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Premium Jeansmakers Hit by EU Tariff Hike

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U.S.-based premium jeanmakers are bracing for a blow to their plans for trans-Atlantic expansion this week when the European Union more than triples the tariff on American-made women's and girls' cotton denim jeans.

The change, set to take effect Wednesday, will raise the duty to 38 percent from its current rate of 12 percent and be in effect for a year. It is expected to hit the resurgent jeans factories, wash houses and associated textile, findings and trimming communities of Los Angeles and Southern California especially hard.

"Just as this traditionally American manufacturing sector is making its way back to homegrown profitability, the industry is facing a significant blow to an important and growing export market," said trade lawyer Tom Travis, managing partner of the law firm Sandler, Travis & Rosenberg.

According to government figures, the value of women's and girls' cotton denim jeans shipped to EU markets last year was \$30.3 million, down 31 percent from the \$44 million in 2011 and just more than half the \$57.5 million shipped in 2010.

The efforts of U.S.-based premium denim companies to "make local and sell global" have been bearing fruit in recent seasons, and Travis' firm, which represents many jeans companies in Southern California, estimated that exports to the EU would grow nearly 20 percent during the current year to \$36.2 million. Year-to-date figures for January and February show exports expanding 19.5 percent to a value of \$7.4 million.

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Last year, women's jeans sales in the U.S. grew 12.3 percent to \$8.84 billion, with the share sold at above \$75 growing to 10.7 percent from 10 percent of the total in 2011.

The European Commission enacted the tariff increase on April 17, which also applies to frames and mountings for eyeglasses, sweet corn and crane lorries.

"This didn't get wide circulation until last week and, with offices in the U.S. and the EU, our phones are now ringing off the hook on this particular issue," Travis told WWD. "Obviously, there is a significant cluster of manufacturing in the Southern California market at the high end and there's very little that can be done about the merchandise that is at risk immediately."

Travis noted that the move comes just weeks before the EU and U.S. are scheduled to sit down for what could be "historic" free-trade talks. And it is the ongoing result of back-and-forth trade actions that date back to the 2000 passage of the Continued Dumping and Subsidy Offset Act, or so-called Byrd Amendment, that funneled money to U.S. companies hurt by undervalued imports. The act was deemed illegal by the World Trade Organization, repealed by Congress in 2006 and phased out in 2007, but U.S. companies in some cases have continued to collect monies deemed to be due to them based on its provisions. The EU began levying some retaliatory tariffs on U.S.-made apparel in 2005.

"There's something of a shot from the graveyard in this action," Travis said. "It seems that as long as the payouts continue, the retaliation will continue."

There are limits to the retaliatory tariffs permitted by the WTO. In the case of the action on women's and girls' jeans, the value of trade for the duties to apply couldn't exceed \$60.8 million.

"This automatic annual trade remedy has been going on for years in the framework of our WTO relationship with the U.S.A. and so has no impact on our future EU-U.S. trade negotiations," said John Clancy, a spokesman for EU trade commissioner Karel De Gucht, noting that the penalties were designed to "redress the injury to European companies brought about by the infamous Byrd Amendment in the United States which has been found to break international trade rules. Given this legal context, the EU has no choice but to defend European companies against this illegal U.S. trade action."

Jonathan Fee, an international law specialist with the law firm of Alston & Bird, said, "Actions like these have generally been aimed at commodities where it can hurt. The EU has been intelligently selective about the kinds of goods they focus on for this sort of thing. In the past they've gone after animal-based glues and, in the aftermath of the controversy about the 2000 election in Florida, citrus fruits."

Ilse Metchek, president of the California Fashion Association, said word of the tariff hike was spreading quickly throughout the premium jeans market in Southern California. "Seventy-five percent of the high-end denim in the world comes from Southern California, and for many of these brands, 'Made in the U.S.A.' is a fundamental part of their appeal and marketing. This won't just affect the brands, but also the wash houses and related companies that not only work for the brands here but also companies in Europe and Asia."

It can't help but affect the many high-end retailers in Europe who've been buying from some of the premium market's best-known brands of U.S. origin. The action also will impact the American brands who've been starting — through their own efforts and in tandem with distributor partners in these markets — to expand more aggressively in Europe.

"These brands aren't going to go away, but they might have to go someplace else to keep their products competitive," Metchek said. "This isn't such a big deal for brands; it's a bigger deal for jobs in this area. The thrust of the federal and state government — and in L.A., with the city — has been to bring manufacturing back. This has really gotten the denim people up in arms."

A shift in cut, make and trim operations to markets like Mexico and other pockets in the Caribbean is likely to be explored.

Metchek said she was organizing a phone conference of affected members to be held Monday afternoon and had reached out to the offices of Gov. Jerry Brown and Los Angeles Mayor Antonio Villaraigosa and would shortly do the same with California's two U.S. senators, Dianne Feinstein and Barbara Boxer, as well as various other elected representatives.

Nate Herman, vice president of international trade at the American Apparel & Footwear Association, said the group had begun reaching out to various elected representatives and trade officials on both sides of the Atlantic.

"This took us by surprise," he said, "particularly with a transatlantic trade and investment partnership being studied and all but the last of the vestiges of the Byrd Amendment behind us. There's been a lot of ink on the U.S. jeans manufacturing business, and it seems they wanted a high-profile target."

Manufacturers said they were studying the situation and considering actions to offset the punitive effect on pricing, already high in this category of merchandise.