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Committee on Ways and Means House of Representatives

Subject: *Earned Import Allowance Program for Haiti*

The United States has historically provided assistance to support development in Haiti. Over the last several years, Congress has attempted to promote Haiti's economic development through the use of trade preferences for Haitian products. In 2000, Congress extended preferences under the Caribbean Basin Economic Recovery Act¹ to allow for duty-free treatment of apparel through the Caribbean Basin Trade Partnership Act (CBTPA).² In 2006, Congress passed the Haitian Hemispheric Opportunity through Partnership Encouragement (HOPE) Act, giving preferential access to U.S. imports of Haitian apparel.³ In 2008, Congress amended HOPE (now known as HOPE II), expanding trade preference provisions already in place and creating new ones to further support the growth of the apparel industry in Haiti.⁴ It was the intent of Congress that HOPE II would help Haiti attract new investment and create jobs while simultaneously providing incentives to encourage the use of inputs manufactured by U.S. companies. Most recently, in an effort to support Haiti's recovery from the devastating earthquake that hit the country in January 2010, Congress passed the Haiti Economic Lift Program (HELP) Act of 2010,⁵ expanding and modifying several trade preference provisions under HOPE II. The various provisions included under HOPE II and

¹In 1983, Congress passed the Caribbean Basin Economic Recovery Act (Public Law 98-67, Title II) to allow for duty-free treatment of most goods, including certain apparel, exported from Haiti and other Caribbean Basin countries to facilitate the economic development and export diversification of these economies.

²Public Law 106-200, Title II.

³Public Law 109-432, Div. D, Title V.

⁴Haitian Hemispheric Opportunity through Partnership Encouragement Act of 2008 (HOPE II), Public Law 110-234, Title XV, Subtitle D, Part I.

⁵Public Law 111-171 H.R. 5160, 111th Cong., 2d Sess.

CBTPA offer different avenues through which qualifying apparel goods produced in Haiti can be exported to the United States duty-free.

One trade preference provision originally created under HOPE II was the “3-for-1” Earned Import Allowance Program (EIAP). The provision under Hope II established that for every 3-square-meter equivalent (SME) of qualifying fabric a firm imports to Haiti,⁶ the firm would be allowed to earn a credit to export 1 SME of apparel produced in Haiti to the United States, duty-free, regardless of the source of the fabric.⁷ In this way, EIAP was designed to both aid Haiti’s apparel industry and encourage the use of U.S.-manufactured inputs. The HELP Act reduced the EIAP exchange ratio from 3-for-1 to 2-for-1. The change sought to encourage the use of EIAP, since no apparel from Haiti was exported to the United States under the original 3-for-1 model. This report responds to a mandate in the Food, Conservation, and Energy Act of 2008, which requires GAO to review EIAP annually and conduct an evaluation of the program. We issued our first report under this mandate in June 2010, focusing on EIAP as it existed during the period of our first review, from October 2009 to June 2010, at which time it featured the 3-for-1 exchange ratio.⁸ That report also included a more complete discussion of HOPE II and CBTPA preference provisions. In this report, we assess the extent to which EIAP has been used since it was amended under the HELP Act—signed into law on May 24, 2010.

To address this question, we reviewed data provided by the Department of Commerce’s (Commerce) Office of Textiles and Apparel (OTEXA), which has responsibility for managing the Haitian EIAP. We interviewed cognizant OTEXA officials responsible for managing trade data. We discussed OTEXA’s data collection and processing methods, and determined the data to be sufficiently reliable for the purposes of this report. For this report, we also conducted interviews with OTEXA officials and obtained written information from a representative of the one company that established an EIAP account since the program was amended in 2010. Through these sources, we identified the key elements of the program, the extent to which the program has been used, and some of the factors influencing the program’s use. In our previous review of the Haiti EIAP, we met with EIAP account holders, Haitian industry representatives and associations, U.S. apparel buyers and associations, and a U.S. textile-manufacturing association; their views are included in this review as appropriate. We conducted this performance audit from September 2011 through November 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

⁶Qualifying woven fabric is wholly formed in the United States from yarns wholly formed in the United States. Qualifying knit fabric, or knit-to-shape components, are wholly formed or knit to shape in the United States, specified Free Trade Agreement partner countries, or countries designated as beneficiaries of certain trade preference programs, from yarns wholly formed in the United States.

⁷For example, if a firm bought 300 SMEs of U.S.- woven fabric for apparel production in Haiti, it would earn credits that would allow it to export 100 SMEs of apparel made from fabric manufactured in another country, such as China, to the United States duty-free.

⁸GAO, *International Trade: Exporters’ Use of the Earned Import Allowance Program for Haiti Is Negligible because They Favor Other Trade Options*, [GAO-10-654](#), (Washington D.C.: June 16, 2010).

Results in Brief

In 2011, for the first time since the program was established in 2008, one company has opted to use EIAP to export apparel from Haiti to the United States. The value of these exports (about \$350,000) represents 0.2 percent of total apparel exports under HOPE II, and only 0.07 percent of total apparel exports from Haiti to the United States under all preference programs based on year-to-date data as of August 2011. Total apparel exports from Haiti to the United States, for the same period, were valued at about \$465 million—approximately \$140 million were exported under various provisions of HOPE II, including EIAP, and about \$313 million were exported under CBTPA.⁹ Three other companies have established EIAP accounts, but not all of these accounts are being used to earn credits, and those with credits have not used them to export apparel from Haiti to the United States. The level of EIAP use continues to be modest due to the availability of other more flexible provisions. Apparel producers stated that they did not expect participation in EIAP to increase significantly unless certain provisions of HOPE II and the CBTPA, which are subject to volume caps, begin to approach their limit. Furthermore, the use of the more flexible trade preferences under HOPE II and CBTPA has continued to increase, while little has been exported using EIAP. Exporters considered the other HOPE II provisions simpler and more advantageous because firms can import most types of apparel duty-free, regardless of the fabric's source, without being required to purchase any kind of qualifying inputs or to register for a program.

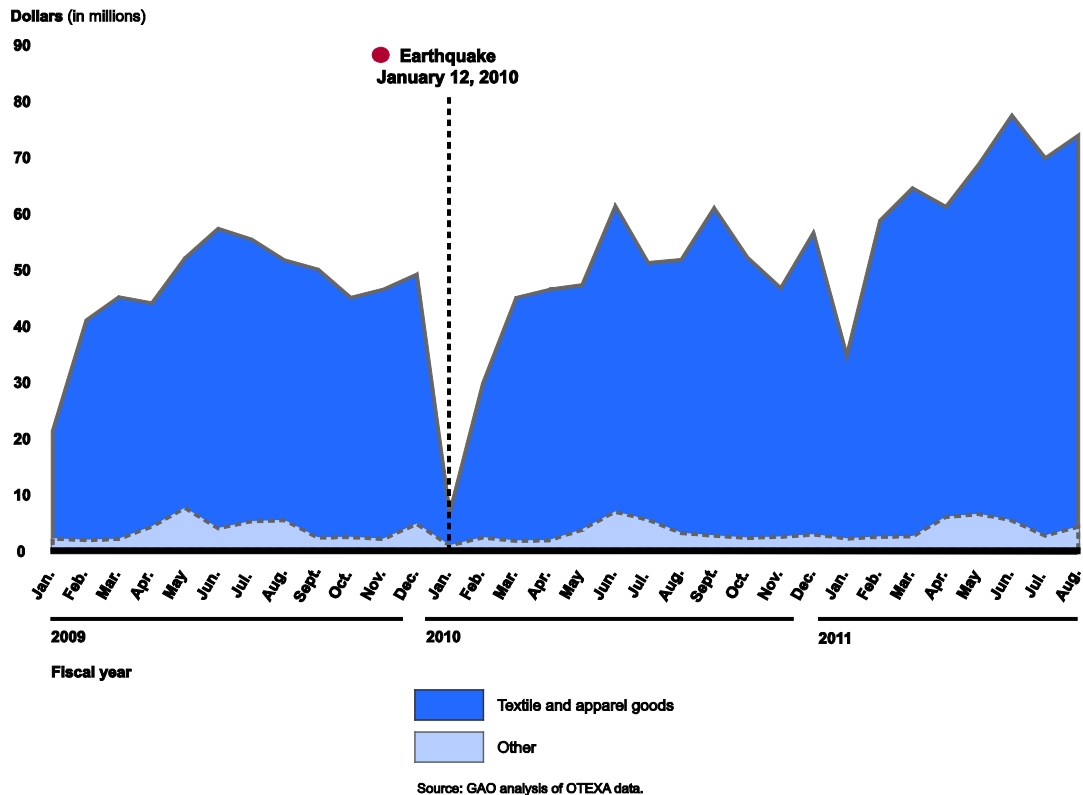
Background

At its peak in the 1980s, Haiti had a well-established garment assembly industry that employed more than 100,000 people. However, global economic forces and a series of violent internal political struggles in the 1980s and 1990s nearly decimated the industry. Nevertheless, production in the apparel sector in Haiti began increasing steadily during the past decade, with Haitian apparel exports to the United States growing from \$251 million in 2000 to \$518 million in 2010. The Haitian government considers the apparel industry an engine of economic growth and job creation.

After the January 2010 earthquake, concerns arose that damage to apparel production plants and an already poor infrastructure, particularly Haiti's roads and port facilities, would be a major setback for the country's progress in apparel production. However, while the damage caused by the earthquake brought apparel production in Haiti to a halt, by March 2010 there were signs that production had been restored. U.S. imports of apparel from Haiti began to recover soon after the earthquake, reaching \$80 million in June 2011, as shown in figure 1. Further, from 2009 to 2010, even with the damage from the earthquake, U.S. imports of apparel from Haiti increased from \$513 to \$518 million. Notably, during the 12 months ending in August 2011, imports of textiles and apparel increased 50 percent over the same period a year earlier.

⁹There were also about \$12 million in apparel exports from Haiti to the United States that did not enter under the trade preference provisions of HOPE II or CBTPA.

Figure 1: U.S. Monthly Imports from Haiti, January 2009 through August 2011



EIAP is one of several trade preference provisions created under HOPE II and amended under HELP. As with other preferences, EIAP was meant to help the industry by providing incentives for apparel production in Haiti and encouraging the use of U.S.-manufactured inputs. In addition to EIAP, HOPE II also includes five other provisions allowing for the duty-free treatment of certain qualifying Haitian-produced apparel, including the Value-Added Restraint Limit, Woven Apparel Restraint Limit, Knit Apparel Restraint Limit, Certain Types of Apparel, and Apparel Made with “Short Supply” yarns or fabrics. Under HOPE II, these preferences were given a duration of 10 years and were set to expire in 2018; HELP extended them until September 2020.

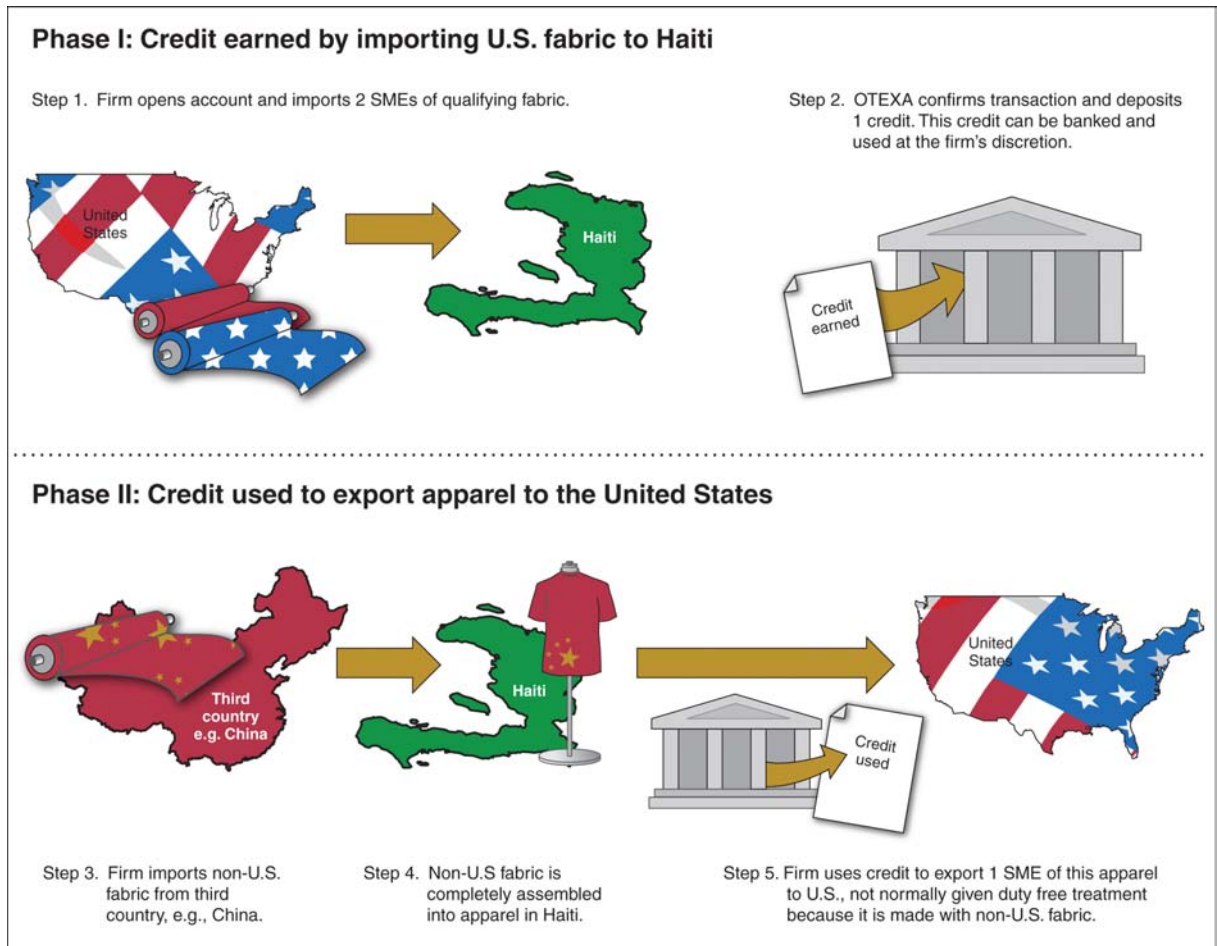
Commerce’s OTEXA is responsible for the administration and management of the Haiti EIAP. As amended by HELP, under the Haiti EIAP, producers or other entities controlling production¹⁰ can qualify for a credit to export 1 SME of apparel produced in Haiti to the United States free of duty, if they import 2 SMEs of U.S. or other qualifying fabric.¹¹ EIAP is administered through an online account mechanism in which firms can open an account, submit requests for credits on qualifying purchases, and deposit the credits for electronic

¹⁰Entities eligible to use the program are referred to as Qualifying Apparel Producers. Such an entity is defined as an individual, corporation, partnership, association, or other entity or group that exercises direct, daily operational control over the apparel production process in Haiti, or an individual, corporation, partnership, association, or other entity that is not a producer and that controls the apparel production process in Haiti through a contractual relationship or other indirect means.

¹¹Qualifying woven fabric is wholly formed in the United States from yarns also wholly formed in the United States. Qualifying knit fabric, or knit to shape components, are wholly formed or knit to shape in the United States, specified Free Trade Agreement partner countries, or countries designated as beneficiaries of certain trade preference programs, from yarns wholly formed in the United States.

storage. Subsequently, they can redeem those credits in the form of a certificate qualifying future apparel exports from Haiti to the United States for duty-free treatment, as shown in figure 2.

Figure 2: Example of EIAP Transaction Process as Amended under the HELP Act



Source: GAO analysis of information from OTEXA; Map Resources (maps).

Exporters' Participation in EIAP Remains Modest Due to the Availability of Other, More Flexible Trade Preferences

The use of the Haiti EIAP continues to be modest, even after it was amended by the HELP Act of 2010 to a more advantageous “2-for-1” exchange ratio. To date, the Haiti EIAP has experienced little activity. Four accounts have been opened with OTEXA, but only one was opened after the program was amended under the HELP Act of 2010. Since the program was established in 2008, more than 13 million SMEs of qualifying fabric have been imported into Haiti under the program, resulting in almost 6 million credits for duty-free exports of apparel approved and deposited. However, according to OTEXA officials, not all accounts are being used to earn credits. Moreover, they explained that only one account holder has redeemed credits to export apparel under the program. From January through August 2011, OTEXA reported that about \$350,000 in apparel had been exported from Haiti to the United States under EIAP, out of a total of \$465 million in apparel exported from Haiti to the United States.

States during the same period, including \$140 million exported under HOPE II.¹² Thus, Haitian apparel exports under EIAP represented only about 0.07 percent of total Haitian apparel exports to the United States, and 0.2 of apparel exports under HOPE II.

According to OTEXA, the other three account holders may not be using EIAP credits because they prefer to export their products under other provisions of U.S. trade preference programs for Haiti, including HOPE II and the CBTPA. OTEXA suggests that these companies may be using the Woven and Knit Apparel Restraint Limit programs to export their garments to the United States because these provisions allow Haitian apparel made with third-country fabric to enter duty-free without the need to earn or use credits. A representative from the company that opted to use EIAP to export apparel from Haiti to the United States explained that the company has a high volume of qualifying U.S. exports to Haiti that allow it to earn credits under the program, providing an incentive to use EIAP. Additionally, this individual commented that the program, as it is administered by Commerce, is transparent and ensures a predictable means of exporting to the United States. He noted that the company expects to continue exporting under the program. The other account holders have told us that they intend to hold on to the credits until it becomes necessary to use them, for instance, if certain provisions of HOPE II and the CBTPA, which are subject to volume caps, begin to approach their limit. They have continued exporting apparel duty-free to the United States under the HOPE II provisions discussed above and have not needed to use credits earned under EIAP.

Apparel Imports under Other Provisions of HOPE II and CBTPA Increased Substantially Over the Past 5 Years

While use of EIAP continues to be very modest, exports under other HOPE and HOPE II provisions have increased substantially over the past 5 years and CBTPA continues to be the most common trade preference used to export Haitian apparel to the United States. The primary provisions used under HOPE II and CBTPA are the HOPE II Knit Apparel and Woven Apparel Restraint Limit provision, and the CBTPA T-shirt Restraint Limit program. The HOPE II Value-Added Restraint Limit rule has also been used extensively, but its use has decreased in recent years.¹³

Exports under HOPE and subsequently HOPE II have grown steadily from \$13.7 million in 2007 to almost \$160 million in 2010, and were about \$140 million from January to August, 2011. Producers consider Woven Apparel Restraint Limit, and Knit Apparel Restraint Limit programs to be simpler than EIAP and, more importantly, more flexible because they allow for fabric inputs from any source without being required to purchase any kind of qualifying inputs or to register for a program.

¹²At the time of our review, August 2011 was the last month for which OTEXA had recorded data on exports from Haiti to the United States.

¹³In addition to EIAP, there are two other provisions of HOPE II which were generally not used to export apparel from Haiti to the United States in 2010. These two provisions are known as "Duty-Free Treatment of Certain Articles" and "Short Supply." Duty-Free Treatment of Certain Articles refers to articles, such as brassieres, luggage, headwear, and certain sleepwear, that qualify for duty-free treatment as long as they are wholly assembled or knit to shape in Haiti and they are imported directly from Haiti or the Dominican Republic to the United States. There are no restrictions on the source of inputs used for these products. Short Supply refers to any apparel wholly assembled or knit to shape in Haiti that is made of fabric, components, or yarns deemed to be in short supply as defined in all other preference arrangements and Free Trade Agreements of the United States that qualify for duty-free treatment.

- Value-Added Restraint Limit:** Most HOPE and HOPE II exports have entered under the Value-Added Restraint Limit rule, but the share of imports under this rule show a decreasing trend over the last 5 years. Specifically, the percentage of apparel under HOPE and HOPE II that was exported under the value-added rule has decreased from 89 percent in 2007 to 46 percent in 2010, and is down to about 37 percent based on year-to-date data through August 2011. This decrease occurred in part because exporters have increasingly chosen to export apparel under HOPE II's woven duty-free provisions, which do not have value-added requirements, such as restrictions on the amount of inputs that must be sourced from specified countries.
- Woven Apparel Restraint Limit:** The woven apparel duty-free provision of HOPE II accounts for a significant portion of apparel exports from Haiti. Based on year-to-date figures through August 2011, 46 percent of apparel exports under HOPE II entered the United States under the woven apparel provision, which allows the use of third-country fabric, without having to include any U.S. or regionally produced inputs. Under HOPE II, the woven provision was limited by an annual cap known as a Tariff Preference Level (TPL) that was set at 70 million SMEs; the HELP Act of 2010 increased the TPL to 200 million SMEs. In the period from January through August 2011, about 16 million SMEs of woven apparel were exported under the Woven Apparel Restraint Limit, thus far reaching only 8 percent of the 200 million SMEs limit.
- Knit Apparel Restraint Limit:** Although the knit apparel duty-free provision accounted for only 11 percent of apparel exports under HOPE II in 2010, use of this provision experienced significant increase since 2009. Exports under this provision almost tripled from \$6.6 million in 2009 to \$18.3 million in 2010, and during 2011 have already exceeded last year's amount, reaching \$22.6 million and accounting for 16 percent of exports under HOPE II through August. The knit provision was also initially capped by an annual TPL of 70 million SMEs, and was later increased by the HELP Act to 200 million SMEs. In the period from January through August 2011 about 18 million SMEs of knit apparel have been exported under the Knit Apparel Restraint Limit, thus far reaching only 9 percent of the 200 million SMEs limit. Table 1 shows the level of imports under various HOPE and HOPE II provisions.

Table 1: U.S. Imports of Apparel from Haiti under HOPE and HOPE II, 2007-August 2011

| Dollars in millions | | | | | | | | | | |
|--|--------------|------------|----------------|------------|----------------|------------|----------------|------------|------------------------------|------------|
| Provision | 2007 (HOPE) | | 2008 (HOPE II) | | 2009 (HOPE II) | | 2010 (HOPE II) | | 2011(HOPE II) through August | |
| | Annual value | Percent | Annual value | Percent | Annual value | Percent | Annual value | Percent | Annual value | Percent |
| Value-Added Restraint Limit | 12.2 | 89 | 47.8 | 64 | 67.3 | 49 | 74 | 46 | 52 | 37 |
| Woven TPL | 1.5 | 11 | 27 | 36 | 63.9 | 46 | 67.5 | 42 | 65.1 | 46 |
| Knit TPL | n/a | | 0.14 | .2 | 6.6 | 5 | 18.3 | 11 | 22.6 | 16 |
| EIAP | n/a | | 0 | | 0 | | 0 | | .35 | 0.2 |
| Other ^a | n/a | | 0 | | 0.6 | 0.004 | 0 | | 0 | |
| Total U.S. HOPE and HOPE II imports | 13.7 | 100 | 74.9 | 100 | 137.9 | 100 | 159.8 | 100 | 140.1 | 100 |

Source: GAO analysis of OTEXA calendar-year data.

Notes: Table includes data on imports under the initial HOPE program, amended in 2008 and now referred to as HOPE II. "The Knit TPL," "EIAP," "Certain Articles," and "Short Supplies" provisions were passed in 2008 under HOPE II, and were unavailable in 2007.

Some percentage totals do not add to 100 percent because of rounding.

^aIncludes duty-free treatment of "Certain Articles" and articles made with materials in "Short Supply" from U.S. or other trade partners.

While exports under HOPE II have grown significantly since its inception in 2008, CBTPA continues to be the most common trade preference used to export Haitian apparel to the United States. In 2010, more than \$350 million in apparel was exported from Haiti to the United States under CBTPA. Apparel exports under CBTPA reached more than \$313 million in the period from January through August 2011, accounting for more than two-thirds of the value of all Haitian apparel exported to the United States. CBTPA has played an important role in sustaining the Haitian apparel industry, since it supports the production of knits. CBTPA continues to be heavily used, in part because certain men's and boys' T-shirts are specifically excluded from the knit TPL under HOPE II. CBTPA allows T-shirts to be assembled in Haiti with fabric produced in the Dominican Republic, or other parts of the region, made with U.S. yarns. T-shirts and sweatshirts are the most common garments produced in Haiti and exported to the United States. Since the implementation of the Dominican Republic-Central America-United States Free Trade Agreement, Haiti has become the major beneficiary of preferences for apparel under the CBTPA.¹⁴

¹⁴Haiti's share of apparel exports to the United States under the CBTPA provision for duty-free treatment of knit apparel has grown from 5.4 percent in 2005 to 100 percent in 2009. Similarly, Haiti's share of apparel exports to the United States under the CBTPA provision for duty-free treatment of T-shirts has grown from 3.1 percent in 2005 to 100 percent in 2009. The caps on these preferences are 970 million SME for knit apparel, of which 14.8 percent was filled in 2009, and 12 million dozen T-shirts, of which 63.5 percent was filled in 2009. Haiti's dominance of apparel exports to the United States under CBTPA since 2009 is due to the fact that former CBTPA beneficiaries have joined the Dominican Republic-Central America-United States Free Trade Agreement and no longer qualify for CBTPA preferences.

Agency Comments

We requested comments on a draft of this report from OTEXA at the Department of Commerce. The Department of Commerce generally concurred with the draft report and stated that it is pleased by the growing usage of the EIAP benefits, and that it anticipates greater interest in the program from U.S. importers, brands and retailers. OTEXA also provided technical comments, which were incorporated in the report as appropriate.

We are sending copies of this report to appropriate congressional committees and the Secretary of Commerce. This report will also be available at no charge on GAO's Web site at <http://www.gao.gov>.

If you or your staffs have any questions about this report, please contact me at (202) 512-4347 or yagerl@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report were Juan Gobel, Assistant Director; Francisco M. Enriquez; and Gezahegne Bekele.



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