the implementation of that program. Ex-Im has a range of products and initiatives that are presently supporting greater U.S. trade with and investment in Africa. A number of businesses—large and small—have made it clear that it would be difficult for them to continue to grow and diversify their trade and investment relationship in Africa without the Export-Import Bank.

STATEMENT OF HON. ORRIN G. HATCH, RANKING MEMBER U.S. SENATE COMMITTEE ON FINANCE HEARING OF JULY 30, 2014 THE AFRICAN GROWTH AND OPPORTUNITY ACT AT 14: THE ROAD AHEAD

WASHINGTON – U.S. Senator Orrin Hatch (R-Utah), Ranking Member of the Senate Finance Committee, today issued the following statement regarding the Finance Committee hearing on the African Growth and Opportunity Act:

Thank you, Mr. Chairman, for holding this hearing. And thank you Ambassador Froman, for agreeing to participate.

Before addressing today's topic, I want to discuss our efforts to renew Trade Promotion Authority, or TPA.

In January, I joined with my colleagues in the House and Senate to introduce the Bipartisan Congressional Trade Priorities Act. This bill renews and modernizes TPA.

Shortly after introduction, the Finance Committee held a hearing on the bill. Ambassador Froman, at that time, I wrote to you and formally requested that you appear at our hearing. But, despite the President's call for TPA renewal no one from the administration attended.

At the time, I noted how important it was for the administration to publically and forcefully advocate for Congressional renewal of TPA. Over the next several months, I urged you and others in the administration to be more active in advocating for TPA renewal, making it clear that the legislative window was rapidly closing.

Despite my call for action, and the calls of other Senators on this committee, the administration's efforts have been anemic. As a result, here we are six months later, no closer to considering TPA legislation than we were in January.

Ambassador Froman, I don't have to tell you that, without TPA, the administration lacks Congressional authority to negotiate and conclude trade agreements. And, if the administration chooses to negotiate and conclude a trade agreement such as the Trans-Pacific Partnership, even in principle, without first having TPA, they do so without Congress' authorization.

If this happens, I doubt Congress would grant such an agreement the fast-track procedural benefits associated with TPA. At that point, Congress may simply consider the agreement on its merits under its regular rules and procedures.

Ambassador Froman, the President's trade agenda is at risk. He and his team must do more to lay the groundwork for success, not just with our negotiating partners, but also here at home.

Once again, I have been disappointed with the efforts we've seen thus far. I hope they will improve in the near future.

In the meantime, we have other work to do. The African Growth and Opportunity Act, or AGOA, which was created fourteen years ago, expires next year. This hearing provides an opportunity for us to examine the effects of the law and to discuss how it can be improved.

In many ways, AGOA has been a success.

It serves as the focal point of our trade and investment dialogue with Sub-Saharan Africa. And, through that dialogue, we have advanced our economic relationship.

Still, the full economic potential of that relationship remains untapped.

Despite rapid growth in many regions of Sub-Saharan Africa, our goods exports to the region account for only 1.5 percent of total U.S. exports. Similarly, Sub-Saharan Africa's exports to the United States make up less than 2 percent of our total imports.

Clearly we can do better.

The eligibility criterion of the AGOA statue provides a road map for countries seeking to increase trade and investment, moving us closer to unleashing the true potential of the U.S.-Africa trade relations. While, many countries are demonstrating continued progress in these areas, others continue to adopt policies that distance them from this eligibility criteria.

For example, South Africa is undertaking a number of policies that undermine investor confidence. These include a Draft Intellectual Property Policy that erodes some IP protections and security services legislation that would contravene South Africa's international trade commitments.

Ambassador Froman, you have rightly pointed out that investment needs to be the driver for sustainable development in the region. We need to find ways to encourage adoption of policies that will facilitate, rather than inhibit, U.S. investment, including considering whether countries that are failing to live up to their economic commitments should remain eligible for the full range of AGOA benefits.

A number of other countries, such as Mauritius and Ghana, are moving in a more positive direction.

Should the administration ever receive TPA authority, I would be very interested in hearing its plan for continuing to develop bilateral relationships in Africa, including through new trade agreements.

Finally, I would like to address the length of extension for the AGOA program.

Some argue that long-term renewal of AGOA will help drive growth and investment in the region. I can certainly see the merits of that argument, but I also wonder whether it is *appropriate for us to extend the program for a long period in the absence of a broader discussion of the role of our trade preference programs more generally.*

For example, I would be interested to learn more about how a broader Duty-Free Quota-Free program that extends AGOA-type benefits to all lesser-developed countries would impact growth rates in the developing world. I would also like to hear whether such a program might help us break the deadlock we are currently experiencing in trying to reach a broader trade liberalization agreement in the World Trade Organization.

I also believe that regional integration, another stated goal of the AGOA program, is essential to the development of Sub-Saharan Africa. Right now, a small number of Sub-Saharan African countries are reaping the benefits of AGOA. I will look forward to learning more today about how countries in the region are approaching their commitment to adopt trade facilitation reforms in accordance with the World Trade Organization Trade Facilitation Agreement, which I believe will help regional integration.

I am hopeful that today's hearing with help to spur more dialogue about our trade relationship with Sub-Saharan Africa and that it will help us to better understand what policies are working and where we might be able to improve.

Once again, thank you, Ambassador Froman, for being here today. I look forward to your testimony.

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The United States Senate
COMMITTEE on FINANCE
CHAIRMAN RON WYDEN, D-OREGON
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Wyden Hearing Statement on the African Growth and Opportunity Act

More than fourteen years ago, Congress passed the African Growth and Opportunity Act, known as AGOA. For the first time, the United States established a trade policy specific to sub-Saharan Africa. AGOA was designed by a bipartisan group of lawmakers with the goal of fostering opportunities for African entrepreneurship and strengthening its job-creating trade ties with the U.S. Today, the law allows almost all products from eligible African countries to be imported duty-free. AGOA is a success, and it should be renewed and strengthened in the same way it was established, through bipartisan work and cooperation.

This hearing is particularly timely because African leaders arrive in Washington next week as part of the AGOA forum. Now is also a time to begin to assess how AGOA and other preference programs, like the Generalized System of Preferences, fit into the larger trade puzzle.

Much in sub-Saharan Africa has changed in the 14 years in which AGOA has been implemented. In the wake of the Great Recession, Africa is a bright spot in the global economy. Over the past decade, economic growth in sub-Saharan Africa has bested the world's average growth rate by two percent. In that same time span, six of the world's ten fastest growing economies were in Africa.

There is also clear evidence that AGOA is a success. In 2000, trade between the U.S. and Africa stood at less than $30 billion. It more than tripled over the following decade as exports diversified and grew, supporting job growth in both the U.S. and in Africa. Some of the growth in trade was the increase in West African oil production and exports, which would have occurred with or without AGOA. But even when you take oil out of the equation, AGOA is responsible for significant growth and diversification among African exports.

While AGOA will remain a program that is primarily intended to help Africa chart its own economic course, AGOA benefits America, too. As sub-Saharan African economies have grown, in part because of the program, the region's buying power has gotten stronger. That's good for American exports. There are more than 100,000 red-white and blue American jobs tied to AGOA. American exports to sub-Saharan Africa grew about 250 percent since the program's inception, supporting aerospace, auto, and agriculture jobs at home.
The expiration of AGOA in September 2015 gives this Congress, the administration, and stakeholders a chance to see where the program stands – to examine what works and develop plans to help AGOA adapt to Africa's fast-changing economic landscape.

The evaluation process must start early, which is why the Finance Committee is holding this hearing more than a year before AGOA's expiration date. African apparel producers who benefit from the program often receive orders up to nine months in advance, but they won't receive these orders if there is uncertainty about when AGOA expires. Failing to renew, and perhaps reshape, AGOA in a timely manner could reverse important economic gains made over the last decade and a half, and no one wants that to happen.

Congress should explore ways to improve AGOA to further drive growth in a broader range of African exports. One method to consider is expanding the array of products AGOA covers. Another option is making it easier for producers to draw from a bigger variety of sources in the manufacturing process.

The goal should be for AGOA to help increase the value of Africa's exports and promote growth and diversity in even more African countries. That way, they can better compete with the economic hotbeds in the Asia-Pacific region and around the world.

It's also important to recognize that even with enhancements, AGOA is not a silver bullet for development. It must be part of an overall strategy to increase trade ties, boost investment, and cut burdensome red tape. The administration has recognized this as well, launching programs such as Power Africa and Trade Africa. The Overseas Private Investment Corporation, the Millennium Challenge Corporation, and the Export-Import Bank all play in important role in the United States' comprehensive approach to African development. This committee will do its part by looking for ways to enhance AGOA's impact in the months ahead.

The fact remains that it is Africa, and Africa alone, that holds the power to continue to increase its people's living standards. The best way to accomplish that is to improve governance on the continent. Improving governance, strengthening rule of law, cutting needless and burdensome regulations -- all will help Africa attract investment.

I want to conclude by emphasizing that any "AGOA 2.0" should be crafted in a way that complements efforts by African governments to improve the lives of their people. Fortunately, there are many promising ideas to be heard, and this committee is ready to find ways to put them into practice.

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COMMUNICATIONS

Statement for the Record of the Finance Committee Hearing on the African Growth and Opportunity Act by Paul Ryberg President, African Coalition for Trade

This statement is submitted by the African Coalition for Trade (ACT) for the record of the July 30, 2014 hearing on the African Growth and Opportunity Act (AGOA) before the Senate Finance Committee. ACT is a non-profit trade association of African private sector entities engaged in trade with the United States under the African Growth and Opportunity Act (AGOA). Because our members are actively doing business under AGOA, they have first-hand knowledge of what has worked well and what is necessary to make AGOA continue to succeed in the future. ACT and its members appreciate the opportunity to share with the Finance Committee our views on AGOA.

I. AGOA Has Been a Major Success for Both Africa and the U.S.

The U.S. International Trade Commission (ITC) has conducted an investigation into AGOA and has issued a series of reports on AGOA, one of which has been made public. According to the ITC, U.S. imports under AGOA have increased 132% to $38 billion from the enactment of AGOA in 2000 to 2013. In assessing AGOA's impact, I usually ignore trade in extractive products, particularly petroleum products, because that trade would have occurred even if AGOA had never been enacted. Rather, I prefer to focus on the development of trade in non-extractive products as a better barometer of what AGOA has achieved. According to the ITC, non-extractive imports from Africa have increased by 94% since 2000, reaching $6 billion in 2013. Among the non-extractive products, the major success stories have been:

Agricultural products: up 356% to $342 million;
Motor vehicles: up 1,239% to $2.0 billion; and
Apparel: up 16% to $907 million.

Following the expiration of the Multi-Fiber Arrangement in 2005 a 50% drop of apparel exports from Africa to the US was noted for the period 2005-2010. Since 2010, however, apparel trade has begun to recover, increasing by 18% from $789 million in 2010 to $907 in 2013.

Footwear imports are also up significantly, but from a very low base.

AGOA's trade benefits have been widespread. According to the ITC, 25 of the 38 AGOA beneficiaries that were eligible for duty-free treatment in 2013 actually took advantage of AGOA and exported to the U.S. Literally hundreds of thousands of direct jobs and millions of indirect jobs have been created in Africa by AGOA. And 14 of those countries each exported more than $10 million worth of non-extractive products to the United States in 2013. While South Africa is the largest exporter of non-extractive products to the United States, with 2013 non-extractive exports of $2.6 billion, other leading exporters of non-extractive products are: Cote d'Ivoire $1.0 billion; Nigeria $942 million; Kenya $337 million; Lesotho $321 million; Mauritius $188 million; Congo (ROC) $145 million; Ethiopia $32 million; Cameroon $36 million; Swaziland $54 million; Uganda $46 million; Malawi $47 million; Gabon $17 million; and Tanzania $10 million.

Much has been made recently of the fact that AGOA is a unilateral trade preference program, not a reciprocal trade arrangement. In fact, the benefits of increased trade under AGOA are already a two-way street. During 2000-13, U.S. exports to Africa grew by 288% from $5.6 billion to $21.7 billon. Although the U.S. still imports more from Africa ($38 billion) than it exports to Africa ($22 billion), U.S. exports to Africa have increased by more than twice as much since AGOA was enacted as have African exports to the U.S. In short, the U.S. is already benefiting from the two-way trade being spurred by AGOA, and literally tens of thousands of U.S. jobs are dependent upon AGOA trade.

Against this backdrop, it is clear that AGOA has worked and is a success story. Nonetheless, we must ask whether it is possible to improve AGOA, and if so, what improvements would be practical.

II. ACT's Recommendations for AGOA Renewal.

1. AGOA Should Be Extended for a Sustainably Long Period.

Since its enactment in 2000, AGOA has been renewed several times, but for only short periods, typically five years or less. But major capital investments usually require 10-15 years to be fully amortized. AGOA's short time horizon has made it difficult, therefore, to attract major investments and has restricted the scope of economic development under AGOA to those sectors that do not require significant capital investment. We recommend that AGOA should be renewed for not less than 15 years to provide the stability and certainty that investors require and, thereby, to broaden the scope of economic development fueled by AGOA.

Some have suggested that a long-term renewal of AGOA could be counterproductive, as it might make it more difficult for the U.S. to negotiate reciprocal free trade agreements with AGOA countries. But in fact experience is to the contrary. The Caribbean Basin Initiative (CBI) program, which is the most similar to AGOA among other U.S. trade preference programs, is permanent, yet the U.S. has been able to negotiate reciprocal FTAs with every CBI beneficiary it so desired, specifically, DR-CAFTA and the Panama FTA. No CBI country has ever declined the opportunity to negotiate an FTA with the U.S. even though they enjoy permanent non-reciprocal trade privileges under the CBI program.

A group of U.S. agricultural trade associations calling itself the "AGOA Agriculture Coalition" has expressed opposition to long-term renewal of AGOA, arguing that certain AGOA countries allegedly maintain unfair and/or WTO-incompatible barriers to U.S. agricultural exports. But in 2013, the U.S. exported many times more in agricultural products to Africa ($2.5 billion) than it imported from the AGOA countries ($356 million). In other words, the U.S. has a positive trade balance in agricultural products with the AGOA countries, and U.S. agricultural to the AGOA countries are growing rapidly.

But a positive and growing trade surplus in agricultural products certainly does not excuse unfair trade barriers to U.S. products. The good news is that an appropriate remedy is already available to address such concerns. Specifically, the AGOA conditions of eligibility have always provided that AGOA beneficiaries must not discriminate against U.S. exports and investments. (*See* AGOA Section 104(a)(1)(c).) Accordingly, anyone who believes that an AGOA country is maintaining inappropriate trade barriers is entitled to challenge the AGOA eligibility of the offending country. But opposing the long-term renewal of AGOA punishes the innocent along with the allegedly guilty and only discourages investment in Africa.

2. The Importance of Timely Action To Renew AGOA.

Experience has taught that delay in renewing AGOA causes uncertainty and results in job losses in both Africa and the United States. Specifically, although Congress renewed the AGOA third-country fabric provision in August 2012, just before its scheduled expiration in September 2012, the delay until the eleventh hour caused uncertainty and forced U.S. importers to shift orders out of Africa, costing tens of thousands of jobs in Africa. It took a full year for the apparel trade to recover from the uncertainty caused by the delay in renewing the third-country fabric provision. U.S. apparel importers are already warning that they will be forced to shift orders out of Africa if AGOA has not been renewed by the end of 2014. Accordingly, it is imperative that Congress must renew AGOA well before the end of 2014.

3. The Third-Country Fabric Rule of Origin Should Be Extended for the Full Term of AGOA.

The most important AGOA rule of origin is the so-called third-country fabric rule, which allows less developed AGOA beneficiaries to use yarns and fabrics from any origin. The third-country fabric rule accounts for more than 90% of AGOA apparel trade. It is absolutely essential to the survival of the AGOA apparel industry that the third-country fabric provision should be extended for the full term by which AGOA is extended, *i.e.*, not less than 15 years.

A recent study by the Peterson Institute suggested that the third-country fabric provision has somehow discouraged the use of local African fabric and, thereby, has stunted the development of the upstream textile sector in Africa. This is an interesting academic hypothesis, but it is bears no relationship to the real world. First, textile manufacturing requires major capital investments, typically more than $100 million per plant. But as previously mentioned, AGOA's short time horizons up to this point have discouraged investments of this magnitude. This history of short-term authorizations of AGOA is much more responsible for the relative lack of upstream investment than is the third-country fabric rule.

Second, the Peterson study fails to take into account the fact that the U.S. apparel importer typically specifies the yarns and fabrics to be used and the source from which they must be obtained. Because they are placing orders with apparel producers around the globe, they insist that all their orders must be manufactured using the same yarns and fabrics obtained from the same suppliers. The third-country fabric rule provides the flexibility necessary for African apparel producers to compete.

4. Canned Tuna Rule of Origin.

One area where a change to the AGOA rules of origin would be useful concerns canned tuna. Africa has a small but successful canned tuna industry that currently exports mostly to Europe. It is almost impossible, however, for tuna canned in Africa to meet the AGOA 35% value-added rule of origin. This is because the value of the tuna itself typically greatly exceeds 50% of the final value of the canned tuna. The processing and canning in Africa simply cannot meet the 35% value-added requirement. But the origin of the tuna is determined by the flag of the vessel that caught the fish, rather than the nation where the fish is processed and canned. Unfortunately, there are very few commercial tuna fishing boats registered in Africa.

Changing the AGOA rule of origin to allow the use of tuna that is caught by non-African fishing boats, but is canned in Africa would create trade opportunities and jobs in Africa. This could be accomplished either by creating a special rule of origin for canned tuna under AGOA, such as a simple "tariff shift" standard, or by a special derogation allowing duty-free treatment for a limited volume of "non-originating" tuna

5. Regional Integration and "Graduation."

Some have suggested that more advanced AGOA beneficiaries should be "graduated" from AGOA eligibility. As noted above, the CBI program is similar to AGOA, but it does not require graduation of beneficiaries even though the CBI is of permanent duration.

Even more troubling, graduation proposals could seriously undermine efforts to achieve greater regional integration. The countries under consideration for "graduation" are relatively more economically developed and, therefore, tend to be the hubs upon which the less developed neighboring countries are especially dependent. Removing these "hub" countries from AGOA would disrupt both regional integration and economic development of neighboring countries in the region.

Accordingly, we recommend that any proposal to "graduate" countries from AGOA should include rules of origin that provide that remaining AGOA beneficiaries will continue to be able to "cumulate" with the graduated countries in satisfying AGOA rules of origin. In addition, it is important that any such "graduation" should lead to an FTA with rules of origin comparable to those of AGOA, including the third-country fabric rule.

6. Adding Excluded Agricultural Products.

It has also been suggested by some that AGOA could be improved by adding excluded agricultural products. This proposal requires careful consideration because it could be counterproductive.

Only a handful of agricultural products are excluded from duty-free eligibility under AGOA. Most of these products are excluded because they are considered to be sensitive products and, therefore, are subject to U.S. tariff rate quotas (TRQs). It could complicate the legislative process of renewing AGOA to seek to add these sensitive products to duty-free eligibility. Before undertaking that risk, there should be careful analysis of whether Africa would actually benefit from adding each excluded product to AGOA.

Sugar is a good example. Traditionally, the U.S. market has been attractive for exports because of the remunerative price maintained by the U.S. sugar program. But since Mexico obtained unlimited access to the United States under NAFTA, the U.S. market has been seriously oversupplied, and the price has collapsed. As a result, the U.S. market is no longer so attractive for many exporters. This can be seen in the fact that 10 African countries hold allocations under the U.S. TRQ on raw sugar, but only three of them regularly ship sugar to the United States.

One has to question whether it makes economic sense to add more imports to an already-oversupplied market. The likely outcome of adding sugar to AGOA would seem to be to drive the price even lower, which in turn would make the U.S. market even less attractive. There is a serious risk that the U.S. sugar program might be overwhelmed by such additional imports. Without the sugar program, the U.S. market price would likely fall to a level below the cost of production in most if not all AGOA countries. There are legitimate questions, therefore, whether Africa would actually benefit from adding sugar to AGOA.

Beef is another excluded agricultural product. Many countries in Africa produce beef, but none of them is even close to being able to satisfy the U.S. food safety requirements because foot and mouth disease is rampant in most of Africa. So we must ask whether it is worth the political capital to try to add beef to AGOA if, at the end of the day, exports are impossible because of food safety problems.

Cotton is another example. Of course, Africa is a major producer and exporter of cotton. But the United States is more than self-sufficient in cotton and exports large volumes of cotton. While the United States does import small volumes of cotton, for the most part such imports are limited only to those types of cotton that are not produced here. But the cotton produced in Africa is of the same types that are grown in the United

States. So in practice, there are legitimate questions whether African cotton could be exported to the United States even if it were included in AGOA.

In short, adding excluded agricultural products to AGOA is certainly not a panacea, and may not even represent an improvement to AGOA. To date, the calls to add excluded agricultural products to AGOA have been rhetorical rather than analytical. What is needed at this point is not rhetoric, but serious and detailed analysis to determine whether Africa would actually benefit from adding the excluded products.

III. Conclusion.

In closing, the members of ACT who actually do business under AGOA believe it is working well. They do not see a need for major changes. Rather, their strongest concern is that AGOA should be extended for at least 15 years, and that this extension should be concluded before the end of 2014.

Respectfully submitted,

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July 30, 2014

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Statement of Jaswinder Bedi

Chairman of the African Cotton and Textile Industries Federation

This statement is submitted for the record of the Senate Finance Committee's July 30, 2014 hearing on the African Growth and Opportunity Act (AGOA) on behalf of the African Cotton and Textile Industries Federation (ACTIF), which is a trade association whose members come from the cotton, textile and/or apparel industries in 24 countries from all regions of Africa. Based in Nairobi, Kenya, ACTIF is the only pan-African organization that represents the full cotton-textile-apparel value chain.

In addition to serving as Chairman of ACTIF, I am also the owner of a vertically integrated manufacturer of textiles and apparel in Kenya. My company is one of the largest textile and apparel producers in Kenya, and we export to the United States under AGOA. So I will also be speaking from my own personal hands-on experience in manufacturing and exporting under AGOA.

ACTIF has prepared a White Paper on renewal of AGOA. I am submitting a copy of the full ACTIF White Paper for the record, and this statement summarizes the key points from the White Paper.

A. AGOA Has Been Hugely Successful.

From our perspective in the African textile and apparel sector, AGOA has been very successful. While AGOA can no doubt be improved, we believe it is critical that Congress act quickly to renew the current AGOA well in advance of its September 30, 2015 expiration.

During its first five years (2000-2004), AGOA had a transformative effect on the African textile and apparel sector, where an estimated 352,000 new direct jobs and perhaps twice that number of indirect jobs in support sectors were created as a new industry was developed across Africa. U.S. apparel imports from Africa almost tripled 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.

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 WTO 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 from a 2004 high of $1.8 billion to just $789 million in 2010.

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, to enhance the competitiveness of the African textile and apparel industry. In response to these initiatives, by 2012 U.S. apparel imports from Africa had begun to stabilize. Following the renewal in August 2012 of the critical AGOA third-country fabric provision, there is reason for optimism that the African apparel industry created by AGOA might prosper once again.

But to achieve this result and save the estimated 352,000 apparel sector jobs that are dependent upon AGOA, it is essential that Congress act promptly to extend AGOA well in advance of its September 30, 2015 expiration.

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

1. Investors Require Stability and Predictability.

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 just over a year on September 30, 2015. The previous short-term renewals have 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 10-15 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, I strongly recommend that AGOA should be renewed for at least 15 years so that we can attract major new investments to the textile sector in Africa.

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

Without question, the most important rule of origin under AGOA is the so-called "third-country fabric" rule of origin, which allows apparel manufacturers in less developed country (LDC) AGOA beneficiaries to utilize yarns and fabrics from any origin. More than 95% of AGOA apparel imports are under the third-country fabric rule of 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.

From the perspective of the African textile and apparel industry, we do not believe any changes to the AGOA rules of origin are necessary, other than the extension of the third-country fabric rule of origin.

3. 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 was set to expire 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.

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

Since its original enactment in 2000, AGOA has encouraged the U.S. Administration to negotiate free trade agreements (FTAs) with AGOA countries as appropriate. Thirteen years later, the United States still has no FTAs with Africa. ACTIF believes the time has come for new FTA negotiations between AGOA countries and the United States. In order to reinforce ongoing efforts to encourage regional integration, ACTIF believes such FTAs should be negotiated with existing African Regional Economic Communities (RECs).

There has been considerable discussion of the possibility of "graduating" more advanced AGOA beneficiaries. The closest analogue to AGOA is the Caribbean Basin Initiative (CBI) program, which extended trade preferences to the nations of the Caribbean and Central America. The CBI program is permanent, but it does not provide for graduation of more advanced beneficiaries. Instead, when the United States considered it to be appropriate, it negotiated FTAs with specific CBI countries, which produced the DR/CAFTA agreement and the Panama FTA. This is the more appropriate model to follow, rather than any mandatory graduation requirement.

Accordingly, ACTIF recommends that no country should be graduated out of AGOA without first being given the opportunity to negotiate a free trade agreement on terms substantially the same as those of AGOA. In addition, in order to avoid the risk of undermining regional integration, it is critical that the AGOA rules of origin allow continued cumulation between current and graduated beneficiaries, if any. Moreover, the negotiation of FTAs should be with existing RECs whenever possible.

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 instruct USAID to expand the activities of the five African Competitiveness Hubs to include more assistance aimed at attracting U.S. apparel buyers to Africa.

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 be seriously undermined. But prompt renewal of AGOA on the terms suggested herein will 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 submitted,

Jaswinder Bedi
Chairman

July 30th 2014

African Cotton & Textile Industries Federation

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August 1, 2014

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 (10-15 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 352,000 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), a 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. And this is reflected in the recovery of apparel exports in 2013.

Country	2012 Imports ($ million)	2013 Imports ($ million)	% Growth 2012-2013
Botswana	$10.6	$5.9	-44.8%
Ethiopia	$10.2	$10.4	1.5%
Kenya	$254.2	$308.6	21.4%
Lesotho	$300.9	$321.3	6.8%
Madagascar	$41.2	$20.3	-50.8%
Malawi	$5.7	$8.4	47.1%
Mauritius	$162.8	$191.2	17.5%
South Africa	$6.1	$5.8	-4.8%
Swaziland	$59.9	$49.8	-16.9%
Tanzania	$7.5	$10.4	38.0%
Rest of Africa	$5.0	$4.8	-4.4%
Total	**$864.2**	**$936.7**	**8.4%**

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

In the meantime, several countries, including Kenya, Ethiopia, Rwanda, Uganda, Burundi, Tanzania, Lesotho and Madagascar have developed or are in the process of developing national AGOA strategies to facilitate the development and expansion of duty free exports to U.S. market under various sectors, including apparel. The Governments of these countries are fast tracking developing in infrastructure, logistics and affordable power supply. Several new investments in the textile and apparel sector in these countries worth over US$ 535 Million dollars have been committed, resulting in creating over 52,000 new jobs.

But to solidify this budding recovery and save the estimated 352,000 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 a year 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 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 years but not less than ten years.

3. 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.

4. 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.

5. 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).

At the same time, some are proposing that more advanced AGOA beneficiaries should be "graduated" from AGOA eligibility. Because by its nature, such graduation would remove the more successful economies from AGOA, there is a serious risk that it could undermine regional integration and, therefore, have the unintended effect of compromising development in the lesser developed countries whose economies are linked to and dependent upon their more more developed neighbors.

The closest analogue to AGOA is the Caribbean Basin Initiative (CBI) program, which extended trade preferences to the nations of the Caribbean and Central America. The CBI program is permanent, but it does not provide for graduation of more advanced beneficiaries. Instead, when the United States considered it to be appropriate, it negotiated FTAs with specific CBI countries, which produced the DR/CAFTA agreement and the Panama FTA. This is the more appropriate model to follow, rather than any mandatory graduation requirement.

Accordingly, ACTIF recommends that no country should be graduated out of AGOA without first being given the opportunity to negotiate a free trade agreement on terms substantially the same as those of AGOA. In addition, in order to avoid the risk of undermining regional integration, it is critical that the AGOA rules of origin allow continued cumulation between current and graduated beneficiaries, if any. Moreover, the negotiation of FTAs should be with existing RECs whenever possible.

6. 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 to expand the activities of the five African Competitiveness Hubs to include more assistance aimed at attracting U.S. apparel buyers to Africa.

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

August 1, 2014

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AMERICAN SUGAR ALLIANCE

SUBMISSION TO THE SENATE FINANCE COMMITEE

HEARING ON THE AFRICAN GROWTH AND OPPORTUNITY ACT AT 14: THE ROAD AHEAD

SUBMITTED FOR THE RECORD JULY 30, 2014

The American Sugar Alliance (ASA) appreciates the opportunity to submit these comments for the record of the Senate Finance Committee's July 30, 2014, hearing on the African Growth and Opportunity Act (AGOA). The ASA is the national coalition of growers, processors, and refiners of sugarbeets and sugarcane. As AGOA will expire in 2015, we understand that the Committee will be considering legislation to extend AGOA beyond that date.

Recognizing the sensitivity of the U.S. sugar market, sugar and SCP's covered by TRQ's (tariff rate quotas) have been excluded from AGOA since its inception. Careful analysis will show that this exclusion should continue.

The domestic cane and beet sugar industry serves two critically important roles for our nation. First, we supply American consumers with a safe, reliable, and affordable source of an essential ingredient in our nation's food supply and enhance the nation's food security in the process. Sugar is used as a natural sweetener, preservative and bulking agent in 70% of our food manufacturing. Second, the U.S. sugar industry provides for 142,000 jobs across America and generates over $19 billion annually to the U.S. economy. Many of the jobs and businesses are in highly vulnerable rural areas.

The U.S. sugar industry is among the most efficient in the world. According to LMC International, the U.S. is the 20th lowest cost of the 95 countries it studied. American sugarbeet growers are the lowest-cost beet sugar producers in the world.

Nonetheless, between 1985 and 2010 our industry had to close 54 facilities – more than half of all U.S. sugar operations. In addition, growers took on substantial debt to purchase their beet and cane processing operations in order to avoid further closures. Further consolidation would threaten the nation's food security by crippling the domestic industry's ability to provide a safe and reliable supply of sugar, carefully tailored to the complex needs of U.S. food manufacturers and consumers, and cause further distress in many hard-pressed rural areas.

In order to operate the current sugar policy at no cost to the taxpayer, as Congress intended, supply and demand must be delicately balanced. Thus, our overriding objective in considering AGOA and other U.S. preference programs, as well the various trade negotiations underway, is to ensure that they do not undermine the effective operation of U.S. sugar policy. While this policy has served U.S. farmers, processors, taxpayers, and consumers well for decades, the flood of subsidized sugar imports from Mexico resulting from concessions granted in NAFTA has, in recent years, made its operation much more difficult and last year prevented attainment of the no-cost goal. Further import commitments in AGOA or the various trade negotiations underway would only serve to exacerbate these problems.

U.S. Sugar Policy, Industry: Current Situation

While both U.S. and world market sugar prices were at uncharacteristically high levels in 2010 and 2011, this situation has changed dramatically over the past two years, especially in the U.S. where sugar prices plummeted more than 50 percent. In fact, when transport costs are taken into account, U.S. prices were actually below world prices throughout much of 2013.

This situation is much more consistent with the history of the U.S. sugar market than the higher prices experienced in a few recent years. Charts 1 and 2, which show the evolution of U.S. raw and refined prices since 1997, as well as this recent downward trend, show that typically both raw and refined prices have hovered about, or plunged below, the forfeiture range – i.e., the price range at which forfeiture of sugar to the government becomes more attractive than redeeming loans from USDA. Recent prices are also in line with the initial, and widespread, expectations as to the effects of completely opening the U.S. market to Mexican sugar imports in 2008.

The U.S. market has been awash in sugar over the past year. This unfortunate situation resulted almost entirely from the flood of Mexican sugar entering the U.S. market in 2012/13 – over 2.1 million short tons (about 1.93 million metric tons). As a result USDA was forced to take various actions to remove more than 1 million short tons of surplus sugar from the market. These actions, outlined in Table 1, cost the U.S. government $278 million in 2012/13.

Mexican sugar exports to the U.S. have continued to run at very high levels through the first nine months of this crop year. October-June 2013/14 U.S. sugar imports from Mexico were 27% ahead of last year's record pace.

Given the continuing material injury to domestic farmers and processors and convincing evidence that the Mexican exports are being dumped on the U.S. market are benefiting from substantial government subsidies, the U.S. sugar industry filed anti-dumping and countervailing duty petitions against Mexican sugar in March 2014. The USITC made affirmative preliminary injury determinations in those cases in April and the Department of Commerce is scheduled to make a preliminary determination of subsidy at the end of August and a preliminary determination of dumping in September.

In order to assess properly the oversupply situation in the U.S. market, the combined U.S. and Mexican supply and demand picture must be consulted. Current supply-demand estimates in Chart 3 show that this <u>combined</u> market moved markedly into the more typical condition of surplus in 2012/13. Combined U.S.-Mexican sugar production, plus U.S. import commitments resulting from trade agreements, exceeded sugar consumption in the two markets in that year by 1.9 million metric tons; regional surpluses are forecast for this year and next.

Chart 4 shows the evolution of the world sugar market prices over four decades. It reveals some spectacular spikes, but overall a chronically depressed market.

Chart 5 shows that the world average cost of production has averaged 50% more than the so-called world price since 1989. This "dump market" results from the practice, prevalent among sugar exporting countries, of maintaining their domestic prices at levels well above world market prices or otherwise subsidizing sugar producers and dumping their surplus onto the world market.

Chart 6 shows that average wholesale refined sugar prices in major consuming countries, as compiled by the International Sugar Organization, are nearly 50% above the world price, and well above current U.S. prices.

Many of the exporting countries have preferential arrangements that enable them to sell a substantial portion of their production at more remunerative prices to the U.S., EU, and other markets. Thus, the world market becomes very much a residual, or dump, market.

Though U.S. and world prices (corrected for transportation to the U.S.) have recently been about the same, the U.S. will almost certainly remain an attractive market to foreign sugar exporters in the future – one to which they are likely to direct as much of their production as is possible.

The Impact of Existing Trade Policy Commitments

The United States is the world's largest importer of sugar. As a result of market access commitments already entered into by our government in the WTO, NAFTA, CAFTA/DR, and Colombia, Panama, and Peru FTA's, imports now account for about 30% of U.S. sugar consumption and present a chronic threat of over-supplying the U.S. market.

Demands for additional sugar market access commitments are being made in our current FTA negotiations – the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP). If TPP expands (as expected) to include other countries in the Asia-Pacific region (such as major sugar producers Thailand and the Philippines), these demands will likely accelerate. U.S. sugar policy – and our industry – cannot survive in the face of continuing piecemeal giveaways of our market.

The fact that, since January 1, 2008, all constraints on imports from Mexico have been removed has introduced a large element of uncertainty and potential instability into the U.S. market. As depicted in Chart 7, imports of sugar from Mexico have risen sharply since 2008, averaging 1.3 million metric tons over the past five years, reaching an extraordinary level of 1.93 million metric tons in the 2012/13 crop year (despite the fact that Mexican sugar prices were substantially higher than those in the U.S. over much of this period). The forecast for 2013/14 is 1.81 million tons, well in excess of U.S. market needs.

Several factors suggest that Mexican exports will continue to disrupt the U.S. market in the coming years:

- The dramatic increase in HFCS use by the Mexican food industry, especially the beverage industry, replacing domestic sugar and making more sugar available for export. HFCS consumption has risen from 653,000 metric tons to 1.4 million tons since 2008/09 and now accounts for about 70% of sweetener use in their beverage industry, and could go higher.

- The recent introduction of soda and "junk food" taxes in Mexico will likely reduce sugar consumption in that country, making still more sugar available for export to the U.S.

- Mexican sugar production, which reached a record level of 7.4 million metric tons, raw value, this past year, far above the levels of the previous 5 years, is expected to be at a very high level in 2013/14 (6.4 million metric tons) and, despite the drop in price, area has increased again this year, by 6%. Since U.S.-Mexican free trade in sugar began in 2007/08, Mexican cane area has risen by 20%. U.S. combined beet and cane area has declined by 5% since that time.

  These high Mexican sugar production levels could well prove to be the norm, whenever weather conditions are favorable.

- Finally, even if Mexican production falls below recent levels, Mexico may import sugar and maintain high levels of sugar exports to the U.S. They have, in fact, imported sugar for domestic use nearly every year since 2008 despite having a large exportable surplus. Imports for domestic use totaling more than 1 million metric tons of sugar since 2007/08 have facilitated record exports to the U.S. USDA now estimates that this practice will resume in the 2014/15 crop year, predicting Mexican imports for domestic use of 230,000 metric tons of sugar. The result of such imports is to create an artificial surplus which can be exported to the U.S. The possibility of such "substitution" of foreign sugar for Mexican sugar greatly increases the uncertainty surrounding Mexico's sugar exports to the U.S. and raises serious questions about this practice under NAFTA.

It should be pointed out that Mexican sugar production is heavily subsidized by the Mexican government. Less than ten years ago, the Mexican government owned mills accounted for 50% of sugar production. Currently, government ownership still accounts for about 20% of production. The historical experience makes clear that the Mexican government will intervene to prevent any loss of production capacity.

We would also point out that in years when additional sugar supplies are needed to meet U.S. domestic demand, this need can be met by increasing existing TRQ's. Table 2 shows that this has indeed been the case with TRQ increases (above the minimum required by WTO) totaling 2.2 million short tons since 2007/08.

Under the circumstances described above, expanding AGOA to provide duty-free import treatment on sugar imports or making any additional trade concessions in our trade negotiations would, barring major, unfavorable weather events in the U.S. or Mexico, create an unacceptable risk of generating loan forfeitures and/or triggering the Farm Bill provision that requires that USDA facilitate the conversion of surplus sugar in the U.S. market into ethanol or other nonfood uses. The elimination of tariffs on sugar and sugar-containing products (SCP's) imported from the AGOA countries would, as discussed below, greatly heighten this risk and would very likely translate directly into substantial federal government expenditures – a most unwelcome result given the current budget situation.

Potential Impact of Providing Duty-Free Treatment for AGOA Sugar Imports

As Table 3 indicates, the countries included in AGOA produce nearly 7 million metric tons of sugar and export about 2 million metric tons. Moreover, many of these countries are planning substantial expansion of sugar production. While this expansion appears currently aimed at supplying domestic and regional needs as well as those of the EU, the granting of duty-free access for sugar under AGOA would tend to redirect a large portion of this export capacity toward the U.S. market – and could well encourage further expansion.

The U.S. already provides AGOA countries allocations for import of at least 98,000 metric tons of sugar per year under the TRQ established in the WTO.

Potential European Sugar Production Expansion. It should also be noted that the ability of the EU to absorb additional sugar from the AGOA countries is problematic given that many observers believe that the elimination of EU sugar and isoglucose (HFCS) production quotas in 2017 could make the EU once again a net sugar exporter.

Substitution Problems. We should also anticipate strenuous efforts, difficult to monitor, to transship sugar from subsidized non-AGOA exporters such as India or Brazil and/or to substitute such imported foreign sugar for domestic consumption and thereby free up domestic production for export. Once sugar is sold to a trade house, the seller has little, if any, control over the sugar's final destination. As noted earlier, substitution has occurred with regard to Mexican sugar exports to the United States.

Thus, the granting of duty-free treatment for AGOA sugar exports would likely result in the flooding of the U.S. market with hundreds of thousands, perhaps even a million or more tons of sugar from these countries.

As has been made clear in the previous discussion, the U.S. sugar market is in no position to absorb such quantities. In combination with the commitments already made in the WTO, NAFTA, and other trade agreements – in particular, completely unfettered exports from Mexico – the granting of additional, duty-free access to AGOA imports would jeopardize the effective operation of U.S. sugar policy and would likely make it impossible to comply with the no-cost objective set by Congress in the farm bill.

If U.S. sugar policy were to collapse under the weight of unneeded imports, further consolidation of domestic beet and cane production would almost certainly result, putting domestic industrial sugar users and individual consumers at much greater risk for obtaining reliable supplies. The United States would have to shift its source of a vital food ingredient from American growers to less dependable, often highly subsidized, foreign producers.

Impact on Traditional Foreign Suppliers

It should also be pointed out that the collapse of U.S. sugar policy and/or the depression of U.S. sugar prices would seriously damage the interests of the many developing countries whose sugar exports benefit from the TRQ's established under the WTO and it would significantly diminish the value of concessions on sugar granted to our existing FTA partners. Thirty-eight of the United States' 40 traditional suppliers are developing countries.

The importance of maintaining a viable U.S. sugar policy is clearly recognized by most of these traditional supplying countries, which have repeatedly made clear to Congress and the Administration their strong support of existing U.S. sugar policy and their concerns that further trade concessions on sugar could jeopardize this program.

CONCLUSION

We believe that a careful examination of the U.S. sugar market situation and the requirements of U.S. domestic sugar policy will show that duty-free access for sugar and SCP's (or indeed any additional market access commitments for these products) imported from the AGOA countries would severely damage the U.S. industry, generate large government expenditures, and make the U.S. domestic sugar policy unworkable.

In order to avoid imposing further burdens on the effective operation of U.S. sugar policy, sugar and all sugar-containing products covered by the sugar TRQ's should continue to be excluded from AGOA.

Table 1

USDA actions to remove sugar from U.S. market, 2012/13 and 2013/14

Sugar Removed	-Short tons, raw value-
2012/13	
Import credits retired via re-export and FTA swaps[1]	607,847
Sold for ethanol (FFP)[2]	143,144
2012/13 total	750,991
2013/14	
Forfeited sugar sold for ethanol (FFP)[3]	216,750
Forfeited sugar sold for other nonfood uses[4]	79,750
2013/14 total	296,500
Total sugar removed	**1,047,491**

U.S. sugar policy costs/revenues, 2012/13 and 2013/14

	-Million dollars-
2012/13 costs	
Purchases of sugar under loan for re-export swaps[1]	$50.7
Purchases of sugar under loan for ethanol (FFP)[2]	$56.0
Forfeitures	$171.5
Total	$278.2
2013/14 revenues	
Forfeited sugar sold for ethanol (FFP)[3]	$11.3
Forfeited sugar sold for other nonfood uses[4]	$8.2
2013/14 total	$19.5

[1]July 11 and 31, sugar under loan purchased and swapped; September 19 and 26, forfeited sugar swapped. Re-export import credits or Colombia Free Trade Agreement (FTA) import access retired. Some of the retired re-export import credits possibly not used until 2013/14 or 2014/15.

[2]August 30 and September 30, sugar under loan purchased and sold for ethanol under the Feedstock Flexibility Program (FFP).

[3]November 26, forfeited sugar sold under FFP.

[4]December 13, forefited sugar sold for bee and animal feed.

ASA/1-28-14

Table 2

Twelve Post-April-1 Sugar TRQ Increases Since Start of 2008 Farm Bill (short tons, raw value)

-- In addition to WTO and FTA minimum imports of about 1.5 million tons --

	Date	Raw Sugar	Refined Sugar	Specialty Sugar	Total
Fiscal Year					
2008/09	8/6/2008		300,000		300,000
	9/22/2008			80,000	80,000
					380,000
2009/10	10/6/2009			75,000	75,000
	4/23/2010	200,000			200,000
	7/6/2010	300,000			300,000
					575,000
2010/11	8/17/2010			85,000	85,000
	4/11/2011	325,000			325,000
	6/21/2011	120,000			120,000
	8/2/2011			10,000	10,000
	9/30/2011		150,000		150,000
					690,000
2011/12	8/2/2011			100,000	100,000
	4/18/2012	420,000			420,000
					520,000
TOTAL	12				**2,165,000**

Data Source: USDA. U.S. sugar tariff-rate quota (TRQ) increases above the approximately 1.5 million short tons of required World Trade Organization (WTO) and free-trade agreement (FTA) imports each year (WTO raw, 1.231 mst; WTO refined and specialty, ~120,000 st; CAFTA/DR, Peru, and other FTA's, ~130,000 st.)

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Table 3

AGOA Sugar-Producing Countries*

(Thousand metric tons, three-year average, 2011/12-2013/14)

	Production	Imports	Consumption	Exports	Net Exports	U.S. Quota**
Angola	50	309	359			
Benin	10	44	42	10		
Burkina Faso	30	48	77			
Burundi	20		20			
Cameroon	127	130	256			
Chad	35	49	85			
Republic of the Congo	73	25	73	34	9	7
Ethiopia	290	75	362			
Gabon	27	-	27			7
Guinea	28	107	125	10		
Kenya	500	259	760			
Liberia		25	26			
Madagascar	82	93	175			7
Malawi	330	2	276	58	56	10
Mauritius	457	23	41	382	360	12
Mozambique	424	17	179	248	231	14
Niger	15	50	65			
Nigeria	65	1,441	1,248	200		
Rwanda	13	2	15			
Senegal	107	65	170	3		
Sierra Leone	4	26	30			
South Africa	2,122	213	1,847	416	203	24
Swaziland	710		337	342	342	17
Tanzania	302	210	509	40		
Togo	5	40	45			
Uganda	347		250	101		
Zambia	432		310	122	122	
TOTAL -- 26 countries	**6,604**	**3,253**	**7,708**	**1,965**	**1,322**	**98**
Source: USDA, FAS, Nov. 2013.						202

**Other African Growth and Opportunity Act countries, non-sugar-producing, are: Botswana, Cape Verde, Comoros, Djibouti, The Gambia, Ghana, Lesotho, Mauritana, Namibia, Sao Tome and Principe, Seychelles and South Sudan.*

**Minimum access granted under the WTO.

Chart 1

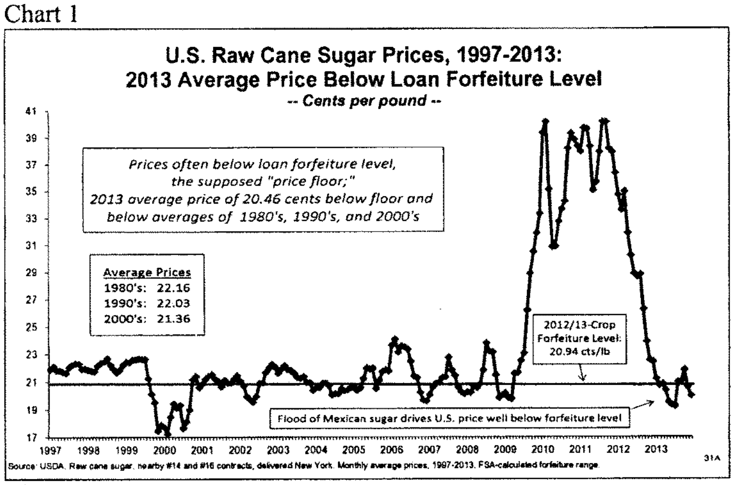


Chart 2

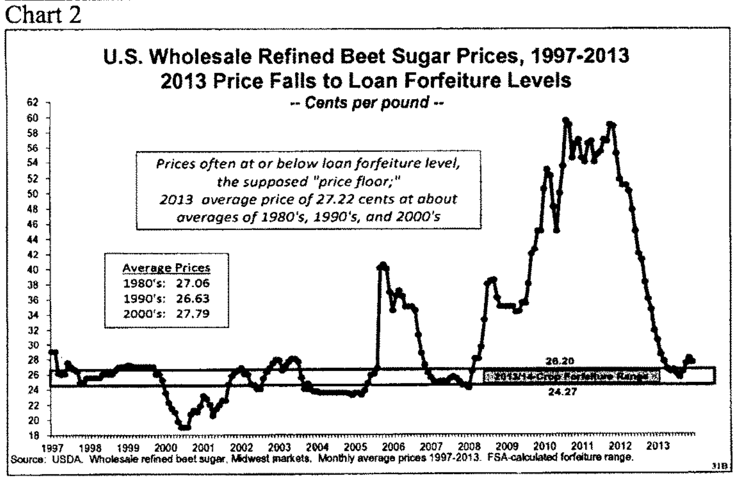


Chart 3

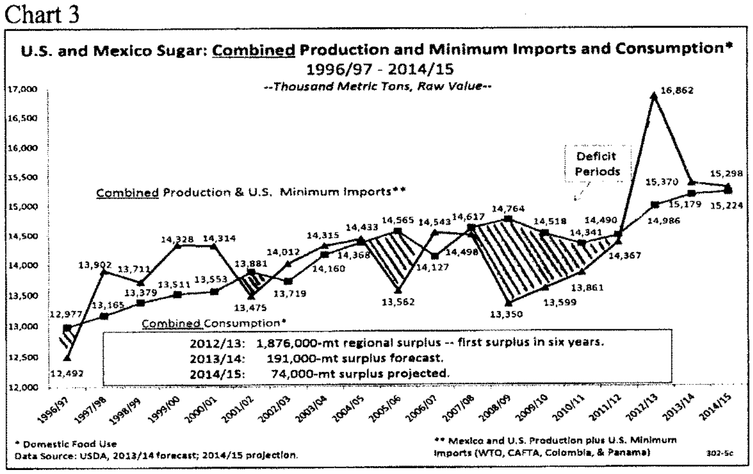


Chart 4

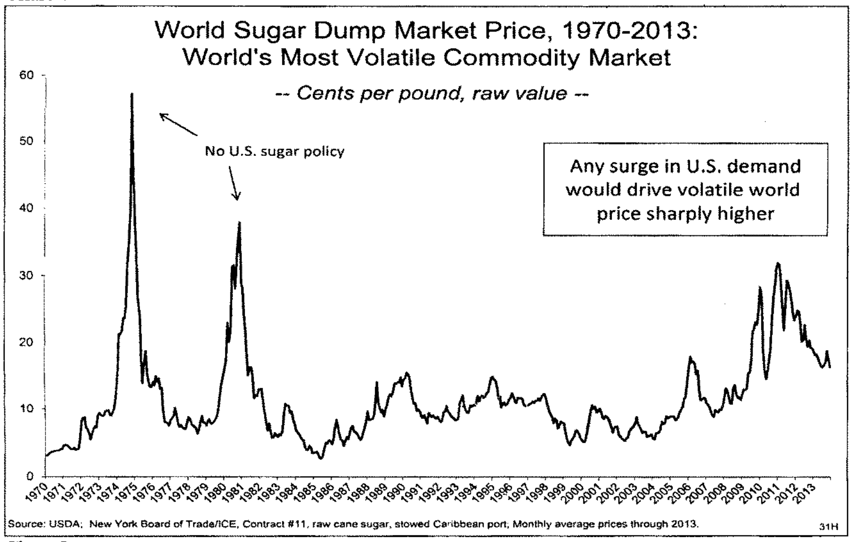


Chart 5

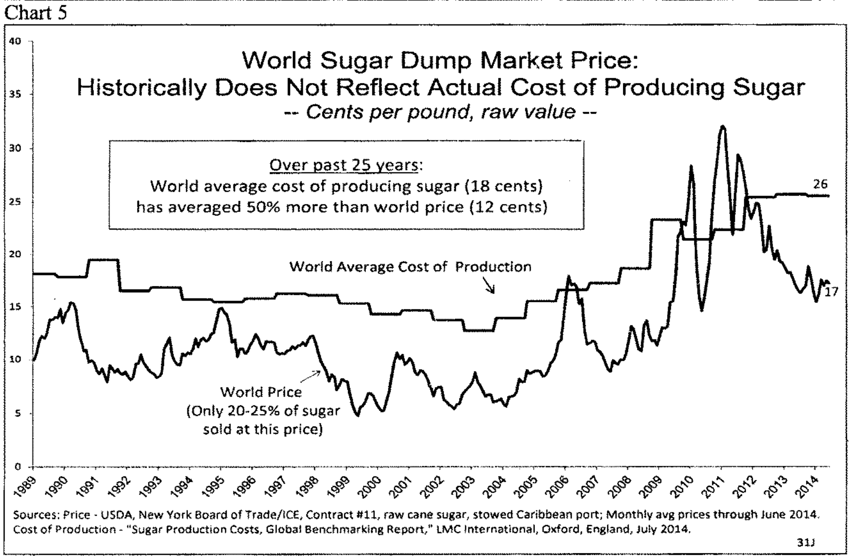


Chart 6

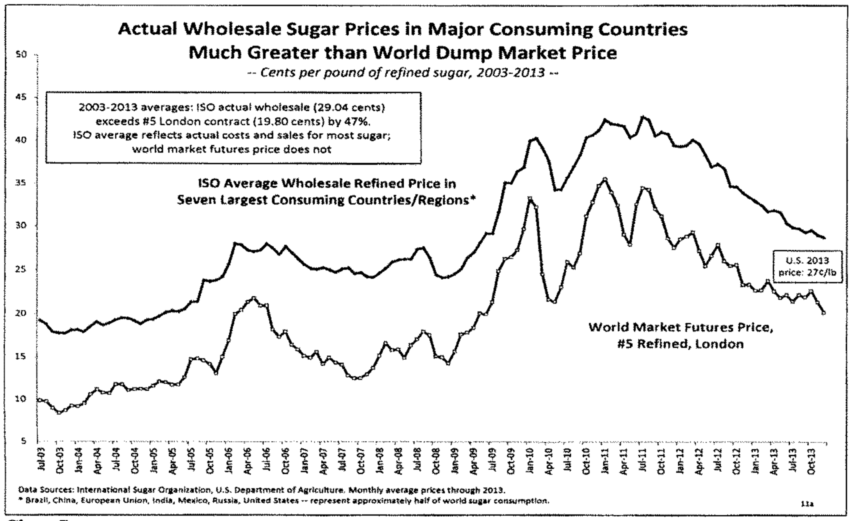
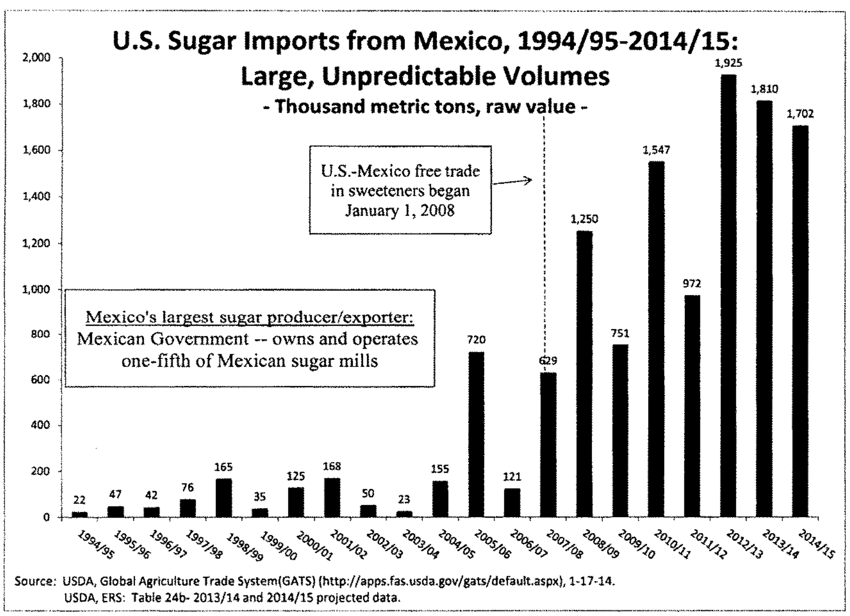


Chart 7



Sugar Should Continue To Be Excluded from AGOA

The sugar industries of the CBI Sugar Group,[1] the Philippines, the Dominican Republic, and Mauritius respectfully submit these comments for the record of the Finance Committee's July 30, 2014 hearing concerning the African Growth and Opportunity Act (AGOA). We urge that sugar should continue to be excluded from AGOA. Recent experience with the reform of the EU sugar regime has proven that including sugar in duty-free initiatives actually does more harm than good to developing countries.

1. Treatment of Sugar under AGOA.

AGOA extends duty-free treatment to some 6,000 products imported from Africa. Only a handful of products, mostly agricultural products subject to U.S. tariff rate quotas (TRQs), are excluded from AGOA. Sugar is commonly identified as one of the agricultural products that is excluded from AGOA. But in fact sugar's treatment is a little more complicated.

In-quota sugar imports from AGOA countries that hold TRQ allocations are eligible for duty-free entry. *See* Harmonized Tariff Schedule Item 1701.14.1000. Over-quota sugar imports are not eligible for duty-free treatment under AGOA. Likewise, sugar from AGOA countries that do not hold TRQ allocations are not eligible for duty-free entry.

The residual in-quota duty of 1.4606 cents per kilogram is waived by the Generalized System of Preferences (GSP) for GSP beneficiaries that hold TRQ allocations. Because AGOA's duty-free preferences are built in large part upon the foundation of the GSP, the residual in-quota duty is also waived for AGOA beneficiaries that hold TRQ allocations. However, because the GSP for AGOA countries is authorized on a different schedule than the basic GSP, the residual in-quota duty for AGOA quota holders is waived even when the GSP is not in effect, as is currently the case. In short, in-quota sugar imports from AGOA countries that hold TRQ allocations actually receive special benefits from AGOA that are not available to non-AGOA quota holders.

The U.S. TRQ on raw sugar, which under WTO agreements may not be less than 1,117,195 metric tons (MT), is allocated among 40 traditional suppliers based on actual imports during a base period. Ten African countries are assigned allocations under the U.S. TRQ on raw sugar: Republic of Congo, Cote d'Ivoire, Gabon, Madagascar, Malawi, Mauritius, Mozambique, South Africa, Swaziland, and Zimbabwe. Nine of these African quota holders are AGOA beneficiaries. Zimbabwe has never been determined to be in compliance with the AGOA conditions of eligibility.[2]

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[1] The members of the CBI Sugar Group are the sugar industries of: Barbados, Belize, the Dominican Republic, Guyana, Jamaica, Panama and Trinidad & Tobago.

[2] Madagascar's AGOA eligibility was suspended in 2010 due to its nondemocratic regime change in 2009. Madagascar's AGOA eligibility was reinstated by Presidential Proclamation on June 26, 2014.

Other African countries that do not hold TRQ allocations have not been traditional suppliers of sugar to the United States.

Altogether, the TRQ allocations assigned to the 10 African quota holders total 116,321 metric tons (MT), which represents approximately 10% of the minimum TRQ of 1,117,195 MT.

African Quota Holder	Minimum TRQ Allocation
Congo	7,258 MT
Cote d'Ivoire	7,258
Gabon	7,258
Madagascar	7,258
Malawi	7,258
Mauritius	12,636
Mozambique	13,690
South Africa	24,220
Swaziland	16,849
Zimbabwe	12,636
Total	116,321 MT

Of the 10 African quota holders, only Malawi, Mauritius and South Africa regularly fill their TRQ allocations. Swaziland and Zimbabwe sometimes ship sugar under the TRQ, but not every year and not in the past few years. The other African quota holders rarely if ever perform.

2. Access to the U.S. Sugar Market Is Valuable Because of the U.S. Sugar Program.

In considering whether sugar should be included in trade preference programs for developing countries, one has to start with the question why developing countries want to export sugar to the United States in the first place. According to the International Sugar Organization (ISO) the vast majority – roughly 80% - of the sugar produced in the world is consumed within the country of origin. Most sugar-producing countries maintain the viability of their sugar industries through measures (including TRQs, subsidies, etc.) to ensure that the price of sugar in their internal markets is above their local cost of production.

There are only two major import markets where, over the past half century, sugar prices have been consistently above the world average cost of production: the European Union (EU) and the United States. The EU price was historically significantly higher than the U.S. price, which made access to the EU market the most sought-after by sugar-exporting countries. In 2008, for example, the EU price for raw sugar averaged approximately 32 cents per pound, while the U.S. price was only 23 cents per pound.

But as a result of a WTO challenge against the EU sugar regime brought by

Brazil, Australia and Thailand, coupled with the impact of the EU's Everything But Arms (EBA) initiative, which extended duty-free/quota-free (DFQF) treatment to all imports from least developed countries (LDCs), including sugar, the EU reduced its sugar reference price by 36 percent. As a result, during 2010-11, the U.S. price was higher than the EU price for the first time in recent history. But during 2012-13, the U.S. price collapsed, falling by 50 percent, as imports from Mexico surged under the North American Free Trade Agreement (NAFTA), which extends DFQF status to sugar from Mexico. During 2013-14, the U.S. price has remained below traditional levels. Thus, DFQF programs that have included sugar have seriously disrupted both the EU and U.S. sugar markets, rendering both less attractive to developing countries that have traditionally exported to them.

In addition to the premium-priced EU and U.S. markets, sugar is also traded on the so-called "world market," where prices are typically well below the world average cost of production. Only the lowest cost sugar producers, such as Brazil, Australia and Thailand, regularly sell to the world market.[3] Other countries may occasionally dispose of surplus production on the world market, which only further depresses the world market price. No African countries (with the possible exception of South Africa, whose future AGOA eligibility is under question) produce sugar with the intention of exporting to the world market precisely because that price is usually below their cost of production.

The U.S. sugar program attempts to keep the market price above the cost of production through a combination of (1) TRQs on imports from traditional suppliers; (2) domestic marketing allotments to control the amount of domestic sugar in the market; and (3) "nonrecourse" loans to domestic sugar producers at a price established by law. Through these measures, the U.S. Department of Agriculture (USDA) balances the interests of domestic sugar producers, U.S. consumers, and traditional foreign suppliers, with the goal of maintaining a stable market. The resulting U.S. market price is in the mid-range of internal market prices around the world.

As noted above, a total of 40 countries, all but two of which are developing countries, hold allocations under the U.S. raw sugar TRQ. (Australia and Taiwan are the developed quota holders.) Consistent with GATT Article XIII, quota shares under the TRQ are assigned on the basis of actual exports to the United States during a representative base period. Countries not assigned quota shares are not traditional suppliers to the U.S. market.

Sugar exports are the life's blood of many of these developing-country quota holders, accounting for as much as 15% of total national GDP (*e.g.*, Guyana) and up to 93% of agricultural revenues (*e.g.*, Fiji). Literally millions of farmers and workers earn their livings in the sugar industries of these developing-country quota holders.

The U.S. sugar program is beneficial to developing-country quota holders because it provides them with access to a market where the price is remunerative, *i.e.*, above their

[3] Costs to producers in Brazil, Australia, and Thailand may be low in part due to government subsidies and supports, which are pervasive but not transparent.

cost of production. Uncontrolled increases in the flow of sugar into the U.S. market risk undermining the U.S. price, reducing the revenues upon which developing-country quota holders rely. Developing-country sugar exporters need a balance between the volume of access and the value of that access, because *access at a price below the cost of production is worthless.*

3. Granting DFQF to African Sugar Under AGOA Risks Destroying the U.S. Sugar Program, Which Is Already Vulnerable Because of NAFTA.

The U.S. sugar program has remained in effect since 1982 with only relatively minor changes precisely because it has been effective in balancing the interests of domestic producers, U.S. consumers and traditional foreign suppliers – all at no or minimal budgetary cost to the U.S. taxpayer. This balance of interests has been seriously disrupted by NAFTA, which gave Mexico DFQF access to the U.S. market. Mexico's sugar exports to the U.S. market have been volatile, rising from 7,258 MT, the minimum quota amount, before NAFTA to over 2.1 million MT during the 2012-13 quota year. Imports during the 2013-14 are on a course to approach or even meet last year's record volume. As a consequence of this wild surge in imports from Mexico, the U.S. sugar price collapsed by 50%, resulting in significant sugar forfeitures to USDA under the non-recourse loan program for the first time in years. Sugar imports from Mexico are now the subject of investigations pursuant to anti-dumping and countervailing-duty petitions filed by the U.S. sugar industry.

The U.S. administration learned its lesson from NAFTA: DFQF access is incompatible with a stable sugar market. No subsequent FTA negotiated with a sugar-producing country has included unlimited DFQF treatment for sugar. Rather, all U.S. FTAs since NAFTA have strictly limited the volume of sugar to be imported duty-free under the FTA and in no event more than the amount of the exporting country's net sugar surplus.

Adding another major source of DFQF sugar to the U.S. market (such as from Africa under AGOA) would risk further depressing the U.S. market price at a time that it is already at record low levels due to NAFTA, thereby further reducing sugar export revenues by all developing-country quota holders. Even worse, extending DFQF treatment to sugar from Africa could collapse the sugar program completely, which would benefit neither current developing-country quota holders nor the AGOA countries that already export to the U.S. market. Rather, the only beneficiaries of such an outcome would be (1) the U.S. industrial sugar users, who would then be able to source sugar at the lowest possible price; and (2) the lowest cost exporters of sugar, none of which are in Africa, primarily Brazil, Australia and Thailand.

This is precisely what happened when the EU reformed its sugar regime in response to the WTO challenge brought by Brazil, Australia and Thailand. The resulting 36% price cut was intended to discourage domestic sugar beet production, which would then be replaced by increased DFQF imports from the LDCs under EBA. But in fact, the lower price proved to be below the cost of production in the LDCs, and the expected imports failed to materialize. To fill the resulting supply gap, the EU opened special sugar TRQs on an *ad hoc* basis, which were filled almost entirely by Brazil. Sugar imports from the LDCs, who were the intended beneficiaries of the reform, were stagnant, and Brazil went from being an insignificant supplier to being by far the largest exporter of sugar to the EU.

Total annual U.S. sugar consumption is about 11 million MT. Domestic producers by law are guaranteed the opportunity to supply 85 percent of that total. Traditional suppliers are guaranteed the opportunity to supply 1.1 million MT, about 10 percent of consumption, under the TRQ. Mexico faces no limits and is expected to supply nearly 2.0 million MT in FY2014, almost 18 percent of the market. Extending DFQF to sugar under AGOA risks adding to an already seriously oversupplied market and a further price collapse.

It has been reported that a massive expansion of sugar production in Africa is already underway - doubling it according to some sources - to take advantage of their new DFQF access to the EU under EBA.

Planned Sugar Expansion in Africa
(1,000 MT)

Ethiopia	+1,300 MT
Kenya	240
Malawi	30
Mali	300
Mozambique	200
Sudan	500
Swaziland	140
Tanzania	120
Uganda	150
Zambia	200
Zimbabwe	240
Total	**+3,420 MT**

(Source: International Sugar Organization, Africa Sugar Outlook Conference, Nairobi, Kenya, April 2013.)

With the recent volatility in the EU sugar market, a result of EU sugar market reforms, some or even much of this increased African production – as much as another 3.4 million MT or almost 28 percent of U.S. consumption -- might be diverted to the U.S. market under AGOA from year to year, based on comparative market prices in the EU and the U.S. Supplies could exceed 140 percent of consumption, making it impossible to maintain the sugar price required by law without government purchases of sugar on an unprecedented and extremely costly scale.

Faced with the specter of substantial budgetary outlays to maintain the U.S. sugar program, there would be intense political pressure to replace the current program with a more traditional commodity program (*e.g.*, deficiency payments). Under this model, U.S. sugar producers would be guaranteed a certain price, but imported sugar would trade at the so-called world market price, which as noted above has historically been below the cost of production in all but a handful of countries. The result would be the loss of sugar export revenues by both current quota holders and other AGOA beneficiaries. The only winners would be the large corporate sugar users, commodity speculators, and the handful of non-AGOA lowest-cost sugar exporters.

Increasing poverty in one group of poor countries in the hopes of reducing poverty in another group of poor countries is not a worthy policy goal. Indeed, there is a serious risk that even the African countries which are the intended beneficiaries of any proposal to add sugar to AGOA would lose out as prices collapse. It is a policy that robs Peter to pay to Paul, and then mugs Paul as well. The result would be increased sugar exports by Brazil, Australia, and Thailand, and increased poverty in almost all other sugar exporters, including those in Africa.

For all these reasons, we respectfully request that sugar should continue to be excluded from AGOA.

Respectfully submitted,

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July 30, 2014

Hearing on the African Growth and Opportunity Act at 14: The Road Ahead (July 30, 2014)

Senate Finance Committee

Comments for the Record Hearing Submitted by:

John Cheh
Vice Chairman & Chief Executive Office
The Esquel Group

August 12, 2014

The following comments are submitted for the record page on behalf of Esquel Mauritius Ltd. (EML). ***EML expresses its strong support for renewal of the African Growth and Opportunity Act (AGOA), including the third country fabric provision, and for the U.S. to take note and assist in the continuous economic growth of Mauritius***. The growth of the apparel industry in Africa, while significant, is still at its infancy and can generate thousands of additional jobs and further economic prosperity.

ABOUT EML, MAURITIUS AND APPAREL PRODUCTION

EML is a wholly owned subsidiary of the Esquel Group, one of the world's leading producers of premium cotton shirts. The Esquel Group owns production facilities in China, Malaysia, Mauritius, Vietnam and Sri Lanka, as well as sales locations in the European Union, Japan and the United States. The Esquel Group manufactures for U.S. and world brands such as Nike, Ralph Lauren, Tommy Hilfiger, J. Crew, Brooks Brothers, Hugo Boss and Lacoste. EML directly employs 5,500 in apparel production and generates at least 3,000 more indirect supporting services jobs in the African country of Mauritius.

Mauritius is a small island of 1.3 million inhabitants located in the Indian Ocean. While small, the country has a rich tradition in apparel production. EML has manufactured apparel products in Mauritius over the last 30 years. Our company originally located there in response to the old quota system under the Multi-Fiber Arrangement (MFA). Once the MFA ended in 2005, the Esquel Group remained in Mauritius because of the quality of the workmanship developed in the country and most importantly, the special AGOA duty-free privileges granted by the U.S. Congress. Had the advantage of duty free access not been granted to Mauritius in the form of the AGOA, it is likely that EML would have made the decision to shift production out of the country after the end of the MFA.

Mauritius' exports to the U.S. of woven shirts totaled approximately US$147 Million in 2013, with EML production representing about 72% of these figures. While these numbers are impressive considering the size of the country, we note that they have yet to match their highest peak of US$325 Million exports in 2002. There is still great untapped potential in Mauritius, but this can only be unlocked by the U.S. Congress' approval of the AGOA preferences for a long period of time in order to encourage companies to make long-term investments in the region. The constant uncertainty of market access under AGOA over the past 14 years has hindered many companies from making more significant investments.

EML'S INVESTMENT IN MAURITIUS AND HIGHER ADDED VALUE PRODUCTS

AGOA renewal uncertainty has been a constant concern for our company in past years. Nevertheless, EML has placed trust in the renewal of AGOA and continued to make investments in its Mauritius manufacturing. The Esquel group has invested well over US$20 Million since it first established a presence in the Mauritius. Annual investments over the last five years have averaged close to US$2 million. EML facilities in Mauritius today include one main production site and three supplementary production sites. These facilities manufacture woven cotton shirts that are exported to the U.S.

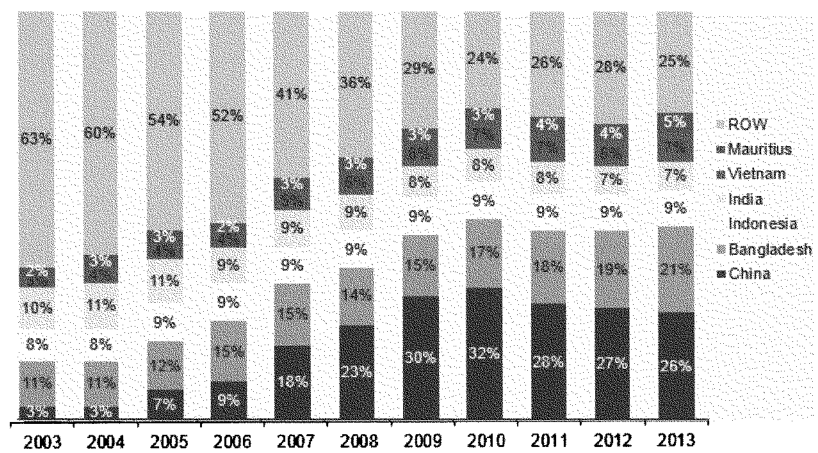
Esquel has also invested significantly in enhancing the skill levels of the local labor force, developing managers and enabling leadership skills for hundreds of employees. As an example, just in 2013 EML invested approximately US$1.5 million in worker training, including skill enhancements for machine mechanics and management improvement.

EML's investment has helped Mauritius apparel production move from basic white shirts to premium cotton shirts with more and more value-added features, improved designs and better quality. In fact, Mauritius now has the highest value-to-volume ratio of all AGOA apparel exporters, which demonstrate its success in moving to higher value-added apparel products under AGOA.

MAURITIUS SHARE OF WOVEN SHIRTS REMAIN SMALL COMPARED TO ASIAN COUNTRIES

Mauritius nevertheless continues to be a very small player in the U.S. woven shirt market (as reflected under U.S. Import Category 340). As displayed in Figure 1 below, Mauritius holds only about 5% of the U.S. woven shirt import market. In 2013, Bangladesh and China together equal almost 50% of the market, notwithstanding the high tariffs applied by the U.S. to apparel imports from these countries. Indonesia, India and Vietnam also pay tariffs, but combined hold close to 25% of the U.S. market. Mauritius' share of U.S. woven shirt imports is only 5%, although its share has been on a steady rise compared to 2003 when it held only about 2% of the U.S. import market (See Figure 1).

Figure 1 - Top Countries Exporting to the U.S. (US340, N-knit shirts, Volume)



Source: US Office for Textile and Apparel

AGOA AND 3RD COUNTRY FABRIC EXTENSION IS CRUCIAL

Potential expansion of apparel production in Mauritius is only possible if Congress approves the third country fabric provision as it extends the overall program for at least 15 years. Availability of the third country rule of origin is essential for EML to maintain its manufacturing and export business in Mauritius. The most recent delay in the renewal process of the third country provision in 2012 had a serious negative impact on AGOA exports. Should the third country provision not be renewed or extended, this will drastically reduce Mauritius' export competitiveness and result in severe consequences on our business and the apparel industry in the country. A fifteen year, long term extension of this crucial provision will provide current and future business investors with the needed stability to invest in the region, and generate further economic and development benefits.

OTHER POTENTIAL AREAS FOR ECONOMIC GROWTH

In addition to extending AGOA and the third country fabric provision until 2030, the areas EML believes can be further improved with the support of the U.S. are: trade capacity building, education, and health and safety – all which would also greatly help improve the business climate in sub-Saharan Africa. In short, while AGOA must maintain its tariff elimination component, it should also be broaden in scope to inject funds and energy into the manufacturing community of the region. Furthermore, we believe Mauritius should be heralded as a model for excellence in Africa and become a manufacturing hub for Africa.

Trade Capacity Building

AGOA could be expanded beyond lowering tariffs to help build trade capacity. Part of the program should include specific metrics to achieve significant reductions in the logistic costs for exporters. Enhancing African infrastructure including transportation, energy, telecommunications, and related sectors was a key component of last year's AGOA Forum and should remain an integral part of the agenda developed in this year's Africa Summit in Washington, D.C. More concrete efforts in this area will be welcomed. Where joint projects are being discussed, we recommend a more concerted effort to communicate these to the business community throughout Africa and to consult with the local private sector regarding the areas where assistance can make the greatest impact.

In addition, as will be detailed further, Mauritius should strengthen its role as a leading trans-shipment hub for the region by modernizing its ports and roads to build an effective and efficient logistic network throughout the main manufacturing and business centers in the country.

Besides hardware infrastructure, we note that programs such as the Competitiveness and Trade Expansion (COMPETE) based in Nairobi and Kenya could be extended further and more broadly to other countries such as Mauritius. COMPETE reduces barriers to trade; supports the growth of key sectors, including cotton/textiles; and increases trade and investment. For example, parts of this program could be implemented in Mauritius by helping train smaller businesses currently providing ancillary services to larger companies such as EML.

Training and Education

Training and education need to be performed at the business and employee level. At the employee level, EML has encountered challenges including:

- Substantial investments in training: intensive training to transform the agriculture-based labor force to the higher value-added manufacturing sector. In addition, EML employs a large number of women in the factories but we see a need for better general education and training for them.
- Competition for educated labor: difficulties in attracting young, better educated people to join the manufacturing industry.

Projects to provide training for the work force, including technical and engineering skills as well as supervision and management skills, should be considered as part of the discussion to improve AGOA. Some of these improvements can easily be made through funding and partnerships between the business community and local universities to offer continuous technical training to current and future workers. The role of the U.S. as a broker and participant in the overall improvement of the export labor work efficiency would be invaluable.

We also see empowerment of women as a key development for the AGOA countries that will liberalize the female workforce. An important project that should be extended to Mauritius is the African Women's Entrepreneurship Program (AWEP). The AWEP supports local women's entrepreneurship, including training and mentoring programs in their communities, as well as advocacy efforts to promote changes to discriminatory systems against women in business and to put in place greater systems of opportunities and support.

Health and Safety

U.S. projects should continue supporting training to ensure workers' health and safety in factories across the AGOA region. Large companies such as EML have health and safety codes that are expensive and difficult to implement for smaller local suppliers and service providers. Programs that help monitor and meet health and safety standards in the manufacturing sector can help avoid factory disasters such as those seen in some parts of Asia (e.g. Bangladesh) in 2013.

Other health projects such as promoting HIV prevention, aiding in the construction of health centers and acquisition of new healthcare technologies can also have a positive business impact, particularly in worker retention and attracting new investment.

Mauritius: A Hub for Regional Excellence

The AGOA trade preference program needs key driver countries who can work closely with both the U.S. Government and the AGOA country governments. Working in coordination with local country leaders, the U.S. should see in Mauritius, a country with its bi-lingual workforce fluent both in English and French, well positioned to play a more predominant role for achieving both a quantitative (incremental trade) and a qualitative (improving the life of the African people) growth in a sustainable manner.

More specifically, the U.S. may work with Mauritius officials in developing an "AGOA Regional Centre" for the Sub-Saharan Africa, located in Mauritius, with a wide mandate to focus on several of the objectives previously mentioned including:

1) *Improving understanding of the U.S. market and supply chain*: Support the AGOA countries to better understand the supply chain and the U.S. market. Organize trade tours and promotional campaigns to facilitate bilateral understanding between AGOA countries and the U.S.
2) *Lower administrative burden to improve trade and investments in the AGOA countries:* Drive the removal of procedures and bottlenecks to allow free movement of goods, services and investments in intra-Africa trade and for entry and egress from Mauritius. While in Mauritius EML has for the most part witnessed efficient trade procedures and bottlenecks are infrequent, but there is another side of the trade equation in other AGOA receiving countries, where more effective clearance of goods, acceptance of electronic documents for entry, and the need for separation of entry/release of goods are greatly needed.
3) *Assist in the development of the logistics industry in AGOA countries:* Provide support to the private sector in the AGOA countries on developing the improved logistics capabilities and connectivity in order to boost the regional trade and the AGOA exports. Similarly, leveraging on the U.S. position in international financial institutions to focus their assistance projects/grants on these trade facilitating measures.
4) *Facilitate financial services to improve capital flow on infrastructure investments:* Provide the platform of financial services to investments in the AGOA region for infrastructure development regarding ports and roads modernization projects, to cope with the increase in trade and AGOA exports. Financial instruments with favorable terms will facilitate investments which will help build capacity and in turn create jobs in the AGOA countries.
5) *Improve training for local labor and professionals:* facilitate programs in collaboration with the local universities to cater for the specific needs of the industries in the AGOA countries. Moreover, this effort would provide a pool of trained resources to strengthen the middle management of the apparel factories in the AGOA region, and attract graduates from technical colleges and universities.
6) *Coordinate U.S. foreign aid projects to meet these goals:* The U.S. provides significant foreign aid to many Sub-Saharan countries, but from the perspective of the business community there seems to be a lack of coordination between trade and foreign affairs committees in Congress and within agencies from the Executive. More coordination would enable the efforts of a tariff package such as AGOA to be intertwined with a broader aid and capacity building package.

CONCLUSION

The apparel industry is but one piece of an important puzzle once solved will reflect a new and empowered Africa. However, apparel is a key piece when considering the number of workers, investment and exports that this industry has and may continue to provide for Africa in the years to come. The goals of the U.S. Congress to increase trade with Africa and diversify its current trade relationship through AGOA and other means will be best served by ensuring the vitality of the apparel industry and the employment it generates in Africa. Extension of AGOA and the third country fabric provision for a term of 15 years is vital to spur further growth and maintain the progresses made.

In addition, we believe that Mauritius can be an important and reliable trade ally. The U.S. interests will be well-served if Mauritius' trade building capacity and the skills of its businesses and workers are enhanced. From our private-sector perspective, we stand ready to assist and be a partner in these efforts.

Respectfully submitted,

John Cheh
Vice Chairman & Chief Executive Officer
The Esquel Group

Embassy of Malawi

Embassy of Mozambique

Embassy of Tanzania

Embassy of Zambia

Embassy of Kenya

August 22, 2014

To:

The Honorable Ron Wyden, Chairman

The Honorable Orrin Hatch, Ranking Member

The United States Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Wyden and Ranking Member Hatch:

Re**: <u>Renewing and Improving AGOA Beyond 2015</u>**

We respectfully submit this statement for the record regarding the Committee's July 30, 2014 hearing on the African Growth and Opportunity Act (AGOA). We appreciate the opportunity to provide our views for the Committee's consideration.

The sixth paragraph of Section 2-Investing in Africa's Future- of President Obama's Statement as Chair of the historic U. S. – Africa Leaders' Summit stated that the "Leaders agreed on the importance of the prompt, long-term renewal of an enhanced AGOA and pledged to work together to increase its utilization by African countries. We fully endorse the seamless renewal of an enhanced AGOA as early as possible, to avoid any disruption to existing trade, particularly in the apparel trade.

We also have noted, and enthusiastically support, Ambassador Froman's observation before your Committee that there are ways in which the program can be updated and improved. Given the expectation that AGOA renewal may be delayed until the congressional Lame Duck session, there is time for the Congressional trade committees to develop an agreed package of specific enhancements to the program without slowing the progress of the AGOA legislation.

An enhancement of particular interest to the undersigned countries is the proposal to increase duty-free coverage with a focus on agricultural products. Thus we welcomed Ambassador Froman's suggestion to Congress that it should consider whether any new products can be added to the program keeping in mind domestic sensitivities. We also wish to bring to your attention that the August 5th AGOA Ministerial Forum chaired by Ambassador Froman underlined the need for expanding the product coverage, capacity building and addressing supply side constraints. The addition of agricultural exports currently excluded from AGOA would also represent a step to implement the second paragraph of the aforementioned specifically that agriculture would remain high on the Leaders' shared agenda". In addition, it would be consistent with President Obama's comments during his 2013 trip to Africa, when he articulated the importance of making AGOA more effective for small-scale farmers.

This consideration should include a review of agricultural tariff lines subject to tariff rate quotas. Approximately 65 percent of Africa's labor force works in agriculture. The percentage of Africa's rural poor who work in agriculture is even higher. A logical way to improve AGOA, therefore, is to enhance duty-free coverage for agricultural products which could be imported from Africa.

The export of key African agricultural products to the United States, including groundnuts, leaf tobacco, sweetened cocoa, and sugar, among others, is often prevented by the extremely high duties assessed under tariff rate quotas (TRQs). These TRQs exist separately from AGOA, pursuant to provisions in the Harmonized Tariff Schedule of the United States, but the over-quota tariff lines (and even some in-quota tariff lines) were not designated for AGOA benefits.

Removing high over-quota tariffs on AGOA agricultural imports would advance several policy goals. First, it would enhance the competitive opportunities afforded sub-Saharan African trading partners, which currently have unfavorable market access in relation to countries in other parts of the world. Second, it would help diversify AGOA exports and provide opportunities for a number of countries not shipping significant quantities under AGOA to exponentially increase their shipments. Third, it would harmonize U.S. policy with World Trade Organization initiatives seeking to increase access for exports from vulnerable and least developed economies. Finally, Ambassador Froman noted the 2006 precedent for designating new tariff lines when several hundred textile products were added to the program.

Leaf tobacco provides an apropos example of this issue. When the TRQ was established in 1995 (over five years prior to the enactment of AGOA), the total quota of 150,700 metric tons was divided among a small number of countries that had been leaf exporters. Malawi is the only AGOA beneficiary to have an allocation, unfortunately only a small allocation which Malawi could easily surpass if provided the opportunity to do so. This distribution represents the commercial realities of the 1990s, not those existing today. The over-quota tariff rate is 350 percent, so high that it effectively prevents imports from AGOA beneficiaries. The same situation applies to other quota-constrained products, where allocations reflect outdated historical trading patterns, thus prohibiting entry from new African suppliers.

Given the above, we respectfully request that the Committee, when considering AGOA renewal legislation, include provisions enhancing duty-free access for agricultural products subject to TRQs. Such changes would stimulate diversified exports, a key US objective.

We hope this submission helps facilitate a truly effective AGOA initiative. We are open to a discussion at your convenience, and we again express our appreciation for the Committee's engagement on this matter.

Thank you for considering our views.

Yours Sincerely,

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Embassy of Kenya

Embassy of the Republic of Mauritius

Submission by the Government of the Republic of Mauritius

Hearing by: The US Senate Finance Committee

Title: ***The Africa Growth and Opportunity Act at 14: The Road Ahead***

Date: ***July 30, 2014***

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This statement is submitted by the Government of the Republic of Mauritius for the record of the July 30, 2014 hearing by the US Senate Finance Committee on the African Growth and Opportunity Act at 14: The Road Ahead

Introduction

The signature of AGOA into law in 2000 marked a significant shift in US-Sub-Saharan Africa relations. It laid the foundation for a partnership that was mutually beneficial both to the US and countries in Sub-Saharan Africa (SSA) by moving away from the conventional donor-recipient relations built on development assistance to one based on trade and investment, as the cornerstone of sustainable economic development.

Although SSA remains one of the poorest regions in the world with an estimated 48% of the population living on just $1.25 per day, it has made commendable progress in its development trajectory since the passage of AGOA into law. The growth rate has been steady at an average of 5% since 2001, compared to a negative per capita growth rate of 1.1% in 1995. The impact of AGOA on exports and on job creation has been tremendous. Indeed the benefits of AGOA for Africa have been widespread, both in terms of sectors and the number of countries that have availed of these benefits.

Assessing AGOA's Achievements

The benefits of AGOA have also been underscored by the results of the public investigation launched by the USITC, namely, AGOA: Trade and Investment Overview which highlighted the following:

a. Total U.S. imports from Africa have more than doubled since AGOA was enacted, increasing by roughly 132% since 2000 to $38 billion in 2013;

b. Africa's main exports to the US under AGOA continue to be unprocessed oil and minerals. However, U.S. imports of non-extractive products from Africa have grown by 94% to $6.0 billion in 2013.

   i. Agricultural products and food products are up 356% since 2000 to $342 million in 2013.

   ii. Motor vehicles are up 1,239% to $2.0 billion.

   iii. Apparel is up 16% to $907 million. Following the expiration of the Multi-Fiber Arrangement in 2005 a 50% drop of apparel exports from Africa to the US was noted for the period 2005-

2010. Since 2010, however, apparel trade has begun to recover, increasing by 18% from $789 million in 2010 to $907 in 2013.

2. Although it is sometimes believed that AGOA has benefitted only a handful of countries, evidence proves the opposite:

a. 25 of the 38 countries that were eligible under AGOA in 2013 exported products to the United States under AGOA. And 14 of those countries each exported more than $10 million worth of non-extractive products to the United States in 2013.

b. While South Africa is the largest exporter of non-extractive products to the United States, with 2013 non-extractive exports of $2.6 billion, other leading exporters of non-extractive products are:

- Cote d'Ivoire $1.0 billion
- Nigeria $942 million **in non-crude oil exports**
- Kenya $337 million
- Lesotho $321 million
- Mauritius $188 million
- Congo (ROC) $145 million
- Ethiopia $32 million
- Cameroon $36 million
- Swaziland $54 million
- Uganda $46 million
- Malawi $47 million
- Gabon $17 million
- Tanzania $10 million

3. AGOA has also brought positive gains to the US economy. During 2000-13, U.S. exports to Africa grew by 288% from $5.6 billion in 2000 to $21.7 billion in 2013. Although the balance of trade is in favor of Africa, U.S. exports to Africa have increased by more than twice as much as African exports to the US since AGOA was enacted.

Mauritius

The cordial relation between the US and Mauritius revolves around shared values pertaining to human rights and rule of law, good governance and democratic principles. Trade is a core element of this relationship. The presence of US companies in diverse sectors in Mauritius helps stimulate further the relationship between both countries. US companies registered in Mauritius operate in a wide variety of sectors, including ICT/BPO (Ceridian, Apollo Blake Ltd), Health Care/Manufacturing of Medical Devices (Johnson & Johnson – PP Sud Ltd), Manufacturing (Tiffany - Laurelton Diamonds), Hospitality sector (Starwood c/o Le Meridien Hotel), and Textile Industry (World Apparel & Design Ltd), among others. Table 1 below indicates the growing level of FDI from the US into Mauritius.

Progress has also been made on agricultural trade and agri-business linkages between the US and Mauritius under AGOA. The main objective is to increase and diversify exports of agricultural products to the US market which include cut flowers, honey, jam and fruit jellies. The US is also an important market for specialty sugar exports from Mauritius, although these exports do not qualify under AGOA.

US Imports from and Exports to Mauritius
2007-2013
(US$ million)

	U.S. Exports To Mauritius	**% Change**	**U.S. Imports from Mauritius**	**% Change**	**Two-Way Trade**	**% Change**
2007	$49.794		$187.020		$263.814	
2008	$51.293	+3.0%	$176.189	-5.8%	$227.482	-13.8%
2009	$70.031	+36.5%	$168.863	-4.2%	$238.894	+5%
2010	$40.028	-42.8%	$196.055	+16.2%	$236.083	-1.2%
2011	$45.951	+14.8%	$250.483	+27.8%	$296.434	+25.6%
2012	$95.976	+108.9%	$261.412	+4.4%	$357.388	+20.6%
2013	$42.036	-56.2%	$338.024	+29.3%	$380.060	+6.3%

Source: U.S. International Trade Commission Dataweb

The statistics show the positive impact of AGOA on two way trade between the two countries which increased from $ 263.814 million in 2007 to $380.060 million in 2013. The fact that Mauritius became eligible to the third country fabric provision in 2008, for the same period as the LDCs, enabled the country to consolidate exports of textile and apparel to the US.

Facilitation of Regional Integration

AGOA has also contributed to give an added momentum to regional integration efforts within SSA with the promotion of regional value chains. In the production of garments, for instance, jeans are manufactured in Mauritius from denim fabric woven in either Mauritius or Lesotho from cotton sourced from Zambia, and with zippers from Swaziland. The same cross-border value chains could be developed for many other products if the right regional strategy is put in place.

The Importance of Timely Action to Renew AGOA.

In view of the importance of AGOA to both Africa and the US, the top priority must be to achieve its timely renewal before delay causes uncertainty and results in job losses in both Africa and the US

The African Diplomatic Corps made a Submission to the USITC in January 2014 calling for the extension of AGOA for 15 years to sustain exports on the US market on a predictable, reliable and legally secure basis. They also requested that the extension be granted during the current session of Congress to inspire business confidence and to enable proper planning by the business community.

In the past, AGOA has been renewed for only short periods, typically five years or less. But major capital investments usually require 10-15 years to be fully amortized. AGOA's short time horizon has made it difficult to attract major investments to Africa.

It is to be recalled that Congress renewed the AGOA third-country fabric provision in August 2012, just before its scheduled expiration in September 2012, causing much uncertainty which forced U.S. apparel importers to shift orders out of Africa (mostly to Asia), costing tens of thousands of jobs on the continent.

In order to provide the stable and predictable environment that is essential for trade to grow, it would be crucial for Congress to renew AGOA well before the end of 2014 for a period at least 15 years. This would prevent any trade disruption and loss of orders and would lay the foundation for attracting investments to ensure that the gains of AGOA are sustainable in the long term.

The AGOA Third-Country Fabric Provision Should Be Renewed for the Full Term for Which AGOA Is Extended.

The AGOA apparel program has been one of AGOA's great success stories. But apparel exports are especially vulnerable to changes in the terms of trade, as is best illustrated by the tripling of AGOA apparel exports during 2000-2004, followed by a drop of 50% with the expiration of the Multi-Fiber Arrangement (MFA) system of quotas in 2005.

More than 90% of AGOA apparel exports are under the third-country fabric provision due largely to the inability to attract investment in upstream textile production as a result of the short-term authorization of AGOA in the past. Future success of the AGOA apparel sector, therefore, depends upon renewal of the third-country fabric provision for a sustainably long period.

The African Diplomatic Corps has requested that the third-country fabric provision should be made co-terminus with the extended AGOA to ensure coherence and to provide a reliable framework for apparel trade. The third-country fabric rule of origin is essential to the continued survival of the AGOA apparel industry and should therefore be extended for the full term by which AGOA is renewed.

The Rule of Origin for Canned Tuna.

Africa has a small but successful tuna canning industry that provides jobs to thousands of workers, especially women. For the coastal and small island developing states of SSA, canned tuna production is an important and growing sector of the economy. Ghana, Kenya, Mauritius, Senegal, and Seychelles all have canned tuna industries. Madagascar also has a tuna canning sector, which could benefit from AGOA now that its eligibility has been restored.

Unfortunately, it is nearly impossible for tuna canned in Africa to meet the AGOA 35% value added rule of origin, which is largely determined by the flag of the vessel that catches the fish, rather than the nation where the fish is processed and canned. Changing the AGOA rule of origin to allow the use of "non-originating" tuna that is processed in Africa would create more trade opportunities and jobs on the continent. Africa already exports canned tuna to the EU under more flexible rules of origin that permit use of "non-originating" tuna.

One possibility would be to use the change in Tariff Heading criteria to determine the origin of the canned tuna produced in the AGOA eligible countries (*i.e.*, canned tuna is classified under a different Tariff Heading than tuna fish, so the country where the canning occurs would determine origin). An alternative would be to provide derogation for the sourcing of a specified volume of third country raw tuna (e.g., 30,000 metric tons) for production of canned tuna to be exported under the AGOA regime.

Regional Integration and "Graduation."

Proposals to "graduate" more advanced AGOA beneficiaries could seriously undermine efforts to achieve greater regional integration.

The economic progress made by countries under consideration for "graduation" has also benefited the region as they tend to become the hubs upon which the less developed neighboring countries are dependent to advance their own industrial development. Removing these "hub" countries from AGOA would disrupt both regional integration and economic development of neighboring countries in the region.

Graduation should also take into account various aspects of vulnerability. Hence whilst some small island developing states (SIDS) are middle income countries, the WTO has recognized that they are the most vulnerable to climatic change, to trade shocks and to disruption of trade flows.

Any proposal to "graduate" countries from AGOA should ensure that such graduation is over a specified time frame of several years and that such graduation should result in the negotiation of reciprocal bilateral or regional free trade agreements (FTAs). Moreover, it is equally important that goods produced in the countries concerned should continue to be eligible under AGOA rules of origin for cumulation purposes.

Trade Facilitation

From our perspective, the Trade Facilitation Agreement concluded in Bali has the potential to complement and reaffirm the reform started on the continent to reduce the cost of doing business and to improve trade.

Trade Facilitation fits clearly in various regional initiatives in which Africa is engaged with the ultimate objective of removing the obstacles to the free movement of goods and services, and boosting regional and continental economic integration.

The Trade Facilitation Agreement is also a trendsetter as it allows African countries the flexibility to choose what and when to implement and to identify technical assistance and capacity building needs.

In this regard, the setting up of the WTO Trade Facilitation Assistance Facility is a positive development which would ensure availability of technical assistance and capacity building.

Mauritius remains fully committed to implement the Trade Facilitation Agreement as agreed in Bali and has in this regard already submitted its category A notification to the WTO within the required time-frame.

Written Comments Of
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On

The African Growth and Opportunity Act at 14: The Road Ahead
July 30, 2014

United States Senate
Finance Committee

Submitted on August 4, 2014

The National Pork Producers Council (NPPC) hereby submits comments in response to the Senate Finance Committee hearing on July 30, 2014, on "The African Growth and Opportunity Act at 14: The Road Ahead." This submission is for consideration by the Committee and for inclusion in the printed record of the hearing.

Introduction

The National Pork Producers Council (NPPC) is an association of 44 state pork producer organizations that serves as the voice in Washington for the nation's pork producers. The U.S. pork industry represents a significant value-added activity in the agriculture economy and the overall U.S. economy. Nationwide, more than 69,000 pork producers marketed more than 111 million hogs in 2013, and those animals provided total gross receipts of over $20 billion. Overall, an estimated $21 billion of personal income and $35 billion of gross national product are supported by the U.S. hog industry. Economists Dan Otto and John Lawrence at Iowa State University estimate that the U.S. pork industry is directly responsible for the creation of nearly 35,000 full-time equivalent pork producing jobs and generates about 128,000 jobs in the rest of agriculture. It is responsible for approximately 111,000 jobs in the manufacturing sector, mostly in the packing industry, and 65,000 jobs in professional services such as veterinarians, real estate agents and bankers. All told, the U.S. pork industry is responsible for more than 550,000 mostly rural jobs in the United States.

Exports of pork continue to grow. New technologies have been adopted and productivity has been increased to maintain the U.S. pork industry's international competitiveness. As a result, pork exports have hit new records for 20 of the past 22 years. In 2013, the United States exported more than $6 billion of pork, which added about $54 to the price that producers received for each hog marketed. Net exports last year represented almost 26 percent of pork production. The U.S. pork industry today provides 23 billion pounds of safe, wholesome and nutritious meat protein to consumers worldwide.

South Africa Should be Excluded from AGOA

NPPC supports the renewal of the African Growth and Opportunity Act (AGOA) benefits only for those countries that abide by their international trade obligations and that allow access to U.S. products. U.S. legislation implementing the AGOA requires that the President terminate AGOA benefits for a country that is not making "continual progress" in moving toward an open rules-based trading system and eliminating barriers to U.S. trade.

As detailed below, South Africa maintains a *de facto* ban on U.S. pork imports. The United States has worked very hard on behalf of the U.S. pork industry in recent years to gain market access to South Africa for U.S. pork. Currently, however, the United States is at a significant disadvantaged when it comes to gaining access to South Africa's large and growing market for pork. Moreover, South Africa has opened its pork market to competitors from the European Union and Canada. The United States is on the outside looking in. Unless and until it removes all non-tariff barriers to U.S. pork, South Africa should be excluded from the AGOA program. Further, the United States should not commence Free Trade Agreement (FTA) negotiations with South Africa until it drops all non-tariff barriers to U.S. pork exports.

South Africa has been a major recipient of U.S. trade benefits under the AGOA. In 2013, South Africa exported $2.5 billion worth of products to the United States under the AGOA. In essence, AGOA is a one-way free trade agreement in which the United States accepts products from South Africa at zero duty. At the same time the United States provides these benefits, U.S. pork is unjustifiably banned from the South African market.

Just this week U.S. Trade Representative Michael Froman called for a "more reciprocal" trade relationship with South Africa, and in remarks he made at the AGOA Forum in August 2013, Froman said, "As we think about renewing AGOA, we certainly do not want U.S. firms to be put at a competitive disadvantage in the rapidly growing and dynamic African market."

Despite years of technical discussions between the U.S. and South African governments, the African nation has made no effort to eliminate barriers to U.S. trade in pork. South Africa's restrictions on U.S. pork are not based on legitimate food safety concerns and very likely violate World Trade Organization (WTO) rules. Given South Africa's *de facto* ban on U.S. pork and its lack of progress in opening its market, NPPC strongly supports excluding South Africa from participation in the AGOA program.

South African Trade Barriers to U.S. Pork

South Africa effectively bans the import of U.S. pork exports based on what the South African government claims are food safety concerns related to U.S. pork. The South African ban remains in place despite the fact that the U.S. government and the U.S. pork industry have provided a wealth of information to the South African government demonstrating that U.S. pork is completely safe and poses a negligible risk of disease transmission. South African concerns have been focused on three particular swine-related diseases: Porcine Reproductive and Respiratory Syndrome (PRRS), pseudorabies (PRV) and trichinae.

In August 2012 South Africa and the United States began a discussion that the United States hoped would lead to the full opening of the South African market for U.S. pork. The two countries agreed to prioritize the re-negotiation of a U.S. pork export certificate, with the goal of addressing South African restrictions on U.S. pork related to PRRS, PRV and trichinae. In early 2013, South Africa reneged on its commitment to introduce a new export certificate for U.S. pork and instead insisted on the use of an alternative export certificate, even more restrictive and onerous than the one previously in use. The requirements contained in this export certificate resulted in a *de facto* ban on U.S. pork to South Africa, beginning on May 31, 2013.

South Africa should agree to the use of a new export certificate for U.S. pork and remove import restrictions related to PRRS, PRV and trichinae. There is ample scientific information demonstrating that U.S. pork poses negligible risk of transmission of PRRS, PRV and trichinae. South African restrictions on U.S. pork violate WTO rules because there is no scientific evidence to support the restrictions in place. South Africa has not conducted risk assessments related to any of the diseases in question, and it has ignored international standards.

South African import restrictions based on PRRS, PRV and trichinae are described in more detail below.

Porcine Reproductive and Respiratory Syndrome (PRRS)
In May 2012, South Africa notified the WTO that it would impose import restrictions on pork from countries with PRRS, claiming that it is free from the disease. However, in recent years, South Africa has confirmed two outbreaks of PRRS in its swine herd.

South Africa has no scientific justification for imposing PRRS-related restrictions on pork from the United States. The World Organization for Animal Health (OIE) focuses on trade in live animals and genetics as posing a PRRS threat and does not recognize trade in pork as posing a threat of transmitting the disease. There has never been a case of PRRS transmission to livestock through legally imported fresh, chilled or frozen pork. For example, Switzerland has imported hundreds of thousands of tons of pork from countries known to have PRRS, without a single transmission of the disease having taken place.

Pseudorabies (PRV)
The risk of transmission of pseudorabies to livestock through imported U.S. pork is extremely low. Almost all U.S. trading partners allow for the entry of U.S. pork without any kind of pseudorabies-related restrictions because they recognize that imports of U.S. fresh/chilled pork present no threat of introducing the disease. In 1989, the United States started a voluntary eradication program for pseudorabies, and by 2004, the disease had been eliminated in commercial production in all 50 states.

Trichinae Mitigation
South Africa requires that imported pork be either tested for trichinae or subject to onerous freezing and testing requirements that are inconsistent with international standards, as established by the OIE. The risk of trichinae in the U.S. commercial herd is negligible. According to Dr. Ray Gamble, president ex-officio of the International Commission on Trichinellosis, the chances of getting trichinosis through the consumption of U.S. pork is 1-in-300 million. The United States has been able to dramatically reduce the incidence of trichinae in the commercial swine herd over the last two decades by implementing strict biosecurity protocols and highly modern pork production systems. Given the negligible incidence of trichinae in the U.S. herd, there is no reason for restrictions of any kind on U.S. pork exported to South Africa.

PVH

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August 12, 2014

Senate Finance Committee
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Re: "The African Growth and Opportunity Act at 14: The Road Ahead" (July 30, 2014)

Comments for the Record

PVH appreciates this opportunity to provide comments to the Senate Finance Committee for the hearing titled "The African Growth and Opportunity Act at 14: The Road Ahead", dated July 30, 2014. These comments are to be added to the hearing's record page. **PVH is a strong supporter of the AGOA program and urges Congress to act swiftly to extend AGOA, including its third country fabric provision for a lengthy period of time**. A short-term extension of AGOA will limit Africa's capability to attract sizable investments that may transform Africa into the first vertically integrated apparel region of the world.

ABOUT PVH

Our history began in 1881 when Moses Phillips and his wife Endel began mending and selling shirts to local coal miners in Pennsylvania. After achieving success in this limited market, the operation was moved to New York City. Today, PVH is one of the largest apparel companies in the world, with over $8 billion in revenue in 2013. Our company is headquartered in New York, and we have distribution, sales and other corporate locations in California, Georgia, North Carolina, New Jersey, New York, Nevada, Pennsylvania and Tennessee. Among others, our company brands include *Calvin Klein*, *Tommy Hilfiger*, *Van Heusen*, *ARROW*, *IZOD*, *Warner's*, *Olga* and *Speedo*[1]. PVH employs approximately 16,000 associates in almost every state in the United States and another 14,000 globally. We take great pride in our products, our brands, and the positive economic and social footprint of our operations in the United States and globally.

WHAT WE ARE LEARNING ABOUT AFRICA

PVH is a pioneer in driving investment and development, as we believe that being first into an area helps establish the workplace rules to be followed by future investors and market participants. Our company has been monitoring Africa for several years as a potential location for production, as we seek to identify opportunities to improve our supply chain. PVH, together with several other companies in

[1] The *Speedo* brand is licensed for North America and the Caribbean in perpetuity from Speedo International, LTD.

the apparel and textile sector, has taken several exploratory business missions to regions in Africa over the last 18 months to determine the level of investment opportunities available there. The results of these missions have been very satisfactory and many companies who were once skeptic or downright cynics about Africa's potential have related to us their desire to join us in investing in Africa.

We have met with Ministers and key government officials from the countries that we have visited. In many of these countries, particularly in East Africa, we are witnessing greater commitment to the rule of law, free markets, government stability and transparency on the part of these governments. We have come across major and well thought out modern infrastructure projects that were recently completed or about to be finalized. We have also noted greater desire on the part of some governments to bringing investment to the country that will truly touch - for good- the lives of their citizens. This level of maturity and adherence to democratic values that we are seeing from some governments in Africa reassures our interest in sourcing from Africa.

What we are witnessing in Africa propels us to share a simple and straightforward message with the U.S. Congress: Africa today is primed to receive the type of large private sector investments that will generate the economic growth envisioned by the AGOA founders. To get there, AGOA must be renewed as soon as possible and for an extended period of time. The third country fabric provision should also be renewed for a sufficient period of time, but the possibility of attracting investments that will make Africa a vertically integrated sourcing region is today more real than it has ever been before.

AGOA WAS AHEAD OF ITS TIME BUT IT IS RIPE NOW

AGOA was the right trade policy fifteen years ago, but it was ahead of time for the business community to truly be able to utilize it. Most governments in Africa did not offer businesses the needed assurances about their commitments to democracy, transparency and accountability to their citizens. Infrastructure was inexistent and needed educational reforms were just at their infancy. While work remains to be done, we are now seeing that positive changes in all of these areas are starting to uproot and the initial foundations to welcome greater investment from U.S. companies have been laid out.

Another reason why AGOA was not in our view ready for significant investment before is that other countries in Asia offered significant advantages over Africa. But high costs of labor, energy and commodities in Asia today present apparel businesses with a new dynamic that will undoubtedly push them towards Africa.

PVH IS INTERESTED IN BUILDING VALUES AND A NEW PRODUCTION MODEL IN AFRICA

Apparel production has generally been one of the first industries to invest in low income countries. Over the last 30 years, we have seen the great good that can come to these countries from the jobs created and the economic boost that our industry gives these countries. On the other hand, it is undeniable that there have been instances in which costly and even tragic mistakes have been made. These mistakes have often been the result of near-sighted investment in lawless environments.

The apparel sourcing model of the last couple decades must and will change rapidly. The old model of only cutting and sewing operations that can be installed and removed with relative ease does not fit with PVH's vision for Africa. We believe countries in Africa can be the beneficiaries of a new and more inclusive model of investment and growth in which companies like PVH are able to put in place, right from the beginning, facilities, norms and values that will guide the work at the factories and the relationships between workers, managers, associations, civil society groups, governments and any other stakeholders.

For PVH the cost advantages that may come from sourcing from a particular region is not the only motivator or factor that we consider when making strategic decisions about the countries where we place production. The value of our company is in the public's perception of our brands, thus we cannot risk our reputation being tarnished by pursuing short-term growth strategies when it comes to our sourcing decisions. PVH is interested in being a partner in a long-term strategy for growth in the countries where we operate and with the people who work with us. In Africa, we want to install not just good factories, but codes of conduct, values, environmental sustainability, positive worker relations, and the highest business and ethical principles to ensure the long-term success of our commitments. We know that to be successful we need to have a clear line of sight throughout our entire supply chain structure. For this reason we are working closely with other companies in the industry to identify the best global supplier partner companies to join us on this journey.

To build this longer term investment with Africa, governments there must be equally committed to upholding the sustainable social standards we require across all sectors and with all investors and participants. As mentioned previously, we are receiving indications from governments in Africa who want partners like PVH to help them implement these practices as the baseline standards in their country.

AFRICA CAN BE VERTICALLY INTEGRATED

Cutting and sewing operations leave only between 10% - 15% of the total value of a finished apparel product to the host country. In addition to a more socially inclusive sourcing and investment model for Africa, PVH strongly believes that Africa can attract investment in other added value processes of apparel production such as cotton growing, yarn-spinning, weaving, and logistical operations, which will generate even greater value for African nations. Cotton growing is a main staple in several African countries. Further, for man-made fibers Africa has the petroleum and natural fiber basics such as bamboo that can be converted to apparel yarns. In many African countries, English is the primary or one of the top three primary languages, which makes it easier to train workers and future managers. When political and policy stability is added to this mix, we see no reason why some regions in Africa cannot developed into fully vertically integrated value chains.

There are many ways by which the U.S. can partner with Africa to achieve a fully vertically integrated model of production. For instance, there is cotton production in Africa today, but is very inefficient and of poor quality compared to the high yields and high quality cotton produced in other areas. This can be changed by creating partnerships between developed and developing countries in Africa that would help transfer know-how to African farmers and facilitate the move from artisan to technologically advanced methods of growing and harvesting. Helping Africans to implement farming practices that use less water, less pesticides and have higher yields per acre will leapfrog them into the 21^{st} Century. Implementing harvesting practices that use machines rather than people will help minimize labor risk potentials. Instituting cotton grading practices that mimic our own system will help ensure quality product and reliability for purchasers.

Training workers and management is also essential and this is another area where developed countries' know-how can prove crucial. Allowing employees access to visas to travel to the US for training in our practices and systems will enable us to ensure that best practices are exported and put in place globally. Trade infrastructure projects are critical, and in this regard we salute current Congressional efforts to promote energy investments in Africa. We also support the Trade Facilitation Agreement signed in Bali last year and look forward to its implementation. Creating support to the sub-Saharan nations to build an intra-regional connectivity that will allow goods necessary for apparel production to transit the continent seamlessly will enhance the attractiveness of the continent and prevent each nation having to be completely vertically integrated on its own.

WHAT CONGRESS CAN DO

Congress can be a great catalyst for the growth we envision by matching the long-term commitment expected from the private sector and swiftly approving a lengthy extension of the AGOA program. The private sector is embarking in hundreds of millions of dollars in investments but they can all come to a halt unless there is greater certainty about the trade rules in place. Yarn spinners, fabric weavers/knitters and apparel producers need 12-24 months to set up their facilities and train workers. They also need to build production capacity and be able to have benefits long enough to cover the full depreciation of our investments. As mentioned earlier, the development of better cotton production programs that will help Africa be more self-sufficient will also take time. Thus, if Congress merely extends AGOA for a handful of years, it is signaling that Africa will remain a cut and sew operation.

Congressional commitment to a 15 year extension of AGOA will show the business community that Congress is truly dedicated to working with the private sector in helping Africa develop and diversify into economic independence.

Finally, while we want to achieve a fully vertically integrated Africa in the future, it is important for companies in the apparel sector to have the third party input provision remain in place for a period of time sufficient to allow the growth of the investments that will make the third party provision no longer necessary. As described previously, setting up the yarn and textile facilities takes significantly longer than installing sewing machines and the factories need time to come fully on line. Thus, it is necessary for the third country fabric provision to remain in place for a lengthy period of time.

CONCLUSION

As someone who has been involved in global operations for over two decades, I always ponder the question of where is the next region of growth. I believe we may now have an answer: Africa. With the right set of policies in place, Africa will both receive great investments from U.S. companies and change the model of apparel sourcing by having a fully integrated, socially responsible, supply chain that includes man-made fibers, cotton, yarn, textile and apparel production. We urge Congress to match the level of business interest in Africa and promptly pass a long-term AGOA extension.

Sincerely,

William McRaith
Chief Supply Chain Officer
PVH Corp.

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