

IMPACT OF AGOA

ON THE

LESOTHO CLOTHING & TEXTILE SECTORS

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FOR ACTIF

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INTRODUCTION

The objective of this report is to provide ACTIF with an analysis of the impact and relevance of AGOA to the clothing and textile sectors in Lesotho in preparation for the AGOA Review scheduled for August in Washington.

Statistical data is provided on the current size & composition of the apparel & textile sectors in Lesotho and recent trends. The export data provided tracks the pattern of exports to the U.S. since the introduction of AGOA. **(Appendix 1)**

The Lesotho Textile Exporters Association and the Lesotho government are very active in lobbying in Washington and the positions they are taking mirror the views of ACTIF.

IMPACT AND RELEVANCE OF AGOA FOR THE CLOTHING & TEXTILE SECTORS IN LESOTHO

It can be said, with little exaggeration, that Lesotho owes the very existence of its fairly substantial clothing and textile industry to AGOA and exports to the U.S.

Although there was an established infant clothing industry in Lesotho prior to the introduction of AGOA, growth was nothing short of spectacular following the introduction of AGOA, brought about mainly as a result of investment by Taiwanese companies to take advantage of the duty-free quota-free access to the U.S. market. Employment in the industry grew from 9847 in 1999 to 53087 in 2004 with a globally-integrated industry producing garments for some of the best-known brands in the world, such as Gap and Levi Strauss.

Like garment manufacturers located in many countries around the world, Lesotho's clothing industry experienced a major decline following the demise of the MFA in 2005. The situation was worsened by the strong appreciation of the Loti (which is linked to the Rand) against the US\$.

Lesotho gained AGOA eligibility on 23 April 2001. In 2001 the Maloti reached its weakest point at M13.85/US\$1 coinciding with the introduction of AGOA. By 2005 it reached its strongest point of M5.92/US\$1 and throughout 2005/2006 averaged M6.00-M6.50/US\$1.

As a result of the demise of the MFA coupled with the currency appreciation, six international companies exited Lesotho in 2005 resulting in 7000 job losses. Most of the remaining firms were also forced to retrench staff.

Lesotho gained its first textile mill investment in 2004, Formosa Textiles, a subsidiary of the Nien Hsing Group headquartered in Taiwan, a vertically integrated spinning and weaving denim mill.

Since 2005 following the dramatic post MFA contraction, the Lesotho apparel & textile sector has remained fairly stable in terms of number of companies, although employment has declined marginally.

Exports to the U.S. have declined, but have been off-set partly by a rise in trade within the SACU region. Of the total 38 apparel manufacturers currently operating in Lesotho, 19 apparel manufacturers are owned by South African companies exclusively supplying the South African market.

Despite favourable market access to the EU via Cotonou and EPA, exports to the EU have been negligible (less than 1%) and would in all probability not represent an alternative to the U.S. market in the short term.

WHAT WOULD THE IMPACT BE ON THE LESOTHO CLOTHING & TEXTILE SECTOR IF AGOA WAS NOT EXTENDED BEYOND 2015?

One of the major weaknesses of the nature of the foreign investment in Lesotho, is that the product range is very narrow, being confined to long run production of denim jeans and basic knits. Furthermore the sales & marketing functions are mainly being performed in Taiwan.

Should the U.S. market be lost to Lesotho as a result of the expiry of AGOA or access to 3rd country fabric, it is highly unlikely that the South African market could absorb the current output. Lesotho would in all likelihood face significant job losses.

As the clothing & textile sector is by far and away the largest industrial sector in Lesotho, its decline will send a major shock wave throughout the economy.

Alafa, a major AIDS awareness and treatment programme implemented by Commark Trust in Lesotho is directly linked to the apparel industry.

The potential threat to the stability of Lesotho and the SACU region as a whole cannot be underestimated.

Lesotho recognises the dangers it faces. The Lesotho Textile Exporters Association is very proactive in lobbying for the extension of AGOA and for continued access to 3rd country and has the support of Nien Hsing in this regard.

The LTEA retains the services of ACT – Paul Ryberg to lobby on their behalf in Washington, whilst the Lesotho National Development Corporation retains the services of the Whittaker Group to lobby for Lesotho. The LTEA's position mirrors that of ACTIF.

CONCLUSION

Lesotho fully recognises the threat to its clothing & textile sectors should AGOA not be extended with access to 3rd country fabric guaranteed.

Lesotho also fully realises the threat posed by the DFQF offer to other LDC countries.

The Lesotho Textile Exporters Association and the Lesotho government are very active in lobbying

APPENDIX 1

COUNTRY SPECIFIC DATA – LESOTHO

NUMBER OF COMPANIES	2004	2005	2006	2007	2008	2009
SPINNING	-	1	1	1	1	1
APPAREL MANUFACTURERS	45	38	38	38	38	38
OTHER (PRINTERS, EMBROIDERY)	4	3	3	3	3	3

EMPLOYMENT	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
	9847	16417	23518	33140	44345	53087	40364	40932	41149	40499	38449

(Source: LNDC)

EXPORT STATISTICS	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 (Jan – March)
AGOA	\$129,5m	\$317,8m	\$372,5m	\$447,6m	\$388,3m	\$384,5m	\$379,6m	\$338,8m	\$277m	\$ 56,9m

(Source: USTR Tariff & Trade Data Webb)

APPENDIX 3



AGOA FORUM – KENYA 3-4 AUGUST 2009

BACKGROUND

At the annual AGOA Forum to be held this year in Nairobi, the opportunity will again be presented to the governments of AGOA eligible countries and the private sector in such countries to make recommendations to the USTR with a view to improving the AGOA legislation so that it achieves its objectives of increasing exports from sub-Saharan Africa to the US leading to job creation and economic upliftment in the region.

The Export Council for the Clothing Industry in SA has at every AGOA Forum since 2002 drawn attention to the fact that the overly restrictive rules of origin for market access applicable to South Africa (and Mauritius,) namely a triple transformation yarn forward rule of origin was severely limiting the potential to increase the exports of apparel to the US. A single transformation rule of origin would greatly improve the prospects for export growth.

In this regard we have to date, not received the active support of the dti. Following last year's AGOA Forum in Washington the dti did provide the Export Council for the Clothing Industry with a formal response citing as a reason the need for the dti to strike an appropriate balance between the needs of the clothing and textile industries. As a consequence of this, the dti supported the retention of the triple transformation rule of origin.

REQUEST FOR A REVIEW OF CURRENT MANDATE

It is our intention as a private sector interest group to again request a change to the rules of origin to allow for access to 3rd country fabrics in demand by US customers at this year's AGOA Forum. We therefore urge the dti to reconsider the current mandate and offer the following motivation for our position.

Our contention is that the current status quo has not benefited either the clothing or the textile industry in South Africa.

The textile industry, despite having enjoyed the benefits of a yarn forward rule of origin, is a shadow of its former self. Over 20 spinning, weaving and knitting mills have closed since the inception of AGOA in 2001 with not a single new mill being added. Meanwhile the South African clothing industry has all but fallen off the US buyers' sourcing map.

CloTrade recently circulated a position paper to the dti on the growing fabric crisis facing clothing manufacturers which clearly spelt out the rapidly declining local textile supply base, both in terms of volume as well as variety. South Africa simply does not have a textile industry that is capable of supporting a yarn forward rule of origin that could meet the needs of potential customers in the US. Without access to 3rd country fabrics, AGOA simply does not represent an opportunity for the growth of apparel exports to the US.

LESOTHO'S OPPOSITION

We are aware that Lesotho raised an objection to South Africa and Mauritius being granted a single transformation rule of origin at the AGOA Forum held in Washington in 2008, citing as a reason that they feared losing orders to South Africa.

Lesotho has indeed benefited from South Africa's lack of access to 3rd country fabric. A number of South African exporters have moved their factories to Lesotho in order to have access to fabric. In some cases, exporters based in South Africa have placed orders previously manufactured in South Africa, to Lesotho manufacturers. However, this was also driven by Lesotho's significantly lower labour costs.

Lesotho's exports of apparel are predominantly basic items such as denim jeans and cotton chinos as well as core knit items (T-shirts, sweatshirts etc.) With the exception of one company in South Africa that has subsequently relocated to Lesotho to take advantage of the lower costs required for basic products, most South African exporters were producing far more added value products such as men's tailored suits, swimwear, children's high fashion end apparel that were not in conflict with Lesotho's production.

Undermining South African manufacturers' ability to exploit their creative talent and more complex product capabilities as a result of a lack of access to cutting edge fashion fabrics has greatly diminished the entire region's attractiveness as a potential sourcing base for US customers.

Differentiating South Africa from the rest of sub-Saharan Africa is also undermining the position put forward by the African Cotton & Textiles Federation (ACTIF) on behalf of all AGOA eligible countries which is seeking one simple rule of origin (single stage transformation) for all market access to apply to the entire sub-Saharan African region so as to foster regional co-operation and development..

CONCLUSION

Please give consideration to our request for support for a single transformation rule of origin for market access to the US under AGOA to give South African clothing manufacturers an opportunity to grow exports and contribute to national goals.

JACK KIPLING
CLOTRADE
18 May 2009