

EU-Latin America Preferential Apparel Trade

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The EU has free trade agreements, many of which cover apparel, with countries worldwide, including in Africa, Asia and Latin America. Information on the EU's free trade agreements, by world region, is available at http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries-and-regions/index_en.htm. The EU also offers unilateral tariff preferences to products of beneficiary countries under the Generalized System of Preferences (GSP). This summary reviews key features of the treatment of apparel articles under the EU's free trade agreements with Mexico, the CARIFORUM States (which include the Dominican Republic), Peru and Colombia and Central America, and the treatment of such articles under the EU's GSP+ Program as it applies to Latin American countries.

Economic Partnership Agreement with Mexico

The EU and Mexico signed the Economic Partnership, Political Coordination and Cooperation Agreement between the European Community and the United Mexican States in December 1997, and the agreement entered into force in October 2000. The agreement immediately eliminated EU import duty for many originating Mexican goods and phased out duty on other originating products, including all apparel articles, by January 2003. The full agreement is available at http://www.sice.oas.org/Trade/MEX_EU/English/index_e.asp.

Products are originating in Mexico if they are wholly obtained in Mexico or if they were produced in Mexico with foreign materials that "have undergone sufficient working or processing in Mexico." The agreement also provides for bilateral cumulation, so that materials originating in the EU may be considered as originating in Mexico when incorporated into a product obtained in Mexico.

Knit apparel, other than acrylic sweaters, that is made by sewing or otherwise assembling two or more pieces of knit fabric which have been either "cut to form" or "obtained directly to form" is originating if it is "manufacture[d] from yarn" in Mexico. For example, a cotton knit polo shirt could be cut and sewn in Mexico with fabric knit in Mexico from U.S. cotton yarn. The shirt would be considered originating, notwithstanding the use of non-originating U.S. yarn, and would be eligible for duty-free treatment in the EU, because it was manufactured from yarn in Mexico. The agreement allows a tolerance under which textile materials, other than linings or interlinings, that do not satisfy the applicable rule may be used if they are classified in a tariff heading other than that of the apparel article and their value does not exceed 8 percent of the ex-works price of the article. For example, the cotton knit polo shirt manufactured in Mexico with U.S. yarn, described above, could include a collar knit to shape in China as long as the collar did not exceed 8 percent of the ex-works price of the shirt.

Acrylic sweaters, even though assembled from two or more pieces, are subject to a stricter rule. They must be manufactured in Mexico from “chemical materials.” Thus, the acrylic fiber itself would have to be manufactured in Mexico, and all subsequent processes, including spinning, knitting and assembly, would have to be performed in Mexico. Even cotton yarn or man-made fiber included in an acrylic sweater would have to be manufactured in Mexico. The 8 percent tolerance for textile materials that do not satisfy the applicable rule is unavailable for acrylic sweaters.

Knit apparel articles that do not have two or more assembled pieces, such as socks, must be manufactured in Mexico from natural fibers, man-made staple fibers not carded or combed or otherwise processed for spinning, or chemical materials or textile pulp. Cotton socks, for example, could be manufactured from U.S. or other non-originating cotton fiber, but the yarn would have to be spun in Mexico.

For all knit apparel, regardless the number of pieces, comprising two or more “basic textile materials” (such as cotton, silk, wool, or artificial or synthetic filaments or staple fibers), the applicable rule does not apply to any of such basic textile materials representing 8 percent or less of the total weight of all basic textile materials in the apparel article. A cotton sock manufactured in Mexico with Mexican cotton yarn, for example, could include up to 8 percent by weight U.S. spandex yarn. This tolerance is not available for articles made of a single basic textile material.

Most woven apparel is originating if it is “manufacture[d] from yarn” in Mexico. Textile materials, other than linings or interlinings, that do not satisfy the rule may be used if they are classified in a tariff heading other than that of the apparel article and their value does not exceed 8 percent of the ex-works price of the article.

An alternative rule allows most printed woven apparel articles to be considered originating if the fabric is printed and subjected to two additional preparatory or finishing operations in Mexico (including, for example, bleaching and shrink resistance processing), as long as the value of the unprinted fabric does not exceed 47.5 percent of the ex-works price of the printed fabric. Inexpensive Chinese rayon or silk fabric, subjected to printing and two or more of the required processes in Mexico, could be used by a Mexican apparel factory to produce an originating woman’s dress, as long as the value of the Chinese fabric did not exceed 47.5 percent of the ex-works value of the finished printed fabric.

Another alternative rule allows certain embroidered apparel articles for women, girls, or babies to be manufactured in Mexico from unembroidered fabric, provided that the value of the unembroidered fabric does not exceed 40 percent of the ex-works price of the apparel article.

Unlike the origin rules for apparel under NAFTA and other U.S. free trade agreements, the origin rules for apparel under the EU-Mexico Economic Partnership are not limited to the component of an article that determines its classification. The requirements apply to all components, although non-textile materials, such as buttons and zippers, may be of any origin.

Economic Partnership Agreement with the CARIFORUM States

In October 2008, the EU concluded an economic partnership agreement with the CARIFORUM states, which include Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, the Dominican Republic, Grenada, Guyana, Haiti, Jamaica, Saint Christopher and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname and Trinidad and Tobago. The agreement took effect in December 2008. The agreement immediately eliminated duty on all apparel articles. The full text of the agreement is available at http://www.sice.oas.org/Trade/CAR_EU_EPA_e/careu_in_e.ASP.

Products originate in a CARIFORUM state if they are wholly obtained or have been sufficiently worked or processed in the CARIFORUM states. For purposes of determining originating status, the CARIFORUM states are treated as one state. Thus, for example, work or processing may be performed in two or more CARIFORUM states to satisfy the origin rule.

Knit apparel that is made by sewing or otherwise assembling two or more pieces of knit or crocheted fabric which have been either “cut to form” or “obtained directly to form” is originating if it is “manufacture[d] from fabric” of any origin in one or more of the CARIFORUM states. Textile trimmings and accessories that do not satisfy the rule may be used as long as the weight of the trimmings and accessories does not exceed a tolerance of 10 percent of the total weight of all textile materials in the apparel article. Linings and interlinings are not trimmings and accessories for this purpose. A knit apparel product that is not made from two or more assembled pieces, such as a pair of socks, is originating if it is knit or crocheted in a CARIFORUM state from yarn of any origin. Another general tolerance applicable to any product, including an apparel article, allows non-originating materials to be used where originating materials are required as long as the value of such non-originating materials does not exceed 15 percent of the ex-works price of the product.

These very liberal rules for knit apparel articles made from two or more pieces would allow a cotton polo shirt, for example, to be made in a CARIFORUM state with fabric from any country in the world. In addition, the provision allowing a tolerance of 15 percent of the ex-works price for non-originating materials might, for example, permit collars, cuffs and similar apparel article parts to be cut and sewn in any country from any fabric as long as their combined value did not exceed the tolerance.

Like the EU agreement with Mexico, the agreement with CARIFORUM states contains a tolerance for knit apparel articles containing two or more “basic textile materials,” (such as cotton, silk, wool, or artificial or synthetic filaments or staple fibers), under which the applicable rule does not apply to any of such basic textile materials representing 10 percent or less of the total weight of all basic textile materials in the apparel article.

Most woven apparel is originating if it is “manufacture[d] from fabric” of any origin in one or more of the CARIFORUM states. Thus, an apparel article producer in one of the CARIFORUM states could cut and sew woven apparel articles with fabric from anywhere in the world and export them to the EU duty-free.

The origin rules for apparel are not limited to the component of an article that determines its classification. The requirements apply to all components, although non-textile materials, such as buttons and zippers, may be of any origin.

Trade Agreement between the European Union and Colombia and Peru

Trade officials of the EU, Colombia and Peru initialed the legal text for the Trade Agreement between the European Union and Colombia and Peru in April 2011. The agreement must be translated, signed and adopted by each of the parties before it will become effective. Once effective, the agreement will immediately eliminate EU import duty for all originating apparel articles. The full agreement is available at <http://trade.ec.europa.eu/doclib/press/index.cfm?id=691>.

Products will be originating in Colombia or Peru if they are wholly obtained in Colombia or Peru or if they were produced in Colombia or Peru with foreign materials that have undergone sufficient working or processing in Colombia or Peru. The agreement allows cumulation among the parties, so that materials originating in the EU may be considered as originating in Colombia or Peru when incorporated into a product obtained in Colombia or Peru. The agreement also provides for extended cumulation with Andean countries that are not parties (Bolivia and Ecuador) and with Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama and Venezuela. At the request of any party made to a committee created under the agreement for this purpose, the parties may extend cumulation even further to Mexico or any South American or Caribbean country if the country to which cumulation is extended enters into free trade agreements with the parties providing reciprocal cumulation to the parties.

Knit apparel that is made by sewing or otherwise assembling two or more pieces of knit or crocheted fabric which have been either “cut to form” or “obtained directly to form” is originating if it is “manufacture[d] from yarn” in Colombia or Peru. For example, a cotton knit polo shirt could be cut and sewn in Colombia or Peru with fabric knit in Colombia or Peru from U.S. cotton yarn. The shirt would be considered originating, notwithstanding the use of non-originating U.S. yarn, and would be eligible for duty-free treatment in the EU, because it was manufactured from yarn in Colombia or Peru. The agreement allows a tolerance under which textile materials that do not satisfy the applicable origin rule may be used if they are classified in a tariff heading other than that of the apparel article and their value does not exceed 8 percent of the ex-works price of the article. For example, the cotton knit polo shirt manufactured in Colombia or Peru with U.S. yarn, described above, could include a collar knit to shape in China as long as the collar did not exceed 8 percent of the ex-works price of the shirt.

Knit apparel articles that do not have two or more assembled pieces, such as socks, must be manufactured in Colombia or Peru from natural fibers, man-made staple fibers not carded or combed or otherwise processed for spinning, or chemical materials or textile pulp. Cotton socks, for example, could be manufactured from U.S. or other non-originating cotton fiber, but the yarn would have to be spun in Colombia or Peru.

Certain tariff classifications of knit apparel articles manufactured from nylon yarn or elastomeric yarns in Colombia or Peru are duty-free upon importation into the EU under annual quotas for each classification and each country. These apparel articles are women's or girls' briefs and panties of man-made fibers, men's or boys' swimwear of synthetic fibers, women's or girls' swimwear of synthetic fibers, graduated compression hosiery, certain pantyhose and tights of synthetic fibers, certain women's full-length or knee length hosiery and certain other hosiery of synthetic fibers.

Most woven apparel is originating if it is "manufacture[d] from yarn" in Colombia or Peru. Textile materials that do not satisfy the rule may be used, if they are classified in a tariff heading other than that of the apparel article and their value does not exceed 8 percent of the ex-works price of the article.

An alternative rule allows certain embroidered apparel articles for women, girls, or babies to be manufactured in Colombia or Peru from unembroidered fabric, provided that the value of the unembroidered fabric does not exceed 40 percent of the ex-works price of the apparel article.

For all knit and most woven apparel comprising two or more "basic textile materials" (such as cotton, silk, wool, or artificial or synthetic filaments or staple fibers), the applicable rule does not apply to any of such basic textile materials representing 10 percent or less of the total weight of all basic textile materials in the apparel article. This tolerance is not available for articles made of a single basic textile material.

Unlike the origin rules for apparel under NAFTA and other U.S. free trade agreements, the origin rules for apparel under the EU-Colombia-Peru Trade Agreement are not limited to the component of an article that determines its classification. The requirements apply to all components, although non-textile materials, such as buttons and zippers, may be of any origin.

EU-Central America Association Agreement

Trade officials of the EU, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama initialed the legal text for the EU-Central America Association Agreement in April 2011. The agreement must be translated, signed and adopted by each of the parties before it will become effective. Once effective, the agreement will immediately eliminate EU import duty for all originating apparel articles. The full agreement is available at <http://trade.ec.europa.eu/doclib/press/index.cfm?id=689>.

Products will be originating in Central America if they are wholly obtained in Central America or if they were produced in Central America with foreign materials that have undergone sufficient working or processing in Central America. The agreement allows cumulation among the parties, so that materials originating in the EU may be considered as originating in Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, or Panama when incorporated into a product obtained in any of those countries. The agreement also provides for extended cumulation with Bolivia, Colombia, Ecuador, Peru and Venezuela. At the request of any party made to a committee created under the agreement for this

purpose, the parties may extend cumulation even further to Mexico or any South American or Caribbean country if the country to which cumulation is extended enters into free trade agreements with the parties providing reciprocal cumulation to the parties.

Knit apparel that is made by sewing or otherwise assembling two or more pieces of knit or crocheted fabric which have been either “cut to form” or “obtained directly to form” is originating if it is “manufacture[d] from yarn” in Central America. For example, a cotton knit polo shirt could be cut and sewn in Central America with fabric knit in Central America from U.S. cotton yarn. The shirt would be considered originating, notwithstanding the use of non-originating U.S. yarn, and would be eligible for duty-free treatment in the EU, because it was manufactured from yarn in Central America. The agreement allows a tolerance under which textile materials that do not satisfy the applicable rule may be used if they are classified in a tariff heading other than that of the apparel article and their value does not exceed 8 percent of the ex-works price of the article. For example, the cotton knit polo shirt manufactured in Central America with U.S. yarn, described above, could include a collar knit to shape in China as long as the collar did not exceed 8 percent of the ex-works price of the shirt.

Knit apparel articles that do not have two or more assembled pieces, such as socks, must be manufactured in Central America from natural fibers, man-made staple fibers not carded or combed or otherwise processed for spinning, or chemical materials or textile pulp. Cotton socks, for example, could be manufactured from U.S. or other non-originating cotton fiber, but the yarn would have to be spun in Central America or the EU.

Most woven apparel is originating if it is “manufacture[d] from yarn” in Central America. Textile materials that do not satisfy the rule may be used, if they are classified in a tariff heading other than that of the apparel article and their value does not exceed 8 percent of the ex-works price of the article.

An alternative rule allows certain embroidered apparel articles for women, girls, or babies to be manufactured in Central America from unembroidered fabric, provided that the value of the unembroidered fabric does not exceed 40 percent of the ex-works price of the apparel article.

For all knit and most woven apparel comprising two or more “basic textile materials” (such as cotton, silk, wool, or artificial or synthetic filaments or staple fibers), the applicable rule does not apply to any of such basic textile materials representing 10 percent or less of the total weight of all basic textile materials in the apparel article. This tolerance is not available for articles made of a single basic textile material.

Unlike the origin rules for apparel under NAFTA and other U.S. free trade agreements, the origin rules for apparel under the EU-Central America Association Agreement are not limited to the component of an article that determines its classification. The requirements apply to all components, although non-textile materials, such as buttons and zippers, may be of any origin.

Panty hose, tights, stockings, socks and other hosiery, including graduated compression hosiery and knit footwear without applied soles, manufactured in Costa Rica, El Salvador, Honduras and Panama with materials of any origin and of any tariff heading except that of the apparel article are duty-free upon importation into the EU under annual quotas for each country. Similarly, selected classifications of woven and knit apparel articles manufactured in any of the Central American parties with materials of any origin and of any tariff heading except that of the apparel article are duty-free upon importation into the EU under annual quotas for each classification from each country. There are several listed classifications for each country. Producers and importers are encouraged to consult the text of the agreement to determine whether a particular apparel article is eligible for this treatment.

Generalized System of Preferences-Plus

The EU's GSP program allows preferential tariff treatment for goods of 176 developing countries and territories. Duties on originating apparel articles are reduced by 20 percent under the standard GSP. Of greater interest to apparel producers in Latin America, however, is the GSP's Special Incentive Arrangement for Sustainable Development and Good Governance, also known as GSP+, under which many originating products, including apparel articles, may be imported into the EU duty-free. Of 16 countries presently participating in GSP+, ten are in Latin America: Bolivia, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Peru and Venezuela.

Origin rules for the standard GSP and GSP+ are the same. Products are originating if they are wholly obtained in a beneficiary country or if they were produced in a beneficiary country with non-originating materials that have undergone sufficient working or processing in the beneficiary country. The origin rules allow cumulation with the EU, so that materials originating in the EU and further worked or processed in a beneficiary country are considered to originate in the beneficiary country. Moreover, the origin rules also allow cumulation among the member countries of certain designated regional groups, so that materials originating in one country of the group that are further worked or processed in another beneficiary country of the same group are considered to originate in the latter country. All of the GSP+ countries in Latin America, plus Panama, compose one of the designated regional groups for this purpose.

For knit apparel articles obtained by sewing or otherwise assembling two or more pieces of knitted fabric which have been either "cut to form" or "obtained directly to form," the required origin conferring operation is "knitting and making up (including cutting)" in the beneficiary country.

For other knit apparel articles that do not have two or assembled pieces, such as socks, the required origin conferring operations are either (1) spinning of natural or man-made staple fibers or extrusion of man-made filament yarn, in each case accompanied by knitting, or (2) dyeing of yarn of natural fibers accompanied by knitting.

For woven apparel articles, the required origin conferring process is weaving accompanied by making-up (including cutting). An alternative origin conferring process

for woven apparel articles is making-up preceded by printing accompanied by at least two of certain preparatory or finishing operations, including, for example, bleaching and shrink resistance processing, provided that the value of the unprinted fabric used does not exceed 47.5 percent of the ex-works price of the product. Another alternative origin-conferring process for woven women's, girls' and babies clothing is manufacture from unembroidered fabric, provided that the value of the unembroidered fabric used does not exceed 40 percent of the ex-works price of the product.

Tolerances are similar to those found in EU free trade agreements. For all knit and woven apparel articles comprising two or more "basic textile materials" (such as cotton, silk, wool, or artificial or synthetic filaments or staple fibers), the applicable rule does not apply to any of such basic textile materials representing 10 percent or less of the total weight of all basic textile materials in the apparel article. Also, for all knit and woven apparel articles, textile materials that do not satisfy the applicable rule may be used if they are classified in a tariff heading other than that of the apparel article and their value does not exceed 8 percent of the ex-works price of the article.

Unlike the origin rules for apparel under NAFTA and other U.S. free trade agreements, the origin rules for apparel under GSP+ are not limited to the component of an article that determines its classification. The requirements apply to all components, although non-textile materials, such as buttons and zippers, may be of any origin.

Certain of the Latin American countries eligible for GSP+ treatment (Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Peru) are also parties to either the pending EU-Central American Association free trade agreement or the pending EU free trade agreement with Colombia and Peru. The EU regulations governing the GSP (including GSP+) say that, when a beneficiary country benefits from a preferential trade agreement with the EU which covers all the GSP preferences, the country will be removed from the list of GSP countries. Regulations specific to GSP+ also say that, as a matter of policy, a beneficiary country should not benefit from both GSP+ and a free trade agreement if the agreement covers all of the preferences under GSP+. When the free trade agreements become effective, some or all of the GSP+ features will thereafter become inapplicable.

Additional Comments

The EU free trade agreements and the GSP+ program offer opportunities to producers in Latin America to compete more effectively with EU apparel imports from Asia and other foreign production venues.

The foregoing only summarizes the highlights of the various arrangements. Additional preferential benefits, not covered by this summary, are available for handkerchiefs and scarves, firefighting equipment and other products classified as apparel. Participation is also subject to certification and recordkeeping rules designed to confirm compliance with origin rules and other requirements. Producers and importers are cautioned to review all of the rules applicable to their specific apparel articles in affected countries.