ADVANCING THE U.S. TRADE AGENDA: TRADE WITH AFRICA AND THE AFRICAN GROWTH AND OPPORTUNITY ACT

HEARING

BEFORE THE

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRTEENTH CONGRESS

SECOND SESSION

JULY 29, 2014

Serial 113–TR07

Printed for the use of the Committee on Ways and Means

U.S. GOVERNMENT PUBLISHING OFFICE

21–110 WASHINGTON : 2016

For sale by the Superintendent of Documents, U.S. Government Publishing Office
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ADVANCING THE U.S. TRADE AGENDA: TRADE WITH AFRICA AND THE AFRICAN GROWTH AND OPPORTUNITY ACT

U.S. House of Representatives,
Committee on Ways and Means,
Subcommittee on Trade,
Washington, DC.

The Subcommittee met, pursuant to notice, at 2:04 p.m. in 1100 Longworth House Office Building, the Honorable Devin Nunes, [Chairman of the Subcommittee] presiding.

[The advisory announcing the hearing follows:]

ADVISORY
FROM THE COMMITTEE ON WAYS AND MEANS

FOR IMMEDIATE RELEASE CONTACT: (202) 225-3625
July 22, 2014
No. TR-07

Chairman Nunes Announces Hearing on Advancing the U.S. Trade Agenda: Trade with Africa and the African Growth and Opportunity Act

House Ways and Means Trade Subcommittee Chairman Devin Nunes (R-CA) today announced that the Subcommittee will hold a hearing on trade with Africa and the African Growth and Opportunity Act. **The hearing will take place on July 29, 2014, in 1100 Longworth House Office Building, beginning at 2 P.M.**

In view of the limited time available, oral testimony at this hearing will be from the invited witnesses only. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

BACKGROUND:
In 2000, Congress first passed the African Growth and Opportunity Act (AGOA) to provide duty-free access to a wide variety of products from sub-Saharan African countries that meet certain criteria. Benefits under AGOA are extensive, allowing for duty-free access for many apparel and agriculture products that are not included in the Generalized System of Preferences (GSP) and providing preferential treatment on about 2000 more tariff lines than GSP. In addition, AGOA includes certain special rules of origin to further encourage trade and development in Africa.

The program is designed to promote economic development in sub-Saharan Africa by granting increased access to U.S. markets. The AGOA Ambassadors Working Group estimates that AGOA has generated about 350,000 direct jobs and 1,000,000 indirect jobs in Sub-Saharan Africa and about 100,000 jobs in the United States.

Since adoption of AGOA in 2000, U.S. trade with sub-Saharan Africa has grown about four-fold, rising from $7.6 billion in 2001 to $24.8 billion in 2013. Approximately 90 percent of imports from AGOA-eligible countries entered under the AGOA program, though the level of utilization varies from country to country. Major products exported to the United States under AGOA include crude petroleum ($20 billion), automobiles and parts ($2.1 billion), refined petroleum products ($1.2 billion), and textiles and apparel ($907 million).

AGOA has had a positive impact on foreign direct investment flows to sub-Saharan Africa, particularly in the textile and apparel sectors, as well as the automotive sector. U.S. investment since enactment of AGOA has increased six-fold. Even as trade and investment have grown, significant barriers remain in Africa, including high tariffs, forced localization requirements, legal restrictions on investment, and customs barriers, among others. Substantial supply-side constraints, such as poor infrastructure, lack of regional integration, and other obstacles, also contribute to depress trade and investment flows.

As Congress considers renewal of AGOA, which expires in September 2015, this hearing is an important element of the Committee's fact-gathering activities. **To this end, the Committee encourages interested parties to submit for the record specific comments on AGOA and AGOA renewal, pursuant to the below instructions.** The period for comments will be held open longer than usual to accommodate comments from interested parties.

In announcing this hearing, Chairman Nunes said, **"AGOA is an important development tool that has been proven to promote economic growth and jobs both in developing countries in Africa and the United States. I am committed to ensuring a bipartisan, timely, and seamless renewal of the program before it expires in September 2015. In addition, we are studying potential changes to the program to improve its effectiveness and utilization. We are also exploring how Africa can reduce barriers and become more attractive for trade and investment within Africa, as well as globally, such as through full implementation of the WTO Trade Facilitation Agreement."**

FOCUS OF THE HEARING:

The focus of the hearing is on AGOA and U.S. trade policy in sub-Saharan Africa. The hearing focus will include: (1) deepening and expanding trade and investment ties with sub-Saharan Africa; (2) the effectiveness of AGOA and potential revisions to the program to promote improved utilization; (3) barriers to trade in Africa; (4) barriers to regional integration in Africa; and (5) capacity building and efforts to promote regional integration and integration into global supply chains, including through implementation of the WTO Trade Facilitation Agreement.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, http://waysandmeans.house.gov, select "Hearings." Select the hearing for which you would like to submit, and click on the link entitled, "Click here to provide a submission for the record." Once you have followed the online instructions, submit all requested information. ATTACH your submission as a Word document, in compliance with the formatting requirements listed below, by the close of business on Thursday, August 28, 2014. Finally, please note that due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225-1721 or (202) 225-3625.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any supplementary materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission or supplementary item not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All submissions and supplementary materials must be provided in Word format and MUST NOT exceed a total of 10 pages, including attachments. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears. A supplemental sheet must accompany each submission listing the name, company, address, telephone, and fax numbers of each witness.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202-225-1721 or 202-226-3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Note: All Committee advisories and news releases are available on the World Wide Web athttp://www.waysandmeans.house.gov/.

Chairman NUNES. I would like to call the Committee to order. Good afternoon. Welcome to today's hearing on advancing our trade agenda and trade with Africa. Before hearing form our witnesses, I would like to make three points.

First, we are committed to a seamless, bipartisan renewal of AGOA well before its expiration in fifteen months. Congressman Rangel and I worked closely in developing this hearing—having jointly selected all the witnesses—and we are cooperating to develop a plan for AGOA's renewal. To improve the program, we are studying possible changes with an eye toward strengthening utilization and effectiveness. We are listening to stakeholders on issues like capacity building, product coverage and rules of origin, eligibility criteria, and graduation among others, so that we can determine what changes, if any, are appropriate. To assist in our review we have requested an extensive study from GAO. In addition, as part of this hearing, we are requesting and encouraging additional analysis and suggestions from the public.

Second, to make AGOA more effective, we must help Africa address both political and supply side barriers to trade. To encourage greater regional and global integration, Africa must remove domestic barriers to trade and investment, including high tariffs, forced localization requirements, legal restrictions on investment, and customs barriers, among others.

Supply-side constraints such as poor infrastructure, lack of regional integration, and other obstacles impede AGOA utilization. We are working with Chairman Royce and the Foreign Affairs Committee to develop approaches to assist African countries in maximizing AGOA utilization. For example, earlier this year the House passed the Electrify Africa Act with strong bipartisan support. I call on the Senate to act quickly on this important legislation.

Implementing the recently concluded Trade Facilitation Agreement would also help Africa address supply side constraints and encourage greater investment from private sector and development banks. I am frustrated that India is blocking adoption of the deal it agreed to last December, harming developed and developing countries alike and threatening the WTO's viability.

Third, as we renew AGOA, we should look at ways to deepen and expand our trade relationship with AGOA countries. We should expand our TIFA and BIT programs, and seek BITs with regional groupings. As countries become ready, we should begin negotiating FTAs for the most robust trade relationship. At the same time, I am concerned by the EU's efforts to withdraw unilateral preferences and force African countries to sign bilateral agreements. This approach disadvantages U.S. companies seeking to do business in Africa and raises serious policy and development concerns.

Finally, the bipartisan TPA bill that I co-sponsored earlier this year with Chairman Camp includes strengthened provisions on capacity building and development. I call on the Administration to work with Congress to pass this important legislation.

Chairman NUNES. I will now yield to Ranking Member Rangel for the purpose of an opening statement.

Mr. RANGEL. Thank you, Mr. Chairman. It is so refreshing to listen to a Chairman of the majority to give a statement that I don't have to rebut or contest, or to display political eloquence in terms of why I have a different idea. You have really worked hard, not only on this bill, but what's in the best interest of our great country and how we can help these struggling countries that for so long have been neglected.

And I cannot think of a better time to do this as the President of the United States has invited 50 heads of the African countries to come, not only to discuss the African growth and opportunity bill, which we have these experts here to share with us, which is the best direction, but also to be able to look at the broad question of what contribution we and other nations can make to be of assistance to the spectacular growth of the economy of these African countries. And, as you said, the reports indicate there are some things, a lot of things that we can do better, and working together we would.

In addition to having the heads of states, there are 500 young people from Africa that have been coming to the United States in order to learn more about our system, both in the private and public sector. And I can't think of a better way than—to improve our relationships with the countries except through their young people. I am seeing that you have given permission for Congresswoman Karen Bass to share with us, and I want to thank you for this courtesy, because no member of this Congress has displayed more in terms of more hard work, which is the most important thing, but interest in seeing what the United States and what the Congress, and more specifically our Committee with the Foreign Affairs Committee, in working together under your leadership can do.

And so I want to thank you for your commitment, and also thank the witnesses for helping us and directing us to see what we can do better. I truly believe, without exaggeration, that this is a historic time in our international trade policies. The countries of Africa, the last to get on board, and with our help I am certain they can catch up.

Thank you so much, Chairman Nunes.

Chairman NUNES. I want to thank you, Mr. Rangel. There is no one committed more to getting AGOA passed than yourself from the time of our first meeting when I became chair of this committee. This was your priority and we worked together on this. And there is nothing better than having three witnesses here that we all agree upon. I want to welcome all three of you.

The first witness is Ben Leo, Senior Fellow at the Center for Global Development. Our second witness is William McRaith, Chief Supply Chain Officer for PVH Corporation. Our third witness is Witney Schneidman, Senior International Advisor for Africa at Covington & Burling, and a non-resident fellow for the African Growth Initiative at the Brookings Institution.

Before we recognize our witnesses, our time is limited this afternoon. You should limit your testimony to five minutes and Members should keep their questioning to five minutes.

Mr. Leo, your written statement will be made part of the record, and you are now recognized for five minutes.

STATEMENT OF BEN LEO, SENIOR FELLOW, DIRECTOR OF RETHINKING U.S. DEVELOPMENT POLICY, CENTER FOR GLOBAL DEVELOPMENT

Mr. LEO. Thank you, Chairman Nunes, Ranking Member Rangel and other Members of the Subcommittee.

I appreciate the opportunity to discuss ways to advance the U.S.-Africa Trade and Investment Agenda. This hearing and the broader examination of the African Growth and Opportunities Act, along with other U.S. policy tools, is extremely well-timed. When African leaders and business people come to Washington next week, we all expect them to deliver a very united message that their most pressing objectives are seeking ways to generate more trade and investment with the United States.

My remarks today will focus on four interrelated points. First, the global competitiveness of African firms is primarily constrained by business climate issues, small market size and collusive political economic dynamics. Business surveys paint a very clear and very stark picture. The biggest constraints are unreliable and costly electricity, high transport costs and export processing times and access to capital. Addressing these kinds of factors, even if only on the margins, will have a greater impact on U.S. trade and investment than further expanding AGOA's market access provisions. The key question is determining where and how the U.S. can best incentivize and support reforms by committed African governments.

Second, despite clear criteria, AGOA country eligibility decisions have not reflected whether African governments are establishing market-based economies and favorable business climates. AGOA was originally designed as a compact with African governments, founded upon a commitment to sound economic policies, democratic pluralism and respect for human and labor rights. While Congress created these eligibility criteria equally, successive administrations have implemented them in highly unequal ways.

In practice AGOA eligibility has been used to promote democratic freedoms, which is a good thing, while economic freedoms have been basically ignored in the eligibility determination process. Going forward, Congress should consider conditioning preferential access to the $17 trillion U.S. economy upon business climate reforms.

Third, with a few very important exceptions, U.S. trade capacity building programs lack an overarching strategy and have been fragmented and under-resourced. What we often find are a multitude of very small U.S. Government agencies providing sporadic and largely insignificant assistance. Moreover, U.S. assistance for regional economic communities has been modest, despite their outsized role in facilitating regional integration and helping to address the problem of small market size. On the positive side, the Millennium Challenge Corporation and more U.S. initiatives like Power Africa and the little-known Trade Africa Initiative are focusing on the right issue sand doing a good job. The key is ensuring that they have scale and staying power. Going forward, Congress and the Obama Administration should bring greater focus and coordination and scale to trade capacity building programs in Africa.

Lastly, the U.S. Government should actively pursue legally binding, bilateral investment treaties as an additional way of promoting economic freedoms and greater trade and investment flows. These treaties can encourage investment by providing investors with protections against things like expropriation or discriminatory treatment; however, the U.S. has only ratified six treaties with sub-Saharan African countries over time, which covers a mere seven percent of regional GDP. And, to-date, the Obama Administration has not successfully negotiated a single, legally binding investment agreement.

Countries like China and Canada have demonstrated that African governments are ready to sign these agreements, including major economies like Nigeria. While our peers and our competitors have been busy inking investment agreements, USTR has been pursuing ineffectual, non-legally binding trade and investment framework agreements. It is time that we focus and stop allocating very scarce government capacity and resources to these inconsequential talk shops and start pursuing real agreements that catalyze much-needed investment flows to the Continent.

Thank you very much.

[The prepared statement of Mr. Leo follows:]

Center for Global Development

Advancing the US–Africa Trade and Development Agenda: Aligning US Policy Tools to Address Core Competitiveness Constraints

Testimony before the House Committee on Ways and Means
Subcommittee on Trade

Ben Leo
Senior Fellow and Director, Rethinking US Development Policy Initiative
Center for Global Development

July 29, 2014

Thank you, Chairman Nunes, Ranking Member Rangel, and other members of the Subcommittee. I appreciate the opportunity to appear before you today to discuss ways to advance the US-Africa trade agenda. This hearing, and the broader examination of the African Growth and Opportunity Act (AGOA) and other US policy tools, is very well placed and timed. Next week, Washington will host roughly 50 African heads of state, hundreds of cabinet-level ministers, and over a thousand American and African business leaders and investors. The African delegations are expected to deliver a unified message – they want to generate more trade and attract more US investment into their economies.

Within this broader strategic context, my testimony will focus on four interrelated points, followed by a number of policy recommendations at the end:[1]

(1) **African firm-level competitiveness is influenced primarily by business climate constraints, small market size, and collusive political economy dynamics.** Addressing these factors, even on the margins, will have a greater impact on US–Africa trade flows and private-sector-based development than expanding AGOA's preferential market access provisions.

(2) **Despite explicit criteria, AGOA country eligibility decisions by successive Administrations have not reflected whether African governments are establishing market-based economies and favorable business climates.** Congress should consider conditioning preferential access to the $17 trillion US economy on demonstrable business environment reforms.

(3) **Congress and the Obama Administration should bring greater focus, coordination, and scale to US trade capacity building programs in Sub-Saharan Africa.** This will require the

[1] This testimony draws upon Center for Global Development research, including: (1) Leo and Ramachandran (2014), *Getting Serious about Underperformance of the African Growth and Opportunity Act*; (2) Leo (2010), *Where Are the BITs? How US Bilateral Investment Treaties with Africa Can Promote Development*; and (3) Gelb, Meyer, and Ramachandran (2014), *Development as Diffusion: Manufacturing Productivity and Sub-Saharan Africa's Missing Middle*. Additional details can be found at http://www.cgdev.org/expert/ben-leo.

establishment of a centralized policy body, with appropriate budgetary authority, to focus US trade-related programs on core competitiveness constraints.

(4) **The US government should** *stop* **investing in ineffectual Trade and Investment Framework Agreements (TIFAs) and** *start* **investing in legally binding Bilateral Investment Treaties (BITs)**. Such action will promote greater investment to the continent while also positioning US investors on equal footing with European, Chinese, and other investors who benefit from BIT protections.

I. AFRICAN FIRM-LEVEL COMPETITIVENESS CONSTRAINTS

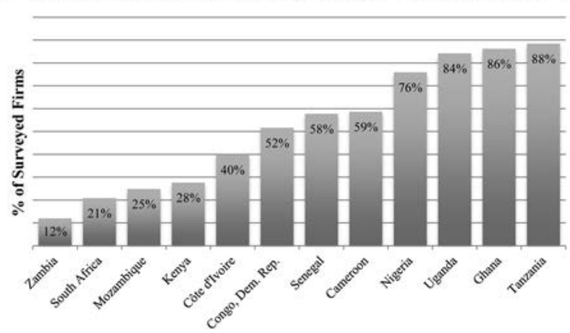
African trade competitiveness is influenced primarily by business climate constraints, small market size, and collusive political economy dynamics. Addressing these factors, even on the margins, will have a greater impact on US–Africa trade flows and private-sector-based development than expanding AGOA's preferential market access provisions. Nearly all of these issues must be addressed primarily by African governments. Therefore, the central policy question for the US government is determining how best to incentivize and support related reforms, which is addressed in the subsequent sections.

Unreliable and costly electricity is a major competitiveness constraint for most African businesses.

- Half of African firms cite electricity as a major constraint on their competitiveness, profitability, and expansion potential. In some African economies, losses from power outages amount to more than 10 percent of sales.

- More than 80 percent of firms in Ghana, Tanzania, and Uganda cite concerns with power reliability and affordability.

Figure 1 – African Firms' Citing Electricity as Major Constraint, Select Countries



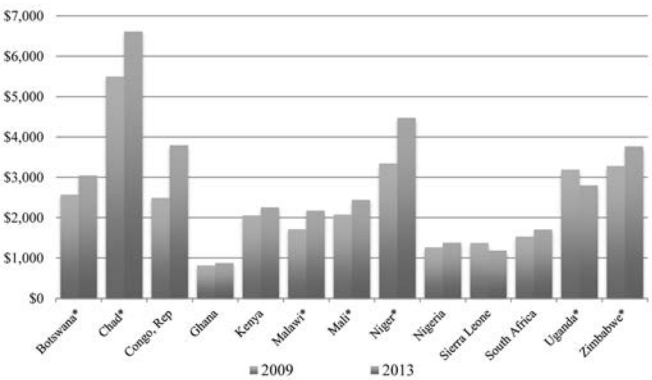
Source: World Bank Business Enterprise surveys

Despite some progress in transport and export-processing times, high costs remain a serious competitiveness burden.

- Across the region, nearly 30 percent of Sub-Saharan African firms cite transportation as a "major" or "severe" constraint.

- Since 2009, the average cost of exporting a standardized shipping container increased in half of African countries. In fact, 13 countries witnessed higher costs while still reducing the transport and export processing times, such as Botswana, Lesotho, Malawi, Mali, and Nigeria. Monopolistic trucking cartels at least partly explain this dynamic in many countries.

Figure 2 – Cost Required to Export a Standardized Container, Select Countries[2]



Source: World Bank Doing Business surveys and authors' calculations

Access to finance remains another binding impediment to firm expansion potential.

- On average, nearly half of African firms cite access to finance as a major concern.

- This appears to be a particularly significant constraint in many resource-dependent economies, such as Cameroon, the Democratic Republic of Congo, Côte d'Ivoire, and Nigeria.

[2] Asterisk indicates that the country is landlocked.

II. FOCUSING AGOA ELIGIBILITY CRITERIA ON COMPETITIVENESS CONSTRAINTS AND CORE US POLICY OBJECTIVES

The African Growth and Opportunity Act of 2000 was designed as a compact with African governments that incentivizes and promotes private sector-based development models.

- AGOA country eligibility rules were designed to incentivize and reward African governments that demonstrate a clear commitment to sound economic policy, trade and investment policy, good governance, democratic pluralism, and respect for human and labor rights.

- The breadth of AGOA's eligibility rules produced a true bipartisan compromise that has stood the test of time.

- Several of the requirements closely relate to firm-level constraints, as detailed above, that are hindering African nations' global competitiveness.

While Congress created these eligibility criteria equally, successive Administrations have implemented them in highly unequal ways, choosing to maintain AGOA benefits despite the lack of improvement or sharp deterioration in many countries.

- By illustration, business freedoms and property rights declined significantly in Chad and the Republic of Congo since 2005, without affecting their eligibility for AGOA benefits.[3]

- Moreover, contract enforcement has worsened in a number of other African countries, such as Angola, Burundi, and Zambia – without any trade preference implications.[4]

Instead, the revocation of AGOA eligibility has been driven primarily as a response to military coups, other unlawful seizures of power, or gross human rights violations.

- Historically, this has been applied to: the Central African Republic (2004), the Democratic Republic of Congo (2011), Côte d'Ivoire (2005), Eritrea (2004), Guinea (2009), Guinea-Bissau (2012), Madagascar (2009), Mali (2012), Mauritania (2006), and Niger (2009).

- Put differently, AGOA has been used as a freedom agenda tool, yet economic freedoms have been basically ignored. This is a strange practice given that AGOA is focused on expanding economic opportunity through private sector activity.

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[3] Source: Heritage Foundation, *Economic Freedom Index*, various years.
[4] By illustration, the time required to enforce a contract in Angola increased from 1,011 days in 2003 to nearly 1,300 days in 2013.

Going forward, Congress should consider utilizing all policy tools to incentivize business environment improvements, including conditioning preferential access to the $17 trillion US economy on demonstrable progress. Establishing an operational AGOA criterion based upon business environment factors must balance several important considerations.

- First, it must be perceived as real, with annual determinations being made transparently and on the merits (e.g., politically independent). The methodology should be made public and use publicly available third-party data.

- Second, the underlying indicators should be responsive to government reforms and related capital investments on a timely basis. Undue time lags between effort and observed impact will lead to policy, political, and communication challenges – particularly with African countries and the general public.

- Third, the ultimate methodology should not lead to excessive volatility in countries' eligibility status, which would create significant uncertainty for local businesses and foreign investors. However, some reasonable degree of eligibility responsiveness will be necessary.

- Fourth, there should be an initial transition period, such as three years, that would allow African governments to consider and implement targeted reforms and investments. After this period, the US government would begin including business environment progress as a core eligibility criterion.

III. FOCUSING US TRADE CAPACITY ASSISTANCE ON COMPETITIVENESS CONSTRAINTS AND US POLICY OBJECTIVES

Decentralized programming both across and within US agencies has produced a lack of strategic focus at the regional and country levels.

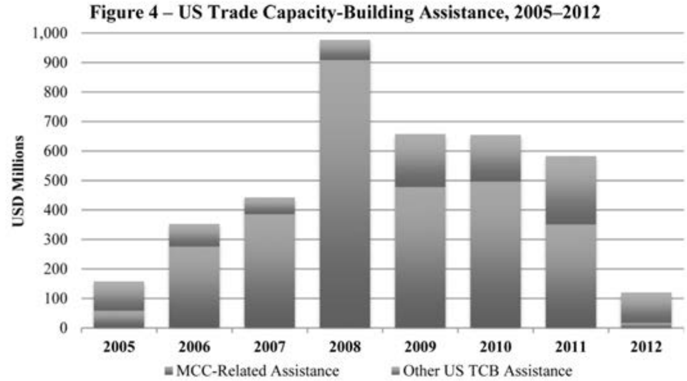
- US assistance efforts continue to lack a formal strategy and operational framework for determining trade capacity building (TCB) allocations across regions, countries, sectors, or themes.

Since 2005, the Millennium Challenge Corporation (MCC) has been the primary US trade capacity-building (TCB) vehicle.

- The MCC has provided nearly $3 billion in trade-related support to 12 African nations and has focused largely on port, transport, and power infrastructure. These compact programs have been well targeted at addressing African firms' most binding constraints.

- The MCC accounts for three-quarters of total US TCB assistance to Sub-Saharan Africa over the last eight years.

Figure 4 – US Trade Capacity-Building Assistance, 2005–2012



Source: US Agency for International Development (USAID) Trade Capacity Building database

USAID has provided a smaller share of US TCB assistance, with limited evaluations that rigorously examine program effectiveness.

- On average, USAID provided roughly $2 million per recipient country annually between 1999 and 2012.
- However, the duration of USAID's country-level activities has been mixed. In most countries, it was active only sporadically over time, which may have created uncertainty and instability in bilateral engagement and reform effectiveness.[5]
- Moreover, rigorous evaluation of USAID TCB assistance appears limited, or at least not available publicly. In comparison, MCC assistance is largely subject to evaluation, with results released to the public.

Beyond MCC and USAID funding, other US agency-level assistance has been sporadic and largely insignificant in absolute terms.

- On average, African countries or regional economic community (REC) secretariats have received support annually from two US government agencies totaling only $614,000 per agency.
- Individual US agencies often have provided funding to a respective country for only a single year. This sporadic engagement by non-core US agencies raises questions about the coordination of broader US TCB efforts.

[5] USAID-funded programs have been active for 3 years or less (out of 14 total) in 42 percent of examined countries, while 40 percent of the countries received USAID trade-related assistance for at least half of the 14 years included in the USAID Trade Capacity Building database.

US assistance for regional economic community (REC) secretariats has been modest, despite their central role in facilitating regional integration.

- RECs play an important facilitative role for harmonizing policies and regulations, reducing non-tariff barriers, liberalizing trade, and developing transport corridors.

- While USAID support for the East African Community (EAC) has been more robust, it has provided only token assistance to other RECs.

New US initiatives, such as Power Africa and Trade Africa, could represent a major step forward for targeting African firms' most binding constraints.

- Through Power Africa, the US government will partner with private companies, investors, and African governments to improve power generation and reliability for commercial and industrial consumers in six target countries.

- Through the little-known Trade Africa initiative, the US government aims to help: increase trade within East Africa and with the United States as well as reduce border crossing times and costs.

- Future MCC compacts will also likely deliver sizable electricity and transport investments in a limited set of countries.

Going forward, the Obama Administration should establish a centralized policy body, with appropriate budgetary authority, to focus and streamline US trade capacity building programs.

- This policymaking body should: (i) establish a guiding framework for determining region- and country-level TCB assistance allocations; and (ii) oversee budgetary submissions for final signoff with the Office of Management and Budget.

- Importantly, allocation decisions should be based upon a clearly delineated methodology that incorporates factors such as: competitiveness constraints analysis, market size, trade and investment potential, political will to implement reforms, and sector diversification opportunities.

- To improve country-level coordination, the US ambassador should approve all TCB-related activities *in the field*; particularly those conducted by non-core US agencies.

IV. UTILIZING BILATERAL INVESTMENT TREATIES AS A LOW-COST POLICY TOOL

Bilateral investment treaties (BITs) have long been low-cost policy tools for promoting investment, both amongst developed and developing countries.

- From a development perspective, BITs can encourage investment by providing foreign investors with core protections against political risk and uncertain business environments, such as expropriation, discriminatory treatment, or weak and partial legal systems.
- According to UNCTAD, there are now over 3200 investment agreements globally, including almost 300 involving African nations.
- Many African governments are negotiating BITs with their neighbors, such as Mauritius, which has signed or ratified agreements with 17 African countries since 2000.

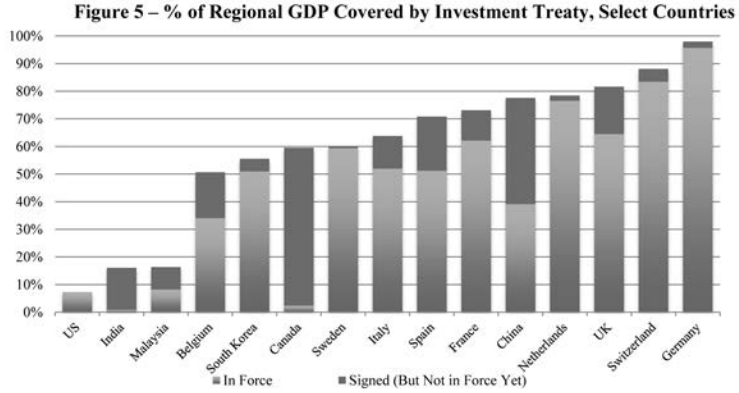
The US has only six ratified BITs with Sub-Saharan African countries, covering a mere 7 percent of regional GDP.

- Existing agreements include: Cameroon, the Democratic Republic of Congo, Republic of Congo, Mozambique, Rwanda, and Senegal.
- Even including hoped for agreements with Mauritius and the East African Community, which the US has been negotiating for several years, regional coverage rates will remain extremely low at 16 percent.

Other capital-exporting countries, such as China and Canada, demonstrate that African governments are ready and willing to sign investment promotion agreements.

- China has signed investment treaties with 24 African countries, including 15 out of the largest 20 regional economies. Once all of these agreements are ratified, China will have legally binding agreements covering almost 80 percent of regional GDP.
- Canada has signed BITs with eight African countries in the last few years, including Nigeria. In addition, it has several more negotiations underway, such as with Ghana and Kenya.

Figure 5 – % of Regional GDP Covered by Investment Treaty, Select Countries



Source: UNCTAD, IMF WEO database

The new Model BIT might be too complex for many countries, despite its greater flexibility to accommodate public policy concerns.

- The new 42-page template now affords more government discretion than in the past. For example, it exempts governments' actions (except "in rare circumstances") to protect health, labor, and consumer safety from investors' protections against expropriation. This is one reason the text is now so complex.

- The US should consider ways to address these complexity challenges, perhaps through technical assistance.

Going forward, the US government should *stop* **investing in ineffectual Trade and Investment Framework Agreements (TIFAs) and** *start* **investing in its BIT negotiating capacity.**

- USTR's focus on TIFAs has distracted limited US government attention from pursuing real negotiations. While China, Canada, and other nations were signing legally binding treaties, the US has been signing non-binding TIFAs.

- It's time to stop allocating scarce resources to these inconsequential talk shops and move toward pursuing real agreements that catalyze much needed (and wanted) investment flows.

V. CONCLUSION AND RECOMMENDATIONS

Congress and the Obama Administration should utilize the AGOA reauthorization process to consider a number of policy and programmatic reforms to better incentivize, and support, improvements in African economies' business environment. Ultimately, all of these measures should target the most binding competitiveness constraints.

(1) Congress and the Obama Administration should consider utilizing all policy tools to incentivize business environment improvements, including conditioning preferential access to the $17 trillion US economy on demonstrable progress.

(2) Congress and the Obama Administration should establish a centralized policy body, with appropriate budgetary authority, to focus and streamline US trade capacity building programs.

(3) USTR should *stop* investing in ineffectual Trade and Investment Framework Agreements (TIFAs) and *start* investing in its Bilateral Investment Treaty (BIT) negotiating capacity.

(4) The US government, including USAID, should increase support for regional economic communities that are pursuing concerted efforts to support integration and harmonized policies.

(5) The US Congress should protect funding for the MCC, which has been the US government's leading trade capacity building assistance vehicle since its establishment.

(6) The US government should increase support – through the Overseas Private Investment Corporation, MCC, and multilateral development banks – for electricity and transport infrastructure investments.

Chairman NUNES. Thank you, Mr. Leo.

Mr. McRaith, you are now recognized for five minutes.

STATEMENT OF WILLIAM C. MCRAITH, CHIEF SUPPLY CHAIN OFFICER, PVH CORP.

Mr. MCRAITH. Thank you, Chairman Nunes, Ranking Member Rangel and distinguished Members of the House Ways & Means Trade Subcommittee.

On behalf of PVH I want to thank you for allowing me the opportunity to testify in front of this Committee. I have already submitted my written copy for you to read. I am going to talk from these points and try to remain focused on them.

So my name is William McRaith, Chief Supply Chain Officer for PVH. I also sit on the board of the American Apparel and Footwear Association. And color on PVH—PVH is one of the largest apparel companies in the world. We are headquartered in New York with distribution sales in other corporate locations in multiple states across the U.S., including Georgia, North Carolina, New Jersey, New York, Nevada, Pennsylvania and Tennessee. Among others, our company brands include Calvin Klein, Tommy Hilfiger, Van Heusen, Arrow, Warner, Izod and Speedo, and we are directly responsible for 16,000 jobs within the U.S.

PVH is a dedicated, global corporate citizen. Outside of the U.S., we have 3,000 retail locations and provide more than 14,000 additional jobs. My message today is quite simple. Many parts of Africa are ready. They are primed to receive large investments that will generate economic growth envisaged by the AGOA founders. To get there, though, AGOA must be renewed as soon as possible, and for an extended period of time, including its third country fabric provision. With the right approach, Africa can become a vertically-integrated sourcing region for the apparel industry and generate thousands, tens of thousands of jobs and added value to their economies.

AGOA was the right trade policy 15 years ago, but it was ahead of its time for business community and for Africa to be able to fully utilize it. However, we are now seeing more mature and democratic countries, better and lasting infrastructure and more meaningful, economic and educational reforms starting to take root. Congress must send an unequivocal signal to the investor and business community by promptly approving a lengthy extension of AGOA.

Just a very quick story of our own: In April of this year, PVH together with several of the largest apparel companies, textile manufacturers and stores conducted an exploratory business mission to this region. I would say many of those companies that went with us were skeptics. They were cynics. They really did not believe it was ready for this type of investment.

After visiting sites, looking at infrastructure, and meeting with ministries from different countries, our business delegation came to the realization that some African countries had already laid the foundations necessary to attract significant foreign investment and were prepared to undertake the commitments necessary to secure socially responsible investors. What we saw in Africa reminded us all of some of the current production powerhouses we are in today and what they looked like 20 years ago. There is great excitement among the apparel business community about this very near growth opportunity in Africa.

African nations are on much more of a course than just to become pure seamstresses. They can become the world's very first example of how to proactively build a fully vertical, socially compliant, human rights compliant, ground to finished product supply chain. Africa can invest, attract the investment in other added value processes, such as cotton growing, yarn spinning, weaving and logistics. Countries in Africa will also be the beneficiaries of a more inclusive model of investment and growth in which socially responsible companies like PVH will be able to put in place right from the very 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.

I see my time is a little bit short. I only have three more points to make. So if I can just quickly move through them, the U.S. can help us in many ways.

One of those: programs that will help increase the quality and yield of African cotton, vocational and educational programs to help train workers and management, projects that help build inter-regional connectivity for goods to transit the Continent seamlessly will enhance the attractiveness of the region.

Aside from a lengthy AGOA extension, one way to the additional certainty for the business community is by extending the Third Country Fabric Provision for a reasonable period of time and allow the growth of the investments that will make this Third Country Provision no longer necessary. As someone who has been involved in global operations for over three decades and recently had to ponder the question of where is the next growth region for the next 20 to 30 years, I believe that we now have the answer. It is Africa.

We must not lose a moment in this tremendous opportunity for Americans and for Africans alike. To make it happen, AGOA must be renewed soon and for a lengthy period of time. In addition, Congress and the Administration must continue to work hand in hand to improve and facilitate the creation of programs that will strengthen the Africa region. We look forward to working with the Members of this Committee, other Members of Congress, and with the Administration in this worthwhile goal.

Thank you, Mr. Chairman. Apologies for the time.

[The prepared statement of Mr. McRaith follows:]

PERSONAL AND COMPANY INTRODUCTION

Chairman Nunes, Ranking Member Rangel, and distinguished Members of the House Ways and Means, Trade Subcommittee: On behalf of PVH Corp. ("PVH"), I want to begin by thanking you for the opportunity to testify in front of this committee. My name is William McRaith. I am Chief Supply Chain Officer for PVH. I also sit on the board for the American Apparel and Footwear Association. Our history began in the 1881 when Moses Phillips and his wife Endel began hand sewing shirts and selling them from push carts in Pennsylvania. It grew into a shirt business in New York City in the 1890's. In the 1950's Isaac Phillips met John Van Heusen and their collaboration resulted in a very popular shirt called the "van Heusen". Soon thereafter, the company was renamed Phillips Van Heusen. 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, IZOD, and Speedo[1]. Our company is directly responsible for approximately 16,000 jobs in the United States and approximately 30,000 indirect jobs and 30,000 direct jobs 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.

PVH is a dedicated global corporate citizen. We build our brand recognition in developed and seek out underdeveloped and new markets globally with over 3,000 retail locations outside of the USA. Our focus has been in growing our brand recognition in these markets recognizing that 95% of the world's population lives outside of the United States. We have an unwavering commitment to corporate social responsibility which we believe is a key competitive advantage.

AGOA EXTENSION WILL BOOST INVESTMENT IN AFRICA

My comments today represent the views of PVH, although I'm certain that they reflect the thoughts of many other companies. In short, my message is simple and straightforward: Africa today, is primed to receive the type of large private sector investments that will generate the economic growth envisioned by the AGOA founders. 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 some time, but the possibility of attracting investment that will make Africa a vertically integrated sourcing region is today more real than it has ever been before.

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

OUR RECENT BUSINESS ADVENTURE TO AFRICA

I want to share a story with you about a recent trip we took to East Africa. PVH has been monitoring Africa for several years as a potential source of investment as we sought to identify potential opportunities. PVH is a pioneer in driving investment and we like to be the first into an area to establish the rules that will be followed for future investors. Earlier this year PVH, together with several other companies in the apparel and textile sector, conducted an exploratory business mission to countries in East Africa. Many of the companies were hesitant to make the trip, being either sceptics or downright cynics, given that similar missions in the past had not yielded much success, but leveraging our long term relationships we convinced them to come with us and give it another chance. What we saw this time around changed everyone's mind. The countries we visited demonstrated that they had laid the foundations necessary to attract significant foreign direct investment and were prepared to undertake the commitments necessary to secure socially responsible investors.

The Ministers and key government officials with whom we met were passionate in sharing their vision of growth for their countries. They spoke of adherence to the rule of law, free markets, government stability and transparency. They highlighted major and well thought out modern infrastructure projects that were recently completed or about to be finalized. They understood and showcased the economic advantages that their countries have compared to others in the sub-Saharan region. Most importantly, they spoke about their commitment to their people by bringing investment to the country that will truly touch - for good- the lives of their citizens. Their sincerity was evident and their arguments well thought out and convincing.

The level of professionalism, commitment and maturity that we are seeing from some governments in Africa reassures our desire to invest in Africa. What is even more telling is the fact that to a one, the other investors we had cajoled to join us on the trip agreed that Africa is ready for significant investment. They, and I, saw the opportunities that reminded us of some apparel production powerhouses today – and where they were 20 years ago. This is not a supposition. We know it because we have discussed it with other companies and we know there is great excitement about the very near growth in Africa..

GOVERNMENTS IN AFRICA ARE MATURING AND WE NEED AGOA MORE THAN EVER

I fully realize that Africa is a vast region, with many countries still struggling mightily to achieve a modicum of the stability and investment potential that I just described. That is why despite the low costs of labor in Africa, many companies, including PVH, have been hesitant to invest there in the past. However, I strongly believe that as more and more countries in Africa start seeing the growth and success of their neighbors they will move towards making the governance changes necessary to take part in the success.

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. What it did achieve however, was encourage many governments in Africa to mature and be more democratic and accountable to their citizens; we are seeing better and lasting infrastructure put in place; and we are seeing economic and educational reforms starting to take root. While much work remains to be done, the initial foundations are there. As a result, Congress must send an unequivocal signal to the investor and business community that it truly is interested in seeing Africa develop and stand on its own two feet by promptly approving a lengthy extension of AGOA, including its third country input provisions. AGOA preferences are the thread that will keep together Africa's enormous potential.

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

It is undeniable that there are significant cost advantages that come to companies sourcing from Africa, but this is not the only motivator or factor that PVH considers in its investments. For PVH, 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 that we invest and with the people who work for us. We want to be in places where we can install not just good factories, but codes of conduct, values, environmental sustainability, productive worker relations, and the highest business and ethical principles to ensure the long-term success of our investments.

That is why when we looked at Africa we did not just look for a place to quickly set up a sewing operation. We know that to be successful you need to have a clear line of sight throughout your entire supply chain structure. We identified our best global supplier partner companies to join us on this journey. These are entities with which we have developed long and trusting relationships. We know that they meet PVH corporate social responsibility standards and are companies that we can trust to work with us in our mission.

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. That model must and will change rapidly. Countries in Africa will 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.

Further, in all our communications with African leaders and officials we have stressed that PVH is not interested in making a quick buck, but in establishing a lasting presence in their country. In order to do so, they must be equally committed to upholding the sustainable social standards we require across all sectors and with all investors. We have asked those governments we met with to review their Corporate Social Responsibility code at all levels and develop both educational and enforcement programs to ensure compliance. We asked each of them how they wanted the Brand name of their country to be thought of 10 years from now as the decision they made would ultimately determine the answer. As I mentioned previously, they indicated they want partners like PVH to help them implement these practices as the baseline standards in their country.

AFRICA CAN BE VERTICALLY INTEGRATED

The possibilities for investment in Africa are there and we need to encourage US companies to lead the way to investment because after 20 years of learning through successes and failures we are positioned today to bring good business practices, standards and ethics. Our experience can set these African nations on a course to become more than just seamstresses, to become the world's 1st example of how to proactively build a fully vertical, ground to finished product, socially responsible supply chain.

The old model of only cutting and sewing operations that can be installed and removed with relative ease does not fit with our vision of Africa. Africa can attract investment in other added value processes in apparel production such as cotton growing, yarn-spinning, weaving, logistical operations and others alike. Cotton growing is a main staple in several African countries. Further, for man-made fibers they have the petroleum and natural fiber basics such as bamboo that can be converted to apparel yarns. In many countries English is the primary or in 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.

OTHER AREAS IN WHICH THE U.S. CAN HELP

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 technology advanced methods of harvesting. Helping them to implement farming practices that use less water, less pesticides and have higher yields per acre will leapfrog them into the 21st 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 growth as well by matching the long-term commitment expected from the private sector by approving a lengthy extension of the AGOA program. Companies cannot commit to individual investments ranging in the hundreds of millions of dollars unless they have more certainty about the rules in place. We are embarking on these types of investment. It will take 12-24 months to stand up yarn spinning, fabric weaving/knitting and apparel making facilities. We then need to build production capacity and be able to have benefits long enough to cover the full depreciation of our investments. If Congress merely extends AGOA for a handful of years, it is signaling that Africa will remain a cut and sew operation, allowing it to only benefit in 10% - 15% of the total value of a finished apparel product. If Congress commits to a much longer extension of the program, it is signaling that it is truly dedicated to working with the private sector in helping Africa develop and diversify into economic independence.

Congress can and should commit to AGOA for a period of time reflecting that for which it has been in effect already.

One other suggestion for change is that as countries are removed from AGOA in the future, and for whatever reason, Congress and the Administration will allow a phase out period of no less than one year in order to allow business to properly reallocate their resources and prepare for the changes. Some countries have built significant reliance upon apparel making and have tens of thousands of employees working in these factories. Their economies are very delicate and sometimes their political structures are precariously balanced on the continued employment of these workers. Take for example a hypothetical situation where an announcement to remove AGOA preferences is made on December 27th that effective on January 1 of the following year benefits will be withdrawn from a an AGOA beneficiary nation. That means that goods manufactured in that country and exported on December 28th arriving on January 8th will have lost their AGOA status while transiting the ocean. For apparel brands and companies, we cannot suddenly absorb duties as high as 32% on the arriving goods and the net result of such short term announcements will be a mass exodus from the country that lost benefits. The quick exit does not allow for an orderly transition of the workforce and could lead to social unrest and more political turmoil for the country. A one year transition is consistent with the transition period allocated under the GSP to graduating countries and AGOA is an extension of the GSP.

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 I described previously, standing up the yarn and textile facilities takes significantly longer than installing sewing machines and the factory needs times to come fully on line. Thus in that interim it is necessary for the third country fabric provision to remain in place.

CONCLUSION

PVH believes not only that Africa has great potential, but we believe that there are countries in the region that are ready to welcome the types of partnerships and investments that will yield significant economic gains in the next two decades. These economic gains will be accompanied by positive social changes in the country as the countries adopt the business and ethical values that drive our company.

With the right set of policies in place, Africa can also change the model of apparel sourcing by having a fully integrated supply chain that includes man made fibers, cotton, yarn, textile and apparel production. Congress must work in hand with the business community by passing a long-term AGOA extension. We look forward to working with the Members of this Committee, other Members of Congress and with the Administration to share our business perspective and ensure that we do not lose momentum in the tremendous opportunities that await Africa. As someone who has been involved in global operations, I always ponder the question of where is the next region of growth. I believe we may now have an answer, it is Africa. I thank you again for this opportunity and look forward to discussing it further and answering any questions you may have. Thank you Mr. Chairman.

Chairman NUNES. Thank you, Mr. McRaith.

Mr. Schneidman, you are now recognized for five minutes.

STATEMENT OF WITNEY SCHNEIDMAN, SENIOR INTERNATIONAL ADVISOR, COVINGTON & BURLING LL; NONRESIDENT FELLOW, AFRICA GROWTH INITIATIVE, BROOKING

Mr. SCHNEIDMAN. Chairman Nunes, Ranking Member Rangel and distinguished Members of the Committee, it is an honor to testify before you today.

On the eve of the African Leaders Summit, the moment could not be more timely to be considering the renewal and strengthening of the African Growth and Opportunity Act. I will briefly discuss several critical issues related to AGOA, but first it is important to note that AGOA is the cornerstone of the U.S.-African commercial relationship, and it provides the U.S. with a strategic advantage on the continent.

Over the course of the last 14 years, AGOA has led directly and indirectly to the creation of several million jobs. For a continent of one billion people, where the median age is 17, this is a significant contribution to economic growth, social stability and the emergence of a middle class with a strong appetite for American products and brands. There is also a strong affinity with the way in which American companies do business in Africa in terms of skills development, technology transfer, career enhancement and respect for rule of law and anti-corruption practices. It is in our strategic interest, therefore, that a renewed AGOA contributes to a deeper U.S. commercial engagement in Africa, while also encouraging more experts from beneficiary countries. As for the most critical issues, let me start with the timeframe.

Most Americans have what might be referred to as a pre-dial-up perception of Africa. In other words, their views of Africa continue to be informed by the Cold War, before the Internet when coups, conflict and corruption were rife. There is little appreciation for the rapid growth, the significant improvement in governance and the emergence of a middle class on par with that of India and China. In order to change how American companies view Africa, there can be no higher priority than creating a framework of stability and predictability for entering the African market. The same is equally true for African and other companies navigating the complexities of exporting to the U.S. market under AGOA. All of them need assurances of a stable and sustainable set of commercial rules.

For that reason, I support the African Union in its call for a 15-year extension of AGOA from 2015 to 2013 (sic). Now, many American companies, especially small and medium companies, need support to be successful in Africa. African companies generally need assistance to fund buyers in the U.S. and comply with U.S. regulations. The architects of AGOA anticipated some of these problems and created three trade hubs, not only to help African companies enter the U.S., but also to facilitate American companies.

The architects of AGOA anticipated some of these problems and created three trade hubs to help African companies utilize AGOA. The time has come, however, to redefine the role of the trade hubs. They need to be restructured into trade and investment hubs, so they not only help African companies enter the U.S., but also facilitate American companies to capture market share on the African continent. To do this, the newly-fashioned trade and investment hubs should become one-stop shops where the trade promotion activities of our embassies, officials from the Departments of Commerce and Agriculture, ExIm and OPIC, are closely aligned on a daily basis in support of enhancing the U.S. commercial presence on the continent. For this to happen, the Administration would have to commit to a "whole of government" strategy for trade promotion in Africa, which unfortunately has been lacking.

Congress would have to play its part and make the funding available. This should be pursued with a sense of urgency, given the competitiveness of companies from China, India, the EU and elsewhere in Africa. Now, it is often said that "Capital is a coward," which explains why Africa accounts for only one percent of U.S. investments world-wide, which is a shockingly low number. As part of a reauthorized AGOA, Congress should establish a tax incentive to help change the risk-reward ratio for American companies by reducing the tax to zero on repatriated income by U.S. companies who make new job-creating investments in supply chain products in agriculture, manufacturing, apparel, technology, clean energy and other relevant sectors. Congress and the Administration would reduce the risk for American companies to invest in Africa.

I would just like to touch on one or two more points quickly, as I see my time is running out. No issue is as central to Africa's accelerated economic development as regional economic integration. The U.S. has largely understood this, but we can do more to facilitate the flow of goods, services and labor across Africa's borders. The principal challenge to regional integration comes from an unlikely source, and it is the Economic Partnership Agreements, which the European Union is compelling African governments to sign by October 1st, or African governments face losing their preferential access to the European market.

In fact, the EPAs threaten to undermine much of the progress that has been made on regional integration, as they would give European goods and services preferential access in an African country over goods and services from a neighboring African country. They would also discriminate against American companies and products. The EPAs present a significant challenge to the U.S. as the U.S. is poised to negotiate regional free trade agreements throughout Africa, while we are discussing today the extension of a non-reciprocal trade benefits program with 40 countries on the continent. While it is essential that we renew AGOA, we should address this issue of this profound asymmetry.

Last year, the U.S. exported $24 billion worth of goods and services to Africa. This translates into support for more than 130,000 jobs in the U.S. So our relationship with Africa is changing from one of donor/recipient to one of mutual gain and benefit. Under AGOA in 2013 the U.S. imported nearly $5 billion worth of non-oil, largely job-creating goods, almost four times the amount in 2001. In both respects, these trends are encouraging; but, with a 15-year extension of AGOA, these trends can become much, much stronger.

Thank you for the opportunity and the extra time.

[The prepared statement of Mr. Schneidman follows:]

Advancing the U.S. Trade Agenda:
Trade with Africa and the African Growth and Opportunity Act

Hearing before the
Committee on Ways and Means
Subcommittee on Trade

1100 Longworth House Office Building
July 29, 2014

Witney W. Schneidman
Senior International Advisor for Africa
Covington & Burling LLP

Nonresident Fellow, Africa Growth Initiative
Brookings

Chairman Nunes, Ranking Member Rangel and Members of the Committee, it is an honor to testify before you today. On the eve of the first-ever African Leaders Summit, the moment could not be more timely to be considering the renewal and strengthening of the African Growth and Opportunity Act.

I will briefly discuss several critical issues related to AGOA. But first, it is important to note that AGOA, for all its shortcomings, is the cornerstone of the U.S.-African commercial relationship and it provides the U.S. with a strategic advantage on the continent. Over the course of the last 14 years since the legislation was signed into law, AGOA has led directly and indirectly to the creation of several million jobs. For a continent of 1 billion people, where the median age is 17, this is a significant contribution to economic growth, social stability and the emergence of a middle class with a strong appetite for American products and brands. There is also a strong affinity with the way in which American companies do business in Africa in terms of skills development, technology transfer, career enhancement and respect for the rule of law and anti-corruption practices. It is in our strategic interest, therefore, that a renewed AGOA contributes to a deeper U.S. commercial engagement in Africa while also encouraging more exports from beneficiary countries.

As for the most critical issues, let me start with the time frame:

1. AGOA's Time Frame: Most Americans have what might referred to as a "pre-dial up" perception of Africa. In other words, their views of Africa continue to be informed by the Cold War era, before the internet, when coups, conflict and corruption were rife. There is little appreciation for the rapid growth, the significant improvement in governance and the emergence of a middle class on par with that of India and China. In order to change how American companies view Africa, there can be no higher priority than creating a framework of stability and predictability for entering the African market. The same is equally true for African and other companies navigating the complexities of exporting to the U.S. market under AGOA. All involved need assurances of a stable and sustainable set of commercial rules. For that reason, I support the African Union in its call for a 15 year extension of AGOA, from 2015 to 2030.

2. **Trade and Investment Centers:** Many American companies, especially small and medium companies, need support to be successful in Africa. African companies generally need assistance to find buyers in the U.S. and comply with U.S. regulations. The architects of AGOA anticipated some of these problems, and created three trade hubs to help African companies utilize AGOA.

The time has come to redefine the role of the trade hubs. They need to be restructured into trade and investment hubs so that they not only help African companies enter the U.S. but also facilitate American companies to capture market share on the African continent. To do this, the newly fashioned trade and investment hubs should become one-stop shops where the trade promotion activities of the embassies, officials from the departments of Commerce and Agriculture, Exim and OPIC are closely aligned on a daily basis in support of enhancing the U.S. commercial presence on the continent.

For this to happen, the Administration would have to commit to a "whole of government" strategy for trade promotion in Africa, which unfortunately has been lacking. Congress would have to play its part and make the funding available. This should be pursued with a sense of urgency given the competitiveness of companies from China, India, the EU and elsewhere.

3. Promoting U.S. investment: It is often said that capital is a coward, which explains why Africa accounts for only 1 percent of U.S. investments worldwide, a shockingly low number. As part of a reauthorized AGOA, Congress should establish a tax incentive to help change the risk-reward ratio for American companies. By reducing the tax to zero on repatriated income by U.S. companies who make new job-creating investments in supply-chain products in agriculture, manufacturing, technology innovation, clean energy and other relevant sectors, Congress and the Administration would reduce the risk for American companies to invest in AGOA countries.

Congress used a tax incentive to great effect to attract American companies to Puerto Rico. To create AGOA, Congress reduced tariffs to zero on 6,400 products in an effort to use trade as a stimulus for economic development. We should now work to enhance greater American investment on the continent, through the use of a tax incentive, to attract more U.S. companies into the market and to ensure that the "Africa Rising" narrative is a reality for all on the continent. The cost would be comparatively small and the benefits of a greater commercial U.S. presence in Africa cannot be underestimated.

It is important to realize investment is not a zero-sum proposition, and that investment in Africa would not come at the expense of investment in America, given the very different nature of the two economies.

Another issue to be considered in the context of AGOA's extension is to press for action by those African governments that restrict market access or investment, such as with poultry and pork in some AGOA countries. This could take the form of requiring USTR to report to Congress on steps that it is taking to encourage AGOA governments to remove barriers to U.S. products and investments. If agreed upon actions are not taken within a certain time frame to address these constraints, Congress might consider some remedial actions.

Regional Integration: No issue is as central to Africa's accelerated economic development as regional economic integration. The U.S. has largely understood this but we can do more to facilitate the flow of goods, services and labor across Africa's borders. The principal challenge to regional integration comes from an unlikely source and it is the Economic Partnership Agreements which the European Union is compelling African governments to sign by October 1, or African governments face losing their preferential access to the European market. This take-it-or-leave-it EU approach is proposing to replace non-reciprocal trade preferences with comprehensive free trade agreements.

In fact, the EPAs threaten to undermine much of the progress that has been made on regional integration as they would give European goods and services preferential access in an African country over goods and services from a neighboring African country. They would also discriminate against American companies and products. Once an African country signs an EPA, it would agree to open 80 percent of its market to European goods and services over 10-20 years.

The EU reached agreement on an EPA with the 16 nations that make up the Economic Community of West African States (ECOWAS) in February. Last week the five members of the Southern African Customs Union, plus Angola and Mozambique, agreed to sign an EPA. East Africa, to date, has resisted signing an EPA.

The EPAs present a significant challenge to the U.S. as the EU is poised to negotiate regional free trade agreements throughout Africa while we are discussing the extension of a non-reciprocal trade benefits program with 40 countries on the continent. While it is essential that we renew AGOA, we should take at least two other steps to address this asymmetry.

One would be for the U.S. to raise the AGOA/EPA dilemma within the context of the Trans-Atlantic Trade and Investment Partnership (T-TIP). After all, we are proposing to create the world's largest free trade area with the EU while, in practice, consenting for the EU to establish preferential access to the African market. That makes no sense and runs counter to U.S. interests.

The second action would be to redefine our commercial relationship with South Africa. We tried to do this through the negotiation of a Free Trade Agreement with SACU in 2003-06 and failed, even though South Africa has had an FTA with the EU since 1999. As AGOA was not meant to be permanent, we should consider moving to a ten year phase out for AGOA benefits with South Africa while using that time to establish a new trade relationship based on reciprocity that might be a model for a post-AGOA relationship with the rest of Africa.

As for China, it is important to recognize that we are not engaged in a zero-sum competition for market share in Africa. However, the U.S. has legitimate concerns about Chinese companies' respect for standards, such as labor and environmental standards, not to mention concerns over transparency and aid that is fully tied to Chinese products, labor and loans at largely commercial rates. These issue are vital to raise and discuss in both a bilateral context as well as a trilateral African-China-U.S. context.

National AGOA Strategies: One suggestion for strengthening the use of AGOA by African nations would be to encourage each AGOA member to develop a national strategy that focuses on comparative advantages and sets targets for export growth of certain products and sectors. If each AGOA nation were to develop a national AGOA strategy, predicated on a dialogue with national chambers of commerce, local industry and civil society, this would likely have a very positive impact on the utilization of the trade preferences. It would also add to the value of the annual U.S.-Africa AGOA forums which could serve as a venue to assess and discuss the national strategies. The Africa Development Bank Trade Fund might also support this effort.

Last year, the U.S. exported $24 billion worth of goods and services to Africa. This translates into support for more than 130,000 jobs in the U.S. Under AGOA, in 2013, the U.S. imported $4.9 billion worth of non-oil, largely job-creating good, almost four times the amount in 2001. In both respects, these trends are encouraging. With a timely extension of AGOA for fifteen years, these trends can become much stronger.

Chairman NUNES. Thank you, Mr. Schneidman.

Because of the Ranking Member's long-time concern about AGOA, and he's really been the champion in Congress, I am going to yield my time to the Chairman so he can get into the questions.

Mr. RANGEL. I can't thank you enough for your courteous consideration, and I want to thank the witnesses for their contribution. Legislatively, time is not on our side this year, and we have a lot of things to consider as to whether or not the 15 years—even though it would give investors some degree of continuity, we certainly don't want to put these countries in a box that we can't revisit and see what changes have to be made.

We also know that the Third Country Origin of fabric is the easiest way that a lot of them want to go, but we also know that we want to provide incentives so they would not have to go outside of these countries. And the Congress, as you all know, we have separated two different committees and subcommittees. And most of the testimony appears as though you think our Executive Branch is that separated too. And I want to get whatever suggestion you can make.

Here we are, a country trying to maintain peace and economic stability in the world and we have an opportunity of people who are basically friendly to us. They are in need. They want to trade, and whether or not it's bilateral or whether it's not this broad, which agency do you think would be the best to coordinate these activities; so that, whether we are talking about diplomacy, whether we are talking about security, whether we are talking about education, whether we are talking about electricity and infrastructure, when a patient is sick, they don't want to know the specialist. They want to know generally "what are you doing to help me". And everything that you said, it sounds like all of us would say we wish we had thought about it, but our Committee does not have the expertise. We don't have the experience to know how to go about this, even though we are there to provide the tax incentives and the structure.

So, could you—any one of you—suggest to us a sense we cannot do it this year? A lot of us will be attending the conference. We will have very little input, because it's an executive conference, even though we will have the opportunity to talk with the representatives of these countries. What could we recommend to our Executive Branch as a result of this hearing, which the Chairman called, so that we would have the hearing before the summit? We won't be able to tell them we have a treaty to be signed, but we should be able to tell them something before they tell us.

What recommendations, Mr. Leo, since you had four points? Who would coordinate, assuming they all made sense like I did, what agency, and certainly what would be the USTR?

Mr. LEO. Thank you, sir, for the comments and the question. I agree with you with the point in terms of a need for very close coordination and a strategy to be developed, implemented, monitored with a single agency on the hook for accountability. And given the breadth of the issues that are very important and influential to all the matters that we are talking about, and so the fact that there are so many different government agencies that have a small, little piece, sometimes a medium-sized piece, I think, given that, it has to be driven out of the White House within the Executive Branch. And as a person who served at the White House in the past on the National Security Council, I can understand how that vehicle is required. So I think it has got to be the White House that drives it.

USTR can be the lead on a couple of the issues. They can lead, along with the State Department, on bilateral investment treaties. They can lead on AGOA. USAID and MCC can lead on some of the softer trade capacity building assistance, but what we have right now is a lack of an over-arching strategy that has a continental, regional, and country-specific approach to it. So I think, first, White House needs to be the driving force; two, needs to have a strategy including on trade capacity assistance; and then, three, have within at least the Executive Branch, budgetary authority attached to it.

Obviously, Congress will have the final say on where the money comes and goes, but within the request needs to have some data authority attached to it, because money is what is going to drive things on a lot of these vehicles. And then lastly, at the country level, I think the U.S. Ambassador needs to be in a position to approve all of the government agency actions that involve this agenda, and that's hit or miss right now. Sometimes that happens, but I think the Ambassador has got to be the final say for country-level activity. But back here in Washington, it has got to be driven by the White House.

We haven't had that these last 14 years, and we need to have that going forward, whether it is investment trade and policy as well as trade capacity building assistance.

Mr. RANGEL. Thank you.

Mr. Chairman, after the Members have all had an opportunity to inquire, I would like to hear from the other two witnesses. Thank you so much.

Chairman NUNES. Thank you, Mr. Rangel.

Now, I recognize Mr. Reichert for five minutes.

Mr. REICHERT. Thank you, Mr. Chairman. Sorry I missed some of your testimony. We all have other venues we have to run to and come back to. I want to follow-up, I think, on a little bit of what Mr. Rangel was talking about. I am guessing I am going to be heading in the direction of some strategies, but specific to a certain issue of growing exports. So I support a timely, seamless renewal of AGOA, and all of us do.

In recent years some countries have begun to develop AGOA export strategies that identify measures that could be taken to promote a greater use of AGOA benefits. An example of that would be Kenya has developed a national AGOA strategy focused on diversifying its exports, easing barriers to exporting, and further strengthening ties with the United States and U.S. businesses. Specifically, this includes looking at ways to improve infrastructure, increase exposure by raising the profile of Kenya products, and reduce burdensome regulations.

The problem is that most countries still don't develop these strategies or look at AGOA strategically. And you mentioned some of your strategic issues, continental, regional, country, the Ambassador's involvement and the involvement of the President. And I'm guessing that all of those components certainly would apply to helping in this arena. Is there anything that is more specific to encouraging other countries to sort of follow the pattern that Kenya has sort of presented.

Anyone?

Mr. SCHNEIDMAN. Thank you very much for that, I think, very important question.

The annual U.S. AGOA forum, I think, provides a great opportunity for every country to come forward with their national AGOA export strategy, and I think we have seen where certain countries, you know, are using the Internet much more effectively, and certain governments are using the Internet much more effectively to post contracts in national resource sector. And I think that we can make a concerted effort in our dialogue with AGOA beneficiaries, not only to have the develop national strategies on AGOA exports, but to post them on the ministries of trade.

And maybe they can also be posted on AGOA.gov, our UST, our website. And if these AGOA strategies are developed in the right way, the result of a consultation between local, private sector, civil society government, other stakeholders, I think they could be terribly effective. So I would like to see over the next two or three years that every AGOA beneficiary come forward with a national strategy that we can understand and that we can measure progress against.

Mr. REICHERT. Other comments?

Mr. LEO. Yeah. I would add one or two things to that. I think underlying your excellent question is African governments have the ultimate responsibility to come forward with their own strategies that will build upon and seize the opportunity of preferential access to the U.S. market. And within that, I think the U.S. Government should be prioritizing its engagement and its very scarce assistance dollars on those governments that have demonstrated a strong commitment to reforms and action. So in the case of Kenya coming forward with its strategy and hopefully taking very concerted actions as well, I think that is a great indication of a strong partner for the U.S. to engage with and support through a variety of different tools. So I think the first action has to come from African governments.

Within that context on our side, going a little bit further than what I mentioned before, when we are thinking about trade capacity building assistance, I think there is a great opportunity to work within these strategies, and, if required, to supplement them with constraints analysis—growth and trade constraints analysis. I mentioned the political will to implement reforms. I have to look at that, opportunities at the sector level for greater trade as well as the ability to attract investment.

I think it's those kinds of things that need to be guiding principles when we are determining where scarce resources should go. But it all needs to flow from governments stepping up and coming forward with strategies, but, more importantly than strategies, action.

Mr. REICHERT. Thank you very much, Mr. Chairman. I yield back.

Chairman NUNES. Thank you, Mr. Reichert.

Mr. Neal is recognized for five minutes.

Mr. NEAL. Thank you, Mr. Chairman.

Mr. Rangel and I, I think, were the only two here when this was actually signed into law, and we were the original supporters of AGOA. And the result has been encouraging, not just on the engagement front, but on the economic playing field as well. It has been estimated that there have been 1.3 million jobs created in Sub Saharan Africa, and U.S. trade with AGOA nations has grown by 300 percent from 7.6 billion in 2001 to 24 billion last year. But there remain significant barriers to trade with Africa, including high tariffs, forest localization requirements, legal restrictions on investment and custom barriers amongst other issues.

I think that there will be an opportunity when we look to extend AGOA to address some of these issues in a vigorous manner, but Dr. Schneidman, let me speak specifically to a question you raised in terms of how repatriation might spur job creation. As you know, that argument over repatriation has been offered in a flattened, round manner in this town for a considerable period of time, and it is in the background and much of the public debate.

Many argue that repatriation would rescue a lot of money that is sitting offshore with tangible assets that could be better used here at home. But there's another debate as well that corresponds to it, suggesting that essentially if we do any sort of repatriation right now, you will never get tax reform. People will just write, once again, for a tax holiday, and inversions will continue to move along at the pace that they are currently embracing.

So I would give you some time to explain your repatriation proposal.

Mr. SCHNEIDMAN. Congressman Neal, thank you very much for that very important question. You know, this is an idea that actually a number of us have been considering for a long time and there are several components to the answer.

One, I think we should think of a tax credit, a tax incentive as a spur to economic development in Africa, much like in Puerto Rico in the 1990s. We used a tax incentive to attract American investment there. I think the same dynamic would occur in Africa. There are going to be some 40 million jobs shifting from China and elsewhere to Africa by 2040, and I think U.S. companies need to be part of that. And if we go to zero on a tax incentive, that would be a signal to the tens of thousands of American companies who continue to see Africa as a continent in crisis, that there is something different going on there.

And I think that would help American companies get into the game on the Continent in a very constructive way. And if they start making investments in agricultural investments, in manufacturing, in technology, I think that will have profound implications for economic development in Africa and I don't think it would be zero sum for the United States. I don't think it would be taking jobs away, and it would provide an incentive, not only to invest, but if it's invested in a job-creating project on the Continent, it generates a profit. That money comes home and it is used constructively to invest in jobs here. I think that is a win-win, and I think we have to move to a new paradigm.

We have that opportunity now, with the reauthorization to ask the question, how do we get more U.S. investment into Africa. And

I think we do that by lowering the risk and increasing the return for American companies, and I think that would be the kind of incentive that would help American companies transfer technology, create jobs, deepen our connection with a continent that is rapidly emerging, and a continent with whom we have little contact and with whom we should have much, much more. So I think it would cost fairly little.

We have done some studies on that and I think the return would be quite significant, and it would build on the good trust that we have with many African governments. And they would see that we are truly committed to moving to this new relationship, one of mutual benefit where we can talk about a mutual partnership in a number of areas, not only economic development.

Mr. NEAL. Thank you, Mr. Chairman.

Chairman NUNES. Thank you, Mr. Neal.

Mr. Buchanan is recognized for five minutes.

Mr. BUCHANAN. Thank you, Mr. Chairman. And I want to thank Chairman Rangel for his leadership. I notice you have put a lot of energy, as the Chairman mentioned. So I appreciate your effort, and I agree with you. It is nice that we can find a way to come together once in a while. I like that for the sake of America.

Let me just mention we all have seen the numbers about the jobs and the three-fold growth. I have had an opportunity in the last, probably couple, three years. I have been in 10 different African countries, most of them that have AGOA. And the general feeling over there is there is not a lot of enthusiasm on their side. You know, frankly, there is not a lot of enthusiasm on our side. I think this has to be looked at in a much broader context.

We need to really engage the Administration, get more involved. I had met a couple of equity companies from New York that were in Ethiopia that were doing very well. They were in cement and block. They don't have access to capital. And, as you mentioned about China, it was my observation—pretty much every country I was in—China was building facilities, primarily palaces and government facilities for a lot of different places all over Africa. It was pretty universal from that standpoint.

We are making a commitment more in terms of healthcare and other things that we are involved in, but I think it is an enormous opportunity. I think three times the amount of growth, from eight billion to 25 billion, is not exceptional. I think there is a real opportunity to go forward, but we really need to take a look at AGOA in general. I can just tell you, and like I said, I don't mean to be redundant, but it was pretty universal, talking with a lot of heads of states and business people over there. They liked it, thought it was okay, but not great, and I think we really needed to take a look at what more we could be doing.

So my question I guess to all the panelists is what are a couple of things that you would recommend that we might do going forward to make the difference, to bring some more enthusiasm. Because I would like to see us build a better partnership with Africa, and there's other countries, like China and others that are fully engaged over there. And we don't want to find ourselves in five or ten years in third place.

So, Mr. Leo, what are your thoughts?

Mr. LEO. Thank you, sir, and I think you raised what is a very core, fundamental question about our U.S. policy towards this very strategic and dynamic region. In direct response to your question, I think there is a couple of things that we could do that would bring our engagement and our relationship to a higher level.

First, before going into the specifics, though, first, it is not surprising that you have heard from the heads of state that you have met with about the need for economic engagement. When you look at existing surveys of ordinary African citizens, over 70 percent of them across the continent cite economic-related issues as their most pressing concerns, that they want to have their governments focus on. And as you would expect as related to that, there were external partners, and this is the issue African leaders are totally focused on it. So as a result, along with the very significant opportunities now and in the future, this is where we should be focusing our attention much more than we are today. So, what are the pieces?

One, I think a seamless extension of AGOA. I think that is pretty straight-forward. I don't think there is a lot of controversy on that. Two, the pieces that I mentioned before in terms of making our trade-related assistance much more strategic and focused on the most pressing constraints to a firm's ability to be globally competitive; three, following the leadership out of the House with the Electrify Africa Act, focusing on those kinds of constraints; and, with that, the reauthorization of the Overseas Private Investment Corporation. If African governments and leaders and businesses are focused on attracting investment, OPIC is one of the best ways to do it.

We need the Senate to move on the Energize Africa Act, which will do a multi-year reauthorization, but also give OPIC additional tools. They don't need more money. They don't need more appropriations. They need more flexibility and tools to be more effective and scaled. So I would unleash OPIC as another piece.

I mentioned bilateral investment treaties. That's another tool that is very low cost. It is basically staff and travel expense to be able to do this. It is not billions of dollars.

Witney had mentioned the risk profile. Well BITs are one way of addressing that issue at almost zero cost to taxpayers.

Mr. NEAL. I would like to get some additional comments, Mr. McRaith.

Mr. MCRAITH. Yes. So it is a great question and I don't want to kind of undermine the discussion that has just been had; but, what I would maybe go back and focus on is the fact that we are at a moment in time today that is different to where we were 15 years ago. So you could say AGOA failed. I am not sure what the appropriate terminology is.

If you look at my industry, the apparel industry, we failed $24 billion worth of AGOA-driven trade, only of which 900 million of it is from the apparel sector. A labor intensive—in fact, generally the first mover, most labor intensive industry in the world, and it has typically led the way into most developing countries. The time is now. It wasn't right 15 years ago. It is right today. So it will be the private sector that actually drives most of this, and we need the on-the-ground ambassadors who, in Ethiopia, were incredibly supportive of the work we did there on a recent trip in Kenya, similar in Uganda. So I think that we have got to help the nations shake off the old AGOA, because I think they languish in it. It didn't work. There is no energy around it. You go to Africa. China is present everywhere.

Mr. NEAL. Everywhere.

Mr. MCRAITH. Europe is present everywhere. America is MIA at this point. We are missing in action.

Mr. NEAL. That's my point, I think.

Mr. MCRAITH. But renew AGOA, because everyone is looking. Everyone is ready to go. However, when you think of September 2015 as the renewal date, the renewal date is today, because it takes us a year to figure out what we are doing there. We are ready to go. We are ready to go. We are ready to move, and this is sitting right in front of us. And, quite frankly, if we do not renew AGOA, it is not about the timing of entry. It is about the exit.

Mr. NEAL. We are probably out of time, but that was good. Do you want a quick comment?

Mr. SCHNEIDMAN. Yes.

Chairman NUNES. Just quickly, Mr. Schneidman.

Mr. SCHNEIDMAN. I will tell you, Congressman. Let me just mention two things. One, I agree fully with the comments right here that we need to get the framework done in place. Renew AGOA as quickly as possible. My second point is I think we have to stir people's imagination, and that was done on Sunday when the U.S. African development foundation gave 36 grants of $25,000 each to the Washington Fellows who are here as part of the Young African Leadership Initiative.

We need to take that to scale, and I think if we can be seen as catalysts of entrepreneurship, catalysts of innovation, that's what America does best and that is what Africa is so thirsty for. So I think we can play it a number of different levels at the same time, but we just have to get going to do it.

Mr. NEAL. Thank you.

Chairman NUNES. I thank the gentleman.

Mr. Blumenauer is recognized for five minutes.

Mr. BLUMENAUER. Thank you very much, Mr. Chairman, and I appreciate the way that you and Mr. Rangel have organized this hearing. I am sorry I was called away from one, but I had a chance to review the testimony.

I appreciated, Mr. McRaith, your reference to sustainability, and there was some acknowledgment of environment. But I want to seek feedback from each of you, because my limited involvement with the African continent, I have only traveled there a few times. Although I did get quite an experience through the eyes of my daughter who was a Peace Corps volunteer for two and a half years, and then traveling with her, watching it from the other side, and the conversations I have had with elected officials from Africa.

I am deeply concerned that we use this as an opportunity to put a focus on sustainability, on environmental protection, because some of the most egregious practices imaginable are taking place, and we are watching. I think the case is clear that there is going to be rapid economic development and there should be. And we certainly are not interested in holding people back, but there are alternative paths. And I would just appreciate any of you elaborating on this point, about how we should approach this agreement as a vehicle to highlight sustainable environmental practices, be able to incent the right things, and perhaps a signal to not engage in some of this destructive behavior that we are seeing.

Mr. MCRAITH. So, Congressman, maybe I can take a response to that. So, again, I am going to focus my response around what we refer to as the EAC and Ethiopia, so the Northeastern Region of Africa. And, you know, so there are some givens on sustainability. You are looking at countries between Ethiopia, Kenya and to some degree into Uganda. And I know Ethiopia is not part of the EAC, but hopefully will be soon, countries that are virtually 100 percent sustainable energy today, either hydro, wind, or eventual thermal energy that they will have put into place. So already I would say they are ahead of many countries in these manufacturing powerhouses that exist today in the term "sustainable".

What I would also say is for 30 years from the demise of the European and U.S. manufacturing base for the last 30 years, companies like ourselves and those partners that we work with, we've had successes and we have had many failures. But we have learned from every one of those. And, you know, its sustainability, just corporate social responsibility of which sustainability is a part, was a major theme of the trip that we were on.

In fact, we had the opportunity to meet with the presidents of Uganda and Kenya and the Prime Minister of Ethiopia, and the simple question that we asked them was in 10 years from now how do you want people to perceive the brand of your company? So when people say "Brand Ethiopia," how will they talk of Brand Ethiopia? Because the decisions you make today are going to determine how people think of it in 10 years. And we have processes in place today, the accord and the alliance.

In Bangladesh, we are retroactively trying to correct some of the things that were not done appropriately, by engaging, but—not by stepping back and saying there are issues we can't engage, but by actively engaging in bringing the right socially responsible partners to the table. Again, I would argue this will become a showcase in the world as to what sustainability could look like, what human rights compliance could look like, but we will do it through our presence.

Mr. BLUMENAUER. I see my time is almost expired, but I would welcome elaboration from any of you on those elements, notwithstanding, for example, in Ethiopia where they are aggressively pursuing hydro. I mean there are lots of practices there that gave me pause, and that didn't appear to be particularly sustainable, notwithstanding the energy.

If there are elements that you see going forward with the agreement in a way that we can provide the right signals and incentives, as well as we've been doing a lot of work with illegal logging and having some problems with Peru these days—we thought we had worked out in the Peru Free Trade Agreement. Thoughts that you have that could be incorporated here would be deeply appreciated.

Thank you, Mr. Chairman.

Chairman NUNES. Thank you, Mr. Blumenauer.

Mr. Smith is recognized for five minutes.

Mr. SMITH. Thank you, Mr. Chairman, and thank you to our witnesses for sharing your time and expertise with us today. And I don't want to repeat this among the items that have been addressed by my colleagues. I certainly do want to add, perhaps, emphasis that I am encouraged by various efforts that can hopefully build more capacity. And I think there are great opportunities for the future here. And as we do work through the customers' challenges and so forth, I am just wondering about some additional barriers that exist, specifically, with South Africa, Nigeria, and members of the South African development community as it relates to unscientific sanitary and phytosanitary and other tariff or non-tariff barriers to agriculture, our agriculture exports. Can any of you reflect on that a bit?

Mr. SCHNEIDMAN. If I may, Congressman, this is an issue that we have looked at carefully, and I think there is a feeling among a number of our poultry producers, for example, that South Africa does practice unfairly—has unfair practices as it concerns U.S. poultry products going into the country. And this is a problem, and I think we really need to engage the South Africans in a very sustained and serious way so that we can level the playing field, because South Africa is a very important partner to the United States.

We tried to develop a free trade agreement 2003, 2006, and it didn't work. South Africa has free trade agreement with the EEU, and it suggests to me that we really haven't—we haven't sorted out our relationship. So there are a number of issues, and I would like to see us really take a step back, engage in a sustained exercise between the U.S. Government and the South African Government, to really chart what our commercial future looks like and how we get sort of a "post to go on" relationship. Because I think it is going to start there, and we haven't done a good job to really embrace that challenge.

Mr. SMITH. Okay. Mr. Leo, in your testimony, you mentioned that preferential access under AGOA should be contingent on noticeable economic improvements. Would you suggest that these improvements would include ironing out these disputes based on the sanitary, SPS, if you will, standards or various trade policies relating to that?

Mr. LEO. Thank you, sir, for the opportunity to comment on this. In full transparency, I am not intimately familiar with this set of issues related to South Africa. In terms of the eligibility requirements, though, more broadly, I think there is a couple of guiding principles that should be applied if Congress decides and the Executive Branch decides to go in this direction. I think it needs to be real and transparent in terms of the principles that would be applied to all countries and would be tracked by third-party data that's public. So in essence it is apolitical in terms of, action has either been taken or it has not been taken. And then along with that there would need to be a transition period so that African governments actually have the opportunity to address any of the issues that are being tracked and then implemented in the country determination process.

Whether the issues that you raised should be a part of those specific criteria that are related to the business climate or other operating climate issues could be debated, could be discussed and maybe adopted later. At this point, I focus more in terms of what the guiding principles should be with specifics that could be fleshed out later, if the "parties that be" decided that this is a sound way to go, which I believe it is in general terms.

Mr. SMITH. Sure. And I would very straight-forwardly suggest that the more we can stick to the scientifically based standards, the better off everyone is, whether it is consumers in another country who would consumer our products that are safe. We do want to focus on these standards that we have been able, I think, to achieve some progress in ironing these things out with some other countries. But it is something that I think needs addressing, and not just with this issue, but others too as we do move forward.

Thank you, Mr. Chairman. I yield back.

Chairman NUNES. I thank the gentleman.

The gentlelady from Kansas, Ms. Jenkins, is recognized for five minutes.

Ms. JENKINS. Thank you, Mr. Chairman, and thank you all for being here.

The Peterson Institute forecasts that the Trade Facilitation Agreement could add 500 billion to the GDP in developing countries; yet, India and certain African countries have balked at implementation. For Africa, in particular, implementation of the TF agreement holds potential to reduce barriers to intra-African trade and to promote Africa's integration into global supply chains.

We are all watching the upcoming implementation deadlines and hope all countries promptly and fully adopt the TF agreement. And, gentlemen, I would just be interested in how would implementation of the TF agreement promote regional integration in Africa and help to address supply side constraints.

Mr. Leo.

Mr. LEO. Thank you. Thank you for the question, and I think it is a really big, important issue. And right now I think it is a quite difficult issue in terms of where those negotiations are and where some of the positions are.

I think within the trade facilitation agenda, everyone agrees that it is critical for the issues that you talk about as well as U.S. businesses to be able to operate. Whenever I talk to U.S. businesses, this is actually their number one issue that they want to get focused on. So I think it would have a big impact. I don't have any great ideas in terms of how we want to get from where we are now to where we need to be beyond some just general points about needing to engage with all of the major players who are driving the continental positions that are feeding into the WTO and some of the back channel discussions. But it is an issue that needs to be put behind us as quickly as possible so we can focus on the substance and addressing some of the underlying issues that are holding back or constraining opportunities now and in the future.

Ms. JENKINS. Any of you have any additional thoughts?

Mr. MCRAITH. Yeah. So I will give it from an Apato perspective, you know, because one of the challenges—we often refer to Africa in some cases as if it was a country, and it's clearly a continent of significant size. And what we see within Africa is we see different trade blocs emerging, COMESA, the East African Community, SADIC, has been in place for some time, and we continue to see the growth of those trade groups. And our own encouragement—and again I'd go back to the discussions that we have been having there—is how do we now think of Africa's regionalized, regional locations that include multiple countries that allow trade to flow freely in any direction, so across-border trade, unrestrained, untaxed, no-duty.

What I would tell you is from our perspective in Northeast Africa, we were struck at the level of the commercial ministries and just how focused they were on resolving these cross-border trade negotiations. So we walked away with the rest of the group, highly encouraged where all of Africa might have free trade movement within their collective regions. This was going to be solved and addressed; and quite frankly with or without us, it was going to be addressed.

Ms. JENKINS. Okay. Mr. Schneidman?

Mr. SCHNEIDMAN. Thank you for the question. I have just a brief comment. And it is: I think we need to make progress. We need to move forward in areas where we can make progress. The Administration has proposed a trade and investment treaty with the East African Community, and I am hopeful that we are able to conclude that very soon, and then that becomes a model. The benefits of that relationship becomes a model to other regions on the Continent, that hopefully would provide an incentive of the benefits of working more closely with the United States, because I think that is a most effective demonstration of what the U.S. has to offer as a trading partner.

Ms. JENKINS. Okay. Thank you. I yield back.

Chairman NUNES. I thank the gentlelady.

The gentleman from Indiana, Mr. Young, is recognized for five minutes.

Mr. YOUNG. Thank you, Mr. Chairman, for your leadership on this issue. Ranking Member, I appreciate your longstanding interest and leadership on this issue as well.

Chairman NUNES. If the gentleman will yield, I forgot to introduce you also that you will be representing our Committee at the AGOA meetings next week. And I want to thank you for that, representing the Republican side.

Mr. YOUNG. Happy to do it, and I found your testimony here today quite instructive in preparing me for visiting with some of these African dignitaries in getting some more context and texture with respect to reauthorization. Also in addition to that duty and responsibility, which I am happy to have, I am a co-chair of the Transatlantic Trade and Investment Partnership Caucus here in Congress. So on a periodic basis, I will visit with European leaders, diplomats, trade ministers, and so forth, with a few of my other colleagues.

So the intersection of U.S.-EU relationships, trade relationships, U.S. African trade relationships to me is quite interesting; and in fact we are having a TTIP caucus meeting in less than an hour. And so my line of inquiry here is directly related to that subject matter. In recent years, the EU has pushed African countries out of its own unilateral preference program and into reciprocal, bilateral trade agreements. The EU calls them economic partnership agreements. Of particular concern, the tariff preferences and the EU South Africa EPA have largely entered into, force—In U.S., exporters are at a significant disadvantage in losing market share.

The EU is pushing EPAs with many other AGOA members that would further disadvantage U.S. exporters. While Congress has never required that AGOA countries provide reciprocal access to U.S. exports, the fact that some are now offering this preferential access to the EU, but not the United States has raised serious concerns.

Mr. Schneidman, what can we do to address the EU's actions?

Mr. SCHNEIDMAN. Thank you, sir, for I think one of the central questions in U.S.-African and U.S.-EU trade today. I firmly believe that this should be a topic in the U.S.-EU dialogue in the TTIP negotiations. How is it that we are offering the Europeans to create the largest free trade area in the world, when they are basically compelling African governments to accept these EPAs that basically shut us out of the African market?

That is a pretty stark dynamic that is in place, and I am just stunned that the Administration really hasn't embraced that more. And I think, really, we need to start with EU, because there has been a lot of opposition in Africa to these EPAs. And many of the African governments really have had no choice but to sign on to these.

Mr. YOUNG. Right.

Mr. SCHNEIDMAN. So I think, you know, we need to engage the African governments as well. I think we need to do this in the U.S.-EU context, and a U.S.-African context, but it just stuns me that we are talking about offering a non-reciprocal benefits to Africa at the same time that the EU is talking about a reciprocal relationship. And to Africa's benefit, I think it should be harmonized more directly, and I think the first place to start is in the TTIP negotiations.

Mr. YOUNG. Mr. Leo, do you have anything to add to those remarks?

Mr. LEO. Yeah. Congressman, I don't have a whole lot to add beyond what Witney mentioned.

One of my colleagues at the Center for Global Development, Kimberly Elliott, has spent a lot of time looking at exactly these sets of issues. And, if you are amenable, I am sure she would be very pleased to follow up with you with additional thoughts as well.

Mr. YOUNG. Okay. Well, I thank you all for being here, and I yield back.

Chairman NUNES. I want to thank the gentleman from Indiana and for his active participation in the African continent issues. We look forward to having a good week next week and hearing back from you. Thank you, Mr. Young.

With that, I would like to thank all the witnesses for their testimony and for the responses to our questions. I think you have given us all much to think about. Our record will be open until August 30th, and I urge interested parties to submit statements to inform the Committee's consideration of the issues discussed today.

This hearing is now adjourned.

[Whereupon, at 3:14 p.m., the Subcommittee was adjourned.]

[Submissions for the record follow:]

Africa Coalition for Trade, Statement

Statement for the Record of the Ways and Means Trade Subcommittee 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 29, 2014 hearing on the African Growth and Opportunity Act (AGOA) before the House of Representatives Ways and Means Trade Subcommittee. 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 Subcommitte on 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.

July 29, 2014

Africa Cotten & Textiles Industries Federation, Statement

ACTIF

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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

American Sugar Alliance, Statement

AMERICAN SUGAR ALLIANCE

SUBMISSION TO THE HOUSE WAYS AND MEANS TRADE SUBCOMMITEE

HEARING ON THE AFRICAN GROWTH AND OPPORTUNITY ACT (AGOA)

SUBMITTED FOR THE RECORD JULY 29, 2014

The American Sugar Alliance (ASA) appreciates the opportunity to submit these comments for the record of the House Ways and Means Trade Subcommittee's July 29, 2014, hearing on Trade with Africa and 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 combined 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		
		-Short tons,
Sugar Removed		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
2012/13 costs		dollars-
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.)

321

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

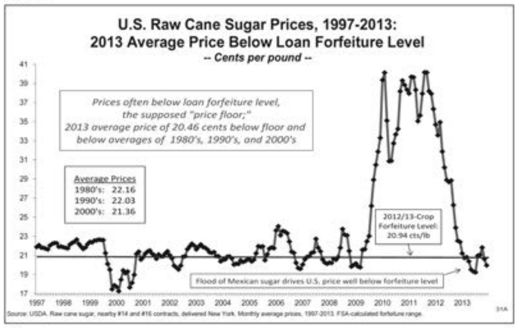


Chart 2

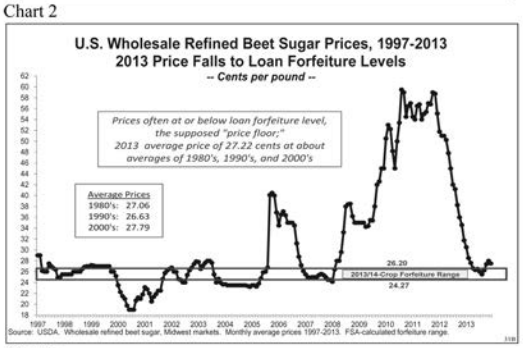


Chart 3

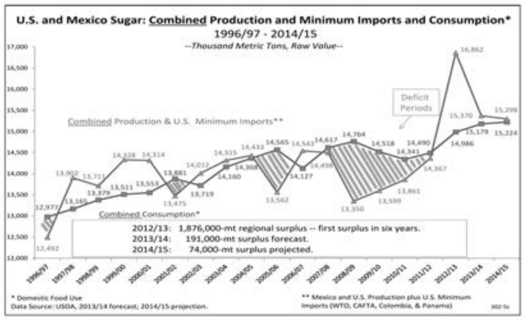


Chart 4

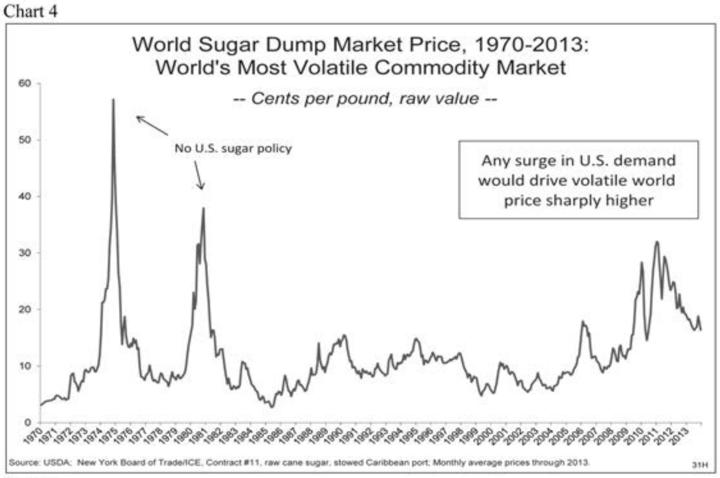


Chart 5

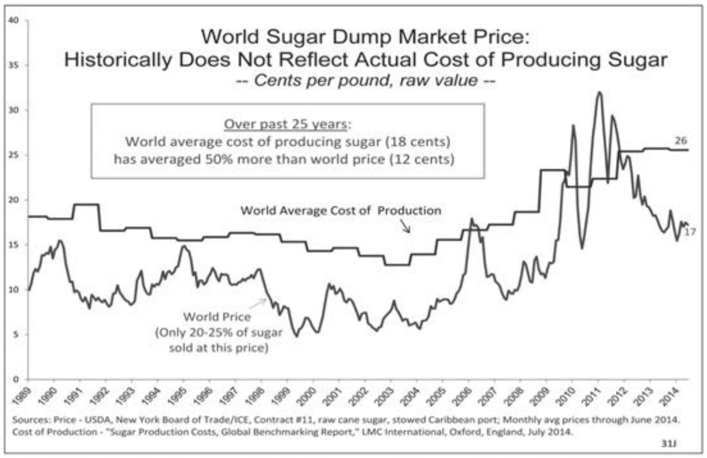
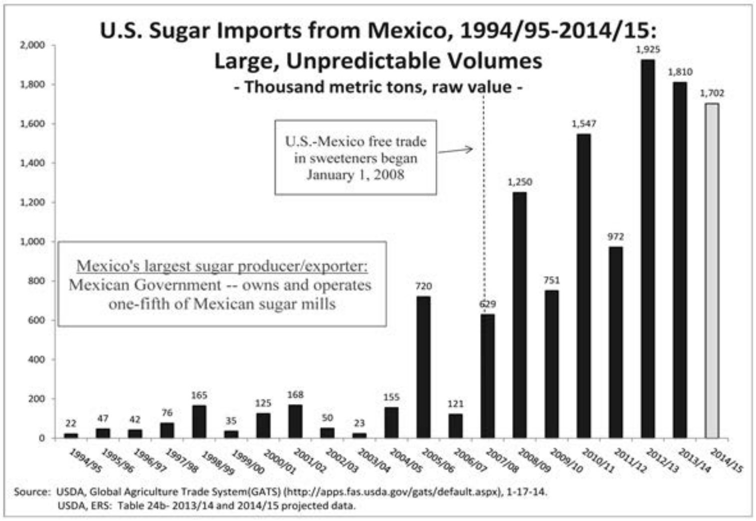


Chart 6

Chart 7


U.S. Sugar Imports from Mexico, 1994/95-2014/15:
Large, Unpredictable Volumes
- Thousand metric tons, raw value -
U.S.-Mexico free trade in sweeteners began January 1, 2008
Mexico's largest sugar producer/exporter:
Mexican Government -- owns and operates one-fifth of Mexican sugar mills
22
47
42
76
165
35
125
168
50
23
155
720
121
629
1,250
751
1,547
972
1,925
1,810
1,702
Source: USDA, Global Agriculture Trade System(GATS) (http://apps.fas.usda.gov/gats/default.aspx), 1-17-14.
USDA, ERS: Table 24b- 2013/14 and 2014/15 projected data.

Brown Shoe 072914TR, Letter

BROWN
SHOE COMPANY

August 28, 2014

The Honorable Devin G. Nunes
Chairman
Subcommittee on Trade
Committee on Ways and Means
United States House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20510

The Honorable Charles B. Rangel
Ranking Member
Subcommittee on Trade
Committee on Ways and Means
United States House of Representatives
1106 Longworth House Office Building
Washington, D.C. 20510

RE: Comments for Trade Subcommittee Hearing (7/29/2014) on Advancing the U.S. Trade Agenda: Trade with Africa and the African Growth and Opportunity Act

Dear Chairmen Nunes and Ranking Member Rangel:

On behalf of Brown Shoe Company, I am writing to provide comments for you upcoming hearing on Advancing the U.S. Trade Agenda through Trade with Africa and the African Growth and Opportunity Act. We urge you to renew the African Growth and Opportunity Act (AGOA) as soon as possible and to modify the rules of origin relative to non-import sensitive footwear imports. Given the expiration of the Generalized System of Preferences (GSP) and other programs, the imminent expiration of AGOA on September 30, 2015 is deterring investment in sub-Saharan Africa, and creating additional uncertainty for the business community.

Brown Shoe Company is a $2.3 billion company, headquartered in St. Louis, Missouri, that operates over 1,200 stores across the globe, an e-commerce subsidiary and has 13 distinct licensed footwear brands. With over 80% of the U.S. footwear market supplied by China, and 99% of all shoes sold in the U.S. imported, Brown Shoe and many other companies are looking to diversify its sourcing base and develop production in countries such as Ethiopia. Because of the exceptionally high duties on imported footwear, trade preference programs can create powerful incentives for our industry. However, these programs only work if the rules of origin are sensible, and if the duration of the programs is long enough for companies to obtain a reasonable return on investment.

The AGOA program has enabled Brown Shoe to provide such relief and further diversify its supply chain away from China into Africa. Since we made the decision to source footwear under AGOA in 2011, we have become one of, if not the largest importers of leather footwear under the program, sourcing our product primarily from Ethiopia. In 2014 we project we will import almost 1 million pairs of shoes from Ethiopia.

Total U.S. imports of footwear from under the AGOA program hit $19.8 million in 2013. In 2012, the United States imported $7.3 million worth of shoes, increasing from $801,000 in 2011. This unprecedented growth can be attributed to Ethiopia becoming a major source of leather shoes, where footwear import volumes increased 140% in 2013 from the year prior and have grown 51.8% in value in

BROWN
SHOE COMPANY

the first four months of 2014 compared to the same period last year.[1] Ethiopia now accounts for 7% of total footwear imports (in value) from sub Saharan Africa.

Leather footwear imports from AGOA countries are expected to continue to grow, pending Congress successfully extends the program. Letting AGOA expire and or delaying extension removes the incentive to continue doing business there. We do not want this to happen, and support immediate renewal for the longest duration possible.

Moreover, we believe the benefits of AGOA could be expanded to non-leather footwear with a slight amendment to the current rule of origin. Under AGOA currently, the rule of origin stipulates that for a product to qualify, it must have regional value content (RVC) of not less than 35 percent of the appraised value of the product. This only works for leather footwear products given the local availability of tanned leather hides. However, the RVC rule does not work for certain types of footwear because Africa currently lacks the infrastructure to produce the necessary components. To enable African countries to expand to other types of footwear production, we recommend that the rule of origin for non-import sensitive footwear under AGOA be changed to a simple tariff shift rule. We believe this change will help alleviate the reluctance that some companies have when considering to invest in expanded production in Africa.

The change we are recommending follows the CAFTA-DR and KORUS models. The rule of origin for the vast majority of footwear under CAFTA-DR, as well as under the U.S.- Korea free trade agreement, changed the 35% RVC rule in CBTPA to a tariff shift rule because it was found that the 35% RVC rule prevented assembly operations for most types of footwear. If assembly operations are able to develop in the AGOA region, then the necessary infrastructure for the footwear industry to manufacture components might well follow.

With that said, our immediate focus is to extend the current provisions of AGOA as soon as possible. While September 30, 2015 seems a long way off, we recommend at a minimum extension of AGOA as is while continuing to work on improving the program. As the data shows, footwear exports from Africa are increasing at a very rapid rate and possible disruption in the AGOA program will discourage companies that may be looking to source footwear from the region.

Thank you for consideration of our comments and we look forward to working with you on this important issue.

Sincerely,

H. Clayton Jenkins, SVP Global Sourcing, Compliance & New Business Development

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[1] *In 2013, the United States had imported $5.6 million of footwear under the AGOA program whereas in 2014 YTD, imports are already $7.9 million (data is from January – April).*

Footwear Distributors and Retailers of America, Letter

FDRA
FOOTWEAR DISTRIBUTORS AND RETAILERS OF AMERICA

July 25, 2014

The Honorable Devin G. Nunes
Chairman
Subcommittee on Trade
Committee on Ways and Means
United States House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20510

The Honorable Charles B. Rangel
Ranking Member
Subcommittee on Trade
Committee on Ways and Means
United States House of Representatives
1106 Longworth House Office Building
Washington, D.C. 20510

RE: Comments for Trade Subcommittee Hearing (7/29/2014) on Advancing the U.S. Trade Agenda: Trade with Africa and the African Growth and Opportunity Act

Dear Chairmen Nunes and Ranking Member Rangel:

On behalf of the Footwear Distributors and Retailers of America (FDRA), I am pleased to provide the following comments for the upcoming Trade Subcommittee Hearing on Advancing the U.S. Trade Agenda: Trade with Africa and the African Growth and Opportunity Act (AGOA). We strongly support immediate renewal of AGOA and suggest that the rules of origin relative to footwear be modified.

FDRA is the oldest and largest footwear industry association in the United States. We represent 130 companies and over 200 brands, including jobs in research, design, development, manufacturing, distribution and retail. FDRA works to advance the competitiveness of U.S. footwear companies both here in the United States and across the globe through free trade initiatives and by serving as an industry resource regarding various policies and regulations.

The U.S. footwear industry is a dynamic growing sector that supports hundreds of thousands of high value jobs across the country. The footwear industry is responsible to both fashion and technology advancements. Here in the United States, FDRA member companies research new materials and production methodologies, design product lines to meet consumer demands, and work to source and deliver competitive footwear for American consumers. Our members are designers, manufacturers and retailers with one element in common – trade is a cornerstone of our business.

In the United States, 99% of all footwear purchased is made overseas. As a result, every American company and consumer is forced to pay the outdated and extremely high import tariffs that are applied to footwear. Footwear duties range from 8% to 67.5%, a distinct contrast to the average consumer duty rate of 1.3%. Therefore FDRA member companies are constantly looking for new places to source products that will provide duty relief for its customers, one of which is Africa.

In 2013, the United States imported $20.8 million worth of shoes from the AGOA region, increasing 128.9% from 2012 – 19.8 million were imported under the AGOA program. This unprecedented growth can be attributed to Ethiopia becoming a major source of leather shoes. We wholly expect this trend to be apparent in 2014 data and continue into 2015. For these 1.4 million pairs, American's paid about $110,000 in duties for those that did

FDRA
FOOTWEAR DISTRIBUTORS AND RETAILERS OF AMERICA

not qualify under AGOA. This amount is nominal considering American companies paid an estimated $2.5 billion extra for their shoes because of this tax.

These duty savings are immensely appealing to U.S. footwear companies but unfortunately are not utilized fully because of one primary reason. Under AGOA, the rule of origin stipulates that for a product to qualify, it must have regional value content (RVC) of not less than 35 percent of the appraised value of the product. The 35 percent must be comprised of the sum of the cost or value of the materials produced in any one or a combination of AGOA countries, plus the direct costs of processing operations performed in any one or a combination of AGOA countries. There are no restrictions on the use of imported uppers. The 35% regional value content requirement can be comprised of a combination of value from AGOA countries. No more than 15% of the total value of the footwear can come from the United States.

This regional value content rule is sometimes difficult to meet for certain types of footwear because Africa currently lacks the infrastructure to produce all needed inputs. Therefore, we recommend that the rule of origin for footwear under AGOA be changed to a simple tariff shift rule instead of the RVC. We believe this change will help alleviate the reluctance that some companies have when considering to invest in moving production to Africa.

The change we are recommending follows the CAFTA-DR model. The rule of origin for the vast majority of footwear under CAFTA-DR was amended from a 35% RVC rule in CBTPA to a tariff shift rule because it was found that the 35% RVC rule was prohibitive and prevented assembly operations from developing in the region for most types of shoes. If assembly operations are able to develop in the AGOA region, then the necessary infrastructure for the footwear industry to manufacture components might well follow.

With that said, current provisions of AGOA are set to expire on September 30, 2015. While this date seems a long way off, we recommend at a minimum extension of the program as is while continuing to work on improving the program. As the data shows, footwear exports from the Africa are increasing at a very rapid rate and possible disruption in the AGOA program will discourage companies that may be looking to source footwear from the region.

Thank you for consideration of our comments and we look forward to working with you on this important issue.

Sincerely,

Matt Priest
President
Footwear Distributors and Retailers of America (FDRA)

National Pork Producers Council, Statement

The National Pork Producers Council (NPPC) hereby submits comments in response to the House Ways and Means Subcommittee hearing on July 29, 2014, on "Advancing the U.S. Trade Agenda: Trade with Africa and the African Growth and Opportunity Act" (AGOA). This submission is for consideration by the Subcommittee 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.

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Statement of the U.S. Chamber of Commerce

ON: Advancing the U.S. Trade Agenda: Trade with Africa and the African Growth and Opportunity Act

TO: U.S. House of Representatives Committee on Ways and Means Subcommittee on Trade

BY: U.S. Chamber of Commerce

DATE: July 29, 2014

The Chamber's mission is to advance human progress through an economic, political and social system based on individual freedom, incentive, initiative, opportunity and responsibility.

The U.S. Chamber of Commerce is the world's largest business federation representing the interests of more than three million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations.

More than 96% of Chamber member companies have fewer than 100 employees, and many of the nation's largest companies are also active members. We are therefore cognizant not only of the challenges facing smaller businesses, but also those facing the business community at large.

Besides representing a cross-section of the American business community with respect to the number of employees, major classifications of American business—e.g., manufacturing, retailing, services, construction, wholesalers, and finance—are represented. The Chamber has membership in all 50 states.

The Chamber's international reach is substantial as well. We believe that global interdependence provides opportunities, not threats. In addition to the American Chambers of Commerce abroad, an increasing number of our members engage in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Positions on issues are developed by Chamber members serving on committees, subcommittees, councils, and task forces. Nearly 1,900 businesspeople participate in this process.

The U.S. Chamber of Commerce is pleased to take this opportunity to address the priorities of the U.S. business community relating to "Trade with Africa and the African Growth and Opportunity Act." The Chamber is the world's largest business federation, representing the interests of more than three million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations, and is dedicated to promoting, protecting, and defending America's free enterprise system.

Across Africa, U.S. companies of all sizes and sectors see vast, often untapped possibilities for trade. The African Growth and Opportunity Act (AGOA) was enacted in 2000 and remains the cornerstone of U.S. trade and investment policy toward sub-Saharan Africa. The AGOA era has witnessed a surge in economic growth across the continent: According to an analysis by *The Economist*, six of the world's ten fastest-growing economies in 2000-2010 were in sub-Saharan Africa, and that growth continues today. [1] This growth is linked not just to U.S.-Africa trading relations but to engagement with the entire global economy.

The decade following AGOA's enactment has seen the continent's trade with the United States triple to $22.5 billion.[2] It has led to the creation of thousands of American and African jobs and has helped expand Africa's middle class to nearly 350 million consumers.[3]

However, domestic economic policies in many African nations for too long have served as a drag on intra-regional trade and investment. Trade with the United States has consisted largely of oil, gas, and minerals. In this context, AGOA's expiration on September 30, 2015, provides the opportunity to review its integral role within U.S.-Africa relations and to readjust the legislation to Africa's changing economic and political environment. The Africa of today is not the same commercial partner it was in 2000. In reviewing AGOA, we must recalibrate our trading preferences to account for recent changes and maximize the full potential of this program for all countries involved.

AGOA's Performance

The first priority of AGOA, as written in the legislation, is to "promote stable and sustainable economic growth and development in sub-Saharan Africa." Since AGOA's enactment in 2000, Africa has seen unprecedented levels of economic growth. Furthermore, trading relations between the U.S. and Africa have greatly expanded and are expected to increase in the near future:

- AGOA has directly created over 300,000 jobs in sub-Saharan Africa and as many as 100,000 jobs in the United States.[4]
- AGOA has indirectly created as many as 1.3 million jobs in sub-Saharan Africa.
- U.S. exports to Africa since AGOA was enacted have tripled to $23 billion.
- Exports from sub-Saharan Africa to the United States under AGOA have increased by more than 500%, from $8.15 billion in 2001 to $49.5 billion in 2012.[5]

[1] Among the countries enjoying especially rapid growth today are Ethiopia, Mozambique, Tanzania, Congo, Ghana, Zambia, and Nigeria.
[2] Office of the United States Trade Representative, http://www.ustr.gov/countries-regions/africa.
[3] African Development Bank, *The Middle of the Pyramid: Dynamics of the Middle Class in Africa,* 2011.
[4] Office of Congressman Chris Smith, *African Diplomats Present AGOA Recommendations to Foreign Affairs Committee.*

While AGOA has provided the framework for enhanced U.S.-Africa trade, it would be unwise to merely extend the legislation without accounting for the changed economic landscape. AGOA can be enhanced so that the potential benefits are maximized for American and African businesses.

A major focus of improving the benefits of AGOA is in the area of Africa's non-energy exports to the United States, which have increased by more than 275% since 2000—rising from $1.2 billion to $4.8 billion in 2012.[6] Apparel products remain the largest non-energy category, followed by automobiles and other manufactured goods. Although non-energy related products have experienced a three-fold increase since 2001, only a handful of countries account for the bulk of non-energy exports to the United States:[7]

- U.S. imports from South Africa totaled $3.7 billion (2012)
- U.S. imports from Lesotho totaled $301 million (2012)
- U.S. imports from Kenya totaled $293 million (2012)
- U.S. imports from Mauritius totaled $175 million (2012)

As only a handful of countries are utilizing the benefits from AGOA extensively, we must examine the options available to improve the effectiveness of the program. Inclusion of new products would be of great value to many Africa countries. Enhancing and extending for a longer duration the AGOA third-country fabric provision is another step the Chamber supports.

The Cost of Inaction on Renewal

Unfortunately, AGOA's pending expiration may already be undermining business and investor certainty. Companies operate with long planning horizons, and sourcing decisions are made many months or even years in advance. For this reason, the expiration of AGOA in little more than one year is already beginning to affect business decisions, and this dampening effect on trade will accelerate in the months ahead.

If the program were to expire, many of the significant gains made by African economies would be undermined. By contrast, action by Congress this year to begin the legislative process for AGOA renewal would send a strong signal of confidence to the U.S. business community and to our potential business partners in African countries. It would signal a commitment to growing the U.S.-Africa economic partnership and building on its historic economic growth.

AGOA is central to the dialogue between the United States and African countries on two-way trade and investment. Opportunities such as the annual AGOA Forum and the upcoming U.S.-Africa Leaders' Summit present an opportunity to not only review the trade-preference program but also to review the health of our trading relationship. In this vein, we must look at the functionality of these events on an annual basis and in consultation with the end user, i.e., the business community, to determine if they are being used in the most efficient manner.

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[5] Office of the United States Trade Representative, http://www.ustr.gov/countries-regions/africa.
[6] Brock R. Williams, Congressional Research Service: *African Growth and Opportunity Act (AGOA): Background and Reauthorization*, August 2, 2013.
[7] Ibid.

AGOA gives the U.S. administration the opportunity to conduct an annual review to consider whether countries are meeting the act's eligibility criteria, a process that allows the United States to positively influence political and economic reforms among AGOA beneficiaries. In light of this opportunity, Congress should consider whether to enhance AGOA's eligibility criteria in ways that foster greater two-way trade. These may include intellectual property protections, customs regimes, regulatory and legal standards, and measures taken to implement the World Trade Organization (WTO) Trade Facilitation Agreement (see below).

Many other major trading nations have been active in securing preferential trade agreements with Africa, including the Economic Partnership Agreements of the European Union, as well as agreements with Brazil and China. While AGOA is currently a one-way trade preference program, it could lay the foundation for a broader agreement securing market access for both the United States and Africa.

The World Trade Organization and Africa

The Chamber is firmly committed to the global rules-based trading system embodied by the WTO. In the view of Chamber members, the multilateral trading system embodied by the WTO has benefited the entire world, including Africa. Eight successful multilateral negotiating rounds have helped increase world trade from $58 billion in 1948 to $22 trillion today. This is a 40-fold increase in real terms, and it has helped boost incomes in country after country.

While this rising tide of commerce has brought gains for developed countries, its most dramatic benefits have accrued to developing nations, including Africa. As recently as 1993, 1.9 billion people—nearly half the world's men, women, and children—lived on $1.25 a day or less, in constant 2005 dollars. Since then poverty totals have been falling fast. By 2000 the number of people in absolute poverty had fallen to 1.7 billion, and the share of world population to 28%. The most recent estimates issued by the World Bank find the totals down to 1.2 billion people and 17.5% of population.

While no single factor explains these income gains, the rise in international commerce has by all accounts played a major role. The economic growth that trade helps fuel contributes to educating the young, building essential infrastructure, strengthening institutions of governance, and combating measles, malaria, and other preventable illnesses. In the post-war era, these efforts have helped developing countries add two decades to life expectancy and cut the mortality rate of children under age five by 50%.

However, the long impasse in the Doha Development Agenda negotiations led many to call into question the WTO's role as a forum for market-opening trade negotiations in recent years. In this context, it is difficult to exaggerate the importance of the success achieved at the WTO's 9th Ministerial Conference held in Bali, Indonesia, on December 3-7, 2013.

The WTO Trade Facilitation Agreement

At the Bali Ministerial, trade ministers unanimously endorsed the first multilateral trade agreement since the organization's creation in 1995. The Chamber warmly welcomed the Trade Facilitation Agreement (TFA), the principal deliverable in the Bali Package, as a cost-cutting, competition-enhancing, anti-corruption agreement of the first order. It promises to streamline the passage of goods across borders by cutting red tape and bureaucracy and promoting border modernization for customs clearance around the globe.

Today, production inputs come from all around the world to produce products with the greatest value for the consumer, and nearly 60% of all international trade is in intermediate goods. Manufacturers have come to rely on efficient border processes to keep trade costs low and speed products to market, and reducing transaction costs at the border allows retailers to charge customers less. Trade facilitation also unleashes the potential for small and medium-sized businesses to access global markets. Speed, efficiency, and predictability are vital to the success of traders of every size, sector, and region.

The final agreement has surprised observers with its quality as countries accepted stronger commitments than had been anticipated. Unlike free-trade agreements (FTAs) negotiated by two or several parties, the dynamic at the 159-member WTO often leads to the lowest common denominator; however the final version of the TFA is still impressive. To illustrate, the agreement includes more than 120 "shalls" (indicating obligations binding on all parties) and only a few dozen instances where governments made weaker "best endeavor" commitments.

In fact, the Peterson Institute for International Economics in 2009 estimated the trade facilitation element in a completed Doha Round would add almost four times as much to global economic output ($385 billion) as the Round's provisions eliminating tariffs and other trade barriers on agricultural and manufactured goods ($100 billion)—even though the latter were supposedly the deal's core deliverables. The OECD estimates that for every 1% reduction in global trade costs, global incomes rise by $40 billion. The TFA can cut trade costs by almost 15% for low-income countries and 10% for high-income countries.

In a major change for dozens of developing countries—especially in Africa—the TFA will require countries to transition fully to modern border practices under which goods are cleared through customs independently of the final determination of duties and taxes. Countries will migrate to electronic processing of required information to allow clearance through customs before goods arrive in the country. Countries will also look to modernize risk-based targeting.

The TFA also requires countries to provide expedited customs clearance for air cargo, which accounts for about 40% of world trade in goods by value. Today, there are scores of countries that provide no such facilities for express shippers. While U.S. FTAs typically include a binding commitment for such shipments to be cleared within a specific number of hours, that was not possible in this much broader agreement, but the TFA does include an obligation to release goods delivered by air as soon as possible after arrival.

The TFA also includes binding obligations for customs authorities to:

- Publish all customs forms, rules, and procedures on the Internet;
- Afford opportunities to comment on new or amended customs laws and regulations and maintain regular stakeholder consultation;
- Issue advance rulings (prior to importation) on a good's tariff classification and provide for administrative or judicial appeal;

- Establish a *de minimis* value below which duties are not required in order to expedite the release of low-value shipments (though no specific value was set); and
- Adopt authorized operator programs to speed clearance for firms that have established a good record of compliance with customs regulations, as in "trusted trader" programs such as C-TPAT.

The true value of a trade agreement lies in its effective implementation. To that end, WTO Members have been laboring to meet a deadline this month to submit so-called "Category A" commitments under the Agreement. In this process, they will list all the provisions they commit to fully implement by the time the Agreement enters into force in July 2015. Particularly in the case of developing countries, this represents an opportunity to highlight a strong commitment to efficient customs and port procedures before the global business community and private investors, and bold reformers are likely to see economic benefits in the form of increased trade, investment, and growth.

The Chamber has noted with grave concern that a small number of middle-income WTO Members have in recent weeks indicated they plan to abandon the unanimous commitment to the Bali Package achieved in December and instead argue that implementation of the TFA must be contingent on completion of the Doha Round. This position sends a terrible signal at a moment when the WTO has managed to regain some credibility as a forum for meaningful and productive trade negotiations. From a development perspective, it is vital that WTO Members press forward with a TFA implementation strategy to promote economic growth and development.

Further, if this small minority of WTO Members somehow managed to overturn the consensus at Bali, it would do nothing to advance the Doha Round—it would more likely sound its death knell. In particular, it would deny African nations the extensive benefits of the TFA—which would accrue disproportionately to the world's poorest nations—as well as the Bali Package's commitments relating to development and agriculture. Modern border practices will generate win-win outcomes for not only individual countries, but the global economy as a whole.

The Chamber is making concerted outreach to governments in Africa and elsewhere to encourage them to take on these "Category A" commitments in a fulsome manner and to underscore the international business community's keen interest in seeing these reforms advance. We strongly support the administration's efforts to ensure the TFA enters into force in a timely manner and on the most commercially meaningful terms, and we encourage Congress to continue to support these efforts as well.

Electrify/Energize Africa

Another U.S. Chamber legislative priority is the Electrify Africa bill, which the House recently approved. Similar legislation in the Senate has been named Energize Africa.

With no additional expenditure by the U.S. government, the Electrify Africa Act would encourage the development of new infrastructure to provide access to electricity in sub-Saharan Africa. More than 70% of the people in the region have no access to electricity, with grave consequences. Indoor air pollution from wood and dung burning stoves kills more than 3 million people per year—more than AIDS and malaria combined. By promoting reliable access to energy, this bill would help remove one of the continent's most significant barriers to development.

Given that Africa is home to a number of the fastest growing economies in the world, this bill has the potential to generate significant new economic opportunities for U.S. companies and the workers they employ. Broader access to electricity would allow a larger middle class to emerge, providing opportunities for U.S. companies. Appropriately, the bill places an emphasis on the role of the private sector as it promotes access to electricity. The Congressional Budget Office (CBO) estimates that implementation of the Electrify Africa Act would save the United States $86 million from 2014-2019.

The Electrify Africa Act would direct the administration to create a comprehensive strategy to help increase access to electricity in sub-Saharan Africa. It would direct U.S. agencies involved in economic development to use existing tools to pursue this goal, and it would direct the Treasury Department to work with the World Bank and the African Development Bank to increase electrification investments in sub-Saharan Africa.

Recommendations

Given the rising importance of Africa to the United States, the Chamber urges that Congress and the administration consider these recommendations:

Extend AGOA beyond 2015: An extension of AGOA would benefit both the United States and all AGOA-eligible countries by providing greater predictability and stability for U.S.-Africa trade. In order to maximize AGOA's potential and to take into account the dynamic economic environment on the continent, the legislation should receive multi-year renewal.

Expansion of Product Coverage: The AGOA program excludes many products that could be of great value for trade with sub-Saharan Africa, and Congress should consider what products can usefully be added. The Chamber also supports the extension of AGOA's third-country fabric provisions.

Review AGOA's Eligibility Criteria: AGOA should take into account the deliberate trade and investment actions of African governments. With the goal of enhancing economic growth and development, AGOA should encourage efforts to promote trade facilitation, expand market access, protect intellectual property, extend fair treatment to foreign investors, and enhance the business climate in other ways.

Move Toward Regional Trade Agreements: To maximize the potential benefits of U.S.-Africa trade relations, U.S. officials should consider how to use AGOA as a path towards bilateral and regional reciprocal trade agreements.

Press for Swift Implementation of the WTO Trade Facilitation Agreement: The U.S. government and business community should continue to press African nations to embrace a fulsome list of so-called "Category A" commitments under the TFA to highlight their commitment to efficient customs and port procedures. Governments doing so will signal to the global business community their clear commitment to reform and are thus likely to see significant economic benefits in the form of increased trade, investment, and growth.

Approve the Electrify/Energize Africa Act: The Electrify Africa Act would encourage the development of new infrastructure to provide access to electricity in sub-Saharan Africa. By promoting reliable access to energy, this bill would help remove one of the continent's most significant barriers to development and would allow a larger middle class to emerge, providing a wide range of opportunities for U.S. companies in years to come.

Conclusion

The Chamber thanks the leadership of the House Ways and Means Trade Subcommittee for convening this hearing on U.S.-Africa trade relations. We look forward to working with Congress and the administration to advance a bold trade agenda with Africa—and other world regions—that will generate growth, opportunity, and jobs.

CBI Sugar Group, Statement

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 Ways and Means Trade Subcommittee's July 29, 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.

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July 29, 2014