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LOCAL ENTERPRISE AND VALUE CHAIN ENHANCEMENT

PROGRAM FOR EXPANDING APPAREL AND TEXTILE EXPORTS, TECHNICAL ASSISTANCE PERFORMED MARCH 2015

Contract No.: AID-521-C-14-00001

DISCLAIMER
The authors’ views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development (USAID) or the United States Government.
REPORT BACKGROUND

The USAID-funded Local Enterprise and Value Chain Enhancement (LEVE) project strives to increase economic growth and employment opportunities in Haiti. LEVE will improve the competitiveness of key sectors, including the apparel and textile industry value chain. The Center for Investment Facilitation (CFI) is a parastatal organization overseen by the Ministry of Commerce and Industry. It was founded in 2006 in order to facilitate and promote investment in Haiti.

The objective of this report is to provide CFI with a profile of Haiti’s apparel and textile sector, Haiti’s value proposition, and key recommendations to support sector growth.
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<thead>
<tr>
<th>ACRONYMS</th>
<th>Definition</th>
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<tbody>
<tr>
<td>ACP-EU EPA</td>
<td>African, Caribbean, Pacific European Union Economic Partnership Agreement</td>
</tr>
<tr>
<td>ADIH</td>
<td>Association of Haitian Industry</td>
</tr>
<tr>
<td>AGOA</td>
<td>African Growth and Opportunity Act</td>
</tr>
<tr>
<td>Better Work (Haiti)</td>
<td>Haitian subsidiary of the International Labor Organization and International Finance Corporation</td>
</tr>
<tr>
<td>CAD</td>
<td>Computer-aided design</td>
</tr>
<tr>
<td>CBTPA</td>
<td>Caribbean Basin Trade Preference Agreement</td>
</tr>
<tr>
<td>CEI-RD</td>
<td>Dominican Republic Investment and Export Promotion Agency</td>
</tr>
<tr>
<td>CFI</td>
<td>Centre for Facilitation of Investments</td>
</tr>
<tr>
<td>CM</td>
<td>Cut, make</td>
</tr>
<tr>
<td>CMT (CMP)</td>
<td>Cut, make, trim</td>
</tr>
<tr>
<td>CTMO-HOPE</td>
<td>Tripartite commission for HOPE regulations</td>
</tr>
<tr>
<td>DINEPA</td>
<td>Haitian water authority</td>
</tr>
<tr>
<td>EBA</td>
<td>Everything but Arms</td>
</tr>
<tr>
<td>FOB</td>
<td>Free on board (export price of goods at dock of origin)</td>
</tr>
<tr>
<td>Franchise</td>
<td>A customs-related term allowing goods to be imported duty free when coming from an export-oriented factory</td>
</tr>
<tr>
<td>FTA</td>
<td>Free trade area</td>
</tr>
<tr>
<td>FTZ</td>
<td>Free trade zone</td>
</tr>
<tr>
<td>Full package</td>
<td>Type of garment production based on supplying all components of CMT+ fabric</td>
</tr>
<tr>
<td>Greige</td>
<td>Gray fabric or yarn that has not been dyed or bleached</td>
</tr>
<tr>
<td>HAC</td>
<td>Haitian Apparel Center</td>
</tr>
<tr>
<td>HELP</td>
<td>Haiti Economic Lift Program</td>
</tr>
<tr>
<td>HOPE</td>
<td>Haitian Hemispheric Opportunity through Partnership Encouragement</td>
</tr>
<tr>
<td>IDB</td>
<td>Inter-American Development Bank</td>
</tr>
<tr>
<td>kWh</td>
<td>Kilo watt hour</td>
</tr>
<tr>
<td>LDC</td>
<td>Least developed country</td>
</tr>
<tr>
<td>M/B</td>
<td>Men’s and Boys’</td>
</tr>
<tr>
<td>MFA</td>
<td>Multi Fiber Agreement</td>
</tr>
<tr>
<td>MMF</td>
<td>Man-made fiber</td>
</tr>
<tr>
<td>OTEXA</td>
<td>Office of Textiles and Apparel, U.S. Department of Commerce</td>
</tr>
<tr>
<td>PIC/PIPRN</td>
<td>Names for Caracol industrial park</td>
</tr>
<tr>
<td>PIM</td>
<td>Metropolitan industrial park</td>
</tr>
<tr>
<td>PRONicaragua</td>
<td>Nicaraguan Investment and Export Promotion Agency</td>
</tr>
<tr>
<td>W/G</td>
<td>Women’s and girls’</td>
</tr>
<tr>
<td>WTO</td>
<td>World Trade Organization</td>
</tr>
</tbody>
</table>
EXECUTIVE SUMMARY

Haiti’s garment industry enjoys a number of favorable conditions. Through trade acts and agreements, Haitian manufacturing companies have duty free access to the United States. This builds on Haiti’s advantage of being in close proximity to U.S. buyers. Haitian manufacturers have established relationships with U.S. buyers, and are large enough to have achieved economies of scale. Haitian manufacturers also enjoy relatively low wages and favorable labor regulations.

Though the Haitian garment industry has relatively few manufacturers, it exports a disproportionate value of products to the U.S. It is also developing a service industry that includes production of hangers, polybags, sewing threads, and cardboard boxes. Further, value-added services are being introduced, such as embroidery and quality auditing for buyers.

Still, the industry has a number of weaknesses. A lack of Haitian middle management necessitates the use of expensive expatriates. Long fabric sourcing lead times, an unreliable energy supply, and some outdated labor laws also constrain the industry.

Haiti’s apparel industry is at a crossroads. Without considerable investment in infrastructure, including energy production facilities, water and effluent plants, and serviced industrial factory shells, the industry’s ability to attract additional investment is severely limited. As production costs rise across Asia, particularly China, retailers are looking for new locations to source production. Africa is increasingly seen as the next major region for manufacturing. It is thus urgent that Haiti’s government find sources of funding for infrastructure development as a first step to holistic reforms.

Attracting additional investment to Haiti’s garment industry should include a targeted approach toward specific types of investors. Specifically, targeted investors should be full package manufacturers that are geared toward higher U.S. tariff categories, and ideally offer value-adding services. In order to attract this type of investment, the Centre for Facilitation of Investments (CFI) should have an employee who is well versed in the industry’s value chain, assets, and needs.

There are a number of potential sources for new investment. In addition to Korea, CFI should pursue investors from China and Taiwan. It should particularly target companies that already have a manufacturing base in Africa, where operating conditions are similar to Haiti. Similarly, foreign companies with operations in Mauritius and Madagascar should also be considered.

This report includes a number of recommendations for the government of Haiti and CFI to attract additional investment and support existing manufacturers. No single recommended action will sufficiently support the industry’s growth. Rather, the recommendations should be viewed as part of a holistic approach to capitalize on the industry’s strengths and opportunities while addressing its weaknesses.

1It is important to tread carefully in this pursuit; unlike the Taiwanese company interviewed, the investor from Madagascar has not had a positive experience investing in Haiti.
I. KEY CONSIDERATIONS FOR INVESTMENT IN HAITI

1.1 COUNTRY BACKGROUND

Haiti is one of the poorest countries in the world and has experienced political instability for most of its history. After the President’s forced resignation in 2004, an interim government took over until a democratically elected president and parliament took office in May 2006. Haiti’s current president is Michel Martelly, and the next presidential election will be held 2015.

Years of instability have left Haiti’s economy in a very poor state. By 2009, Haiti’s government and the donor community recognized the need to jump-start the economy, with garment manufacturing as one of the pillars of growth. New trade preferences granted by the U.S. under the Haitian Hemispheric Opportunity through Partnership Encouragement (HOPE) Act had created new interest on the part of potential foreign and domestic investors. However, potential investors faced a critical constraint in the lack of serviced industrial land, without which they could not set up their factories.

A massive magnitude 7.0 earthquake in January 2010 killed an estimated 300,000 people and left some 1.5 million homeless, many of whom migrated to the north. While the garment industry escaped relatively unscathed, the industrial infrastructure suffered considerable damage. International donor agencies and assistance has begun to alleviate some of the problems, though infrastructure is still lacking.

1.2 POLITICAL AND ECONOMIC BACKGROUND

Haiti is a free market economy that enjoys low labor costs and tariff-free access to the US for apparel exports. Poverty, corruption, vulnerability to natural disaster, and low levels of education, albeit improving, are some of Haiti’s most serious impediments to economic growth. For manufacturing companies in particular, a lack of quality utilities and serviced shell factories available for immediate occupation are also major challenges.

There are signs, however, that some of these critical impediments are being addressed. For example, President Martelly’s administration began a campaign to attract foreign investment as a means for sustainable development in 2012. The government created a Commission for Commercial Code Reform, enacted reforms to the justice sector, and created the Caracol Industrial Park along Haiti’s northern coast. In 2012, private investment exceeded donor assistance at the Park for the first time since the 2010 earthquake. Despite recent improvements, however, significant obstacles remain. The following factors are important considerations for potential investors in Haiti, particularly for potential investors in the apparel and garment industry.

2 Based on SONAPI PIC (Parc Industriel de Caracol) Q3, 2014 Update.
1.3 MARKET ACCESS

A series of trade agreements and acts have granted Haiti-based apparel manufacturers duty-free access to the U.S. market. These include:

- Hemispheric Opportunity through Partnership Encouragement (HOPE) Act, 2006
- HOPE II Act, 2008
- Haiti Economic Lift Program (HELP) Act, 2010

The HOPE and HELP Acts and the CBTPA have helped attract investment to Haiti’s garment industry and increase exports to the U.S. The garment industry now accounts for 90% of Haiti’s total exports. The HOPE Act and CBTPA have been extended to 2020 through the HELP Act, while the HOPE II act is set to expire in 2018. Lobbies are underway to extend these to 2030.

Haiti also has the distinct advantage of being in close proximity to the U.S. It also has access to the European market, but has not yet finalized participation under the African, Caribbean, Pacific–EU Economic Partnership Agreements (ACP – EU EPA), which would provide it duty free access. The ACP-EU EPA also presents the advantage of having no third country fabric restrictions or expiration date. As

4 Within which there are certain rules and regulations.
5 CTMO-HOPE Secretariat, Room to Grow, February 2014
6 http://fas.org/sgp/crs/row/RL33951.pdf
7 CMTO-HOPE Newsletter of April 2015, indicates that the extension forwarded to the House of Representatives is until 2025 and excludes product expansion.
8 Effectively allowing for Single Transformation
an LDC country, Haiti also has preferential access to Canada, for example, based on Rules of Origin where the value of the imported content is no more than 60% of the ex-factory export price. See Appendix 8.4 for more detail.

Haitian companies have a number of potential tax benefits to encourage investment and exporting. These include:

- Export-oriented companies pay 0% tax
- Duty-free imports of raw materials and equipment necessary for business operations
- Exemption of security deposits and other constraints on the temporary entry of raw materials and packaging needs
- Exemption of payroll taxes and other internal direct taxes for up to 15 years
- Exemption of audit charges
- Accelerated depreciation on a range of items
- A number of “free zones,” which may allow additional incentives

1.4 LABOR LAWS AND CONDITIONS

Haiti has relatively competitive wage rates for its region and its labor laws are not overly restrictive. Its workforce is relatively young and illiterate.9 The key attributes of Haiti’s labor laws are outlined in Figure 1.2.

Figure 1.2 Labor Information10

<table>
<thead>
<tr>
<th>Approximate Minimum Wage</th>
<th>Work Week</th>
<th>Overtime Premium</th>
<th>Paid Annual Leave</th>
<th>Piece Rate</th>
<th>Average Real Wage11</th>
<th>Average Severance Pay12</th>
</tr>
</thead>
<tbody>
<tr>
<td>$115-120 per month</td>
<td>48 hours per week</td>
<td>50%</td>
<td>13 days paid annual leave</td>
<td>$156 per month</td>
<td>$180 – 200 per month</td>
<td>10.1 weeks (average of 1, 5, and 10 years service)</td>
</tr>
</tbody>
</table>

9 According to UNESCO Institute for Statistics (UIS Info Paper – June 2013), Haiti’s literacy rate (adults 15 years and older) 2006 last census, is 48.7% (Male 53.4 and Female 44.6%). For Guatemala the average literacy rate is 75.9% (2011 census). Dominican Republic is 90.1% (2011 census) and Nicaragua is 78% (2005 census). This also compares to Lesotho’s adult literacy of 89.7% (UNDP 2011), a country where the apparel and textile industry also plays the dominant role in its GDP and export earnings and employment. Low literacy rates can and do impede economic growth.


11 Exchange rate: HTG 46.00/$1.00 for 2014. Average real wage does not include the first year of work

12 Average severance pay according to World Bank Group, Doing Business, Labor Market Regulations in Haiti.
Though Haiti’s minimum wage is set at approximately $115 to $120 per month, most companies understand that this rate is below necessary wages to survive, and few are paid the minimum wage for employees beyond their first year of employment. Accounting for bonuses, overtime, and other payments, the average real wage is between $180 and $200 per month. Figure 1.3 compares wages in Haiti with wages in comparable countries.

**Figure 1.3 Labor Comparison**

<table>
<thead>
<tr>
<th></th>
<th>Haiti</th>
<th>Ghana</th>
<th>Lesotho</th>
<th>Ethiopia</th>
<th>Nicaragua</th>
<th>Dominican Republic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approximate monthly</td>
<td>$115 - $120</td>
<td>$68</td>
<td>$96</td>
<td>$45</td>
<td>$228.35</td>
<td>$153.26</td>
</tr>
<tr>
<td>minimum wage</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Approximate average</td>
<td>$180 - $200</td>
<td>$112</td>
<td>$140 - $145</td>
<td>$55 - $65</td>
<td>Not known</td>
<td>Not known</td>
</tr>
<tr>
<td>monthly real wage</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The “Table de Dialogue Social” was established in 2012 as a platform for dialogue between the government, labor unions, and industry leaders regarding key issues facing the garment industry and wage conditions. This commission was also used to show the substantial impact the manufacturing sector has on the economy to government and union leaders. A similar stakeholder’s committee has helped increase employment in Lesotho, as described in Figure 1.4.

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13 Average real wage according to a qualified/experienced operator. According to the Better Work report (October 2013), 30% of the workforce earned between $105 and $130/month, 30% between $130 and $156/month and the balance more than $156/month. Note should be taken that with the start of Better Work, and thus with greater knowledge by employees of workers’ rights, many factories experienced problems in the factories in 2009 and 2011, with the worst riotous behaviour in 2013. This was caught on camera in 2013, and allowed the manufacturers to finally dismiss the more troublesome employees. Calm has returned and productivity in 2014 restored. These statistics were applicable at a time when the minimum wage was set at HTG 200/day or $110/month (HTG 43.5/$1.00). In May 2014, the minimum wage was increased to HTG 225 per day. According to the subsequent Better Work Report (9th Biannual Synthesis Report – October 16, 2014), piece rates were between $117.36 and $129.84/month for 33% of the workforce, between $130.32 and $156/month for 30% of the workforce and $156.48 and more per month for 37% of the workforce (at HTG 46/$1.00)

14 Sources: Interviews with manufacturers, Centre de Exportacion e Inversion de la Republica Dominicana for the DR and PRONicaragua (Nicaragua Investment and Export Promotion Agency)

15 Ghana: Wages determined from discussions with factory owners in November 2014

16 Lesotho: Minimum wages gazetted (official Government notices), October 2014. This wage is for machinists with less than 12 months experience. After 12 months, minimum wage rises to $ 105.5/month. Ethiopia: Figures from factory visits.
Figure 1.4 Lesotho Industry Reform

After the WTO quota removal in 2004, Lesotho experienced a significant number of company closures, and employment in the garment sector dropped from about 50,000 to 30,000. The then Minister of Trade & Industry convened a committee comprising industry leaders, Ministers, and the Lesotho National Development Corporation. The committee was tasked with supporting industry growth and removing impediments to investment. They created a one-stop shop for customs issues, reduced paperwork requirements, increased the number of transport companies, improved the container depot, eliminated the corporate tax for companies exporting to the US and EU, and reduced it to 10% for those exporting to RSA (customs union). They also reduced factory rental rates, had an NGO set up a productivity improvement grant system with 50/50 cost sharing (companies that participated saw a 25% improvement in productivity), and created a targeted investment road show. Within a few years, new investments and expansions helped employment rise to 45,000 people.

Source: MPCS Database and country textile and apparel value chain study

The “Conseil Superieur des Salaires” is a government body that oversees minimum wage issues. Its aim is to stabilize the minimum wage, which has been raised multiple times in recent years, and ensure that it is not constantly adjusted for political purposes. Minimum wage increases are a major concern for companies in the garment industry, as they operate in a highly competitive international environment, and brands and retailers are constantly evaluating new sources of low wage labor.

A legacy of past legislation puts onerous medical requirements on factories. Factories with between 50 and 200 workers are required to have one on-site nurse, while factories with 200 to 500 employees must have two on-site nurses and permanent on-site medical facilities. One additional on-site nurse is required for every 200 additional workers.17

1.5 INDUSTRIAL AND EFFLUENT WATER PLANTS

Water availability to industry and waste water treatment remains a crucial roadblock to investment in Haiti, particularly in the garment industry that needs to add value and diversify its product portfolio through garment washing and dyeing. With speed to market becoming increasingly important, the lack of adequate water and water treatment plants blocks any potential investment in fabric dyeing operations.18 Currently, many garment factories must bring in water by truck.

Haiti’s water authority, DINEPA, is under-funded.19 The lack of an operational budget remains one of the biggest obstacles to its continued operation.20 International aid helped to open Haiti’s first sewerage treatment plants.

17 This means a company with 4,400 employees (S&H Global end 2014 status-quo) needs to employ 22 nurses.
18 Fabric dyeing would allow garment manufacturers to import and stock greige fabrics, providing for a much quicker turnaround time compared to importing the buyer specified fabric colors.
19 Started in 2009, DINEPA (ex-CAMEP) has a staff of only nine people.
20 CEPR January 13, 2013, From Camp to Kanaan to one of Haiti’s first sewerage treatment plants.
treatment plant in January 2013 in Titanyen, and a second in late 2013.\textsuperscript{21} Though international aid helped build the plants, there were no funds for continued operation. One of the new treatment plants subsequently closed in 2013.

The only other major water and effluent treatment plant in Haiti is at the Caracol Industrial Park. The effluent treatment plant has not yet begun operations, as it requires installation of a special system to monitor environmental impact. S&H has purchased the monitoring system, and the plant is expected to be fully operational in 2015. This, in turn, will allow two S&H fabric and garment wash plants to become fully operational.

One water and waste water treatment plant is also planned for the Lafito free zone industrial park. Another is now planned for the Metropolitan Industrial Park (PIM).\textsuperscript{22} Carrefour (Thor 65, Rue Souchet) is one of the few factory areas with an adequate supply of water, as it has access to spring water from nearby mountains.

1.6 INDUSTRIAL ELECTRICITY TARIFFS

Haiti’s electricity supply represents a significant challenge to the garment industry. Many companies run their own generators, not because of cost, but for consistency of supply. Spikes and dips from grid power damage equipment, in particular sewing machine motors. These motors are expensive to replace, and the time required to replace the motors is even more costly when meeting delivery deadlines. A number of manufacturers, however, have indicated that power supply is improving, reducing the amount of time they need to run their own generators.

Haiti Electric Company (EDH) is the main electricity provider in Haiti. A second Korean-built electricity generating plant (E-Power) came online in 2011 with 3 x 700 KW generators. Some manufacturers described receiving billing inconsistencies from the EDH, and a number were billed over the Christmas period when their factories were shut. Inquiries or confrontations with EDH have been met with threats to cut off supply. Figure 1.5 outlines the electricity rates paid by companies throughout Haiti. These rates are described in more detail below.

Figure 1.5 Electricity Rates in Haiti\textsuperscript{23}

<table>
<thead>
<tr>
<th></th>
<th>EDH</th>
<th>Codevi</th>
<th>Caracol</th>
<th>Private generators</th>
<th>Private generators combined with EDH</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Approximate Cost</strong></td>
<td>$0.35 per kWh - $0.38 per kWh</td>
<td>$0.29 per kWh</td>
<td>$0.307 per kWh</td>
<td>$0.30 per kWh - $0.38 per kWh</td>
<td>$0.39 per kWh</td>
</tr>
</tbody>
</table>

\textsuperscript{21} CEFR (January 31, 2013).

\textsuperscript{22} Le Nouvelliste August 11, 2014

\textsuperscript{23} Sources: Factory interviews and inputs from EDH/E-Power and the other power plants
Both the Codevi and Caracol industrial free zones have their own power generating stations. The Lafito free zone will also have its own power generation station, which is anticipated to be fully operational by December 2015.

Electricity from EDH is charged at various rates, ranging from about $0.35 per kWh to $0.38 per kWh. Once maximum demand charges and service fees are added, the real rates are closer to $0.50 per kWh. Many manufacturers rely partially on EDH Company power from the grid, varying between 30% and 85% of their needs, and partially on their own generators. Others use only their own generators for their electricity needs.

Those using only their own generators indicated that their electricity costs come to $0.30 per kWh. However, when maintenance, diesel and depreciation are added, this works out at $0.35 to 0.38 per kWh, though some maintained that they can produce at $0.30 per kWh all inclusive.

Figure 1.6 shows average electricity rates across a number of comparable countries.

**Figure 1.6 Electricity Rates Comparisons**

<table>
<thead>
<tr>
<th>Country</th>
<th>Cost Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ghana24</td>
<td>$0.1496 per kWh</td>
</tr>
<tr>
<td>Kenya25</td>
<td>$0.09 - $0.20 per kWh</td>
</tr>
<tr>
<td>Lesotho26</td>
<td>$0.18 - $0.22 per kWh</td>
</tr>
<tr>
<td>Nicaragua27</td>
<td>$0.17 per kWh</td>
</tr>
<tr>
<td>Dominican Republic28</td>
<td>$0.30 per kWh</td>
</tr>
</tbody>
</table>

### 1.7 FACTORY AVAILABILITY AND COST29

The availability of empty factory shells connected to relevant amenities such as water, electricity, and access roads is a key barrier to the growth of Haiti’s garment industry. An increase in investment in the garment industry since the HOPE and HELP Acts has depleted available factory shells. Factory buildings are not readily available at new or existing industrial estates and free zones, though serviced industrial sites will be made available by SONAPI at competitive prices. Factory shells are currently being planned at PIM, Caracol, and Lafito free zone. Four 10,000 m$^2$ buildings are anticipated to be completed by the end of 2015 in Caracol, and two 20,000 m$^2$ and one 10,000 m$^2$ factories are expected to be completed in July at Lafito free zone.

Costs of existing factories do not appear to be problematic for industry growth, though rents are generally higher than factory rentals in many African countries, where building costs are lower and

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24 Rate according to Ghana Factory  
25 Tariff was reduced from $0.20 to $0.09 for textile, apparel, and leather industries. Source: Kenya EPZ presentation to Shanghai Trade Fair, March 2015.  
26 Rate according to MPCS database  
27 Rate according to PRONicaragua  
28 According to DR CEI-RD  
29 Have used m$^2$ (10.76 ft$^2$) to enable comparisons with other countries later in the report.
rentals are heavily subsidized. The majority of factory rentals in Haiti appear to cost between $32.30 and $44.40 per m\(^2\) per year. In extreme cases, some factory shells rent for as low\(^{30}\) as $15.50 and as high as $48.00 annually per m\(^2\) per year. This cost includes maintenance and insurance in some cases. Figure 1.7 compares factory rates in Haiti to rates in comparable countries, and Figure 1.8 outlines the various factory sizes throughout Haiti.

**Figure 1.7 Factory Annual Rental Rate Comparisons**

<table>
<thead>
<tr>
<th></th>
<th>Haiti(^{32})</th>
<th>Ghana(^{33})</th>
<th>Kenya(^{34}): Mombasa</th>
<th>Kenya: Nairobi</th>
<th>Lesotho(^{35})</th>
<th>Dominican Republic(^{36})</th>
<th>Nicaragua(^{37})</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Approximate Annual Rental Rate</strong></td>
<td>$32.30 - $44.40 per m(^2)</td>
<td>$2.90 - $5.30 per m(^2)</td>
<td>$21.50 per m(^2)</td>
<td>$38.50 per m(^2)</td>
<td>$10.00 per m(^2)</td>
<td>$36.48 per m(^2)</td>
<td>$30.00 - $54.00 per m(^2)</td>
</tr>
</tbody>
</table>

**Figure 1.8 Haitian Factory Sizes\(^{38}\)**

<table>
<thead>
<tr>
<th></th>
<th>PIM</th>
<th>Port-au-Prince Area</th>
<th>Caracol(^{39})</th>
<th>Lafito</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Approximate Factory Sizes</strong></td>
<td>2,800 m(^2)</td>
<td>6,700 – 8,500 m(^2)</td>
<td>1,000 m(^2), 5,000 m(^2), 10,000 m(^2)</td>
<td>20,000 m(^2), 10,000 m(^2)</td>
</tr>
</tbody>
</table>

It should be noted that larger investors generally target 5,000 to 10,000 m\(^2\) buildings.

---

30 These factory rentals are high when compared to factory rentals in many African countries, as building costs are lower and most rentals are heavily subsidized to retain and attract new investors.

31 The considerable range of factory rentals is in part due to Government subsidies (PIM/CARACOL), others are privately owned and some are privately owned free zones.

32 Rate according to factory interviews

33 Ghana: Rate obtained from companies in January 2015. $2.90 rate is for older, 4,600 m\(^2\), $5.30 rate is for newer, 2,500 m\(^2\) buildings.

34 Kenya: Rates from [www.investinkenya.com](http://www.investinkenya.com), Kenya Export Processing Zones Authority, and Rwanda value chain study.

35 Lesotho: Rates from Lesotho Investment Promotion brochure (2013). The low rates is one reason for factory waiting list despite continual construction of industrial estates.

36 Rate according to CEI-RD.

37 Rate according to PRONicaragua

38 Rates according to Sources: Factory interviews and SONAPI

39 At Caracol, 10,000 m\(^2\) is an approximate average of S&H’s 17 factories, while there two 5,000 m\(^2\) buildings at Caracol and one under construction. At Lafito, there are two 20,000 m\(^2\) factories, and the 10,000 m\(^2\) factory will be constructed in 2015.
New investments in factories would not only support the garment industry, it would also have significant spill-over effects in sectors like education, food services, transport, restaurants and tourism. These effects are visible in Ouanaminthe, the nearest town to the CODEVI industrial park, in the towns surrounding the Caracol industrial estate, and on Thor 65, Rue Souchet in Port-au-Prince.

1.8 SHIPPING COSTS AND TIMES

Figure 1.9 outlines the shipping costs and times to from Haiti to various locations. It should be noted that the first 200 meters of Lafito free zone’s new port will be inaugurated in March 2015. Additionally, the companies in the Codevi and Caracol industrial areas tend to ship through the Dominican Republic. Trucks from Caracol to Dominican Republic port cost $1,200 with an additional $120 handling charge.

**Figure 1.9 Shipping Times and Costs**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>$6,500 (40 and 45 foot container)</td>
<td>Not known</td>
<td>$4,215 (40 foot container)</td>
<td>$2,500 (40 foot container)</td>
<td>$3,745</td>
<td>$3,065</td>
<td>Not known</td>
</tr>
<tr>
<td>Time</td>
<td>5 weeks</td>
<td>5 to 6 weeks</td>
<td>3.5 weeks to South Africa, 4-5 days to Lesotho</td>
<td>3 days</td>
<td>6 days</td>
<td>4 days</td>
<td>4 to 6 weeks (via South Africa)</td>
</tr>
</tbody>
</table>

---

40 Within two years of opening, $5.4 million in additional wages was pumped in to the economy surrounding the industrial free zone as well as 7,300 consumers in communities of Caracol, Trou du Nord, Terrier Rouge and Limonade get connected to the electrical grid as well as other services.

41 Information from factory interviews with the exception of Haiti (information according to Enmarcolda), and Nicaragua (information from PRONIcaragua).
2. **THE CLOTHING INDUSTRY**

Anecdotal evidence suggests that pre-1990s, about 100,000 people were employed in Haiti’s manufacturing sector making electrical and electronic items, baseballs, gloves, and more. Members of the apparel sector stated to have employed 60,000 people, producing trousers, pants, shirts, blouses, bras, sleepwear, sportswear and a host of other garments equaling 106 million square meter equivalent (SME) in 1989.

Among other reasons, political instability, infrastructural issues, and sanctions caused the industry to collapse by 1994 to a mere 15,000 to 20,000 employees. In 2004, the end of the Multi-fiber Agreement made matters worse for Haitian manufacturers by creating intense competition from eastern countries in the U.S. market. The introduction of the HOPE Act in 2006 and its amendment helped Haiti’s industry achieve signs of renewed investment. While Haitian apparel exports amounted to $250 million in 2000, this increased to between $410 and $510 million between 2005 and 2009. The 2010 earthquake shattered that revival, though the HELP Act in 2010 established duty free access to the U.S. for more garment categories. Apparel operators resumed work at factories that had not been damaged by the earthquake shortly after. Remarkably, the value of apparel exports rose marginally to $520 million in 2010, despite the earthquake. In 2012, Haiti’s Government increased its efforts to attract investments and it has continued to receive substantial assistance from IDB, CFI and USAID in this pursuit.

With the assistance of the 2010 HELP Act, garment exports increased to $700 million in 2011. By 2014, they reached $855 million (315 million SME). Some companies used the earthquake as an opportunity to rebuild and modernize their factories, such as Palm. Additionally, Haiti attracted a number of new companies between 2010 and 2014, such as Gladiator Textiles, Horizon Manufacturing, H&H, IRII, Indigo Mountain, and S&H Global. The value of garment exports is tracked in Figure 2.1.

**Figure 2.1 Garment Exports Over Time**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of Garment Exports</td>
<td>$250 million</td>
<td>$410 - $510 million</td>
<td>$520 million</td>
<td>$700 million</td>
<td>$855 million</td>
</tr>
</tbody>
</table>

A number of companies are expected to expand. These include:

- S&H Global, which is expected to continue expand in 2015 and 2016 as factory shells become available at Caracol.
- H&H Global, which is anticipated to occupy two new factory shells by the end of 2015 or early 2016.
- Val D’or, which recently commenced operations in five factory shells.

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42 All US dollar data rounded to nearest 5 million for ease of reading
43 Information according to CMTO-HOPE
• Youm Kwang Textiles, which will soon become more fully operational after its start in January 2015.
• GOAL, which is training workers in Caracol while awaiting the completion of its new factory premises.

These companies alone are expected to directly create an **additional 10,000 to 11,000 jobs during 2015 and 2016**. According to interviews with the companies, this number could increase significantly should more serviced factory shells become available.

Though still relatively small, a service industry for garment manufacturers is developing. These services include cardboard boxes, polybags and packaging from two manufacturers, commission embroidery facilities (in addition to companies with in-house embroidery equipment), a plastic hanger manufacturer, a new sewing thread dyer and re-winder, a trims and accessories distributor (not manufacturer) with warehousing facilities, and quality auditing firms working on behalf of buyers. Another company is currently considering printing labels but needs to survey the market first.

However, in order for the garment industry to be sustainable and shift away from an image of only producing cheap labor, it needs to pursue a more diverse range of garments. In particular, the industry must expand to categories that attract higher duties going to the US, up to 33% for synthetic and synthetic rich garments. The industry should also look into full package manufacturing, while adding more embellishment in the form of embroidery, patching, cording, sequins, beading, garment printing, and garment washing.

Full package manufacturing will require infrastructure improvements, such as water and effluent treatment plants. Once installed, this could help the industry expand into garment dyeing and even fabric dyeing and printing.

## 2.1 CLOTHING PRODUCERS

By the end of 2014 there were 24 mass production garment export manufacturers, excluding the service industry, with two companies having temporarily suspended operations (Safi Apparel and Gladiator Textiles). Val D’or and GOAL were preparing to begin production in 2015, and GOAL is training employees before their factory shell becomes available. Two companies, H&H and S&H, were also prepared to expand when additional factory shells become available.

Site visits suggest these producers employ approximately 35,000 people, close to the official reported figure of 36,000.

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44 There is a discernible shift toward more synthetic and synthetic rich garments, accounting for 18%, 21% and 24% of $ value exports in 2012, 2013 and 2014 respectively. In terms of sme’s, this has over the same period gone from 25% to 26% to 30%.

46 Gladiator Textiles has been overstocked and unable to move/sell its supply.
2.2 WOVEN GARMENTS

Of the 24 garment export manufactures that operated in 2014, including the two suspended firms (Gladiator and Safi), nine companies were producing woven garments and an additional three were producing both woven and knit garments. The main woven garments produced were jeans, pants, jackets, coats (chef and other), suits, shirts, scrubs or medical uniforms, aprons and work wear (coveralls), and other uniforms. It is estimated that all firms that manufacture woven garments employed approximately 13,000 people in 2014.

The Haitian companies that produced woven garments in 2014 are shown in Figure 2.2. See appendix 8.1 for employment figures.

**Figure 2.2 Woven Garment Producing Companies**

<table>
<thead>
<tr>
<th>Company</th>
<th>Main Products</th>
<th>CM/FP[48]</th>
<th>Capacity/month ('000 units)[49]</th>
</tr>
</thead>
<tbody>
<tr>
<td>AGA – Inter American Wovens</td>
<td>Casual pants and Scrubs</td>
<td>CM</td>
<td>480[50]</td>
</tr>
<tr>
<td>CODEVI – Gruppo M[51]</td>
<td>Jeans and casual pants (and knits)</td>
<td>CM</td>
<td>600</td>
</tr>
<tr>
<td>DKDR</td>
<td>Suits, jackets, pants (constructed) and coats</td>
<td>CM</td>
<td>90</td>
</tr>
<tr>
<td>Gladiator Textiles[52]</td>
<td>Shirts, pants, scrubs and coats</td>
<td>CM</td>
<td>75 (Est)</td>
</tr>
<tr>
<td>Horizon Manufacturing</td>
<td>Casual and constructed pants</td>
<td>CM</td>
<td>130</td>
</tr>
<tr>
<td>Indigo Mountain</td>
<td>Casual Pants/shorts and uniform pants, chef coats, aprons</td>
<td>CM</td>
<td>40</td>
</tr>
</tbody>
</table>

[47] Information according to company interviews.

[48] CM: Cut, Make: Vendor receives fabric from buyer/supplier, cuts to size and stitches. CMT: Cut, Make and Trim: vendor receives fabrics, to be cut to size, stitch the garment and add trims and FP: Full Package (also referred to as FOB – Free on Board). FP vendors source and buy their own raw materials (fabrics and trims/accessories). M, CM and CMT companies do not have ownership of the fabrics.

[49] Capacity: Where annualized capacity figures were given, 11.5 months per annum used. To protect the companies’ actual operation, capacities rather than actual production volumes are set out.

[50] In the absence of some companies’ actual data, estimates (est.) of capacity are based on product mix, known capacity and employees of other companies.

[51] CODEVI Gruppo M: Earmarked as CM from Haiti base, become FP after washing etc. in the DR.

Excluding waste – fabric off-cuts and 2nd grade garments – it is estimated that manufacturers of woven garments for export used 45.7 million SMEs of woven fabrics in 2014. This is a commendable 32% rise from 2012. This growth is shown in Figure 2.3, which also shows the ratio of cotton and cotton-rich (cotton/rich) fabrics to synthetic and synthetic-rich (synthetic/rich) fabrics for non-suit and coat fabrics. This ratio remained relatively constant between 2012 and 2014.

Figure 2.3 shows that MMF fabrics dominate in the production of shirts and blouses. Cotton/rich fabrics, however, dominate in the production of trousers and pants, as seen in Figure 2.4.

These volumes exclude fabrics for suits and coats in man-made fibers (MMF) and wool, which remained relatively constant at 1.7, 1.8 and 1.8 million m² in 2012, 2013 and 2014, respectively. The bulk of woven fabrics appear to be sourced from the China, Taiwan, and other eastern countries.

Figure 2.3 Woven Fabric Shirts and Blouses for Export

<table>
<thead>
<tr>
<th>Fabric Type</th>
<th>Category</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>mn SME</td>
<td>%</td>
<td>mn SME</td>
</tr>
<tr>
<td>Cotton/rich</td>
<td></td>
<td>340/341</td>
<td>1.2</td>
<td>2.1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>14</td>
<td>21</td>
</tr>
<tr>
<td>MMF/rich</td>
<td></td>
<td>640/641</td>
<td>7.3</td>
<td>8.1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>86</td>
<td>79</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>8.5</td>
<td>100</td>
<td>10.2</td>
</tr>
</tbody>
</table>

---

53 mn = million. All data rounded to nearest 0.1 million SME. Source: OTEXA – Major Shippers Report – US General Imports by Country – www.otexa.ita.com
There appears to be a shift toward more cotton/rich fabrics for shirt and blouse manufacturing for export, despite the fact that synthetic and synthetic-rich shirts and blouses attract a higher duty. Duties for cotton and MMF shirts and blouses are compared in Figure 2.4. For a list of U.S. tariffs on Commonly imported Apparel, see Appendix 8.2.

**Figure 2.4 Cotton and MMF Shirt Duties**

<table>
<thead>
<tr>
<th>Fabric Type</th>
<th>M/B or W/G</th>
<th>Category</th>
<th>Duty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cotton</td>
<td>M/B</td>
<td>Shirts (340)</td>
<td>20.20%</td>
</tr>
<tr>
<td>MMF</td>
<td>M/B</td>
<td>Shirts (640)</td>
<td>26.50%</td>
</tr>
<tr>
<td>Cotton</td>
<td>W/G</td>
<td>Shirts (341)</td>
<td>15.80%</td>
</tr>
<tr>
<td>MMF</td>
<td>W/G</td>
<td>Shirts (641)</td>
<td>27.60%</td>
</tr>
</tbody>
</table>

The shift to more cotton/rich fabrics for shirt production is likely the result of existing brands and retailers that import from Haiti. Haitian manufactures need to diversify their customer base to target the more synthetic-rich shirt buyers.

Men’s shirts still dominate the cotton shirts and blouse category, carrying a higher duty than the W/G blouse category. This gives Haiti a key advantage over the shirts being imported by the U.S. from the East. This advantage could be augmented if the industry made a concerted effort to target outdoor retailers who require synthetic shirts for activities like hiking and trekking.

As seen in Figure 2.5, cotton is used for the majority of woven trousers and pants. This is mainly due to the large volume of jeans produced in Haiti.

**Figure 2.5 Woven Trouser and Slacks for Export**

<table>
<thead>
<tr>
<th>Fabric Type</th>
<th>Category</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>mn SME</td>
<td>%</td>
<td>mn SME</td>
</tr>
<tr>
<td>Cotton/rich</td>
<td>347/348</td>
<td>14.9</td>
<td>57</td>
<td>15.8</td>
</tr>
<tr>
<td>Synthetic/rich</td>
<td>647/648</td>
<td>11.2</td>
<td>43</td>
<td>12.3</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>26.1</td>
<td>100</td>
<td>28.1</td>
</tr>
</tbody>
</table>

There is, however, a large difference in duty between cotton/rich trousers and slacks and synthetic/rich trousers and slacks. These duties are outlined in Figure 2.6.

---

54 US Tariffs on Commonly Imported Apparel and www.aqoa.info
**Figure 2.6 Woven Trousers and Slacks Duties**

<table>
<thead>
<tr>
<th>Fabric Type</th>
<th>M/B or W/G</th>
<th>Category</th>
<th>Duty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cotton/rich</td>
<td>M/B</td>
<td>Trousers and Slacks</td>
<td>17%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(347)</td>
<td></td>
</tr>
<tr>
<td>MMF</td>
<td>M/B</td>
<td>Trousers and Slacks</td>
<td>28.60%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(647)</td>
<td></td>
</tr>
<tr>
<td>Cotton/rich</td>
<td>W/G</td>
<td>Trousers and Slacks</td>
<td>17%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(348)</td>
<td></td>
</tr>
<tr>
<td>MMF</td>
<td>W/G</td>
<td>Trousers and Slacks</td>
<td>29.30%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(648)</td>
<td></td>
</tr>
</tbody>
</table>

Similar to shirt manufacturers, trouser and slacks manufacturers should target retailers that carry a heavier inventory of MMF, such as polyester, polyviscose, and polycotton pants. These fabrics are often used for school wear, but also for dress pants that include polywool blends.

Production of trims and accessories generally comes from China, the US, or the Dominican Republic. Sogeplast, the existing Haitian polybag manufacturer, is not deemed high enough quality for packaging of export garments by some manufacturers. Instead polybags are imported from the DR and U.S. However, a new Korean polybag manufacturer called Young Kwang Textiles began production in January 2015. Though many Haitian companies were unaware of its existence, they were eager to investigate sourcing from the new manufacturer when told of its existence. Young Kwang Textiles has also started a sewing thread-dyeing and rewinding operation.

Companies in the Port-au-Prince area generally source cartons from Astro Carton, a local provider. For most Haitian manufacturers, fabric arrives pre-cut. For others using computer-aided design (CAD), fabric waste from cutting is minimal at less than 5%.

### 2.3 KNIT GARMENTS

There are 12 companies exclusively producing knit garments, and three others producing both woven and knits. The main knit garments produced are T-shirts, underwear, active/technical and casual sportswear, fleece wear, bottoms, other tops, and lingerie (slips/half-slips). These companies employ about 22,000 people.

The Haitian companies that produced knit garments in 2014 are shown in Figure 2.7. See appendix 8.1 for employment figures.

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*Source: MPCS Database – US Tariffs on Commonly Imported Apparel and [www.agoa.info](http://www.agoa.info)*
## Figure 2.7 Knit Garment Producers

<table>
<thead>
<tr>
<th>Company</th>
<th>Main Products</th>
<th>CM/FP</th>
<th>Capacity/month ('000 units)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CODEVI – Gruppo M</td>
<td>T-shirts, Underwear, Ladies Intimates &amp; lingerie, Synthetic Tees and Hoodies</td>
<td>CM</td>
<td>1,750</td>
</tr>
<tr>
<td>Fairway Apparel</td>
<td>Active/Technical sportswear</td>
<td>CM, some FP</td>
<td>400</td>
</tr>
<tr>
<td>Genesis</td>
<td>Crew Neck T-shirts</td>
<td>CM and FP</td>
<td>4,200</td>
</tr>
<tr>
<td>H&amp;H Global</td>
<td>T-shirts, tank tops, bottoms, leggings, active wear</td>
<td>FP mainly</td>
<td>2,000</td>
</tr>
<tr>
<td>Industrial Revolution II</td>
<td>Knit tops</td>
<td>CMT and some FP</td>
<td>50</td>
</tr>
<tr>
<td>Global Manufacturers and Contractors</td>
<td>Crew &amp; V Neck T-shirts, FR Sleepwear, Performancewear</td>
<td>CM</td>
<td>6,700</td>
</tr>
<tr>
<td>Johan Company</td>
<td>Fleece wear, some T’s</td>
<td>CM</td>
<td>75</td>
</tr>
<tr>
<td>Magic/Quality Sewing</td>
<td>lingerie</td>
<td>CM</td>
<td>N/a</td>
</tr>
<tr>
<td>Multi Wear</td>
<td>T-shirts</td>
<td>CM</td>
<td>5,000</td>
</tr>
<tr>
<td>Pacific Sportswear</td>
<td>T-shirts, sportswear</td>
<td>CM</td>
<td>2,500 to 3,000 (Est)</td>
</tr>
<tr>
<td>Palm Apparel</td>
<td>T-shirts</td>
<td>CM</td>
<td>5,000</td>
</tr>
<tr>
<td>Premium</td>
<td>Crew Neck T-shirts</td>
<td>CM and FP</td>
<td>3,600</td>
</tr>
<tr>
<td>S &amp; H Global</td>
<td>Various knit tops</td>
<td>FP</td>
<td>6,500</td>
</tr>
<tr>
<td>Sewing International</td>
<td>T-shirts</td>
<td>CM</td>
<td>6,000</td>
</tr>
<tr>
<td>Willbes</td>
<td>Tops and bottoms, tank tops to sportswear</td>
<td>CM</td>
<td>1,500</td>
</tr>
<tr>
<td>Estimated Total</td>
<td></td>
<td></td>
<td>45,525</td>
</tr>
<tr>
<td>Estimated total Sewing Machines</td>
<td></td>
<td></td>
<td>12,000 – 12,500</td>
</tr>
</tbody>
</table>

---

57 Information from company interviews.
58 CM: Cut, Make: Vendor receives fabric from buyer/supplier, cuts to size and stitches. CMT: Cut, Make and Trim: vendor receives fabrics, to be cut to size, stitch the garment and add trims and FP: Full Package (also referred to as FOB – Free on Board). FP vendors source and buy their own raw materials (fabrics and trims/accessories). M, CM and CMT companies do not have ownership of the fabrics.
59 Capacity: Where annualized capacity figures were given, 11.5 months per annum used. To protect the companies’ actual operation, capacities rather than actual production volumes are set out.
60 CODEVI Gruppo M: Earmarked as CM from Haiti base, become FP after washing etc. in the DR.
61 In the absence of some companies’ actual data, estimates (Est) of capacity are based on product mix, known capacity and employees of other companies.
63 Total capacity does not include Magic/Quality Sewing.
The estimated number of installed sewing machines is between 12,000 and 12,500, though about 500 to 1,000 sewing machines are unused because of a lack of orders, age of equipment, and other reasons. Known existing expansion plans for 2015 and 2016 will lead to another 5,000 – 5,500 installed sewing machines, increasing employment by 9,000 – 10,000 for knit garments alone.

Excluding waste, manufacturers of knit garments for export used about 265.3 million SME of knit fabrics in 2014, a 12% increase from 2012. Though this is considerably lower than the 32% growth rate experienced by woven garment exporters over this time, this growth started from a smaller base, and is also the result of five new companies beginning production.

The ratio of cotton/rich to synthetic/rich fabrics for knit shirts (80% to 20%) has remained relatively stable over the past few years, as shown in Figure 2.8. This stability is despite the higher 33% duty attracted by MMF knit shirts, which would lead us to expect a shift from cotton/rich shirts towards synthetic/rich shirts. The majority of knit fabrics for shirts come from Honduras and the DR, though the volumes coming from Taiwan, China, and Korea have been rising rapidly. This trend is expected to continue in 2015 and 2016.

**Figure 2.8 Knit Shirts for Export**

<table>
<thead>
<tr>
<th>Fabric Type</th>
<th>Category</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>mn SME</td>
<td>%</td>
<td>mn SME</td>
</tr>
<tr>
<td>Cotton/rich</td>
<td>338/339</td>
<td>114.7</td>
<td>81</td>
<td>127.6</td>
</tr>
<tr>
<td>MMF/rich</td>
<td>638/639</td>
<td>27.3</td>
<td>19</td>
<td>25.4</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>142</td>
<td>100</td>
<td>153</td>
</tr>
</tbody>
</table>

Ninety-four percent of all knit shirts are M/B. For all MMF knit shirts, however, the share of production for W/G has increased from 11% to 26% from 2012 to 2014.

Though cotton/rich still dominates for underwear production, the percentage of synthetic/rich fabrics used has increased from 15% in 2012 to 25% in 2014, as seen in Figure 2.9. This is likely because synthetic/rich underwear attracts a duty of 15.3% to 16% compared to 7.6% to 7.8% for cotton underwear.

---

While overall knit fabric volumes used for underwear export increased by 10%, the use of synthetic/rich fabrics increased by 75% between 2012 and 2014. Again, this indicates that the industry is correctly targeting the higher duty tariff categories.

MMF volumes used for pajamas have increased by over 350% over this time period to reach 4.2 million SME. This is also a higher duty category target (16.4%). Production of pajamas, baby garments, and other categories of underwear is relatively small, though increasing.

In general, knit shirts and underwear require fewer trims and accessories than woven garments. Sewing threads and polybags for knit shirts and underwear come from the DR, US, Taiwan and China, though many companies expressed interest in the new manufacturer, Youm Kwang Textiles. Most companies in Port-au-Prince area source cartons locally.

Fabric waste from knit garment manufacturers is generally only found at companies doing their own fabric cutting such as Willbes, Johan Company, Industrial Revolution II, Fairway, H&H, and S&H. Cut waste ranges from 5% to 16% of fabric used. This range is quite high by international standards, and is the result of the vast variety of garment styles being produced. For many companies, fabrics come pre-cut or come as body-sized knit fabrics, and thus waste is almost exclusively second grade garments, which makes up 1 to 2% of all garments produced.

Waste is disposed of in a number of ways. These include:

- Feeding boilers for steam generation.
- Selling to recyclers who bale and ship fabric waste.
- Giving free of charge to an enterprising company such as Life SA that uses fabric and tape waste to make handbags and other fashion articles.
- Returning waste to the DR for recycling, such as rag tearing/flock fiber operations. Contracting to a collector to be dumped.

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66 At time of writing the sourcing of cartons by the key players in Caracol and Ouanaminthe were not yet available.
There is currently insufficient fabric waste remaining for the possibility for a rag-tearing operation in Haiti.

2.4 WOVEN AND KNIT CLOTHING VALUE ADDING SERVICES AND SUPPORTING INDUSTRIES

Though Haiti is known for producing mainly commodity garments, producers are also creating value adding services, most notably embroidery. Soon, producers will also add value by providing fabric and garment washing and finishing varieties as well as printing.

The lack of water and effluent treatment plants currently precludes adding garment washing and special finishing to garments, in addition to precluding garment dyeing. Though Astro Embroidery had commission printing equipment, it was de-commissioned due to insufficient volume and a hike in the minimum wage. All printing is currently done in the DR, with the exception of Revolution II which has digital printing equipment.

In-House Value Add Services

Apart from the eight companies identified with CAD plotters – one of which has laser-cutting equipment – only one uses digital printing and drying. However, its digital printing and drying capacity is lower than its garment production capacity, making it unlikely to be used for commission digital printing. There are two companies with heat transfer/subliminal printing capabilities. H&H will also be adding printing equipment in 2015 or 2016. Two more companies are evaluating plans to install printing equipment.

Embroidery

At least one company, One World Apparel, has in-house embroidery, and the status of AGA factories is not yet known. Fairway Apparel and H&H will also add in-house embroidery equipment in 2015 or 2016. This equipment can generally embroider in 10 colors, and is multi-head (10 through to 20). Some companies outsource their embroidery requirements to Astro Embroidery.

Garment Washing

S&H fabric is expected to begin using garment washing facilities in 2015, and H&H will also be adding garment washing facilities when its new factories are completed.

Other value adding machinery such as flat lock, automatic back pocketing, pleating, and hot fixing machinery is scarce. Many manufacturers have indicated that these costs are not yet warranted, though they recognize that it could help them diversify their product portfolios and attract additional buyers.

The present situation creates an opportunity for a specialized machinery rental company that would enable the local garment industry to fill orders they cannot otherwise produce. According to a major Korean garment manufacturer, these specialized machinery rental companies exist in Latin America, and

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67 With qualified operators
their equipment is rented until orders are sufficiently large for garment manufacturers to purchase their own equipment. These specialized machinery rental companies also exist in Sri Lanka, for example.

**Commission Garment Embroidery and Printing**

Currently, Astro Embroidery is the only commission embroiderer with a considerable number of electronic embroidery machines. They have embroidery equipment capable of using nine colors, each with 20 heads, which have a capacity of 14,400 dozen embroidered pieces per month. Unfortunately, they are operating below capacity, and have already ordered additional embroidery machines based on the expected embroidery needs of a garment company whose orders did not materialize.

Astro Embroidery also had printing equipment, but they have been de-commissioned and shipped the equipment back to its facilities in other countries.

**Other Industry Supporting Initiatives**

Astro Cartons has a cardboard box manufacturing operation with the capacity to produce 1.2 million cartons per month. It is unfortunately grossly under-utilized. Expansions of garment manufacturers like H&H may help increase utilization rates in years to come, but expanding companies at Caracol industrial park like GOAL and S&H are likely to use manufacturers from the DR. Another garment manufacturer in Port-au-Prince imports cardboard boxes from Pakistan. Finally, a cardboard box manufacturer called Cartonas Dominicana/Haiti is anticipated to begin production in 2015.

**Plastic packaging materials**

There are two producers of plastic packaging materials in Haiti, Sogeplast, and Youm Kwang Textiles. Few of the garment manufacturers visited were as yet sourcing polybags locally, though this is anticipated to change. Sogeplast and Youm Kwang Textiles are both adding hanger polybags to their product range. This is a timely addition, as many garments are now packed on hangers.

**Sewing thread**

Youm Kwang Textiles has also installed sewing thread winding and dyeing equipment. It is currently only capable of dyeing and rewinding continuous filament CF and spun polyester sewing thread. Cotton and polycotton sewing thread would require an industrial waste water and effluent treatment plant. By the end of 2015, the company will have a rewinding capacity of 140 metric tons (MTs), and capacity will increase to 360 spindles, with dyeing capacity up to 120 MT per month. This company also operates in Indonesia, Guatemala, Nicaragua and Cambodia.

JCA Haiti, another trims and accessories company, has a warehouse of 500 m² stocked with elastic tape, neck tapes, bra tapes, and hanger tape. JCA is also capable of sourcing other trims and accessories such as zips, sewing thread, polybags, hangers, and buttons. It is a one-stop shop for trims and accessory

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68 While the consultant was unable to interview this company, the advent of a second cardboard box manufacturer, while the existing company is experiencing low levels of utilization, raises the question of whether this services sector will find itself in a total over-capacity situation.
needs. They are also known by Korean manufacturers as they have operations in other countries where Korean manufacturers invest.

Quality auditing

Although companies such as Hanes and Gildan have their own quality control and auditing staff, there are also two other quality auditing companies in Haiti: ASC SA and Bureau Veritas (BV).

Label printing

There are currently no label printing companies in Haiti. One service provider is considering providing label printing services, but is still in the research stage.

2.5 GARMENT INDUSTRY WORKFORCE

Half of garment manufacturers interviewed did not see the need for increased availability of trained sewing machine operators. Instead, they prefer to train their operators in-house. The other half of manufacturers interviewed indicated that a properly trained workforce would be beneficial, if they had basic sewing skills and in-line mass production skills and also were sensitized to working in factories of up to 2,000 people. This final condition is a particular area where the Haiti Apparel Center (HAC) failed.

Although only about half the industry indicated the need for a well trained workforce, training could become more beneficial as the industry grows and receives increased investment. The availability of well-trained sewing machine operators could allow manufacturers to start operating on a commercial scale and generating cash-flow more quickly.

Middle management

There is very little trained middle-management available in Haiti. Most investors supply their own expatriate middle management, including factory manager, quality control, supervisors, pattern makers, cutters, and more. This can be expensive, and the availability of qualified Haitian middle managers would encourage additional investment.

2.6 HOUSEHOLD TEXTILES

No exporters of household textiles were identified.

Note should also be taken that sewing sheets and pillow cases, etc. can these days be done by automated equipment and thus does not need hundreds of individual sewing operators (much like hemming of towels). Secondly, the duties in to the US on household textiles are low. Any company entering this field will also see that their major competition will come from a highly competitive bed linen industry in Pakistan.
3. CLOTHING INDUSTRY SWOT ANALYSIS

Figure 3.1 outlines the main strengths, weaknesses, opportunities, and threats to Haiti’s garment industry. This SWOT analysis is detailed below.

**Figure 3.1 SWOT Analysis**

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<th>STRENGTHS</th>
<th>WEAKNESSES</th>
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<td>• Diversification of garment products</td>
<td>• Outdated labor laws</td>
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<td>• Development of service industry</td>
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<tr>
<td>• Workforce costs and experience</td>
<td>• Absence of middle management expertise</td>
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<tr>
<td>• Labor regulations</td>
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</tr>
<tr>
<td>• Economies of scale</td>
<td>• Lack of infrastructure, including:</td>
</tr>
<tr>
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<td>• Industry support</td>
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<tr>
<td>• Single storey factories</td>
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<td></td>
<td>• communication infrastructure</td>
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<td>• Energy quality</td>
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<td>• Volatile business environment</td>
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<td>• Long fabric sourcing lead times</td>
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<th>OPPORTUNITIES</th>
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<td>• Favorable market access</td>
<td>• Expiration of the HOPE and HELP Acts</td>
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<td>• Room to improving Haiti’s perception</td>
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<td>• Large labor pool</td>
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<td>• Higher US tariffs</td>
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<td>• Changes in trade agreements</td>
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<td></td>
<td>• Industry decapitalization</td>
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</tbody>
</table>

3.1 STRENGTHS

- **History with U.S. buyers**: Haitian garment manufacturers have a long-standing relationship with major U.S. apparel companies. These relationships make it easier for Haitian manufacturers
to expand exports to existing customers and attract new buyers.\textsuperscript{70} For example, two major brands/stores are currently investigating purchasing garments directly from Haitian manufacturers instead of purchasing through sourcing agents.

- **Diversification of garment products:** Haitian manufacturers are slowly but gradually expanding the variety and complexity of their garments, and are using more complex sewing techniques and finishes. This represents a shift towards higher duty products and value added services.\textsuperscript{71} This can help manufacturers shed the image of being only T-shirt, underwear, and jeans producers.

- **Development of service industry:** Haitian companies are beginning to develop a service industry to support garment manufacturers.\textsuperscript{72} This includes increasing production of cartons, hangers, sewing thread, polybags, and more. Embroidery, digital and heat transfer or subliminal printing is also available.\textsuperscript{73}

- **Workforce costs and experience:** There is a generally well trained (in-house) workforce at many longer standing factories. There are also relatively competitive labor costs for Haitian garment manufacturers. The trained workforce is capable of sewing simple garments, and has become more adept at complicated garments over the past few years.\textsuperscript{74} Owners and company executives also tend to have many years of experience and good knowledge of the U.S. market and buyers’ needs. According to some more recent investors, the Haitian workforce requires a longer initial training period compared to countries such as Guatemala and Nicaragua. They indicated, however, that approximately six months after their initial training period, Haitian workers are capable of reasonably high levels of productivity at 70\% efficiency levels. After a year of experience, they can reach 80\% efficiency levels. Interviewed investors indicated that this can be further improved.\textsuperscript{75} Efficiency levels are described by the number of minutes it takes to produce a certain garment in Appendix 8.3.

- **Labor regulations:** Haiti allows a 48-hour, 6-day work week. This is a distinct advantage over many countries that allow only a 45-hour, 5-day work week.

- **Economies of scale:** High volume producers in Haiti have strong systems in place that allow them to reduce costs and increase efficiencies. These systems are often informed by client expertise, which has experience dealing with large factories around the world and helping them increase efficiency.

\textsuperscript{70} Note should however be taken that most companies are running close, if not at, capacity. Additional factory space is thus imperative.

\textsuperscript{71} HOPE value-add content expires December 19, 2018. For the year 2015, knit shirts must contain at least 50\% qualifying value. During years 2016 and 2017 the qualifying value rises to 55\% and 60\% in 2018.

\textsuperscript{72} Although still somewhat limited in variety and higher cost.

\textsuperscript{73} With the exception of embroidery, these are not yet available on a commission basis.

\textsuperscript{74} There are some companies that would disagree with this, but this is being done and was also done pre-1990.

\textsuperscript{75} Where a company CMT’s and produces a variety of garments plus style changes, they see 85\% efficiency/utilisation rates (actual output versus installed capacity per shift) as being a good track record. Where no cutting takes place and only sewing is done with little style/pattern changes, this can reach 90-95\%. When there are style changes, efficiencies invariably drop by about 25\% for a few days.
• **Market Access:** Through trade acts and agreements, Haitian manufacturers enjoy duty-free access to the U.S. market. Physical proximity to the U.S. market, which is accessible through three shipping lines, is another major advantage of Haitian manufactures.  

• **Industry support:** A number of national and international institutions are actively supporting the Haitian garment industry. The Haitian government, CFI, and ADIH have become particularly supportive of attracting new investors to the industry since 2012, and word of mouth has increased awareness of the industry among potential investors. A number of international organizations remain supportive of the industry as well, including USAID and IDB.

• **Single story factories:** Haitian factories are predominantly single story, which helps guard against tragic fires or building collapses as seen in Pakistan and Bangladesh.

### 3.2 WEAKNESSES

• **Insufficient machinery:** The absence of more diverse and technically advanced sewing machines limits manufacturers’ ability to produce a greater variety of garments and attract more high-end retailers. Some companies also have relatively old equipment that is more difficult and costly to repair.

• **Outdated labor laws:** Haiti’s labor law dates back to 1984. There are a few regulations that may need revision. These include:
  - Laws regarding strikes, which legitimize a strike when only one-third of workers are in favor, making it binding on all other workers.
  - Requirement of an annual bonus to workers equal to one month’s pay, regardless of a company’s financial health. Bonuses, instead, should be the prerogative of the company where they are deemed deserved.
  - Payroll taxes of 2% of monthly salaries. These taxes are intended to be used for workforce training, though the government conducts little to no training.

• **Absence of a trained workforce:** The absence of a trained labor force was considered a weakness by about half of companies interviewed. As previously mentioned, the other half of interviewed companies did not see this as a weakness, and instead prefer to conduct in-house training. However, a trained workforce will be increasingly necessary to attract new investors, as it would allow investors to start commercial production more quickly, instead of waiting

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76 Subject to the HELP/HOPE Act rules
77 But not doing enough in keeping existing investors happier
78 A number of companies believe this to be a far greater motivation for other investors to consider Haiti than merely a talk/slide show by Government or promotional institutions.
79 This includes motors that operate on reduced energy requirements, for example.
80 The lack of suitably experienced mechanics adds to this cost.
81 During July-December 2011, the ILO supported the reform of Haiti’s labor administration and the revision of its National Labor code.
82 Without a majority, Haiti runs the risk of becoming like RSA, where Union bosses can call a strike without necessarily having the backing of the majority of workers. May/June/July as a consequence is now known as the “strike season”, wreaking havoc on the economy, let alone the companies concerned. RSA goes through the same strike season every year.
three to four-month period for workforce training. Workforce training by the government would be an appropriate use of the 2% payroll tax.

- **Absence of middle management expertise**: Haiti lacks local middle management expertise for supervisors, quality control, mechanics, CAD plotter operators, merchandising, and more. This is a weakness that, if not addressed, will greatly increase the cost of investing in Haiti by requiring expatriate middle management.

- **Absence of supply chain management expertise**: The absence of supply chain management expertise, experience, and sourcing knowledge in Haiti slows down the development of a full package garment industry.

- **Lack of infrastructure**:
  - **Lack of factory space**: The lack of serviced factory space is a major barrier to industry growth. Additionally, there is an insufficient supply of larger factories of 5,000 to 10,000 m², as most existing factories are approximately 3,000 m².
  - **Lack of water and effluent treatment plants**: The almost complete lack of industrial water and effluent treatment plants limits Haitian garment manufacturers’ ability to engage in value added services like garment washing and dyeing.
  - **Lack of urban infrastructure**: Traffic congestion is a significant problem in the Port-au-Prince area, and access roads to companies such as H&H are poor and worsening as they are used for transporting in-bound and out-bound containers. Had the Caracol industrial park not been available, companies like SAE-A group would not have invested in Haiti, partially due to insufficient infrastructure.
  - **Poor communication infrastructure**: Haiti has poor internet connectivity, quality of cell phone service, and a total lack of land lines. Improvements are however being made.

- **Energy quality**: The cost and unreliability of Haiti’s energy supply is an industry weakness. Major billing problems are also not uncommon.

- **Volatile business environment**: The overall environment the industry operates in is a weakness. This is the result of the influence of government administration, bureaucracy, wage pressure, lack of water in some areas, poor waste collection, high power costs and lack of consistency of supply, poor condition of existing buildings, unexpected work stoppages due to illegal demonstrations, and high interest rates for loans and bank guarantees that are prohibitive. In total, these factors create an environment that has a considerable impact on operating costs.

- **Long fabric sourcing lead times**: There are no fabric mills in Haiti. This leads to long lead times for acquiring fabrics, which are sourced from eastern countries.

- **Long company registration delays**: It can take a significant amount of time to register a company, in particular the necessary import for re-export documentation as a franchise, and

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83 The cost of training includes the inability to sell the garments made (defects etc), but also fabrics used for training and naturally the wages.

84 Exception is Caracol, but at the time of the visit, the plant was not yet in operation.

85 Some improvement has been noted by some industrialists.

86 The SONAPI industrial complex was established in 1982 and the state of buildings in- and out-side is being noted by buyers.

87 Although there are knit fabric mills in the DR, these are for their nominated manufacturers only and not third parties (Hanes and Gildan vendors).
3.3 OPPORTUNITIES

- **Favorable market access:** Capitalize even more on the opportunities given by the HOPE act and the proximity to the U.S. market. The U.S. market offers a nearly unlimited supply of potential clients. Exploiting the strides made through the Better Work program and through the World Responsible Apparel Production (WRAP) certification can also help this growth.88
- **Room to improving Haiti’s perception:** More vigorously promote the Haiti’s perception as a destination for tourism, for living, and for doing business. Further, work to change the perception of the manufacturing sector as only a jeans and t-shirt sourcing destination.
- **Large labor pool:** There is a considerable population of unemployed workers to be selected from for new hires.
- **Higher U.S. tariffs:** Higher U.S. tariff schedules89 provide a stronger competitive for Haitian manufacturers against manufacturers from the East, particularly as these eastern manufacturers experience rising wages.90

3.4 THREATS

- **Expiration of the HOPE and HELP Acts:** Failure to extend the Hope and HELP Acts91 in a timely manner is undoubtedly the largest threat to the industry. Last-minute extension can harm the industry even if the acts are ultimately extended. For example, last-minute finalization of African Growth and Opportunity Act (AGOA), led many retailers to cancel orders because of the uncertainty regarding duty exemption.
- **Political instability:** Political instability is seen as a threat by companies interviewed, citing the fact that no senate or congress existed at time of visit.
- **Degradation of existing factory infrastructure:** The Metropolitan Industrial Park (PIM), for example, is in poor condition. Its condition is beginning to concern visiting customers, and failure to upgrade infrastructure could threaten sales. SONAPI, which runs and manages the industrial estates and factory buildings, is perceived by some of the companies occupying factories at PIM to be ineffective and lack interest in the park’s quality.

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88 While these certifications do not sell products, they enable a company to pass through brands’/retailers’ first selection criteria of social compliance. It is a “foot in the door.”
89 Categories 638/639 (M/B, W/G MMF shirts and blouses, 33%), 340 (M/B cotton shirts, 20.2%), 640/641 (M/B, W/G MMF shirts and blouses, 26.5% and 27.6% respectively). 647/648 (M/B, W/G Trouser/short and Slacks/shorts, 28.6% and 29.3% respectively).
90 $225/month in Shanghai, $290/month in Beijing and even Pakistan sits at $150+/month.
91 As indicated in the case for AGOA extension, the longer an extension to the HOPE/HELP Act is delayed, the more likely buyers will start scouting for new vendor sources elsewhere. See also footnote 7.
• **Perceived government shortcomings:** In the government’s eagerness to attract more investors, many existing investors feel that their factories are being neglected and left to decay.⁵² Existing investors also perceive a lack of government transparency regarding its intentions, and believe it to be lacking knowledge of the private sector and its needs.⁵⁹ This perception threatens to alienate existing investors.

• **Union-industry relationship:** Though the current relationship between union and industry leaders appears reasonably harmonious, any union leadership change could create problems, such as those experienced in 2009, 2011, and 2013.

• **Wage increases:** Increases in the minimum wage tend to have a domino effect on all salary levels, which could raise costs for manufacturers. There have already been a number of minimum wage increases in recent years.

• **Changes in trade agreements:** Potential changes to regional trade deals, such as the TPP Asian country trade deal, is making buyers and potential investors hesitant to source from Haiti.

• **Industry decapitalization:** Availability of affordable finance remains limited, with few sources capable of investing $5 to $10 million in factory space, equipment, and working capital required that could allow manufacturers to engage in full package production. This augments the need to target full package foreign direct investment.⁶⁴ More affordable finance may attract additional investment.

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⁵² Note should also be taken that it is these investors that have to date attracted a lot more investment through word of mouth.

⁵³ One Government agency may be well briefed and aware of industry needs but the feeling is that this is just not communicated effectively to other departments/agencies with which industry has to interact.

⁶⁴ Where possible full package exporting companies
4. RECOMMENDATIONS

The following list provides an overview of the recommendations.

1. **Upgrade factory infrastructure**
2. **Add water and effluent plants**
   - Make Caracol plant operational as soon as possible
   - Evaluate Caracol plant for dye house compatibility
   - Evaluate PIM and Les Palmiers for water treatment plant options
   - Investigate interim water solutions
   - Investigate ability to attract dope dyed fabric knitting plant
3. **Improve the training pipeline for entry-level workers and middle managers**
   - Conduct in-depth consultation of garment manufacturers regarding training needs
   - Conduct an audit of middle management needs
   - Investigate the need for a design studio and specialized machine rental company
4. **Lead other targeted efforts to attract investment, pursuing:**
   - Korean, Chinese, Taiwanese, and Mauritian companies
   - Higher tariff categories
   - Value adding manufacturers
   - Commodity garment producers
5. **Extend the HOPE Acts**
6. **Clarify investment incentives**
7. **Incentivize growth in the service industry**
8. **Support financing of garment manufacturers**
9. **Create a separate apparel exporters association task force within ADIH**
10. **Improve industry marketing**
11. **Reform select labor laws**
    - Worker strike laws
    - Factory nurse requirements
    - Mandatory bonuses

4.1 **UPGRADE FACTORY INFRASTRUCTURE**

The government of Haiti, CFI, IDB, and private sector stakeholders should urgently focus on encouraging the construction of new factory shells connected to utilities. Interviewees mentioned there may be space for between four and ten more buildings at PIM, eight more at CODEVI, and eight

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95 These factory shells will all by and large have to be in the 5,000 to 10,000 m² range. To allow for some flexibility to accommodate those needing somewhat smaller building, a suggestion would be to build 2 x 3,000 m² buildings next door to each other, with one 2,000 m² directly behind them.

96 One member said 4 buildings and another said 8 to 10.
to ten at Caracol (in addition to S&H’s 17 buildings). SONAPI should also undertake a full audit of all its factory buildings at PIM and repair them systematically. The Lafito free zone will by July have two 20,000 m² buildings and another 10,000 m² building. There is space for an additional five 10,000 m² factory shells. Its power station will however only be ready to supply electricity by December. The SIDSA factory building complex appears to have been fully occupied, and does not appear to have more land or buildings in the pipeline.

4.2 ADD WATER AND EFFLUENT PLANTS

A number of pressing actions should be undertaken to improve the status of Haiti’s water and effluent treatment plants:

- While the Caracol industrial park has a water and industrial wastewater treatment plant, the effluent treatment plant is not yet fully operational. It must be made fully operational as soon as possible to allow the SAE-A Group to proceed with fabric and garment washing operations, and to allow potential investors to add special finishing facilities such as enzyme, silicon, pigment, spray garment dyeing or traditional garment dyeing.
- The Caracol water and effluent treatment plant should also be evaluated for its ability to handle the needs of a dye house for knit fabrics and solid waste removal.
- PIM should be evaluated for water treatment plant options. Though there was talk of an effluent treatment plant being built, talk has not been followed up by action to date.
- Les Palmiers free zone should be evaluated for its effluent plant options, as water is available.

An interim option before a fully functional effluent treatment plant can be built is to evaluate whether it would be cost effective to truck effluent discharge from a dye house to the sewerage treatment plant(s) in Titanyen. Alternatively storage settling and evaporation dams or tanks can be built to hold the effluent discharge while removing solid waste. The cost of this system must be evaluated based on the probability of having a greige fabric warehouse and the potential implications for improving speed to market.

According to the Koios Report⁷, there is significant amount of state-owned flat and vacant land endowed with substantial water resources. These lands are unencumbered by land claims, agricultural activity, or major environmental risk. DINEPA also indicated the presence of large underground aquifer in areas between Cap Haitian and Fort Liberte.

A 1999 report from the Army Corps of Engineers indicated that the best area for ground water exploration is between Massif du Nord and the Atlantic Ocean, west of the DR border. These areas should all be considered for additional water infrastructure.

Finding finance, building these facilities, and complying with strict pollution monitoring and controls would unleash a considerable value for the garment industry, attract additional investment, and lead to considerably shortened lead times. Additional investments also need to be evaluated for their potential impact on energy and shipping costs.

In the short term, CFI and LEVE in particular should investigate the polyester fabric needs of sportswear manufacturers. Currently, a single sportswear manufacturer alone consumes enough fabric to satisfy a small dope dyed fabric knitting plant of approximately 50 MT per month. This presents an opportunity to attract investment in a dope dyed fabric knitting plant in Haiti. A feasibility study investigating the effect of Haiti’s relatively high energy prices would also need to be undertaken.

Given the potential for infrastructure changes to bring additional investment, CFI should investigate employing someone who is well versed in the textile and garmenting industry to communicate with potential investors and satisfy the needs of Haitian manufacturers.

4.3 IMPROVE THE TRAINING PIPELINE FOR ENTRY-LEVEL WORKERS AND MIDDLE MANAGERS

Though well intentioned, the HAC training center did not produce its intended results. Equipment from HAC is still housed at PIM. The machines now occupy an area of approximately 1,000 m\(^2\) of the original approximately 3,000 m\(^2\) building.

Approximately half of companies interviewed would rather train operators in-house than hire already-trained employees. The other half indicated that they would use training school graduates if available, and if these graduates are sensitized to working in a large mass-manufacturing environment with more than 500 employees. The graduates from the HAC training center failed to meet this qualification, and many left weeks after being hired.

More in-depth consultation with garment manufacturers should be done before considering a revival of the training center for basic mass production sewing. In particular, consultation should determine which sewing skills are most demanded, and which can be better trained in-house. The need for multi-skilling should also be assessed. This consultation should involve potential investors in addition to

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98 This would require in-depth analysis of the key fabrics used by construction, composition, weights, colours and price points and more.

99 Don Bosco, a training institute that offers a three year course on all aspects of cutting, sewing and pattern making, was due to time constraints not visited. Its training is geared to tailors and micro enterprises and not mass production.

100 HAC’s experience was not unique. It should be noted that two World Bank financed training centers in Lesotho closed within a year. The Industry had not been adequately consulted regarding their needs and preferred training just sewing operators in-house.

101 Some manufacturers complained that workers were not trained correctly in the HAC training center and ended up unable to work to the level of efficiency needed. However, most factories are quite happy with their internal training methods. On average 65-75% of trained workers are hired while the others are tested and released. The reasons vary from inability to build up to the efficiency level in the time required, inability to adapt to a structured work environment (tardiness, absenteeism), etc.

102 This is the ability to be able to operate more than one type of sewing machine. Various machine functions are carried out by sewing machine operators in a production line or module. Should one of the persons in the lines not be available, the production line can come to a halt. Multi-skilling overcomes this obstacle.
existing manufacturers.\textsuperscript{103} The value of a training center must be demonstrated, likely through grant funding, before being scaled up. Another option, which is used by African countries to attract investors, is for government and/or investment promotion authorities to subsidize training for a four months period to demonstrate the benefits of the center.\textsuperscript{104}

It is recommended that an audit be undertaken of the key requirements for middle management skills for each factory. Middle management training should include merchandising; production planning and supply chain management, key knowledge bases that are currently lacking. Companies expressed that they should retain the right to pick their candidate for potential middle management rather than having it selected by an independent training center.

As the industry shifts towards higher value products, a \textbf{design studio} will become increasingly important. Some companies will prefer to create designs in-house, while some would likely outsource to a design studio within a new training center. This need should be investigated.\textsuperscript{105}

\textbf{A specialized machine “rental” company} is needed with skilled operators who can run these machines. This expertise could also be instrumental in training graduates from a new sewing operator training school. The specialized machinery rental company could potentially be housed in the current HAC building. CFI should undertake an analysis of the need for this rental company based on its ability to help diversify Haiti’s garment and client portfolio. Companies’ initial reactions to this possibility were positive. An in-depth analysis is now needed to take the next step.

Funding a new training center will be a complex endeavor based on the failures of the HAC. The recommended “training consultant” should work to understand manufacturers’ middle and top management needs, and demonstrate the potential value added of a new training center. If manufacturers feel the center would be beneficial, they will be prepared to pay to send staff for training. A possible public-private partnership should be considered.

4.4 \textbf{LEAD OTHER TARGETED EFFORTS TO ATTRACT INVESTMENT}

Broadly, we recommend CFI focus on attracting investment from companies with full packaging capabilities. Within that category, we recommend pursuing a number of different sources for additional investment:

- \textbf{Korean companies}: CFI has an upcoming visit to Korea to attract investors. While it may be premature with no serviced factories available, it is an obvious target market as many Korean companies having already invested in Haiti.

\begin{itemize}
\item \textsuperscript{103} This reinforces the need for CFI to consider employing someone with experience of the value chain.
\item \textsuperscript{104} This investment incentive subsidizes training in the amount of 1.25 to 1.75 times the minimum wage.
\item \textsuperscript{105} Should a new training center be warranted (Study will determine this.), a name change from HAC would be appropriate. HAC’s image/connotations have been dented.
\end{itemize}
• **Higher tariff categories:** Pursuing U.S. buyers and new investors in higher tariff categories will increase the competitiveness of Haitian manufacturers with eastern companies targeting U.S. markets. Targeting MMF active/technical knit sportswear\(^{107}\) would also reinforce economies of scale for a dope dyed yarn fabric knitting plant. Haitian companies already sew other higher tariff items like MMF casual and dress woven pants, shirts and jackets, making it easier for other local manufacturers to acquire workers with the necessary skills to produce high tariff items. Though cotton shirts and pants do not carry as a high a tariff, they are also worth pursuing as the manufacturing base already exists for these products.

• **Value adding manufacturers:** A mini-study is needed to investigate the opportunity for attracting an investor producing dope dyed knit fabric producers. The study should determine the various fabric constructions, weight ranges, price points, in addition to the potentially higher costs of locating Haiti such as energy costs and shipping. The benefits of being able to provide faster turn-around times also need to be factored in.

• **Commodity garment producers:** Increased investment in commodity garments such as uniforms, medical garments and work wear (coveralls) could help build a strong cluster of local expertise.

• **Chinese and Taiwanese companies:** Though Korean investors may be easier to acquire, CFI should also embrace Chinese and Taiwanese investors. Many of these investors have already made investments in Africa, which shares a similar operating environment to Haiti, and they are continually looking for investment opportunities that encompass lower wages and duty-free access to the U.S. and E.U. markets.

• **Mauritian textile and apparel companies:** Mauritian textile and apparel companies have the advantage of also speaking French and Creole. Mauritius is thus a worthwhile target to find companies looking for expansion opportunities to target the U.S. and EU markets.

In order to attract additional investors, it is important for Haitian manufacturers to have duty free access to the EU under the ACP - EU EPA trade agreements. The ACP – EU EPA trade agreement has a few other distinct advantages, namely, it contains no Rules of Origin, no third country fabrics restrictions, and no expiration date like the HOPE and HELP acts. The one drawback is the requirement for reciprocity of trade. For African countries that signed the ACP – EU EPA, many obtained immediate duty free access to the EU with their own country tariffs being allowed to reduce to zero over an extended period of time, such as 15 to 20 years.

Duty free access to the EU would be particularly beneficial in attracting investors from Mauritius and Madagascar. Their factories generally enjoy margins of 5% and 8% when exporting to the EU, compared to only 2% to 3% exporting to the U.S. The margins Mauritian manufacturers can obtain exporting to RSA are between 3% and 5%. This is a main reason why Mauritius has diverted a lot of U.S. exports to South Africa. There are also many U.S. retailers that have a foothold in the EU, making it easier for Haitian vendors to enter the EU market.

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\(^{106}\) This would also increase Haitian companies competitiveness to companies based in the East targeting the US

\(^{107}\) Not just basket/base/foot-ball garments but also riding (jodhpurs for example), Nike/Adidas geared soccer wear (becoming more popular in the US), tennis etc.
4.5 EXTEND THE HOPE ACTS

Lobbying groups should continue applying pressure to extend the HOPE/HELP and the CBTPA acts as early as possible, to avoid the experiences of African manufacturers regarding the late AGOA extensions.108

4.6 CLARIFY INVESTMENT INCENTIVES

Investment incentives are already relatively generous, though they need to be clarified. For example, law currently specifies that export companies are exempt of payroll and other internal direct taxes “for up to 15 years.” One investor interviewed was unsure why his company was only exempt for only 8 years. This phrasing should be changed to establish a fixed time line that is not up to interpretation.

4.7 INCENTIVIZE GROWTH IN THE SERVICE INDUSTRY

As the service industry is still small, CFI and the Government of Haiti should evaluate tools to make the sector more competitive and increase the variety of products produced. One way to evaluate support policies is to incentivize through grants the local monitoring of productivity improvement programs, as is being done for RSA.

4.8 SUPPORT FINANCING OF GARMENT MANUFACTURERS

The Haitian garment industry has gradually decapitalized in recent years. The government of Haiti and CFI should evaluate the creation of a revolving loan fund to provide easier access to finance for full package manufacturing.

4.9 CREATE A SEPARATE APPAREL EXPORTERS ASSOCIATION TASK FORCE WITHIN ADIH

The Association of Industries of Haiti (ADIH) is an important organization for promoting and developing Haiti’s industrial sectors. Though some members of the industry leadership believe ADIH is not proactive enough, it appears to effectively inform industry leaders of pertinent information about the sector such as minimum wage, monthly employment statistics, and inquiries regarding certain products. It is lobbying for the HOPE II extension to 2030. ADIH’s role is explained in further detail in Section 5. Despite the positive functions of ADIH, creating a separate Apparel Exporters Association within ADIH would enhance its ability to address the specific needs of the apparel exporting sector.

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108 Orders are placed up to 6 months ahead of delivery. Buyers become hesitant when there is uncertainty and will thus cancel orders if there is the slightest hint that extensions may not be granted in time for the arrival of goods. AGOA third country fabric sourcing benefits were due to expire in September 2004, 2008 and 2012. In those years, the extension was not signed until late in the year, in one case a month before expiring. In these years retailers/brands started curtailing orders as far back as January of that year. By the middle of those years, many companies had retrenched the majority of its work force. The AGOA agreement in its entirety is set to expire in 2015. As far back as 2013, lobbyists were pushing for the renewal of AGOA in 2014, so there would be no fall out again. It has thus far not yet been renewed and there are fears that orders will shortly be cut back again. The AGOA renewal and HOPE/HELP and CBTPA extensions are currently (April 2015) being tabled at the House of Representatives.
should be considered. This would operate similarly to the Lesotho Textile Exporters Association (LTEA)\textsuperscript{109} or Swaziland Textile & Apparel Traders Association (STATA). Both belong to the country’s broader industry association, but have shown they can be more effective representing and resolving industry issues and needs with government and government agencies as a separate organization.

Mauritius demonstrates an alternative model that could also be viable in Haiti. There, the government owns and funds Enterprise Mauritius,\textsuperscript{110} a trade promotion organization that collaborates with the local industry\textsuperscript{111} and provides growth and development support. Specifically, the organization helps improve internal company capabilities to meet the challenges of international competition. The government regularly gives financial support to textile and garment companies to attend trade shows in the US, EU, and in Africa.

4.10 IMPROVE INDUSTRY MARKETING

Having a separate Apparel Exporters Association could also help the industry improve its marketing and international image. This can partially be achieved by bolstering the industry’s presence at trade shows. The last time the Haitian garment industry was well represented at the MAGIC trade show appears to have been August, 2011. To be internationally successful, the industry/companies must aim to attend at least three trade shows in a row.\textsuperscript{112} Trade shows should be attended by at least ten to 15 companies.

Similarly, a subscription to Panjiva would help connect the industry to buyers sourcing from countries in Central America, the Caribbean, and more. An international trade consultant such as Sycamore Marketing Group Inc.\textsuperscript{113} could then be used to help attract these companies.

4.11 REFORM SELECT LABOR LAWS

Though labor availability does not appear to be a problem in Haiti, the government should address a few regulations, in particular:

- The percentage of workers required (one-third) for a strike to be recognized as legitimate and binding for other workers should be raised.

\textsuperscript{109} www.lesothotextiles.com A website like this could also enhance the industry’s image and make buyers more aware of what Haiti has to offer. Links to say CFI and investment centre, labor laws etc would also be of benefit.

\textsuperscript{110} www.enterprisemauritius.biz

\textsuperscript{111} The textile and clothing industry is the strongest sector of Enterprise Mauritius and the manufacturers have a strong task force representing their interests at Enterprise Mauritius, in particular when it comes to export promotion of the industry.

\textsuperscript{112} First attendance gets a glance from brands/retailers (this is interesting), second time round they will take a closer look at garment ranges and ask more generic questions, whereas by the third time round it is a question of “still around, maybe we can do business”.

\textsuperscript{113} From personal experience they have an enviable track record and know all key executives of the major brands, retailers and sourcing houses. They have successfully performed the aforementioned tasks for a number of associations, including Enterprise Mauritius.
• The number of nurses required per employee in a factory is onerous, at two nurses for the first 50 to 200 workers, an additional nurse up to 500 employees, and an additional nurse for each additional 200 workers beyond that. These requirements should be reduced.

• Annual bonuses are currently mandatory at one month’s salary. This rule disregards a company’s financial standing and should be eliminated.

• Companies must pay a payroll tax of 2% of monthly wages (excluding factories geared to mass production). This should be reduced, eliminated, or the money should be used for professional workforce training.
5. RELEVANT STRUCTURES AND INITIATIVES

5.1 ADIH

The Association of Industries of Haiti is the main manufacturing sector organization in Haiti. It has a current membership of approximately 100 members across all sectors of production of goods and services. ADIH’s mission is to promote and develop Haiti’s industrial sectors worldwide. Its advocacy efforts started in 1989 with the negotiation of textile quotas for Haiti. In 1999, a breakthrough agreement with Haitian Customs created a fast-track clearing system. ADIH also initiated the efforts that led to enactment of the HOPE legislation, and serves as a reference point for the garment industry.

Industries that belong to ADIH appear cohesive. Despite their not being directly impacted, members of industries outside the apparel sector actively supported the HELP and HOPE Acts.

ADIH is continuously lobbying to have the HELP and HOPE Acts extended to 2030 and amended to include gloves and shoes. It hopes to pass these Acts alongside the AGOA Trade Agreement renewal, as the Acts are not expected to draw as much attention.

Clothing manufacturers must lobby government or NGOs for additional funding to attend tradeshows, arrange a round-table in the U.S. with buyers, and support buyer missions and lobbyists for the extension of HELP and HOPE Acts. These efforts could be done in conjunction with CFI.

5.2 CFI

The Center for Investment Facilitation (CFI) was founded in 2006 with the objective of facilitating and promoting private investment in Haiti. CFI has established 110 companies valued at $850 million and helped create more than 60,000 jobs.

CFI offers a wide range of services to investors, such as fast tracking company incorporation, promotion of industry and investment, and providing access to the Haitian business network.

CFI does not have a staff member with deep knowledge of the textile and garment value chain. This is a weakness of the organization, as the garment industry is a key anchor for investment promotion.

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114 The HOPE/HELP Acts extension, the bill HR 1891, was moved to the House of Representatives on April 23, 2015. The extension is until 2025 and no amendment was made to include gloves and shoes.

115 LTEA (Lesotho Textile Exporters Association) has its members fund lobbyist in the US regarding the AGOA Agreement (extension etc), as well as funding their Minister of Trade & Industry trip to the US to add weight to the lobbyists employed.
CFI will be organizing a trip to Korea in an attempt to attract investors. The urgency of this trip is puzzling, in particular because there are no serviced industrial factory buildings in Haiti available for investors to use. Investment promotion must be done on a targeted basis rather than a shotgun approach.

CFI, however, must be commended for having attracted six investors over the past five years, including companies such as Gladiator, H&H, Indigo, S&H, Youm Kwang Textiles, and Val D’or. Hopefully, the upcoming Korea trip will add to this list of investors, in particular with the addition of full packaging companies. CFI should consider exploring whether there are any dope dyed fabric knitting companies in Korea.

5.3 CTMO-HOPE

CTMO-HOPE is responsible for ensuring successful implementation of the HOPE II legislation, including the labor compliance issues. It works closely with the ILO-sponsored Better Work program. It is comprised of representatives from Haiti’s Government, including from the Ministry of Economy and Finance, Social Affairs and Labor, and Commerce and Industry. It also is comprised of representatives from ADIH, the American and Canadian Chambers of Commerce, and workers unions.
6. CONCLUSION

The actual number of garment export manufacturers operating in Haiti in 2014 is relatively small, at 24. By comparison, Lesotho, a country with a population of less than 2 million people, has 45 companies of which 18 are geared to US exports under AGOA. However, Haitian companies export a disproportionate value of garments, with exports of $850 million to the U.S. in 2014, compared to Lesotho’s $300 million in 2014.

While T-shirts and jeans dominate Haitian garment exports, the number manufacturers producing other products, including woven trousers, shirts and sportswear, is on the rise. Further, some companies are creating more complex and technical sportswear garments. Should the companies producing woven garments be open to clustering, competitiveness could be improved.

However, the industry is still weighed down by its commodity manufacturing image. There are few full package manufacturers. New investments must be directed to companies geared to full package manufacturing and marketing to increase the industry’s value added services. By adding embroidery, printing, and additional garment washing facilities, the industry’s value added services are already growing. At the same time, the beginning of a service industry around the garment industry is encouraging.

Manufacturers, CFI and the government of Haiti have a number of obstacles to overcome. These include long lead times for fabrics, a lack of serviceable factory shells and water and effluent plants, an inconsistent supply of electricity, the lack of middle management experience, among others.

Still, industry leaders are optimistic about the prospects of the garment industry. Many are looking to expand employment when new factories space becomes available. The industry has experienced considerable growth since its decline in the 1990s. This growth has continued despite the 2010 earthquake, bolstered by favorable market access, international aid, and increased commitment to attract investment among Haiti’s government.

The industry has the opportunity to continue this expansion. With increased investment in infrastructure, a focus on addressing key constraints and a targeted approach to attract particular types of investors, Haiti can utilize its advantages to accelerate industry growth.

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116 With two companies not operating or temporarily shut down.
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## 8. APPENDIX

### 8.1 FACTORY EMPLOYMENT FIGURES

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Source: ADIH Employment Data
### 8.2 U.S. Tariffs

#### 2000 U.S. Tariffs on Commonly Imported Apparel

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<tr>
<td></td>
<td>M/B MMF underwear</td>
<td>632</td>
</tr>
<tr>
<td></td>
<td>W/G MMF underwear</td>
<td>632</td>
</tr>
<tr>
<td></td>
<td>M/B cotton pajamas</td>
<td>351</td>
</tr>
<tr>
<td></td>
<td>W/G cotton pajamas</td>
<td>351</td>
</tr>
<tr>
<td></td>
<td>M/B MMF pajamas</td>
<td>651</td>
</tr>
<tr>
<td></td>
<td>W/G MMF pajamas</td>
<td>651</td>
</tr>
<tr>
<td>Woven Apparel</td>
<td>M/B cotton shirts</td>
<td>340</td>
</tr>
<tr>
<td></td>
<td>W/G cotton blouses</td>
<td>341</td>
</tr>
<tr>
<td></td>
<td>M/B wool shirts</td>
<td>440</td>
</tr>
<tr>
<td></td>
<td>W/G wool blouses</td>
<td>441</td>
</tr>
<tr>
<td></td>
<td>M/B MMF shirts</td>
<td>640</td>
</tr>
<tr>
<td></td>
<td>W/G MMF blouses</td>
<td>641</td>
</tr>
<tr>
<td></td>
<td>M/B cotton trousers/shorts</td>
<td>347</td>
</tr>
<tr>
<td></td>
<td>W/G cotton trousers/shorts</td>
<td>348</td>
</tr>
<tr>
<td></td>
<td>M/B MMF trousers/shorts</td>
<td>647</td>
</tr>
<tr>
<td></td>
<td>W/G MMF trousers/shorts</td>
<td>648</td>
</tr>
<tr>
<td></td>
<td>M/B wool trousers</td>
<td>447</td>
</tr>
<tr>
<td></td>
<td>W/G wool slacks</td>
<td>448</td>
</tr>
<tr>
<td></td>
<td>M/B cotton underwear</td>
<td>352</td>
</tr>
<tr>
<td></td>
<td>W/G cotton underwear</td>
<td>352</td>
</tr>
<tr>
<td></td>
<td>M/B MMF underwear</td>
<td>652</td>
</tr>
<tr>
<td></td>
<td>M/B cotton pajamas</td>
<td>351</td>
</tr>
<tr>
<td></td>
<td>W/G cotton pajamas</td>
<td>351</td>
</tr>
<tr>
<td></td>
<td>M/B MMF pajamas</td>
<td>651</td>
</tr>
<tr>
<td></td>
<td>W/G MMF pajamas</td>
<td>651</td>
</tr>
</tbody>
</table>

8.3  GARMENT PRODUCTION EFFICIENCY AS MEASURED BY STANDARD MINUTES PER GARMENT

Standard Minutes (SAM or SMV) for Few Basic Garment Products

Can anybody estimate SAM (standard allowed minute) of a garment without seeing and/or analyzing the garment? No. It is not possible. To estimate SAM you have to analyze the garment carefully and check different factors that affect the SAM. SAM of a product varies according to the work content or simply according to number of operations, length of seams, fabric types, stitching accuracy needed, sewing technology to be used etc.

But still many of us inquire for approximate SAM values for basic products, like Tee Shirt, Formal shirt, Formal trouser or jacket. An estimated SAM helps in capacity planning of the factory, calculating requirement of machineries and even helps to estimate CM (cut and make) costing of a garment.

However, for better understanding I will suggest you first to read articles ‘How to calculate SAM for a garment?’. SAM is a short form of standard allowed minutes. It means a normal operator can complete a task within the allowed time (minute) when he works at 100% efficiency.

Standard minutes (SAM) of few basic products have been listed down with its SAM range according to work content variation. In actual cases garment SAM may go outside of the limit depending the above factors. This list will be updated time to time adding more products.

<table>
<thead>
<tr>
<th>Product</th>
<th>SAM (Average)</th>
<th>SAM Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>1  Crew neck T-Shirt</td>
<td>8</td>
<td>6 to 12</td>
</tr>
<tr>
<td>2  Polo Shirt</td>
<td>15</td>
<td>10 to 20</td>
</tr>
<tr>
<td>3  Formal Full sleeve shirt</td>
<td>21</td>
<td>17 to 25</td>
</tr>
<tr>
<td>4  Formal trouser</td>
<td>35</td>
<td></td>
</tr>
<tr>
<td>5  Sweat Shirt (Hooded)</td>
<td>45</td>
<td>35 to 55</td>
</tr>
<tr>
<td>6  Jacket(Suit)</td>
<td>101</td>
<td>70 to 135</td>
</tr>
<tr>
<td>7  Women blouse</td>
<td>18</td>
<td>15 to 45</td>
</tr>
<tr>
<td>8  Bra</td>
<td>18</td>
<td>16 to 30</td>
</tr>
</tbody>
</table>

117 Source: Standard Minutes (SAM or SMV) for Few Basic Garments - www.onlineclothingstudy.com
8.4 CANADA GUIDE FOR LEAST DEVELOPED COUNTRIES

EXPORT TO CANADA — DUTY FREE!

A Guide to Canada’s Market Access Initiative for Least Developed Countries

PACCIA/PACT
Programme for building African Capacity for Trade
Programme d'appui au renforcement des capacités de commerce international au service de l'Afrique
Funded by the Canadian International Development Agency (CIDA)
Improved Access to the Canadian Market

Exporters from Least Developed Countries (LDCs)\(^1\) can now sell into the Canadian market without having to pay duties or comply with quotas for most products. Prior to this Canadian Market Access Initiative, which came into force January 1, 2003, about half of Canada's imports from LDCs were subject to tariffs averaging 19%.

The Market Access Initiative, announced by the Government of Canada during the G8 Summit at Kananaskis in 2002, is one of several major Canadian responses to NEPAD\(^2\) aimed at contributing to economic growth in developing countries. This initiative has the objective of helping to reduce poverty through increased investment and economic development resulting from the reduction of trade barriers.

LDCs have traditionally benefited from special access to the Canadian market through an LDC tariff system and the General Preferential Tariff (GPT). For example, nearly all LDC agricultural exports to Canada enjoyed duty-free access. Nevertheless, prior to the Market Access Initiative, some imports from LDCs still faced tariffs. The removal of these should encourage LDC exporters to look to Canada as a potential market for their goods and services.

The Canadian Import Market

Shipments of all products to Canada from LDCs have increased threefold in the past ten years, averaging more than C$300 million in recent years before reaching C$565 million in 2002. While the majority of these imports are in commodities such as crude oil, aluminum ore and rubber, consumer goods are occupying an increasing volume with items such as textiles, apparel, food products, tableware, kitchenware, headwear, carpets, electrical and electronic equipment, sporting goods and jewellery.

In the consumer category, apparel is the major LDC export to Canada. Although LDCs presently account for only 3% of apparel imports into Canada, the total volume has been increasing - from $58 million in 1993 to $173 million in 2002. The primary sources were Bangladesh (78%) and Cambodia (11%). Imports of textiles have fluctuated from $8 million in 1993 to a peak of $38 million in 1999, before settling at $24 million in 2002. Imported food products from LDCs have increased from $19 million in 2000 to $23 million in 2002.

\(^1\) As defined by the United Nations Committee on Development Policy.
\(^2\) The New Partnership for Africa's Development
Eligible Countries

A total of 48 countries, of which 34 are in Africa, are expected to benefit from economic growth resulting from freer access to the Canadian market.

In Africa, these countries are:

<table>
<thead>
<tr>
<th>Angola</th>
<th>Djibouti</th>
<th>Madagascar</th>
<th>Sierra Leone</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benin</td>
<td>Equatorial Guinea</td>
<td>Malawi</td>
<td>Somalia</td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>Eritrea</td>
<td>Mali</td>
<td>Sudan</td>
</tr>
<tr>
<td>Burundi</td>
<td>Ethiopia</td>
<td>Mauritania</td>
<td>Tanzania</td>
</tr>
<tr>
<td>Cape Verde</td>
<td>Gambia</td>
<td>Mozambique</td>
<td>Togo</td>
</tr>
<tr>
<td>Central African Republic</td>
<td>Guinea</td>
<td>Niger</td>
<td>Uganda</td>
</tr>
<tr>
<td>Chad</td>
<td>Guinea-Bissau</td>
<td>Paraguay</td>
<td>Zambia</td>
</tr>
<tr>
<td>Comoros</td>
<td>Lesotho</td>
<td>São Tomé and Príncipe</td>
<td>Senegal</td>
</tr>
<tr>
<td>Democratic Republic of Congo</td>
<td>Liberia</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The other beneficiary countries are:

<table>
<thead>
<tr>
<th>Afghanistan</th>
<th>Haiti</th>
<th>Nepal</th>
<th>Vanuatu</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>Kiribati</td>
<td>Western Samoa</td>
<td>Yemen</td>
</tr>
<tr>
<td>Bhutan</td>
<td>Laos</td>
<td>Solomon Islands</td>
<td></td>
</tr>
<tr>
<td>Cambodia</td>
<td>Maldives</td>
<td>Tuvalu</td>
<td></td>
</tr>
</tbody>
</table>

Newly Eligible Products

All imports determined to have originated in an LDC will be granted duty-free, quota-free status, except for dairy, poultry and egg products, which remain subject to duties and quotas.

Supplementing those products which already have free access to this market, 882 additional products are positively impacted by the initiative. Seven hundred and sixty (760) of these are apparel and textile goods classified by Harmonized System (HS) Codes 50-63. A further 54 are food products and 43 are footwear items. The newly eligible products include:

- carnations and chrysanthemums
- clothing, including used clothing
- cotton, including yarn and fabric
- flax yarn
- footwear
- impregnated industrial fabrics
- knitted or crocheted fabrics
- live fowls of the species "Gallus Domesticus"
- manufactured tobacco substitutes
- margarine
- meat of bovine animals
- other items with special classification provisions (goods under HS Codes 98-99)
- other textile articles
- prepared cereal products
- prepared vegetables
- specially woven fabrics
- strawberries
- sugar
- synthetic filament yarn and fabric
- typewriter ribbons
- various fresh, chilied and frozen vegetables
- various grains, flour, worked grains and malt
- wadding, felt, twine, rubber cord, etc.
- wheat and barley
- wool fabric for suits and pants
- yarn and fabric of man-made staple fibres

Further details can be found on the website: www.ccra-acrc.gc.ca/E/pub/cp/rc4322/rc4322-e.html.
Requirements

Exporters must satisfy legal requirements respecting rules of origin, certification of origin and direct shipment. For textiles and apparel, the government of the beneficiary country must also sign a Memorandum of Understanding with the Government of Canada. This allows the Canada Customs and Revenue Agency (CCRA) to collect details on shipments entering Canada under this initiative. Further information is available on the website: www.ccra-adr.gc.ca/E/pub/cp4322/rc4322_e.html.

Shipping Requirements: Goods must be shipped directly on a Through Bill of Lading to a consignee in Canada from the LDC in which the goods were certified. The Through Bill of Lading must be presented to CCRA upon request. Goods may be transhipped through an intermediate country provided that:

- they remain under customs transit control in the intermediate country;
- they do not undergo any operation in the intermediate country other than unloading, reloading or splitting up of loads or any other operation required to keep the goods in good condition;
- they do not enter into trade or consumption in the intermediate country, or
- they do not remain in temporary storage in the intermediate country for a period exceeding six months.

Rules of Origin: Specific rules of origin apply for all textile and apparel goods of HS 50-63 including yarns and sewing threads, fabrics, articles of apparel, and other made-up textile goods. Goods entitled to the LDC Tariff prior to January 1, 2003 may qualify for duty-free and quota-free access to Canada if they meet one of the following Origin Criteria:

<table>
<thead>
<tr>
<th>Origin Criteria</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A</strong> (Accumulation Rule)</td>
<td>Goods are considered to originate in an LDC if the value of the materials, parts or products originating outside that country, or in an undetermined location, and used in the manufacture or production of the goods is no more than 60% of the ex-factory price of the goods as packed for shipment to Canada. The required 40% of this ex-factory price can include a value of up to 20% of the ex-factory price of the good from a country entitled to the GPT.</td>
</tr>
<tr>
<td><strong>B</strong> (Yarn and Thread Rule)</td>
<td>Goods classified as yarns or sewing threads originate in an LDC if they are spun or extruded in an LDC.</td>
</tr>
</tbody>
</table>
| **C** (Fabric Rule) | Goods classified as fabrics originate in an LDC if they are produced in an LDC from yarns originating in an LDC, a GPT country or Canada provided that:
  a) the yarns were not further processed outside an LDC, a GPT country or Canada; and
  b) the fabrics have not undergone further processing outside an LDC. |
| **D** (Apparel Rule 1) | Goods classified as apparel must be assembled in an LDC from fabric cut in that country or in Canada, or from parts knit to shape in any LDC or Canada. The fabric or the parts knit to shape must be produced in any LDC or Canada from yarns originating in any LDC, a GPT country or Canada, and neither the yarn nor the fabric can undergo any further processing outside an LDC or Canada. |
E. (Apparel Rule 2)

Goods classified as apparel must be assembled in an LDC from fabric cut in that country or Canada, or from parts knit to shape in any GPT country. The fabric or the parts knit to shape must be from yarns originating in an LDC, a GPT country or Canada, and neither the yarn nor the fabric can undergo further processing outside an LDC, a GPT country or Canada. The value of any materials, including packaging, that are used in the manufacture of the goods that originate outside the LDC in which the goods are assembled, cannot be more than 75% of the ex-factory price of the goods as packed for shipment to Canada.

F. (Other Made-up Textile Articles Rule)

Goods classified as other made-up textiles must be cut or knit to shape and sewn or otherwise assembled in the LDC from fabric produced in any LDC or Canada from yarns originating in an LDC, a GPT country or Canada. The yarns and fabric cannot undergo further processing outside an LDC or Canada.

G. (Wholly Produced Rule)

A good is considered to originate in an LDC if it is:

- a mineral good extracted from the soil or the sea-bed of the country;
- a vegetable good harvested in the country;
- a live animal born and raised in the country;
- a good obtained in the country from a live animal;
- a good obtained from hunting or fishing in the country;
- a good derived from sea fishing or other marine goods taken from the sea by a vessel of the country;
- a good produced on board a factory ship of the country exclusively from a good referred to in (f);
- waste and scrap derived from manufacturing operations of the country;
- used goods of the country imported into Canada for use only for the recovery of raw materials;
- a good produced in the country exclusively from a good referred to in any of (a) to (h).

Certificate of Origin: Goods classified as HS 50-63 must be certified as originating in an LDC on CCRA form B255: Certificate of Origin for Textile and Apparel Goods Originating in a Least Developed Country. This form, along with additional information, can be found on the website: www.ccra-adrc.gc.ca/E/pub/circ4322r4322-e.html.

Special Rules for Textiles and Apparel: LDC

Governments whose exporters or producers wish to claim the benefits of the Market Access Initiative for textile or apparel products must sign a Memorandum of Understanding with the Government of Canada. This will enable auditors and investigators of the CCRA to obtain information on shipments claiming eligibility under the initiative.

Canada’s Department of Foreign Affairs and International Trade updates the list of signatory countries at: www.dfatmaeci.gc.ca/hna-racDS/mou-eng.asp.
Succeeding in the Canadian Market

As the seventh largest importing country in the world, Canada imports literally every type of product. Canadian buyers are always interested in new and appealing products - if these can compete in quality, price and service.

In general, suppliers should be prepared to invest time and effort in developing a solid base of information on the Canadian market before making an approach here. It is recommended that suppliers first develop export experience by selling into a country close to their own. Preparing a realistic marketing strategy will also be of considerable assistance in guiding them through the many factors they will need to consider – from shipping arrangements, through the selection of a distribution channel.

Developing country exporters wishing to expand into the Canadian market are invited to contact TFOC (www.tfo.ca) for market information and practical advice, either directly or through the Trade Promotion Agency in their country. Export support information may also be accessed on the International Trade Centre website at www.intracen.org.

TFOC Can Help

Trade Facilitation Office Canada (TFOC) provides trade- and investment-related technical assistance to developing countries through:

- Training courses and workshops for exporters, government trade officials, and trade and investment attraction agencies;
- Information on exporting to Canada and reports on specific sectors of the Canadian market;
- Circulation of product offers from developing country exporters to qualified Canadian importers, buyers and agents; and
- Trade missions to Canada for exporters and buying missions to client countries for Canadian importers.

Find out more from Trade Facilitation Office Canada: www.tfo.ca.
Sources of Information

TRADE FACILITATION OFFICE CANADA
Ste. 200, 58 Sparks Street
Ottawa, Ontario, Canada K1P 5A9
Tel: (613) 232-5825
Fax: (613) 233-7900
Internet: www.too.ca
Provided information and assistance to developing countries selling into the Canadian market.

CANADIAN ASSOCIATION OF IMPORTERS AND EXPORTERS
438 University Avenue, Suite 1616
Toronto, Ontario, Canada M5G 2K8
Tel: (416) 595-5353
Fax: (416) 595-8226
Internet: www.caie.ca
Provides information and services to the Canadian importing and exporting community.

CANADIAN APPAREL FEDERATION
564-124 B’Nombier St.
Ottawa Ontario, Canada K1P 5M9
Tel: (613) 232-3226
Fax: (613) 232-3205
Internet: www.apparel.ca/home.html
The national industry association for clothing manufacturers and designers, as well as suppliers of goods and services to the apparel industry. Under its marketing program, the Sources, the Federation compiles information on Canadian manufacturers and designers, with information on what they make.

CANADA CUSTOMS AND REVENUE AGENCY
Internet: www.cra.gc.ca/customs/publications/customs-tariff-e.html
Publishes the Canadian Customs Tariff.

CANADIAN FOOD INSPECTION AGENCY
56 Carnaboy Drive
Ottawa, Ontario, Canada K1A 0Y9
Tel: (613) 230-2042
Fax: (613) 238-6561
Internet: www.inspection.gc.ca
Responsible for food safety, animal health and plant protection. Administers acts and regulations related to foods, feeds, seeds, fertilizers, agricultural products, plant products, and packaging and labelling related to these products.

DEPARTMENT OF FOREIGN AFFAIRS AND INTERNATIONAL TRADE
125 Sussex Drive
Ottawa, Ontario, Canada K1A 0G2
Fax: (613) 995-9709
Internet: www.dfait-maeci.gc.ca
Issues Import points for items on the Import Control List.

ENVIRONMENT CANADA
National Office
Ottawa Ontario, Canada K1A 0H3
Tel: (613) 997-2800
Fax: (613) 995-3225
Internet: www.ec.gc.ca
Monitors hazardous products.

HEALTH CANADA
A 0900C2
Ottawa, Ontario, Canada K1A 0K9
Tel: (613) 957-2201
Fax: (613) 941-5500
Internet: www.hc-sc.gc.ca
Has links to the Canadian Institute for Health Information under the Health Care section (www.cihi.ca). Handles inquiries on pest control products, veterinary drugs, pharmaceuticals, medical devices, disinfectants, consumer chemicals.

INDUSTRY CANADA
Communications and Marketing Branch
Second Floor, West Tower
200 Queen Street, Ottawa, Ontario, Canada K1A 0H5
Internet: www.strategy.gc.ca
(Trade Data Online)
Provides information on individual sectors, oversees consumer packaging and labelling for non-food items, precious metals marking and textile labelling, also responsible for issues related to intellectual property rights. Strategis is the Canadian Government’s business and consumer website.

STATISTICS CANADA
H.H. Goos Building
Holland Avenue
Ottawa, Ontario, Canada K1A 0T6
Tel: (613) 951-3116
Internet: www.statcan.gc.ca
The official source for Canadian social and economic statistics and products.

STYLE Buyers’ Guide
785 Plymouth Avenue, Suite 301
Montréal, Québec, Canada H3P 1P3
Tel: (514) 739-7766
Fax: (514) 342-2003
Internet: Available through the Canadian Apparel Federation internet site.
The most comprehensive directory of the Canadian apparel industry. With over 3,000 listings, this Guide is the definitive source for information on manufacturers, wholesalers and importers of clothing plus industry suppliers, listings of independent sales representatives and other related businesses.