

Trans-Pacific Partnership Agreement (TPP) Stakeholders' Forum

*The supply chain structure for the apparel industry
and the role of TPP*

Presented by Levi Strauss & Co.

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Introduction

- Thanks for the opportunity to speak about the supply chain structure of our industry and potential benefits from TPP
- Speaking on behalf of LS&Co. and key trade associations representing the apparel industry, including:
 - American Apparel and Footwear Association (AAFA)
 - National Retail Federation (NRF)
 - United States Association of Importers of Textiles and Apparel (USA-ITA)
 - Outdoor Industry Association (OIA)
- Representing U.S. retailers, apparel brands, apparel manufacturers and importers and the millions of jobs they create throughout the value chain

About Levi Strauss & Co. (LS&Co.)

- Based in San Francisco, California, one of the world's largest brand-name apparel marketers with sales in more than 110 countries
- Revenue of \$4.4 billion in 2011
- Apparel products sold under the Levi's[®], Dockers[®] and dENiZEN[™] brands
- Global corporation with roughly 11,000 employees worldwide
- Global supply chain sourcing in about 40 countries, with no more than 20 percent of product manufactured in any one country

Key Industry Interests in the TPP

- No Separate Textile Chapter or Negotiations
 - Textiles and Apparel are integrated in World Trade
 - No Separate Textiles/Apparel Negotiation in the Doha Round
 - No more quotas
- Flexible and Simple Rule of Origin (not yarn forward):
 - Reflects Global Supply Chains of the 21st Century Industry
 - Maximizes Industry Ability to Use TPP Now and in Future
- Immediate Duty Free Access
 - Lengthy Phase Outs Delay Benefits of the TPP

Realities of LS&Co.'s Sourcing Model

- Market in 110 countries and source in about 40 countries = truly global with complex supply chain
- Flexibility is critical to sourcing model = need ability to source from a variety of suppliers who can meet our complex demands for fashion, quality, speed to market, etc.
- Inputs are not commodities that are interchangeable (e.g., denim quality varies and different mills offer varying levels of quality and design features)
- Key concerns include: skilled labor, cost, availability of inputs, speed to market, quality of production, and infrastructure (electricity, roads, ports, etc.)

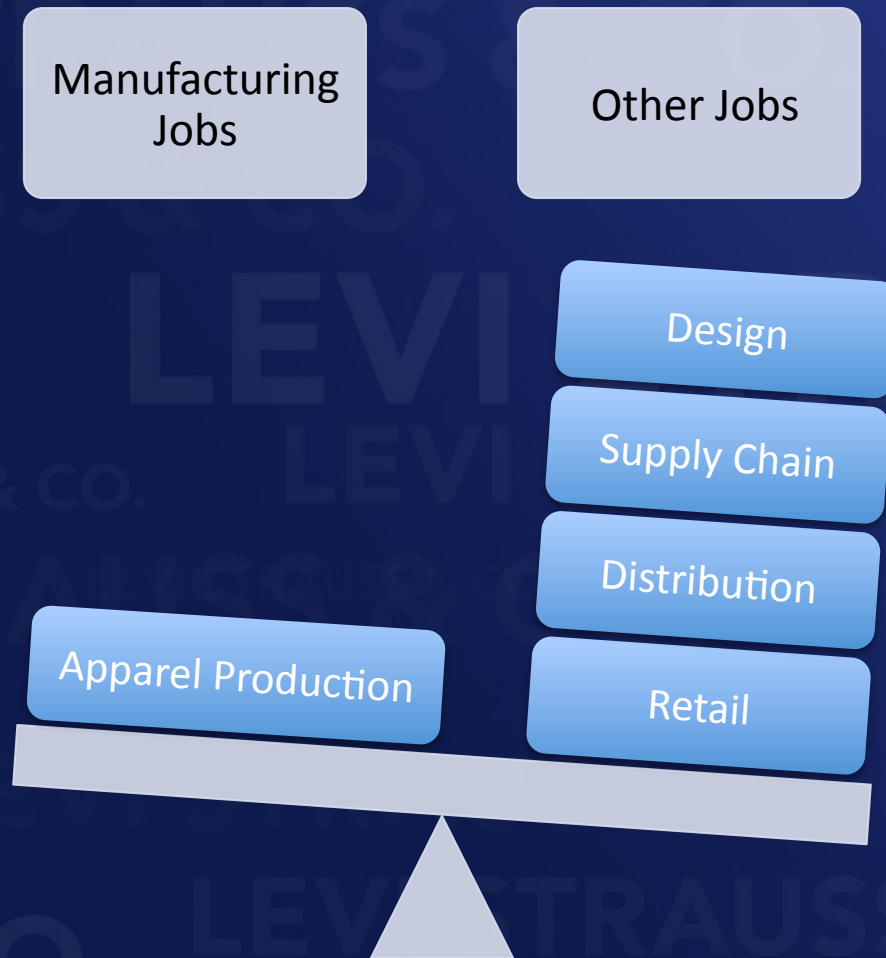
Benefits of a Meaningful Agreement

- First FTA negotiated after the complete elimination of special protection and quotas could provide opportunity for industry
- Chance to realize a 21st century trade agreement that recognizes the realities of global supply chains
- Opportunity to craft an agreement with a liberal rule of origin that will open markets, promote trade, and create incentives for investment in TPP countries
- Chance to build in cumulation with all TPP partners to the advantage of the region from a more efficient supply chain
- Opportunity to reduce border taxes that fall disproportionately on apparel products and harm consumers

Benefits of a Meaningful Agreement

- Chance to recognize that the apparel industry no longer needs special treatment; that the apparel industry has no special or unique issues since the end of quotas (e.g., transshipment, compliance)
- Potential to strengthen intellectual property protection
- Opportunity to achieve regulatory coherence and reduce administrative burdens in the supply chain
- Potential for job creation throughout the entire value-chain including designers, manufacturers, transportation, IT, distribution centers and retailers

Job creation throughout the value chain



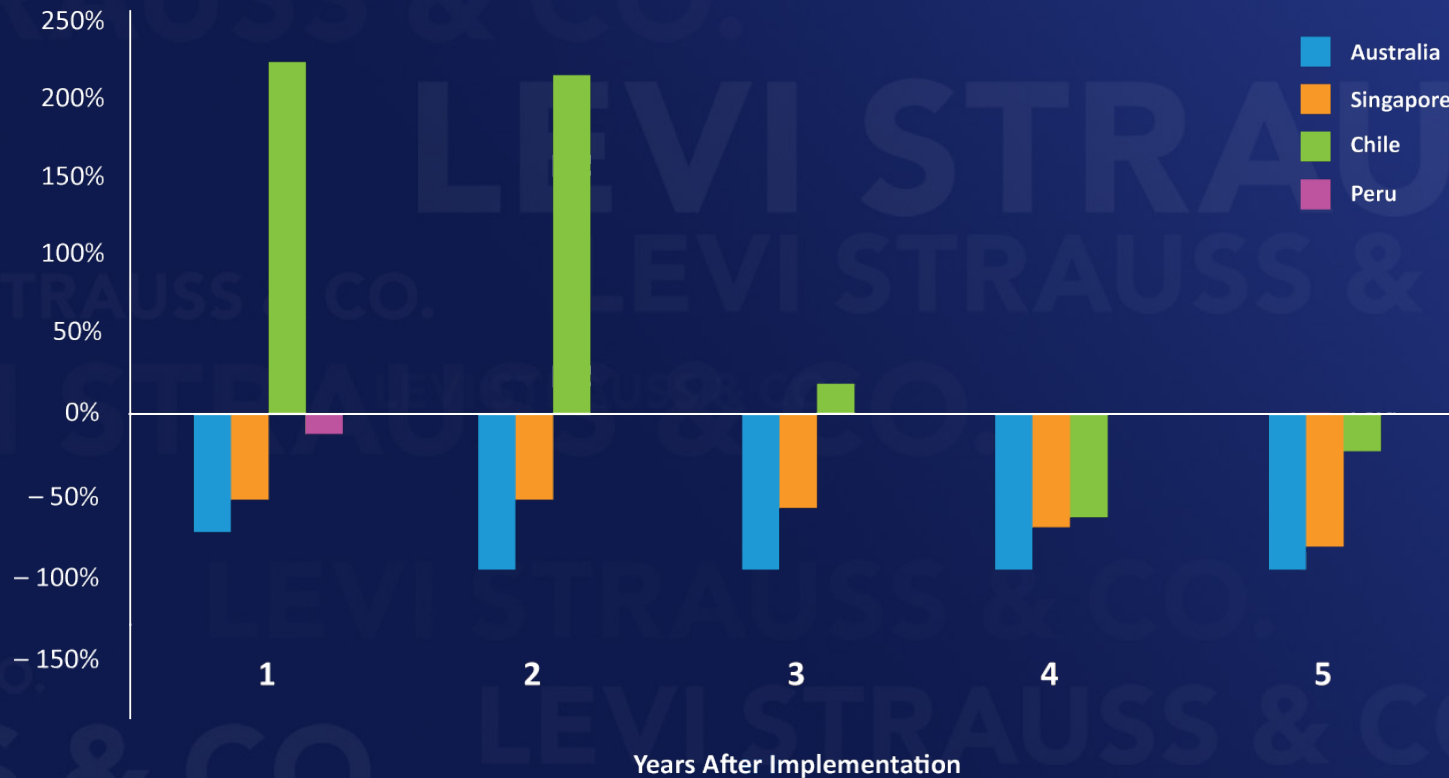
Consequences of a Meaningless Agreement

- Without a liberal and simple rule of origin and other benefits for the apparel industry the TPP will:
 - Produce no new trade in our sector
 - Suppress market access offers from other industries
 - Be administratively burdensome and reduce speed to market
 - Hinder interest in investment (business likes flexibility)
- Past FTAs with strict rules yielded little benefit
 - AGOA's requirement to use local denim fabric resulted in a move away from production of denim apparel in Africa
 - The US-Australia, Singapore and Chile FTAs have failed to achieve expanded trade in apparel for those countries
 - Only FTAs with neighboring countries have had positive results

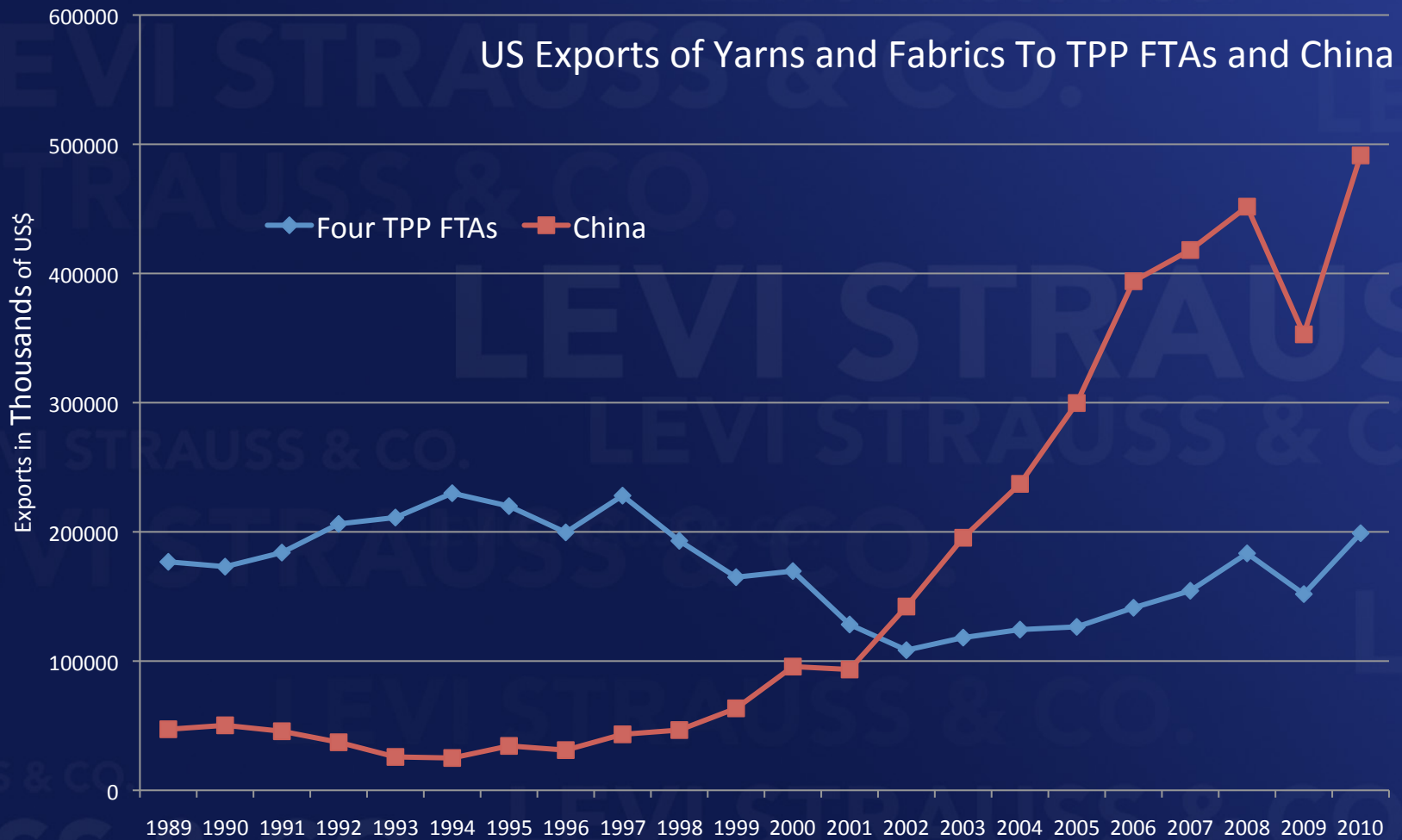
Consequences of a Meaningless Agreement

Existing TPP partner FTAs with YF rule have failed to expand trade

Percent US Apparel Import Growth of 4 TPP FTAs



US Export of Yarn and Fabric to TPP FTAs and China



Key Sourcing Variables

- Cost (inputs, transportation, tariffs, etc.)
- Speed to Market
- Availability and skill of labor that meets our worker rights standards
- Ability to produce to specifications including aesthetics, style, trends, seasonal innovation
- Flexibility to deal with unforeseen circumstances (natural disasters, political unrest, currency fluctuation, etc.)

Liberal, Flexible and Simple Rules of Origin Are Critical

- Without favorable rules the industry does not utilize trade agreements
- Efficient cut and sew operations with access to a diversity of fabric/material allows us to be the most competitive
- We are driven by market realities and need to adjust sourcing strategy to adapt; yarn forward restricts our flexibility
- A yarn forward rule would bind industry to current trade patterns and dampen potential growth in the sector
- Strict rules add cost and complications making the supply chain cumbersome, often negating benefits from trade agreements

In Sum: Advantages of Liberal Rules of Origin, Disadvantages of Restrictive Rules

Liberal Rules:

- Provide value to consumers
- Increase competitiveness
- Diversify and improve the supply chain
- Create jobs
- Drive investment in line with market realities
- Deliver the commitment to the 21st century

Restrictive Rules:

- Do not consider supply chain realities
- Administratively burdensome
- Reduce speed to market
- Drive up cost
- Limit interest in investment
- Will suppress valuable market access offers in other sectors

Thanks

- We are hopeful that the TPP will provide our industry with the tools we need to grow and prosper in the 21st century providing jobs and benefits to workers throughout the value chain and quality products at affordable prices to our consumers
- Thank you for your time

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