

TRANS-PACIFIC PARTNERSHIP AGREEMENT (TTP)

Case Study – Levi Strauss & Co., Vietnam

ABOUT LEVI STRAUSS

- One of the world's largest brand name apparel marketers with sales in more than 110 countries under the Levi's[®], Dockers[®] and dENiZEN[™] brands.
- Global supply chain sourcing from approximately 35 countries, with no more than 20 percent of product manufactured in any one country.
- Roughly 16,000 employees worldwide.
- We own and operate only 4 manufacturing facilities worldwide.
- Indirect employment in Vietnam of more than 36,000 through our contract manufacturers.

LS&CO.'S GLOBAL SUPPLY CHAIN

- LS&Co. sources from approximately 35 countries.
- We source fabric, sundries, “cut and sew,” finishing, tops, bottoms, accessories, packaging and more.
- Our inputs are not interchangeable commodities, so merely having a mill in the area does not mean we would source from it.
- Flexibility is critical to our sourcing model. We need the ability to source from a variety of suppliers who can meet our complex demands for fashion, quality, skilled labor, speed to market, etc.

LS&CO. IN VIETNAM

- LS&Co. has been in Vietnam since 2007.
- Approximately 30 manufacturers contracted to manufacture our brands.
- Owned and operated facility at Khanh Phu Industrial Park in Ninh Binh Province. Opened in May 2010.
- Investment of approximately US\$12 million.
- Factory provides R&D and “value added” finishing.
- Employs more than 1,000 people.
- Produces approximately 60,000 pieces a week.

LS&CO.'S DECISION TO INVEST IN VIETNAM

- Liberal (fabric from other country origins) trade preference programs which work primarily for key Asia markets, with an eye to Europe market in the future.
- Competitive costs.
- Skillset and capability of the workforce, recognizing that we would need to invest in training and development to realize this potential.
- Expanding market access opportunities to TPP partners such as the U.S. would be an even more attractive investment incentive.

LS&CO. COTTON APPAREL PRODUCTION

- Our products in Vietnam are made primarily of cotton fabric.
- The largest cotton producing countries are Australia, Brazil, China, India, Pakistan and the U.S.
- The largest denim/fabric producing countries are Brazil, China, India, Indonesia, Italy, Pakistan, Turkey and the U.S.
- The top “cut and sew” trouser manufacturing countries are Bangladesh (duty free GSP+ to EU), Cambodia (duty free GSP+ for EU), China, Mexico (duty free EU and US), Sri Lanka and Turkey. (Vietnam is in the top 10)
- Our inputs for Vietnam come from a variety of countries, including China, India, Indonesia, Japan, Pakistan and Turkey.
- We source a small amount of fabric in Vietnam for Dockers®.

“VALUE ADDED”

- At our Ninh Binh facility, employees craft specialized premium finishes that add value and meet standards of our most demanding markets.
- The facility develops and perfects new innovative finishes and finish combinations.
- Proximity to “cut and sew” facilities make this arrangement feasible for us.
- Employees are doing very specific and detailed work which results in an increase in their skills and value to the market.
- In just a short time, we have developed local employees from entry level into supervisory roles in our facility through intensive training.

DISADVANTAGES OF “YARN FORWARD” RULES

- There is no source in Vietnam for fabric that meets the specifications we need to manufacture trousers and jeans in Vietnam. Same goes for many other countries where we manufacture.
- “Yarn Forward” restrictions on “rules of origin” requirements rarely lead to significant investment into textile mills in any country.
- Yarn Forward FTAs (e.g., U.S.-Australia, Singapore and Chile) have failed to expand trade in apparel for those countries.
- Businesses will not invest in mills unless there is a significant manufacturing industry, which will occur with liberal rules.
- Drives up costs.
- Reduces speed to market.

ADVANTAGES OF SIMPLE RULES OF ORIGIN

- Simple rules of origin are now common for most industries with few exceptions.
- Diversify and improve the supply chain by recognizing the intricacies of sourcing.
- Increase competitiveness.
- Drive investment with market realities.
- Create jobs.

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 of how business is done and going to be done in the future

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

TEXTILES DO NOT NEED SPECIAL RULES

- WTO eliminated quotas in apparel sector in 2005.
- The quota system required special rules to administer due to unique customs and compliance issues.
- Apparel is subject to the same customs and compliance rules as other industries.
- Need for special rules is gone.

CONCLUSION

- Modern supply chain for most products, including apparel, is intricate and complex and has become truly global.
- Flexibility is critical as we need to source from a variety of suppliers who supply various components of our products in line with demands for fashion, quality and speed to market.
- Quotas are gone and it is time to afford the apparel industry the same simple rules of origin enjoyed by most industries.
- Flexibility would provide incentives for companies throughout TPP and opportunities for TPP partner countries such as Vietnam.

Q & A