

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF THE U.S. TRADE REPRESENTATIVE

+ + +

PUBLIC HEARING
TO
REVIEW THE REPUBLIC OF RWANDA'S,
UNITED REPUBLIC OF TANZANIA'S,
AND REPUBLIC OF UGANDA'S
ELIGIBILITY TO RECEIVE THE BENEFITS OF
THE AFRICAN GROWTH AND OPPORTUNITY ACT (AGOA)

+ + +

July 13, 2017
10:00 a.m.

Office of the U.S. Trade Representative
1724 F Street, N.W., Rooms 1 and 2
Washington, DC 20508

SUBCOMMITTEE MEMBERS:

MS. CONSTANCE HAMILTON, Assistant U.S. Trade Representative for African Affairs and Chair of the AGOA Implementation Subcommittee

MR. ALAN TREAT, Director for African Affairs, Office of the U.S. Trade Representative

MR. HARRY SULLIVAN, Acting Director, Office of Economic and Regional Affairs, Africa Bureau, U.S. Department of State

MR. FRED STEWART, Director, Office of Africa, International Trade Administration, U.S. Department of Commerce

MS. ALICIA ROBINSON-MORGAN, Senior Principal Trade and Investment Coordinator, U.S. Agency for International Development

MS. MARY FRANCIS, International Economist, Office of Trade and Labor Affairs, U.S. Department of Labor

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

MR. PETER MAIER, International Economist, Office of
International Trade, U.S. Department of the Treasury

MR. ALEXANDER GAZIS, Senior Trade & Investment
Officer, Office of Economic & Regional Affairs,
Bureau of African Affairs, U.S. Department of State

I N D E X

PAGE

Introduction and Welcome - Ms. Constance Hamilton 5

Panel 1: Petitioner, Secondary Materials and Recycled Textiles Association (SMART)

Mr. Lawrence Bogard, Neville Peterson LLP 10

Q&A 17

Panel 5: East African Community (EAC) Secretariat
Panel 4: Republic of Uganda

Hon. Amelia Kyambadde, Minister of Trade,
Industry and Cooperatives; Chair of the
Council of Ministers in East African
Community 28

Mr. Kenneth Bagamuhunda, Director General
(Customs and Trade), EAC Secretariat,
Arusha, Tanzania

Mr. Silver Ojakol, Commissioner, External Trade,
Ministry of Trade, Industry & Cooperatives,
Uganda

Q&A 41

Panel 2: Republic of Rwanda

H.E. Mathilde Mukantabana, Ambassador,
Embassy of the Republic of Rwanda,
Washington, D.C. 76

Mr. Kenneth Bagamuhunda, Director General
(Customs and Trade), EAC Secretariat,
Arusha, Tanzania

Q&A 82

I N D E X (cont.)

PAGE

Panel 3: The United Republic of Tanzania

Dr. Adelhelm Meru, Permanent Secretary, Ministry
of Industry, Trade and Investment 104

H.E. Wilson Masilingi, Ambassador,
Embassy of the United Republic of Tanzania

Mr. Kenneth Bagamuhunda, Director General
(Customs and Trade), EAC Secretariat,
Arusha, Tanzania

Q&A 111

Panel 6: SanMar Corporation

Mr. Jeremy Lott, President, SanMar
Corporation, Issaquah, Washington 123

Q&A 128

Panel 7: Manchester Trade

Mr. Stephen Lande, President,
Manchester Trade, Washington, D.C. 133

Q&A 142

Adjournment 147

P R O C E E D I N G S

(10:08 a.m.)

CHAIR HAMILTON: Good morning. Welcome to this public hearing. My name is Connie Hamilton. I am the Acting Assistant U.S. Trade Representative for Africa and the Chair of the AGOA Subcommittee of the interagency Trade Policy Staff Committee.

The Trade Preferences Extension Act of 2015, or TPEA, which extended the AGOA trade preference program through 2025, established a petition process to allow any person at any time to file a petition with USTR concerning whether beneficiary sub-Saharan and African countries are meeting AGOA's eligibility requirements. On March 21, 2017, the Secondary Materials and Recycled Textiles Association, SMART, submitted a petition to USTR requesting an out-of-cycle review to determine whether Kenya, Rwanda, Tanzania, and Uganda are meeting the AGOA eligibility criteria.

The SMART petition asserts that a March 12, 2016 decision by the East African Community which includes these countries to phase in a ban on

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 imports of used clothing and footwear is imposing
2 significant economic hardship on the U.S. used
3 clothing industry and is in violation of the AGOA
4 eligibility criteria of making progress to
5 establishing a market-based economy and eliminating
6 barriers to U.S. trade and investment.

7 In response to the SMART petition, USTR
8 determined that an out-of-cycle review of Kenya's
9 AGOA eligibility is not warranted at this time due
10 to recent actions Kenya has taken, which include
11 reversing tariff increases effective July 1, 2017,
12 and committing not to ban imports of used clothing.
13 We will continue to closely monitor Kenya's actions
14 to ensure that Kenya follows through on its
15 commitments.

16 With respect to Rwanda, Tanzania, and
17 Uganda, USTR determined that there are exceptional
18 circumstances warranting an out-of-cycle review of
19 these countries' AGOA eligibility, which is the
20 subject of today's hearing. Notably, despite robust
21 engagement to address concerns related to the
22 decision to phase in a ban on imports of used

1 clothing since it was first proposed in 2015 and
2 memorialized in 2016, Rwanda, Tanzania, and Uganda
3 continue to implement the ban, which, as I have
4 noted, SMART contends is having a negative impact on
5 U.S. trade and investment.

6 In today's testimony we will hear that the
7 partner states of the East African Community are
8 committed to the U.S.-EAC Trade and Investment
9 Partnership, where matters such as those subject to
10 today's hearing should be discussed and resolved.
11 We agree. We note that these matters have been
12 discussed at length within the context of the Trade
13 and Investment Partnership and have not been
14 resolved, which is why SMART filed its petition and
15 why we are holding this hearing today.

16 I would like to note that on July 11, 2017,
17 the Administration published a *Federal Register*
18 notice announcing the start of the annual AGOA
19 country eligibility review and a request for public
20 comments on whether beneficiary sub-Saharan African
21 countries are meeting eligibility requirements.
22 Kenya, Rwanda, Tanzania, and Uganda will also be

1 subject to that review to determine whether they are
2 meeting all of the AGOA eligibility requirements and
3 not just those raised by SMART in its petition.
4 This is the first petition received requesting an
5 AGOA out-of-cycle review. This hearing is being
6 held to gather information regarding the issues
7 raised in the petition.

8 Just a few housekeeping matters on the
9 hearing process: All public submissions for this
10 hearing are available for public review on the
11 www.regulations.gov website under the docket number
12 listed in the June 20 *Federal Register* notice. A
13 written transcript of this hearing will be posted in
14 the same location approximately 7 to 10 business
15 days after today's hearing. As indicated in the
16 *Federal Register* notice, post-hearing briefs and
17 statements must be submitted electronically by
18 5:00 p.m., Friday, July 21, 2017, via the docket on
19 the regulations.gov website.

20 The post-hearing brief provides an
21 opportunity for witnesses to expand on their
22 testimony or respond to testimony by others.

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 Parties appearing in today's hearing may also
2 receive additional post-hearing questions from the
3 Subcommittee in a week or so. The responses to
4 these questions, which will also be posted on the
5 website, should be included in your post-hearing
6 brief.

7 This hearing is open to the press, and
8 portions of the hearing may be covered by different
9 electronic media outlets.

10 Each witness is limited to five minutes of
11 oral testimony, summarizing or expanding on their
12 pre-hearing brief. Following the oral testimony,
13 the U.S. government panel may ask questions of the
14 witnesses for the next approximately 10 to 15
15 minutes. After the hearing, if you would like to
16 provide a written response to a question asked by
17 the panel or to a question for which the panel has
18 asked for a response, please file it as part of your
19 post-hearing statement.

20 So first let's introduce the panel. Again,
21 I'm Connie Hamilton, the Acting Assistant U.S. Trade
22 Representative for Africa. And my colleagues will

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 introduce themselves.

2 MS. ROBINSON-MORGAN: Good morning. I am
3 Alicia Robinson-Morgan with USAID.

4 MR. SULLIVAN: Hi, I'm Harry Sullivan,
5 Director of the Office of Economic and Regional
6 Affairs in the African Bureau of State.

7 MR. MAIER: Hi, good morning. I am Peter
8 Maier with the U.S. Department of Treasury.

9 MR. STEWART: Fred Stewart, Director of the
10 Office of Africa, Department of Commerce.

11 MS. FRANCIS: I'm Mary Francis with the
12 Department of Labor.

13 CHAIR HAMILTON: Thank you. I'd like to
14 welcome our first witness this morning, Mr. Lawrence
15 Bogard, on behalf of SMART, the Petitioner.

16 MR. BOGARD: Good morning. For the record,
17 I am Lawrence Bogard of the law firm of Neville &
18 Peterson. With me this morning is my colleague,
19 Peter Bogard. I'm appearing today, as you know, on
20 behalf of SMART. SMART is the trade association
21 that represents mostly small and medium-sized --
22 mostly small and medium-sized companies that are

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 involved in using, converting, recycling pre- and
2 post-consumer textiles, including used clothing. We
3 thank you for the opportunity to testify this
4 morning in this out-of-cycle AGOA review of Rwanda,
5 Tanzania, and Uganda.

6 SMART believes this review at this time
7 should also include Kenya until such time as Kenya
8 confirms that the reported minimum tariffs on
9 container loads of used goods will not be
10 implemented in a manner that negates its July 1,
11 2017 rollback of its tariff increases on used
12 clothes.

13 Also, in light of several of the comments
14 submitted in opposition to this review, I want to be
15 clear that SMART is not requesting that any of these
16 countries be removed from AGOA beneficiary status.
17 What SMART is requesting is a suspension of
18 duty-free status for all currently eligible apparel
19 imports from these countries.

20 In March of 2016, members of the East
21 African Community announced a ban on the importation
22 of used clothing. This ban is planned to be phased

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 in over a period of three years, and the first
2 phases have been implemented. In June of 2016,
3 Tanzania doubled its import duties on used clothing
4 from U.S. 20 cents per kilogram to U.S. 40 cents per
5 kilogram, while Kenya and Uganda announced similar
6 tariff increases. At roughly the same time, Rwanda
7 raised its import duties on U.S. clothing from 20
8 cents per kilogram to \$2.50 per kilogram.

9 Section 104 of the AGOA requires
10 beneficiary countries to establish or to be making
11 progress toward establishing a market-based economy
12 and the elimination of barriers to U.S. trade.
13 Tariff increases and the proposed ban on imports
14 cannot be squared with the statute's requirement
15 that AGOA beneficiaries work toward eliminating
16 barriers to U.S. trade. The fact is the countries
17 subject to this review and perhaps Kenya are
18 erecting new barriers to U.S. trade in used
19 clothing.

20 Now, the banning of importation of used
21 clothing is not consistent with developing of
22 market-based economies. The used clothing that

1 SMART members export to East Africa is selected
2 specifically to meet the price and quality demands
3 of East African consumers. The market dictates the
4 type of goods that SMART's members can successfully
5 export, and those are the goods that the market
6 demands. The tariff increases and the import ban
7 plainly disrupt the operation of a free market and
8 do not manifest progress toward developing
9 market-based economies.

10 The United States continues to afford full
11 AGOA benefits to Tanzania, Uganda, Rwanda, and Kenya
12 in the face of actions that plainly violate the
13 eligibility requirements for AGOA benefits. The
14 statute is rendered a nullity. Other AGOA
15 beneficiaries will likely interpret this as a signal
16 that they, too, can ignore AGOA's requirements yet
17 enjoy its benefits.

18 The tariff increases and import ban are
19 clearly harmful to the U.S. used clothing industry.
20 Following the 2016 tariff increases, the industry is
21 seeing substantial declines in exports to the
22 region. For example, the cumulative exports to

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 Rwanda, Tanzania, Uganda, and Kenya have declined
2 13 percent in the first four months of 2017 compared
3 to the same period of 2016. The decline in exports
4 to these four countries is having a significant
5 negative impact on SMART's members, as evidenced by
6 a recent SMART survey of its relevant members.
7 Forty percent of the survey respondents have reduced
8 their employment at least 25 percent since the
9 tariff increases. Eighty-eight percent of those
10 survey respondents have experienced a reduction in
11 their revenue of at least 25 percent during the same
12 period. More than 52 percent of the survey
13 respondents say they would be forced to reduce their
14 number of employees by at least 50 percent if a full
15 import ban were implemented. Similarly, more than
16 94 percent of the survey respondents said a full ban
17 would cause them to reduce their revenues by 25 to
18 75 percent.

19 SMART believes that there are as many as 40
20 U.S. secondhand clothing exporters that are involved
21 in direct trade to the East African Community. This
22 estimate does not take into account the various for-

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 profit collectors and not-for-profit charities that
2 supply clothing to the SMART members for export.

3 Industry-wide SMART conservatively estimates that
4 there are at least 40,000 U.S. jobs within the
5 private sector and an additional 150,000 jobs in the
6 not-for-profit sector that stand to be negatively
7 impacted by the import ban.

8 Now, despite a 41 percent decline in export
9 volumes since 2014, the East African Community
10 nations remains one of the most important markets
11 for the U.S. industry's used clothing exports, with
12 direct American exports to the four countries
13 totaling approximately \$24 million in 2016. In
14 addition, used clothing is exported from the United
15 States to Canada, India, UAE, Pakistan, Honduras,
16 and Mexico, where it is processed and then
17 re-exported to the EAC. SMART estimates the value
18 of U.S.-sourced used clothing flowing through these
19 third countries to the four countries that are
20 subject to this review, including Kenya, is
21 \$100 million. In short, the total value of exports
22 is \$124 million or roughly 22 percent of U.S.

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 industry's total exports.

2 In addition, you should be aware that the
3 Salvation Army, Goodwill Industries, and SMART's
4 other partner charities stand to lose millions of
5 dollars because elimination of the East African
6 Community markets will depress prices overall for
7 U.S. clothing -- for used clothing. While EAC
8 members may blame imports of used clothing for a
9 decline in their local textile industries, that
10 decline is in fact due more to the 2005 termination
11 of the MFA. Once the MFA was terminated, African
12 markets were deluged by cheap new clothing imports
13 principally from countries like China. Many people
14 in East Africa subsist on the equivalent of \$1 or \$2
15 per day. Used clothing provides their only
16 meaningful access to quality apparel.

17 According to an article from Rwanda, at
18 least 80 percent of Rwanda's population cannot pay
19 to clothe themselves if they have to rely on new
20 clothing alone. As such, an import ban does not
21 serve the citizens of these countries. The tariff
22 increases and import ban clearly contravene the

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 statutory requirements for receiving AGOA benefits,
2 and they are already having a substantial negative
3 impact on the U.S. secondhand clothing industry and
4 its suppliers.

5 These actions also harm citizens of East
6 African nations by eliminating jobs and making
7 available clothing far less affordable. SMART
8 therefore requests duty-free status under AGOA be
9 suspended, and all currently eligible apparel
10 imports from Tanzania, Rwanda, Uganda, and Kenya,
11 until such time as those countries roll back all
12 increased import duties on used clothing and commit
13 not to implement their proposed ban on used clothing
14 imports.

15 Thank you for your time.

16 CHAIR HAMILTON: Thank you. I do have a
17 couple of questions. First, you mentioned your
18 survey. Can you provide that for the public record?

19 MR. BOGARD: Yes. We'll provide it as an
20 attachment to our post-hearing.

21 CHAIR HAMILTON: Great, thank you. My
22 second question: Can you elaborate on the supply

1 chain? You mentioned that a number of these
2 shipments actually transit through other countries.
3 Can you explain a little bit how the supply chain
4 works and whether or not that actually has an impact
5 on the trade data on U.S. exports of used clothing
6 given that it is transiting through other countries?

7 MR. BOGARD: I'll do my best, and we
8 probably will need to elaborate a bit in the
9 post-hearing as I consult with clients. But my
10 understanding of the process essentially is there
11 are various means of collection in the United States
12 for used clothing, some of which is processed in the
13 United States through an elaborate system of sorting
14 the clothing into first type of clothing, pants,
15 shirts, suits, winter clothing, etc. My
16 understanding is that breaks down to about 300
17 different categories by the time it's done, not only
18 type of clothing but quality of clothing, at which
19 point the product in the United States may be
20 directly exported.

21 In the case of exports through third
22 countries, the clothing is exported to those

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 countries, and the sorting and grading process and
2 the packaging process is done in those third
3 countries. One example that I was given of a
4 principal market for this is India, where it is I'm
5 told illegal to import used clothing into India so
6 that the sorting and grading process is done in what
7 are effectively foreign trade zones. And then the
8 product is re-exported from those foreign trade
9 zones in India to countries in the East African
10 Community.

11 CHAIR HAMILTON: Thank you. Let me turn to
12 my colleague from Commerce. Do you have questions?

13 MR. STEWART: Good morning.

14 MR. BOGARD: Good morning.

15 MR. STEWART: SMART has claimed that the
16 proposed actions by the governments of Rwanda,
17 Tanzania, and Uganda have already had a negative
18 impact on the used clothing industry in the United
19 States. We note that U.S. exports of used clothing
20 overall have declined about 18 percent between 2013
21 and 2016. Are the adverse effects or impacts noted
22 by SMART attributable solely to the measures

1 proposed by the EAC, or are there other factors at
2 play?

3 MR. BOGARD: SMART would not contend that
4 the negative aspects are attributable solely to the
5 actions of the EAC, but I think we have to drill
6 down into the data a little bit. In the first
7 place, while I think your citation to the export
8 trend based on 2013 to 2016 is accurate, I think if
9 we look at this a little more granular, when we look
10 at a year-by-year import trend we see -- or export
11 trend, I'm sorry, we see that the most significant
12 element of that decline takes place in 2015 relative
13 to 2014, where there was a drop of looks like
14 \$98 million.

15 We do not believe that that is coincidence
16 that the decline in exports in 2015 relative to '14
17 took place following the February 2015 announcement
18 by the EAC of the proposed import ban. That decline
19 mirrors the decline in exports to the EAC countries.

20 When you ask about additional factors in
21 that period of time, I believe there was a general
22 decline in commodity markets throughout the world,

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 and used clothing is viewed as a commodity product.
2 But I do commend you to look at the ITC export data
3 on a year-by-year basis, and I think you get a more
4 accurate sense of events.

5 MR. STEWART: Okay. A further question:
6 In the event that the EAC member base of Rwanda,
7 Tanzania, and Uganda keep the restricted measures on
8 the importation of used clothing in place for an
9 extended period of time, have the member companies
10 of SMART considered how they would adapt to this
11 environment, meaning are there other export market
12 opportunities that would benefit the member
13 companies in the event of employment and sale
14 displacement?

15 MR. BOGARD: Again, I will defer perhaps a
16 more detailed answer to our post-hearing, but I
17 think the brief answer is there are no real
18 alternatives. As I testified earlier, we're talking
19 about 22 percent of the export market. The import
20 ban in the EAC, as several respondent submissions
21 have indicated, is not limited to the United States.
22 So what we are talking about is removing a

1 substantial element of worldwide demand for used
2 clothing from the market. SMART members believe
3 that that may result in a virtual collapse in prices
4 for used clothing. Certainly given the third
5 country trade as well as direct trade, those markets
6 for exports would dry up and SMART members don't
7 perceive an alternative for the clothing that would
8 go to the EAC.

9 MR. STEWART: Thank you. I have no other
10 questions.

11 MR. SULLIVAN: You had noted that you would
12 recommend including Kenya in the out-of-cycle review
13 on the grounds that news reports have referenced a
14 minimum set -- a set of minimum tariffs to be
15 applied on containers of used goods. Can you
16 corroborate these news reports and explain SMART's
17 position for why Kenya should be included in this
18 review?

19 MR. BOGARD: Well, we attached to our
20 pre-hearing brief a copy of the news reports that
21 are causing us concern.

22 MR. SULLIVAN: Right. Have you
Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 corroborated those news reports?

2 MR. BOGARD: We have not been able to. We
3 have been in discussions with people in an effort to
4 do so. At this time, we have not been able to. I
5 can say that SMART's position is that we hope that
6 that minimum tariff on container loads of used goods
7 would not be interpreted to apply to used clothing,
8 and we would be thrilled by that. And if it is the
9 case that it is not interpreted essentially as a
10 backdoor way of achieving the same result as would
11 have been achieved absent the July 1st reduction of
12 Kenya's tariff, then SMART would be pleased not to
13 have Kenya be subject to this review.

14 MR. SULLIVAN: Okay, thank you. And then
15 one other question: According to U.S. official
16 trade data, U.S. exports of used clothing to the EAC
17 totaled \$24 million in 2016, or roughly 2.4 percent
18 of total U.S. exports in used clothing. The
19 petition cites survey data from we assume a
20 self-selected group of SMART members indicating how
21 the phased ban is already having a significant
22 economic effect on SMART's members, including

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 reduced employment and revenue.

2 According to SMART surveys, 40 percent of
3 respondents have already reduced employment by 25
4 percent or more as a result of the higher duties.
5 And as you also just said, 88 percent of respondents
6 have experienced a reduction of 25 percent or more
7 in the number of employees. So how can a market
8 that represents such a small percentage of U.S. used
9 clothing exports have a disproportionate negative
10 impact on U.S. jobs and exports?

11 MR. BOGARD: Well, first, as I believe I
12 testified earlier, SMART calculates that exports to
13 the subject countries comprise 4.3 percent of total
14 U.S. exports of used clothing. Secondly, as I also
15 testified, a substantially larger portion of U.S.
16 exports go to third countries for processing,
17 sorting, and re-export to East African Community
18 countries. So what we are talking about is cutting
19 off 20 percent-plus of the market for U.S. exports.
20 That does have a significant impact on the U.S.
21 industry.

22 I also would like to address your comment,
Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 which may have been meant to be benign, that the
2 survey members were self-selected. I think what we
3 need to be clear about is that not every member of
4 SMART is an exporter of used clothing. I indicated
5 there were -- SMART believes there are 40 companies
6 that directly export to East African Community
7 countries, and they got sufficient responses from
8 those 40 to believe the survey results are valid.

9 MR. SULLIVAN: Thank you. That's all I
10 have.

11 MS. ROBINSON-MORGAN: Thank you. Are you
12 aware of cases in which the ban on used clothing has
13 led to an increase in domestic production of
14 apparel?

15 MR. BOGARD: By domestic production, I
16 assume you mean domestic in the East African
17 Community?

18 MS. ROBINSON-MORGAN: Yes.

19 MR. BOGARD: No, we're not.

20 MS. FRANCIS: SMART estimates that the
21 interim duty increases put in place by the EAC
22 countries has already led to the loss of 5,000 U.S.

1 jobs in the for-profit sector and a loss of another
2 19,000 jobs in the nonprofit sector. Has SMART
3 gathered evidence from its members of the actual job
4 losses as a result of the EAC's ban, phased ban on
5 imports of used clothing, and is it willing to share
6 this evidence publicly?

7 MR. BOGARD: Some of the evidence is of
8 course anecdotal. Evidence has also been developed
9 through the SMART survey, which we have indicated we
10 will submit for the public record as part of our
11 post-hearing submission. And I think the
12 methodology that SMART used for calculating the job
13 loss so far was spelled out in detail in footnote 11
14 of our pre-hearing brief.

15 I won't bore you by going back through
16 those details, but I will point out to you that to
17 the extent that those calculations were based on
18 assumptions, every one of those assumptions was
19 applied in a way that would reduce the calculated
20 number of lost jobs so that the 5,000 number
21 represents SMART's most conservative effort to
22 calculate job losses.

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 MS. FRANCIS: Thank you. Just as a follow-
2 up, will you be willing to submit actual figures if
3 it is business confidential?

4 MR. BOGARD: I will have to speak to the
5 client about that.

6 CHAIR HAMILTON: Treasury?

7 MR. MAIER: Thank you. And SMART's
8 submission states that some processing graders who
9 supply used clothing to the EAC have already gotten
10 marginally profitable, if profitable at all. Could
11 SMART provide evidence in the post-hearing
12 submission to back up that statement?

13 MR. BOGARD: The evidence that we can
14 provide again will be in the SMART survey that is
15 submitted for the public record. I will check with
16 the client, but I do not have in my possession
17 actual financials for any of those companies, if
18 that's what you're asking about.

19 MR. MAIER: Okay, thank you.

20 CHAIR HAMILTON: If there are no additional
21 questions from the panel, thank you.

22 MR. BOGARD: Thank you very much. We

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 appreciate it.

2 CHAIR HAMILTON: And I'd like to call to
3 the table now our second panel, the Minister from
4 Uganda.

5 (Pause.)

6 CHAIR HAMILTON: Welcome. Good morning,
7 Minister.

8 MINISTER KYAMBADDE: Thank you very much.
9 Madam Chairperson and the esteemed panel, I'll begin
10 by introducing myself. I am Amelia Kyambadde, the
11 Minister of Trade, Industry, and Cooperatives, but I
12 am also the Chair of the Council of Ministers in
13 East African Community. Please allow me to talk
14 about EAC first briefly. Then I'll talk about our
15 response as Uganda. Am I permitted?

16 CHAIR HAMILTON: Yes.

17 MINISTER KYAMBADDE: Thank you very much.
18 Madam Chairperson, I want to thank you for giving us
19 this opportunity to defend our position as EAC and
20 as Uganda in relation to the petition by the
21 not-for-profit SMART on used clothes that was served
22 to us by the USA ambassador to Uganda on 20 June

1 2017, and by the respective USA ambassadors to
2 Rwanda and to Tanzania. As you are all aware, East
3 African Community attaches great importance to the
4 trade and investment relations with the U.S. as
5 reflected in the Trade and Investment Framework
6 Agreement and AGOA that we have been negotiating for
7 some time.

8 The Trade and Investment Framework has been
9 negotiated between U.S. and East Africa for some
10 time, and we are in the final stages. And we are
11 committed. We are pledged to continue nurturing
12 these initiatives, including adhering to the
13 objectives stipulated under those schemes which
14 would lead to mutually beneficial, sustainable
15 development outcomes for our country and also for
16 U.S.

17 EAC is a regional economic community of 169
18 million people currently operating a common market
19 with a harmonized trade regime. I would like to
20 state our response to this petition.

21 The Community as a key holder wishes to
22 state that industrialization is a strategic pillar

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 of EAC integration. And that is why the heads of
2 state decided that textiles and footwear
3 manufacturing is a priority. The decision did not
4 slap a ban on the importation of textiles but is an
5 initiative to promote the textile and footwear
6 industry while progressively phasing out used
7 textiles on a gradual basis.

8 The common external tariff is compliant
9 with the WTO requirements in regard to tariff
10 binding, and the two trade policy reviews undertaken
11 by the WTO in 2006 and 2012 fully endorsed the EAC
12 trade regime as satisfactory and compatible with the
13 World Trade Organization. The rate on used clothing
14 was thereafter revised downwards to 35 percent or
15 0.20 dollars after realizing that the rise of the
16 rate would negatively impact on the garment sector
17 in the region.

18 It should be noted that the adoption of
19 specific rate alternative, the ad valorem rate, was
20 to address the challenges of valuation of used
21 clothing. The review of the specific duty threshold
22 from \$0.20 to 0.40 per kilogram while maintaining

1 the 35 percent was not a tariff increment but a
2 realignment made after 11 years to reflect the
3 realistic landing price of used clothing to be
4 compatible with the ad valorem rate of 35 percent.
5 Detail reports will be available. Fortunately, we
6 have the Director General of Customs from East
7 African Community.

8 The review also covered chicken and rice.
9 It is not only used clothing. Chicken and rice
10 where the rates were revised from 100 percent to
11 \$200 per metric ton, to 100 percent or \$450 per
12 metric ton, and from 75 percent or 200 per metric
13 ton, to 75 percent or \$335 per metric ton
14 respectively because we wanted to promote our
15 industry. Other items such as cement, prime coats,
16 and matchboxes were dropped from the sensitive list.
17 So it does not only apply to secondhand clothes.

18 The sensitive rate on worn clothing is not
19 discriminatory to imports from USA but applies to
20 all imports of used clothing from all countries
21 globally, globally. EAC is desirous of job creation
22 that will arise from revamping its textile footwear

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 manufacturing value chain and income growth of the
2 people involved in cotton growing, ginning, weaving,
3 garment manufacturing, leather tanning, shoemaking,
4 and retail business. That's the value chain. And
5 all these are jobs. The fear of environmental
6 impact caused by the discarding of used clothing in
7 U.S. is equally concern of EAC since eventually the
8 used clothes will also be discarded after use in the
9 East African Community.

10 East African Community has export promotion
11 schemes where tax incentives are accorded to
12 manufacturers for export, particularly apparel and
13 garments for AGOA. Development of the local textile
14 industry do not undermine the market-based economy
15 stipulated under AGOA as it will boost more
16 production for export and local market that will see
17 EAC countries enhance its export values to U.S.

18 East African Community countries import a
19 range of goods from U.S., including capital goods,
20 plants and machinery, agrochemicals, aircrafts and
21 parts, petroleum equipment, and these products do
22 not attract duty. It is a thriving business of the

1 importation of new garments and apparel into East
2 Africa from U.S. and businesswomen and other
3 business communities. All EAC countries have
4 established open market-based economies as provided
5 in the treaty. The prohibition of importation of
6 used undergarments in the EAC is for hygienic
7 purposes, and we do not allow it. We have to ban
8 those underwear.

9 A review is being undertaken of the tariff
10 structure and rates to align it to the economic
11 environment. This review would cover all products,
12 including used clothing. Stakeholders are being
13 consulted, including those involved in the trade of
14 used clothing. The review will be completed in
15 September 2017. But I must state that EAC is
16 committed, fully committed to the ongoing trade and
17 investment partnership where such matters should be
18 discussed and resolved.

19 Allow me to read Uganda. It is going to be
20 quite brief because other countries will also read
21 their responses. Uganda has a population of
22 40 million people. It is a small economy. But we,

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 in part, are strengthened by the fact that we are
2 together in partnership as EAC, as COMESA, and now
3 we are working towards the tripartite with the
4 economic blocs.

5 So I'd like to state that there is no ban
6 as stated by the petition. I've already stated
7 that, said that. It's a gradual process out of used
8 clothes, about a period of three to five years. It
9 hasn't even started, so it's a process. There are
10 sanitary concerns. We are concerned about that
11 because we have had issues of people who have
12 suffered from secondhand clothes. There are
13 sanitary concerns that were raised by various
14 stakeholders in the region, and the summit decided
15 that all used clothes and shoes should comply with
16 the sanitary requirements.

17 As we get the tariff, the specific tariff
18 was aligned to ad valorem rate in response to the
19 new review of the EAC common sanitary, inflation and
20 exchange rate fluctuations, but we remain compliant
21 to the EAC Customs Union.

22 I wish to underline that the application of

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 this tariff is not discriminatory, and I am
2 repeating that and emphasizing it. Uganda and all
3 the EAC partner states operate market-based economy,
4 and this is evidenced by the presence of USA
5 companies. We have USA companies in Uganda:
6 Mantrac, Balton, Citibank. All these are powerful
7 institutions, American institutions. We are working
8 together in trade and investment. And KFC and all
9 these, there's Coca-Cola, all these are American
10 companies that we are working with.

11 Trade 36 indicates that other U.S. exports
12 to Uganda and to EAC are far beyond, far beyond used
13 clothes; far beyond. The major products in the U.S.
14 export portfolio to the EAC currently include
15 machinery, like I stated, aircraft parts,
16 electrical, optical, photographic, pharmaceuticals.
17 All these are powerful investments and industries
18 that we have collaborated with USA. So these in our
19 projection will remain the sustainable goods for our
20 future trade with the USA, and I think they are more
21 powerful, more effective, and are bringing more
22 revenue to USA and into East Africa and Uganda.

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 The U.S. export of used clothes to EAC is
2 only about \$13 million, out of which again the share
3 is about 7 million. How does this compare to the
4 U.S. 1 billion industry that the Petitioners are
5 pointing at? In the case of EAC, it is under 3
6 percent, and for Uganda it is just 0.72 percent of
7 the value of the used items industry, 0.72 percent
8 of the value of the used items industry in the USA.

9 The objective of the summit decision is to
10 implement industrial strategy. We need industries.
11 We needed these industries yesterday. The
12 implementation of these strategies would be
13 fulfilling the objectives of AGOA, which is to
14 foster investment and production for the domestic
15 and export markets. This is what we agreed when we
16 signed the AGOA.

17 In this respect, Uganda and the other EAC
18 partner states have initiated aggressive programs
19 towards industrialization. In the case of Uganda,
20 we have established a number of interventions. I'll
21 talk about the legal framework. We already have a
22 national export strategy. What do we do with that

1 AGOA export strategy? Because that was a
2 requirement that let us put a strategy in place. We
3 already have that. We have a textile policy. We
4 have a leather policy. And we have put this in
5 place because we want to promote our industries. We
6 want to foster trade between Uganda and the USA.

7 What have we done so far since this ban --
8 or it's not a ban, but a phase-out. We have
9 revitalized the cotton textile and apparel sector by
10 supporting the particular integrated textile mills
11 by providing cotton buffer stock. We have supported
12 the cooperative unions and other farm organizations
13 to start to step up the production of cotton. And
14 these measures will help embarking, exploit
15 economies of scale, increase the productive capacity
16 of cotton, and to feed the vertical integrated
17 mills.

18 Strengthening the cotton development
19 organization in its role as a regulator in cotton
20 development, we have installed new equipment under a
21 company called Picfare, which has increased
22 production from 20,000 square meters to 80,000

1 square meters in anticipation that we are
2 strengthening the value chain by the growth of
3 cotton. A new textile mill has been established.
4 We have several. The establishment of fine spinners
5 who are currently exporting to USA, fine spinners is
6 exporting new apparel to USA and to other markets in
7 addition to supplying domestic institutions. And
8 employment, these mills are currently providing
9 direct employment over 5,000 people. However, an
10 extra 50,000 jobs could be generated with the
11 upcoming investment.

12 The textile industry in EAC is a source of
13 income to about 950,000 households. On average, an
14 EAC household has seven persons. This translates to
15 7 million people. Another company has established a
16 textile mill in the north and stepped up production
17 of cotton. This is a region that is just recovering
18 from a 20-year rebellion. So you just walk a weaker
19 point and say we are flooding the market with
20 secondhand clothes. How would they recover from
21 this rebellion when the industry has just started?

22 And as a regional economy commenter, we

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 have developed an industrialization strategy to
2 promote our integration, view the regional value
3 chains with objective supply a regional market, as
4 well as international markets. What is that future?
5 The Government of Uganda and the EAC partners have
6 prioritized the following: revival or expansion of
7 airlines to boost air travel between here, between
8 USA and Uganda or East Africa, to promote tourism
9 and other areas. This will include resourcing of
10 aircraft and aircraft parts. In fact, we are
11 supposed to import some aircraft parts from here,
12 from the USA.

13 Already RwandAir is purchasing Boeing
14 aircraft and placing orders for more. Uganda
15 Airlines is also purchasing aircrafts from America,
16 from USA, because we are reviving our industry. All
17 the EAC partners have continuous programs for
18 development of the structure in the region. Howard
19 Dance (ph.), we have some American companies there.
20 Roads, standard gauge railway, for which import such
21 as off-moving equipment, electronic and electrical
22 equipment are imported from countries like USA. And

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 these are more valuable than secondhand clothes.

2 Construction services, we're importing from
3 here to come work in Uganda as skilled labor. The
4 industrialization program for Uganda enshrined in
5 the National Development Plan and Vision 2014 is
6 another opportunity for the USA to supply requisite
7 machinery and equipment because you have the best
8 equipment here and we value it. In fact, expansion
9 of the regional market under the Tripartite Free
10 Trade Area, which are including a Tripartite FTA,
11 comprises of 26 countries with a population of
12 630 million. This is a market for you. Once you
13 establish yourselves in Africa, definitely this is
14 an organized market for you. Free Trade Area
15 already have ECOWAS and SADC and EAC together.
16 That's a powerful bloc to be able to do trade and
17 investment with USA. This is where the future is.

18 We have started the negotiations for that,
19 for the Continental Free Trade Area. These other
20 portions of that could lead to the attraction of USA
21 and Uganda companies to exploit the region as well
22 as the AGOA market, because we can see the future is

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 in AGOA and not secondhand clothes.

2 I'd like to conclude, Madam Chairperson, at
3 this time, a prosperous and industrialized Uganda
4 and East Africa who will buy more from the USA than
5 the deindustrialized Uganda and East Africa.
6 Chairperson, USA and Uganda have come a long way,
7 and the other EAC partners. They should look ahead
8 and work towards increasing USA investment in the
9 EAC to take advantage of the AGOA and the regional
10 market.

11 Finally, allow me to reiterate that there
12 is no justifiable reason for the out-of-cycle
13 review. And this petition should not block the
14 attainment of the AGOA objectives. The Trade and
15 Investment Agreement will be negotiated, the trade
16 and investment deals that we have enjoyed together
17 and we intend to enjoy between EAC, between Uganda,
18 and USA. The objectives of fostering investment and
19 development in Africa, which is why AGOA as
20 designed, I wish to submit.

21 Thank you very much for this opportunity.

22 CHAIR HAMILTON: Thank you very much,
Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 Honorable Minister, for that very eloquent
2 statement. I have a couple of questions, as does my
3 colleague also from USTR. My first question is you
4 mentioned the industrial strategy that Uganda is
5 putting in place to support manufacturing, including
6 I assume textile and apparel manufacturing. How
7 much of that is dependent upon AGOA benefits being
8 in place for Uganda?

9 My second question is why not allow market
10 forces to determine what happens with used clothing
11 in your country? If consumers wish to buy this
12 product which is a legitimate product, why not allow
13 them to do so? And if the market determines that
14 this is not a desirable product, then the consumers
15 would make that decision. Because I'm reminded and
16 I want to remind you that one of the requirements
17 for AGOA is that we do not -- that you do not throw
18 up barriers to U.S. products or to a particular
19 sector in the United States. And the problem that
20 we have, the concern that we have with the used
21 clothing ban is that you're banning legitimate
22 products. And let me turn to my colleague from

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 USTR.

2 (Pause.)

3 MINISTER KYAMBADDE: Sorry, are you still -
4 -

5 CHAIR HAMILTON: Oh, no. Why don't you
6 respond, and then we'll have more.

7 MINISTER KYAMBADDE: Oh, you want me to
8 respond.

9 CHAIR HAMILTON: Yeah.

10 MINISTER KYAMBADDE: On the issue of the
11 industrial strategy, how much does it determine AGOA
12 was the question?

13 CHAIR HAMILTON: Um-hum.

14 MINISTER KYAMBADDE: Well, once we are
15 industrialized, definitely AGOA will benefit because
16 of the products. For example, now we predict
17 already AGOA is benefiting through the production of
18 shea butter. We export shea butter here. We
19 produce it in Uganda, add value to it, and export it
20 here. So it's already benefiting from
21 industrialization. Vanilla, dried fruits, casein,
22 fish, cut flowers, all these are benefits that

1 accrue from the industrial strategy, and coffee, so
2 already AGOA is benefiting from this strategy. Even
3 leather shoes, leather sandals, and apparel, so
4 already AGOA is benefiting from this strategy.

5 Why don't we allow the market forces to
6 determine? The market forces can determine, but
7 they are there to be guided also by effect. For
8 example, like here, there are certain things you do
9 not allow people to import in the country. Maybe
10 you could -- the Director General, can he come in to
11 clarify this?

12 CHAIR HAMILTON: Yes, please.

13 MR. BAGAMUHUNDA: Thank you. Just to
14 mention that really the tariff structure that we
15 have in the EAC, as mentioned by the Honorable
16 Minister, is the WTO compliant tariff structure
17 which is not static. It is constantly reviewed on a
18 yearly basis. And the purpose of the tariff
19 structure is not really to tamper with the free
20 trade economies of AGOA countries, but we use it for
21 two purposes: one, as a trade tool; two, as a
22 revenue tool.

1 So the tariff adjustments that are
2 happening like now we are undertaking a
3 comprehensive review of our tariff, is to readjust
4 it to the dynamic economic environment. So it is
5 not a deliberate intervention to prevent market
6 forces to work. It is to supplement and complement
7 free market economy, which is enshrined in our
8 treaty, but to purpose as a regional growth, to have
9 a regional instrument that will enable EAC as one
10 entity be able to trade in the global, in the
11 globalized economy. So I don't think it should be
12 taken that the tariff adjustment, the changes in the
13 tariff rates are intended to cause any disruption to
14 the free market harm, but to supplement and
15 complement all the other strategies that we are
16 undertaking in aspects of industrialization.

17 Thank you.

18 MINISTER KYAMBADDE: I would like to cite
19 an example. For example like USA, the USA has
20 tariff rate quotas on key agricultural products like
21 sugar, cotton -- yeah, like sugar and cotton. Some
22 of these rates are imposed because you have to

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 nurture or protect the local industry. So it is
2 important that you put measures in place so that
3 you're able to do that local. Once you have
4 secondhand clothes in the market, how will the
5 textile industry grow? It will not grow.

6 So why are we banning legitimate products?
7 Among the list of AGOA, there were no secondhand
8 clothes initially. And I do not know what you mean
9 by legitimate. Can you help, Silver? Because
10 initially even when we were negotiating the Trade
11 and Investment Agreement, there was no mention of
12 secondhand clothes. We had some lists of some
13 products that are produced in our country, products
14 that are supposed to be exported from here.
15 Secondhand clothes was not included. So I don't
16 know what you mean, Madam Chair, by legitimate.

17 CHAIR HAMILTON: If I can, because I do
18 want to move on, but I just want to make sure that
19 I'm clear in what you're telling me. The Government
20 of Uganda supports the phasing out or banning
21 imports of used clothing in line with the decree
22 that came out in 2016, that that's your position and

1 the Government of Uganda is going to move forward
2 with banning this product.

3 MINISTER KYAMBADDE: Banning and phasing
4 out are different.

5 CHAIR HAMILTON: So where are you in the
6 phasing out?

7 MINISTER KYAMBADDE: We are not banning.
8 We are phasing out.

9 CHAIR HAMILTON: So the import increase of
10 the tariffs, the tariff increases were to start
11 slowing down the import of the product? I'm just
12 trying to understand what it is we're dealing with,
13 with Uganda.

14 MINISTER KYAMBADDE: Just one moment?

15 MR. OJAKOL: Thank you very much, and
16 through the Minister, I would like to say first of
17 all that this is not a ban. The Minister explained
18 it's a phase-out. And the figures that have been
19 quoted in the petition, when you analyze the figure,
20 the trade figure, the export of used clothing from
21 the U.S. from about 2012, the growth starts from
22 there.

1 The decline of export of used clothing
2 starts around 2012 and continues up to 2016, so
3 that's four years of decline which cannot be
4 explained by the phase-out, by the pronouncement by
5 the summit. The decline had started way back in
6 2012. And this is verifiable. You can look at the
7 figures. You can go to the USTR figures and look at
8 them, and you see the decline is starting from way
9 back in 2012. It cannot be attributed so there must
10 be other factors.

11 And so if you -- you were asking the
12 Minister whether Uganda is supporting the phase-out.
13 I think that the answer would be that at the moment,
14 that seems to be the question from the heads of
15 state, that in the next three to five years as we
16 develop the textile industry, then we begin to phase
17 out the used clothing from the market. I think that
18 is the question currently available of the heads of
19 state.

20 Now, you asked about why not allowing the
21 market forces to determine. Now, if the tariff that
22 is being applied at the moment was discriminating,

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 then we would say that it's limiting the supply for
2 one side and allowing supply from another side to
3 come into the market. But the tariff is applicable
4 across the board. Taxation does not mean that there
5 will be no supply and no demand. Taxation usually
6 is a tool that is used to essentially regulate
7 trade, not that there will be no supply and no
8 demand because market forces necessarily mean there
9 is a supply and there is a demand and that they,
10 too, determining the market price.

11 In this case, it's not something that is
12 discriminating. It is something that is applying
13 across the board. And as the figures have shown,
14 that there was a decline and there is not 124
15 million export to the EAC directly from the U.S. It
16 is only 30 million. That's what we see from our
17 figures. That's what we see from the import
18 figures.

19 And so I think that is then on the question
20 of the industrialization strategy where that is
21 entirely hinged on AGOA. I can say partly yes,
22 particularly when you look at the apparel. But also

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 the idea that products which the Minister aptly
2 talked about, shea oil, casein from the dairy
3 sector --

4 MINISTER KYAMBADDE: Vanilla.

5 MR. OJAKOL: -- vanilla and vanilla
6 products, extracts, and so on, so this is
7 essentially -- but of course, the other industries
8 that also looking at the regional market for the
9 industry and so on.

10 Thank you very much.

11 CHAIR HAMILTON: Thank you.

12 MR. TREAT: Thank you very much for your
13 responses. Just a couple of follow-up questions for
14 the DG for Trade. Madam Minister, in your
15 testimony, you assert that the EAC's decision to
16 increase tariffs on imports of used clothing from
17 20 cents per kilogram to 40 cents per kilogram was
18 to align the specific tariff rate with the 35
19 percent ad valorem rate.

20 My first question is in your testimony, are
21 you suggesting that there is no causal relationship
22 between the March 2016 EAC summit communiqué that

1 directed partner states to fast-track the process of
2 "phasing out importation of used textile and
3 footwear within three years" and the tariff
4 increases which took effect in July 2016? That's my
5 first question. Thank you.

6 MINISTER KYAMBADDE: DG Customs.

7 MR. BAGAMUHUNDA: It keeps getting off. I
8 think you can hear me?

9 CHAIR HAMILTON: Yes.

10 MR. BAGAMUHUNDA: Thank you. What I want
11 to say, two things. The adjustment from 0.2 to 0.4
12 was not a tariff increase. It was a realignment of
13 the values for customs valuation purposes in order
14 to match with existing price changes in the product,
15 putting into consideration other factors that caused
16 price increases, like inflation and other
17 adjustments because we had last done it in 2005.

18 This was in 2014 we decided to undertake a
19 review of all the products that have specific
20 detail. There are three products, used clothing,
21 rice, and sugar. So it was decided that we should
22 review to see whether the specific rates will still

1 match the ad valorem rate. And when we did such, we
2 started in 2014 and concluded in 2016. We realized
3 that the values, the landing prices, average landing
4 prices of used clothing in Mombasa and Dar es Salaam
5 is on an average of \$1.16 because we calculate our
6 taxes based on CIF value, not FOB.

7 So 35 percent of \$1.16 comes to 0.4.
8 Thirty-five percent was retained as a standard, as a
9 constant, and that is the constant in taxation. It
10 says 35 percent or 0.4, whichever is higher. So
11 whichever is higher, so if you bring your invoice
12 and it is \$2.00 per kilo, the 0.2, 0.4 is redundant.
13 If you come with a lesser value of maybe 0.2 landing
14 price, then we question and use the 0.4. So it is a
15 cushion in case of undervaluation, and an adjustment
16 really of the process is justifiable.

17 It started in 2014. The summit directive
18 came in March 2016. So you can see the process of
19 revaluation was done before, started long before the
20 heads of state came in with that pronouncement. So
21 I wouldn't say that the announcement by the heads of
22 state prompted us to review the specific duty from

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 0.2 to 0.4, and 0.4 is not an increment. It is just
2 a realignment, and we always did it. We did it for
3 sugar at the same time we did it for rice.

4 MR. TREAT: Thank you for that response. I
5 just have one more follow-up question before moving
6 onto my colleagues. My question is if the EAC's
7 decision to increase tariffs was to align specific
8 rate with the ad valorem rate and not implement a
9 ban, which I think you've explained your position,
10 then why did Rwanda increase its specific rates on
11 imports of used clothing from 20 cents per kilogram
12 to \$2.50 per kilogram on imports of used clothing
13 and from 50 cents per kilogram to \$5.00 per kilogram
14 on imports of footwear, which we would add deviates
15 from the common external tariff. Thank you.

16 MR. BAGAMUHUNDA: Through the minister, in
17 the EAC we exercise flexibility in our trade regime.
18 Because we don't have derogation and we don't want
19 to unilateralize in terms of applying our common
20 instrument, a country which is facing a peculiar
21 circumstance and come to the EAC and say because of
22 A, B, C, and I want to do this, this, this year, can

1 you allow me for this year, one year do this. And
2 it is given what we call the stay of application
3 through, which is legalized and *Gazetted*. And I
4 think Rwanda came in on that perspective because it
5 was promoting its textile sector. It was setting up
6 some zones to promote textile manufacturing and came
7 and said because of my peculiar circumstances, can
8 you allow me for this one year to readjust my value
9 on used clothing so that I may address those
10 peculiarities. And after the year ends, it
11 collapses. It goes back to the normal. But if the
12 next year you still have some challenges and you
13 want to address it, you can come and readdress it.
14 And I think this year it is not still 2.5. Rwanda
15 came and said I have done some readjustment, and now
16 I want it at another -- at a lower rate. So it
17 wouldn't have gone to that level, but that is the
18 circumstances. And all other countries do it.

19 MR. TREAT: Thank you for that response. I
20 would note that the EAC *Gazette* that was published
21 on July 1st does indicate that Rwanda has maintained
22 the stay on the CET for another year in maintaining

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 those duties at \$2.50. Thank you.

2 MR. SULLIVAN: Thank you, Honorable
3 Minister and your esteemed colleagues, for making
4 the very long trip from Uganda to participate at
5 this hearing.

6 MINISTER KYAMBADDE: Thank you.

7 MR. SULLIVAN: I also understood from your
8 testimony a fervent desire to industrialize
9 particularly in the textile industry, but presumably
10 you want to do so in a way that has an overall
11 increase on employment rather than a decrease on
12 employment and also one that protects the Ugandan
13 consumers as well as the Ugandan producers.

14 So we understand that EAC members have
15 argued that there is not a ban on used clothing but
16 have also defended the use of tariff policies to
17 support your garment industries. While EAC's used
18 clothing tariff increases may benefit low-cost
19 producers in Asia, they will also harm EAC used
20 clothing sector.

21 MINISTER KYAMBADDE: This is a bit low.
22 It's a bit low. We can't hear. We couldn't hear

1 the last --

2 MR. SULLIVAN: Okay. Can you hear better
3 now?

4 MINISTER KYAMBADDE: Yes.

5 MR. SULLIVAN: Do you want me to repeat
6 what I just said?

7 MINISTER KYAMBADDE: The last two
8 sentences.

9 MR. SULLIVAN: So EAC members have argued
10 that there is not a ban but have also defended their
11 use of tariff policies to support the garment
12 industries. While EAC's used clothing tariff
13 increases may benefit low-cost producers in Asia,
14 they will also harm the EAC's used clothing sector.

15 So you had mentioned that there are some
16 ongoing studies, but I'm wondering if EAC or Uganda
17 has conducted any analysis of whether any benefits
18 to domestic garment producers from higher tariffs on
19 used clothing would outweigh the potential loss of
20 jobs in the used clothing sector in Uganda.

21 Thank you.

22 MINISTER KYAMBADDE: Thank you very much.

1 So in a nutshell, on whether the start of phase-out
2 would increase, increase employment -- hello? I
3 hope I'm loud enough. I'm a politician, but I'm
4 getting hoarse, might not be very clear. Thank you.

5 You wanted to know whether it would impact
6 on employment, increase in employment. It will
7 protect the local consumer and whether it would not
8 benefit the local consumers in Asia? Yeah, those
9 were the issues.

10 MR. SULLIVAN: That was my preliminary
11 comment.

12 MINISTER KYAMBADDE: Your concern.

13 MR. SULLIVAN: The main issue is whether
14 you've conducted any analysis of whether benefits to
15 domestic garment producers from higher tariffs on
16 used clothing would outweigh the potential loss of
17 jobs in the used clothing sector. Thank you.

18 MINISTER KYAMBADDE: Well, we carried out a
19 comprehensive review on this matter, and we
20 established, in fact what has happened, what has
21 emerged recently when there was that tariff imposed
22 on secondhand clothes, we realized that people who

1 were dealing in secondhand clothes have shifted to
2 other businesses. I know a number of them who have
3 gone into poultry farming. They've gone back to
4 farming because they have found out that there are
5 other opportunities out there than dealing in
6 secondhand clothes. So that is one.

7 Two, people dealing in -- why don't you?
8 Sorry, the DG wants to take over. So the textile
9 industry in EAC remains sensitive and is protected
10 against low-cost producers from Asia as well. It is
11 not only here. So, DG, can he clarify further on
12 that, please?

13 MR. BAGAMUHUNDA: When we are developing
14 the tariff structure in 2003, 2004, we undertook
15 comprehensive analysis of the trade in all the
16 products, the 5,555 tariff lines that we have in our
17 tariff book. And we had a lot of factors that we
18 considered, including the imports from all products
19 and particular for textile, the imports from the Far
20 East and Asia, the imports of used clothing, the
21 local production capacity, and the availability of
22 the same products within the region for those

1 countries we have preferential trade arrangement
2 with. But we embedded in our protocol that we will
3 be doing a review and analysis of the same
4 periodically to inform us on how best or how we are
5 faring in as far as achieving the objectives. Part
6 of it is really industrialization, as the Honorable
7 Minister said.

8 We did, and that is why for example the
9 textile cotton fabrics imported in East Africa are
10 also in the sensitive list. We charge them 50
11 percent. Because of the conga and textile sector,
12 cotton sector in the region, we're assured that we
13 put a protective tariff on new cotton fabrics
14 imported in the U.S. This year we are undertaking a
15 comprehensive analysis and study you are looking
16 for. And we have a deadline of September this year
17 to review all the tariff lines again, including worn
18 clothing, including fabrics, and there are criteria
19 we have built in.

20 The export prices, the subsidies provided
21 in the source countries, their availability in the
22 region, the value chain development in our region,

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 all those factors are being used as a criteria for
2 purposes of determining the tariff levels. And the
3 tariff rate structure may change, returning to 10
4 and 25 plus sensitive. Maybe we may get the full
5 band structure, who knows. We currently have five,
6 six experts in the field undertaking that operation.
7 We have a task force composed of all partner states
8 experts from trade, treasury, and revenue
9 authorities, and private sector, who are working on
10 this and who will be presenting a final report in
11 September to the Council of Ministers for that
12 review and really to inform part of that analysis.
13 Some of the information will be public information.

14 Thank you.

15 MINISTER KYAMBADDE: Then as far as again
16 on dealers, Uganda Development Bank has been
17 capitalized to support some of those people who are
18 dealing in secondhand clothes elect to go into
19 either cotton production or go into other projects.
20 We have listed a number of them and formed
21 cooperatives, in form of cooperatives and formed a
22 big association, an association of all those

1 cooperatives or unions and supporting them in cotton
2 production.

3 Another one, consumers. Consumers are
4 buying new clothes, new textiles from Tanzania,
5 conga. There is a fabric called conga, a material.
6 DRIC (ph.) are producing Katanga, and the Katanga is
7 very popular in the market. And then we also have
8 ECOWAS because we are dealing with ECOWAS. Now,
9 like these, we find these on the market, and these
10 are from West Africa. So we find that we have
11 negotiated a base for the consumers, affordable
12 clothes from the regions that we have trade pacts
13 with. I wish to submit.

14 CHAIR HAMILTON: Thank you. Let me turn to
15 my Commerce colleague, any questions?

16 MR. STEWART: Good morning, esteemed
17 ministers, and as stated with my colleagues, thank
18 you for traveling such great distances to be here
19 today. My question is EAC specific. My questions
20 will be what is the projected growth rate for the
21 domestic textile industries in Rwanda, Tanzania, and
22 Uganda? Is there evidence that these rates would be

1 achieved without instituting measures to impede or
2 restrict the importation of used clothes? Has there
3 been a decline in the number of people employed in
4 the used clothes industry in Rwanda, Tanzania, and
5 Uganda related to the current and projected growth
6 for their respective domestic textile industries?

7 MINISTER KYAMBADDE: DG?

8 MR. BAGAMUHUNDA: Generally, our growth
9 rates for the specific sectors is premised on the
10 overall GDP growth, which of course you look at the
11 industrial sector growth traits and how it have been
12 faring. Definitely, our industrial sector
13 contribution to the total GDP has been --

14 MINISTER KYAMBADDE: Quite low.

15 MR. BAGAMUHUNDA: -- quite low. I think
16 around 10 percent, 12 percent, around there. And
17 our initiatives, as the Honorable Minister say, is
18 that we have come up with a deliberate regional
19 industrial strategy that has identified potential
20 and priority areas. Textiles and footwear
21 manufacturing has been identified, among others. Of
22 course, there are others like pharmaceuticals, like

1 edible oil, cement, and all these. Some are doing
2 far better than others. There has been a tremendous
3 remarkable growth in some sectors, like the cement
4 industry, but --

5 MINISTER KYAMBADDE: And steel.

6 MR. BAGAMUHUNDA: And steel. But the
7 textile industry, we have to develop it through the
8 very chain down to the growing of cotton because the
9 whole sector is based on building the value chain
10 right from the agriculture sector. So it links into
11 that. You cannot sometimes depreciate the growth
12 trend of textile from, for example, the growth trend
13 of the agricultural sector.

14 But essentially the EAC growth has been
15 very impressive, in the range of 5 to 7 percent
16 growth over the last 10 years, above the sub-Saharan
17 average which is about 4 percent. So if you use
18 that as a baseline or as an indicator of world
19 growth, then the industrial sector and the textile
20 sector, if it was growing at maybe around that
21 percentage, then definitely East Africa will be able
22 to have a vibrant textile sector that will be able

1 to feed its own people and also to feed the outside
2 market. And, of course, our focus on the textile is
3 also export promotion so that if we add the value.

4 Thank you.

5 MINISTER KYAMBADDE: Let me finish that. I
6 would like to say that there are some FDIs who have
7 come in to invest in textiles having seen these
8 opportunities. For example, the Japanese have come
9 in through JICA [Japan International Cooperation
10 Agency], and they already started growing cotton,
11 helping the locals in the north because that area is
12 recovering, helping the locals to invest in cotton,
13 learning to grow cotton.

14 And then another group is the Indians. The
15 Indians have also established a textile mill. And
16 I'd like to welcome the U.S. government also to
17 encourage investors to come and establish FDIs in
18 Uganda to grow cotton because the prospects are
19 there. I wish to submit.

20 MR. STEWART: I have a follow-on question.
21 How much consideration or what rationale was given
22 to the present used clothing industry in Rwanda,

1 Tanzania, and Uganda during the decision to adjust
2 the duty rates on used clothing? I know you've kind
3 of spoken to that a little bit, but if you could
4 summarize, please?

5 MR. BAGAMUHUNDA: Can I get you again?

6 MR. STEWART: How much consideration, what
7 rationale was given to the present used clothing
8 industries in Rwanda, Tanzania, and Uganda during
9 the decision to adjust the duty rates on used
10 clothing?

11 MR. BAGAMUHUNDA: Maybe let me start from
12 2005 when we first put the used clothing. The first
13 time when we came out with the CET after analysis,
14 used clothing were at 50 percent or 0.75 cents per
15 kilogram in January 2005. Three months down the
16 line, we realized that there was one important
17 factor we had not realized, the level of employment
18 in terms of people involved in the sector and the
19 abrupt rise, the abrupt change we had caused,
20 because that is where acting differently because
21 they had different tariffs. So each country, some
22 countries had a very low tariff. Others had a

1 medium tariff. Others had an average tariff. So
2 the abrupt rise was very big, and immediately the
3 Ministers of Finance met, and the decision was made
4 to review it downwards, 35 percent or 0.2. So that
5 was a consideration.

6 Now, the consideration, as I have said, now
7 was not to raise or increase the tariff rate, the
8 ad valorem. The consideration was to review so that
9 people are not under-declaring to customs using
10 lower value, using the 0.2 instead of the actual
11 value. The EAC countries, all of them, and it is
12 embedded in the Customs Management Act, which is one
13 act that is used in all customs administrations in
14 EAC, adheres and applies the WTO Guide to Valuation
15 Agreement. And the Guide to Valuation Agreement
16 describes the steps on which to value goods when
17 they are imported, the price payable or the price
18 paid. And with used clothing, some importers come
19 and under-declare, below the price they have
20 actually paid. And, therefore, that's why we had
21 put a cushion of 0.2.

22 But now with the adjustment landing prices,

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 after doing the research, that's when we adjusted.
2 So the consideration was not in respect of the level
3 of the tariff increment, but on the level of
4 ensuring that the goods which are coming pay
5 appropriate taxes. However, what is going on right
6 now with the CET review, we are going to put all,
7 even these other factors, into consideration and be
8 able to determine what would be the appropriate tax
9 rate of the used clothing, either above or below the
10 35 level.

11 Thank you.

12 MR. STEWART: Thank you, sir. I have one
13 more question for the EAC and actually all of you.
14 SMART asserts that restrictions on the import of
15 used clothing are more likely to result in increased
16 imports of new clothing from low-cost producers in
17 Asia than in increased EAC production for the local
18 market. And, indeed, it appears that there has been
19 a surge in such imports of new clothing in recent
20 years.

21 What is your response to this argument? Do
22 used clothing and inexpensive new clothing appeal to

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 different sectors of the clothing market? Can you
2 elaborate on the consumer preferences of those
3 different market sectors?

4 MINISTER KYAMBADDE: DG? Let DG respond.

5 MR. BAGAMUHUNDA: Thank you. I saw it in
6 the appeal, in the petition. I think it is an
7 argument or a debate on how the policy is structured
8 in terms of finished garments. All finished
9 garments in our tariff, whether they are made of --
10 if they are made of cotton, of course they are above
11 25 percent. If they are made of other fabrics, they
12 are 25 percent. They are all taxable. There is no
13 duty-free imports of garments which are ready-made.

14 And we are concerned also about the cheap
15 importations, some of them not arising of any direct
16 policy but because of importers under-declaring or
17 smuggling in. Some of them are really enforcement
18 mechanisms that we apply. Or if you import goods,
19 imported garments, the taxes applicable there is
20 import duty, there is VAT. Some countries have what
21 we call import commission. Others have other
22 charges. So you'll find that the net import effect

1 of taxes on the imported goods or imported garments
2 is about 70 to 80 percent.

3 The factors that lead to importation of
4 cheap imported garments is not per se because of the
5 limitation of the -- the limiting or having a rate
6 on one clothing only, but it is also boosting our
7 production capacities in terms of being able to
8 produce the garments locally to avail it to the
9 region. And I think there is one example that has
10 come out. Kenya has started selling some goods from
11 the export processing zones of the market, and there
12 is a big appetite, big appetite. They are doing
13 what they call weekly sales around the whole of
14 Kenya. There is a big appetite for new clothing,
15 and there is a big appetite and demand and potential
16 for goods that are produced within the region.

17 So we think that if we can boost the local
18 textile industry and garment industry, we should be
19 able to reorient the minds of East Africans to buy
20 goods that are made locally, textiles that are made
21 locally, rather than relying on imported garments
22 whether new or used. And definitely we are going to

1 take some other measures to ensure that even
2 imported new garments do not flood the market
3 through veritable taxes.

4 Thank you.

5 CHAIR HAMILTON: USAID?

6 MINISTER KYAMBADDE: Could I just
7 supplement? It is true that we import more new
8 garments than used garments. Our importation of new
9 garments is over 500 million, and some are from
10 here, from Europe, and other countries in Asia,
11 compared to 200 million for used clothes. But
12 secondhand clothes are also impoverishing our
13 people.

14 She receives this dress without buttons.
15 Then she has to buy buttons. Sometimes, they are
16 falling off. The dress wears and tears within a
17 very short time, very short. If it's a child, her
18 shoes, secondhand clothes, this kid will wear the
19 shoes for a few months, and the shoes are torn
20 because they've already been worn. They are
21 secondhand. So if we are talking about poor people,
22 we're actually impoverishing them with the

1 secondhand idea. Even if a human being voted, you
2 would see that secondhand clothes will not be as
3 good as a new one. So that is also an area of
4 concern for our poor people.

5 MS. ROBINSON-MORGAN: Thank you. Your
6 response and comments imply that there is a zero sum
7 impact between developing your local textile
8 industry and implementing a ban on secondhand
9 clothing. Have you seen or done any studies that
10 show that secondhand clothing purchases directly
11 compete with purchases of new clothes? For example,
12 if people no longer have access to secondhand
13 clothing, will their purchases of new clothing
14 necessarily increase, or will they find secondhand
15 clothing on the black market?

16 MINISTER KYAMBADDE: There is a study. DG,
17 talk about the other study we've made. There is a
18 study that the DG will clarify.

19 MR. BAGAMUHUNDA: We have undertaken
20 preliminary studies in the textile and apparel
21 sector, and it has shown that the level of demand
22 for new clothing is rising because, first of all, it

1 relates to the level of impact. People who are
2 coming out of the -- as incomes rise, there is a
3 shift from use of used clothing to the use of new
4 clothing. But that was a short analysis that we
5 have done, but we are undertaking more comprehensive
6 studies to look at the various variables and factors
7 that determine household demand over a purchase of
8 vendors, over a purchase of their consumer goods.

9 Countries also undertake consumer index
10 studies periodically and determine what their
11 requirements are, which are statistics that are used
12 by the partner states periodically to analyze the
13 behavior of families and overall population in
14 relation to some of the goods they purchase. But
15 the current analysis we are also doing is going to
16 embody all those aspects to determine what are the
17 most demanded goods in relation to others or where
18 there are substitutes because substitutes is also
19 one of the criteria we are looking at.

20 MINISTER KYAMBADDE: I would like to state
21 that it's true that our communities were going for
22 secondhand clothes because of affordability. But

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 now the government has put up interventions that are
2 driving them out of poverty, and we have reduced the
3 poverty levels from 56 percent to 19 percent. And
4 what are we doing? We have a youth livelihood fund
5 which goes right down to the districts whereby the
6 youths are able to borrow money and do credits. We
7 have a women livelihood fund which is supposed to
8 support the women to be able to support themselves
9 so they are earning a living.

10 We have cross-border trade. It's that we
11 have strengthened the cross-border trade that women
12 who used to trade across borders at least we have
13 improved on the systems along there. We have
14 simplified the trade regime, and they are able to
15 trade across and freely because you find that we
16 have a simplified trade regime whereby their goods
17 which are below \$2,000 U.S. dollars are able to go
18 across without any charges.

19 So you find that there are interventions
20 that are actually lifting these people out of
21 poverty so now their demand and their drive now is
22 for new clothes. They want a new life. We find

1 that now they've left the life we were just
2 recovering out of war. That's why SMART was doing
3 so well because we were recovering out of a war
4 which we had been through for almost 30 years.

5 But now we have reached a level whereby the
6 people are able now to afford to buy new things
7 because they have seen a new life. They find
8 education is free, so that in place of school fees,
9 they invest that money in other projects. Health is
10 free. They don't pay for health, then they invest
11 in other programs.

12 We have a program called Operation Wealth
13 Creation whereby they are giving out inputs,
14 agriculture inputs to every -- free seeds, hoes,
15 things like that so -- and pesticides, so that
16 instead of me, a poor person going to the market to
17 buy seeds, I am able to benefit from the seedlings
18 that I'm getting from government. So the challenge
19 now is the market, so that is why I am here as
20 Minister of Trade to identify and find a market.
21 That's why I need AGOA so badly so that I can help
22 my people to get a market for the things they are

1 growing.

2 Thank you very much.

3 CHAIR HAMILTON: Thank you, Minister. I
4 think we need to move on. Thank you for your panel.
5 For the audience, we have combined two panels, which
6 is why we had spent more time with this one.

7 MINISTER KYAMBADDE: Can I just say
8 something at closing?

9 CHAIR HAMILTON: Yes.

10 MINISTER KYAMBADDE: I'd like to call upon
11 SMART. SMART has shown an interest in the African
12 market. I wish they could come to Uganda and start
13 an industry. We'll give you incentives. We'll give
14 you free land. You will be able to import your
15 machinery tax free, tax relief of 10 years. We'll
16 reduce the energy for you. I'll be there for you as
17 the Minister of Trade, Industry, and Cooperatives.
18 Just leave the secondhand. Come and make new
19 clothes. I'll be by your side. Thank you very
20 much.

21 CHAIR HAMILTON: Thank you. Thank you,
22 Minister.

1 Can we call our next panel, please, the
2 ambassador from the Republic of Rwanda?

3 (Pause.)

4 CHAIR HAMILTON: Thank you. And as I was
5 explaining, Panel 5 combined with that panel, so we
6 are still on track. We spent more time there, but
7 we had more people participating.

8 So thank you, Ambassador, for being here.
9 We look forward to hearing your statement.

10 AMBASSADOR MUKANTABANA: Good morning.
11 Thank you, Assistant Secretary of USTR and
12 Chairperson of AGOA Implementation Subcommittee,
13 Honorable Minister, H.E. Ambassador to the African
14 U.S., Excellency Ambassadors, EAC Secretariat,
15 officials from the U.S. Department of State,
16 Commerce, Labor, Treasury, and USAID, members of
17 SMART, distinguished panelists.

18 First of all, I want to thank you for
19 holding today's hearing, which is based on the
20 petition made on the 21 March 2017, by the Secondary
21 Materials and Recycled Textiles Association, SMART,
22 requesting for an out-of-cycle review to determine

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 whether the Republic of Rwanda meets the AGOA
2 eligibility criteria.

3 Let me also take this opportunity to thank
4 the chairperson from East African Community,
5 Honorable Minister, who has represented our voice so
6 eloquently for all of us that I am going to talk
7 about my own statement, but also we subscribe to the
8 statement by East African Community. And most of
9 the questions that will be addressed by Rwanda were
10 addressed by different panelists here.

11 During the East African Community heads of
12 state summit in 2015, the countries agreed to
13 gradually reduce the importation of secondhand
14 clothes and footwear to promote textile apparel and
15 leather industries in the region. One of the
16 fundamental goals under the EAC treaty was to
17 promote industrialization in the East African
18 Community and to attain a competitive position in
19 global trade. Textile and footwear manufacturing
20 among others was also identified as a priority
21 sector.

22 In November of 2015, the Government of
Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 Rwanda developed a 2017-2019 Action Plan for the
2 transformation of the textile apparel and leather
3 industry sector in order to increase the quality and
4 quantity for both local and foreign markets. This
5 decision was not intended to impose a ban on the
6 importation of textiles, but as an initiative to
7 promote the industry while progressively phasing out
8 used textiles.

9 It is estimated that if everything is
10 implemented, the sector could see the creation of
11 over 25,000 jobs, increase exports to U.S. for
12 \$3 million, and also, if phasing out the system
13 happens the way it was planned of secondhand
14 material, will result in a saving of about
15 \$76 million over the 3-year period that we are
16 talking about.

17 So it is substantially above the 60 percent
18 industrial sector average growth rate. This is also
19 reflected in the increase in employment with average
20 textile firm size growing its employees from the
21 third quarter in 2015 to the third quarter in 2016.
22 The Government of Rwanda is therefore making more

1 effort to keeping the sector growing and making it
2 more competitive to global markets. Moreover, the
3 Government of Rwanda has also offered more
4 incentives, such as reducing import duty to zero
5 percent and remove that on raw materials, machines,
6 and other imports.

7 Due to the expected increases in the noted
8 industry, different investors are now in the process
9 of establishing factories with up-to-date modern
10 technologies that are suitable for mass production
11 of garments and footwear. For the case, Rwanda and
12 the United States have enjoyed longstanding
13 political and commercial ties. Between 2005 and
14 2014, U.S. investment were registered in Rwanda with
15 an approximate value over \$300 million, creating
16 more than 4,000 jobs.

17 Furthermore, in 2015 U.S. foreign direct
18 investments, FDIs, to Rwanda made up for more than
19 20 percent of the total FDIs registered in Rwanda,
20 reaching an amount of \$220 million. Bilateral trade
21 between our two countries was also signed in 2012,
22 and the establishment of this legal framework has

1 created the confidence for U.S. investors interested
2 in Rwandan domestic market, but also gained access
3 to other East African Community regional market.

4 AGOA is yet another U.S. trade program that
5 has further strengthened our ties. Duty-free access
6 to the U.S. market under the combined AGOA and GSP
7 program stands at approximately 7,000 product tariff
8 lines, including roughly 1,800 tariff lines that
9 were added to the GSP pool by the AGOA
10 registrations. The apparel and textile industry in
11 the 1960s and 1970s were indeed vibrant, and the
12 East African bloc was among original producers of
13 cotton, linen, and fabric in Africa.

14 Consequently, the decision from the March
15 2016 meeting of the East African presidents was to
16 revamp our textile industry, including the entire
17 value chain. As an integrated regional body, East
18 Africa continues to implement harmonized trade
19 regimes under the Customs Union that you experience
20 to spur its industrialization, development agenda;
21 promote our industrial sector as well as export and
22 promotion in the value chain development.

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 Nevertheless, the Republic of Rwanda would also like
2 to note that it is not Rwanda's intention to
3 directly and negatively affect the exports of SMART
4 member companies to the East African Community.

5 Moving forward, Rwanda would like, number
6 one, to emphasize that our intention was not to
7 impose a ban on the importation of textiles. Number
8 two, Rwanda calls on the United States companies in
9 the sector to work with us very strongly to build a
10 value chain responding to the business generated by
11 the relocation of China's apparel manufacturing
12 industry to Africa and other emerging countries.
13 There is a global trend of relocation of light
14 manufacturing from Asia to Africa, similar to the
15 one that took place in the '70s and the '80s from
16 United States to Asia. Now it is taking place in
17 Africa.

18 This cycle offers an opportunity for
19 collaboration between Rwanda and the United States
20 companies. In other words, Rwanda wants to continue
21 its work with U.S. companies in the apparel
22 manufacturing sector and together fulfill AGOA's new

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 strategy on which Rwanda was advised by and
2 developed with the support of the United States.

3 Lastly, we would like to highlight that
4 Rwanda is open to having and continuing high level
5 dialogue to further discuss the matters at hand,
6 especially involving the phasing out, timelines, and
7 increased taxes to upper export. We look forward to
8 reaching a mutually agreeable decision and
9 appreciate deeply the opportunity to testify before
10 you, and I look forward to your questions.

11 Thank you so much.

12 CHAIR HAMILTON: Thank you very much,
13 Ambassador. We appreciate the offer to continue
14 having a conversation about this issue and resolving
15 it with you. Let me turn to my colleague from State
16 for questions.

17 AMBASSADOR MUKANTABANA: Thank you.

18 MR. SULLIVAN: Thank you. I have a number
19 of questions. One is do you have an estimate of the
20 number of Rwandans currently employed in the used
21 clothing and footwear sector, and do you have an
22 estimate of anticipated job growth in the apparel

1 and footwear sector?

2 AMBASSADOR MUKANTABANA: Yeah, I don't have
3 any strong data, so I don't want to give numbers,
4 but I'll put it in my post --

5 MR. SULLIVAN: Thank you very much. We
6 appreciate that. Second question is you have argued
7 that there is no ban.

8 AMBASSADOR MUKANTABANA: Right.

9 MR. SULLIVAN: But also defended using
10 tariff policies to support your garment industry.
11 While the EAC used clothing tariff increases may
12 benefit low-cost producers in Asia -- I already
13 asked this question to your Uganda counterpart --
14 they will also harm the EAC used clothing sector.
15 So has Rwanda conducted any analysis of whether any
16 benefits to domestic garment producers from higher
17 tariffs on used clothing would outweigh the
18 potential loss of jobs in the used clothing sector?

19 AMBASSADOR MUKANTABANA: Once again data
20 based. The hard data I have to provide after.
21 There is a strong study. But what I can tell you is
22 that our company Made in Rwanda products has paid

1 already dividends, high dividends. Because people
2 have been producing even on local level,
3 cooperatives are already producing for local
4 consumption. And then many industries in Rwanda are
5 producing some of the materials that we are talking
6 about.

7 So talking about long-term study, once
8 again I would rather give a little bit more data
9 based upon what is we have now in the country that I
10 can provide to answer your question fully.

11 MR. SULLIVAN: Okay. We would encourage
12 you to include that in your post-hearing submission.
13 And also for Uganda, Madam Minister, I remember that
14 you had also indicated that there were studies to
15 that effect that Uganda had done, and it would be
16 very useful to put that in your post-hearing
17 submission as well.

18 And then the next question, in the EAC
19 portion of your testimony, it was noted that the
20 common external tariff is compliant with WTO
21 requirements in regard to tariff finding. Rwanda
22 has bound its tariffs on imports and used clothing

1 and footwear in the WTO at the rate of 100 percent.
2 Rwanda's recent 1,000 percent increase in tariffs
3 following the EAC directive to phase in a ban on
4 used clothing imports has resulted in all cases of
5 the new ad valorem rates of applied tariffs were
6 surpassing the bound rates. So please explain how
7 Rwanda's 1,000 percent increase in tariffs is WTO
8 consistent?

9 AMBASSADOR MUKANTABANA: Thank you so much.
10 I would like really to refer to the explanation that
11 he gave, maybe he can explain again. I am not very
12 well versed into taxation and tariffs; I have to say
13 that. But he explained it very well. But what I
14 can tell you and I can affirm is that also said is
15 that we are going to do other reviews, and we are
16 aligning our taxation to the East African Community
17 so it's going to be harmonized to fit within the
18 East African Community purposes.

19 MR. SULLIVAN: Okay, and then one --

20 AMBASSADOR MUKANTABANA: Maybe you can
21 explain a little bit?

22 MR. BAGAMUHUNDA: Thank you. Yeah,

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 definitely the bound rates of the EAC tariff for the
2 countries at the WTO, all EAC members states are
3 members of WTO except the Republic of South Sudan
4 currently. And we have analyzed the bound rates
5 vis-à-vis the existing tariffs, and we are below.
6 The ad valorem -- the specific rates, as I
7 mentioned, may not -- I think when we are looking at
8 binding the rates at the ratio, we should look at
9 the ad valorem rates we have in place. And 35
10 really remains below the bound rate for Rwanda in
11 the WTO.

12 I know if you convert the specific rate
13 into ad valorem, it shoots through the roof. But it
14 is a stay. A stay is really a temporary measure.
15 It's not a decision that affects the CET. The CET
16 remains at 35 percent. Rwanda has not changed from
17 that. It has asked for a flexibility for just one
18 year to boost its own local capacity in terms of the
19 textile sector, so I wouldn't take that a temporary
20 measure of that nature is really -- is going beyond
21 the bound rate at the WTO.

22 Thank you.

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 AMBASSADOR MUKANTABANA: Thanks so much.

2 MR. SULLIVAN: Thank you. That covers my
3 next question as well.

4 CHAIR HAMILTON: Commerce?

5 MR. STEWART: I asked this question during
6 the EAC portion of the testimony. Good morning,
7 Madam Ambassador. It's very good to see you again.

8 AMBASSADOR MUKANTABANA: Good morning.

9 MR. STEWART: I just have a very short
10 question and just from your perspective. From your
11 perspective, do used clothing and inexpensive new
12 clothing appeal to different sectors of the clothing
13 market?

14 AMBASSADOR MUKANTABANA: I have to say it
15 was available, it was cheap, and I think maybe I can
16 refer to what Honorable Minister has said,
17 understanding that Rwanda is coming from a very bad
18 period, so if you could find secondhand material for
19 anybody, for other sectors of the economy -- I mean
20 the population, secondhand was readily available and
21 that was the best alternative. We didn't have much
22 alternative.

1 So Rwanda is coming under the vision in
2 2020 into what we call a mid-income country, which
3 means that also the needs including the clothes,
4 including what we wear are going to shift and
5 change, so that is coming within the general
6 perspective of our planning as a country, as
7 economy, but also looking at the trends that are
8 happening.

9 It means that, yeah, some people will lose
10 something, including ourselves. Even within the
11 country there are things or industries that might
12 lose something, but it happens. This is the result
13 of the market and the economy. But we have also to
14 see the general change over the country, where we
15 are as a country, what we have been pushing for the
16 last 10 years.

17 Rwanda is in a good place in terms of many
18 things, including that also the choices we have are
19 diversifying so it means that some industries are
20 going to suffer within that shuffle. But we are not
21 -- by all means, we don't want anyone to be in a
22 losing game. That's why we are open to dialogue,

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 how can we mitigate the loss. But at the same time,
2 also understand that the decisions that we take as a
3 country, as a region, that really we did it with
4 perspective of a development, that we are praising
5 the United States and all the panels.

6 Like I can give you an example of a country
7 -- I mean an American company that benefited from
8 AGOA, like Kate Spade; that is one that is
9 functional. This is one that developed that
10 particular program in the country where there was a
11 need. So those women are becoming more successful.
12 It means that there are areas what we were getting
13 in the past are going to go down and others will
14 raise. But in all the trade about doing the
15 business from United States to Rwanda and vice versa
16 should be increased, not decreased because of one
17 area that is not going to be as well.

18 MR. STEWART: Thank you, Madam Ambassador.
19 I have no other questions.

20 CHAIR HAMILTON: Labor?

21 MS. FRANCIS: Good morning, Madam
22 Ambassador. I'm going to take advantage of the EAC

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 being at the table and Uganda having just
2 represented that to ask a cumulative question. The
3 Minister from Uganda has stated that the EAC helps
4 to spur job creation, revamping the EAC's apparel
5 and footwear manufacturing value chain and by
6 increasing income growth of the people involved at
7 all levels of the value chain. Likewise, in
8 Rwanda's testimony, it states that since the
9 implementation of the action plan since July 16,
10 there has already been an increase in employment.

11 However, Mr. Bogard, representing SMART,
12 indicated in his testimony that the used apparel
13 sector currently creates hundreds of thousands of
14 jobs in the EAC and there is risk of significant job
15 loss. It seems that everyone is concerned with the
16 need to create and retain jobs.

17 So I would like to ask has the EAC gathered
18 evidence to determine anticipated job growth in the
19 apparel and footwear sector sectors as compared to
20 anticipated job loss in the used clothing sector?
21 And with anticipated job creation and job loss, how
22 is EAC assessing these overall gains and losses?

1 AMBASSADOR MUKANTABANA: Let me pass it to
2 him because he is representing us. Yeah, please.

3 MR. BAGAMUHUNDA: Thank you. I think when
4 we are looking at that, we also need to reflect on
5 the overall job structure in the East African
6 Community and the current level unemployment that we
7 have in the economy. Definitely we know that people
8 are employed in the distribution chain, in the
9 retail of used clothing both in the EAC and from the
10 supply countries. We are doing an analysis to see
11 in quantitative terms what constitutes that job
12 envelope vis-à-vis the job envelope when you revamp
13 your textile sector. And we are going to be
14 bringing in maybe the post-hearing some of the data.

15 But if we use an analysis and look at how
16 has the job trend been behaving in that -- in the
17 textile sector, some of us who we are old enough
18 those days, even in rural towns there was a vibrant
19 industry of the tailoring sector. Very many local
20 people were involved in tailoring, you know, seated
21 in front of the shops and doing of new clothing. We
22 would go there for uniforms, for women would get

1 dresses. With the used clothing, that sector is
2 completely dead. It was wiped out. I don't know
3 where those people went. The few remaining are
4 located in the markets where they are selling used
5 clothing to do their repairs of the used clothing.
6 When you buy it and the shirt is torn, you take it
7 to a tailor next to do that, not much value
8 additional.

9 But the other one had not much value
10 addition, and people were educated through that kind
11 of income. So we need to make a very deep analysis
12 to see the impact of used clothing on job creation
13 in the region vis-à-vis the impact of the death of
14 the textile manufacturing value chain and job
15 creation and where would we be.

16 So I think we will be providing the data so
17 that we see a comparison. And whether that job is
18 permanent, you know, the hawking of used clothing
19 around town vis-à-vis the selling of new clothing in
20 an established -- we have the biggest informal
21 sector, about 40 percent in the region. And we are
22 failing up to that informal data. We are failing to

1 get revenue to run our public service because people
2 are involved in that kind of trade. But people who
3 are established, who have a place of abode, who have
4 a place of selling their goods are known and can be
5 reached. Therefore, we need to compare a lot of
6 factors and see whether we are doing well with used
7 clothing or doing worse without the new
8 manufacturing, the manufacturing of new textiles and
9 garments.

10 Thank you.

11 AMBASSADOR MUKANTABANA: One thing I can
12 tell you is that there is a policy of development in
13 the local districts for cooperatives of people who
14 are making the textiles and people sewing, people
15 doing those things. It has spurred definitely the
16 local markets and the local industries in our
17 villages and other places. It is a very visible
18 thing in terms of local development that we can
19 actually put into data and you can see in that
20 particular field, yeah.

21 CHAIR HAMILTON: Thank you.

22 MS. ROBINSON-MORGAN: Thank you. I

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 actually have two questions, one for Madam
2 Ambassador and one for the Honorable DG. First
3 question for the Madam Ambassador, you mention in
4 your written response that the incentives for
5 producers in textiles and apparel and leather
6 sectors that the Government of Rwanda offers
7 attracted -- I'm sorry, that the Government of
8 Rwanda has attracted different investors. Investors
9 are in the process of establishing new production
10 units. Who are these investors, and are any of the
11 investors from the United States?

12 AMBASSADOR MUKANTABANA: One, for instance,
13 one that I can give you that I mentioned a few
14 minutes earlier, like Kate Spade. It's thriving. I
15 would say I am not done with evaluating the program,
16 but I know it has done quite a bit and has helped
17 with the development of the place for the women who
18 have benefited from that program. Also that is tied
19 in AGOA. AGOA has allowed it to happen and to be a
20 very good business. It is benefiting both the two
21 countries because I think there is no question that
22 Kate Spade is pretty popular even in this part of

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 the world, but also in your country. More
2 importantly for the people, it is the very jobs,
3 too. So we need to develop more of those.

4 Yesterday, I was talking, for instance,
5 from Women for Women and the incredible program they
6 have created also with women in Rwanda. They are
7 thriving opportunity program, it is over there. So
8 there are a number of programs. I wouldn't be able
9 to tell you off the top of my head, but there are
10 quite a few businesses in the country.

11 And we believe especially with your quality
12 programs, especially in terms of the dress industry
13 of what is Made in Rwanda, that is attracting now
14 many young people, young people who are becoming
15 designers in the industry and who can very much
16 benefit from partnerships with the people from here
17 once they are allowed to bring their products on the
18 market.

19 If you go now, you know, when we do
20 Ms. Rwanda and this is in order to just put there,
21 you'll see people dressed in their national
22 beautiful dresses that were made in Rwanda. That

1 was a spur because now people are looking and
2 looking at the beauty so they can make their own
3 stuff. But before, as I said, you don't have many
4 choices. This is to have choices. And when you are
5 having choices, there is a volume there to
6 redeemination (ph.) because people are taking
7 choices in certain areas. It's going to be
8 affecting other place where that used to be almost a
9 monopoly in certain market.

10 So with all due respect to SMART people,
11 this is to understand it and those perspectives.
12 This is not because we want to say SMART can't come.
13 It's because we're able to develop the local market.
14 That's where we are at right now.

15 MS. ROBINSON-MORGAN: Thank you. And for
16 the Honorable DG, I'm still unclear on your economic
17 distinction between the use of phasing out versus
18 the use of import ban terminology, because the end
19 result is technically the same. So can you give me
20 your definition of what you mean by phasing out?

21 MR. BAGAMUHUNDA: Phasing out vis-à-vis?

22 AMBASSADOR MUKANTABANA: Vis-à-vis ban.

1 MS. ROBINSON-MORGAN: Right.

2 MR. BAGAMUHUNDA: You know when I read the
3 petition and when the representative of SMART was
4 talking, I got the impression that the ban has been
5 slammed and therefore the effect of unemployment,
6 loss of jobs is because we have ban, we have slapped
7 a ban. But EAC came up with an idea last year and
8 said -- and the heads of state were very clear we
9 should consider phasing out used clothing over a
10 period of time, but we have to undertake some
11 analysis and studies, which we are still doing.

12 And the idea of having a gradual program
13 was over a time, over a period of time. For us, in
14 our understanding, a ban is the immediate stop.
15 Actually, it is a prohibition that these goods are
16 prohibited from being imported. And you don't need
17 to be slapped with a 100 percent tariff. You just
18 say these goods are not wanted and finish, like how
19 we do with undergarments or -- what are they called,
20 the undergarments, because we don't allow them for
21 hygiene purposes. So that's our understanding of a
22 ban.

1 A phase-out is a gradual mechanism to see
2 how used clothing can still come in but we at the
3 same time enhance our local production of textile
4 sector. And maybe it may take certain trends along
5 the route but may not eventually lead to a stoppage
6 at the end of the day, but a mechanism that we allow
7 them in either using quotas like in the U.S. tariff.
8 I think they are there in the U.S. trade regime, if
9 you look at it. There is a way they do some kind of
10 structuring of the tariff such an extent -- even
11 other countries, such an extent that when prices of
12 some goods go up, the tariff automatically goes up.

13 So those are the kind of considerations,
14 because we are still discussing. And that's why we
15 were looking at maybe in the next one year or two
16 years we can look at the specific taxes, which could
17 go up to around 1, 1.5, but not to slap a
18 prohibition. That's our understanding. And
19 definitely within that period we will develop a kind
20 of trade mechanism that we can see how the two can
21 work out. One is phasing out the other one while we
22 are promoting our local textile manufacturing.

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 Thank you.

2 MR. MAIER: Thank you. I've got a question
3 for the Director General. The EAC Secretariat's
4 submission asserted that the EAC's phased-in ban is
5 fully compatible with the EAC WTO commitments.

6 However, these WTO commitments also include national
7 treatment of like goods and restrictions on imports.

8 Does the EAC also ban, intend to ban, or
9 otherwise restrict trade in used clothing
10 originating within the EAC? If not, how would you
11 justify what would appear to be differential
12 treatment of imports of this product?

13 MR. BAGAMUHUNDA: One, we don't trade in
14 used clothing between the EAC partner states, so we
15 don't have that kind of item on our trade goods, on
16 intra-EAC trade. Secondly, we have a very explicit
17 provision on national treatment in respect of that
18 we will not enforce a demonstrative or selective
19 measures against an item if we are not doing it for
20 the goods which are produced locally. But the
21 national treatment is only applicable to goods that
22 are tradable. If they are not tradable, then the

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 national treatment doesn't apply.

2 In our societies, used clothing when we
3 finish, we give them away free of charge to charity
4 or to the charge or to the orphans. And essentially
5 some of us are aware, who have been -- who know
6 about the origin of used clothing, they came in that
7 form. They came as really the nations and whatever
8 and as charity. It never came as a trade item to
9 East Africa. I'll tell you it came as, first of
10 all, it used to come to Rwanda and from Rwanda later
11 on they started smuggling it into other countries,
12 but it was an item of charity. It was not a trade
13 good, and it had no price tag on it. Therefore,
14 customs didn't know how to even treat it.

15 So we don't trade in the used goods. But
16 if goods are not tradable amongst East Africans or
17 if it's not allowed from another East African
18 country, then it cannot be -- you cannot import --
19 if you are not imposing a restriction on a good you
20 produce as a partner state, look within your
21 country. You cannot bar the other one from entering
22 your country.

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 But if it is a prohibited item, if it is
2 prohibited from being imported into the region or
3 into a country, then that item cannot be traded
4 between the partner states.

5 MR. MAIER: Thank you. As a follow-up
6 question, I don't think that issues of national
7 treatment only relate to imported goods. It would
8 also relate to regulation of goods within any of the
9 EAC countries. And I guess the question could also
10 apply as to whether or not there will be a
11 prohibition or a ban on trade of used clothing
12 within any of the EAC countries.

13 MR. BAGAMUHUNDA: I guess I didn't get you.
14 Come again?

15 MR. MAIER: So just as a follow-up, the
16 national treatment relates to regulation of a
17 product within a country's borders, not just
18 tradable across a border. So I would ask whether or
19 not the EAC countries also currently ban or intend
20 to ban the sale of used clothing domestically, even
21 if it is not traded across borders?

22 MR. BAGAMUHUNDA: Maybe I should tell you

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 that national treatment in the respect of EAC is for
2 EAC as a Customs Union, not in respect of the
3 country. At the country level, it is implementation
4 of that policy provision, legal provision. So for
5 national treatment, if a good -- if you cannot -- if
6 a good is prohibited or if you impose an
7 administrative or a selective restriction on a good
8 from another partner state and you are not doing it
9 for a similar good that you are producing within
10 your own country -- for example, you cannot say I am
11 going to impose a duty on sugar of maybe 30 percent
12 excise duty from Kenya to Uganda when you are not
13 imposing 30 percent excise duty on sugar made in
14 Uganda. That's what we call national treatment.

15 And, therefore, if it is used clothing the
16 way they are -- first of all, used clothing in East
17 Africa we don't trade between the countries.
18 Secondly, the goods are not originating from East
19 Africa, so they wouldn't qualify under the trade
20 arrangement. The ones which come from Europe or
21 America, if they are re-exported to another partner
22 state, they are charged duty because we have a

1 destination principle. Taxes are collected where
2 goods are destined. If they move to another partner
3 state and they used clothing because that's their
4 export, taxes are payable. Then the person who
5 exports from that country can claim a refund from
6 where he first paid the taxes, he/she first paid the
7 taxes. So that is the current status.

8 But EAC is restricting quite a number of
9 imports of used items. We don't allow importation
10 of used tires, for example, except the big tires for
11 retreading which are cut, and they have to be cut so
12 that they are used as raw materials in the
13 retreading industry. We have countries have also
14 restricted importation of used electronics like
15 fridges and other items because of the environmental
16 concern. So there are quite a number of things we
17 have restricted their importation because of other
18 reasons, factors, particularly environmental
19 factors.

20 CHAIR HAMILTON: Any questions? Thank you
21 very much, Madam Ambassador. We appreciate it.

22 AMBASSADOR MUKANTABANA: Thank you so much.

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 CHAIR HAMILTON: Let me call our next
2 panel, Republic of Tanzania.

3 (Pause.)

4 CHAIR HAMILTON: Welcome, Ambassador.

5 DR. MERU: Chairperson, USTR, Honorable
6 Minister for Industry and Trade, and the Chairperson
7 of the EAC Council of Ministers, Honorable
8 panelists, participants, ladies and gentlemen, let
9 me start by making the introduction. My name is
10 Adelhelm Meru. I am the Permanent Secretary,
11 Ministry of Industry, Trade and Investment from the
12 United Republic of Tanzania. I flew in here
13 specifically for this hearing. With me is His
14 Excellence the Ambassador, Ambassador in the United
15 States, and we keep the DG of the EAC because he
16 cuts across.

17 Now, let me start by thanking the Minister
18 for Industry and Trade in Uganda and the DG for EAC
19 Trade for the representation of the response of the
20 EAC which Tanzania aligns itself on, so basically we
21 align ourselves on the response presented by
22 Excellence the Minister from Uganda.

1 But let me submit that to Tanzania, the
2 out-of-cycle review came as a big shock because we
3 did not anticipate a bona fide intention and our
4 strategy towards industrialization would have come
5 to be a weapon which eventually would have led us to
6 this petition with a possibility of losing our AGOA
7 status. So basically it was something like a shock.
8 But apparently we are here to defend our position.

9 Tanzania and USA, if I could give just a
10 bit, have a very long history of relationship,
11 trade, culture, and even wildlife. If I can say
12 briefly, in fact, the last three American presidents
13 who visit Tanzania, President Clinton visit
14 Tanzania, President Bush visit Tanzania, President
15 Obama visit Tanzania, and now we are here to receive
16 the current American President.

17 Our investment statistics show that the
18 United States actually is among the top 10 countries
19 on FDIs in Tanzania. Particularly, it is number 3.
20 And the volumes in terms of capital now has reached
21 \$4.76 billion, and employment by American companies
22 has reached 51,836 people in Tanzania, so we are

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 very much proud of our relationship and the
2 investment relationship with the United States of
3 America.

4 Tanzania very much needs AGOA as it gives
5 opportunity for growth. And so far we have various
6 companies producing and selling in the U.S. through
7 AGOA. Some of them are here with us. These
8 companies have invested heavily and are employing
9 thousand Tanzanians, and they are generating revenue
10 for the country, so losing AGOA benefits will be a
11 very serious blow for Tanzania and for the
12 investors.

13 I wish to confirm that Tanzania's position
14 on the petition by SMART is 100 percent in line with
15 the EAC statement which was presented to the USTR
16 and which has just been presented by the Ugandan
17 Minister, who is Chairperson of the Council of EAC
18 Trade Ministers, so I delegate we align behind it.
19 But of course I will just go through a few issues to
20 echo what was presented by EAC and to give the
21 position of Tanzania.

22 Number one, on the ban, we as well say

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 there is no ban. What we say is in Tanzania, just
2 like other countries, we speak of a gradual, a
3 gradual phase-out which is not a ban in any way. So
4 basically just like cooperative state, Uganda,
5 Rwanda, the EAC, we have one position; we don't talk
6 of a ban. If someone goes to Tanzania today, he
7 will see many secondhand clothings, which means so
8 far there is no ban whatsoever. But the spirit of
9 the EAC was to gradually, gradually phase out, which
10 the DG has very, very well explained what the
11 difference between a ban and a phase-out. So I
12 wouldn't like to repeat.

13 On the tariff, again, we align with our
14 colleagues in the EAC that there is no new tariff.
15 It's just realignment of the 35 percent of the value
16 to reflect the realistic landing price to be
17 compatible with the average rate of 5 percent, so
18 basically we are at par with our colleagues in the
19 East African Community. And if someone looks at the
20 figures mathematically, 35 percent of the value, it
21 is 40 cents of the weight. In fact, if you take the
22 value, 35 percent of the value, it could be even

1 higher, higher than this 40 cents, which the EAC has
2 already detailed. So, again, we are together with
3 our EAC partner states.

4 On the loss of jobs in the EAC, we
5 conducted a study. Even if someone goes to Tanzania
6 today, we have not imposed any ban. And if at all
7 there is no ban, then you are surprised to see the
8 figures and the work SMART say the decline in the
9 revenue when in all there is no ban. So there is no
10 ban, then you can't say of loss of jobs or decline
11 in revenue because zero plus zero is always equal to
12 zero. It can't be 24,000 the way it has been quoted
13 by SMART.

14 On SMART's claim that the ban will cause
15 environment costs and damage to U.S. who are
16 discarding them, I think the Honorable Minister gave
17 a good position that the way discarding the
18 secondhand clothes in U.S. will cause environmental
19 hazards, likewise when they are sent to our
20 countries, at the end of the day when they are not
21 in use, if we discard them, it will be exactly the
22 same, so we don't see any point in that.

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 In conclusion, AGOA is very important for
2 Tanzania. The benefit that the country has I think
3 so far are enormous, and losing that ability will be
4 a serious blow not only because of the economic
5 development but also with the investors who have
6 already invested heavily to get benefits from the
7 AGOA. So, basically, we are already aligned. We
8 are calling the investors to come and invest to
9 benefit from the AGOA market, so if we lose it, it
10 will be a serious blow. Even these companies which
11 have already invested are planning to expand, they
12 employ more than 7,000 people, and by next year
13 their plans are showing about 10,000 people, so
14 basically losing AGOA status, as you may see, it
15 will cause a serious blow to us.

16 Two, our treaties with the U.S. go far
17 beyond used clothes. Tanzania imports
18 pharmaceuticals, machinery, equipment from the U.S.,
19 and in fact Tanzania has already signed a contract
20 with Boeing to buy two jets. One is arriving next
21 year, the other one is 2018, and more will follow
22 thereafter.

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 Three, Tanzania is currently pushing for
2 the EAC industrialization agenda and the leadership
3 of a very vibrant president, Dr. John Magufuli, who
4 has decided to make Tanzania move for being a low
5 economy to a middle economy through
6 industrialization. So basically we are doing all
7 that we can to industrialize. We have already
8 developed industrial parks. We have already invited
9 many investors. And one of the delegated market is
10 the AGOA market. So basically losing that status
11 will make us lose these investors.

12 Tanzania has also done a lot towards
13 expanding the AGOA market. They already harmonized
14 some taxes and the levies to ensure that we are many
15 getting investors in the manufacturing sector. We
16 have trained our people on how to benefit from the
17 AGOA market. We, of course, started industrial
18 parks to host manufacturers. And the aim, the aim
19 is to ensure that we take our people out of poverty.
20 That is our major aim, to take our people out of
21 poverty through industrialization.

22 We understand cotton has a very long value

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 chain. When you grow cotton, you go to ginning,
2 spinning, weaving, and eventually garment making,
3 but it is a very big number of employment, and
4 that's why Tanzania rallies behind the EAC decision
5 of gradual phasing out to make sure that at the end
6 of the day we'll be able to fully benefit from the
7 cotton value chain.

8 Basically, Tanzania does not see
9 justification in most of the claims raised by our
10 colleagues at SMART, although we respect their right
11 of airing their views. But apparently in Tanzania,
12 we don't talk of a ban. In Tanzania, the tariffs as
13 I have stated is just a normal, a normal
14 market-based economy sort of adjustment which was
15 done with a good intention but not increase in
16 tariff because of the summit decision, but it came
17 out long before even the summit announced the
18 phase-out.

19 So with those remarks, I wish to submit.
20 Thank you very much.

21 CHAIR HAMILTON: Thank you very much for
22 that statement. I have to admit that the semantics

1 is confusing. My colleague had mentioned to the DG
2 the difference between phasing out and the ban.
3 When I look at the statement from the decree which
4 says that we are looking for the view to phasing out
5 importation of used textile and footwear within
6 three years, so within three years are we talking
7 about banning this product? And what steps is
8 Tanzania taking now to get to that phase-out? If
9 you're saying it's not the tariff increases, what
10 are you doing to implement the phase-out of those
11 products?

12 DR. MERU: In fact, as was already
13 elaborated by the DG of the EAC, we have not started
14 implementing the decision, because when the decision
15 came out, we agreed that the study would have been
16 conducted comprehensively looking to have, to
17 implement the phasing out. And we in Tanzania have
18 done absolutely nothing. We await the EAC
19 Secretariat to conduct that study. And they want
20 the studies out. That's only way we can start
21 implementing the decision of the summit.

22 CHAIR HAMILTON: And so by 2019, is it your

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 plan, though, to have this product no longer coming
2 into Tanzania?

3 DR. MERU: I beg your pardon?

4 CHAIR HAMILTON: By 2019, is it your goal
5 to not have used clothing coming into Tanzania?

6 DR. MERU: The answer is no. See that's
7 the gradual process. It depends on many factors.
8 One is to have the internal capacity of producing
9 adequate clothes to our people. So once that is not
10 reached, you can't reach and say now it's completely
11 out. So basically, and that's why we said a study
12 is being conducted to look into all these things,
13 and when the study is ready, it's going to when we
14 can now start implementing. So far everything is
15 business as usual.

16 CHAIR HAMILTON: Okay, thank you. State
17 Department, any questions?

18 MR. GAZIS: Thank you. I want to ask the
19 same question that my colleague had asked
20 previously. EAC members have argued that there is
21 not a ban but also defended their use of tariff
22 policies to support their garment industries. While

1 EAC used clothing tariff increases may benefit
2 low-cost producers in Asia, as others have
3 suggested, they will also harm the EAC used clothing
4 sector.

5 Has Tanzania conducted any analysis of
6 whether benefits to the domestic garment industry
7 would outweigh the potential loss of jobs for the
8 used clothing sector?

9 DR. MERU: Well, for Tanzania, I can say,
10 yes, we have conducted. And what I can tell you is
11 we took a weigh and balance and looked into how many
12 jobs have been created through importation of
13 vending secondhand clothes and how many jobs would
14 be created if we invite investors to come and invest
15 in the manufacturing sector. It's a huge
16 difference. The difference is huge because when you
17 talk of the textile sector, as I have said, you talk
18 of cotton growing, a big number of people; you talk
19 of ginning, a big number of people; you talk of
20 spinning, you talk of weaving, you talk of garment
21 making, and you talk of vending new clothes. So
22 basically if you put in a weigh and balance, you see

1 that automatically investing in the textile industry
2 will create more jobs.

3 MR. BAGAMUHUNDA: Maybe, Chairperson, if
4 you'll allow me to say something? I think when you
5 look at what is being done, it's not only that we
6 are focusing about importation of used clothing. We
7 are looking at other interventions. And I heard
8 somebody talk about our *Gazette*, so you must have
9 read the *Gazette*. If you look in that *Gazette*,
10 you'll find that we have already started making some
11 interventions. Of course, what the Permanent
12 Secretary, about doing more detailed analysis is
13 being undertaken. But there are already proposals
14 which have been on the table, and we are working on
15 them. One is to incentivize the people involved in
16 the manufacture of textiles and garments and
17 footwear by giving them relief on their inputs and
18 materials that they use in the manufacture of those
19 items.

20 We have already agreed in principle that
21 all direct materials and inputs used in the
22 manufacture of textiles and footwear should be

1 brought in under detail mission facility. Detail
2 mission means waiver of taxes. And Tanzania --
3 Uganda and Rwanda have already made the submission
4 of the list of those materials. Kenya has looked at
5 the materials, and Tanzania is looking at the list,
6 and they are going to give feedback.

7 Meanwhile, as a temporary measure, Uganda
8 and Rwanda have been given, and that's why I was
9 saying in the *Gazette*, a relief on imports for
10 manufacture of textiles and footwear. And we hope
11 that in August, Tanzania will come on board and also
12 be accorded the same because they are representing a
13 feedback, and Kenya, so that we all are on the same
14 boat and become the regional council, but in
15 principle all countries agree to that direction. So
16 it's a package of many things that are being done.

17 Thank you.

18 MR. STEWART: Permanent Secretary Meru,
19 it's good to see you again, Mr. Ambassador, Director
20 General, distinguished members. I've asked this
21 question before, but I am very interested in the
22 Permanent Secretary's answer on this question.

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 SMART asserts that restrictions on the imports of
2 used clothing are more likely to result in increased
3 imports of new clothing from low-cost producers in
4 Asia than increased EAC production in the local
5 markets. Indeed, it appears that there has been a
6 surge in such imports in just recent years. What is
7 your response to this argument?

8 DR. MERU: Thank you. Well, what I see is
9 and what actually they mean to say is new clothing,
10 one, we get new clothing not only from Asia, even
11 from the U.S. So that market is open for anyone.
12 Two, even new clothes have tariffs. They are not
13 coming in for free, so basically, basically those
14 tariffs will control the coming in, new clothes
15 regardless where they come from. And that's I think
16 -- how do you say it, the rates are even set higher
17 for items which are not on the sensitive list --
18 which are in the sensitive list.

19 MR. STEWART: Thank you, sir. I think as a
20 follow-on, do used clothing and inexpensive new
21 clothing appeal to different sectors of the clothing
22 market? What are your thoughts on that?

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 DR. MERU: I beg your pardon?

2 MR. STEWART: Do used clothing and
3 inexpensive new clothing appeal to different
4 segments of the market?

5 DR. MERU: Yes, they do appear in different
6 segments. And if I can tell you one thing which
7 perhaps some people do not understand, always new
8 clothes are new clothes. Our people who buy used
9 clothes, that's because of affordability. But when
10 it comes for example in my village, a very poor
11 village, when it comes to Christmas or even Iddi
12 Fitry, most of our people will try to get new
13 clothes only, because when you go in a church or in
14 a mosque with old clothes, people laugh at you. So
15 literally they try to buy new clothes, and that's
16 why new clothes are equally important.

17 I once again ask my American colleagues,
18 especially SMART, to bring in Tanzania new clothes.
19 We need new clothes as well.

20 MR. STEWART: Thank you. I have no further
21 questions.

22 MS. ROBINSON-MORGAN: Thank you. Is there

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 a model or a case study that you can point to in
2 which such a ban, for example, on used clothing, has
3 led to an increase in local production of apparel,
4 or is this part of the study that you are focused on
5 currently?

6 DR. MERU: Well, it's part of the study
7 which we anticipate the EAC to conduct. Of course,
8 we did conduct a small study, asking the vendors,
9 asking the users of used clothes, asking the
10 manufacturers on what is their response towards the
11 gradual phasing out in imports. The manufacturers
12 came out with suggestions that if we are enabled in
13 terms of credits, in terms of tax reliefs, they will
14 ready to meet the market demand.

15 And, of course, the vendors also we asked,
16 they said, well, if this comes we are ready; to us
17 it's not only that we are vending in old clothes, we
18 start vending in new clothes as well. So basically
19 we are waiting for the East Africa study, which will
20 come out, and it will be the base for our decision.

21 CHAIR HAMILTON: If I can just ask the
22 study that you referred to that Tanzania has done,

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 can we get a copy of that study for the record?

2 DR. MERU: Yes, Madam, with pleasure.

3 CHAIR HAMILTON: Thank you. Treasury?

4 MR. MAIER: Thank you. I'm going to ask
5 the question I asked to the Director and to the last
6 panel to the Minister. In the EAC submission, there
7 was the assertion that the phase-in ban is fully
8 compatible with EAC countries' WTO commitments.
9 However, these WTO commitments also include national
10 treatment of like goods and restrictions on imports.

11 Does Tanzania also ban, or intend to ban,
12 or otherwise restrict commerce in used clothing
13 originating within Tanzania, or will it rely on the
14 assumption that such commerce would not occur? And
15 if not, how would you justify what would appear to
16 be differential treatment of imports of this
17 product?

18 DR. MERU: Thank you, a good question.
19 Apparently, you see, I am an idiot by profession, so
20 I don't want to mess up WTO things which I am not
21 quite an expert, so let me leave this question to
22 the DG.

1 MR. BAGAMUHUNDA: Maybe just one point of
2 emphasis. Our understanding of a ban is a
3 prohibition, you prohibit. And that is our
4 understanding. You prohibit and you don't put it in
5 the tariff book. You put it in the legislation, in
6 the law that this item is prohibited, and it is in
7 the schedule under our Customs Management Act, and
8 it is in the -- I think it's the second schedule
9 that these are items which are prohibited and they
10 are listed. That's where you want to put if the
11 interpretation is that.

12 Our understanding would be that we put that
13 used clothing are going to put in that schedule, and
14 we are saying no, it's not going there. It will
15 remain in our tariff book, but we will work out a
16 trade regime that we encourage local production of
17 new textiles and limit the importation of new
18 clothing -- used clothing from outside in order to
19 create space for promotion of the local industry.
20 Maybe that is the clarification I wish to say.

21 And in that respect, if goods are
22 prohibited from being imported, they are also

1 prohibited from being traded within the region.
2 These are very clear items. They are known. The
3 environment, also to lay out the grading materials,
4 environmental items, all these hazards, they are
5 listed. Those are prohibited. But the other items,
6 even those which are restricted and restriction is
7 that they need to be imported under specific
8 conditions, they are also listed. Like to import
9 guns, that's a restricted item. It can only be
10 imported by licensed people.

11 But used goods will still be imported by
12 whoever wants to import, although there will be some
13 measures that will be undertaken to phase them out
14 on a gradual basis. And the gradual process even
15 hasn't started. It hasn't started because we are
16 still doing all the preliminary work with the
17 studies, the analysis, creating the necessary
18 environment, looking at the capacities locally, so
19 all those are still in the works.

20 CHAIR HAMILTON: Any more questions from
21 the panel? Thank you very much.

22 Let me call our next panel, Mr. Jeremy
Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 Lott, President of SanMar Corporation.

2 (Pause.)

3 CHAIR HAMILTON: Welcome, Mr. Lott.
4 Whenever you're ready?

5 MR. LOTT: Thank you, Chairwoman and ladies
6 and gentlemen. My name is Jeremy Lott. I'm the
7 president of SanMar Corporation, headquartered in
8 Issaquah, Washington. I appreciate the opportunity
9 to read into the record our statement and to
10 elaborate a little bit why a change in the duty-free
11 status from Tanzania would significantly and
12 disproportionately affect our business and the jobs
13 that we provide in the United States.

14 I am writing to submit these comments for
15 the formal record and for consideration during the
16 upcoming public hearing regarding the ongoing
17 eligibility of Tanzania under the African Growth and
18 Opportunity Act. My company, SanMar Corporation,
19 stands in support of Tanzania's ongoing eligibility
20 under the Act. With my submission, I hereby notify
21 USTR that I intend to testify and to read this
22 letter into the record and to make myself available

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 to answer related questions from the panel.

2 SanMar is a family owned and operated
3 apparel company. It has been in business for over
4 47 years. We employ over 4,000 people across eight
5 states, including Washington, Nevada, Texas,
6 Arizona, Ohio, Minnesota, New Jersey, and Florida.
7 Most of our 50,000 customers are American small
8 businesses who decorate and screen-print shirts and
9 other apparel items for their end users. Whether
10 it's jerseys for youth soccer and baseball leagues,
11 T-shirts for the local 5K fun run, or polos for the
12 local high school golf team, our customers provide
13 custom clothing solutions to meet their end users'
14 needs and rely on SanMar to supply them with high
15 quality, value-based apparel which enables them to
16 stay competitive in the markets. Many of these
17 shirts and polos are manufactured in Tanzania and
18 are cost competitive due to Tanzania's trade
19 preference under AGOA.

20 SanMar first began to source products from
21 Tanzania in 2010, and our volume of imports
22 continues to grow. We imported over 8 million

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 shirts from Tanzania in 2015 and over 10 million in
2 2016. A primary driver of our product development
3 in Tanzania was and still is the trade preference
4 afforded to Tanzania under AGOA.

5 The AGOA reauthorization signed into law in
6 2015 as part of the Trade Preference Extension Act
7 of 2015 extended the program for 10 years. SanMar,
8 along with other American companies trading with
9 AGOA countries, applauded the bipartisan effort to
10 extend the agreement. The extension enabled us to
11 properly forecast our production needs in Tanzania
12 and commit to development cycles that in some
13 instances reach two years in the future. An abrupt
14 loss in AGOA eligibility in Tanzania would be highly
15 disruptive to SanMar and force us to move production
16 to China.

17 Shifting production to China would cause
18 top-down price increases for SanMar and our 50,000
19 customers, resulting in demand drops that would
20 jeopardize not only the hundreds of jobs or
21 thousands of jobs in Tanzania dependent on
22 production for SanMar, but SanMar's jobs here at

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 home in the United States tied to production and
2 development of Tanzania-sourced apparel, as well as
3 countless jobs throughout our customer base where
4 livelihoods depend on delivering quality custom
5 apparel at the lowest price.

6 In conclusion, SanMar, our employees,
7 customers, and our bottom line will be unduly harmed
8 if Tanzania loses its AGOA-eligible status. We do
9 not believe that taking away Tanzania's
10 AGOA-eligible status is the right decision for the
11 United States to take at this juncture, and we hope
12 you will take the information we provide here into
13 strong consideration in your further deliberations
14 with this matter.

15 A few things I wanted to add. SanMar
16 imports a very significant percentage of apparel
17 from Tanzania. In 2016 it was over 76 percent of
18 the dollar amount of apparel from Tanzania was by
19 our company. When you look at Tanzania, Rwanda, and
20 Uganda together, that number barely drops because we
21 are such a huge percentage of the total.

22 This is product that if there was an abrupt

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 loss, we would struggle to resource in other AGOA
2 countries in a reasonable amount of time. And the
3 only realistic option for us would be first a
4 disruption in supply, and then resourcing that
5 product most likely to China where we would have an
6 available supply of production. That would mean a
7 significant price increase.

8 We are governed by a set of what we refer
9 to as family values, and one of our values is to
10 make a difference. Our 2,500 sewers in Tanzania, 80
11 percent of them are women today. They are paid on
12 average five times the average national monthly
13 income. We provide healthcare. We provide two
14 meals a day. We provide education assistance.

15 At its core, the AGOA program is a powerful
16 extension of America's reach around the globe
17 through the use of soft diplomacy. When respected
18 American companies successfully operate in a country
19 such as Tanzania, we tangibly improve domestic
20 living standards by paying desirable wages, holding
21 to higher workplace standards, and more. AGOA from
22 an American perspective is about encouraging an

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 American brand such as ours to truly do good and do
2 well in Africa. I hope that we do that.

3 Thank you very much.

4 CHAIR HAMILTON: That's the first applause
5 of the day. So thank you, Mr. Lott, for that very
6 interesting statement. I have a couple of
7 questions. First, I am curious and I wonder if you
8 could expand on why it would cost you less to move
9 production to China as opposed to another
10 AGOA-eligible country should Tanzania lose their
11 benefits? And then the second question is whether
12 or not you are actually supplying apparel within
13 Tanzania?

14 MR. LOTT: So the first question, if
15 Tanzania were to lose AGOA status, it would be kind
16 of a three-part series for us. The first part would
17 be a disruption in our supply chain. It's a very
18 significant amount of apparel that we purchase from
19 there, and we would have to redevelop and resource
20 that somewhere else. In the medium term, we would
21 most likely look to a country like China, who has
22 just the massive capacity and capabilities to

1 immediately take on a program like that. It's taken
2 us seven years to build the capacity in Tanzania
3 that we have today.

4 Over the long term, there is the potential
5 that we could redevelop the program in another AGOA
6 country, and we would certainly hope to do that, but
7 in my estimation that would take several years for
8 us to be able to do that.

9 CHAIR HAMILTON: And the second question,
10 are you supplying Tanzania?

11 MR. LOTT: Oh, all of goods are for export
12 to the United States today.

13 CHAIR HAMILTON: I'll turn to State. Do
14 you have any questions?

15 MR. GAZIS: I just have one question, one
16 additional question. Do you have a sense of the
17 financial loss your company would incur with a
18 relocation to China or another AGOA-eligible country
19 and how that would impact your overall business
20 model?

21 MR. LOTT: I tried to estimate that, and
22 the best I can do is an estimation. If we were to

1 move the production to China, the goods that we make
2 in Tanzania are synthetic products that would carry
3 a 32 percent duty rate. There might be some labor
4 saving, so we would estimate though at the high end
5 close to a 32 percent cost increase at least in the
6 near term before we were able to resource that.

7 There is also a business loss in just terms
8 of disruption of product and unable to fill orders
9 over a period of time while we resource the product.
10 So I believe it's conservatively several million
11 dollars in the first year, but it's hard for me to
12 give you a real number because there's just a lot of
13 variables at play.

14 In terms of jobs for us, we will do
15 everything we can as an organization to maintain the
16 jobs that we have in the United States. We've never
17 had a layoff as a company. We're very proud of
18 that. Even during the recession of 2009, my father
19 and I made a decision that we would do everything we
20 could to keep the employees that we had. That was
21 the right family and personal decision. It has
22 turned out to be a good business decision for us as

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 we've gained a lot of loyalty from a lot of
2 wonderful, long-term employees, so we would do
3 everything we can to maintain employment.

4 It would potentially hurt our ability to
5 grow through some new initiatives. We're looking at
6 an opportunity to build manufacturing in the United
7 States today and are looking at an opportunity in
8 Tennessee right now. If this were to happen, it
9 would significantly affect our ability to make some
10 of those acquisitions and invest in the way that we
11 are hoping to do here at home.

12 MR. STEWART: Good afternoon, Mr. Lott.
13 The EAC Secretariat notes that the EAC is
14 considering opening up an export scheme to local
15 markets to boost access to fairly priced garments.
16 As an AGOA exporter of T-shirts and golf shirts, do
17 you see this as a viable approach to spur domestic
18 demand for new apparel?

19 MR. LOTT: For the EAC and their domestic
20 markets, you know I believe that when AGOA got
21 renewed, I talked to several members of Congress
22 about the need to extend it for 10 years because I

1 believed at the time that many of these countries
2 needed that sort of runway to develop these
3 industries. And what we are seeing is, is that
4 investment is rolling into AGOA countries now for
5 development. But we are still at the early stages.
6 Our company, I think, was one of the earliest to
7 really invest in any AGOA countries in terms of
8 development. My anticipation would be that if more
9 American companies, Asian companies that have an
10 expertise can come in to help provide capital,
11 skills, and training, that EAC countries are going
12 to develop an industry that will be able to support,
13 to supply them both for domestic and for export over
14 time. And so I certainly believe they can do that.

15 MR. STEWART: Thank you, sir. I have no
16 other questions.

17 CHAIR HAMILTON: Thank you very much. I
18 don't think we have additional questions. Thank
19 you, Mr. Lott.

20 MR. LOTT: Thank you.

21 CHAIR HAMILTON: Let me call the next
22 panel, Mr. Stephen Lande from Manchester Trade.

1 (Pause.)

2 MR. LANDE: Thank you very much.

3 CHAIR HAMILTON: Hi, Steve. Welcome.

4 MR. LANDE: Thank you very much, Connie and
5 team. The wealth of testimony that we have heard
6 until now, I don't think I will review it. I'm free
7 to answer questions and so on, but I think the
8 argument had -- the argument I think has been made
9 convincingly that the countries in question are more
10 than living up to the requirements under the bill,
11 specifically to make progress towards market access,
12 provide fair treatment and good treatment for U.S.
13 products that enter the country.

14 Now, let me make one point that puts it in
15 perspective because we're arguing this is out of
16 proportion. But, yeah, there could be a discussion
17 on used clothes, and I'll go in a little detail, but
18 this is not what AGOA was designed to do. It
19 doesn't say you shall look after each and every
20 trade restriction a country has, and if there is an
21 objection, you should come in and discuss AGOA
22 eligibility.

1 These three countries -- I'm sorry, two of
2 the three countries, Tanzania and Uganda, are doing
3 more for U.S. exports, doing more to maintain market
4 opportunities for U.S. exports than many other
5 countries are in the world. And that is they are
6 standing up to the European Union, which is
7 threatening access into their markets "unless they
8 sign economic partnership agreements." There is
9 nothing wrong with voluntary free trade agreements.
10 People enter them. But if you go to somebody and
11 this is not wrestling in the -- like fixed
12 wrestling. Maybe that is a good comparison. And
13 you put their arm behind their back and they say you
14 want to sell in our products.

15 But let me begin to put it in at least the
16 way I'm looking at it, and that is the
17 proportionality of what we are considering here
18 vis-à-vis the language in AGOA. And the language in
19 AGOA talks about general terms, and they are
20 important terms. There were some very basic
21 questions about used clothing. Are they U.S.
22 exports? And again they have been raised by others

1 and so on.

2 Now, I did some checking, and I called the
3 WTO, nothing official but I talked to some friends
4 there, and they said it's unclear, you know, what
5 would you treat them as and so on. They don't
6 fulfill the origin requirement. They're in
7 question. It's true they are packed together, but
8 that's like, what shall I say, that's like finishing
9 a product, I mean, and so on. It's not producing
10 it.

11 There were other questions raised about
12 used clothing. The health and sanitary questions
13 that were raised and so on, I thought, were fairly
14 good, particularly the prohibition on undergarments.
15 I think the question possibly of abuse, if you're a
16 developing country, you don't have the best kinds of
17 things, how do you make sure the clothing is
18 actually used and is not an overrun or being put in
19 something. There is quite a tariff advantage here,
20 the question of the tariff binder.

21 So the question, at least the way I kind of
22 pose it, is should we be having these hearings at

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 all? Is this what Congress intended, that every
2 time somebody comes with a complaint, they should
3 get a public hearing?

4 CHAIR HAMILTON: Let me just interrupt you.
5 The answer is yes. The reason why we got 10 years
6 extension of AGOA is because Congress created the
7 petition process to go in to allow stakeholders to
8 have their voices heard when they had an issue.
9 Steve, there's nothing wrong with someone actually
10 voicing their concerns or their issues. That's what
11 we are doing here today. So SMART had the right to
12 file a petition. We have the right to review the
13 petition. And all we're doing today is collecting
14 information about the allegations in the petition.
15 I just want to be clear on that.

16 MR. LANDE: I want to agree with you. And
17 I want to also say, at least my initial thought was
18 and I want to say clearly, is that it's very clear
19 to me that the kind of conscientiousness the USTR,
20 the TPSC deserves is very important for Congress,
21 but it sends a very clear signal that you take it
22 seriously. And I agree with that.

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 The fact that you sent two people into the
2 field and you actually studied it is very positive.
3 And the fact you did it so quickly, there was a
4 little delay at the beginning, but once the decision
5 was made, it is what Congress had in mind. However,
6 Congress did not necessarily have in mind that
7 everyone who brings a complaint should have a public
8 hearing.

9 The language, which hopefully doesn't go
10 out on me before I read it and so on, clearly says
11 the committee does not intend for out-of-cycle
12 review -- the committee does not intend for
13 out-of-cycle reviews to be common. Instead, a
14 formal out-of-cycle review should be instituted by
15 the Administration only when it has exhausted all
16 other options. And furthermore, it has no
17 discussion -- never says that you should in any way
18 change the eligibility requirements. All they're
19 saying is this is another way to bring -- another
20 way to consider an issue in an out-of-cycle review.

21 So all I'm arguing for -- yes, it's your
22 right, definitely your right and your conscientious

1 right, and maybe you learn this in an out of --
2 maybe you're correct, maybe the way to keep AGOA
3 popular and you have the vote 97 to 1 for its
4 renewal is by reacting to these petitions very
5 quickly. But the negative is there also, and so on.

6 There was an article -- so much for
7 electronics. There was an article in the South
8 African press today. I'll give the citation and put
9 it in later on since it seems to have disappeared.
10 The person started from the assumption -- not the
11 assumption that you make, which is exactly correct,
12 that you're just considering a matter -- but there
13 is already U.S. policy and you're now going to begin
14 to go after, quote, "textile and used clothing," and
15 the WTO country reviews, it's all over the place,
16 and so on, etc. That when you make a decision of a
17 hearing, you may be very correct in what you're
18 thinking about, but that's not the way it's looked
19 at in Africa. It is looked at as -- in fact, they
20 even have a line in that paragraph, I won't continue
21 on it, where they said in fact the only hope for the
22 added clothing industry is some support from civil

1 society.

2 So what you have to remember in terms of
3 the program is it's a dichotomy. There's a
4 conundrum. On one hand, Congress definitely wants
5 to have security for the program. On the other
6 hand, they definitely want to have some kind of a
7 vehicle where people, if they have a problem, can
8 come and discuss it with you and so on and make sure
9 they're doing market access. But as I said, it
10 seems very clear to me that they don't really want
11 to have this hearing until you've exhausted all of
12 the possibilities.

13 And just listening to the hearing today,
14 the discussion, my own personal view is that the
15 correct way to go is in the TIFA. This should have
16 been a TIFA subject and discussed as a TIFA.

17 CHAIR HAMILTON: All right, thank you for
18 that. Let me just say we have brought this up in
19 the TIFA since 2015. The reason we are here is
20 because we have not been able to resolve this issue.
21 So if there are some statements that you want to
22 make as to why --

1 MR. LANDE: I will.

2 CHAIR HAMILTON: -- SMART is wrong in some
3 of their allegations or things that we heard today
4 I'd like to hear it. But what I don't want to hear,
5 Steve --

6 MR. LANDE: You're entitled.

7 CHAIR HAMILTON: -- why we should not be
8 here today.

9 MR. LANDE: That is correct.

10 CHAIR HAMILTON: Thank you.

11 MR. LANDE: That is correct. But I think
12 the key issue here is do you have to -- in the
13 petition that was provided by SMART, did they
14 demonstrate sufficiently that this has become a
15 barrier to U.S. exports, to U.S. trade? And I don't
16 want to review it. I simply said when I started my
17 discussion is I think other people have done their
18 best to make the particular argument in place. I
19 will not repeat what you told me not to repeat
20 because I agree with you in part that you have to
21 control the hearing and keep it within subject.

22 CHAIR HAMILTON: We are old friends, to the

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 audience. We do this all the time.

2 MR. LANDE: I know. So the point I think I
3 really want to make is that in the -- that hopefully
4 we can either explain to the Africans that having a
5 public hearing procedure is not an invitation, does
6 not mean that we are undercutting the security of
7 AGOA, that we want to keep it into effect, or
8 something else.

9 I would argue in terms of the petition,
10 I'll keep it in that language, I will argue in terms
11 of the petition to say that because somebody has a
12 ban on used clothing, which is controversial, to say
13 that the punishment should be either elimination of
14 all textile benefits under AGOA, which is certainly
15 extremely important and particularly for Kenya, to
16 say the elimination of all benefits is out of
17 proportion.

18 What I would say is that in terms of
19 relaxing people in Africa, in terms of the signal
20 you send to new investors, the quicker you dispose
21 of this petition the better, and so on, because it
22 has that uncertainty. But hopefully in the future

1 we will establish criteria first for accepting
2 petitions that won't be like any people come in.
3 And, two, there are some additional ideas we have,
4 but I'm not going to mention them now because they
5 are not covered in this petition, but we do hope
6 that we have a chance to discuss with you
7 alternative methods to, quote, to eliminate the
8 acceptance of petitions but at the same time to --
9 but at the same time to make sure that U.S. export
10 interest countries are moving towards removing
11 barriers so U.S. exports continue.

12 Let me leave it on that basis, and I'm
13 certainly open for questions.

14 CHAIR HAMILTON: Thank you, Steve. Any
15 questions? We can start with State.

16 MR. GAZIS: Good afternoon. In your
17 testimony, you make arguments that appear to justify
18 the EAC decision to phase in -- phase out the import
19 of used clothing and footwear. Can you explain how
20 this ban would not constitute a barrier to U.S.
21 trade and investment?

22 MR. LANDE: Well, first of all, as
 Free State Reporting, Inc.
 1378 Cape St. Claire Road
 Annapolis, MD 21409
 (410) 974-0947

1 explained today very clearly, it's not yet -- well,
2 the way I understand the argument, it's not 100
3 percent agreement that they're going to prohibit it.
4 It's a process that's on the way, so I even
5 misstated my own way. It's a proposed ban that's
6 under consideration and so on, etc. I think the
7 argument that you -- the argument you can make is,
8 number one, that U.S. exports are not involved in
9 this decision, or maybe they are, but they are
10 secondarily involved, and so it's not a major
11 project. They don't go to the origin rules.

12 There is an opportunity for U.S. exports to
13 be increased by certain products. I think they
14 actually made the point that there are products now,
15 jeans just for example, which are very popular, have
16 a trademark. When they come in as used clothing,
17 they pay a duty of whatever it is, 20 cents a pound
18 and so on, etc., which formerly was lower. Now
19 we'll see what happens with the new discussion
20 they're having, but it comes in at a lower value and
21 so on. So it does undermine U.S. exports.

22 But the real damage to U.S. exports is that

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 it damages AGOA. And it damages the idea that
2 people want security for investment. They don't
3 want this collateral damage, unintended collateral
4 damage when you consider that. So that would be my
5 basic argument in answer to your question. The
6 damage to U.S. exports we could come to specifics,
7 but it's taking a very questionable position and
8 having -- I want to stop there because Connie gave
9 me my rule, and I'm going to observe it. But that's
10 kind of my response, and so on, to that.

11 Let me tell you one thing from my history,
12 which is very significant. When we started GSP in
13 1974, there was a rule that said -- again which
14 dealt with preferences, and it said that we could
15 not provide GSP to a country which benefited from
16 preferences which had an adverse effect on U.S.
17 trade. One of the countries that had just signed a
18 free trade agreement happened to be Israel.
19 Needless to say, we got a call from the Hill,
20 Senator Ribicoff specifically, and said I understand
21 there's a provision there that is going to be
22 denying, and we have a lot of other objectives with

1 Israel, we're going to deny them preferences.

2 So they then changed the language and they
3 said, okay, they amended the bill, and they quickly
4 said that we cannot provide preferences to a country
5 which gives preferences to a developed country,
6 third country project which has a significant or a
7 substantial impact, a significant or substantial
8 adverse effect on U.S. trade.

9 And that's pretty much what I'm arguing
10 here when I come here and I discuss it. I'm saying
11 it's not a question of whether there is a trade
12 regime, but does it have a significant, substantial
13 adverse effect on U.S. exports? So that's my
14 position I'm trying to make.

15 CHAIR HAMILTON: Fred, do you have a
16 question?

17 MR. STEWART: Good afternoon, sir. I have
18 one question. I guess it's maybe a twist on State's
19 question. In your testimony you argue that the
20 EAC's ban on imports of used clothing will actually
21 benefit U.S. companies and presumably lead to an
22 increase in U.S. exports and investment. Can you

1 please expound on that?

2 MR. LANDE: Okay. Well, it all depends, I
3 think, whether you believe in AGOA or not. I
4 believe in AGOA. And I believe that by promoting
5 economic development in Africa, by working in an
6 environment where you don't -- well, just say you
7 work in Africa, you're not dealing with a group of
8 countries or a group of people who really want to,
9 to quote this Administration, steal/take U.S.
10 industries.

11 Africa wants to participate with the U.S.
12 in the development areas. So if they are successful
13 and they're going to have to have industrial
14 policies, I'm not saying they'll all be 100 percent
15 free market. It doesn't mean that you're violating
16 the rule if you take steps towards that. But if
17 they are able to get their economic growth
18 operational, then they will become a consumer of
19 more than 1 billion people in Africa, 300 million
20 middle class people. And they are not tied to any
21 particular area in terms of where they buy from.

22 And then there was the specific argument I

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 used, U.S. manufacturers in the middle of the
2 development of this kind of trade, so that profits.
3 And there were some products that may benefit from
4 this particular ban. But again, just repeat that's
5 not the major argument. The major argument is that
6 the ban is out of proportion to consideration of
7 reducing the concession, that it's a life blood of
8 AGOA for many countries, the concession on third
9 country garments. And I think that's really my
10 basic argument.

11 MR. STEWART: Thank you. I have no further
12 questions.

13 CHAIR HAMILTON: So a very positive note to
14 end on. Thank you, Steve, for your testimony.

15 I think that's it for today. So thank you.
16 Good-bye.

17 (Whereupon, at 1:22 p.m., the meeting was
18 adjourned.)

19

20

21

22

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22

C E R T I F I C A T E

This is to certify that the attached
proceedings in the matter of:

PUBLIC HEARING

TO

REVIEW THE REPUBLIC OF RWANDA'S,
UNITED REPUBLIC OF TANZANIA'S,
AND REPUBLIC OF UGANDA'S

Free State Reporting, Inc.
1378 Cape St. Claire Road
Annapolis, MD 21409
(410) 974-0947

1 ELIGIBILITY TO RECEIVE THE BENEFITS OF
2 THE AFRICAN GROWTH AND OPPORTUNITY ACT (AGOA)

3 July 13, 2017

4 Washington, D.C.

5 were held as herein appears, and that this is the
6 original transcription thereof for the files of the
7 Office of the United States Trade Representative.

8

9

10

11

12

Dominico Quattrociochi

13

Official Reporter

14