



United States
International Trade Commission

Earned Import Allowance Program: Evaluation of the Effectiveness of the Program for Certain Apparel from the Dominican Republic

Ninth Annual Review

August 2018

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United States International Trade Commission

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Preface

Section 404(d) of the Dominican Republic-Central America-United States Free Trade Agreement Implementation Act, as amended (the Act) (19 U.S.C. 4112(d)), requires the U.S. International Trade Commission (Commission) to conduct annual reviews of the Earned Import Allowance Program (EIAP) for the Dominican Republic “for the purpose of evaluating the effectiveness of, and making recommendations for improvements in, the program.” The Act directs the Commission to transmit its reports on the results of such reviews to the House Committee on Ways and Means and the Senate Committee on Finance.

Overview, Background, and Approach

This report contains the results of the Commission’s ninth annual review of the Earned Import Allowance Program (EIAP) for the Dominican Republic. This report assesses the effectiveness of the EIAP in 2017 and through March 2018. Since the Dominican Republic is the only country eligible for the program,¹ this report focuses only on the effectiveness of the program as it relates to trade between the United States and the Dominican Republic. The report also includes a summary of recommendations made by the government of the Dominican Republic related to how the program might be improved.

As noted in prior annual reviews,² the EIAP is intended to improve the competitiveness of the Dominican Republic’s apparel industry in the U.S. market by maintaining the economies of scale required to keep the industry viable³ and to increase the Dominican apparel industry’s access to textile inputs.⁴ Section 404(d) of the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR) Implementation Act, as amended (the Act) (19 U.S.C. 4112(d)),⁵ requires the Commission to evaluate the effectiveness of the EIAP, to make recommendations for improving the program, and to submit a report annually to the House Committee on Ways and Means and the Senate Committee on Finance on the results of its review.

The EIAP provides an uncapped duty-free benefit for U.S. imports of certain woven cotton bottoms⁶ assembled in the Dominican Republic from third-country fabric.⁷ In order to qualify under the EIAP, Dominican firms that assemble and export woven cotton bottoms to the United States using intermediary fabric from third-country markets must provide U.S. Customs with a certificate documenting the amount of certain U.S.-produced woven cotton fabric they have

¹ Section 404(c)(3) (19 U.S.C. § 4112(c)(3)).

² Each of these annual reports is published under “investigation no. 332-503” and can be downloaded from the USITC website. Their full titles and URLs are listed in the bibliography.

³ USITC hearing transcript, November 18, 2009, 6–8 (testimony of Scott Quesenberry, an independent consultant and former special textile negotiator, Office of the U.S. Trade Representative); USITC, *Earned Import Allowance Program*, 2010, 2–3.

⁴ Swift Galey, written submission to the USITC, November 18, 2009; USITC, hearing transcript, November 18, 2009, 23 (testimony of Carlos Moore, AM&S Trade Services, on behalf of Swift Galey); Embassy of the Dominican Republic, written submission to the USITC, April 10, 2015, 2.

⁵ Section 404 was added to the Act by section 2 of Public Law 110-436, approved October 16, 2008, “An Act to Extend the Andean Trade Preference Act, and for other Purposes.” (See appendix A for a copy of the statute; see, in particular, sections 404(c) and (d).) Section 404 (e)(1) of the Act states that the program will be in effect for the 10-year period beginning on the date on which the President certifies to the appropriate congressional committees that sections A, B, C, and D to the Annex to Presidential Proclamation 8213 (December 20, 2007) have taken effect. In Proclamation 8323 of November 25, 2008, the President issued the following statement: “3. On August 7, 2008, the United States Trade Representative (USTR) published a notice in the *Federal Register* (73 FR 46057) announcing that August 15, 2008, would be the effective date for sections A, B, C, and D of the Annex to Presidential Proclamation 8213, 4. I have determined, and hereby certify, that the provisions of Proclamation 8213 referenced in section 404(e)(1) of the CAFTA-DR Act, as amended, have taken effect.” 122 Stat. 5389.

⁶ Denim cotton bottoms are excluded from coverage under the provision. The provision includes all other cotton woven pants and trousers, bib and brace overalls, breeches and shorts, and skirts and divided skirts.

⁷ Third-country fabric refers to fabric that originates in a country outside the United States or the Dominican Republic.

used for apparel production. The program stipulates that for every 2 units of qualifying U.S. fabric purchased for apparel production in the Dominican Republic, a 1-unit credit is received that can be used to import apparel made with third-country fabric duty free into the United States.

This report assesses the effectiveness of the EIAP in 2017 and through March 2018 and summarizes the recommendations received by the Commission from interested parties on how to improve the program. The report draws largely on publicly available trade data and information, as well as data obtained from the U.S. government officials administering the EIAP. During its investigation, the Commission sought comments on the EIAP and recommendations for improving the program via a *Federal Register* notice (appendix B). The Commission received one submission from the government of the Dominican Republic, which is reproduced in its entirety in appendix C. Information from this submission is incorporated into the Commission's report as appropriate.

Based on available information the Commission again finds that, since the program's inception in December 2008 and the first entry of imports under the program in April 2009, the EIAP has not significantly boosted exports of woven cotton bottoms (pants and trousers, bib and brace overalls, breeches and shorts, and skirts and divided skirts) from the Dominican Republic to the United States. A small supplier of woven cotton bottoms to the United States, the Dominican Republic continued to lose U.S. market share in 2017 as total U.S. imports of all woven cotton bottoms from the Dominican Republic (not just those under the EIAP) fell from the previous year. As a result, the Dominican Republic fell in rank to become the 32nd-largest global supplier of all woven cotton bottoms imported into the United States (down from its position as the 26th largest supplier in 2016 and the 11th largest supplier in 2009).⁸ Although U.S. exports of bottom-weight cotton fabrics to the Dominican Republic increased 21 percent by value and 1 percent by quantity (measured in square meter equivalents or SMEs) in 2017, the Dominican Republic fell from being the second-largest market for U.S. exports of bottom-weight cotton fabrics in 2009 to the fifth-largest in 2017.⁹ Finally, the Dominican Republic accounted for slightly less than 3 percent of the total value of such U.S. cotton fabric exports to the world in 2017, down from 7 percent in 2009.¹⁰

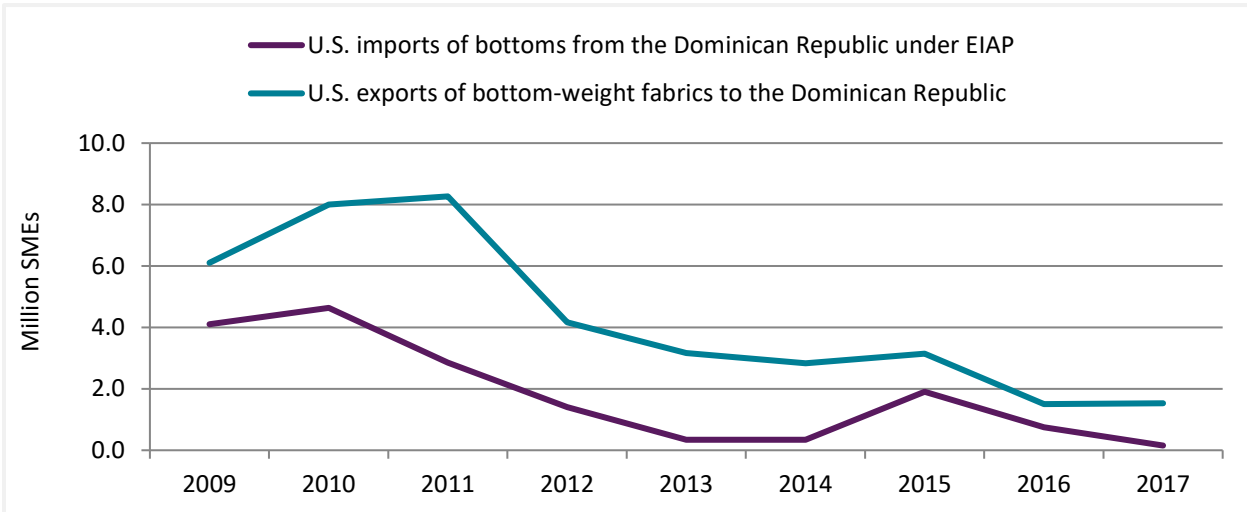
⁸ The reference is to all woven cotton bottoms, not just those covered by the EIAP, which does not include woven cotton bottoms made of denim.

⁹ The four largest markets for U.S. exports of bottom-weight cotton fabrics in 2017 were Mexico, Honduras, Canada, and Nicaragua.

¹⁰ USITC DataWeb/USDOC (accessed May 10, 2018).

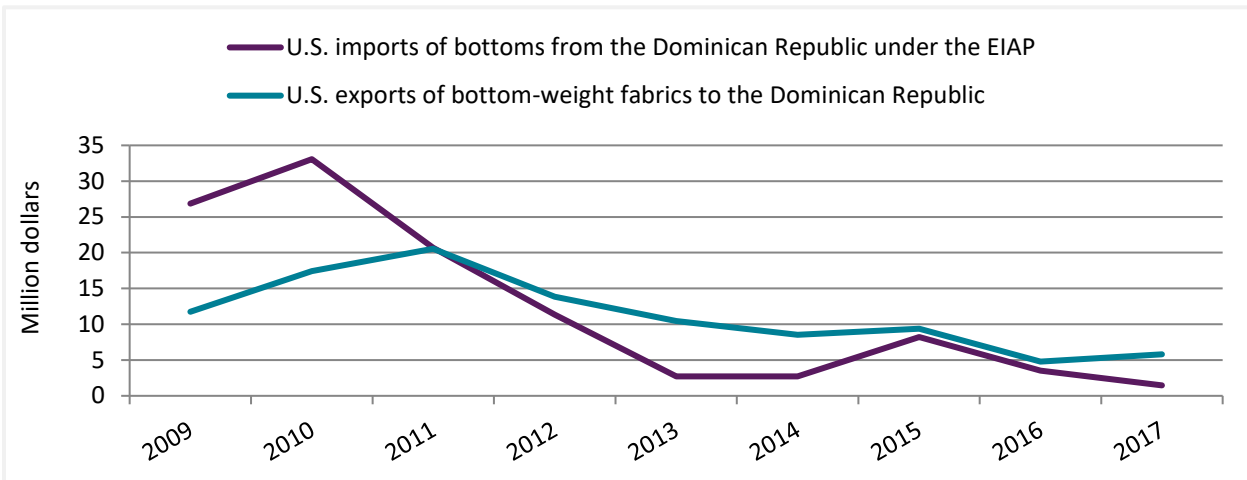
The following charts show the trends in U.S. imports of woven cotton bottoms under the EIAP¹¹ and U.S. exports of bottom-weight cotton fabrics¹² by quantity and by value during 2009–17.

Figure 1: U.S. imports of woven cotton bottoms from and exports of bottom-weight cotton fabrics to the Dominican Republic under the EIAP, by quantity, 2009–17



Source: USITC DataWeb/USDOC (accessed March 26 and May 10, 2018).

Figure 2: U.S. imports of woven cotton bottoms from and exports of bottom-weight cotton fabrics to the Dominican Republic under the EIAP, by value, 2009–17



Source: USITC DataWeb/USDOC (accessed March 26 and May 10, 2018).

¹¹ The data on U.S. imports of woven cotton bottoms under the EIAP (classified in HTS 9822.06.05) are provided to the USITC by the U.S. Department of Commerce, Office of Textiles and Apparel.

Source: USITC DataWeb/USDOC (accessed March 26 and May 10, 2018).

¹² U.S. exports of bottom-weight cotton fabrics are classified in Schedule B codes 5208.13.0000, 5208.19.2000, 5208.33.0000, 5208.39.2000, 5208.59.1000, 5209.32.0000, 5209.39.0030, 5209.42.0030, 5210.32.0000, 5210.39.2000, 5211.32.0000, 5211.39.0030, 5211.42.0030, 5211.42.0050, 5212.13.0000, 5212.23.0000, and 5212.24.0000.

Program Activity and Trade

As of March 2018, 13 companies in the United States and the Dominican Republic¹³ had accounts entitling them to participate in the EIAP.¹⁴ Four of the registered firms earned export credits and used the program in 2017 and the first quarter of 2018—one less than was reported in the last three annual reviews.¹⁵ As of March 31, 2018 (the latest date for which data are available), the U.S. Department of Commerce had issued export credits totaling 19.23 million SMEs of fabric since the program began on December 1, 2008.¹⁶ Based on the previous figure reported in the Commission's eighth annual review (19.18 million SMEs), this indicates that about 40,000 SMEs of export credits were issued between April 1, 2017, and March 31, 2018.¹⁷

From the start of the EIAP on December 1, 2008, through March 2018, U.S. imports of woven cotton bottoms under the program totaled about 16.5 million SMEs. This leaves a balance of about 2.7 million SMEs in credits that could be used to import woven cotton bottoms free of duty under the EIAP using third-country fabrics before all the existing credits are used.¹⁸

In 2017, the quantity of U.S. imports under the program fell 80 percent, from 745,000 SMEs in 2016 to about 154,000 SMEs (figure 3), and the value of U.S. imports under the program fell 59 percent, from \$3.5 million in 2016 to \$1.5 million (figure 4). As a result, U.S. imports under the program in 2017 reached an all-time low.¹⁹ U.S. imports under the program in the first quarter of 2018 decreased compared to the first quarter of 2017, from 41,000 SMEs to 18,000 SMEs by quantity and from \$426,000 to \$190,000 by value.²⁰

¹³ Seven of these firms are U.S. companies, while 6 are Dominican firms. In 2017, the number of companies with accounts entitling them to participate in the EIAP increased from 12 to 13. The new registered account, however, did not make any deposits. U.S. government official, email messages to USITC staff, May 1, 2018, and May 18, 2018.

¹⁴ In year 1 of the EIAP, 9 companies were registered to use the program. USITC, *Earned Import Allowance Program*, 2010, 3-1.

¹⁵ U.S. government official, email message to USITC staff, May 1, 2018; USITC, *Earned Import Allowance Program*, 2017, 9; USITC, *Earned Import Allowance Program*, 2016, 11. One Dominican apparel producer stated that his company has not used the EIAP since 2014, preferring instead to import under Haiti's HOPE/HELP programs. Dominican apparel industry representative, email message to USITC staff, May 10, 2018.

¹⁶ Based on data reported on www.otexa.trade.gov, May 15, 2018.

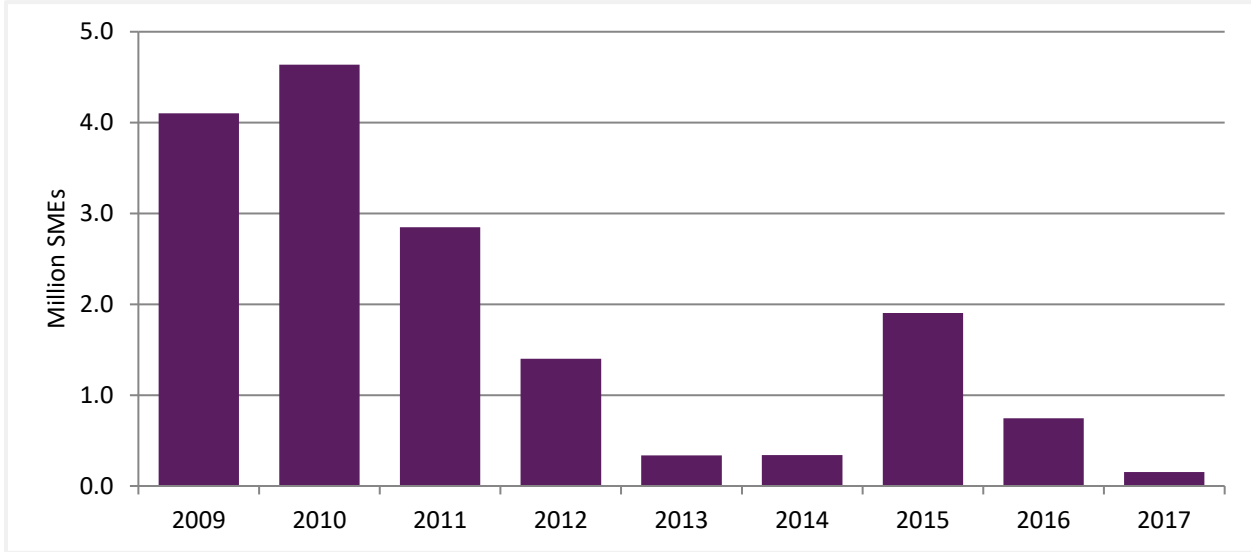
¹⁷ Figures may not add up to totals shown due to rounding. U.S. government official, email message to USITC staff, May 15, 2018.

¹⁸ Calculated based on credits earned totaling 19.2 million SMEs, minus U.S. imports of 16.5 million SMEs under the program. U.S. government official, email message to USITC staff, May 15, 2018.

¹⁹ Conversely, total U.S. imports of woven cotton bottoms from the world increased by \$2.0 million (26 percent) from 2016 to 2017 and by \$3.7 million (61 percent) from 2009 to 2017—totaling \$9.9 million in 2017. There was a sharp increase in imports under the program in 2015, which industry representatives attributed to “incidental large orders rather than to the EIAP.” USITC, *Earned Import Allowance Program*, 2015, 12.

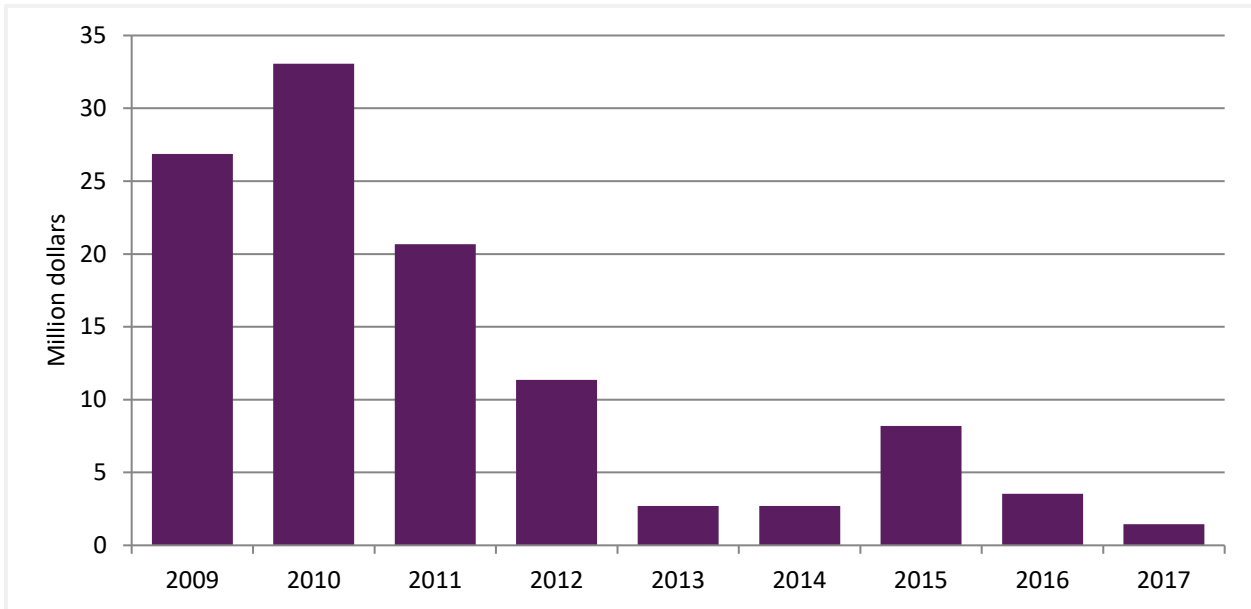
²⁰ USDOC, OTEXA (accessed May 9, 2018).

Figure 3: U.S. imports of qualifying apparel under the EIAP by quantity, 2009–17



Source: USDOC, OTEXA (accessed May 9, 2018).

Figure 4: U.S. imports of qualifying apparel under the EIAP by value, 2009–17



Source: USDOC, OTEXA (accessed May 9, 2018).

The decline in U.S. imports under the EIAP in 2017 continued into early 2018. U.S. government officials and one former user of the program have attributed the drop in U.S. imports under the EIAP to several factors. In 2017, representatives of the Dominican Republic’s apparel industry

stated, as they had previously, that Haiti's lower labor rates²¹ and the favorable trade preferences offered to Haiti under the HOPE/HELP²² programs motivated them to switch to sourcing woven cotton bottoms from Haiti.²³ The HOPE/HELP programs offer more sourcing flexibility, cover a wider range of products, and include a tariff preference level (TPL) for woven apparel that allows the use of third-country fabric up to a specified level.²⁴ Also, the decline in U.S. imports under the EIAP likely reflects a significant decline in woven trouser manufacturing capacity in the Dominican Republic, along with a simultaneous shift by U.S. importers to Asian suppliers during the life of the program.²⁵ Since the program began, U.S. imports of woven cotton bottoms from Asian firms have significantly increased, suggesting that U.S. apparel brands that had sourced from the Dominican Republic relocated production of these goods to Asian suppliers.²⁶ Finally, uncertainty surrounding the program's renewal after it expires on December 1, 2018, may also explain why U.S. imports of woven cotton bottoms under the program reached their lowest level in 2017.²⁷

Total U.S. exports to the Dominican Republic of bottom-weight cotton fabrics rose slightly in 2017, increasing 1 percent in quantity to 1.5 million SMEs and rising 21 percent in value to \$5.8 million in 2017 (figures 5 and 6).²⁸ During the first quarter of 2018, U.S. exports of these fabrics rose 8 percent in quantity compared to the first quarter of 2017, but fell 6 percent in value compared to the first quarter of 2017.²⁹

²¹ Commissioner Kearns notes that Haiti HOPE II requires the U.S. government to monitor labor conditions in Haiti. Summaries of these findings are available from USTR.

²² The HOPE/HELP laws are the Haitian Hemispheric Opportunity through Partnership Encouragement Act of 2006 (HOPE I), the Haitian Hemispheric Opportunity through Partnership Encouragement Act of 2008 (HOPE II), and the Haiti Economic Lift Program Act of 2010 (HELP).

²³ Dominican apparel industry representative, email messages to USITC staff, May 10 and 14, 2018. In 2009 Haiti supplied \$22.2 million of woven cotton bottoms to the United States; In 2017 it increased exports of these goods to \$65.7 million to become the United States' 16th-largest supplier.

²⁴ USITC DataWeb/USDOC (accessed May 21, 2018); Dominican industry representative, email message to USITC staff, May 14, 2018.

²⁵ U.S. government official, email message to USITC staff, May 10, 2018.

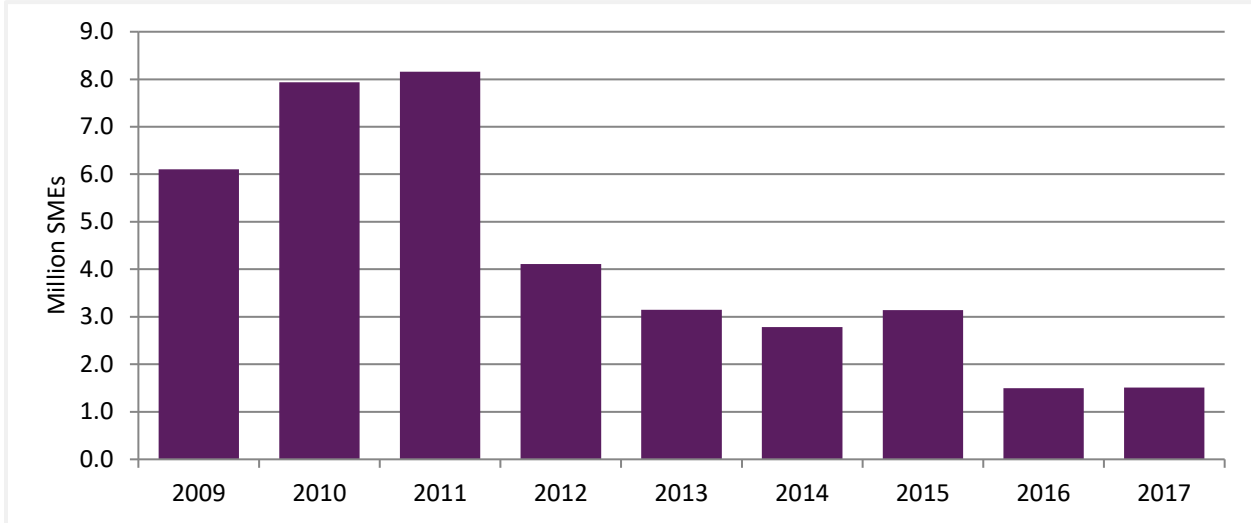
²⁶ U.S. imports of woven cotton bottoms increased from its largest supplier, China, by 46 percent between 2009 and 2017 to \$2.7 million. Over the same period imports from Bangladesh and Vietnam (the United States' second and fourth largest suppliers) increased by 88 percent to \$1.9 million and by 84 percent to \$1.2 million, respectively. USITC DataWeb/USDOC (accessed May 21, 2018).

²⁷ U.S. government official, email message to USITC staff, May 10, 2018.

²⁸ Total U.S. exports of bottom-weight cotton fabrics to the world totaled \$186 million in 2017—an increase of \$425,000 (0.2 percent) from 2016 and \$10.3 million (6 percent) from 2009.

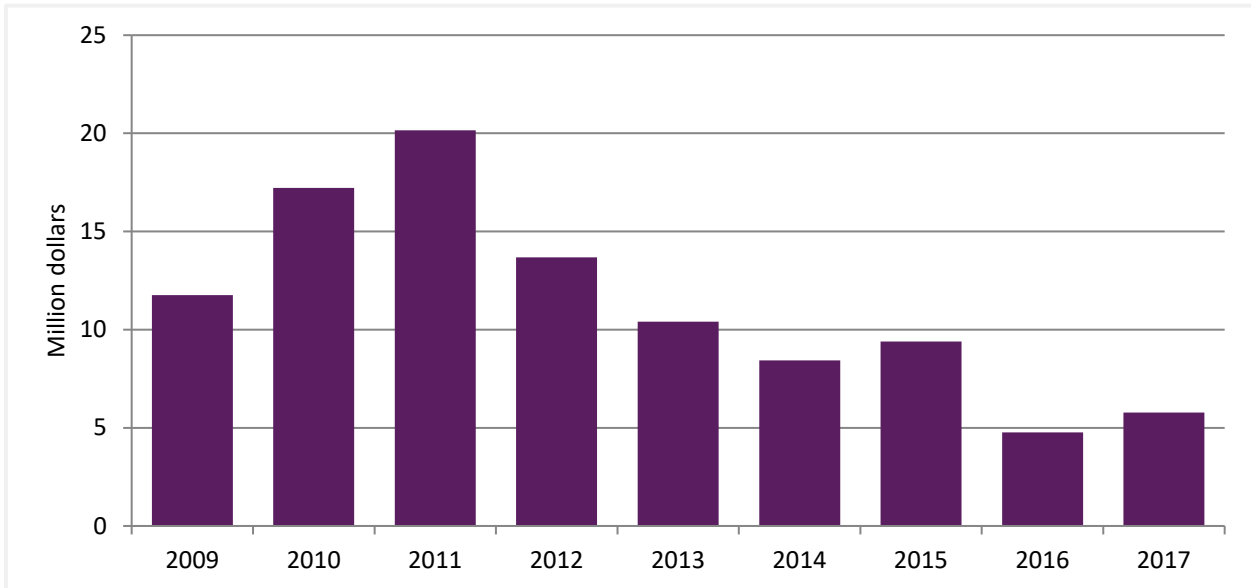
²⁹ USITC DataWeb/USDOC (accessed May 10, 2018).

Figure 5: U.S. exports of bottom-weight cotton fabrics to the Dominican Republic, by quantity, 2009–17



Source: USITC DataWeb/USDOC (accessed May 10, 2018).

Figure 6: U.S. exports of bottom-weight cotton fabrics to the Dominican Republic, by value, 2009–17



Source: USITC DataWeb/USDOC (accessed May 10, 2018).

Recommendations to Improve the Earned Import Allowance Program

The recommendations offered during the ninth annual review of the EIAP were virtually the same as those received by the Commission during the previous eight annual reviews.³⁰ The Commission received one new written statement from the government of the Dominican Republic,³¹ which reiterated the following recommended changes:

1. Lower the 2-for-1 ratio of U.S. to foreign fabric to 1 for 1;
2. Expand the program coverage to enable other types of fabrics and apparel items to be included in the EIAP;
3. Change the requirement that dyeing and finishing of eligible fabrics occur in the United States.

The government of the Dominican Republic said that these changes would help apparel manufacturers in the Dominican Republic take advantage of the program, help overturn the decline exhibited in textile and apparel bilateral trade flows, and help maintain balanced market access conditions with new preferential trading partners.³² The government of the Dominican Republic noted that in 2017, imports under the EIAP reached their lowest point since the implementation of the program in 2009 and that as a result, the Dominican Republic continues to lose market share as a provider to the U.S. of woven cotton bottoms.³³ The government stated that an additional challenge has been the unavailability of bottom-weight fabrics made within the United States, which is making it very difficult for manufacturers to collect sufficient credits in their EIAP accounts.³⁴

³⁰ The only exception is that in the 2016 report, the American Apparel and Footwear Association (AAFA) offered a new recommendation—“add countries to the program to foster CAFTA-DR regional integration and to create more opportunities.” USITC, *Earned Import Allowance Program*, 2016, 15. In 2018, a representative of the AAFA noted that its recommendations were unchanged from all prior years. U.S. industry representative, email message to USITC staff, February 27, 2018. No statements received by the Commission recommended the extension of the program past its expiration date of December 1, 2018.

³¹ See appendix C for a copy of the submission.

³² Government of the Dominican Republic, written submission to the USITC, April 30, 2018, 3.

³³ Government of the Dominican Republic, written submission to the USITC, April 30, 2018, 2.

³⁴ Government of the Dominican Republic, written submission to the USITC, April 30, 2018, 3.

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4417. Washington, DC: USITC, 2013.

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Appendix A

Section 2 of Public Law 110-436

Appendix B

Federal Register Notice

Appendix C

Written Submission to the Commission

