



As Seen On



Businesses Ready to Fight EU Tariff on 'Made in USA' Jeans

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By Heesun Wee, Editor, CNBC.com

You know those pricey, slim jeans that flatter ladies', um, backsides? They could ultimately cost even more if you buy them in Europe.

In May, the European Union imposed a tariff of almost 40 percent on American-made premium jeans, which account for 75 percent of the world's designer jeans market.

American apparel leaders now are working to end the duty, which will be a key sticking point when free-trade deal negotiations between the U.S. and EU resume next month. (The temporary government shutdown had postponed the trade talks.)

"We're in the middle of negotiations with the EU," said Steve Lamar, executive vice president of the Arlington, Va.-based American Apparel & Footwear Association. "We've been using the process to pretty loudly and forcefully talk to the U.S. and European negotiators about the problems that occur as a result of this punitive tariff that got put on us."

Though jeansmakers are largely absorbing the duty and have yet to pass along the additional costs to consumers, a lingering tax could hurt U.S. denim exports to Europe—a growing market for American companies. Another potential risk is businesses' moving manufacturing jobs overseas to avoid "Made in USA" labels and thus bypass the European duty.

"The timing [of the tariff] couldn't be worse," said **Ilse Metchek**, president of the Los Angeles-based **California Fashion Association**. "The 'Made in the USA'

push, we're waking up to the fact that we are no longer manufacturing in the U.S. On the heels of this tariff, it is quite easy to turn on a dime and make it elsewhere. This just chases work offshore."

While no one is pulling jobs out of the U.S. just yet, the EU tax already is hurting profits. "The tariff has not really affected our European business from a gross sales standpoint," said Samuel Ku, creative director at AG Jeans, based in the Los Angeles area. "The tariff has, however, affected [our] profitability and [that of] our European partners," he said in an email to CNBC. AG jeans retail for \$168 and up.

The best-case scenario for U.S. jeansmakers is to end the tax and prevent jobs from moving abroad.

"If the tariff continues, we may have to strategically place production of certain product outside the U.S.," said Ku. "That would be worst-case scenario."

'Made in USA' denim is hot abroad

It's no secret that most of what Americans wear comes from somewhere else. More than 97 percent of apparel and 98 percent of shoes sold in the U.S. are produced abroad, according to the American Apparel & Footwear Association.

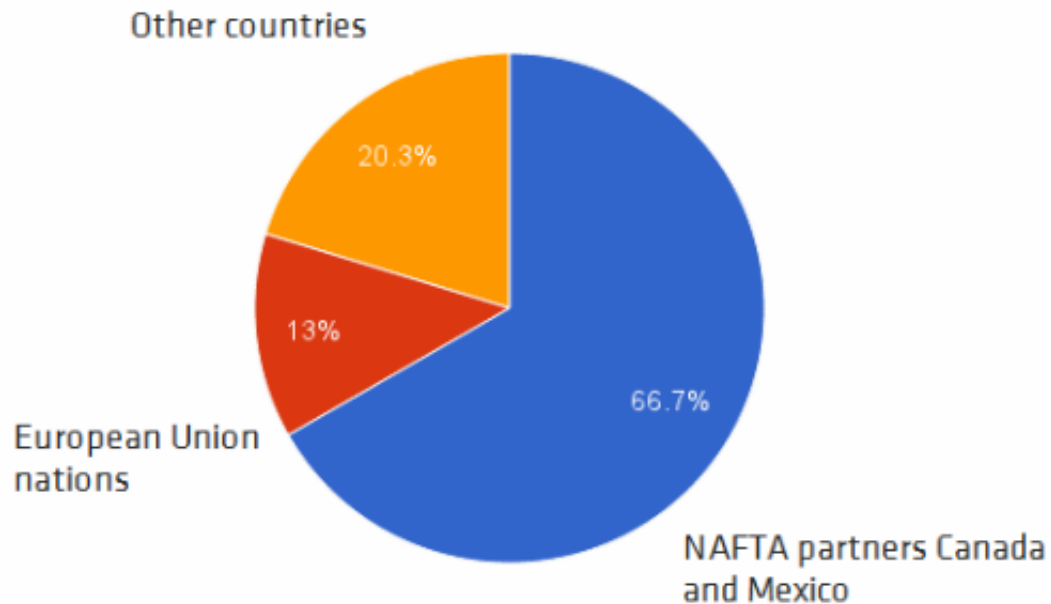
But an often-overlooked exception is jeans, which remain stubbornly "Made in America."

Southern California, particularly the Los Angeles area, has a deep bench of skilled, affordable laborers and apparel infrastructure. As the fashion industry overall has moved manufacturing overseas, agile jeansmakers, mostly small to midsize businesses, have retrofitted factories for jeans production-particularly premium jeans retailing for \$75 and up.

It's ironic that Americans wear apparel mostly made abroad, and consumers in Europe and Asia buy American-made clothing-specifically jeans. And while those shoppers snatch up premium denim, Americans are actually buying less of the expensive stuff (\$75 or higher).

U.S. premium jean sales fell 19 percent for the year ended in August compared with the year earlier, according to the NPD Group. Businesses are getting better at creating fashionable denim at a lower price point, with sales of jeans under \$25 up 16 percent.

Where 'Made in USA' jeans are exported and sold



Source: Agathon Associates

CNBC

Meanwhile, generation after generation of young people discover denim's cool factor and iconography. Consider jeans originally worn by gold miners during the 1880s California Gold Rush. Picture the Marlboro Man, reclining on a fence, dust blowing on the plain. James Dean in "Giant."

"One of the marquee products sold outside of the U.S. is 'Made in USA' denim," said Marshal Cohen, chief industry analyst at The NPD Group. "It's the cowboy."

If you happen to be in London's Selfridges department store, for example, visit the denim section and check out jean labels. Most brands are made in the U.S., said **Metchek** of the California Fashion Association. While American jeansmakers keep sales figures close to the vest, **Metchek** estimates that no more than 8 percent to 10 percent of their inventory is exported to Europe.

David Trumbull, a principal with Agathon Associates and an expert in U.S. manufacturing and textiles, estimates that 13 percent of the 23 million pairs of premium jeans made in America annually go to Europe. Fully two-thirds are shipped to the U.S.'s North American Free Trade Agreement partners-Canada and Mexico.

To better understand why American-made jeans have landed in the middle of a tariff battle, consider denim's big margins amid a backdrop of international trade politics.

Targeting iconic American-made jeans

The EU tariff on premium denim pants for women can appear oddly narrow.

(Men's jeans are excluded from the duty.) But the EU's decision to target the category was strategic. Politicians could have taxed other American-made goods, such as socks or hosiery. But jeans, which cost roughly \$15 to produce, according to Cohen at NPD, enjoys a hefty profit margin. Designer jeans retail for anywhere from \$100 to \$300.

That means jeansmakers have a lot of wiggle room to take on the added costs of the duty without raising retail prices.

"The tariff will probably cut their profits. But they'll still be profitable-just not as profitable," said Trumbull of the Agathon consultancy.

European leaders also made sure to tax a luxury item rather than one that citizens perceive as a staple, Trumbull said.

"You don't want to hurt your own consumers and pick something that your population needs," he said. "You pick something optional." There's also the symbolism involved in targeting "Made in USA" jeans with a tariff.

"It's gamesmanship, Trumbull said. "What's more iconic in America than blue jeans? You go after something iconic."

The jeans tariff, which was raised to 38 percent from 12 percent, is in retaliation for America's failure to fully comply with a separate World Trade Organization ruling on duty collection. The U.S. applies anti-dumping duties to certain items to prevent nations from shipping low-priced goods into other countries below fair market value. While such duties are allowed within the organization's framework, turning those import duties directly over to U.S. manufacturers is not permitted, according to the WTO.

With the U.S. still not fully compliant with that ruling, the WTO allowed countries to raise tariffs on U.S. goods. The EU chose to target American-made jeans.

Meanwhile, apparel leaders are continuing to lobby state and federal officials to push back against the tariff.

"Just as this traditionally California-based manufacturing sector is making some major headway toward a permanent position in the global sourcing arena, the industry is facing a significant blow to an important and growing export market and an increased employment base for the region," **Metchek** wrote in a letter to America's chief trade negotiator.

"There's a mini-resurgence in 'Made in the USA,' where companies are looking for a business case to make it in the United States," said Lamar at the apparel and footwear group. "The timing of a tariff is never good. But in this particular case it's terrible."
