Testimony of Melissa Nelson
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Before the Senate Finance Committee
"Revitalizing and Renewing GSP, AGOA and Other Trade Preference Programs"

Part I: Opening Remarks

Chairman Wyden, Ranking Member Crapo, and Members of the Committee, thank you for inviting me here today. I appreciate the opportunity to discuss the importance of U.S. trade preference programs such as the African Growth and Opportunity Act (AGOA) and the Generalized System of Preferences (GSP). I will explain why I am urging a quick renewal on both, focusing mainly on AGOA, which has the largest impact on our business and customers.

You may not have heard of SanMar, but if you have ever helped your daughter put on a t-shirt for her first soccer game or put on a sweatshirt and hat to cheer on your son at his football game or walked in a pink shirt with hundreds of your friends to help find a cure for breast cancer you may have come across one of our products. If you looked inside the label of one of these shirts from Port Authority, Port and Company, or Sport-Tek there's a good chance it will say Made in Ghana or Made in Madagascar. And while the vast majority of the value of those items is created in the United States, it all depends on having access to AGOA.

SanMar is a family business that supplies undecorated, blank apparel, caps and bags to over 65,000 companies who then customize our products for their customers. Most of SanMar's customers are small businesses who are the touchstones of their communities sponsoring the soccer or football teams and making sure everyone has a shirt on walk day. These light manufacturing companies might have a handful of employees or hundreds and operate in almost every community across the country.

Each of our customers is engaged in light manufacturing within the United States. Skilled workers operate embroidery, screen printing, and other decoration machinery and robotics to produce high quality finished products that are enjoyed by millions. This industry supports over 500,000 jobs and exemplifies American craftsmanship.

Where the garment was sewn is an important piece, but it only represents part of the global value chain. So many U.S. jobs in the value chain depend on us being able to import duty-free under AGOA.

SanMar employs over 5,000 people across nine states: Washington, Nevada, Texas, Arizona, Ohio, Minnesota, New Jersey, Florida, and Virginia. Close to 1,300 of those are professional positions reporting out of our corporate offices near Seattle. These are good paying, highly

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skilled jobs requiring decades of experience in the areas of product design, engineering and IT architecture, marketing, and logistics.

SanMar's apparel production in five AGOA countries provides good jobs for over 9,000 Africans. 70% to 80% of the workers manufacturing products for SanMar are women. These jobs provide stability and drive the socio-economic growth of the region. Entire families are pulled out of poverty and their living standards are increased.

For example, when SanMar first starting manufacturing in Tanzania, the factory was practically the only building in the area. Now the entire economy has changed to cater to workers who have disposable income. Hair salons, nail salons, restaurants, even a moped shop. The transformation has been remarkable, but it would not have happened without AGOA creating the incentive for SanMar to move production from China to Tanzania.

Starting production in Tanzania was not easy. Setting up a new facility with a population that had previously been largely agrarian required significant training. We started with the least technical products so that the workforce could gain experience manufacturing basic t-shirts before adding more sophisticated products such as sweatshirts and polo shirts. It took years before we were able to achieve the quality and type of product we wanted to produce. The process has been longer and more difficult than we anticipated. And that's why AGOA needs a long renewal period right now.

Quickly reauthorizing AGOA is essential to maintaining the ongoing progress in AGOA countries. The product development cycle when sourcing from even an established factory in these countries is close to 18 months, which includes approximately five months from issuance of a purchase order to receipt of goods. With the program set to expire next September, we are already within that window and making business decisions with the expiration in mind.

Staring down the expiration date has put any potential investments on hold for the past few years. And we are missing an incredible window of opportunity. There is so much potential in manufacturing expansion and vertical integration, but companies are hesitant to invest when the benefits of AGOA could expire before a return on investment. Textile plants require hundreds of millions of dollars in investment and can take years to build. Businesses need certainty before taking that next step.

A mature, vertically-integrated apparel manufacturing sector in sub-Saharan Africa is possible, but we're not there yet. The synthetic-heavy fabrics used in products manufactured in AGOA countries are still produced outside of the region, which is why we need to maintain the current rules of origin. That will provide time for further manufacturing and infrastructure investments to have an impact. The region has phenomenal potential, but businesses need the stability of a long-term AGOA renewal to create a sustainable manufacturing base.

Part II: Additional Information

SanMar's history with AGOA-eligible countries in sub-Saharan Africa

SanMar first began sourcing apparel from sub-Saharan Africa in 2009, but our interest in the region predates that by several years. In the mid-2000s SanMar, like other peers in the apparel industry at that time, had a substantial concentration of manufacturing in East Asia, most notably China. We were interested in diversifying our sourcing base, and AGOA countries in sub-Saharan Africa were intriguing because their duty-free trade preferences would make products cost-competitive with similar ones in Asia. Unfortunately, in the mid-2000s, AGOA countries largely lacked manufacturing infrastructure and the skilled workforce required to operate the facilities. But we kept sub-Saharan Africa on our radar in the event a sourcing opportunity presented itself, which it did in 2008.

When a longtime manufacturing partner of ours presented an opportunity to move production from China to sub-Saharan Africa, we quickly began working with them on planning. At the time, our partner had just begun to develop apparel manufacturing facilities in Tanzania and Madagascar. We determined that sourcing from Tanzania and Madagascar would only be cost-effective as compared to readily available manufacturing in China and Greater Asia if the products could be imported duty free. Because Madagascar's AGOA privileges were suspended at the time and there were no immediate ways to mitigate duties on products from that country, we focused our initial sourcing efforts solely on Tanzania.

Tanzania

Starting up manufacturing in Tanzania was not as easy as switching from one established factory to another within the same geographic area; it required significantly more training. The sole facility of its kind, the factory where we began production, was located in a rural area outside of Morogoro where working age members of the community had no experience sewing textiles. We started a short sleeve t-shirt made out of 100% polyester so that the workforce could gain experience manufacturing basic garments before adding more technical products to their manufacturing runs. We were essentially starting from scratch and had to learn along the way. It took years of commitment to the partner and to the individuals working on our products before we were able to get to the quality and type of product we sought to produce in Tanzania. Our first order was placed in 2009 and we received 141,000 shirts in 2010. The following year we imported 2 million shirts. Last year we imported over 21 million units from Tanzania. And the facility in Morogoro is still manufacturing products for SanMar. Every time our owners and sourcing team visits, they are thrilled to see the factory surrounded by new shops, houses, and other commercial buildings.

Madagascar

When we started production in Madagascar in 2010, we were relying on a belief that its AGOA benefits would soon be restored. Similar to Tanzania, significant investments were made to train a workforce that could handle volumes for a customer like SanMar. Our first orders were made in 2010 and we received over 1 million shirts from Madagascar in 2011. We worked with our partner to grow production capacity which paid off when Madagascar's AGOA benefits were restored in 2014. Last year we imported more than 24 million units manufactured in Madagascar.

Ghana

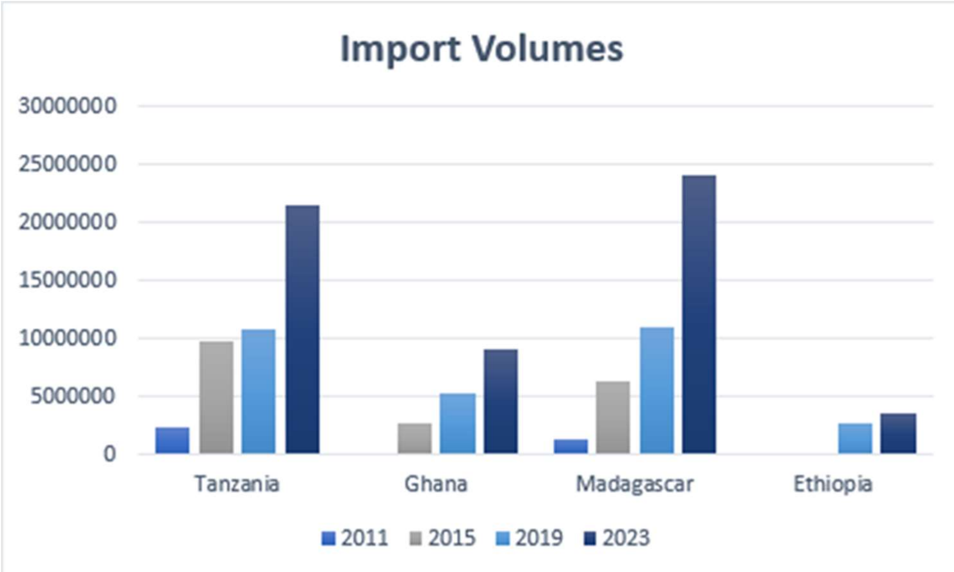
By 2014, SanMar was already busy working with another trusted supplier in Ghana. The first shipments received from Ghana were small – just over 100,000 pieces in 2014. But the following year SanMar imported more than 2 million pieces. In 2023, SanMar imported more than 9 million pieces. We are currently the largest U.S. importer of Ghana-manufactured apparel.

Ethiopia

In 2016 one of our longtime partners presented an opportunity to manufacture in Ethiopia where importing would be duty-free under AGOA. Production began in 2016 and we received 2.3 million units in 2017. Our partner then invested in a state-of-the art facility in Hawassa, Ethiopia which was fully operational and manufacturing and delivering products for SanMar by 2019. Our volume increased to over 3 million units in 2020 using a factory staffed by over 80% women. Although Ethiopia is currently suspended from AGOA, we have maintained some production in this factory in the hopes that the situation in the country improves. We continue to work with our partner to do everything we can to maintain this operation, hopefully long enough to see Ethiopia meeting its obligations and conditions for reinstatement of AGOA preferences. But our production in Ethiopia over the past few years would have been significantly larger had we been able to import those products duty-free under AGOA.

Near-term AGOA Outlook

As the chart below illustrates, SanMar's sourcing strategy over the last decade has become more intertwined with production from AGOA countries, and our reliance on the program is more critical than ever. Last year SanMar imported over 58 million pieces of apparel from AGOA countries, primarily Tanzania, Madagascar, and Ghana. We include Ethiopia in this unit count because we are temporarily maintaining production there in the hope that preferences can be restored soon. We are also looking at expanding our AGOA sourcing base through additional production in Kenya. We are early in our partnership with a manufacturer in Kenya and are optimistic that, with AGOA, we will be able to significantly increase volume in the country. Should AGOA be renewed we expect to expand production in Kenya.



The social and economic impact of our production in AGOA countries has been significant. The majority (70% to 80%) of workers manufacturing products for SanMar in Africa are women. These jobs provide stability and drive the socio-economic growth of the region. Entire families are pulled out of poverty and their living standards are increased. However, establishing new production facilities and textile mills is not an easy task.

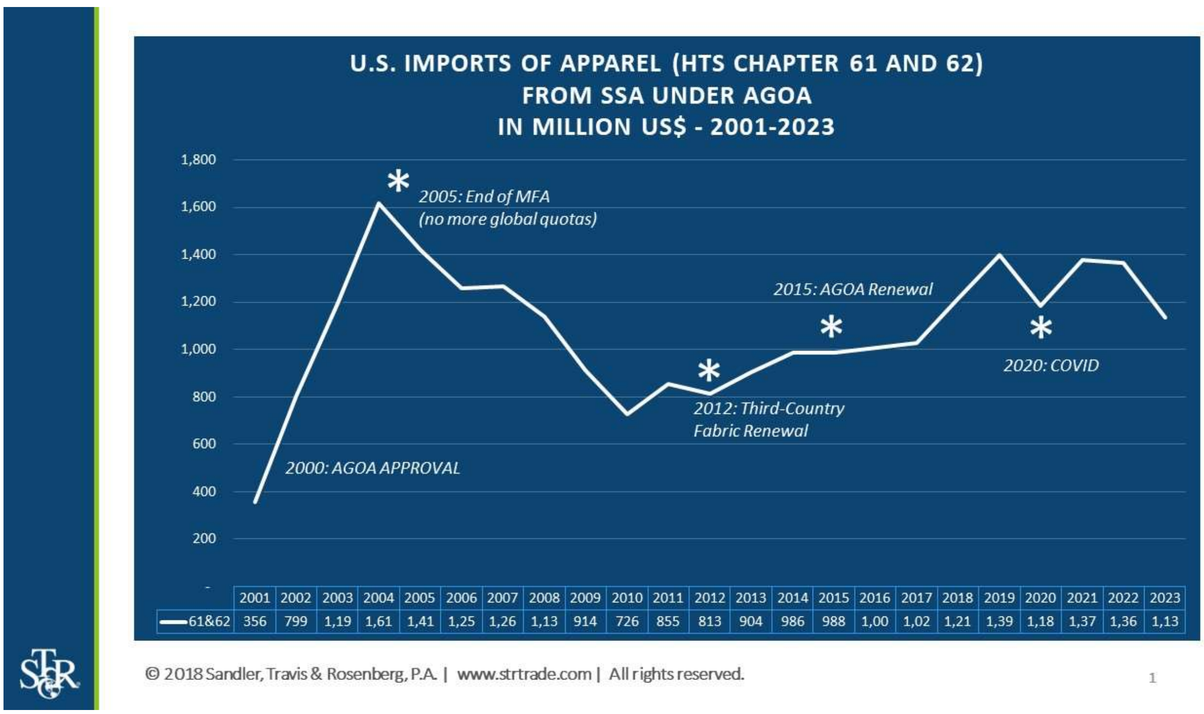
Many potential investments in AGOA countries are on hold because the program is close to expiration. It's a common discussion among apparel manufacturers who source from AGOA countries; there is so much potential in vertical integration, but no one will invest when the benefits of AGOA could expire before a return on investment. And because textile plants can require hundreds of millions of dollars in investment, that is not a commitment businesses will make without knowing the program has been renewed.

The current reality is that countries in sub-Saharan Africa are not yet able to produce even a fraction of the quantities of fabric needed for apparel production. We believe building such infrastructure will commence shortly after AGOA is renewed, but that process will still take years. In the meantime, there are simply no significant volumes of fabric available in AGOA countries. That is why SanMar also supports maintaining the current rules of origin under AGOA. The region has phenomenal potential, but businesses need the stability of a long-term AGOA renewal to develop a sustainable manufacturing base.

Apparel Industry and AGOA

The figure below shows how the apparel sector has reacted to the AGOA program since its inception. At the start of the program, the U.S. had quotas on how much apparel could be imported from non-AGOA countries, and this limitation caused business to naturally flow to AGOA countries. However, when the apparel quotas for China and other countries were eliminated in 2005, those countries became significantly more competitive in price compared to countries in sub-Saharan Africa, and use of AGOA plummeted.

Interest in AGOA sourcing started to build in 2010. There was some hesitancy related to renewal of the third-country fabric rules in 2012, and a plateau of usage around the time of AGOA renewal in 2015. Once renewed in 2015, AGOA sourcing began to climb again before being impacted by the COVID-19 pandemic. Today, AGOA production is falling due to uncertainty regarding the renewal of the AGOA program.



SanMar's history with GSP-eligible countries in Asia

Shortly after GSP was authorized to include travel goods, SanMar began sourcing GSP-eligible products such as backpacks, duffel bags, and luggage from GSP-eligible countries (2017). Our initial GSP-related production was in Indonesia, and today our GSP footprint is comprised of Indonesia, Myanmar, and the Philippines. Because of GSP eligibility, we were able to develop and source a variety of products from GSP countries that would likely have originated in China.

When GSP expired in 2020, SanMar reached out to those with greater experience in trade programs, and because all believed GSP would be renewed fairly quickly with paid duties reimbursed, we opted to maintain production in Indonesia, Myanmar, and Philippines. That decision has cost us millions of dollars – millions that could have been invested in bringing additional value to our customers. SanMar continues to source from GSP countries with the hope that it will be reauthorized soon and SanMar will receive the reimbursement that can be invested back in our business.

SanMar's Sourcing Strategy

SanMar is deeply committed to being a good corporate citizen; we conduct robust due diligence to ensure ethical sourcing practices and the well-being of workers throughout our supply chains. SanMar incorporates sustainability, social responsibility, and geopolitical risk into our sourcing strategy. Our outside credentials include top-level status with the Fair Labor Association (FLA), active membership in the Sustainable Apparel Coalition (SAC), and Tier III Customs Trade Partnership Against Terrorism (CTPAT) status.

Shifting production into AGOA and GSP-eligible countries is part of SanMar's strategic efforts to diversify and "derisk" our supply chain by reducing dependence on China. This strategy goes back more than ten years and has helped provide stability to the company and our customers during periods of geopolitical tension, global crisis, and economic uncertainty. By moving production to the countries where the government incentivized us to move, SanMar has reduced its reliance on China, from approximately 46% of our overall imports in 2010 to 6% of our imports today.

In 2018, when the government instituted Section 301 tariffs, the impact on SanMar was less than what it would have been had we not begun sourcing in AGOA nine years prior. Similarly, because we began GSP-related production in Indonesia the year before the 301 tariffs were implemented, SanMar was able to rely on established relationships in that country to promptly shift additional units to Indonesia.

In 2020, when the COVID-19 pandemic disrupted the world, SanMar was able to lean on its diversified sourcing base in 20 countries to mitigate against immediate and longer-term supply disruptions stemming from the pandemic. Supply chain diversification meant that our inventory levels were in better shape than most, and those inventory levels enabled our customers to continue to service their end users and stay in business.

Reinstatement of GSP with recoupment of duties paid will give companies looking to diversify outside of China more sourcing options in the region. Social benefits share similarities with AGOA countries as well, with many of the GSP factories we use being comprised of over 70% women and, in some cases, more than 80%.

SanMar's Cotton-Product Strategy

It’s worth noting that the products SanMar imports under AGOA and GSP use synthetic fibers. This is because polyester-rich products are generally subject to higher duties of close to 32% as compared to cotton-rich products which see lower duties of around 17%. Because of that, AGOA’s duty-free treatment of products makes polyester-rich apparel price-competitive in the region, but not cotton-rich products. SanMar’s cotton-rich strategy relies heavily on CAFTA, with the majority of cotton grown in the U.S.

In 2022, SanMar joined the Vice President’s *Call to Action* asking businesses to make major commitments to promote economic opportunity for people in Central America. SanMar committed to increase its purchases of products manufactured in northern Central America by $500 million by 2025. We are proud to be on track to meet that goal.

SanMar’s investments in Central America bolster the sourcing strategy that allows the company to deliver value to customers, maintain product inventory levels and support jobs in the United States. It also diminishes our environmental footprint through enhanced sustainability practices. For example, shipping a container from Central America to the United States versus from China can cut greenhouse gas emissions by 80%.

We include this information as further background on our sourcing strategy; when the government provides an incentive to manufacture specific products in specific countries (such as duty-free cotton products from CAFTA countries) we move production to those countries.

Haiti

SanMar began manufacturing basic synthetic t-shirts in Haiti in 2017 because those products could be imported duty-free under HOPE II. What started with 1.8 million units in 2017 grew to 12 million in 2022. But due to the current situation in Haiti, our partner in the country suspended operations and our last units were received earlier this year. SanMar is hopeful that the situation will improve in Haiti. We intend to resume production there when safe to do so if duty-free benefits are available.

Conclusion

SanMar, our employees, and customers, and our suppliers in Africa and Asia, their workers, and workers’ families, all benefit from trade preference programs such as AGOA, GSP, and HOPE II. When you see a label in our Sport-Tek Competitor shirt, an AGOA product, or a Port Authority Executive Backpack, a GSP product, it will tell you the point of assembly is Ghana or the Philippines. However, the product’s value story starts in the United States with SanMar employees developing the concept for a new product to respond to the market demands of SanMar’s U.S.-based customers. After design is complete, SanMar’s U.S.-based Sourcing and Development teams work to identify the best manufacturing solution for the product, evaluating trims, clasps, fabrics and toggles. SanMar’s U.S.-based Compliance team ensures that the products meet labeling and testing requirements, state and federal regulations, customs, and social responsibility and sustainability requirements, and our Logistics group develops a shipping plan. Production and Forecasting teams at SanMar's U.S. corporate headquarters develop a plan for ordering the correct number of products to meet the expected demand. It is only at this point that work outside of the U.S. begins.

Fabrics, clasps, zippers and hardware all sourced from separate locations in multiple countries are shipped to Ghana and the Philippines to be assembled. Following assembly, the products are loaded on vessels to be shipped to the U.S. From this point forward, all value added again occurs in the U.S. At the U.S. port – Jacksonville, Florida for the shirts from Ghana, and Seattle, Washington for the bags from the Philippines - the products are processed by workers there and then trucked to SanMar's U.S. distribution centers by domestic trucking companies. On arrival at SanMar's distribution centers, the products undergo processing and quality assurance. Once inventory is available, SanMar's Marketing team promotes the new backpacks, the Sales team solicits orders and the Inside Sales department accepts orders for the backpacks from over 65,000 active U.S.-based customer accounts. SanMar's IT department of over 250 people is crucial to all these steps.

The products are shipped to our customers via domestic trucking companies, then our customers and their U.S. employees use machinery to embellish and decorate the product to meet the design specifications of their end user customers. The finished products are then shipped to the end users by way of domestic carriers.

We believe it is in the best interests of the U.S. to contribute to economic growth and job creation in sub-Saharan Africa and GSP countries. The manufacture and export of goods under AGOA and GSP projects American influence in a positive way and contributes to stability in these regions, supports market-based economies, and helps to alleviate poverty. As more and more companies look to diversify their sourcing base and move production away from China, sub-Saharan Africa and GSP countries stand to gain from this demand – but only if AGOA is quickly renewed for a long period and GSP reauthorized with reimbursement.