

Bringing HOPE to Haiti's Apparel Industry

Improving Competitiveness through Factory-level



November 2009

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Glossary

ADIH	Association des Industries d'Haïti (Association of Haitian Industries)
AGOA	African Growth and Opportunity Act
BASC	Business Alliance for Secure Commerce
BC	Beneficiary country/countries
BFC	Better Factories Cambodia
BSR	Business for Social Responsibility
BTA	Bilateral textile agreement
C.	Convention
CBERA	Caribbean Basin Economic Recovery Act
CBTPA	Caribbean Basin Trade Partnership Act
CBI	Caribbean Basin Initiative
CFI	Centre de Facilitation des Investissements (Center for Investment Facilitation)
CFPO	Centre de Promotion des Femmes Ouvrières (Center for Promotion of Women Workers)
CIF	Costs plus insurance and freight
CLED	Centre pour la Libre Entreprise et la Démocratie (Center for Free Enterprise and Democracy)
CMT	Cut, make, and trim
CODEVI	Compagnie pour le Développement Industriel (Industrial Development Company)
CSH	Coordination Syndicale Haïtienne (Haitian Union Coordination)
CTH	Confédération des Travailleurs Haïtiens (Confederation of Haitian Workers)
CTMO-HOPE	Commission Tripartite de Mise en Oeuvre de la Loi HOPE
CWG	Competitiveness Working Group
DR	Dominican Republic
DR-CAFTA	Dominican Republic-Central American Free Trade Agreement
DSNCRP	Document de Stratégie Nationale pour la Croissance et la Réduction de la Pauvreté (National Strategy for Growth and Poverty Reduction)
DZF	Direction des Zones Franches (Free Zone Department, of the Ministry of Commerce and Industry)

EDH	Electricité d'Haïti (Haitian Electricity Authority)
ELVIS	Electronic Visa Information System
ENAM	Ecole Nationale des Arts et Métiers (National School for the Arts and Handicrafts)
FIAS	Foreign Investment Advisory Service
FOB	Free on board
FTA	Free trade agreement
FTZ	Free trade zone
GAL	Guaranteed access level
GDP	Gross domestic product
GSP	Generalized System of Preferences
GTC	Groupe de Travail sur la Compétitivité (Competitiveness Working Group)
HOPE	Haitian Hemispheric Opportunity through Partnership Encouragement Act
HTG	Haitian Gourde
HTS	Harmonized Tariff System
IADB	Inter-American Development Bank
IFC	International Finance Corporation
IHSI	Institut Haïtien de Statistique et d'Informatique
ILO	International Labor Organization
ISPS	International Ship and Port Facility Security Code
ITUC	International Trade Union Confederation
KwH	Kilowatt-hour
LDP	Landed duty paid
LM	Linear meter
MFA	Multilateral Fibre Arrangement
MINUSTAH	United Nations Stabilization Mission in Haiti
MMF	Man-made fiber
MOISE	Mouvement des Organisations Indépendantes Intégrées and des Syndicats Engagés (Movement of Independent, Integrated Organizations and Engaged Unions)
MPCE	Ministry of Planning and External Cooperation
MAST	Ministère des Affaires Sociales et du Travail (Ministry of Social Affairs and Labor)
NAFTA	North American Free Trade Agreement
QIZ	Qualifying industrial zone
SME	Square meter equivalent
SONAPI	Société Nationale des Parcs Industriels (National Industrial Parks Company)
TAICNAR	Technical Assistance Improvement and Compliance Needs Assessment and Remediation program
TEU	Twenty-foot equivalent unit

TPL	Tariff preference level
TRQ	Tariff-rate quota
USAID	U.S. Agency for International Development
USCBP	U.S. Customs and Border Protection
USTR	Office of the U.S. Trade Representative
VAT	Value-added tax
WRAP	Worldwide Responsible Apparel Production
WTO	World Trade Organization

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Executive Summary

Thirty years ago, Haiti's apparel industry was a reliable supplier of assembled goods to the U.S. market and employed as many as 100,000 workers. Chances were pretty good that U.S. baseball pitchers were throwing balls sewn in Haiti, and that U.S. children were sleeping in pajamas sewn in Haiti. The intervening years have been difficult for Haiti, marked by a struggle to stabilize governance, to institutionalize respect for political and human rights, to modernize infrastructure, and to encourage environmental stewardship rebuild after decades under the poor leadership of the Duvaliers (1957–1986). Meanwhile, businesses around the world have built supply chains that deliver raw materials from the most efficient capital-intensive economies for processing in the most productive labor-intensive economies. The global economy has rewritten the rules of trade, eliminated quotas on textiles and apparel, and spawned preferential arrangements and free trade agreements across multiple geopolitical partnerships. In this context, what trade advantages, if any, does Haiti's apparel industry have and what are its strengths?

In 2008, the United States—one of the world's largest consumer markets despite the current economic recession—extended trade preferences to Haiti. The Haitian Hemispheric Opportunity through Partnership Encouragement Act, or HOPE II, grants Haitian apparel exports duty-free entry into the United States. At the same time, Haiti remains a beneficiary under the Caribbean Basin Trade Partnership Act (CBTPA).

HOPE II allows Haitian apparel factories flexible use of third-country materials in production, subject to value-added requirements and quantitative limits (expiring in 2011) and quantitative limits only for woven and knit apparel (expiring in 2018). To stimulate textile industry development and regional trade integration, CBTPA extends benefits to garments made from fabrics produced in the region of U.S. yarn. Together, HOPE II and CBTPA give Haiti an advantage over all other U.S. trade partners in the most valued trade benefit for apparel: the right to use fabrics produced outside its borders—whether from the United States, U.S. trade agreement and trade preference partners, or third countries—to manufacture apparel, export it to the United States, and qualify for duty-free benefits.

***HOPE II
grants Haitian
apparel
exports duty-
free entry into
the United
States.***

In designing HOPE II, U.S. lawmakers provided maximum flexibility and required that apparel factories respect labor rights—such as rights to organize, bargain collectively, and be free of employment discrimination—in order to qualify for benefits. As mandated by HOPE II, Better Work, a multicountry program managed by the International Labor Organization and the International Finance Corporation, was recently established in Haiti as the Technical Assistance Improvement and Compliance Needs Assessment and Remediation (TAICNAR) program. In addition, the legislation includes a provision that apparel produced in Haiti can be exported from the Dominican Republic to the United States. This accommodates goods produced in Haiti along the Haitian–Dominican border in the free trade zone at Ouanaminthe.

*Forty percent of
Haiti's apparel
factories are
foreign-owned
or joint
ventures.*

Foreign investors are taking notice of the rebirth of Haiti's apparel industry. The industry currently employs only 25,000, but 23 companies—all but one in Port-au-Prince—manufacture a wide assortment of clothing items. Ten of these companies represent Dominican, Korean, and U.S. investors, and several have indicated their intention to expand their workforces. Brazilian investors also seem eager to invest in Haiti. CODEVI, Haiti's largest single apparel factory and the only one outside Port-au-Prince, represents an experiment in Haiti. Owned by Grupo M of the Dominican Republic, the factory is located in a free trade zone on the Dominican border, employs between 3,700 and 4,000 workers and is ready to add several hundred more, and is the only apparel factory in Haiti whose workers are represented by a labor union. Electricity, telecommunications, and transport to and from ports are all provided in the Dominican Republic. In Haiti, "free trade zones" and "industrial zones" qualify for similar benefits and support. Haiti's investment laws allow for temporary admission of raw materials needed for export-oriented industries, and customs officials work effectively with manufacturers to ensure timely inspection of containers at the factories.

*Haiti's labor
force is its
biggest asset—
in terms of cost
and quality.*

Aside from the generous terms of access to the U.S. market under HOPE II, Haiti's labor force is its biggest asset—in terms of cost and quality. The low minimum wage of 70 Haitian Gourdes (\$1.75) per day that was in effect during the study period was raised to 125 HTG (\$3.13) on October 1, 2009, with further increases scheduled in October 2010 (150 HTG) and October 2012 (200 HTG). Total earnings of workers in the apparel industry, inclusive of production quota bonuses, are in excess of the minimum wage today. While not the lowest worldwide, these labor costs are competitive with regional and global benchmarks. Just as important, Haiti's apparel workers are eager for steady employment and are reliable—despite low wages and high costs associated with employment (e.g., transport to and from work, meals away from home, occupational health concerns, workplace stresses). Absenteeism and turnover are both low at 2 percent and 4-6 percent per year, respectively. And in late 2009, a training center being designed with input from [TC]², a leading U.S. center for applied apparel industry research and training will begin training sewing operators and mid-level personnel for what is expected to be an expanding labor force.

To take full advantage of its trade agreements and its solid, reliable workforce, Haiti's apparel industry has to meet challenges in general infrastructure, factory productivity, and international image. First, the two most commonly cited infrastructure constraints are unreliable and costly electricity and the dwindling supply of available industrial space. Electricity costs for industrial users are an extremely high 23 U.S. cents per kilowatt-hour—well above regional and global benchmarks, and soon to be increased by the Haitian Electricity Authority. Unless curbed by special tariffs, these costs will discourage development of a textile industry, a longstanding dream of planners in Haiti's apparel industry. Industrial space is reportedly still available in Port-au-Prince—some 100,000 square meters were said to be open in August 2009. But with urban areas growing at rates three times that of the overall population, Haiti needs to plan for its future now and consider which other coastal towns might provide platforms for industry development. Donors are addressing these constraints by working to improve energy sector governance, electrical generation capacity, and electrical distribution security, and to plan and finance new industrial parks in Port-au-Prince and elsewhere, such as in Cap-Haïtien. The World Bank and International Finance Corporation are financing efforts to reduce losses and expand supply in the energy sector, and the Inter-American Development Bank will fund strategic planning for expansion of industrial space.

Electricity costs for industrial users are well above regional and global benchmarks.

Second, compared to global industry “standard times” the productivity of Haiti's apparel operations is low. Many factories operate at 35 to 40 percent of standard. In a well-run factory, productivity rates are between 60 and 75 percent of standard, as consistently achieved in various countries. The current challenge for Haiti's industry is to increase its levels to 50 percent of standard, or better.

Haiti's apparel firms should increase productivity to 50 percent of standard, or better.

Third, Haiti's apparel firms have a reputation as being little more than T-shirt manufacturers—but in reality they manufacture a surprising range of fairly complex products. Most are made of 100 percent cotton fabrics, but factories also work with woolens and manmade fiber fabrics. Factories operate as cut-make-trim companies, subcontractors, and even full-package service companies. Some have automatic fabric spreading or computer-aided cutting or manufacturing facilities, others offer their own pattern marker and embroidery capabilities. They produce for a wide range of clients in North America, including two well-known undergarment and activewear companies (Hanes and Gildan) and a wide variety of fashion, performance, active, and work wear companies. In fact, none of the following points of “common wisdom” about the industry are true:

Haiti only makes T-shirts and workers lack the skills to do more. In fact, Haitian operators are skilled in needle work and produce a wide range of products, even tailored men's suits.

Haitian firms dominate the local apparel industry. Haiti already attracts foreign investors to its industry. Forty percent of companies are joint ventures or foreign owned.

Haitian firms are skilled in needle work and produce a wide range of products, even tailored men's suits.

Hanes and Gildan dominate Haiti's commercial landscape. These two renowned North American brands are significant, but are better viewed as anchors in a diversified customer network.

Haiti's factories only assemble garments from knit cotton fabric sourced from the Dominican Republic. Haiti's factories source fabric from all over the world, manufacturing garments of cotton, manmade fiber, wool, and other fabrics.

Haiti's apparel factories only provide cut, make, and trim services. A number of Haiti's factories offer specialized sourcing and production services.

Haiti's apparel industry is not yet taking advantage of HOPE. Haiti's apparel firms are responding to HOPE II trade opportunities, and the relative share shipped under HOPE has increased significantly in 2009.

These are significant findings. Haiti's apparel industry presents global investors and apparel buyers advantages and challenges. On balance, prospects are quite good, with the industry likely to expand, perhaps even double, in the coming two years. No other supplier matches Haiti for its wages, trainable and dedicated workforce, trade preferences into the U.S. market, and physical proximity to customers (hence, short delivery times to market).

Haiti's apparel firms are responding to HOPE II trade opportunities.

Our findings on production costs also bode well for the industry's competitiveness. Haiti's apparel companies are profitable and able to attract business—and are expanding as a result. Average pay levels in Haiti's apparel companies are high, and electricity costs paid by the industry are high but manageable. In most firms, productivity levels are a concern; improving worker nutrition may be one simple way to boost productivity.

Haiti's apparel industry is starting to grow again. Business, labor, and government leaders recognize the importance of the industry to economic growth and poverty reduction, and appear ready to ensure that HOPE II leads to meaningful economic activity, employment, and improved welfare for Haitians. To help ensure such an outcome, Haiti should consider all possible niches it might fill in the global industry. Factories should commit to achieving higher productivity and to using various production management methods to smooth workflow through factory production lines without unduly taxing production personnel. Mindful of the TAICNAR program's focus on labor rights compliance and remediation, the industry should prepare now for unionization among a larger share of the apparel workforce. Private electricity generation capacity and industrial zone space, in Port-au-Prince and possibly in Cap-Haïtien, should be pursued. Finally, the energy and enthusiasm of Haiti's industry, labor, and government leaders, engaged through *Commission Tripartite de Mise en Oeuvre de la Loi HOPE* (CTMO-HOPE), should be tapped in shaping a new image for Haiti's apparel industry abroad.

1. Introduction

In October 2008 the United States Congress enacted legislation that gave the Republic of Haiti expanded, flexible access to the U.S. market for its apparel exports. The Haitian Hemispheric Opportunity through Partnership Encouragement Act of 2008 (HOPE II, updated from the original legislation passed in 2006) was welcomed for its potential to revitalize a decaying industry, attract new foreign investment, expand formal sector employment, and jumpstart growth and opportunity for Haiti's people. A presidential commission, the *Commission Tripartite de Mise en Oeuvre de la Loi HOPE* (CTMO-HOPE), works to ensure successful implementation of the legislation.¹

The purpose of the analysis of Haiti's apparel value-chain in this report is to provide a comprehensive view of the advantages and challenges of manufacturing in Haiti relative to manufacturing in the Caribbean and Central America and elsewhere. It situates Haiti's attributes and suggests priorities for improving its competitiveness relative to that of other suppliers. An apparel buyer in the United States today juggles an impressive list of potential suppliers from China and elsewhere in Asia and from Latin America and beyond. Each country offers a unique combination of workforce skills, business environment, costs, "full-package" services, proximity to raw material or to end markets, preferential access to the U.S. market, and thus competitiveness. This report helps readers to see how Haiti fits into this ever-changing global apparel market kaleidoscope.

Research for this analysis was conducted using a combination of instruments, including (1) a structured survey questionnaire, in which three-quarters of the industry participated;² (2) detailed cost analysis for two standard products made in Haiti—knit T-shirts and woven men's "chinos" trousers—using cost data collected from nine firms; and (3) rapid appraisal interviews of representatives of Haiti's apparel industry and its broader private sector, Haiti's labor sector, donor organizations and donor-funded programs, and government, to understand the policy and business environments in which the industry operates. Field work took place between July 20 and August 15, 2009. In addition, trade benefits available to Haiti under the HOPE II

¹ See Appendix A for information on the composition of the commission.

² Appendix B lists Haiti's apparel manufacturers.

agreement were compared with those available under the Caribbean Basin trade preference program, and with those available to Haiti's competitors under the Dominican Republic (DR)-Central American Free Trade Agreement.

Findings presented here aim to enrich understanding of the industry in light of several strategic discussions being held in Haiti today (Perito 2009). Haiti's National Growth and Poverty Reduction Strategy Paper, prepared in 2007 and updated in 2009, is being implemented with broad support from the donor community, including the United Nations, multilateral development banks, and bilateral donor organizations (Republic of Haiti 2007; Collier 2009; IADB 2009a). Special United Nations envoys to Haiti—former U.S. President Bill Clinton and his deputy Dr. Paul Farmer, co-founder of Partners in Health—have been engaged in these discussions, including discussions with Haitians residing abroad. The Haitian Diaspora Unity Congress held its second annual international conference in Miami in August 2009 to strategize overseas Haitians' support for their homeland. A Haitian Presidential Commission on Competitiveness has issued its "Shared Vision for an Inclusive and Prosperous Haiti," facilitated by the OTF Group. The apparel cluster is among five priority growth clusters identified in the strategy, and the Competitiveness Working Group is developing priority actions for it (CWG 2009).

In the apparel sector, industry stakeholders have been developing a strategic vision for the industry's future in Haiti (ADIH and I-Trade 2009). That vision aims for the industry to become a global supplier of choice, not only for apparel, but for home furnishings and accessories, increasing industry value-added to \$1.6 billion worth of sales, one-third of which is to come from full-package operations, and expanding employment to 200,000. Table 1-1 summarizes strategic initiatives.

As discussed more fully below, the Better Work Haiti program of the International Labor Organization and International Finance Corporation (ILO/IFC) launched the TAICNAR program on July 1, 2009 to address factories' compliance with core labor standards. In presenting a detailed, survey-based analysis of apparel industry operations to date, this survey complements this strategic planning.

Apparel Industries Worldwide

Around the world, apparel companies defy the odds. Clothing items are produced for the world market in countries where the minimum wage is \$1.50 per day and in countries where it is \$15.00 per day, in factories clustered next to the seaport in an industrial or free trade zone and in factories that spread around an inland capital city and send their filled containers by truck on a four-hour ride to the nearest port, in countries that enjoy free or preferential trade relations into their lead markets and in countries that do not. There is no one formula for success, as many different kinds of garments, human resource and skill sets, sourcing patterns,

and value-chain strengths and weaknesses allow for the creation of infinite niches by various producers around the globe.

Table 1-1
Summary of Strategic Initiatives in Haiti

Initiative	Lead	Other Key Actors	Strategic Role of Apparel Industry
National Growth and Poverty Reduction Strategy Paper	Haiti Ministry of Planning and External Cooperation	United Nations & Columbia University's Earth Institute	Manufacturing not considered to be a "growth vector," though the textiles are seen as a "highly promising area."
From Natural Catastrophe to Economic Security	Professor Paul Collier, Oxford University	Prepared for the United Nations Secretary-General	With advantages of HOPE II, garments production seen as logical lynchpin of economic recovery strategy. "From the important perspective of market access Haiti is now the world's safest production location for garments."
Shared Vision for an Inclusive and Prosperous Haiti	Presidential Commission on Competitiveness	OTF Group	Apparel considered to be one of five priority growth clusters for Haitian economy; priority actions being defined.
Apparel Industry Strategic Plan and Roadmap	ADIIH	I-Trade Project, led by Chemonics Int'l, supported by USAID	Holistic vision; analysis of strengths, weaknesses, opportunities, and threats; consideration of marketing, communications, and business environment priorities.
Better Work Haiti	ILO/IFC	ADIIH, CTMO-HOPE	Responsible for the Technical Assistance Improvement and Compliance Needs Assessment and Remediation program.

That being said, the global apparel industry is undergoing tremendous consolidation in the wake of the 2005 elimination of multilateral quotas on textiles and apparel trade. Production in far-flung places such as Saipan (part of the U.S. Commonwealth of the Northern Mariana Islands in the western Pacific) and Namibia (in southwest Africa) has ground to a halt. Even production in once prospering platforms is contracting. For example, shortly after the United Nations' Transitional Authority in Cambodia ended in 1993, apparel sector employment was under 20,000; it grew in ten years to 250,000 workers, then peaked in 2008 at about 350,000 workers (Salinger et al. 2005; EIC 2008), before losing an estimated 50,000 jobs to the combination of global recession, competition, and industry consolidation. In Lesotho, apparel industry employment soared from under 10,000 in 1999 to over 50,000 in mid-2004, four years after the African Growth and Opportunity Act (AGOA) was implemented; however, by 2005, garment industry employment in Lesotho had fallen to 40,000 under pressure from an overvalued currency and looming changes to origin requirements under AGOA (Bennet 2006). Moreover, the global economic slowdown has reduced apparel imports into the United States by 10-20 percent, as of the first half of 2009, depending on whether one looks at volume or value statistics. Thus the challenges facing a relative "newcomer" to the global apparel trade, such as Haiti, are daunting. This underscores the importance for Haiti to attract foreign direct investment, and the value-chain savvy that it brings, into its apparel industry.

The apparel industry has been an engine of growth and industrialization for developing countries around the world. It is one of the first formal sector opportunities to provide jobs and often higher incomes to its workforce, relative to their other livelihood opportunities. The attractiveness of such employment is underscored by the rural-to-urban migration that typically accompanies the emergence of an apparel industry. However, the “easy” advances made by early industrializers, such as South Korea, are not as easily replicated today. Whereas the industry’s internal logic was driven by the need to diversify sources of manufacturing in order to get around constraints imposed by textile trade quotas (i.e., before 1995), the internal logic today is driven by retailers’ desires to offload as many risky dimensions of the business as possible to vertically integrated, globally networked, technologically savvy, and socially responsible producers. These are likely to be far fewer in number, although buyers also strive to maintain some diversification for risk management.

As workers gain experience and skills the processing of relatively simple goods such as clothing, higher value-added manufacturing activities in footwear, automobile components, toys, and sporting goods typically begins to take hold. Eventually, with continued industrialization and economic growth, industrial sectors push into increasingly sophisticated manufacturing of electronics components, machinery, and the like. As manufacturing skills advance and the value-added of products produced increases, wages also rise. This can lead to displacement of an apparel industry, as alternative employment in higher paying manufacturing pulls labor away and apparel manufacturers re-establish themselves in country’s with more abundant and less costly labor supplies. This pattern has been observed in a number of European, North African, and Asian countries.

With its heavy reliance on women workers, the apparel industry has also been an engine of empowerment for uneducated and low-skilled women in many countries. Access to earned income contributes to a new independence for women workers, many of whom shed the confines of their rural traditions as they move to cities to take up assembly work (Kabeer 2000; Gammage et al. 2002). Some portion of that income may be remitted home to support families’ investments in agriculture, children’s and siblings’ education, and other priorities.

Industrial work, however, also may expose apparel workers to new risks, potential rights abuses, and the costs of being in the workforce for long hours each day. This in turn puts additional stress on families, as traditional means of food preparation and care of children and the elderly must be adapted to women’s long working hours. Yet women’s employment in garment factories may be steadier, with a more reliable income stream, than the terms of employment faced by their male counterparts. Uneducated, low-skilled men are likely to be employed in informal sector jobs (e.g., construction, transportation, fishing) that offer few labor protections and even more variable income streams. In cases where women workers are married, this can introduce new pressures on traditional gender roles within the family.

As is discussed in Section 3 below, Haiti’s apparel industry – like the economy overall – has had a turbulent history. Increasing factory jobs in the apparel industry, coupled with independent

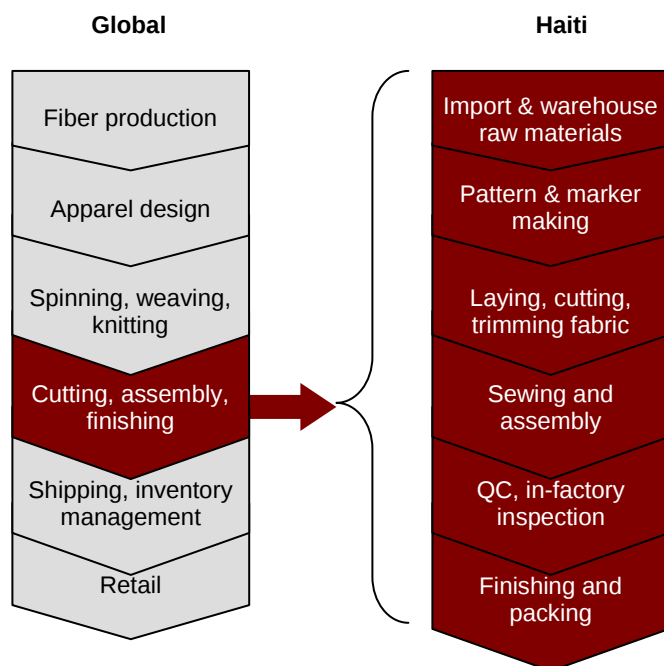
monitoring to ensure that core labor standards are respected in the factories (as discussed further below), could provide real hope to Haiti's apparel industry – and to the thousands of men and women who draw income from it – once again.

Apparel Value-Chain Elements

Globalization of the apparel value-chain has been apparent for more than three decades. The term “value-chain” encompasses the entire range of activities (Figure 1-1), from fiber production, through spinning, weaving or knitting, wet processing, apparel design, sampling, cutting, assembly, finishing, shipping, inventory management, and retailing, that results in consumers being able to purchase the clothes they want in stores, through catalogues, or via online retail sites. In Haiti, activities center on cutting, assembly, and finishing of garments, as detailed in Figure 1-1.

Figure 1-1

Apparel Industry Value-Chain, Global and in Haiti



These stages in the value-chain may be undertaken by different companies, distinct in ownership and management, connected through contractual relationships. Or they can be undertaken by diversified groups that manage some combination of these activities. Apparel industry expert David Birnbaum (2009) argues that location no longer matters to apparel buyers. Instead, what matters to retail customers is that they have full-service partners who can provide a range of goods *and* services, designing apparel lines, producing samples, sourcing (or

even developing and contracting for the production of) the necessary raw materials, organizing the manufacturing, delivering finished quality goods exactly when needed in distribution centers or stores, and communicating or physically meeting with customers. “The location of the plant and machinery becomes irrelevant,” he notes.

In order to understand why textile and apparel industries locate where they do, it is important to understand the relative differences in their requirements. Manufacturing of textiles is capital- and energy-intensive, costing about \$12 to \$25 million for weaving mills and \$50-\$70 million for spinning mills.³ Textiles production therefore concentrates in countries where the cost of electricity is reasonable, capital is available, and political and policy environment is predictable so that the significant investment is less likely to be at risk. On the other hand, manufacturing of apparel, in factories that cost \$3 to \$5 million to build,⁴ takes place in countries all around the world, under a variety of geographic and economic conditions. Their most pressing requirement is a steady supply of labor.

For the global apparel industry, there is no one formula for success, though a number of core elements are essential to a flourishing industry:

- Unit costs, especially with regard to wages, space rental, and electricity, kept competitive through implementation of productivity-enhancing management methods to take advantage of every opportunity for increased efficiency and quality along the chain.
- Availability of industrial space, skilled workforce, and working capital.
- Stable working environment, with minimum of political and civil instability.
- Verifiable compliance of factories with core labor standards.
- Facile access to overseas markets, both to procure raw materials and to sell final goods.
- Efficient trade processing to speed inputs and outputs across borders.
- Visible, serviceable, and reliable relations with retail buyers.

In addition to these core elements, each apparel enterprise seeks its own niche in the business, whether it is the ability to source and finance purchase of raw materials, the production of high volumes of simple goods, the ability to change production lines frequently for maximum order flexibility, sewing operators who are known for their advanced needle skills to produce complex garments, the ability to adjust markers to reflect product design changes, the addition of value through such processes as silk-screening or embroidery or special washes, the capacity for electronic integration of production controls with buyers' inventory management systems, the ability to replenish buyers' orders with minimum delay, management of trade logistics beyond the factory gate, and so on. Tighter integration with customers' information and

³ Investment figure benchmarks from Birnbaum (2009).

⁴ Ibid.

logistics systems is an additional plus, as apparel retailers' increasingly shorter fashion cycles require ever more frequent supply replenishment and tight [inventory management](#).

Trade agreements or preference programs that confer duty advantages from a particular country increase the relative attractiveness of some production platforms, although many Asian countries of course succeed in garment exports despite their lack of such an advantage. Of the top ten suppliers to the United States only two—Mexico and Honduras—enjoy such advantages, and their U.S. market shares have diminished over the last five years.

U.S. Apparel Trade Trends

China dominates global apparel production, supplying nearly one-third of the value of all U.S. apparel imports in 2008 (see Table 1-2),⁵ and U.S. buyers have come to expect increasing full-package servicing capability from apparel manufacturers, possibly including raw material sourcing and trade financing, as well as design, product development, sampling, and patternmaking services and help with raw material and final product inventory management. Thus the challenge for Haiti's apparel industry is not only to expand production to take advantage of HOPE II benefits and broaden employment opportunities, but to build capacity for these value-addition skills in order to strengthen the competitiveness of the Haitian apparel industry relative to other global suppliers.

It is noteworthy that while the global economic slowdown has clearly affected total U.S. demand for apparel, not all countries have been affected equally. As of August 2009, the values of imports from China and Vietnam, for example, were down 6 and 5 percent, respectively, while the value of overall apparel imports was off 14 percent. Of the top 25 suppliers to the U.S. market, three countries are actually shipping *increased* total value to the United States, viewed on an annualized basis, namely Bangladesh (up 2 percent), Egypt (up 2 percent), *and Haiti, up an impressive 22 percent, comparing 2009 annual equivalent imports values with 2008.*⁶ This is one of the strongest indications of the impact of the HOPE II legislation on Haiti's reviving apparel industry.⁷

⁵ The value of U.S. apparel imports has declined 14% (volumes down by 10%) due to the economic recession, using a twelve-month annual equivalent of imports shipped through August 2009, compared with the value of 2008 shipments.

⁶ In volume terms, Vietnam (up 2 percent), India (up 10 percent), Egypt (up 3 percent), and Haiti (also up 3 percent) are enjoying increases in SMEs shipped, based on annualized equivalents of imports through August 2009, compared with last year.

⁷ And, similarly, of the Qualifying Industrial Zone arrangement to Egypt, requiring minimum Israeli content in Egypt's apparel exports in order to benefit from duty-free access to the U.S. market.

Table 1-2*U.S. Apparel Imports, Top 25 Suppliers (\$US Million)*

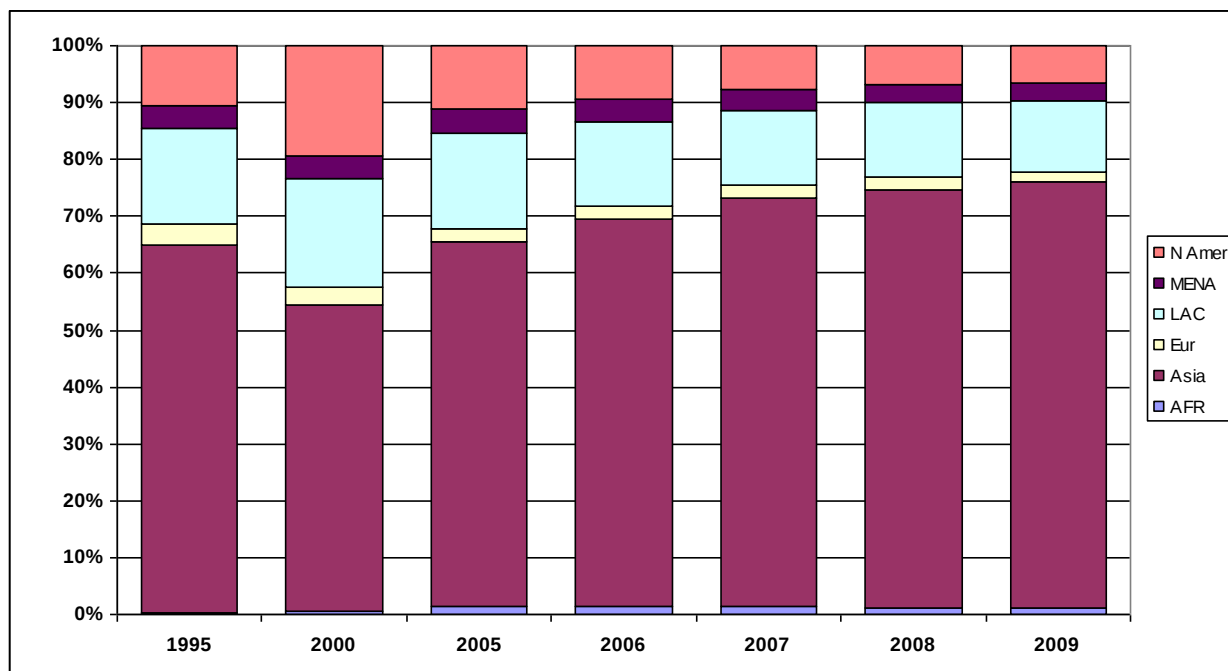
		1995	2000	2005	2006	2007	2008	Aug-09	Annual Equiv
	World	34,649	57,232	68,713	71,629	73,923	71,568	41,145	61,718
1	China	3,518	4,499	15,143	18,518	22,745	22,922	14,437	21,656
2	Vietnam	17	47	2,725	3,222	4,358	5,223	3,316	4,974
3	Indonesia	1,183	2,055	2,875	3,670	3,981	4,028	2,648	3,972
4	Bangladesh	1,067	2,116	2,372	2,998	3,103	3,442	2,351	3,527
5	Mexico	2,566	8,413	6,078	5,297	4,523	4,015	2,235	3,353
6	India	1,098	1,786	2,976	3,187	3,170	3,073	2,044	3,066
7	Honduras	919	2,323	2,622	2,440	2,511	2,604	1,319	1,979
8	Cambodia	1	808	1,713	2,151	2,425	2,376	1,225	1,838
9	Pakistan	550	920	1,259	1,412	1,499	1,490	858	1,287
10	Sri Lanka	928	1,472	1,650	1,682	1,573	1,467	843	1,265
11	Thailand	1,037	1,820	1,808	1,840	1,766	1,668	838	1,257
12	El Salvador	582	1,583	1,619	1,408	1,486	1,534	836	1,254
13	Guatemala	682	1,487	1,816	1,666	1,451	1,388	721	1,082
14	Philippines	1,541	1,895	1,830	2,002	1,722	1,362	700	1,050
15	Italy	967	1,400	1,354	1,309	1,437	1,333	610	915
16	Nicaragua	74	336	716	879	968	934	562	843
17	Jordan	15	43	1,083	1,253	1,145	972	514	771
18	Egypt	234	406	444	625	697	742	506	759
19	Peru	125	383	800	844	814	794	411	617
20	Dominican Rep	1,731	2,425	1,849	1,548	1,057	841	405	608
21	Taiwan	2,049	2,064	1,134	1,005	861	721	335	503
22	Haiti	72	251	406	450	452	412	335	503
23	Malaysia	675	781	678	686	683	639	309	464
24	Canada	770	1,747	1,273	1,167	960	699	305	458
25	Hong Kong	4,189	4,486	3,511	2,811	2,035	1,553	211	317

NOTE: Figures represent imports of both knit/crocheted garments (HS 61) and woven garments (HS 62).

SOURCE: U.S. Department of Commerce, Office of Textiles and Apparel, Major Shippers' Reports (accessed September 3, 2009).

Figure 1-2, which shows the changing shares of regional contributions to U.S. import demand, highlights the extent to which Asia's share has grown and Latin America's and North America's shares have fallen since the end of multilateral trade quotas in 2005. Shares from Africa and the Middle East/North Africa regions, on the other hand, have remained small.

Figure 1-2
Regional Sources of Supply to U.S. Apparel Market



NOTE: Figures represent imports of both knit/crocheted garments (HS 61) and woven garments (HS 62) and are estimated based on the top 35 supplier nations into the U.S. market through June 2009, which represent 98% of total supply.

SOURCE: U.S. Department of Commerce, Office of Textiles and Apparel, Major Shippers' Reports (accessed September 3, 2009).

HOPE II has generated considerable investor attention in Haiti and abroad. Some foreign investors (e.g., Dominicans, Koreans, and Americans) have already established garment assembly operations in Haiti, either in the Ouanaminthe free trade zone (FTZ) on the northern Haitian border or in Port-au-Prince. Brazilian investors are expressing strong interest in Haiti and have undertaken joint missions to Washington with CTMO-HOPE to learn more about Washington's expectations regarding the legislation and the trade activity it is creating. As mentioned above, Haiti's Center for Investment Facilitation, located within the Ministry of Commerce and Industry, provides one-stop servicing for those seeking to launch commercial activities in Haiti.⁸

Labor Rights in Apparel Industries

Apparel industries have not always performed well with regard to respect for human rights. Abuses of labor standards have been observed in apparel factories ever since the days of the Industrial Revolution in the United Kingdom and the Lowell textile mills in Massachusetts in the early- to mid-1800s. Today, however, a broad consensus exists that labor rights are

⁸ Their French-language website is www.cfihaiti.net. An English version is expected to be operational soon.

fundamental human rights (Compa and Diamond 1996), as stated clearly in the 1948 Universal Declaration of Human Rights and the 1998 ILO Declaration on Fundamental Principles and Rights at Work. The ILO considers eight Conventions (C.) to represent “core labor standards,” including C. 29 and C. 105 regarding forced labor, C. 87 and C. 98 on freedom of association and collective bargaining rights, C. 100 (equal remuneration) and C. 111 against employment discrimination, and C. 138 (minimum age) and C. 182 (worst forms) on child labor. Haiti is a signatory to all eight, having most recently ratified C. 138 regarding child labor in June 2009.

In the 1990s and 2000s a number of highly visible labor rights abuse scandals rocked the global apparel industry. Brand label manufacturers and retailers were hit by consumer boycotts in response to allegations of child labor, labor union harassment, and substandard working conditions. Haiti's apparel factories were not immune. A report by the National Labor Committee (NLC), a U.S.-based worker rights advocacy organization, highlighted labor rights concerns in Haiti's apparel factories, including violations of work hours and minimum wage laws and sexual harassment of apparel workers (Verhoogen and Kernaghan 1996). Several U.S. companies were singled out as buyers of goods from those factories, and sourcing bans on Haiti ensued.

Global apparel companies have learned that consumers hold them responsible for respecting labor rights and decent working conditions, even when they are not directly responsible for manufacturing. Apparel producing countries are learning that buyers may be reluctant to do business with them if their labor sector is weakly governed. Failure to ensure compliance with labor standards, therefore, carries a potential cost in terms of lost sales to apparel companies and lost market share to producing nations. To address the need for improved labor sector oversight, a variety of public and private extra-governmental institutions have evolved over the last ten years to monitor working conditions inside factories. The aim of these institutions is to ensure greater transparency throughout the apparel value-chain regarding working conditions and degree of compliance with core labor standards (Polaski 2006).⁹

One early such institution is the voluntary Worldwide Responsible Apparel Production (WRAP) certification, endorsed by the American Apparel Manufacturers Association in 1998.¹⁰ The London-based MFA (Multilateral Fibre Arrangement) Forum, a private industry organization established to help the industry navigate through the end of the era of multilateral trade quotas, and international buyers' forums organized under the auspices, for example, of the San Francisco-based Business for Social Responsibility, provide the industry with opportunities for learning on this topic, and for interacting with manufacturers and local

⁹ For a fuller discussion of labor sector issues, including legal framework, labor organizations, government institutions, and labor markets, see Wheeler and Salinger (2009).

¹⁰ Information on WRAP certification can be found at www.wrapapparel.org. Five factories from Haiti are listed as WRAP-certified on this website (accessed September 4, 2009). As stated on the WRAP website, the AAMA merged with the Footwear Industries of America and The Fashion Association in August 2000 to become the American Apparel and Footwear Association, the largest and most representative sewn products trade association in the United States.

government and labor leaders.¹¹ An independent, third-party social responsibility audit industry now contracts with the apparel companies, while most of the larger apparel firms have developed their own corporate social responsibility departments and may audit their suppliers themselves.¹² In Cambodia, under the terms of the 1999 U.S.-Cambodia Bilateral Textile Agreement (BTA), the ILO developed an independent factory monitoring program with support from the U.S. government that came to be known as the Better Factories Cambodia (BFC) project. BFC was the precursor of what is now the joint ILO/IFC Better Work Program, currently active in Jordan, Vietnam, and—as of 2009—Haiti.¹³ Better Work programs provide independent assessments of factory conditions, and an array of capacity building services to help factories improve working conditions, social dialogue between workers and managers, quality, and productivity.

Today Haiti's apparel industry leaders are eager to ensure transparent, labor standards-compliant factory operations. CTMO-HOPE requested that HOPE II include support for Better Work to come to Haiti. Section 15403 of HOPE II requires that a Labor Ombudsman, appointed by the President of Haiti, and the Technical Assistance Improvement and Compliance Needs Assessment and Remediation (TAICNAR) program be established to ensure compliance by factories with core labor standards.¹⁴ These include: freedom of association, right to collective bargaining, elimination of all forms of compulsory or forced labor, effective abolition of child labor and prohibition of the worst forms of child labor, and elimination of employment discrimination. The trade preferences that Haiti enjoys under HOPE II, therefore, are contingent upon demonstration of compliance with these labor standards.

According to the legislation, the U.S. President must certify to Congress sixteen months after enactment (i.e., by October 18, 2009) that Haiti has established a complete registry of apparel producers seeking to export to the U.S. under HOPE II and the articles they produce, requires them to participate in TAICNAR and has provided information to them about the program, and is carrying out regular labor standards compliance assessments of all producers in that registry.¹⁵ The ILO/IFC's Better Work Haiti program, launched on July 1, 2009, is the TAICNAR program.

¹¹ See www.mfa-forum.net and www.bsr.org for more information.

¹² The multiplicity of auditing obligations borne by firms is inefficient and raises costs to producers; see FIAS and BSR (2008).

¹³ Cambodia's program is detailed at www.betterfactories.org, while other Better Work programs are described at www.betterwork.org. Lerner, Salinger, and Wheeler (2008) describe Cambodia's labor sector, situating the Better Factories program among an array of donor-funded, labor-related activities.

¹⁴ In the HOPE II legislation, included in Subtitle D, "Trade Provisions," of Public Law 110-246 of June 18, 2008 (19 USC 2701 note) core labor standards.

¹⁵ Public Law 110-246 was enacted on June 18, 2008.

Report Organization

In Section 2 we compare the advantages of the HOPE II legislation with those of the Caribbean Basin Trade Partnership Agreement (CBTPA), under which Haitian exports remain eligible, and the Dominican Republic-Central American Free Trade Agreement (DR-CAFTA), under which neighboring countries' exports are eligible. Section 3 presents an overview of Haiti's apparel industry, its history, labor sector, value chain structure, and policies and incentives affecting the industry. An analysis of factory-level production costs is presented in Section 4. Conclusions and recommendations are presented in Section 5.

2. Apparel Trade Program Benefits and Trade Flows

Comparison of Benefits Under HOPE, CBTPA, and DR-CAFTA

The United States has promoted integration of trade within the Western Hemisphere for over 20 years. In 1983, it granted duty-free status to most exports from least developed countries in the western hemisphere. Twenty countries were potential beneficiaries of the Caribbean Basin Initiative (CBI), authorized under the Caribbean Basin Economic Recovery Act (CBERA), and the requirements for participation were aligned with the requirements of the U.S. Generalized System of Preferences (GSP) for developing countries. Benefiting products had to acquire 35 percent value-added in the beneficiary country (BC) and shipment had to be made directly to the United States. Like GSP, the original CBERA had an expiration date. Most significantly, textiles and apparel were excluded from benefits.

In 1986 the United States established a Special Access Program with guaranteed access levels (GALs) for apparel assembled in the eligible CBI countries from U.S. fabrics that were cut in the United States and exported to CBI participants for assembly into garments, then re-exported back to the United States. Duties were still paid at the U.S. border on value added generated abroad. At that time, however, textile and apparel quotas limited the number of garments that could enter the U.S. market, often a bigger issue for apparel producers than the payment of duties. The GALs were exempt from quota, filling an important niche and encouraging close relationships between U.S. textile mills and CBI country garment producers. Between 1986 and 1989 most CBI countries doubled their apparel exports to the United States under the GAL. The Dominican Republic, Haiti, Jamaica, and Costa Rica realized the greatest gains (Hufbauer et al. 1993).

U.S. trade benefit programs adapt to changes in U.S. foreign and economic policy. The North American Free Trade Agreement (1995) introduced significant changes into hemispheric trade relations. After 2000, trade preference arrangements and free trade agreements (FTAs)

proliferated. These increased not only the types of trade benefit programs under which producer countries might export to the United States, but also the complexity of the programs.

CBI and the GAL textile program are *unilateral* trade preference programs, offering developing country partners preferential access to the U.S. market for their eligible exports but requiring no reciprocal access from the producer country. *Bilateral* and *multilateral* trade agreements are the product of negotiations, binding both parties to market access agreements provisions. Both preference programs and trade agreements include origin rules based on considerations such as:

- How the origin of a good is defined (“wholly obtained,” “substantially transformed,” etc); in the case of apparel, substantial transformation is usually specified at particular stages in the manufacturing process for fibers, yarns, fabric, and garment;
- Value-added requirements;
- Quantitative ceilings for specific categories of goods that benefit from preferential tariffs (known as “tariff preference levels”), often because they are subject to a less rigorous origin definition;
- Overall quantitative ceilings for goods entitled to preferential treatment;
- Other considerations and preference requirements.

To understand the relative attractiveness today of apparel production in the region under various trade programs, this section compares the trade preferences enjoyed by Haiti under HOPE II with the other regional preference and trade agreements.

The U.S. trade programs of greatest relevance to the HOPE Act are the Trade Act of 2000, which extended CBERA preferences to textiles and apparel through the Caribbean Basin Trade Partnership Act (CBTPA), and the DR-Central American Free Trade Agreement (DR-CAFTA), a multilateral FTA implemented in 2006 as a successor to the CBTPA preferences for the six participating countries that are signatories.¹⁶ Haiti is the sole beneficiary of the HOPE Act, originally implemented in 2006 and updated in 2008 (hence, HOPE II). Whereas CBERA benefits ended for the six regional participants in DR-CAFTA upon signature of the FTA, Haiti remains a beneficiary under CBTPA, while also enjoying additional benefits under HOPE. Each of the agreements makes provision for duty-free entry of apparel into the United States, based on varying criteria, as described below.

¹⁶ The six partners are Dominican Republic, El Salvador, Honduras, Nicaragua, Guatemala, and Costa Rica. A separate trade partnership agreement has been negotiated by the U.S. with Panama, though it has not yet been approved by Congress.

HOPE

HOPE is the newest of the three programs and draws heavily on the U.S.' trade policy experiences gained through earlier preference programs.¹⁷ Shortly after AGOA and CBTPA were passed in 2000, the Haitian private sector, led by the Association of Haitian Industries (ADIH), began lobbying the U.S. Congress for special trade benefits for Haiti. The result was HOPE.¹⁸ Haiti remains eligible for benefits under CBTPA as well. However, *HOPE allows far greater use of third-country materials and inputs, which are generally banned in CBTPA*. A detailed comparison of the provisions of HOPE II with those of CBERA/CBTPA and DR-CAFTA can be found in Appendix C.

While the following description of HOPE II is not comprehensive, it reveals the intent of the U.S. Congress to provide incentives for apparel assembly in Haiti. HOPE II

- Is a unilateral preference program granting duty-free status for goods produced in compliance with its flexible origin rules.
- Provides for uncapped, duty-free treatment for (1) specific products (see Appendix C) subject to a "single transformation" origin rule, (2) garments produced from fabric or yarns in short supply, and (3) garments produced under an "earned import allowance." Under the earned import allowance, producers may increase their individual market access by "exchanging" 1 square meter equivalent (SME) of materials from any country for every 3 SME of U.S. or regional fabrics used to manufacture similar goods.
- Sets three tariff preference levels or TPLs (i.e. quantitative restrictions) for (1) garments that meet a value-added rule, and special rules TPLs without value-added requirements for (2) woven and (3) knit apparel.¹⁹ Expiration dates begin as early as 2011 for garments under the value-added TPL, and extend through 2018 for the woven and knit apparel TPLs. Use is allowed of third-country materials for production of both woven and knit apparel, subject to these TPLs.
- Includes a direct shipment provision that allows the export of apparel produced in Haiti from the Dominican Republic to the United States, subject to the establishment of acceptable anti-circumvention measures.
- Contains a provision that requires industry compliance with core labor standards in order to qualify for trade benefits.
- Requires a Haitian-government issued visa certifying that the goods are eligible for HOPE treatment, and the provision under which entitlement is claimed. A "sense of the Congress"

¹⁷ HOPE is implemented through amendment of U.S. Code, Title 19 ("Customs Duties"), Chapter 15 ("Caribbean Basin Economic Recovery"), § 2703a ("Special rules for Haiti").

¹⁸ See Gelb (2007) for history on the proposed Haiti Economic Recovery Opportunity (HERO) Act that eventually became the HOPE Act, enacted in December 2006 and effective in March 2007. It was revised in October 2008 (HOPE II).

¹⁹ Value-added requirements under this rule are 50% through December 2009, 55% through December 2010, and 65% through December 2011. See Appendix C for full details.

note accompanying the legislation suggests that the fee for visa issuance cannot exceed the actual cost.²⁰

CBTPA/CBERA

The Caribbean Basin Initiative encompasses two trade preference programs, CBERA and CBTPA.²¹ Early versions of CBERA excluded textiles and apparel from duty-free treatment. However, in 1995 under the North American Free Trade Agreement (NAFTA) duties on Mexican apparel began a phased elimination and after five years were reaching zero on many commodities. The Caribbean Basin Trade Partnership Act, part of the broad Trade Act of 2000 which also incorporates AGOA, provided some parity to other regional producers. Through CBTPA the Congress made provision for hemispheric neighbors of the United States to obtain some of the apparel opportunities granted to sub-Saharan Africa, and to Mexico, although within much stricter limits.

CBTPA offers opportunities to the qualifying countries in the region under strict origin rules, intended to encourage the use of U.S.-formed fabrics and yarns. Originally intended to expire in September 2008, it has been extended until September 2010. Any beneficiary country that enters into a free trade agreement with the United States automatically loses CBTPA benefits.²²

CBTPA can be summarized as follows:

- It is a unilateral preference program providing duty-free benefits to apparel made from U.S.-origin materials that are cut in the United State and assembled in a qualifying country. The origin rule for the U.S. materials is “yarn forward,” meaning that both yarns and fabrics must be fully formed in the United States.
- If the garment is not cut in the United States, it may still be eligible for benefits under CBTPA if U.S. thread is used in the assembly.
- It permits the use of materials of any origin if they are not available in commercial quantities, subject to extremely challenging rules for establishing commercial availability.
- TPLs are defined for garments made in an eligible country from regional materials that are formed from U.S. yarn, which encourages textile industry development and regional trade integration. This provision, for example, enables T-shirts to be sewn in Haiti from fabric knit in the DR using U.S. yarn, with duty preferences accorded upon entry into the United States.

²⁰ In general unofficial fees associated with visa issuance and similar trade requirements may raise the cost of trade.

²¹ There are currently 19 CBERA beneficiary countries: Antigua and Barbuda, Aruba, The Bahamas, Barbados, Belize, British Virgin Islands, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, Netherlands Antilles, Panama, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago, 8 of whom are also beneficiaries under CBTPA: Barbados, Belize, Guyana, Haiti, Jamaica, Panama, St. Lucia, and Trinidad and Tobago.

²² True of the DR-CAFTA countries, as well as of Panama.

- No special documentation is required on entry, but the importer must have a *certificate of origin* in possession at the time of entry, and be prepared to provide it on demand from U.S. Customs and Border Protection (CBP). The importer and exporter may also be asked to provide additional proof of eligibility such as yarn spinners' certificates, transportation documents, etc.

As a result of CBERA much of the Caribbean's apparel production is based on the use of U.S. fabrics. Benefits offered as early as 1986 encouraged investment by U.S. producers looking for lower cost assembly operations. Haiti's apparel industry was built on relationships with U.S. companies, with CBTPA providing a well-understood set of requirements in exchange for benefits. The more generous HOPE II provisions may attract some new investors and product lines in Haiti based on use of third-country materials. However, these may take time to develop, particularly in the weaker U.S. apparel market following the economic crisis of 2008-2009.

DR-CAFTA

As an interim preference, CBTPA was set to expire in 2008 (now 2010) under the assumption that a hemispheric free trade agreement would replace it and offer reciprocal benefits to U.S. exports. The oft-mentioned Free Trade Agreement of the Americas (FTAA) was one potential vehicle, though it has failed to gather momentum. DR-CAFTA and the U.S.-Panama Trade Partnership Agreement (not yet approved by Congress) are smaller, and thus more achievable, agreements.

Six of the CBTPA countries signed DR-CAFTA and thereby exited the CBTPA program between 2006 and 2009.²³ In so doing they gained greater ability to use *regional* materials. The DR, El Salvador, Honduras, and Guatemala each produce some fabrics, with varying export and production capacities. DR-CAFTA countries also gained the ability to use inputs from Mexico, subject to limits, as another opportunity to strengthen a regional supply chain.

In exchange for the market access granted to U.S. products, the apparel export opportunities for DR-CAFTA members are regional without quantitative limits, i.e. unlimited cumulation is allowed among beneficiary countries. In addition, some of the DR-CAFTA countries negotiated individual benefits from the United States, some of which may be extended to other member countries in the future. For example, Nicaragua and Costa Rica each have TPLs for a limited range of products using third-country materials, while another special provision benefits the DR.

Key DR-CAFTA provisions include the following:

²³ Participating countries joined in different years, depending on when they met the requirements and were able to enact their own legal provisions. For all member countries, benefits are retroactive to January 1, 2004 and could be claimed after joining, until March 31, 2009.

- Origin rules for apparel are yarn forward, but the yarns and materials may originate in any member country.
- Single transformation origin benefits exist for specified products in limited market segments.
- TPLs exist for apparel made with fabrics of any origin, tailored to specific country market needs, such as cumulation of Mexican inputs, exchanges for using U.S. materials, and specialty markets (such as wool suits).
- No special documentation requirements exist, other than TPL authorization granted by the exporting government for products claiming eligibility. The exporter is expected to be able to prove the origin of inputs if so required by the customs authorities of an importing country.

DR-CAFTA is complicated by the number of special rules and exclusions that appear to have been dictated by various special interests, either in the United States or another member country. It also places a significantly higher standard of responsibility on the producer to maintain production records and proof of origin for inputs. This can be especially challenging in conjunction with the use of regional materials, where the materials producer may lack sophisticated methods for record maintenance.

Table 2-1

Haiti's Leading Trade Partners (\$US Thousands)

Haiti's Exports				Haiti's Imports			
Partner	2006	2007	2008	Partner	2006	2007	2008
Total	586,725	615,459	574,525	Total	1,567,875	1,456,964	1,590,900
United States	508,551	500,219	464,422	United States	809,406	710,714	944,538
Thailand	1,791	11,342	20,096	China	59,794	81,602	125,211
Canada	17,426	20,648	18,144	Malaysia	45,072	41,159	80,118
Belgium	8,518	14,348	13,543	Brazil	66,539	76,606	49,589
France	7,825	10,120	12,569	Canada	27,283	29,551	48,536
Taiwan	4,333	6,286	8,952	Colombia	68,088	54,668	45,253
Mexico	11,891	12,263	7,589	India	21,669	23,438	44,660
China	1,365	6,330	7,474	France	33,826	24,357	27,719
U. Kingdom	5,222	8,346	6,814	Mexico	12,117	13,276	22,890
Switzerland	2,508	2,964	4,101	Guatemala	9,210	9,173	20,546
Germany	2,460	2,335	1,673	Italy	12,204	16,153	18,643
India	1,132	1,619	1,575	Belgium	4,913	6,277	16,776
Brazil	294	338	1,477	Germany	36,827	11,178	16,154
Italy	752	1014	1,436	Argentina	21,632	14,615	16,059
Australia	865	1,606	1,229	Thailand	6,738	8,266	15,325
Hong Kong	937	748	541	U. Kingdom	13,069	10,097	12,651

SOURCE: International Trade Centre, Trade Map.

Haiti's Trade With the United States

The United States is Haiti's main trade partner, buying 81 percent of all Haitian exports, and supplying 59 percent of all imports (Table 2-1). Trade with the Dominican Republic, some of which is official and much of which is unrecorded, is missing from this data set. For instance, Haiti imports knit fabric from Dominican textile mills, a fact not captured here. Haiti's export portfolio includes cocoa, fruits, hats, essential oils, and baskets, among primary and semiprocessed products, and knit and woven apparel, machinery and electronics, leather bags, and spirits, among manufactures. However, as seen in Table 2-2, apparel assembly contributes 90 percent of recorded exports, and virtually all assembly goods exports.

In the long run, of course, Haiti's economy will require a diversified export portfolio to ensure sustainable growth. Haiti's manufacturing sector is extremely dependent on garments and on the U.S. market. In the next five years, growth and diversification in the apparel sector should be the industry's primary concern. However, one can imagine, as has been observed in assembly industries around the world, that as Haiti reestablishes its reputation as a reliable apparel supplier, processors of other articles, from footwear to automotive harnesses and eventually to more sophisticated (and costlier to produce) articles, will choose Haiti as a production platform again. The U.S. Generalized System of Preference covers many of these labor-intensive, light manufacturing goods. In terms of trade partner diversification, however, the United States is the likely end-market for such exports over the short-to-medium term, as European industries already enjoy a range of established platforms in North Africa, the Middle East, and beyond for production of similar articles.

As can be seen by data presented in Table 2-3, Haiti's share of apparel imports under U.S. trade preference programs grew to 6 percent of all such imports in the first eight months of 2009. Significantly, the share of Haitian apparel supplied under the HOPE Act has expanded from 3 percent of imports from Haiti in 2007 to 26 percent in the first eight months of 2009. These trends are borne out in survey information on export destinations of the past three years collected from 18 factories (see Table 2-4).

Haiti's apparel industry still has a long way to go before it begins to bump up against the quantitative limits of HOPE II. Among U.S. imports under the HOPE II Act, the special rule for import of woven apparel is most significant, with goods imported under the value-added rule the second-most important category (in volume terms) (see Table 2-5). Volumes imported under both special rules for woven and knit apparel are well below the 70 million SME per year threshold set for each under HOPE II. Imports under the value-added rule may not exceed 1.25 percent of the previous year's global apparel imports, which for 2008 would be 283.7 million SME; actual imports through August 2009 from Haiti under the value-added rule only total 10.4 million SME.

Table 2-2*Value of Haiti's Exports (\$US Millions)*

Year	Total	Total Assembly Products	Total Apparel Products
1995	152.8	79.2	63.1
1996	169.9	106.5	94.6
1997	205.5	135.4	125.4
1998	294.8	204.3	188.5
1999	343.3	266.1	258.3
2000	331.7	261.0	254.1
2001	305.3	251.3	246.2
2002	274.4	221.8	217.2
2003	333.2	278.1	273.6
2004	376.9	331.4	314.5
2005	459.6	402.3	392.8
2006	495.2	434.2	431.5
2007	522.1	463.4	458.6
2008	490.2	425.1	418.9
2009 (Q1)	119.3	107.8	106.5
2009 (Q2)	113.3	101.5	100.5

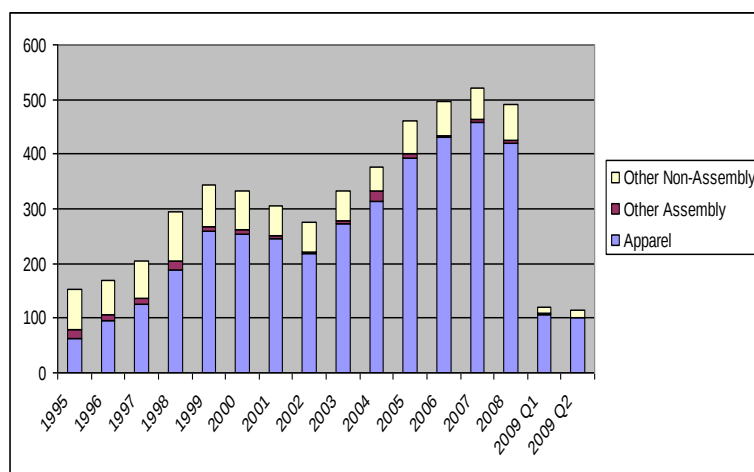
SOURCE: Central Bank of Haiti, www.brh.net**Figure 2-1***Value of Haiti's Exports (\$US Millions)*

Table 2-3*U.S. Apparel Imports Under Trade Preference Programs*

	2007	2008	Aug-09
M I L L I O N \$ U S			
Knit apparel (TRQ)	190.8	207.1	159.9
Apparel articles from Haiti (HOPE Act) *	13.6	75.0	86.0
T shirts of regional fabric, U.S. yarn (TRQ)	104.4	81.6	73.8
Knit apparel (809 program)	49.1	16.2	7.4
Apparel cut & assembled from U.S. fabric, yarn, thread (809 program)	33.1	24.2	3.6
Apparel assembled with U.S. thread, fabric (mixed cutting)	1.8	2.5	2.2
Articles assembled from U.S. cut fabric (807A+ program)	27.5	1.2	0.8
Articles assembled from U.S. cut fabric (807 program)	28.5	0.4	0.0
Apparel assembled from U.S. cut fabric & yarn, further process	0.0	0.0	0.0
Total Apparel Imports from Haiti under trade preference programs	420.5	407.7	333.6
Total Apparel Imports from Haiti	452.2	412.3	334.5
P E R C E N T A G E S			
Knit apparel (TRQ)	42	50	48
Apparel articles from Haiti (HOPE Act)	3	18	26
T shirts of regional fabric, U.S. yarn (TRQ)	23	20	22
Knit apparel (809 program)	11	4	2
Apparel cut & assembled from U.S. fabric, yarn, thread (809 program)	7	6	1
Apparel assembled with U.S. thread, fabric (mixed cutting)	0	1	1
Articles assembled from U.S. cut fabric (807A+ program)	6	0	0
Articles assembled from U.S. cut fabric (807 program)	6	0	0
Apparel assembled from U.S. cut fabric & yarn, further process	0	0	0
Total Apparel Imports from Haiti under trade preference programs	93	99	100
T O T A L S			
Total, Caribbean Basin Initiative	8402.2	8040.9	4322.3
Total, African Growth and Opportunity Act	1291.3	1150.2	642.2
Total, Andean Trade Preference Act	1232.3	1162.4	566.4
Total U.S. imports under preference programs	10925.8	10353.5	5530.9
Of which, Haiti	3.8%	4.0%	6.0%

NOTE: * Of the \$86 million imported under HOPE in 2009, 52% came in under the value-added rule, see Table 2-5 for details.

SOURCE: U.S. Department of Commerce, Office of Textiles and Apparel (accessed October 29, 2009).

Table 2-4
Haitian Factories' Reported Export Destinations

Year	Percent to United States	Percent to United States Under HOPE -Other	Percent to EU	Percent to Other
2006	96.9	15 – 85	2.7	1.2
2007	98.1	40 – 60	1.2	0.0
2008	96.7	70 – 30	0.6	2.7

SOURCE: Apparel industry survey, Nathan Associates Inc. and CLED, .

Table 2-5
U.S. Apparel Imports Under HOPE

	2007	2008	Aug-09	2007	2008	Aug-09
	\$US Millions			Million SME		
Global apparel imports				23,332	22,694	
Haiti, all trade preference programs	420.5	407.7	333.6	234.1	220.3	152.8
Haiti, HOPE						
Woven apparel rule	1.5	27.0	38.3	0.7	8.5	11.9
Value added rule (9820.61.30)	4.2	33.9	23.6	1.1	11.8	6.7
Value added rule (9820.61.25)	7.9	13.9	21.5	2.2	3.3	3.7
Knit apparel rule	0.0	0.1	2.6	0	0	1.2
Certain knit & woven apparel	0.0	0.0	0.0	0	0	0
Brassieres	0.0	0.0	0.0	0	0	0
Sleepwear	0.0	0.0	0.0	0	0	0
Short supply rule	0.0	0.0	0.0	0	0	0
Headwear	0.0	0.0	0.0	0	0	0
Subtotal HOPE imports	13.6	74.9	86.0	4.0	23.6	23.5
P E R C E N T A G E S						
Woven apparel rule	11	36	45	17.5	36	51
Value added rule (9820.61.30)	31	45	27	82.5	64	44
Value added rule (9820.61.25)	58	19	25			
Knit apparel rule	0	0	3	0	0.1	5
Certain knit & woven apparel	0	0	0	0	0	0
Brassieres	0	0	0	0	0	0
Sleepwear	0	0	0	0	0	0
Short supply rule	0	0	0	0	0	0
Headwear	0	0	0	0	0	0

SOURCE: U.S. Department of Commerce, Office of Textiles and Apparel (accessed October 29, 2009).

3. Overview of Haiti's Apparel Industry

Apparel firms in Haiti today are of two types: those with deep roots in the local business community and recent start ups launched by or with foreign investors. Both Haitian and foreign investor-led firms employ a number of techniques to improve performance, ranging from shifts in product mix to investments in new technologies to expansion of value-chain competencies to offer a broader range of services to customers (see Exhibit 3-1).

Institutional Players

Daily operations and planning in Haiti's apparel industry are influenced by government institutions and policies, as well as interaction with microeconomic actors and international market forces. From the microeconomic level (e.g., location of factories, hiring of labor, import of raw materials, accessing of credit) through the mesoeconomic (e.g., transportation to and from ports, industrial relations, interaction with global investors and buyers) to the macroeconomic (e.g., policies that affect rates of interest, duty, and currency exchange) industry players individually or collectively through their industry association, ADIH, must understand and contend with a host of forces. International organizations support the industry through a broad range of initiatives. Figure 3-1 summarizes the interplay of institutional players who influence Haiti's apparel industry, and Table 3-1 suggests the key policy and market variables that they influence.

Haiti's business environment is not an easy one. In 2009, the country ranked 151 out of 183 countries in the 2010 *Doing Business* report (IFC 2009), virtually the same as last year. Its rankings were particularly low for starting a new business (180) and protecting investors (165), while employing workers (28) was viewed most favorably. In recognition of these challenges the Center for Investment Facilitation (CFI) provides one-stop shop services to help domestic and foreign investors create and develop businesses in Haiti. Its primary role is one of information dissemination. In particular, CFI can assist new businesses with all paperwork and tax formalities. Working with CFI is the I-Trade project, implemented by Chemonics

International with support from the U.S. Agency for International Development (USAID). One of I-Trade's priorities is improving the business-enabling environment. Recently, for example, responsibility for overseeing business registration—whose cumbersome and time-consuming procedures were at the root of Haiti's weak score for starting a business—was shifted from the President's office to the Ministry of Commerce and Industry, a move that should significantly reduce the number of procedures and time required. Within the apparel industry specifically, CTMO-HOPE facilitates all aspects of industry growth.

Exhibit 3-1

Haiti's Apparel Companies

HAITIAN-OWNED FIRMS

The late 1990s were extremely challenging years for Haiti's apparel producers. These companies have used a variety of approaches to renew their competitiveness since then.

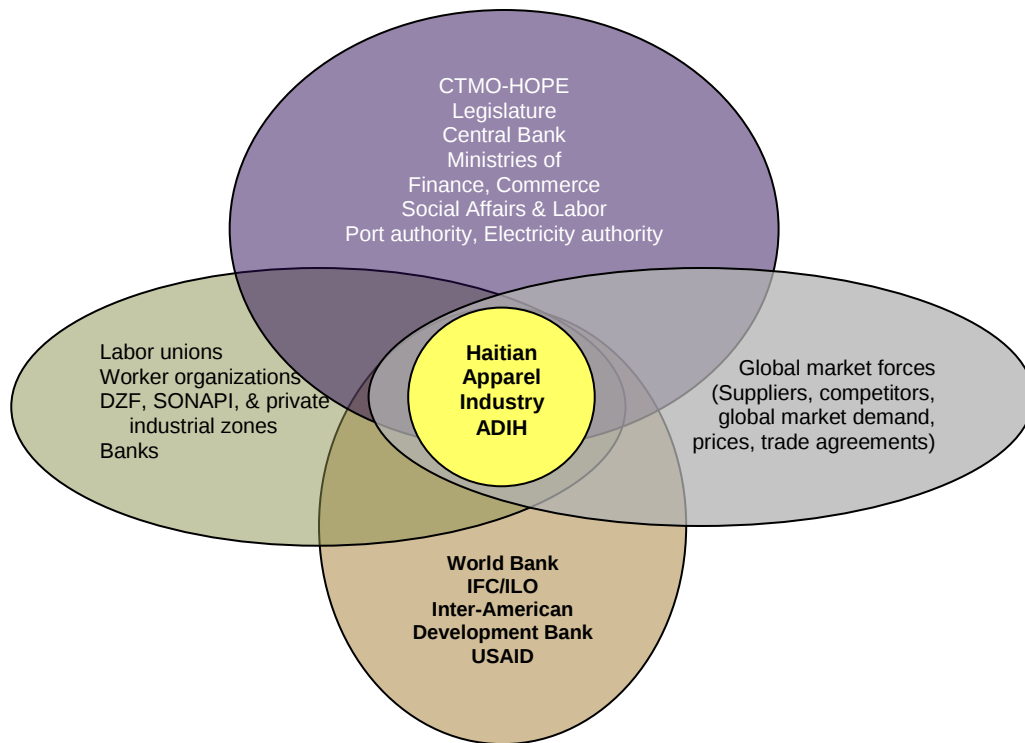
In 2002, when Gildan and Hanes came to Haiti for T-shirt production, a few companies decided to switch from flexible, small, fashion runs and higher value-added production to high-volume, low value-added production. These companies invested in new sewing machines and compressors to take on these jobs, and developed cutting specialties. When Hanes later reduced its direct production in Haiti, at least one Haitian company was able to identify other customers through its participation in the American Apparel Producers' Network. Another sought a joint venture with Dominican partners to take advantage of the Dominican firm's diversified production and market knowledge. In other instances, Haitian firms are adding product development capabilities either directly or by contracting with partners in the U.S., diversifying product mixes into higher end fashion and performance wear, and fabric financing and sourcing capabilities. Some of these additional competencies may also be offered on a fee basis to other firms in Haiti. In sum, Haitian apparel firms are aware of the need to develop new skill sets in design,

sampling, and full packaging, and welcome the arrival of foreign investors from whom they can learn.

FOREIGN-INVESTED FIRMS

Foreign firms find a number of attractive dimensions to apparel manufacturing in Haiti.

They appreciate Haiti's low-cost workforce, and note that productivity levels are comparable to those elsewhere. Workforce training requirements are higher, however, as the supply of labor with current knowledge of the industry is quite small. Foreign managers are enthusiastic about HOPE's benefits relative to those under DR-CAFTA, noting that Haiti could triple its apparel industry employment in a short time. Foreign companies also appreciate that the rate of exchange of the Haitian Gourde is favorable to exports. Through their connections to textile mills, investment partners, and affiliated factories outside of Haiti, these companies can access raw materials, production advice, and customers. They, too, are employing a variety of strategies to gear up for expansion in Haiti, including use of computer systems that track bundles, operators, and operations; emphasis on 100 percent inspection and quality control; investment in new technologies and process re-engineering; and pursuit of certifications of compliance with international and local workplace environment and labor standards.

Figure 3-1*Key Institutional Players Shaping Haiti's Apparel Industry*

History

Haiti once boasted a diversified industrial sector that included agroprocessing, apparel, electronics, sporting goods, and other assembly industries. During the 1970s and early 1980s the apparel sector employed from 60,000 to more than 100,000 in Haiti in more than 100 factories. Many Haitian firms serviced the U.S. market, providing a wide range of garments under flexible production systems and responding nimbly to the needs of an eager U.S. client base. The Caribbean Basin Initiative, one of the earliest trade preference programs of the United States launched in 1983, further encouraged U.S. textile firms to partner with apparel manufacturers in the region, including in Haiti.

However, the last 23 years have been unkind to Haiti and at one point its apparel industry was nearly decimated. The end of the Duvalier era in 1986 was followed by turbulent struggles for power, culminating in the election of President Jean-Bertrand Aristide in 1991. Following his deposal in a coup less than one year after his inauguration, the United Nations imposed a trade embargo on oil and arms imports to Haiti in 1993. The embargo was extended to all products, except medical and food products, in 1994. Apparel exports halted. This period coincides with the emergence of the Honduran apparel export industry, as Caribbean-based factories sought an alternative Caribbean production platform from which to export. Sleepwear manufacturing, once a staple of Haitian production, began to move to Cambodia.

Table 3-1
Key Actors and Policy and Market Variables Influenced

Actors	Policy or Market Variables
G O V E R N M E N T	
Legislature	Laws that affect the policies below, such as the new minimum wage law
Central Bank	Exchange rate, interest rate
Ministry of Finance	Import/export duties, Customs operations
Ministry of Commerce & Industry	Trade agreements, Investment promotion, Free trade zones
Ministry of Social Affairs & Labor	Enforcement of Labor Code & wage laws, Workplace inspection & dispute resolution
M I C R O E C O N O M Y	
Labor unions and other worker organizations	Worker representation, Collective bargaining agreements
SONAPI & private industrial zones	Access to & management of industrial space
Banks	Access to credit for operating capital, trade finance, investment capital
M E S O E C O N O M Y	
National Port Authority	Access to international markets, Efficiency of cargo handling
Haiti Electricity Company	Supply and cost of electricity
Transporters	Supply and cost of trucking to port
G L O B A L M A R K E T F O R C E S	
Fabric suppliers	Supply and cost of fabric, trims
Competing producers	Supply, cost, delivery times of competing products
Global market demand	Wholesale & retail market outlets to consumers
Foreign governments	Negotiation of trade agreements shaping market access

The trade embargo against Haiti was lifted completely in October 1994 when President Aristide was restored to power.²⁴ However, the international global apparel value-chain and the policies that govern it had begun to change dramatically. Table 3-2 juxtaposes Haiti's political history with significant events in global apparel trade and U.S. trade policy. Since 1985 the United States has negotiated free trade agreements with many partners, a number of which compete with Haiti in the apparel industry, and engages in trade preference programs with blocs of developing countries that include duty advantages for apparel exports to the United States. The WTO came into being in 1995, and along with it, the Agreement on Textiles and Clothing's phased withdrawal of textile quotas, completed in 2005.

²⁴ The Haitian presidency has alternated since between President Aristide (1994-1995, 2000-2004) and President René Préval (1996-2000, 2006-2010), with another period of instability between 2004 (when President Aristide went into exile) and 2006, with the re-election of President Préval.

Table 3-2*Haiti's Political History and Global and U.S. Apparel Trade Developments*

Haiti's Political History		Global and U.S. Apparel Trade Developments	
1957-1986	Reigns of Francois & Jean-Claude Duvalier	1983	Caribbean Basin Initiative
		1985	U.S.-Israel Free Trade Agreement
		1986	Jordan QIZ Agreement (with U.S. and Israel)
1987	Haitian Constitution approved		
1986-1990	Unrest	1989	U.S.-Canada Free Trade Agreement
Dec-90	Election of President Jean-Bertrand Aristide		
Sep-91	Coûp d'état sends President Aristide into exile		
		1992	Rise of Honduran apparel industry
Jun-1993	Partial trade embargo by United Nations (oil & arms)		
Oct-93	Resumption of partial trade embargo		
Early 1994	Complete trade embargo imposed		
Oct-94	Trade embargo lifted by UN, President Aristide restored to office	1994	North American Free Trade Agreement among Canada, Mexico, and the United States
		1995	Launch of WTO; Agreement on Textiles and Clothing to phase out MFA quotas by 2005
1996-2000	President Rene Préval in office	1996	Report on labor rights abuses in Haiti (Verhoogen and Kernaghan 1996) Report of labor rights abuses in Honduras (Kernaghan 1996)
		1998	Worldwide Responsible Apparel Production certification adopted by U.S. apparel manufacturers
		1999	U.S.-Cambodia Bilateral Textile Agreement; in 2001 beginning of what became Better Factories Cambodia program Lawsuit filed in U.S. courts on behalf of Saipan garment workers
2000	Re-election of President Aristide	2000	U.S. trade preference programs (AGOA, CBTPA) authorized Report of child labor in Cambodia (Kenyon 2000)
2004	Coûp d'état sends President Aristide into exile for a second time; MINUSTAH established	2004	Egypt QIZ Agreement (with U.S. and Israel)
		2005	Elimination of multilateral textile quotas
2006-2010	Re-election of President Rene Préval	2006	Report on labor rights abuses in Jordan (Kernaghan 2006)
		2008	Elimination of U.S. safeguards on China's apparel exports
		2000-2009	Multiple U.S. FTAs 2004 – Chile, Singapore; 2005 – Australia; 2006 – Morocco, Bahrain; 2006/7 – Central America; 2008 – Oman; 2009 – Peru Negotiated, but not yet approved: Colombia, Panama, South Korea

Political and civil turmoil continued to plague Haiti in the early 2000s. In 2004 the United Nations established its fifth peacekeeping mission in Haiti, the *Mission des Nations Unies pour la Stabilisation de Haiti* (MINUSTAH), which is still ongoing today. Some semblance of political stability has returned, although street demonstrations in August 2009 in support of legislative efforts to increase the minimum wage rattled nerves and shut down factories for four days in two weeks.

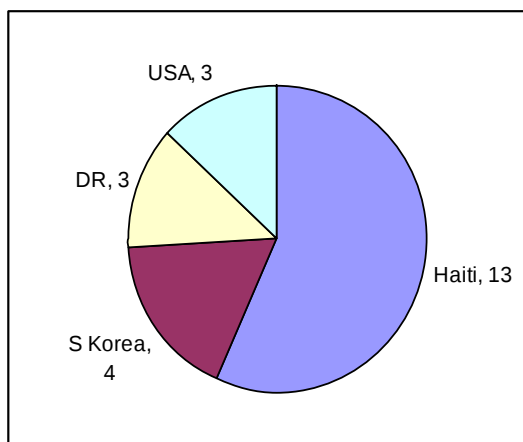
Factories, Ownership, and Industrial Zones

As of August 2009 a total of twenty-three manufacturing enterprises produce apparel in Haiti. Thirteen of the 23 factories are Haitian-owned, and the remainder is owned by foreign investors,²⁵ see the left side of Figure 3-2. Of these 23 firms, 18 (or nearly four-fifths) were surveyed for this report. When the total number of employees is taken into account for the 18 firms in the survey, the contribution of South Korean and Dominican-owned factories increases, see the right side of the figure. A number of the Korean factories in Haiti today were or still are operating in the DR as well.²⁶

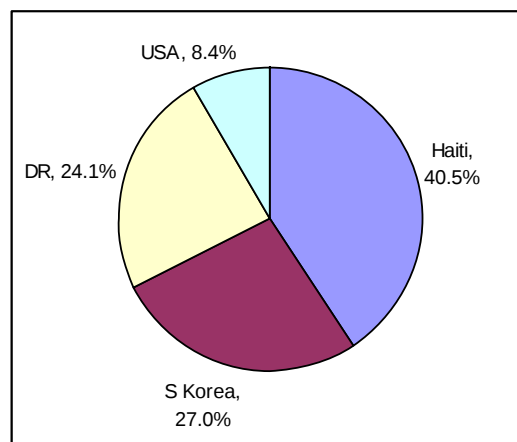
Figure 3-2

Ownership in Haiti's Apparel Industry

By number of factories, entire population (23)



By percent of employees, survey sample only (18)



SOURCE: Apparel industry survey, Nathan Associates Inc. and CLED.

All but one of these are located in Port-au-Prince. The one exception is the firm CODEVI, owned by Grupo M of the DR, which is located in Haiti's only free trade zone, in Ouanaminthe

²⁵ One of these is a joint venture of Haitian and Dominican interests, but treated as Dominican in the pie charts.

²⁶ In addition to the four Korean-owned apparel manufacturers, two additional Korean-owned companies provide embroidery services and manufacture packing cartons.

on the north end of the Haiti-DR border. Free zones in Haiti enjoy customs and tax advantages.²⁷ Within a free zone, enterprises are entitled to

- 100 percent foreign ownership
- 100 percent import and export tax exemptions
- 100 percent repatriation of capital and profits
- 15-year exemption on corporate taxes, renewable for an additional 15 years
- Exemption from personal income taxes.

The Ouanaminthe free zone is unique in that it allows Haitian workers to be employed in manufacturing facilities that rely on the DR for all other services, i.e. electricity, telecommunications, roads, and access to ports. Containers are shipped from Ouanaminthe to Dominican ports, either Puerto Plata on the northern coast or Rio Haina in the south. Under HOPE II, goods produced in Haiti may be exported through the DR and still qualify for Haitian origin and thus HOPE II's duty benefits.

Of the remaining 17 surveyed firms, ten are located in one of two existing industrial zones in Port-au-Prince, either SONAPI (the National Industrial Parks Company) or SHODECOSA (private industrial park). Seven firms are located outside of these industrial spaces, in separate buildings or industrial sites. All are located within five miles (eight kilometers) of the sea- and airport.

Normally, in countries where infrastructure limitations constrain industrial development, industrial zones or parks offer distinct locational advantages. Electricity, water, waste treatment, and telecommunications are usually assured. Parks may be located on roads built for easy access to rail, air, or port facilities. Security is provided. In Haiti, however, the supply of electricity is precarious even in the two parks, requiring independent, back-up generation, although a new cable is expected to assure 18 hours per day of electricity access to factories in SONAPI. Both parks are guarded (indeed, one of the two main gates into SONAPI is guarded by MINUSTAH forces), although the parks' well-known and central locations left SONAPI factories vulnerable to street unrest during recent minimum wage demonstrations. Inspectors from Haiti's customs administration work directly in the industrial parks to allow for express access of containers in and out of the parks. Thus there is virtually no functional distinction between an industrial zone and a free zone in Haiti, though they were created under separate legislation.

Although space in industrial parks is said to be constrained, about 100,000 square meters of industrial space reportedly are still available around Port-au-Prince, as of mid-August 2009. SONAPI²⁸ facilities include 50 30,000-square-foot buildings over 56 hectares, almost all of which is occupied, with four more planned for construction this year, while SHODECOSA is full. To prepare for industry expansion under HOPE, several additional industrial park development

²⁷ Established by the Law of July 24, 2002; see Ministry of Commerce and Industry (no date).

²⁸ Established by law of October 22, 1981.

projects are being prepared by local and international investors in and around Port-au-Prince. These developments aim for mixed use development, providing some combination of industrial factory space, electricity generation, and housing. Bank financing for industrial zone development is problematic, particularly since the Economist Intelligence Unit's Political Instability Index for Haiti rose in 2008, compared with 2007, which raised banks' guarantee and collateral requirements.²⁹ Purchase of land by foreigners is restricted; if the land is state-owned, an act of Parliament is required for approval. The Inter-American Development Bank will provide technical assistance in Fall 2009 to map locations, analyze existing initiatives, and elaborate preliminary business plans for new industrial parks (IADB 2009b).

Government Support to Encourage Exports

According to the 2002 amendment to Haiti's 1989 Investment Code, investments in exports/re-exports, agriculture, handicrafts, industry, tourism, duty-free zones, and other special sectors are entitled to special incentives (République d'Haïti 2002). These include:

- 100 percent exemption from income taxes, for one 15-year period; after the 15-year period, income taxes are introduced in a sliding scale³⁰
- Accelerated depreciation allowances
- 100 percent exemption from local taxes

In addition, export industries benefit from

- 100% exemption from taxes and customs duties on imported equipment and materials needed to install operations
- Temporary admission without duty for all imported raw and packaging materials and exemption from guarantee or deposit requirements with regard to temporary admission
- Exemption from payroll taxes and other direct, internal taxes for up to 15 years
- Exemption from payment of verification fees

With the largest share of Haiti's apparel industry clustered in Port-au-Prince on prime real estate downtown, planners worry about increased congestion, pollution, and urban migration should the industry continue to expand unabated in the capital. Moreover, other urban centers along Haiti's coast also eagerly await new employment opportunities. Any potential site for industry development will have to be evaluated carefully for port, electricity, water, land, road, and telecommunication assets, access to Customs, as well as with an eye for developing a minimum of amenities (e.g., housing, retail, and recreation opportunities) to attract

²⁹ See http://viewswire.eiu.com/site_info.asp?info_name=social_unrest_table&page=loads for details.

³⁰ From years 1 through 5, income taxes are applied, respectively, to 15%, 30%, 45%, 60%, and 80% of income. At the end of year 6, 100% of income is taxable.

international companies and their management staff. Cap-Haïtien represents the priority of CTMO-HOPE and the government for the development of a new industrial park outside of the capital.

Range of Products and Customers

Haiti's current apparel sector reputation is as a T-shirt manufacturer. In fact, Haiti is the fifth largest supplier to the United States of knit T-shirts, singlets, and tank tops (HTS 6109), measured by the average value of imports in 2006-2008, after Honduras, Mexico, El Salvador, and China. Several companies with established spinning and knitting operations in the DR contract with Haitian factories for the cutting, sewing, and finishing (or sometimes just the latter two, with the cutting done in the DR as well) of T-shirts. These factories specialize in high volume production.

Yet production in Haiti's apparel factories is actually much more diversified than its reputation suggests. In addition to T-shirts, Haiti's apparel workers also produce uniforms, medical scrubs, nightwear, undergarments, leggings, fleece wear, performance wear, sportswear, pants, gloves/mittens, and even tailored men's suits. While 87 percent of Haiti's apparel shipments (by value, 2006-2008) to the United States are indeed knits, the other 13 percent are woven-based garments. Haiti's factories work in cotton, man-made fiber, wool, and other fabrics.

As the diversified product list suggests, Haitian factories produce for a wide range of clients. Two well-known apparel companies—Hanes (U.S. maker of T-shirts, undergarments, hosiery, casualwear, and activewear, under such brand names as Hanes, Champion, Bali, and L'eggs) and Gildan (Canadian maker of T-shirts, sports shorts, and fleece wear)—both contract for product in Haiti. However, in addition, clients mentioned by the 18 factories surveyed include Capital Garment Co., Cintas Corp, Cherokee, Fabian Couture Group International, Fishman & Tobin, Fox River, Freeze Apparel, The Gap and Old Navy, Grana, Great Channel Division, Hybrid Clothing, JCPenney, Jeno, Jos. A. Bank, Kmart, Levi's, Mad Engine Inc., Men's Wearhouse, Neema Clothing Ltd., Paris Accessories, Reen Manufacturing, Southpoint Sportswear, Strategy Partners, Superior Uniform Group, Vanity Fair Lingerie, Ventura Ltd, and Wal-Mart. Such a broad customer base bodes well for an industry that seeks to further diversify and grow.

To produce such an array of garments, Haitian factories source fabric from all over the world. Factories were asked to identify the shares they source from the United States, the Dominican Republic, Haiti itself, and "other." Across the 18 factories, the following fabric sourcing patterns are reported:

Table 3-3
Fabric Sourcing Patterns (Number of factories)

	United States	Dominican Republic	Haiti	Other
0%	7	10	17	9
1-25%	4	2	1	2
26-50%	1	1	0	0
51-75%	1	0	0	1
76-99%	0	2	0	4
100%	5	3	0	2
Sample Average	34.8%	29.3%	0.3%	35.6%

SOURCE: Apparel industry survey, Nathan Associates Inc. and CLED.

Another conventional wisdom about the Haitian apparel industry is that factories in Haiti only contribute to the cutting, assembly, and finishing stage of the value-chain. While this certainly represents the majority of factories, it is interesting to note that among the survey sample:

- Three factories engage in some or all of their own sourcing.
- Three factories have automatic computer-aided cutting facilities.
- Four factories have automatic fabric spreading machines.
- Four factories have their own computer-aided manufacturing capabilities, and seven factories have their own computer-aided design facilities.
- Five factories offer embroidery.
- Eleven factories have their own pattern marker facilities.
- Fifteen factories already utilize in-line quality control systems, and the remaining three in the sample acknowledge its development as a short- or medium-term priority.

The ability to supply a greater range of apparel industry services bodes well for the competitiveness of Haiti's segment of the value-chain. Factories in Haiti understand that U.S. apparel buyers seek production partners who offer broader capabilities along the value-chain, loosely referred to as "full-package" services, though this term means different things to different actors.

Factory Size

Factories in Haiti range in size from 50 to 3,300 sewing machines, and from 45 to 4,000 employees. Factories surveyed operate at nearly 72 percent capacity as measured by a comparison of the average number of sewing machines in use to the average number installed.

Capacity use rates are lower in the smaller factories and higher in the larger factories (see Table 3-4).

Table 3-4
Factory Size, by Number of Sewing Machines

No of Sewing Machines	No. of Factories	Average Installed	Average Operated on Regular Basis	Percent Used
<250	1	50	29	58.0
251-500	4	388	280	72.2
501-750	3	604	338	55.1
751-1000	4	985	748	76.0
1000-1500	4	1,175	926	79.0
>1500	2	2,438	1,970	80.3

SOURCE: Apparel industry survey, Nathan Associates Inc. and CLED.

Haiti's factories employ about 25,000 workers. According to survey data, 93 percent of workers contribute directly to production through cutting, assembly, quality control, and finishing, while the remaining 7 percent are technical and management personnel. Foreigners make up a very small share of the workforce. Interestingly, women account for only 68 percent of the apparel industry workforce in Haiti, a share significantly below that seen in some countries (see Table 3-5). This may be because Haiti's depressed economy lacks alternative employment for men, who thus seek factory jobs.

Table 3-5
Factory Size, By Employees

No. of Employees	No. of Factories	Females	Males	Foreigners	Haitians	Total Labor		Total
						Admin	Direct	
<100	1	33	12	0	45	15	30	45
100-250	0							
251-500	7	238	105	2	341	13	332	343
501-1000	2	662	194	33	823	53	803	855
1001-2000	5	863	529	5	1,387	106	1,286	1,392
>2000	3	1,929	1,090	115	2,904	179	2,840	3,019
Sample Averages		68.3%	31.7%	1.3%	98.7%	7.2%	92.9%	

Source: Apparel industry survey, Nathan Associates Inc. and CLED.

Investment Intentions

In our survey and conversations, apparel factory owners and managers were asked about their visions for the future of their businesses and the industry in Haiti. Given the timing of this study, many expressed concern regarding the outcome of the minimum wage debate on their cost structures (discussed in more detail under Labor Costs in Section 4 below). Yet many of those interviewed also spoke of their intentions to expand their physical space *and* the size of their workforces in order to be able to respond to new, HOPE II-generated opportunities:

- 7 factories plan to invest next year in new or additional factory space.
- 7 factories plan to invest in product design in the next three or four years.
- 9 factories plan to invest next year in new information technology systems.
- 11 factories plan to invest next year in new equipment.
- 12 factories plan to invest next year in an expanded workforce.

In addition, many factories already employ modern methods to improve their operator productivity management systems, and of those that do not, plan to implement such systems.

Table 3-6

Factory Investment Priorities (Number of factories)

	In Place	Urgent Need (1-2 years)	Need (3-4 years)	Not a Priority Now
Operator training	15	2	1	0
In-line quality control	15	2	1	0
Line balancing	15	1	1	1
Use of standard times	13	0	4	1
Time-study	12	2	3	1
Industrial engineering department	5	2	8	3

SOURCE: Apparel industry survey, Nathan Associates Inc. and CLED

Ports and Shipping

Most apparel-filled containers leave the factories and travel easily the few miles between the industrial zones and the Port-au-Prince container port. Haiti's National Port Authority oversees the facility. Exporters pay no duties or port charges upon import of raw materials. Containers are said to move fairly efficiently in and out, without significant delays. Seven apparel companies surveyed report that the port works reasonably well, but the majority (13 of 18) say that its operation could still be improved. A number of sea freight companies, including Antillean Marine Shipping, Crowley, Maersk, and Seaboard Marine, each offer vessels from Haiti to Florida or New York once or twice weekly. For last-minute shipments, the Toussaint Louverture International Airport is literally just down the road from the SONAPI zone and other production facilities, offering regular, daily flights to Florida and New York.

Haiti's speed to market after production is a definite advantage. Physical proximity to the United States represents a significant advantage for production in Haiti (as well as in the Dominican Republic and other Caribbean countries). It takes just three days for a container of finished chinos or T-shirts to travel from Port-au-Prince to Miami. Containers are often shipped on Saturdays and thus available for trucking to retail distribution centers within the United States by Monday afternoons. Clearing customs in Miami is not considered to be a problem, provided the documents are in order.

Haiti participates in the electronic visa information system (ELVIS) with U.S. Customs and Border Protection to facilitate transmission of trade information to the United States.³¹ Issues reported by one apparel company with use of the system are being addressed by Haitian and U.S. authorities. Effective November 30, 2009, paper visas will no longer be required to accompany electronically submitted documentation for exports under HOPE (USCBP 2009).

With regard to anti-terrorism security, Haiti is a signatory to the International Ship and Port Facility Security (ISPS) Code, developed under the auspices of the International Maritime Organization and brought into force in 2004, and coordinates with the U.S. Coast Guard's International Port Security Program as well. ISPS covers Haiti's key ports (the two main international ports of Port-au-Prince and Cap-Haïtien, as well as several smaller ports, including Saint Marc, Miragoane, Jacmel, Port-de-Paix, and Gonaïves). The Varreux Terminal, one of two private quays in Port-au-Prince, as well as a number of apparel manufacturers and the SHODECOSA industrial zone entity, are also certified by the Business Alliance for Secure Commerce (BASC), whose standards aim to prevent narcotics smuggling, recognized by the U.S. Customs-Trade Partnership Against Terrorism.

Haiti's Labor Sector

The term "labor sector" includes a set of overlapping labor-related concerns. Labor *markets* involve considerations of labor supply and demand, employment, and wages, as well as skills and workforce development that differentiate categories of workers and thus the wages they earn. Labor *laws* define the rights and obligations of workers, employers, and government with regard to the world of work. Labor *organizations*, such as trade unions, allow for representation and communication with employers and government. Labor *institutions*, such as a Ministry of Labor or labor courts, oversee implementation of laws and adjudication of disputes. Details of these four components are described more thoroughly in Wheeler and Salinger (2009). Haiti's labor market, labor laws, and unions are discussed below.

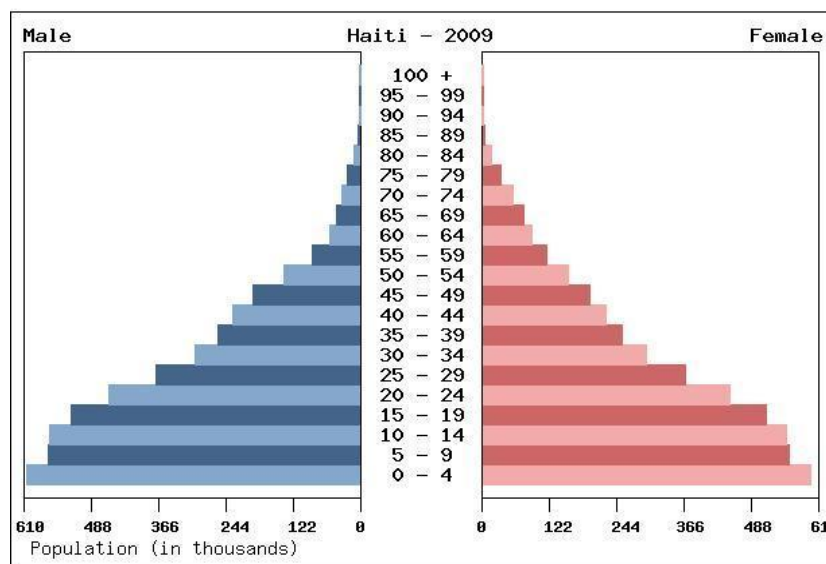
³¹ For information, see http://www.cbp.gov/xp/cgov/trade/trade_programs/textiles_and_quotas/elvis/elvis.xml.

HAITI'S LABOR MARKET

The Republic of Haiti is today a country of nearly 10 million people, growing at an estimated 1.7 percent per year.³² Haiti's urban population is 45 percent of total and growing even more rapidly (4.8 percent per year), with 2 million people residing in Port-au-Prince alone. The population is overwhelmingly young, as shown in Figure 3-3.

Figure 3-3

Haiti Population Pyramid, 2009



SOURCE: U.S. Census Bureau

Sixty percent of Haitians over the age of 15 are considered to be active in the labor force, for a total workforce of 3.6 million. Half are engaged in agriculture, nearly forty percent in services, and thus only about ten percent work in industry. According to the *Institut Haitien de Statistique et d'Informatique's* 2001 survey of living standards in Haiti, official unemployment stands at 27.4 percent at the national level (32.1 percent for women and 23.4 percent for men), but is particularly elevated for 15-19 year-olds (61.9 percent overall, 70.7 percent for women and 54.5 percent for men in this age group) and 20-24 year-olds (50 percent overall, 55.9 and 45.1 percent for women and men, respectively). Unofficially, the rate of underemployment is much higher.

Aside from public sector employment, there are very limited options for formal sector employment. Those that exist are highly prized. In Haiti, USAID's gender assessment noted, "wage labor is a primary mechanism for escaping poverty" (Gardella 2006, 32). Haiti's weak employment situation thus translates to strong demand for factory jobs. As of August 2009 approximately 25,000 people are employed in Haiti's apparel industry, 68 percent of whom are women. This makes the apparel industry the second-largest employer, after the public sector. It

³² All figures in this paragraph are from World Bank, World Development Indicators, accessed online August 20, 2009.

is unclear to what extent apparel factory workers are recent migrants from rural areas or longstanding urban residents. One informant thought that apparel factory jobs were so highly prized that a relative newcomer “would not have sufficient social standing” to be able to access such employment. Others suggested that the majority of women working in the factories today are relatively recent migrants from rural areas, i.e. having moved to the city from the provinces one to five years ago. It is also unknown to what extent wages received by factory workers are expected to support family members in the city and extended families in rural areas.

Anecdotal reports suggest that the costs of transportation to and from work and food purchased away from home eat up a substantial share of that minimum wage. At 10 Gourdes (HTG) per ride in the informal “tap-tap” transports, and with three or four rides required *each way* to and from work, it is easy to see that the minimum wage barely covers work-related expenses. Nevertheless, even though total apparel industry employment in Haiti is small by international standards, even though the minimum wage of 125 HTG per day is relatively low,³³ and even though production incentives are only paid when workers achieve their production targets, factory work with its steady paycheck represents a significant employment opportunity for Haitians in Port-au-Prince and Ouanaminthe. Reportedly, for every posted job opportunity, 6-7 Haitians apply. Until Haiti’s economy begins to generate alternative employment opportunities for men and women, Haiti’s apparel industry will continue to draw job applicants in droves.³⁴ Factory managers report they are pleased by the low levels of absenteeism (2 percent) and turnover (4-6 percent per year). Having workers show up for work each day makes for easier production planning and more productive lines, while low turnover rates each year helps factories save on worker training costs.

In addition to working to make their production quotas and earn a decent wage, representatives of women’s organizations working with women apparel workers report that female sewing operators face other challenges. Production line supervisors are often male, and sexual harassment of the female sewing operators on their lines is said to be of concern. Physical health issues are also noted by representatives of organizations who work with women apparel workers. Factory working conditions may expose women to respiratory ailments, ergonomic issues, and stress-related health problems. In addition, though reproductive responsibilities make women particularly vulnerable to hygiene and health care issues, on-the-job provision of health care—mandated by the Labor Code—is said to be weak. Non-governmental organizations, such as the *Centre de Promotion des Femmes Ouvrières*, complement existing resources by providing off-site access to health care and education to working women.

Elsewhere, apparel industry employers often provide one or more of the following services to their employees: dormitory housing located in or near the industrial zone, dining canteens that

³³ At an exchange rate of 40 Gourdes/\$1, this is \$3.13 per day. See Section 4.0 for further discussion.

³⁴ While for others, outmigration – to the Dominican Republic, the U.S., or elsewhere – will also be an alternative to consider.

serve breakfast or lunch or both, bus transportation to and from work, and/or on-site health services. These are presently not part of the compensation package offered to all Haitian apparel workers, though some factories do offer free lunches. As the debate in Haiti over the minimum wage continues, it may be useful to broaden consideration of other work benefits that would not only improve the quality of life for Haiti's apparel workers, but could also help to improve workforce productivity.

HAITI'S LABOR LAWS, UNIONS, AND COMPLIANCE OVERSIGHT

Haiti's 1987 Constitution provides for freedom of association and the right to strike in all sectors (ITUC 2009, U.S. State Department 2009). A minimum of ten workers are required to form a union. Once formed, trade unions are recognized by the Ministry of Social Affairs and Labor (MAST). The Labor Code bans the dismissal by employers of union organizers in their employ. Collective employment contracts are addressed in the Labor Code, though employers are not obliged to bargain collectively with unions. A union whose membership covers two-thirds of total employment is considered to be representative of the entire workforce and may negotiate a collective agreement with the employer.

Also according to the Labor Code, the normal work week is six 8-hour days per week. Overtime work is to be compensated with a 50 percent wage premium. A 13th month wage ("boni") is also required at the end of each calendar year. Several of the strategy documents cited at the beginning of Section 1 stress the need for Haiti to institute a second production shift. Although second shifts are usually provided for in local labor laws, regular, scheduled use of second shifts is rather unusual in apparel industries outside of China, where workers typically live in dormitories within the industrial compound. Elsewhere around the world, concerns about workers' safety traveling home late in the evening usually preclude implementation of a second shift, particularly in countries where cultural preferences may normally restrict women's mobility outside the home. Where implemented, higher pay rates are usually required for night work. That being said, it is not unusual in many countries for workers' hours to extend beyond the normal eight-hour day, to include an additional 2-4 hours of work. Additional hours and accompanying overtime wages are valued by workers for their income supplement.

The Ministry's Labor Inspectorate employs 15-20 inspectors to oversee workplace compliance with the law, concentrated in the western region of the country. Workplace conflicts between management and workers in theory may be individual or collective, but given the near-absence of collective agreements in Haiti's apparel industry, most disputes must be resolved individually in Haiti. The process requires a worker with a grievance to file with MAST directly. A labor tribunal exists in Port-au-Prince, while elsewhere in the country, civil courts hear labor-related cases. Alternative dispute resolution is encouraged, managed by a tripartite board, to avoid more expensive and lengthy adjudication in labor courts. Figures on numbers of disputes processed or cases heard by the courts by MAST are unavailable.

The labor union movement has had a difficult history in Haiti, with instances of labor organizers being fired from their jobs for their unionizing activities. Only about 5 percent of Haiti's total workforce is unionized today. Three labor unions participate in CTMO-HOPE: the Confederation of Haitian Workers (CTH), the Haitian Union Coordination (CSH), and the Movement of Independent, Integrated Organizations and Engaged Unions (MOISE). None of these three has organized apparel factory workers to date, and thus none represents these workers. In discussions with several union leaders, job creation was identified as their primary focus in the near term. Tripartite collaboration on CTMO-HOPE has helped to foster greater understanding of the challenges facing employers. As one labor sector informant put it, "with so much unemployment, it is now recognized that if there aren't employers there won't be workers." In addition to these three unions, a fourth organization—Batay Ouvriye—also advocates on behalf of Haitian workers. While Batay Ouvriye is recognized as a union by MAST's Labor Division, it is rather considered to be a worker rights non-governmental organization by the ILO.

Twenty-two of the 23 apparel factories in Haiti are not yet unionized. The one exception is the CODEVI plant in Ouanaminthe, organized with help from Batay Ouvriye in 2004. Today CODEVI workers are represented by the *Sendika Ouvriye Kodevi Wanament (SOKAWA*, or the Union of CODEVI Workers in Ouanaminthe), which negotiated a collective contract with management that addresses wages, health issues, worker education and training, and scholarships for workers' children. Management reports that weekly meetings between management and SOKAWA encourage a shared understanding of each other's priorities and provides good opportunities for workers and management to improve factory conditions.

With the launch of the ILO/IFC's Better Work Haiti project, factories' needs with regard to compliance with core labor standards will be assessed, and capacity building offered to address those needs. Assuring that workers can independently organize and elect representatives to negotiate collective contracts with employers, helping to identify instances of employment discrimination or forced labor or employment of underage workers,³⁵ educating workers and employers about acceptable conditions of decent work, and helping the Government of Haiti to inspect facilities and enforce national labor laws will figure in Better Work's TAICNAR program. In response to the presence of Better Work, a number of U.S. companies that had previously avoided or banned sourcing from Haiti are now interested in returning to Haiti because of the improved working conditions and transparency that TAICNAR offers. The president of CTMO-HOPE is Haiti's Labor Ombudsman and oversees the TAICNAR.

WORKFORCE DEVELOPMENT

In order to ensure the availability of a skilled workforce for the apparel industry, CMTO-HOPE has prioritized the development of an apparel industry training center. Industry experts,

³⁵ The official minimum work age in Haiti is 15, though night work is forbidden to minors under the age of 18.

including [TC]², a U.S. apparel industry applied research and training center, and international consultants, provided by CHF International with support from USAID, are working with CTMO-HOPE on this project.³⁶ When it opens in late 2009 the center will train sewing operators (capacity for 60 operators to be trained every 8 weeks), apparel industry mechanics, and mid-level managers. Employers have agreed to contribute a training fee for each graduate they hire. The center also plans to provide fabric sourcing services to Haitian apparel firms on a fee-for-service basis.

In the meantime, another training center in Haiti, the *Ecole Nationale des Arts et Métiers* (ENAM) run by the Salesians of Don Bosco (a Catholic religious order), has also been training sewing operators in Port-au-Prince. ENAM has graduated two classes of 45 operator trainees each, all of whom reportedly had job offers by graduation day.

³⁶ See www.gipc.org.kh for another example of an apparel industry training center that focuses on productivity training for mid-level factory personnel. The Garment Industry Productivity Center was developed by Nathan Associates Inc., Werner International, and Associates for International Resources and Development, with support from the U.S. Agency for International Development mission in Cambodia.

4. Haitian Apparel Industry Cost Analysis

In this section we analyze costs for the manufacture and distribution of two of Haiti's core products: casual men's trousers (chinos) and men's T-shirts. Costs observed in Haiti are compared with costs in the Dominican Republic, Mexico, India, China, Pakistan, Bangladesh, and Cambodia. Cost and profit calculations based on data received from interviews were reviewed with factories before inclusion here.

Haiti's cost data were collected from nine apparel manufacturing companies in Haiti; other data were obtained through Werner International's network of consultants, agents, and trade associations. These nine companies are reasonably representative of the 23 apparel companies in Haiti. They employ between 300 and 2,000 employees, and nationality of ownership is varied. The products they manufacture are varied as well, and include a surprising range of fairly complex products: sports jogging suits, ladies' casual and formal tops, dress shirts, denim jeans, both men's and boys' pants, T-shirts and knit polo shirts, nightwear, hospital scrubs, and formal men's suits. Most products are 100 percent cotton, but factories are also working with woolens and manmade fiber fabrics.

Among the sub-sample of nine factories, all three forms of operation are in evidence—cut, make trim (CMT); contract; and full-package service:

- **CMT** companies do not own or purchase the fabric and other raw material, nor do they sell the made-up garment. Instead, they perform the garment-making operations under instruction from overseas owners who themselves are responsible for the purchase and financing of raw materials and for the sale of the finished garment to the destination company. Raw materials for manufacture include fabrics, buttons, zippers, sewing thread, labels, and many accessories. All are supplied to the CMT company from overseas. Fabrics by and large come from China or the DR, with some also supplied from the United States, as Haiti has no infrastructure or manufacturing capabilities for producing fabrics or accessories. CMT companies are paid by their client for the cut/sew work done, using a pre-agreed price. The CMT company may also be responsible for the purchase of certain materials, such as thread or packaging, and for the payment of import and export charges.

- **Contract manufacturers** carry out the sewing work, but not the cutting. Subcontractors do not actually complete and pack the end product. Some companies operate with a mixture of subcontract and CMT work.
- **Full-package** companies purchase the fabric and trims outright and sell the final apparel garment to the destination company. The end product is fully labeled and packaged ready for sale in the United States. In most cases, fabric and trim suppliers are nominated (named) by the buyer. Sometimes, the choice of fabric source is left to the discretion of the full-package company. These full-package companies incur additional costs due to the financing of the purchased fabric and other raw material, as well as the costs of import/export. They may also be involved in extensive sample-making and negotiations with the buyer, and so need capabilities for doing these activities.

Factory-Level Cost Analysis

Table 4-1 presents estimates of factories' total wage bill plus electricity, rent, and other overhead charges per unit of production, and compares this with unit CMT fees received. In all nine instances, a positive contribution, essentially a profit, is achieved (simple average is 22 percent).

Table 4-1
Factory-level Cost Analysis Per Product

	Pants	Pants	Pants	Pants	Pants	T-Shirts	T-Shirts
Total number of people on payroll (whole factory)	640	730	690	590	660	640	748
Actual payroll paid per month	\$96,000	\$86,400	\$108,000	\$57,400	\$102,500	\$80,000	\$116,000
Social charges per month	\$4,600	\$4,600	\$7,500	\$3,500	\$6,000	\$8,000	\$10,000
Electricity cost per month	\$16,400	\$20,000	\$34,000	\$11,550	\$10,500	\$18,000	\$17,500
Rent cost per month	\$7,200	\$8,500	\$7,500	\$6,580	\$9,750	\$12,000	\$15,000
Other costs per month	\$10,000	\$15,500	\$17,500	\$4,900	\$15,500	\$8,400	\$9,700
Total Cost per month (whole factory)	\$134,200	\$135,000	\$174,500	\$83,930	\$144,250	\$126,400	\$168,200
Share of total factory production	40%	100%	42%	33%	100%	100%	100%
Number of pieces produced per month	22,000	63,000	34,000	10,920	67,000	624,000	1,700,000
Calculated cost/piece *	\$2.44	\$2.14	\$2.16	\$2.54	\$2.15	\$0.20	\$0.15
Selling price of CMT service per piece	\$3.11	\$2.70	\$2.68	\$2.76	\$2.27	\$0.29	\$0.23
Contribution per piece	\$0.67	\$0.56	\$0.52	\$0.22	\$0.12	\$0.09	\$0.08
Contribution as % of selling price	22%	21%	20%	8%	5%	30%	34%

NOTE: * Calculated cost = Total cost x Share of total production / Number of pieces produced per month.

SOURCE: Werner International.

In fact, one or two of the factories indicated that they do not actually make a profit, especially at current volumes of production. It is essential, of course, to attain and maintain appropriate

levels of physical productivity each month. This is difficult in the first year of operation. It also assumes that there are sufficient sales orders to cover the factory capacity for the entire year.

Benchmarking Haiti's Costs

Table 4-2 summarizes key cost values for Haiti and seven other countries, as of the first half of 2009. Cost categories are discussed below.

LABOR

One of Haiti's major advantages for an apparel manufacturer or new investor in the industry is the low cost of labor. While it is not the lowest worldwide, Haiti's labor costs are competitive with those of China, India, Mexico, and the DR, close to the level in Pakistan, and higher than those paid in Cambodia and Bangladesh.

The wage figures presented in Tables 4-1 through 4-3 are not the minimum wage, but rather the typical average hourly rate actually paid to the worker. This includes bonus, incentive, and shift work premiums, as well as fringe benefits and social charges. Together, these can represent more than 50 percent of take-home pay for all countries in the analysis. The information comes from the manufacturing companies themselves and is averaged over the number of companies and converted to U.S. dollars at the exchange rate applicable in the first half of 2009.³⁷ It is also a moving figure, with some significant changes arising from one year to the next.

In May 2009 the Haitian legislature passed legislation to increase the minimum wage from 70 to 200 HTG per day (i.e., from \$1.75 to \$5.00). Concerned with the potential negative repercussions of such a dramatic wage jump on apparel industry employment levels, President Préval objected to the legislation in early August 2009, proposing instead a daily minimum wage increase to 125 HTG for the assembly industry, with gradual increases programmed through 2012. This was approved by the Chamber of Deputies in August and the Senate in September, and took effect on October 1, 2009. The minimum wage will be adjusted to 150 HTG on October 1, 2010, and 200 HTG on October 1, 2012.

³⁷ A flexible exchange rate regime in Haiti means that the value of Haiti's currency, the Gourde, is determined by the market (State 2009). Any comparative analysis of dollar-based costs is dependent on exchange rates. Volatility of the HTG or inadvertent strengthening can each have negative consequences for Haitian export competitiveness.

Table 4-2
Cost Comparison

Notes	Unit	Haiti	Dominican Republic	Mexico	India	China	Pakistan	Bangladesh	Cambodia
L A B O R C O S T									
See Table 4-3 for details	U.S.\$/hour	0.48	0.90	1.86	0.83	1.44	0.55	0.32	0.33
H O U R S W O R K E D									
W/o overtime	Normal hrs/operat or/day	8	8	8	8	8	8	8	8
W/o overtime	Normal hrs/operat or/week	48	44	44	48	48	49	48	42
National holidays	Days/year	16	13	14	17	11	18	10	25
W/o overtime, per year (less holidays + assumed 10 days vacation)	Hours/year/worker	2,288	2,104	2,096	2,280	2,328	2,324	2,336	1,960
E L E C T R I C I T Y									
Cost to industry	U.S.\$/KwH	0.23	0.14	0.15	0.086	0.065	0.071	0.053	0.17
B U I L D I N G									
Cost of industrial space construction	U.S.\$/square meter	160	220	250	140	97	150	120	130
T R A N S P O R T									
From factory to source port	U.S.\$/40-ft container	0	0	800	400	470	300	250	600
From source port to Miami/Long Beach	U.S.\$/40-ft container	800	800	0	2,100	1,800	2,000	1,900	1,900
D U T Y P A Y A B L E									
U.S. import duty, Chinos (using Asian fabric)	%	0	16.6*	16.6*	16.6	16.6	16.6	16.6	16.6
U.S. import duty, T-shirts (using Asian fabric)	%	0	16.5*	16.5*	16.5	16.5	16.5	16.5	16.5
T A X A T I O N									
Corporate tax on profits	%	0	25	35	33.66	25	35	35	20
Sales tax	%						15		
Value-added tax	%	0	0	0	12.5	17	15	15	10

NOTE: * Duties payable upon import are zero-rated if made from American, Mexican, or Dominican fabric.

SOURCE: Werner International, validated against Werner and international databases

Table 4-3
Labor Cost Comparison (January–June 2009)

	Haiti	Dominican Republic	Mexico	India	China (Inland)	Pakistan	Bangladesh	Cambodia
AVERAGE COST PER OPERATOR HOUR								
Direct wages (local currency)	17.50	22.96	17.61	31.34	6.74	34.18	19.08	0.246
Other costs paid to operator (local currency)	0.83	2.76	2.11	4.54	0.74	7.31	0.90	0.026
Other costs paid by company (local currency)	1.10	6.94	5.32	5.09	2.33	2.41	1.20	0.057
Total Cost Per Hour (local currency)	19.43	32.66	25.04	40.97	9.81	43.90	21.18	0.329
Exchange rate (Jan-June 2009) \$1 =	40.48	36.29	13.68	49.58	6.83	81.05	70.18	1.00
Total Cost Per Hour (US\$)	0.480	0.900	1.830	0.826	1.436	0.542	0.302	0.329
Ratio to US cost (%)	2.8%	5.2%	10.5%	4.7%	8.2%	3.1%	1.7%	1.9%

NOTES: Values are taken from officially published values in the Werner International labor cost comparison database, applicable for the final quarter 2008. While data are based primarily on wages in production areas, values for overhead costs, such as management, accounting and sales, are also included. Cambodian wages are negotiated directly in U.S. dollars.

SOURCE: Werner International Labor Cost Comparison 2008, adjusted to early 2009 exchange rates.

The new minimum wage raises concerns for Haiti's diminished competitiveness, and the possibility of Haiti's apparel industry becoming smaller rather than larger in the coming years. A study prepared for ADIH concludes that a minimum wage of 200 HTG per day will cause inefficient producers in Haiti to go out of business, leading potentially to unemployment of nearly half the apparel workforce in Haiti (François 2009). Sensitivity analysis undertaken using the cost structures in this report suggests that a minimum wage of 200 HTG will reduce profits in Haiti—especially for T-shirts manufacture—to close to zero. When 200 HTG is applied to the chinos cost comparison data, Haiti still appears to have an edge. Note that by 2012, of course, minimum and average wages in other competing countries will also have risen. The new comparison should be with the wage bills in the various countries *as they will be in 2012*.

It should also be noted that while it is true that an eventual increase in the minimum wage to 200 HTG will result in a higher wage bill for apparel companies, it will not double their existing wage bill. In August 2009 employers in Haiti already paid workers above 70 HTG per day, the minimum wage in effect when the field work for this study was conducted, applying 100 HTG (\$2.50) or 120 HTG (\$3.00) per day. The effective average pay per day, inclusive of production incentives, was between \$3.80 and \$6.50 per day. With the new minimum wage, it is expected that employers will adjust bonus and incentive payments (based on productivity, attendance, and years of service) and other benefits (for instance, most companies currently pay the individual income tax on behalf of workers), so that a higher minimum wage can be absorbed over the next few years without a very significant change in operational costs. Thus while the

scheduled changes admittedly represent a significant increase, they will nonetheless leave Haiti at a level of labor costs that is competitive compared with China, India, Mexico, and the DR.

Number of Operators

The number of operators required in the production area has been determined through work study analysis and from Werner International standards. In some instances the numbers are taken from the actual operators working in a particular mill, but adjusted to standardize the result. Supervisors, inspectors, and laboratory staff are also included among direct production personnel, while warehouse personnel, security, and drivers are included in general overhead.

Hours Worked

Hours worked per year are estimated based on operator hours worked per day and per week, correcting for the number of national holidays and an assumed 10 days of annual vacation (which may not be applicable to all companies and contracts of employment).

Haiti operates a 48-hour week and thus a total of 2,288 hours are worked per operator per year. Operators in three countries work at higher levels, i.e. China, Pakistan, and Bangladesh. The minimum work week in India is close to that of Haiti. Thus the hours worked per operator per year is also a competitive advantage for the Haitian apparel industry.

It is also a major advantage in the apparel industry to have flexibility in the working hours per week so that urgent orders can be fulfilled on time by working extra hours, especially on Saturday, if needed. Although according to the Labor Code Saturday is considered a normal work day, several factories spoke of their reluctance to require the sixth day. Some companies operate 5 days a week, some 5.5, and some 6. Some factories treat Saturday work as overtime and pay double time, one way in which the Haiti pay levels rise above the minimum wage.

The industry is faced with external risks that can shut down production for a few days. Several factories note that in the last year they have lost workdays due to strikes or other labor actions, other civil unrest, or hurricanes. On average across the 18 factories surveyed, this did not amount to more than two or three days for each of the three reasons. During the first half of August 2009, factories were closed for several days in response to unrest generated by the minimum wage debates.

ELECTRICITY

Global electricity rates are significantly variable. In some larger countries, the rate depends on the specific area within the country, with different tariffs applicable in different states in countries such as India, China, and Pakistan. With the large variation in the price per barrel of oil electricity rates have been significantly more volatile in 2008 and 2009.

Power costs in India and Cambodia are the highest among the low-cost, textile-producing countries. A June 2009 report by prepared for the Confederation of the Indian Textile Industry cites the following dollar per kilowatt-hour (KwH) power costs: India \$0.11, China \$0.08, and Bangladesh \$0.08. Cambodia's \$0.17 per KwH is even higher, while industries in countries closer to Haiti also pay higher rates, e.g., the DR's \$0.14 and Mexico's \$0.15. In comparison, Haiti has a major disadvantage as compared with all other countries in the analysis. The mid-2009 value of \$0.23 per KwH is higher than in any other country, and is four times the cost applicable in Bangladesh. In late August 2009 the Haitian Electricity Authority (EDH) announced its intention to double rates charged to all categories of consumers, to compensate for heavy operating losses incurred from illegal hook-ups to the grid.³⁸

Fortunately, the apparel industry is not a heavy user of electricity. Power is needed to operate sewing machines, lighting, computer facilities, and ironing and cutting machines. The two finished garments examined here do not require any special finishing processes, such as washing or piece dying. Around the world apparel factories do not necessarily use air conditioning, but may employ instead significant numbers of electric fans or water cooling and ventilation systems. However, significant heat and humidity can certainly affect performance, of workers as well as of overall facilities, which in turn can limit productivity. Yet the high cost of electricity in Haiti precludes consideration of air conditioning in most factories. Textile mills, on the other hand, are much more intensive users of electricity and thus require lower rates in order to manage profitable operations.

The impact of the high electricity price is shown in the percentage which electricity represents of the operating costs in a month. For a Haitian company, electricity represents over 10 percent of total monthly expenditure, compared with 4-6 percent in China, India, and Pakistan.

Not only is the per KwH price extremely high, benchmarked against apparel competitors, the national grid for energy in Haiti is unreliable and in some cases electricity is not available. All companies operate their own generators (with a purchase price of \$80,000 per generator). Depending on the size of the company, two generators are typically operated, though one or two companies employ more than five generators. At 20 gallons per hour (full capacity) and \$2.50 per gallon, the cost of full-capacity operation of one generator is thus nearly \$10,000 per month. Companies report that they typically switch on their generators for around half of the working day, though less so if operating within SONAPI, the main industrial zone in Port-au-Prince, which has a more constant energy supply.

Estimated total demand for electricity in Port-au-Prince (220 mega-watts, or MW) far exceeds total installed generation capacity (157 MW) (World Bank 2006b). Actual delivery is lower, however, due to water scarcity, maintenance deficiencies, and infrastructure frailties. Moreover, over half of electricity consumed is not paid for, through illegal hook-ups. These problems are

³⁸ "Le prix du kilowattheure à la hausse," *Le Nouvelliste*, 25 August 2009.

being addressed in an ongoing, World Bank-supported project.³⁹ Several independent power producers already supply electricity in Haiti. In a promising sign of investor confidence, plans are moving forward for the private development of a new 400,000-square meter industrial zone in Port-au-Prince, of which 50,000 square meters will be allocated to a Korean-run, heavy fuel-based private plant that will generate and sell an additional 32 MW to the national grid. Known as E-Power, the project “is Haiti’s first private sector generation project open to international bidding with assistance from the World Bank,” according to the International Finance Corporation, which is leading a financing consortium for the project.⁴⁰

INDUSTRIAL SPACE

Haiti needs to import the majority of materials for construction, and so has no comparative advantage in regard to construction costs for new factories. Building costs apply to the production areas only, and include the costs and building areas required for housing all services and equipment such as air conditioning, pipe-work for steam, electricity networks, fire protection, water treatment, furnaces, and other services.

In Haiti many of the apparel companies rent rather than own their factories, and the rental costs are not considered to be high. Monthly rental payments range from \$0.15–0.20 per square foot of factory space, or from \$3,600 for 24,000 square feet to \$6,000 for 30,000 square feet, for operations involving around 400 workers. However, these are rental costs at existing, highly depreciated industrial parks. It is expected that monthly rental costs in newly constructed zones may range from \$0.29–0.35 per square foot.

TRANSPORT

The ocean transport cost of a standard 20- or 40-foot container from the various ports of the benchmarked countries has a variable value. Several transporting companies were approached for information. The results showed large variations in the cost, with the cost of a container crossing from China to the West coast of the United States ranging anywhere from \$1,700 to \$4,500.

The main transportation costs for apparel operations in Haiti are 1) the cost of ocean transport of fabrics typically imported from China, and 2) the subsequent shipping of finished apparel articles to Miami. Since all but one of the apparel companies are located right in Port-au-Prince, there is negligible inland trucking cost, normally included in the transport agency charges for transporting to Miami. In contrast, the inland transport costs in some competing countries such as India and China must cover transport of more than 1,000 inland miles. In terms of total

³⁹ The World Bank’s Electricity Loss Reduction Project (\$6 million approved in 2006, plus another \$5 million proposed in 2009) aims to improve management, revenue collection, and government oversight of the energy sector, as well as support public outreach campaigns.

⁴⁰ See www.ifc.org, “First IFC Power Project in Haiti Promises to Improve Basic Public Services,” July 22, 2009.

transportation cost, what Haiti saves in ex-factory to U.S. transport costs it must pay on the other end to source raw materials, so total transport cost is not a distinct advantage for Haiti.

While port logistics, informal trade facilitation costs, and weak logistics performance have all been mentioned by outside observers as possibly contributing to reduced competitiveness for the Haitian apparel industry, the factories interviewed did not signal these costs to be significant.

DUTIES PAYABLE UPON IMPORT INTO THE UNITED STATES

For the two standard products for which cost analysis is being undertaken here, the duty payable upon arrival in the United States according to the 2009 U.S. Harmonized Tariff Schedule (HTS) is:

- Cotton chinos (trousers and breeches) (HTS 6203.42.40): 16.6%
- Cotton T-shirts (t-shirts, singlets, tank tops, and similar garments) (HTS 6109.10.00): 16.5%

Thanks to HOPE II, Haiti can export duty-free to the U.S. chinos and similar trousers made with third-country fabrics because a very significant added value occurs in Haiti. On the other hand, the manufacturing of T-shirts does not add enough value to allow a Haitian company within HOPE II to use Asian fabric and gain duty-free entry. However, the CBTPA allows T-shirts made from DR-produced fabric to enter the U.S. free of duty. Knit tops that have significant added value (compared to T-shirts, that do not) can also be included in the knit apparel TPL under HOPE II.

The flexibility of Haiti's duty preference requirements with regard to third-country fabric use is the most significant competitive advantage for the Haitian apparel industry. Because of these, expectations are high with regard to significant growth in the industry.

TAXATION

Corporate, sales, and value-added taxes are a significant factor in the apparel industry throughout the world. Many countries have introduced special concessions and tax-free zones to favor export-oriented manufacturing, including the apparel industry. Haiti presents very clear advantages regarding tax incentives, compared in Table 4-4.

Table 4-4
Comparison of Tax Incentives

Country	Corporate Income Tax	Sales or Value-Added Tax	Import or Export Duties
Haiti	Corporate income tax applies only after 10 years. Most Haitian companies change their structure every 5 to 8 years, and so do not incur corporate tax liability.	Haiti offers tax-free and duty-free operation for all apparel companies. There is no sales tax, value-added tax, nor import duties.	
Dominican Republic	The government offers full exemption from taxes, duties, charges, and fees that affect production and export activities in free trade zones.		
Mexico	Corporate tax of 35% on profits is payable with few if any exceptions.		Duty free zones allow import of material and export of finished product with significantly reduced taxation; not as open as Haiti or DR.
China	Before January 2008 a base rate of 30% existed, to which a surcharge of 3% could be added by local authorities; since January 2008, a revised standard tax rate of 25% applies.	Exports from China are not subject to value-added tax.	Import duties effectively are zero, provided the finished product is exported, which applies to virtually all apparel companies in China.
India	Corporate tax on profits is 33.66 %.	In January 2005 the value-added tax (VAT) replaced the sales tax. The standard rate of VAT is 12.5%. In addition, local bodies may levy taxes on properties, octroi (i.e. tax or toll for passing through a state or city), and for utilities (e.g., water supply, drainage, etc.)	
Pakistan	Corporate tax for companies is 33%, applicable since early 2009 (previously 35%).	Although VAT is 15% exports are zero-rated, which applies to the majority of apparel manufacturers.	1% tax on the value of goods exported is applied.
Bangladesh	Corporate tax is 35%. Any income collected or gained by a company doing business in Bangladesh, whether resident or not is taxable.	VAT 15%, though exports are exempt.	
Cambodia	Corporate tax on profits is 20% or 1% of sales turnover, whichever is higher. Effectively the 1% of sales turnover is the only tax that applies to apparel companies.	VAT is 10%, although in practice there is also a 0% rate that applies to goods exported from Cambodia and for services 'consumed' outside.	Garment industry imports are eligible for a special program giving duty-free treatment to manufacturing inputs.

SOURCE: Werner International.

Productivity

“Standard times,” reflecting 100 percent achievement levels for sewing operations, have been calculated worldwide throughout the industry. However, the normal, high-performance, achievable productivity rate in a well-run factory is considered to be between 60 and 75 percent of the standard, results that are consistently achieved in various countries. For example,

Indonesian companies operate at 60 percent, while many companies in China operate at 65 to 75 percent. In most countries, productivity levels are higher than those observed in Haiti.

Many Haitian apparel companies are starting at 35 to 40 percent of standard. Accordingly, the target for achievement of a good production rate in Haiti would be considered to be 50 to 60 percent. This is illustrated in the following example for sewing operations of traditional denim jeans. Table 4-5 presents the standard minute value for jeans production worldwide at various levels of productivity.

Table 4-5
Productivity Targets, Casual Pants or Jeans

	Share of Labor (%)	CMT Price (\$)	International Standard Minutes					
			At 100%	At 80%	At 60%	At 50%	At 40%	At 35%
Cutting	10.9	0.098	2.8	3.5	4.7	5.6	7.0	10.0
Sewing	69.8	0.630	18.0	22.5	30.0	36.0	45.0	64.0
Finishing/packing	19.4	0.175	5.0	6.25	8.3	10.0	12.5	18.0
Other		0.387						
Total	100.0	1.290	25.8	32.25	43.0	51.6	64.5	92.0
Pieces per hour per line of 65 operators				173	130	108	87	61

SOURCE: Werner International.

For a typical pair of five-pocket jeans, the total unit price paid for CMT operations (excluding washing and sand blasting, etc.) done in Haiti is between \$1.10 and \$1.30. This can be broken down roughly into 70 percent labor and 30 percent other costs, applying the typical split between direct labor costs and all other CMT costs.

Sewing is the most significant production operation, representing 69.8 percent of the operators in production. So a 129-cents pair of jeans would have a CMT value of labor in the sewing section of \$0.63 ($\$1.29 \times 70\% \times 69.8\% = 0.63$).

At 35 percent productivity, a production line with 65 operators produces 61 pairs of jeans in an hour. This level of production requires 64 sewing operator minutes per pair. This is a loss-making situation, because the buyer is offering \$0.63 for the sewing labor time, whereas the operator is spending 64 minutes for which she is paid \$0.88 per hour ($\$7.06 / 8 \text{ hours} = \0.88 per hour). However, at the next level up, at 40 percent of standard the sewing line will produce 87 pairs in an hour and the operator will spend only 44.8 minutes to make a pair of pants. If an hour is paid at \$0.88, then 45 minutes is paid at 66 cents. This is very close to the breakeven point for profitable operation. This underscores the importance of a strategic initiative to raise factories' productivity levels. The challenge for Haiti's industry is to increase productivity to ensure levels at 50 percent of standard, or better.

Product Cost Analysis: Men's Chinos Trousers

Analysis of the costs of production of a typical pair of men's chinos trousers assumes the use of a traditional twill fabric, used in army uniform trousers and jackets, as well as for casual trousers (HS 5209.32). The finished men's trousers (HS 6203.42.20), fully made up, are labeled, price tagged, and packed ready for retail sale. Trousers are produced either in a size range from S to XXL, or with varying waist measurement and leg length options. The specific design is assumed to be wide fit, with front pleats. The steps involved in the making up operation include: lay-plan preparation, fabric roll selection and laying, fabric cutting, bundling of pieces by garment size and color, cutting of pocket lining and trim, sewing operations usually on a sewing line of around 100 operators, inspection, ironing, packaging, and labeling. Accessories used to manufacture such trousers include sewing thread, three buttons, one 9" zipper, pocketing, Vilene (fusible interlining), care and origin label, and brand label.

Costs for men's chinos trousers production are presented in Table 4-6. The analysis accounts for the cost of materials (fabric for the main garment, lining and interlining, pocketing; trims; packaging), labor (estimated as the cost per hour times the standard minutes divided by 60 minutes per hour times 1+efficiency factor), other factory-level costs (such as the value of garment "rejects" due to uncorrectable quality flaws, manufacturing overhead, indirect labor of sales and administration personnel), and agent fees. The sum of these four categories yields the factory-gate price of the garment.⁴¹ Exports to the United States generally are sold at factory gate, or including inland transportation and handling until the goods are loaded onto the vessel (FOB price). The landed duty paid (LDP) price in the destination country equals the FOB price plus ocean freight, insurance (CIF price), plus all relevant tariffs, quota fees, and value-added taxes.

Product Cost Analysis: Men's T-Shirts

The chosen sample product is a T-shirt made from 100% cotton, circular knitted fabric (HS 6006.22). T-shirt fabric can be manufactured in any of the five countries in the table below. Haiti and Cambodia do not manufacture fabrics and thus must import. In the case of Haiti, the knitted fabric comes from the DR. The basic garment has a round neck with side seams, sewn using 100% cotton, Jersey-dyed, knitted fabric for the body and Rib 1x1 for the collar. Embellishments, such as embroidery or printed logo or message, are not included in the manufacturing process in Haiti, as these are applied to the blank T-shirt later in the United States. The finished, blank T-shirt is produced with the following manufacturing steps: collar attached to front, collar overlock-stitched, collar top-stitched, shoulders attached, shoulders top-stitched, collar rib band closed and attached to neck, label attached, collar rib band top-

⁴¹ Many factories sell their production at the FOB (free on board) level, with all downstream costs assumed by the buyer.

stitched, sleeves attached, sleeves top-stitched, side seams sewn, sleeves hemmed, care label attached, bottom hemmed.

For the purpose of this analysis, the T-shirt is made from pre-dyed fabric which is open width, rather than being body-size (no body seams). The cutting operation prepares the bundles of panels for sewing. Around 15 percent of fabric weight is lost in cutting waste. The sewing line usually consists of ten work stations, each with an operator and usually two assistants/inspectors per line. Typically a medium to large company of around 1000 workers will thus include 70 to 90 sewing lines. The finished garment is inspected and ironed prior to packing into cartons for shipment. In addition to the standard time for making up, there are additional allowances for cutting, ironing, and packing.

Costs for men's T-shirts production are presented in Table 4-7. The same assumptions are made as for men's chinos, although the materials costs are fewer because of the simpler garment.

Table 4-6*Cost Analysis: Men's Chino Trousers*

Garment Making Up By Country	Units	Haiti	Dominican Republic	Mexico	India	India	China	Pakistan	Bangladesh	Cambodia
Fabric sourced from:		China	China	Mexico	India	China	China	Pakistan	China	China
Trouser fabric (150 cm width)	\$/linear meter (LM)	1.936	1.936	2.272	1.734	1.936	1.936	1.676	1.936	1.936
Trouser fabric shipping	\$/LM	0.142	0.142	0	0.000	0.051	0.000	0.000	0.045	0.049
Trouser fabric usage	LM	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Trouser fabric waste (short pieces, end of rolls, faults etc.)	%	5	5	5	5	5	5	5	5	5
Lining & pocketing fabric cost	\$/LM	0.63	0.63	0.60	0.60	0.63	0.60	0.58	0.63	0.62
Lining & pocketing fabric usage incl waste	LM	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Binding	\$	0.040	0.040	0.040	0.040	0.040	0.040	0.040	0.040	0.04
Interlining	\$	0.050	0.050	0.050	0.050	0.050	0.050	0.050	0.050	0.05
Buttons, zipper, thread	\$	0.850	0.850	0.850	0.850	0.850	0.800	0.850	0.850	0.90
Cardboard insert	\$	0.015	0.015	0.015	0.015	0.015	0.015	0.015	0.015	0.015
Photograph	\$	0.030	0.030	0.030	0.030	0.030	0.030	0.030	0.030	0.030
Plastic poly bag	\$	0.014	0.014	0.014	0.014	0.014	0.014	0.014	0.014	0.014
Care label, hang tag	\$	0.010	0.010	0.010	0.010	0.010	0.010	0.010	0.010	0.010
Cardboard box/carton	\$	0.034	0.034	0.034	0.034	0.034	0.034	0.034	0.034	0.034
TOTAL MATERIALS COST	\$	4.849	4.849	5.160	4.256	4.697	4.546	4.149	4.686	4.738
Labor cost	\$/hour	0.480	0.900	1.831	0.826	0.826	1.436	0.542	0.302	0.329
Standard minutes per garment	Minutes	40	40	40	40	40	40	40	40	40
Efficiency adjustment	%	50	40	35	25	25	15	30	50	70
TOTAL LABOR COST	\$	0.480	0.840	1.648	0.688	0.688	1.101	0.470	0.302	0.373
Reject garments	3%	0.160	0.171	0.204	0.148	0.162	0.169	0.139	0.150	0.153
Manufacturing overhead (electricity, rent, indirect labor) (25% on labor)	\$	0.120	0.210	0.412	0.172	0.172	0.275	0.117	0.076	0.093
Sales and administration costs (10% labor)	\$	0.048	0.084	0.165	0.069	0.069	0.110	0.047	0.030	0.037
Agent fees per garment	4%	0.226	0.246	0.304	0.213	0.231	0.248	0.197	0.210	0.216

Garment Making Up By Country	Units	Haiti	Dominican Republic	Mexico	India	India	China	Pakistan	Bangladesh	Cambodia
TOTAL COST FOB (FACTORY GATE)	\$	5.883	6.400	7.893	5.547	6.019	6.449	5.118	5.453	5.610
Land transport cost to port	\$/40-ft container	0	0	600	400	400	470	300	250	600
Ocean freight to Long Beach, San Diego or Miami from		Port-au-Prince	Santo Domingo	Mexican border	Mumbai	Mumbai	Shanghai	Karachi	Dhaka	Sihanouk'ville
Ocean transport cost incl insurance	\$/40-ft container	1900	1900	0	4200	4200	3600	4000	3800	3800
Units	#/40-ft container	30000	30000	30000	30000	30000	30000	30000	30000	30000
Transport and insurance cost	\$	0.063	0.063	0.020	0.153	0.153	0.136	0.143	0.135	0.147
TOTAL COST CIF	\$	5.947	6.463	7.913	5.701	6.172	6.585	5.262	5.588	5.757
Tariff at U.S. border	%	0	16.6	0	16.6	16.6	16.6	16.6	16.6	16.6
Tariff cost	\$	0.000	1.073	0.000	0.946	1.025	1.093	0.873	0.928	0.956
Quota cost	\$	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0
VAT percentage	%	0	0	0	12.5	12.5	17	15	15	10
VAT applied	\$	0	0	0	0.71	0.77	0.00	0.00	0.00	0.00
Cost per garment - tariff, quota and VAT	\$	0.000	1.073	0.000	1.659	1.796	1.093	0.873	0.928	0.956
FULL LANDED COST DUTY PAID		5.947	7.536	7.913	7.359	7.968	7.678	6.135	6.516	6.713

SOURCE: Werner International.

Table 4-7*Cost Analysis: Men's T-Shirts*

	Units	Haiti	Dominican Republic	Mexico	India	India	China	Pakistan	Bangladesh	Cambodia
Fabric sourced from:		DR	DR	Mexico	India	China	China	Pakistan	China	China
Knit fabric cost	\$/Kg	3.906	3.906	4.118	3.019	3.336	3.336	2.894	3.336	3.336
Knit fabric shipping cost	\$/Kg	0.022	0.000	0.000	0.000	0.038	0.000	0.000	0.034	0.037
Knit fabric usage	Kg	0.235	0.235	0.235	0.235	0.235	0.235	0.235	0.235	0.235
Knit fabric waste (short pieces, end of rolls, faults etc.)	%	5	5	5	5	5	5	5	5	5
Thread	\$	0.045	0.045	0.045	0.045	0.045	0.045	0.045	0.045	0.045
Labels, tags	\$	0.037	0.037	0.037	0.037	0.037	0.037	0.037	0.037	0.037
Plastic poly bag	\$	0.018	0.018	0.018	0.018	0.018	0.018	0.018	0.018	0.018
Cardboard Box	\$/carton	0.060	0.060	0.060	0.060	0.060	0.060	0.060	0.060	0.060
TOTAL MATERIALS COST	\$	1.129	1.124	1.176	0.905	0.993	0.983	0.874	0.991	0.992
Labor cost	\$/hour	0.480	0.900	1.831	0.826	0.826	1.436	0.542	0.302	0.329
Standard minutes	Minutes	6.12	6.12	6.12	6.12	6.12	6.12	6.12	6.12	6.12
Efficiency adjustment	%	50	35	25	25	25	15	30	50	70
TOTAL LABOR COST	\$	0.073	0.124	0.233	0.105	0.105	0.168	0.072	0.046	0.057
Reject garments (3% on materials + labor)	\$	0.036	0.037	0.042	0.030	0.033	0.035	0.028	0.031	0.031
Manufacturing overhead (electricity, rent, indirect labor) (25% on labor)	\$	0.018	0.031	0.058	0.026	0.026	0.042	0.018	0.012	0.014
Sales and administration costs (10% on labor)	\$	0.007	0.012	0.023	0.011	0.011	0.017	0.007	0.005	0.006
Agent fees per garment (4% on total cost)	\$	0.051	0.053	0.061	0.043	0.047	0.050	0.040	0.043	0.044
TOTAL COST FOB (FACTORY GATE)	\$	1.315	1.382	1.595	1.121	1.214	1.295	1.039	1.128	1.145
Land transport cost to port	\$	0	0	500	400	400	470	300	250	600
Ocean freight to Long Beach, San Diego or Miami from		Port-au-Prince	Santo Domingo	Mexican border	Mumbai	Mumbai	Shanghai	Karachi	Dhaka	Sihanouk'ville
Ocean transport cost incl. insurance	\$/40-ft container	1900	1900	0	4200	4200	3600	4000	3800	3800
Units	#/40-ft container	60000	60000	60000	60000	60000	60000	60000	60000	60000
Transport and insurance cost	\$	0.032	0.032	0.008	0.077	0.077	0.068	0.072	0.068	0.073

	Units	Haiti	Dominican Republic	Mexico	India	India	China	Pakistan	Bangladesh	Cambodia
TOTAL COST CIF	\$	1.347	1.413	1.603	1.197	1.291	1.363	1.111	1.196	1.218
Tariff at U.S. border	%	0	0	0	16.5	16.5	16.5	16.5	16.5	16.5
Tariff cost	\$	0.000	0.000	0.000	0.198	0.213	0.225	0.183	0.197	0.201
Quota cost	\$	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0
VAT percentage	%	0	0	0	12.5	12.5	17	15	15	10
VAT applied	\$	0	0	0	0.15	0.16	0.00	0.00	0.18	0.00
Cost per garment of tariff, quota and VAT	\$	0.000	0.000	0.000	0.347	0.374	0.225	0.183	0.377	0.201
FULL LANDED COST PER GARMENT DUTY PAID		1.347	1.413	1.603	1.544	1.666	1.588	1.294	1.573	1.419

SOURCE: Werner International.

Figure 4-1
Chinos, FOB Costs

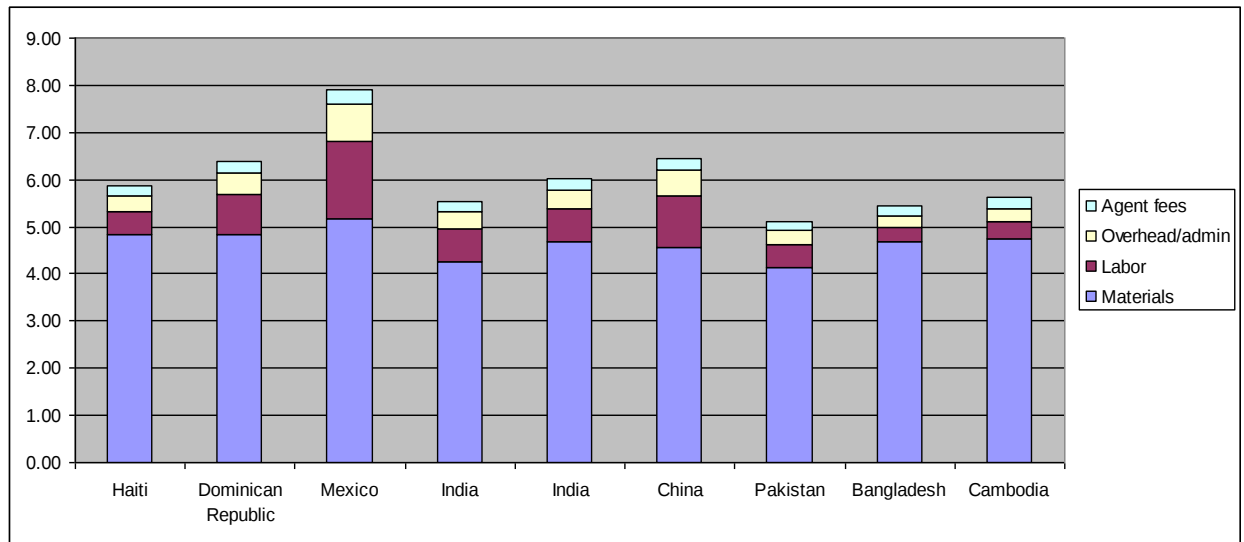
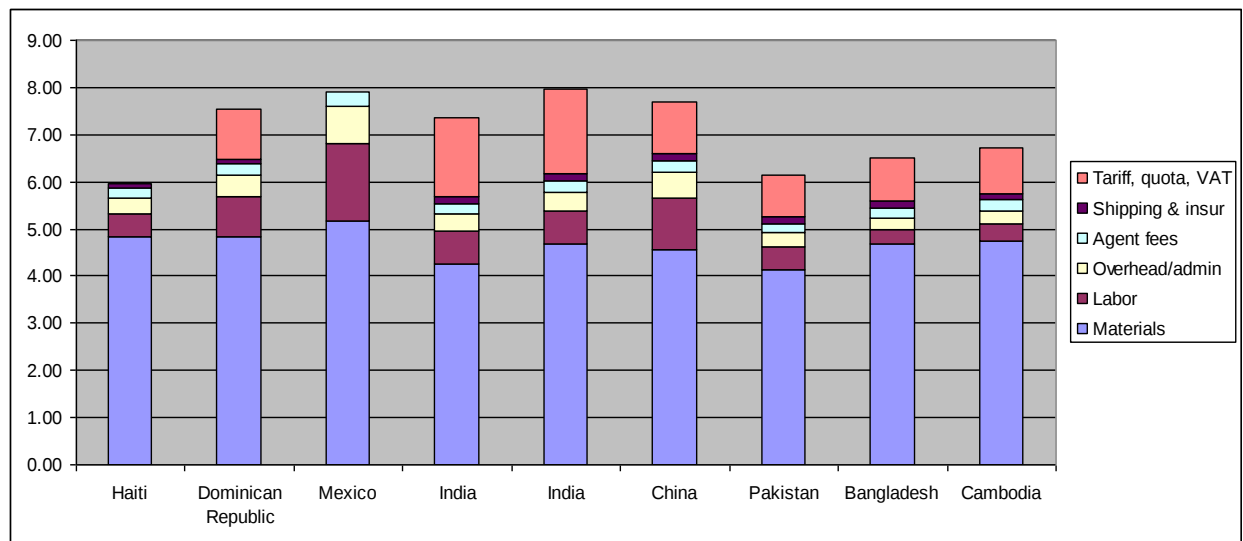


Figure 4-2
Chinos, CIF Costs (Including Duties Paid)



SOURCE: Werner International

Summarizing the costs of production of the two core products examined here, Haiti's duty-free access to the U.S. market allows it to offer cost advantages, compared with most alternative suppliers. In the case of men's chinos trousers, however (Figures 4-1 and 4-2), Haiti is the lowest cost supplier, even compared with Pakistan. Figures 4-3 and 4-4 compare T-shirt costs at FOB (factory gate) and CIF (landed in United States, all duties paid) levels. At the CIF level, only Pakistan delivers a less expensive T-shirt into the United States.

Figure 4-3
T-Shirts, FOB Costs

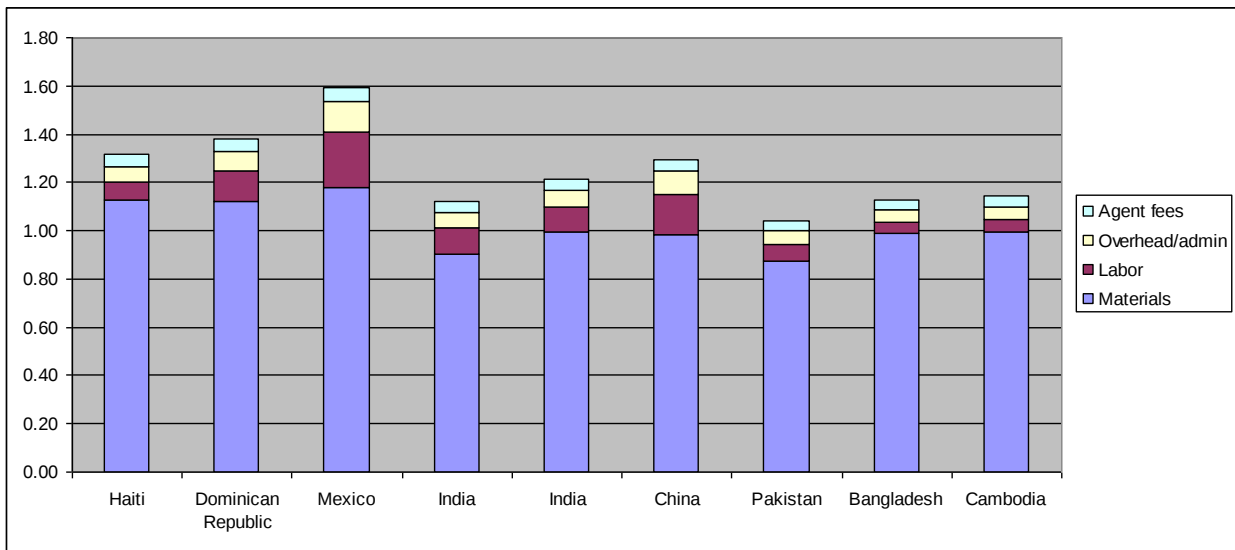
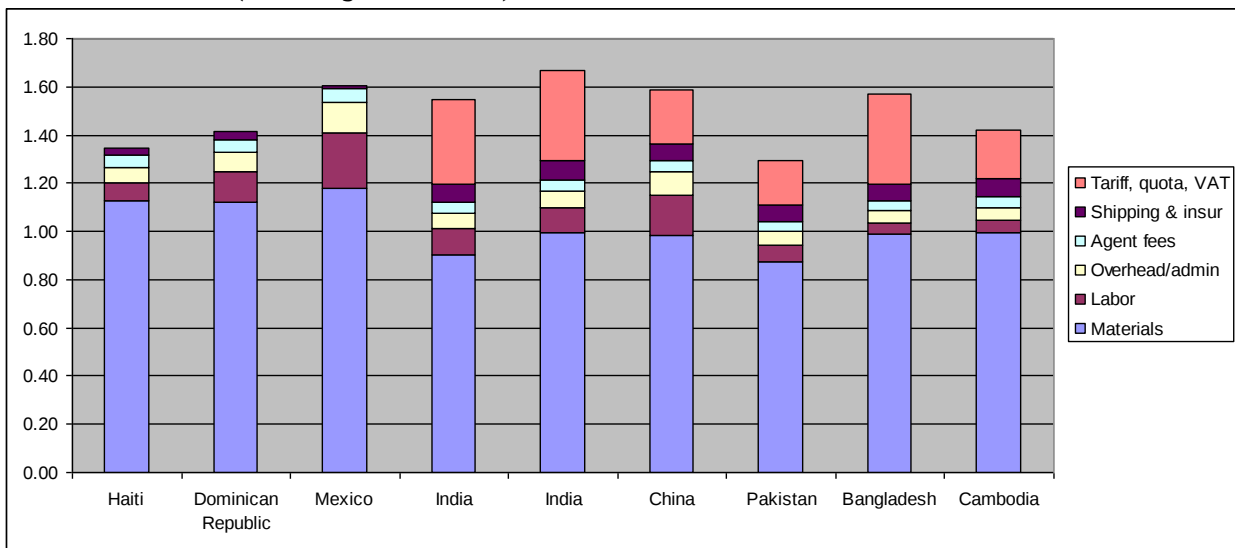


Figure 4-4
T-Shirts, CIF Costs (Including Duties Paid)



SOURCE: Werner International

Summary of Apparel Cost Analysis

Analysis of factory-level costs in Haiti leads to some remarkable facts about apparel industry competitiveness:

Haiti's Apparel Companies Are Profitable. As already indicated, all nine factories examined showing a positive contribution, essentially a profit, averaging 22 percent.

Haiti's Apparel Companies are able to get the Business and are Expanding as a Result. All factories interviewed have full order books, and are under pressure to produce at full capacity and increase productivity. Two companies indicated that they have significant pressure each week to ensure that the containers of finished product are produced in time for the Saturday sailing. Two or three of the companies visited have been in operation for only the past year or two and are still moving to full production levels and productivity. One company not included in the analysis is in start-up phase since April 2009 and will be employing over 500 people by November. Several of the companies have been offered large orders which will require very significant increase in their production facilities. In August 2009 one company had to turn down an order which would have expanded the company by at least 25 percent. Instead the company decided to accept two other orders that match more closely with existing production facilities.

Average Pay Levels in Haiti's Apparel Companies are High. The average daily pay per person over all the companies is \$5.70. This is higher than the new minimum wage (in 2012) of \$5.00. It includes incentive payments and double-time for Saturday work. Some companies are paying even higher, up to \$7.06 per day.

Electricity Costs are High But Manageable. Haiti's state-run electricity company supplies electricity from the grid at around 23 cents per KWH, which is very high by international standards. Because of irregular supply, apparel companies make regular use of generators. Electricity represents 11.5 percent of the total cost per month in Haiti. For other countries with more normal rates of around 7 to 10 cents per KWH, the share of power out of total cost is usually around 5 percent.

Productivity Levels are a Concern. Improving worker nutrition is one step to consider to increase productivity. One method for improving productivity is to provide free meals to all production personnel. Though some companies in Haiti already provide a free lunch facility, in at least three companies it was said that workers are too tired to work because they have not eaten all day and women's organizations report that food purchases at work represent a significant out-of-pocket expense for workers.

5. Conclusions and Recommendations

Haiti's apparel industry is starting to grow again. Business leaders have welcomed the U.S. granting of unilateral trade preferences to help jumpstart that growth. Labor leaders acknowledge that expansion of apparel industry employment represents a tremendous opportunity to put Haitians to work again. Government leaders recognize the importance of the apparel industry as part of a broader economic growth and poverty reduction strategy, and appear poised to approve infrastructure and land developments that will broaden the industry's foundation. CTMO-HOPE is actively engaged in outreach to potential investors and strategic collaborators who can contribute to the momentum.

This study has spoken to a wide range of key actors in the sector, surveyed 18 of 23 active manufacturers, and sat down with enterprise leaders at nine firms to discuss detailed costs, which are benchmarked against a number of Haiti's key global competitors. Along the way, some points of common wisdom about the industry have been shown to be no longer true:

1. **Haiti only makes T-shirts and workers lack the skills to do more.** In fact, Haitian garment workers are skilled in needle work. Factories in Haiti also produce trousers, men's suits, ladies' casual and formal tops, dress shirts, sportswear, nightwear, undergarments, uniforms, leggings, medical scrubs, fleece, performance wear, and gloves/mittens.
2. **Haitian firms dominate the local apparel industry.** Haiti already attracts foreign investors to its industry. Of the country's 23 apparel factories, one is a joint venture with a Dominican firm, two are Dominican-owned, two are U.S.-owned, and four are Korean-owned. Only 14 are owned by Haitians. Haiti needs the capital and value-chain linkages that foreign investors provide and it clearly offers foreign investors value. Brazilian investors are also quite interested in investing in Haiti.
3. **Hanes and Gildan dominate Haiti's commercial landscape — local factories do not interact with other brands.** These two renowned North American brands are indeed significant, but better viewed as the roots that anchor a more diversified customer network, that includes Gap, Jos. A. Banks, Levi's, Men's Wearhouse, Wal-Mart, and many other brands. This network is the underpinning for expansion of production contracts in Haiti.

4. **Haiti's factories only assemble garments from knit cotton fabric sourced from the DR, and their supply and product ranges are equally narrow.** A globally competitive industry must be able to source a broad array of fabrics from textile mills around the world, and delivery into the apparel factories must be speedy. Haiti's factories source fabric from all over the world, including the Dominican Republic but also the United States and Asia. They manufacture garments of cotton, manmade fiber, wool, and other fabrics.
5. **Haiti's apparel factories only provide cut, make, and trim services.** Haiti's factories in fact do much more. Five offer embroidery services, three do some or all of their own sourcing, four to six offer computer-aided design and manufacturing services. And one firm already offers product design and development, as well as contracting agent, services. This capability will be further expanded when the new industry training center becomes operational. Thus, Haiti can provide U.S. retail customers with "full-service packages."
6. **Haiti's apparel industry is not yet taking advantage of HOPE.** Haiti's apparel firms are responding to HOPE II trade opportunities. The relative share shipped under HOPE has increased significantly in 2009. Moreover, of the 25 top apparel suppliers into the United States, Haiti is the only country to experience a significant increase in shipments during the first half of 2009, despite the overall demand contraction in the United States due to the recession.

These are significant findings, and underlie the great optimism about Haiti's resurgent apparel industry. Haiti presents a number of clear advantages to global investors and apparel buyers, the most important of which are:

- Duty-free access to the U.S. market, thanks to HOPE II and the Caribbean Basin Initiative.
- Haiti's low cost and plentiful supply of labor.
- Haiti's tradition of assembly industries and sewing skills, and history of relationships with apparel buyers in the United States.
- Flexible work hours, allowing a 48-hour work week, with 2 hours overtime per day.
- Since 2005 Haiti has enjoyed a long period of relative peace and stability, thanks to the continued presence of the United Nations, expected to stay in Haiti at least through October 15, 2010.
- Low levels of industry personnel absenteeism and turnover.
- Proximity of factories in Port-au-Prince to the port, and reasonably efficient trade facilitation through the port.
- Sufficiently high quality of the end-product.
- The recent launch of the ILO/IFC Better Work Haiti program will promote decent working conditions in Haitian factories, helping to ensure that the "Made in Haiti" label is acceptable to U.S. consumers and that Haiti meets the U.S. trade legislation requirements.
- Geographic proximity to the United States and reasonable levels of on-time delivery.

- Use of electronic visas for submission of trade documents to U.S. Customs and Border Protection.

Nevertheless, the industry still faces challenges, which include the following:

- Garment companies are less profitable than in the past, and one or two say they operate at times at a loss.
- Productivity levels are generally low. Middle management skills are weak, and industrial engineering techniques not widely utilized.
- Use of modern methods, while nascent, is not widespread. For instance, the use of standard times for measuring productivity is infrequent, though it is being applied in one or two of the companies visited. Also, more companies could make use of CAD design systems and online data capture.
- Though relatively low in the past, recent instability generated by April 2008 food riots (leading to the ouster of the Prime Minister) and the August 2009 minimum wage debate reinforces the need to strengthen communications between the private sector and the labor sector and civil society.
- Potentially adversarial labor relations and lack of formal worker representation in the factories (except CODEVI) may hamper efforts to improve competitiveness.
- Bribes and undocumented payments are said to be a problem, according to a couple of companies.
- Electricity costs are triple those in competing countries, a factor that discourages the development of textile mills in Haiti.
- Rising urban congestion in Port-au-Prince makes manufacturing in the middle of the city increasingly more problematic, from the perspective of transport, pollution and waste management, space limitations, and quality of life.

On balance, however, overall prospects for Haiti's industry are quite good. Expansion is likely, perhaps doubling in size in the coming two years. However, as seen elsewhere, the risk that the industry may contract again, once trade preferences disappear, is real. As noted above, there is no one formula for industry success. Trade agreements and preferences have not forestalled the slide in Mexico's or Lesotho's market share. Cambodia's commitment to fair labor practices has not insulated its industry from economic downturn. What has pushed Asian suppliers into the top ranks of apparel suppliers to the United States is a sustained commitment to highest productivity, quality, and value-chain integration, careful cost and exchange rate management, and lowest prices.

Recommendations for ensuring that HOPE II leads to apparel industry competitiveness in Haiti sustained beyond the expiry of trade preferences are presented in Table 5-1. Most of these are not policy recommendations as they do not require government action. Instead, they are

strategic activities that require private sector vision, stakeholder commitment, and resources for implementation.

Table 5-1
Strategic Considerations for the Apparel Industry

Strategic Consideration	Background	Initiatives and Implementation Actions
I N F A C T O R I E S		
1. Consider Haiti's possible niches in the global industry.	ADIH is engaged with the I-Trade Project in a strategic planning exercise that seeks to brand the apparel industry more broadly, possibly encompassing not only apparel, but also home furnishings and accessories production.	Thinking "big" is important in launching the visioning process. Yet it is important to consider what niche(s) Haiti can fill now as the industry exists: • Upstream diversification into textiles. It may not be realistic to consider building vertical integration with textile mills development in Haiti, when local electricity costs are so much higher than global benchmarks. Rather, Haiti may wish to pursue "virtual vertical alliances" with competitive textiles producers, especially those in the region such as Brazil, Mexico, and the Dominican Republic. • Product diversification. Rather than continuing to emphasize high-volume, low-value production of cotton T-shirts, Haiti's core advantage under HOPE II lies in high-skill, flexible production of garments, especially of higher value-added, noncotton garments that are dutied at much higher rates at the U.S. border. This takes fuller advantage of Haitian exports' duty-free status into the U.S. For higher value-added garments, retailers increasingly prefer to hold smaller inventories, allowing Haiti to provide rapid replenishment as needed. Worker training should focus on needle skills required to work on noncotton fabrics, allowing factories to take orders for a broader array of materials and garments. • Diversification into downstream services. Given Haiti's proximity to the U.S. market, product development and samples production might become a specialty. Indeed one firm has already partnered with fashion specialists in Florida to provide such services. The ADIH training center also intends to offer fee-for-service full packaging to customers, on behalf of ADIH members, expanding the array of services in Haiti. These important initiatives deserve continued support. These are not mutually exclusive options. Pursuit of these niches will require industry actors <i>inter alia</i> to conclude their strategic planning exercise and engage with current customers, suppliers, and banks in pursuit of a more diversified production portfolio, especially those with higher composition of synthetic fibers.
2. Target higher productivity.	Given the programmed increases in minimum wages, it is crucial that Haiti's factories invest in production methods that will yield higher productivity and thus reduce unit costs. The nearly completed development of an operator training center is crucial.	Productivity is usually raised by operators working harder and mid-level personnel working smarter. This requires training for skilled, mid-level personnel as well as operators. Recruitment of these skill sets into factories also provides job opportunities in the industry for Haiti's university graduates. In addition to a focus on sewing operator training, training curriculum should include courses to prepare skilled personnel to :

Strategic Consideration	Background	Initiatives and Implementation Actions
		• Measure times needed to complete sewing operations and times lost through unbalanced production lines, • Employ line supervision techniques that encourage rather than harass operators, • Study the work environment (lighting, seating, ventilation, etc.) and introduce cost-effective means to improve it and thereby allow operators to focus on their work, • Employ cooperative management styles that encourage ideas from workers on how to improve the factory's workflow, and • Train and reward workers for more complex operations that allow factories to take on the manufacture of higher end garments. To ensure midlevel participation in training programs and for these techniques to be successfully introduced in the factory, top-level management must buy in to the strategies. This, too, therefore needs to figure in Haiti's apparel industry strategic vision.
3. Prepare for unionization.	Under the TAICNAR program in Haiti, labor union leaders will be trained and, in all likelihood, more apparel workers will be organized. The fact that tripartite dialogue already exists in Haiti bodes well for this process. However, in too many countries employers view organization in the apparel industry with suspicion and labor leaders view employers with distrust.	At this juncture in Haiti's HOPE campaign, all efforts should be made to impress upon both sides the benefits of collaborative, rather than confrontational, labor relations. Preparing for organizing can already take place within the CTMO-HOPE board. A number of discrete activities could help to shape shared perspectives on issues that may form the basis of collective bargaining in the future. For instance, • ADIH and labor unions may wish to undertake a jointly organized salary survey to systematically collect information from a representative sample of the apparel industry workforce about actual hours worked and actual daily and monthly earnings. • It may also be useful to compare this information with data on earnings on livelihoods that workers could be engaged in if they were not employed in an apparel factory. • Cost-of-living information from apparel workers – if only for work-related expenses – would also be useful to collect. This would help to ensure that negotiations over wages and other forms of compensation are well-informed. • In addition, joint study trips by representatives from management and unions can shape a shared vision and understanding of challenges facing the industry. For example, in Cambodia such a trip for industry and union leaders to neighboring Vietnam not only helped them both to appreciate the competitive challenges being met there, but also facilitated deeper relationships between the two sides that comes from traveling together.
B E Y O N D F A C T O R I E S		
4. Prepare for industrial zone expansion, both in- and outside of Port-au-Prince.		Prepare a master plan for electricity sector expansion: • Diversification into textile milling and other more energy-intensive manufacturing is hamstrung by Haiti's expensive and unstable electricity sector. One of the highest priorities, therefore, is to bring down the cost of a kWh of electricity to industrial users. EDH generation capacity needs to be supplemented through private initiatives, such as the project approved by IFC, to complement ongoing

Strategic Consideration	Background	Initiatives and Implementation Actions
		governance and management reforms underway under the World Bank's electricity loss reduction project. Prepare a master plan for industrial space expansion: • To facilitate project approval and rapid implementation of projects to expand industrial space, detail is needed about existing capacity and planned expansion. A comprehensive industrial space survey in Port-au-Prince is needed to detail the status and operational attributes of all warehouse and factory properties. Operating and rental cost information should be gathered on all available properties. Information from the several proposals for industrial space development in Port-au-Prince need to be systematically collected from developers (construction and future operating and rental costs, financing needs, worker access requirements, transport routes to and from sea- and airports, as well as energy, environment, and sanitation impacts of each project), and compared with existing capacity information and investor expansion forecasts. • To prepare for decentralization of apparel manufacturing outside of Port-au-Prince, such as to Cap-Haïtien, as in Port-au-Prince, systematic consideration of the land, electricity, sanitation, road, port, labor, institutional, and managerial workforce requirements is also needed, and compared with the above.
5. Shape a new image for Haiti's apparel industry abroad.	Haiti's CTMO-HOPE is actively reaching out to potential investors in Brazil, Korea, and elsewhere. ADIH is actively engaged in a strategic planning process.	An outreach campaign is advised to shape a new global image for Haiti's apparel industry abroad: • A marketing campaign to place articles about Haiti's reviving industry and the benefits of HOPE II in key trade (such as <i>Women's Wear Daily</i>, www.just-style.com, and others) and business publications (<i>U.S. News and World Report</i>, <i>Business Week</i>, <i>The Economist</i>, and others) is suggested. • The industry should also consider engaging the services of market advisors who can prepare for Haiti's participation in leading industry trade shows, such as MAGIC (held in Las Vegas and New York). CTMO-HOPE and ADIH should also develop contacts with leading global sourcing agents (such as Li and Fung) to help them understand Haiti's capabilities and to learn how Haiti's industry is viewed from an outside perspective.

Appendix A. Composition of CTMO-HOPE

BOARD

Mr. Jean-Palème Mathurin, President of CTMO-HOPE and Labor Ombudsman

Government

Mr. Ronald Décembre, Ministry of Economy and Finance

Mr. Louis Pierre Joseph, Ministry of Social Affairs and Labor

Mme. Sanite L. Désir, Ministry of Commerce and Industry

Labor Unions

Mr. Paul Loulou Chéry, Confederation of Haitian Workers, CTH

Mr. Bernard Régis, *Coordination Syndicale Haïtienne*, CSH

Mr. Yve Hériveaux, *Mouvement des Organisations Indépendantes Intégrées et des Syndicats Engagés*, MOISE

Private Sector

Mr. Bernard Fils-Aimé, Haitian-American Chamber of Commerce, AMCHAM

Mr. Jean-Paul Faubert, Association of Haitian Industries, ADIH

Mr. Wilhelm Lemke, Haitian Association of Duty-Free Zones, AHZOF

EXECUTIVE DIRECTION

Mr. Georges B. Sassine, Executive Director

Mr. Lionel Delatour, Consultant

Mme Alice Duvivier, Administrative Assistant

Appendix B. Haiti's Apparel Manufacturers

	Company	Nationality of Ownership	Location	Included in Industry Survey
1	Aplus Garments	Haiti-Dominican	Port-au-Prince	Yes
2	Caribbean Apparel Manufacturing	Dominican Republic	Port-au-Prince	Yes
3	CODEVI	Dominican Republic	Ouanaminthe	Yes
4	DKDR Haiti	South Korea	Port-au-Prince	Yes
5	Fox River Caribe	U.S.	Port-au-Prince	Yes
6	Genesis	Haiti	Port-au-Prince	
7	Global Manufacturers & Contractors	Haiti	Port-au-Prince	Yes
8	Interamerican Tailor	Haiti	Port-au-Prince	Yes
9	Interamerican Wovens	Haiti	Port-au-Prince	
10	Island Apparel	U.S.	Port-au-Prince	Yes
11	Johan Company	Haiti	Port-au-Prince	Yes
12	Magic Sewing Manufacturing	Haiti	Port-au-Prince	Yes
13	Modas Gloria Apparel	South Korea	Port-au-Prince	Yes
14	Multiwear Assembly	Haiti	Port-au-Prince	Yes
15	One World Apparel	Haiti	Port-au-Prince	
16	Pacific Sports Haiti	South Korea	Port-au-Prince	Yes
17	Palm Apparel	Haiti	Port-au-Prince	Yes
18	Premium Apparel	Haiti	Port-au-Prince	
19	Quick Response Manufacturing	U.S.	Port-au-Prince	Yes
20	Sewing International	Haiti	Port-au-Prince	
21	Team Manufacturing	Haiti	Port-au-Prince	Yes
22	Textrade	Haiti	Port-au-Prince	Yes
23	Willbes Haitian	South Korea	Port-au-Prince	Yes

Appendix C. Comparison of Benefits under Trade Agreements

HOPE II, CBERA/CBTPA, and DR-CAFTA

HOPE II	CBERA/CBTPA	DR-CAFTA
D A T E P A S S E D B Y U . S . C O N G R E S S		
HOPE I: December 20, 2006 HOPE II: June 18, 2008	2000 – Trade Act of 2000 adds apparel to CBI benefits 2002 - Updated and expanded CBTPA participation 2008 – HOPE II extended CBTPA until September 30, 2010	August 2, 2005
D A T E O F I M P L E M E N T A T I O N		
HOPE I: 12/20/06 (PL 109-432, Title V, Sec 5001) HOPE II: 10/01/08 (PL 110-246, Sec 15401)	CBTPA: 10/02/00, Trade Act of 2000 (PL 98-67) Extension of CBTPA to 2010: 10/01/08 (PL 110-246, Sec 15408)	<u>Member countries:</u> United States and El Salvador – March 1, 2006 Honduras and Nicaragua –April 1, 2006 Guatemala – July 1, 2006 Dominican Republic –March 1, 2007 Costa Rica – January 1, 2009
U S E O F T H I R D - C O U N T R Y Y A R N A N D F A B R I C		
Any of the origin rules or TPL provisions specified below	Generally, yarn forward origin requirements for textiles and apparel Third-country yarn and fabric allowed only under short supply rules	
V A L U E - A D D E D R E Q U I R E M E N T		
None, except for TPL I below	<u>Brassieres of HS 6212</u> (not knit) may be cut and sewn in U.S. and one or more BC's if 75% of the <i>aggregate</i> customs value declared in the prior year is attributable to the <i>value</i> of U.S. fabric components	

HOPE II	CBERA/CBTPA	DR-CAFTA
O R I G I N R U L E S F O R U N C A P P E D D U T Y - F R E E T R E A T M E N T		
<u>1. Single Transformation Rule</u> Wholly assembled in Haiti of fabric from any origin or knit to shape, fabric of any origin <i>Applies to:</i> Brassieres (6212.10) Some sleepwear Luggage Headwear CAFTA single transformation (see list below) <u>2. Earned Import Allowance Rule</u> <i>In exchange for every 3 SME of qualifying fabric imported (U.S. formed yarns or woven fabric, or U.S. or regional knitted fabric) and used to produce an item similar to an item eligible for preference benefits, producer receives right to import 1 SME of fabric of any origin for garments wholly assembled or knit to shape in Haiti</i> <i>Applies to:</i> Any apparel or luggage product <u>3. Short Supply Rule</u> Garments wholly assembled or knit to shape if the component establishing <i>essential character</i> is made from fabric or yarn that is in short supply under any trade agreement or preference program <i>Applies to:</i> Any apparel or luggage product	Apparel that is <u>wholly assembled in one or more beneficiary countries</u> (BC) from U.S. cut components, from fabrics woven in the U.S. of U.S. yarns Apparel as above that has been further processed by specific treatments that would otherwise be disqualifying (embroidery, stone, acid or enzyme washing, perma-pressing, bleaching, oven baking, garment dyeing, screen printing and similar) Apparel cut and sewn in one or more BC of U.S. fabrics from U.S. yarn, IF SEWN with U.S. thread <u>Textile luggage</u> that is cut in the U.S. or in one or more BC, of U.S. formed fabrics from U.S. yarns <u>Handloomed and folklore items</u> (pre-approval required) <u>Short supply</u>: Apparel that is cut and sewn, or knit to shape, from fabrics that are not available in commercial quantities (NAFTA Annex 401 list, and additions by Presidential proclamation and FR publication)	<u>1. Apparel Origin Rules</u> Yarn Forward, Chapter Rules Apply Cotton and manmade fiber apparel Yarn spun or extruded and finished in member country Fabric woven or knitted in member country(ies) Cutting, or knitting to shape occurs in one or more Sewing or assembly occurs in one or more Finishing, packing and shipping occur in one or more CAFTA country Wool apparel: Yarn may be of any origin, all other processes occur in one or more member countries <u>2. Non-Apparel Origin Rules</u> Yarns – fiber must originate in a member country and be spun or extruded and finished in a member country Knit fabrics – fiber forward Woven fabrics – yarn forward Made-ups – yarn forward <u>2. Dominican Republic Earned Import Allowance Rule</u> DR is rewarded for using U.S. fabrics in production of cotton bottoms (pants, skirts, shorts) <i>In exchange for every 2 SME of U.S. fabric used, producer receives right to use 1 SME of fabric of any origin to produce comparable goods; denim is excluded</i> Currently the EIA is not part of CAFTA; may be added, which would eliminate specific advantage to DR Effective December 1, 2008, expires after 10 years

HOPE II	CBERA/CBTPA	DR-CAFTA
T A R I F F P R E F E R E N C E L E V E L S A N D O T H E R Q U A N T I T A T I V E L I M I T S		
<u>TPL 1—Value-added (Expires 2011)</u> Wholly assembled or knit to shape in Haiti Fabrics of any origin Value may be calculated per shipment or on an annual basis (method declared on entry). Limited to 1.25% of U.S. imports for year prior (measured in SME) <i>NOTE: In 2008, Haiti shipped 222 million SME to the U.S., representing about 1.0% of total U.S. imports, measured by volume, of which 47% was T-shirts, which do not qualify for TPL1 because of their low value-added.</i> Graduated scale of value-added 12/20/08-12/19/09 50% 12/20/09-12/20/10 55% 12/20/10-12/19/11 60% (expires) Value-added is the sum of the cost or value of materials produced in Haiti, U.S., or any trade agreement or preference partner, plus the direct costs of processing operations performed in Haiti, U.S., or any trade agreement or preference partner. <u>TPL II—Woven apparel (Expires 2018)</u> Wholly assembled in Haiti of fabric of any origin Limited to 70 million SME per year <u>TPL III—Knit apparel (Expires 2018)</u> Wholly assembled or knit to shape in Haiti of yarns of any origin Limited to 70 million SME per year <i>Excluded from TPL III benefit are</i> - Cotton T-shirts - Men's and boys' cotton sweatshirts and pullovers - Men's and boys' sweatshirts and pullovers containing <85% MMF	1. <u>Apparel knit to shape in a BC, assembled in one or more BC's, from U.S. yarn, or cut and sewn in BC from regional fabric from U.S. yarn; socks and non-underwear T-shirts are excluded.</u> 2. <u>Non-underwear T-shirts</u> cut and sewn in BC's from regional fabric of U.S. yarn, or from regionally formed fabric from U.S. yarn	<u>Mexico Cumulation</u> Effective August 2008; subject to chapter rules Limited quantity of goods may include Mexico inputs in place of CAFTA member inputs Total woven apparel 100 million SME - Woven cotton/MMF skirts/trousers (not denim) (sublimit) 45 million SME - Woven denim skirts and trousers (sublimit) 20 million SME - Woven tailored wool apparel (sublimit) 1 million SME Reviewed annually and may be increased up to 200 million SME No expiration date EXCEPT that DR has no FTA with Mexico and has 5 years to enter one or lose cumulation <u>Costa Rica TPL</u> Effective 2009-2018, with consultation 18 months prior to expiration (possible extension) TPL's: 2 for wool (TPL A and C) & 1 for special bathing suits. TPL A is subject to chapter rules, TPL C and swimwear are not subject to chapter rules Origin of yarns and materials does not matter but all cutting and forming of components and all assembly take place in Costa Rica (no pre-finished collars, cuffs etc) Wool TPL A—fine wool, tailored wool garments (men's, boys', women's, girls', infants') (specific classifications), 500,000 SME annually Wool TPL C - coarser wool garments (men's, boys', women's, girls', infants'), 500,000 SME annually <i>If a garment may be charged against either TPL A or C, C must be used until filled, then TPL A can be used.</i> Swimwear—certain women's knit swimwear designed to accommodate prosthesis for post-mastectomy wearers. Growing from 100,000 SME to 133,823 SME over 10 years

HOPE II	CBERA/CBTPA	DR-CAFTA
T A R I F F P R E F E R E N C E L E V E L S A N D O T H E R Q U A N T I T A T I V E L I M I T S (C O N T ' D)		
		<u>Nicaragua TPL</u> Not subject to chapter rules; total 100 million SME Cut or knit to shape and assembled in Nicaragua of yarns and fabrics of any origin; post assembly finishing may occur in another CAFTA party. Apparel rules include: Cotton/MMF trouser rule; effective: April 2006- December 2014 Each SME of trousers shipped under TPL must be matched 1-1 by an equal SME of trousers of U.S. fabric; shortfall in the 1-1 commitment is deducted from the 100 mm SME overall TPL annually 1-1 commitment Men's wool suit type coats; effective August 2008-December 2014 Cut and assembled in Nicaragua from fabrics and yarns of any origin, no pre-finished components permitted; post assembly finishing may take place in other CAFTA countries sub-limit 1.5 mm SME annually
S P E C I F I C C H A P T E R R U L E S O F O R I G I N		
		Origin requirement applies to the portion of the garment or article that conveys "<u>essential character</u>." Some materials used as <u>visible linings</u> (ie, in the body of a coat or jacket) are required to be originating although they do not convey essential character. <u>Narrow elastic bands</u> must be formed and finished in one or more member countries and elastomeric yarns must be originating. <u>Sewing thread</u> (multi-ply, folded or cabled) used for assembly or decoration must be formed or finished in one or more member countries. <u>Pocketing</u> fabric must be formed in one or more member countries, of yarn spun in member countries.

HOPE II	CBERA/CBTPA	DR-CAFTA
SPECIAL RULES		
	1. 25% of value may be findings and fittings of any origin (definition is highly technical, caution required) 2. 7% of non-originating fibers and yarns, by weight, will not disqualify a product from eligibility (<i>de minimis</i>) 3. Special allowance for nylon filament yarn (except elastomeric yarn)	<u>De minimus</u>: Up to 10% by weight of the component conveying essential character may be of non-originating fibers and yarns. (elastomeric yarns generally MUST originate regardless of this exception) Certain <u>specified nylon filament yarns</u> may originate in Mexico, Canada, or Israel as well as members <u>Single transformation goods</u> require ONLY cutting and sewing in the CAFTA territory Group 1 (No expiration, chapter rules do not apply to single transformation) Brassieres in HTS 6212.10 (10 specific items) Boxer shorts in HTS 6207 and 6208 (7 specific items) Woven pajamas Woven girls dresses HTS 6204 (not corduroy, 10 items) Group II (Group II single transformation goods added August 2008 (“pocketing letters”)) Baby dresses Women’s coats Women’s man-made fiber suits Men’s suit type jackets in HTS 6203.39 9020 Men’s woven cotton and MMF dress shirts HTS 6205.20.2016, HTS 6205.30.2010 Some ensemble components <u>Short supply</u> – garments may be made from fabrics of any origin if those fabrics are not available in commercial quantities in the CAFTA territory Chapter rules do not apply, except that <u>elastomeric</u> yarns must be originating even in short supply fabrics

HOPE II		CBERA/CBTPA	DR-CAFTA
O T H E R P R E F E R E N C E R E Q U I R E M E N T S			
<u>Requirements</u> • Direct exportation from Haiti or DR • Independent labor ombudsman and participation in verification of labor standards (ILO/IFC's TAICNAR program) Haitian government visa required at entry	<u>Notes</u> • U.S. must determine controls to prevent circumvention • Part of HOPE II, required by 2010 unless extended by President Any fee cannot exceed actual processing cost	Direct export from a preference country to the U.S. <i>or</i> remained in official custody and did not enter the commerce of any non-BC transited Certificate of Origin held by the importer at the time of entry (may be requested by USCBP)	In general, goods must be shipped directly from one CAFTA party to another Declaration is required on entry, without special documentation unless a TPL or other special provision is used

Appendix D. Meetings

Name	Organization
G O V E R N M E N T	
George Sassine, Executive Director	CTMO-HOPE
Lionel Delatour, Consultant	CTMO-HOPE
Yvon Guirand, Cabinet Director to the Minister	Ministry of Commerce
Guy Lamothe, Director	Ministry of Commerce, Centre de Facilitation des Investissements
Louis Pierre Joseph, Director General, Dept. of Labor	Ministry of Social Affairs and Labor
Denise Sylvestre-Amédée, Director, Promotion and Defense of Women's Rights	Ministry of the Feminine Condition and Women's Rights
Ovince Junior, Statistician, Documentation Service	Ministry of the Feminine Condition and Women's Rights
Jean Kesner Delmas, Director General	Société Nationale des Parcs Industriels (SONAPI)
A P P A R E L I N D U S T R Y	
Albert Handal	Aplus Garments
Marie Louise Baker	Astralis
Limberto Cruz	CODEVI, a member of Grupo M
Miguel Angel Torres	CODEVI, a member of Grupo M
C.H. Lee	DKDR
Andrew Ansaldi	Island Apparel
Abraham Félix	Magic Sewing
Herve Désir	Modas Gloria Apparel
Jeffrey Blatt	Multiwear
Rosa Lee	Pacific Sports Wear
Wayne Cooperman	Quick Response Manufacturing
P R I V A T E S E C T O R	
Jessica François, Executive Director	American Chamber of Commerce in Haiti
George Sassine, Executive Director	Association Des Industries au Haiti
Gregor Avril	Association Des Industries au Haiti
Hans Tippenhauer, Executive Vice-President	Bai Ayiti S.A.

Name	Organization
Geneviève Anglade, Executive Director	Business Alliance for Secure Commerce, Haiti
Gladys Coupet (also head of Haiti Competitiveness Commission)	Citibank
Jean Paul Faubert, Country Manager (also partner in apparel manufacturing)	DHL
Wilhelm E. Lemke, Jr., also chair, Haitian Association of Duty-Free Zones	Entreprises Maritimes et Commerciales Lionel S. D'Adesky S.A.
Reginald Boulos, President, Chamber of Commerce and Industry of Haiti	Forum du Secteur Privé
Gérald-Emile Brun, Président	NABATEC
L A B O R	
Carlo Napoléon, Secretary-General	Coordination des Syndicats Haïtiens
Focus group, five women's workers' rights group leaders	Coordination des Syndicats Haïtiens
Paul Lulu Chery, Secretary-General	Confédération des Travailleurs Haitiens
Ginette Appolon, President, Women Workers' National Committee	Confédération des Travailleurs Haitiens
I N T E R N A T I O N A L O R G A N I Z A T I O N S , P R O J E C T S , A N D E X P E R T S	
Richard Lavallée, Chief Technical Advisor	Better Work Haiti
Thierry Bungener, Chief of Party, I-Trade project	Chemonics
Gladys Casimir, Head of Human Development Program	Centre de Promotion des Femmes Ouvrieres
Rita V. Jean-Charles, Head of Women's Health Program	Centre de Promotion des Femmes Ouvrieres
Margaret L. Bishop, Deputy Chief of Party	CHF International/Haiti
Guy Carpenter, Consultant, Haitian garment industry training center	CHF International/Haiti
Dr. Tatiana Wah, International Advisory Group, Haiti Program Director	Columbia University, The Earth Institute
Beth Cypser, Mission Director	U.S. Agency for International Development
Gregory S. Groth, Economic/Commercial Counselor	U.S. Department of State
Eustache Ouayaro, Country Representative	World Bank
Joseph I. Denis, Economist/Operations Officer	World Bank
Jennifer Fièvre, International Finance Corporation, Investment Officer	World Bank

Note: The apparel listing here covers meetings held with industry representatives; in addition, survey-related visits covered 18 of the industry's 23 factories.

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