

WRITTEN TESTIMONY

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**ADVANCING THE US TRADE AGENDA: TRADE WITH AFRICA AND THE AFRICAN GROWTH AND
OPPORTUNITY ACT**

HOUSE COMMITTEE ON WAYS AND MEANS, TRADE SUBCOMMITTEE

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PERSONAL AND COMPANY INTRODUCTION

Chairman Nunes, Ranking Member Rangel, and distinguished Members of the House Ways and Means, Trade Subcommittee: On behalf of PVH Corp. (“PVH”), I want to begin by thanking you for the opportunity to testify in front of this Subcommittee. My name is William McRaith. I am Chief Supply Chain Officer for PVH. I also sit on the board for the American Apparel and Footwear Association. Our history began in the 1881 when Moses Phillips and his wife Endel began mending and selling shirts for local coal miners in Pennsylvania. After achieving success in this limited market, the operation was moved to New York City. The family business had officially transitioned from small town to the national stage. In the early 1900’s, Isaac Phillips, Moses and Endel’s son, bought the US patent for the “soft-folding” collar from John van Heusen and the Phillips-Van Heusen alliance was born. Today, PVH is one of the largest apparel companies in the world, with over \$8 billion in revenue in 2013. Our company is headquartered in New York, and we have distribution, sales and other corporate locations in California, Georgia, North Carolina, New Jersey, New York, Nevada, Pennsylvania and Tennessee. Among others, our company brands include *Calvin Klein*, *Tommy Hilfiger*, *Van Heusen*, *ARROW*, *IZOD*, *Warner’s*, *Olga* and *Speedo*¹. Our company employs approximately 16,000 associates in the United States and another 14,000 globally. We take great pride in our products, our brands, and the positive economic and social footprint of our operations in the United States and globally.

PVH is a dedicated global corporate citizen. We build our brand recognition in developed markets around the world and seek out underdeveloped and new markets globally. There are over 3,000 retail locations outside of the USA where goods under our brands are sold. Our focus has been in growing our brand recognition globally, recognizing that 95% of the world’s population lives outside of the United States. We have an unwavering commitment to corporate social responsibility, which we believe can be a key competitive advantage, as well as the right thing to do.

AGOA EXTENSION WILL BOOST INVESTMENT IN AFRICA

My comments today represent the views of PVH, although I’m certain that they reflect the thoughts of many other companies. In short, my message is simple and straightforward: Africa today, is primed to receive the type of large private sector investments that will generate the economic growth envisioned by the AGOA founders. AGOA must be renewed as soon as possible and for an extended period of time. The third country fabric provision should also be renewed for some time, but the possibility of attracting

¹ The *Speedo* brand is licensed for North America and the Caribbean in perpetuity from Speedo International, LTD.

investment that will make Africa a vertically integrated sourcing region is today more real than it has ever been before.

OUR RECENT BUSINESS ADVENTURE TO AFRICA

I want to share a story with you about a recent trip we took to East Africa. PVH has been monitoring Africa for several years as a potential location for production, as we sought to identify opportunities to improve our supply chain. PVH is a pioneer in driving investment and development, and we like to be the first into an area to help establish the workplace rules to be followed by future investors and market participants. Earlier this year PVH, together with several other companies in the apparel and textile sector, conducted an exploratory business mission to countries in East Africa. Many of the companies were hesitant to make the trip, being either skeptics or downright cynics, given that similar missions in the past had not yielded much success. Leveraging our long term relationships, we convinced them to come with us and give it another chance. What we saw this time around changed everyone's mind. The countries we visited demonstrated that they had laid the foundations necessary to attract significant foreign direct investment and were prepared to undertake the commitments necessary to secure socially responsible companies.

The Ministers and key government officials with whom we met were passionate in sharing their vision of growth for their countries. They spoke of adherence to the rule of law, free markets, government stability and transparency. They highlighted major and well thought out modern infrastructure projects that were recently completed or about to be finalized. They understood and showcased the economic advantages that their countries have compared to others in the sub-Saharan region. Most importantly, they spoke about their commitment to their people by bringing investment to the country that will truly touch - for good- the lives of their citizens. Their sincerity was evident and their arguments well thought out and convincing.

The level of professionalism, commitment and maturity that we are seeing from some governments in Africa reassures our interest in producing in Africa. What is even more telling, is the fact that every one of the other companies we had cajoled to join us on the trip agreed that Africa is ready for significant investment. They, and I, saw the opportunities that reminded us of some apparel production powerhouses today – and where they were 20 years ago. This is not a supposition. We know it because we have discussed it with other companies and we know there is great excitement about the very near term growth potential in Africa.

GOVERNMENTS IN AFRICA ARE MATURING AND WE NEED AGOA MORE THAN EVER

I fully realize that Africa is a vast region, with many countries still struggling mightily to achieve a modicum of the stability and investment potential that I just described. That is why despite the low costs of labor in Africa, many companies, including PVH, have been hesitant in the past to invest or move production there. However, I strongly believe that as more and more countries in Africa start seeing the growth and success of their neighbors, they will move towards making the changes necessary to take part in the success that can be achieved through strong governance and foreign direct investment.

AGOA was the right trade policy fifteen years ago, but it was ahead of time for the business community to truly be able to utilize it. What it did achieve, however, was the encouragement of many governments in Africa to mature and become more democratic and accountable to their citizens; we are seeing better and lasting infrastructure put in place; and we are seeing economic and educational reforms starting to take root. While much work remains to be done, the initial foundations are there. As a result, Congress must send an unequivocal signal to the investor and business community that it truly is interested in seeing Africa develop and stand on its own two feet by promptly approving a lengthy extension of AGOA, including its third country input provisions. AGOA preferences are the thread that will keep together Africa's enormous potential.

PVH IS INTERESTED IN BUILDING VALUES AND A NEW PRODUCTION MODEL IN AFRICA

It is undeniable that there are significant cost advantages that come to companies sourcing from Africa, but this is not the only motivator or factor that PVH considers in making strategic decisions about the countries where we place production. For PVH, the value of our company is in the public's perception of our brands, thus we cannot risk our reputation being tarnished by pursuing short-term growth strategies when it comes to our sourcing decisions. PVH is interested in being a partner in a long-term strategy for growth in the countries where we operate and with the people who work with us. We want to be in places where we can install not just good factories, but codes of conduct, values, environmental sustainability, positive worker relations, and the highest business and ethical principles to ensure the long-term success of our commitments.

That is why when we looked at Africa we did not just look for a place to quickly set up a sewing operation. We know that to be successful you need to have a clear line of sight throughout your entire supply chain structure. We identified our best global supplier partner companies to join us on this journey. These are entities with which we have developed long and trusting relationships. We know that

they meet PVH corporate social responsibility standards and are companies that we can trust to work with us in our mission.

Apparel production has generally been one of the first industries to invest in low income countries. Over the last 30 years, we have seen the great good that can come to these countries from the jobs created and the economic boost that our industry gives these countries. On the other hand, it is undeniable that there have been instances in which costly and even tragic mistakes have been made. These mistakes have often been the result of near-sighted investment in lawless environments. That model must and will change rapidly. Countries in Africa will be the beneficiaries of a new and more inclusive model of investment and growth in which companies like PVH are able to put in place, right from the beginning, facilities, norms and values that will guide the work at the factories and the relationships between workers, managers, associations, civil society groups, governments and any other stakeholders.

Further, in all our communications with African leaders and officials, we have stressed that PVH is not interested in making a quick buck, but in establishing a lasting presence in their country. In order to do so, they must be equally committed to upholding the sustainable social standards we require across all sectors and with all investors and participants. We have asked those governments we met with to review their Corporate Social Responsibility code at all levels and develop both educational and enforcement programs to ensure compliance. We asked each of them how they wanted the Brand name of their country to be thought of 10 years from now as the decision they made would ultimately determine the answer. As I mentioned previously, they indicated they want partners like PVH to help them implement these practices as the baseline standards in their country.

AFRICA CAN BE VERTICALLY INTEGRATED

The possibilities for investment in Africa are there and we need to encourage US companies to lead the way to investment because after 20 years of learning, we are positioned today to bring good business practices, standards and ethics to the region. Our experience can set these African nations on a course to become more than just seamstresses, but rather to become the world's 1st example of how to proactively build a fully vertical, ground to finished product, socially responsible supply chain.

The old model of only cutting and sewing operations that can be installed and removed with relative ease does not fit with our vision of Africa. Africa can attract investment in other added value processes in apparel production such as cotton growing, yarn-spinning, weaving, and logistical operations. Cotton growing is a main staple in several African countries. Further, for man-made fibers they have the

petroleum and natural fiber basics such as bamboo that can be converted to apparel yarns. In many countries, English is the primary or one of the top three primary languages, which makes it easier to train workers and future managers. When political and policy stability is added to this mix, we see no reason why some regions in Africa cannot be developed into fully vertically integrated value chains.

OTHER AREAS IN WHICH THE U.S. CAN HELP

There are many ways by which the U.S. can partner with Africa to achieve a fully vertically integrated model of production. For instance, there is cotton production in Africa today, but it is very inefficient and of poor quality compared to the high yields and high quality cotton produced in other areas. This can be changed by creating partnerships between developed and developing countries in Africa that would help transfer know-how to African farmers and facilitate the move from artisan to technologically advanced methods of growing and harvesting. Helping them to implement farming practices that use less water, less pesticides and have higher yields per acre will leapfrog them into the 21st Century. Implementing harvesting practices that use machines rather than people will help minimize labor risk potentials. Instituting cotton grading practices that mimic our own system will help ensure quality product and reliability for purchasers.

Training workers and management is also essential and this is another area where developed countries' know-how can prove crucial. Allowing employees access to visas to travel to the US for training in our practices and systems will enable us to ensure that best practices are exported and put in place globally. Trade infrastructure projects are critical, and in this regard we salute current Congressional efforts to promote energy investments in Africa. We also support the Trade Facilitation Agreement signed in Bali last year and look forward to its implementation. Creating support to the sub-Saharan nations to build an intra-regional connectivity that will allow goods necessary for apparel production to transit the continent seamlessly will enhance the attractiveness of the continent and prevent each nation having to be completely vertically integrated on its own.

WHAT CONGRESS CAN DO

Congress can be a great catalyst for growth as well by matching the long-term commitment expected from the private sector by approving a lengthy extension of the AGOA program. Companies cannot commit to individual investments ranging in the hundreds of millions of dollars unless they have more certainty about the rules in place. We are embarking on these types of investment. It will take 12-24 months to set up yarn spinning, fabric weaving/knitting and apparel making facilities. We then need to

build production capacity and be able to have benefits long enough to cover the full depreciation of our investments. If Congress merely extends AGOA for a handful of years, it is signaling that Africa will remain a cut and sew operation, allowing it to only benefit in 10% - 15% of the total value of a finished apparel product. If Congress commits to a much longer extension of the program, it is signaling that it is truly dedicated to working with the private sector in helping Africa develop and diversify into economic independence.

Congress can and should commit to AGOA for a period of time reflecting that for which it has been in effect already.

One other suggestion for change is that as countries are removed from AGOA in the future, and for whatever reason, Congress and the Administration will allow a phase out period of no less than one year in order to allow business to properly reallocate their resources and prepare for the changes. Some countries have built significant reliance upon apparel making and have tens of thousands of employees working in these factories. Their economies are very delicate and sometimes their political structures are precariously balanced on the continued employment of these workers. Take for example a hypothetical situation where an announcement to remove AGOA preferences is made on December 27th that effective on January 1 of the following year benefits will be withdrawn from a an AGOA beneficiary nation. That means that goods manufactured in that country and exported on December 28th arriving on January 8th will have lost their AGOA status while transiting the ocean. For apparel brands and companies, we cannot suddenly absorb duties as high as 32% on the arriving goods and the net result of such short term announcements will be a mass exodus from the country that lost benefits. The quick exit does not allow for an orderly transition of the workforce and could lead to social unrest and more political turmoil for the country. A one year transition is consistent with the transition period allocated under the GSP to graduating countries and AGOA is an extension of the GSP.

Finally, while we want to achieve a fully vertically integrated Africa in the future, it is important for companies in the apparel sector to have the third party input provision remain in place for a period of time sufficient to allow the growth of the investments that will make the third party provision no longer necessary. As I described previously, setting up the yarn and textile facilities takes significantly longer than installing sewing machines and the factories need time to come fully on line. Thus, for that interim period, it is necessary for the third country fabric provision to remain in place.

CONCLUSION

PVH believes not only that Africa has great potential, but we believe that there are countries in the region that are ready to welcome the types of partnerships and investments that will yield significant economic gains in the next two decades. These economic gains will be accompanied by positive social changes in those countries, as they adopt the business and ethical values and practices that are the basis for attracting PVH and companies like us. With the right set of policies in place, Africa can also change the model of apparel sourcing by having a fully integrated supply chain that includes man made fibers, cotton, yarn, textile and apparel production. Congress must work hand in hand with the business community by passing a long-term AGOA extension. We look forward to working with the Members of this Subcommittee, other Members of Congress and with the Administration to share our business perspective and ensure that we do not lose momentum in the tremendous opportunities that await Africa. As someone who has been involved in global operations, I always ponder the question of where is the next region of growth. I believe we may now have an answer: Africa. I thank you again for this opportunity and look forward to discussing it further and answering any questions you may have. Thank you Mr. Chairman.