

Enforcing the Ban on Imports Produced by Forced Labor in Xinjiang
House Ways and Means Committee
Subcommittee on Trade
September 17, 2020

Statement of Steve Lamar
President and CEO
American Apparel & Footwear Association

My name is Steve Lamar. I am the President and CEO of the American Apparel & Footwear Association. Our members include retailers, wholesalers, importers, exporters, and manufacturers. We make products that touch every American and our industry employs nearly four million U.S. workers.

Thank you for holding this hearing on this critically important topic.

Our members and our industry have zero tolerance for forced labor. We work tirelessly to make sure it does not taint our supply chains in whatever form it takes and wherever it manifests itself.

Extensive unambiguous prohibitions on the use of forced labor in our factories and by their suppliers are in the DNA of our operations. We insist upon strict codes of conduct and terms of engagement with our supply chain partners, which are enforced and validated through an extensive network of contracts, audits, verifications, attestations, training, and direct engagement with workers and labor unions. We spend millions and millions of dollars to keep forced labor out of our supply chains.

For more than 20 years, our members have implemented some of the most rigorous due diligence activities the private sector can muster to ferret out unethical practices and to support ethical manufacturing around the world. These efforts have uncovered forced, bonded, and prison labor in subcontract facilities around the world. When we find it, our members act – resulting in millions of dollars in repayment of illegal recruitment fees, stronger protections for workers, payment of unpaid overtime and severance pay, and better and safer working conditions around the world.

We have long supported and pushed for policies to end forced labor and other worker rights abuses. This has included leading the fight against Uzbek cotton picked with child and forced labor, securing full funding for the Department of Labor's International Labor Affairs Bureau, and supporting trade

agreements, such as the recently passed U.S. Mexico Canada Agreement, that contain strong provisions guarding against forced labor.

Specifically, in China, our members have instituted rigorous protocols to make sure their partners continue to adhere to our industry's zero tolerance prohibition against forced labor. For example, they ensure that their subcontract manufacturing partners throughout the country do not employ Uighurs or other ethnicities who have been recruited via labor agents or vocational schools connected to the Chinese Government.

As has been widely reported, and as other witnesses today will testify, the situation in the XUAR is grave and unprecedented. The Chinese government is engaging in a widespread campaign to repress and exploit Uighur and other ethnicities using many tactics, including forced and prison labor.

This is intolerable. Our country and the world must unite to stop it.

AAFA and our members applaud the work done by the NGOs and activists to bring this issue to light. Equally, we commend those Members of Congress for whom this has been an issue of focus, and rightly so.

Our organization partners with a broad coalition of companies and other industry associations (including the National Retail Federation, the Retail Industry Leaders Association, and the U.S. Fashion Industry Association) to align and collectively bolster our efforts to help put an end to these forced labor practices. We have coalesced around a set of principles that highlight our commitment and resolve to ending these despicable forced labor practices, which I would like to share with you today.

First, as I have mentioned, our industry remains committed to ending forced labor. We are on the front lines of this battle, making sure that workers are safely, responsibly, legally, and voluntarily employed. We are constantly pioneering new methods and technologies to thwart forced labor. We build capacity and leverage the compliance arm of the U.S. government to other countries – by among other things – making sure the entities named in this week's withhold release orders (WROs) are not connected to our supply chains. We also provide crucial intelligence to our partners in Customs and Border Protection (CBP) so their enforcement can be more effective. When you factor in our overall customs compliance initiatives, you can see how our efforts make CBP's enforcement efforts reach farther and be more efficient. CBP calls us trusted traders for a reason.

Second, the problem in XUAR is bigger than any one industry can handle. Much is written about the economic leverage of the apparel and footwear industry and its ability to influence the Chinese government. I wish these assertions were true. But they are not. The situation in XUAR is of a scale, scope, and complexity that is unprecedented in modern supply chains. Moreover, forced labor – as horrendous as it is – is only one component of a much larger campaign of repression. These are state-sponsored programs and they are extensive. They require state-sponsored solutions. We can only end this terrible situation through sustained government to government pressure that is led by the U.S. government and involves our allies, and all stakeholders.

Third, we must use the tools at our disposal properly. To be most effective, WROs and other sanctions tools need to be targeted, transparent, clearly articulated, prospective, and developed with the trusted industry partners that will ultimately enforce them. Our industry consistently strives to go beyond mere compliance, but when the tools themselves are vague and poorly defined or retroactive (as were the WROs announced this week) even basic compliance (and enforcement by CBP and its supply chain partners) becomes next to impossible.

We have been hearing in the last few weeks about a rumored “blanket WRO” – one that would, for example, declare all cotton from the XUAR “in part or in whole” as products made with forced labor. Such a WRO would no doubt make headlines, but it would wreak unending havoc to human rights, economic development, and legitimate supply chains – which are already battered by COVID-19 – all over the world. Consider this:

- XUAR accounts for about 20 percent of all cotton consumed on our planet.
 - This capacity is not readily or quickly able to be replaced.
- Cotton is a highly fungible commodity, meaning cotton from XUAR can be, and is, co-mingled with similar cotton fibers from other sources, including from the U.S.
 - In fact, China will soon become the largest market for U.S. cotton, buying more than \$840 million in U.S. cotton in the first 7 months of 2020 alone, a 63% increase over 2019.
- XUAR cotton could show up in final products made all over the world, accounting for tens of billions of dollars of trade in supply chains that employ millions of workers and that thread through developed and developing countries alike.
 - For example, XUAR cotton could make its way into yarns and fabrics used to produce apparel in other Asian countries, like Bangladesh, Vietnam, Cambodia, and Indonesia; in Africa, like Ethiopia and Kenya; or in the Western Hemisphere; like Haiti or our CAFTA partners.
- There is no technology yet developed that allows us to trace the origin of cotton with reasonable, let alone complete, accuracy.
 - While there are many promising developments with these technologies, the fact that none of them have been shown to be reliably accurate, to say nothing of the significant cost to do so, creates enormous compliance and enforcement challenges for both CBP and the industry that have yet to be solved.

I have included an appendix that highlights in graphics several of these points.

As a country, we simply do not have the capability or capacity to implement, comply with, or enforce a blanket WRO. Given these constraints, such a WRO would take years before it would have its desired impact in China. Moreover, given China’s ability to shift cotton to other markets, including its own vast market, it is unlikely that a regional WRO would have its desired impact of impeding the use of Uighur forced labor at all.

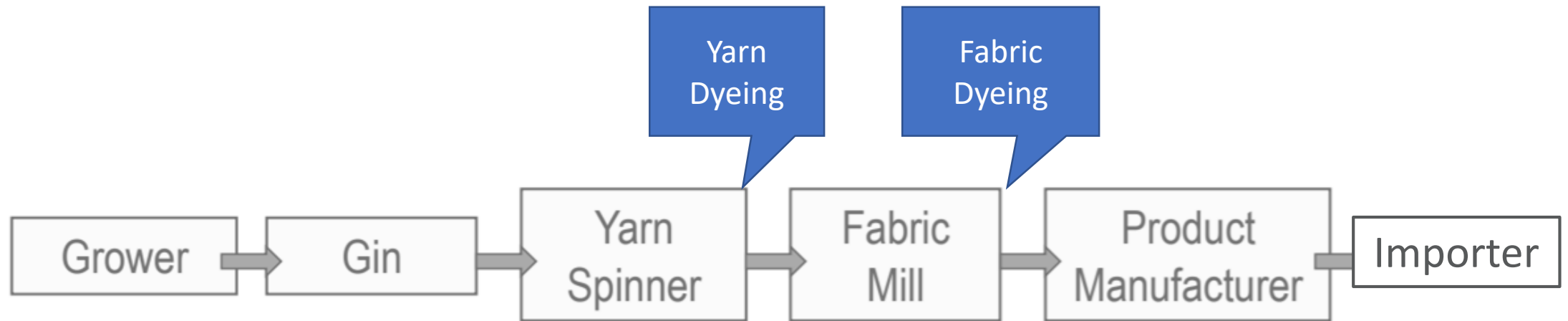
And that brings us to my final point, which is we must stay focused on the end goal – which is to end

these forced labor practices and the larger campaign of repression it fuels. Among other things, that means we need to stay engaged – as groups like the United Nations and the OECD recommend – so we can create safe, responsible, and legal alternatives to what the Chinese campaigns are currently offering the Uighur populace. We need to keep the pressure focused on those actors in China that are perpetuating this system. We need to evaluate our joint efforts through the lens of what will most effectively get us to our end goal. We need a partnership that combines industry, NGOs, unions, Congress, the U.S. government, and other governments to take a comprehensive approach to resolving the horrific situation in XUAR.

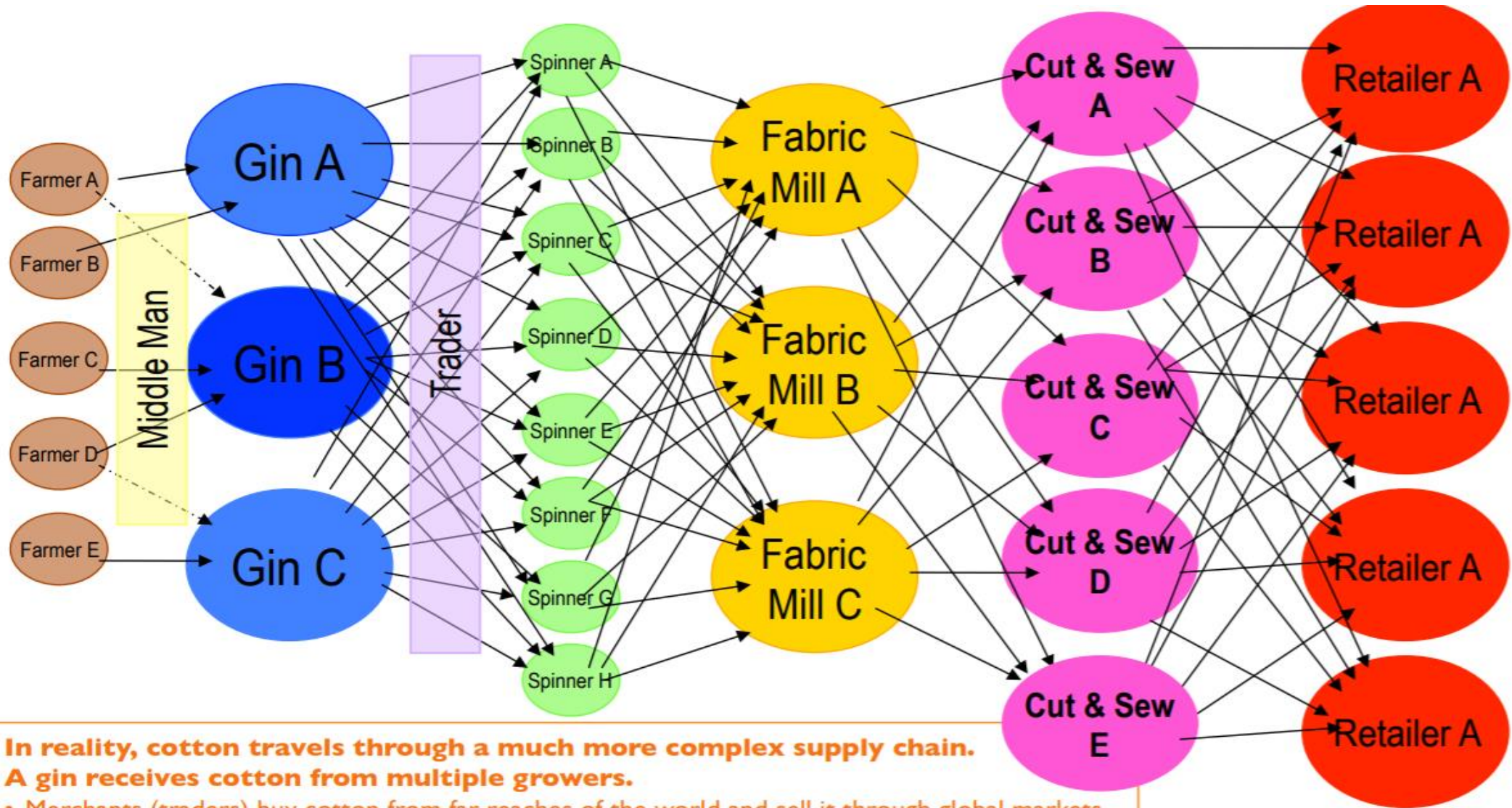
I look forward to our discussion and continuing our partnership on this critical matter.

Cotton Goods Labor
Enforcement:
Realities & Difficulties

Cotton Goods Supply Chain: Theory



China Reality



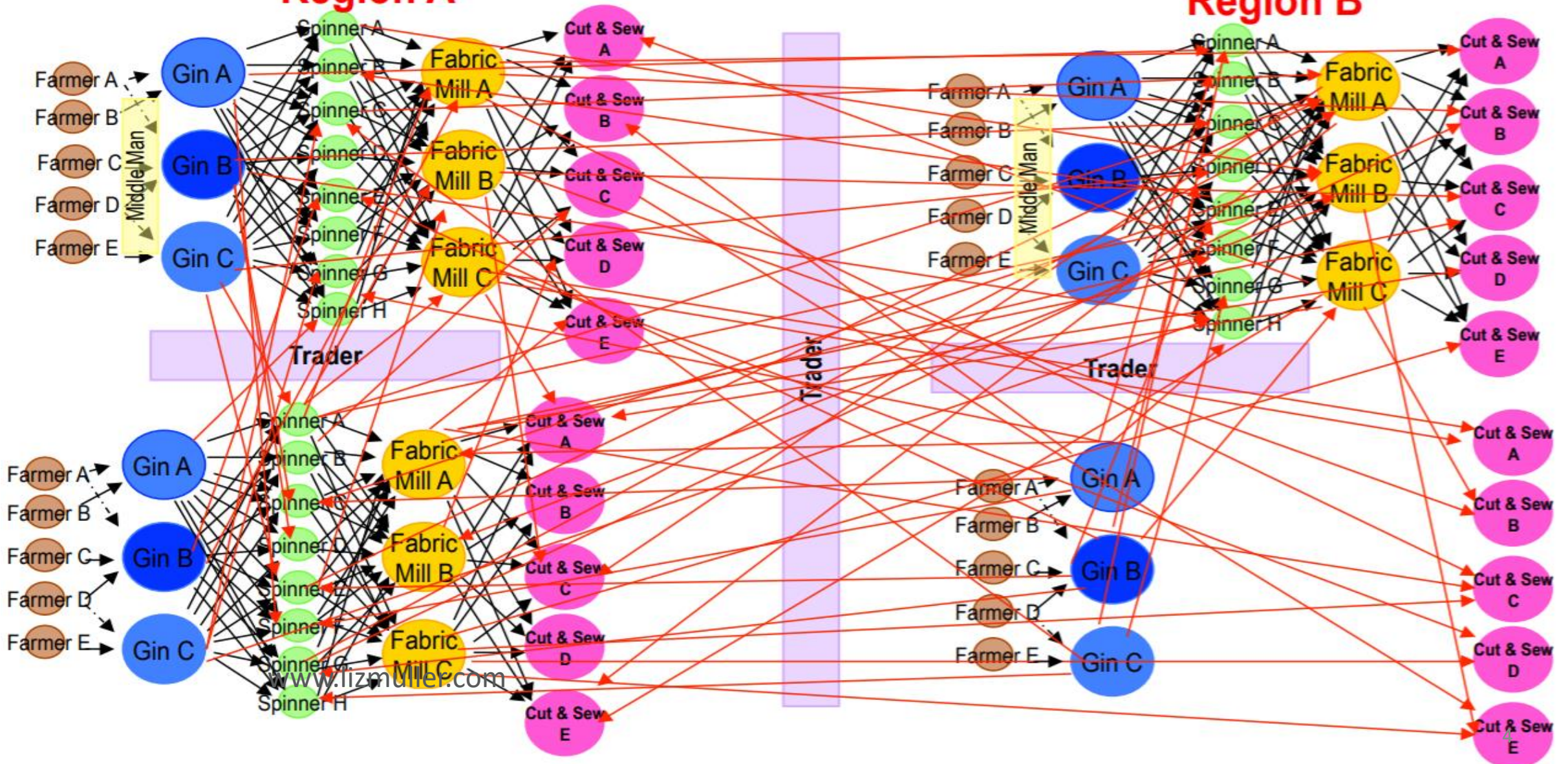
In reality, cotton travels through a much more complex supply chain. A gin receives cotton from multiple growers.

- Merchants (traders) buy cotton from far reaches of the world and sell it through global markets.

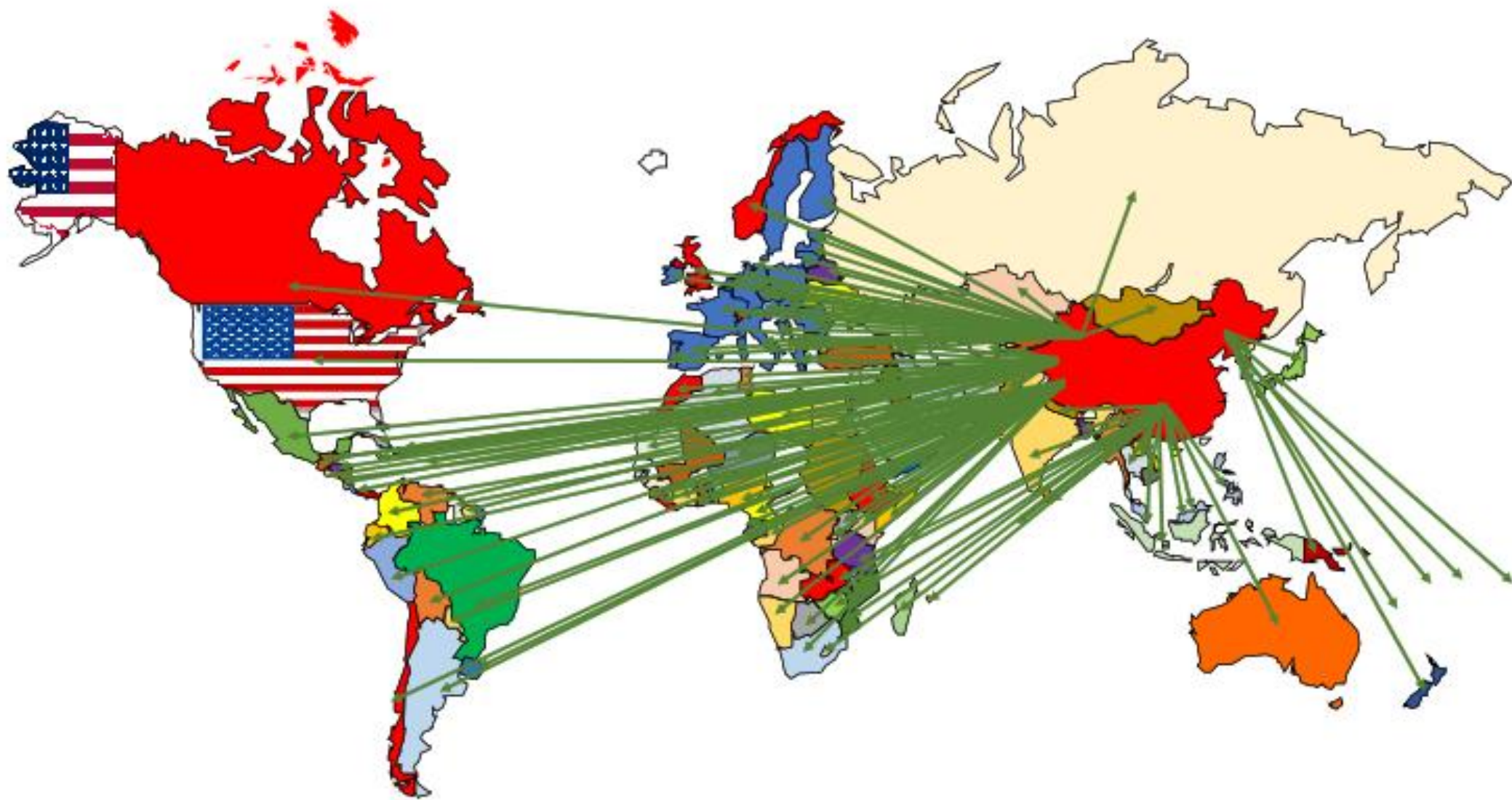
Global Reality

Region A

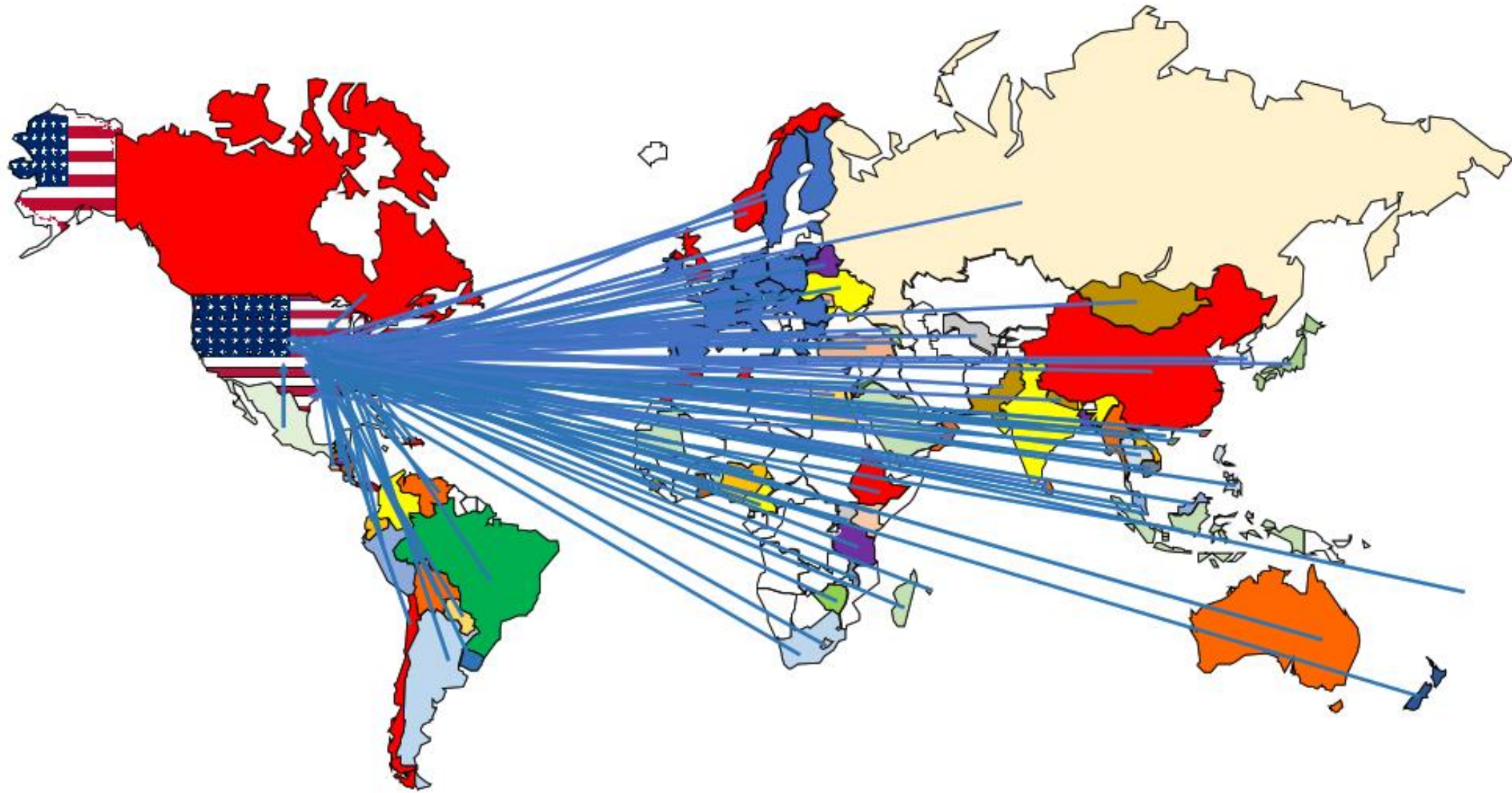
Region B



China's
Cotton
Yarn &
Fabric
Exports in
2018



U.S. Imports
of Cotton
Textiles &
Apparel that
May Contain
Chinese
Cotton
Inputs - 2018



Enforcement Scope Is Exponentially Increased

Scope Becomes Even More Complicated.....US COTTON

U.S. Raw Cotton Exports in 2018



US Cotton Exports

- US exports make up approximately 38% of the world's export market for raw cotton fiber.
- In July 2020, China was the 2nd largest importer of US Cotton

TOP MARKETS

| Rank | Country | YTD |
|------|-------------|------------|
| 1 | Vietnam | \$894.02 M |
| 2 | China | \$844.24 M |
| 3 | Pakistan | \$593.08 M |
| 4 | Turkey | \$475.7 M |
| 5 | Bangladesh | \$222.7 M |
| 6 | Indonesia | \$177.19 M |
| 7 | Thailand | \$91.78 M |
| 8 | South Korea | \$90.08 M |
| 9 | India | \$84.85 M |
| 10 | Mexico | \$78.12 M |

Source: USTrade Numbers World City

Potential Scope Impact

- China = estimated 50% global yarn spinning capacity
- Xinjiang cotton = estimated 20% of global cotton
- Xinjiang cotton fiber = estimated 84% of China cotton fiber

Where is the Labor – a sample scenario

| Process | Employment |
|-----------------------|------------|
| Growing | Farms |
| Ginning | 60 |
| Spinning | 1,200 |
| Fabric Making | 7,500 |
| Finished Goods Making | 40,000 |