California Fashion Association

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Tariff Punches Holes in Jeans

Denim makers may shift work out of L.A.

By: Bethany Firnhaber
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L.A. jeans makers found themselves scrambling to piece together new overseas sales strategies last week after the European Union more than tripled import tariffs on American-made women's and girl's denim pants.

The tariff, imposed by the European Commission, rose May 1 to 38 percent from 12 percent and will be in effect for at least a year, potentially crimping sales and driving some manufacturing jobs abroad.

The sudden increase is a blow not only to L.A. apparel companies, which account for 75 percent of the nation's high-end premium denim jeans, but also to the extensive network of contractors that work for and supply those companies, from jeans factories and wash houses to textile and trimming businesses.

Ilse Metchek, *president of the* ***California Fashion Association*** *in downtown Los Angeles, said she feared the steep tariff would prompt L.A. jeans companies to manufacture in countries where the tariff would not apply, causing local manufacturing factories to hemorrhage jobs. "Our brands will stay in business very well, they'll just do it in Mexico," she said. "But the job base, the cluster of factories, warehouses and suppliers here, will not stick around."*

Thimio Sotos, chief financial officer at high-end denim company **J Brand Jeans** in downtown, said those concerns are real. "It's an extraordinarily high tax that, if it ultimately causes a change in demand in Europe, will impact supply, which will in turn impact jobs here in L.A."

The tariff comes as employment in L.A.'s garment manufacturing industry is already shrinking. About 44,500 people work as cutters, sewers and machine operators, down from 45,000 in 2012, according to the Los Angeles Economic Development Corp. It's not clear what portion of that total was employed in jeans manufacturing.

The aggressive import duty came just as the U.S. denim industry was expected to begin recovering sales in Europe, where the ongoing recession has been a drag on business. Last year, the value of U.S. women's denim shipped to European markets fell 31 percent to about $30 million, according to government figures. But coming seasons looked brighter.

The export market for premium denim was projected to exceed $36 million this year, according to data collected by **Sandler Travis & Rosenberg PA**, a Miami international trade law firm that represents many Southern California jeans companies. Exports in the first two months of the year rose nearly 20 percent year over year to $7.4 million.
A higher import duty could put that growth in jeopardy.

Marc Crossman, chief executive of Joe's Jeans Inc., said he quickly got on the phone with distributors in Europe to weigh his options shortly after hearing the news. The Commerce company, which sells premium denim jeans that retail for about $200, had revenue of $119 million in fiscal 2012, ended Nov. 30. It does less than 10 percent of its business in Europe but had targeted the region for future growth.

"Whether it's a market you have a long-standing business in or you're just going in, this is not good news; you're going into a market with artificially high prices," he said. "We can't afford to raise the price of our jeans, so it's a substantial amount of money that we're going to have to eat."

To get around the tariff and save money in the near term, Crossman said Joe's Jeans will primarily sell product made in Mexico into the European market. In its most recent annual report, Joe's reported that about 52 percent of its product was manufactured in Mexico and about 21 percent in Los Angeles.

Strange bedfellows

The dispute that has left local jeans companies scrambling involves a disparate group that includes exporters of sweet corn, crane lorries, and frames and mountings for eyeglasses, all of which have found themselves as pawns in an ongoing trade dispute between the United States and the European Union.

The spat arose more than a decade ago when the United States passed the Continued Dumping and Subsidy Offset Act, or Byrd Amendment, intended to protect domestic industries that were struggling to compete against subsidized imports. The legislation, which authorized the collection of tariffs that were in turn passed on to companies in affected industries, was repealed by Congress in 2006 after the World Trade Organization deemed it illegal.

Despite the repeal, the government has continued to distribute money previously collected on the duties, prompting the European Union to keep levying retaliatory tariffs.

"Every disbursement that still takes place is clearly an act of noncompliance" with the WTO ruling, the European Union said in a statement to Bloomberg Law, adding that it is "concerned that the U.S. lack of implementation in this dispute is worsening."

Tom Travis, managing partner at Sandler Travis, said the otherwise unrelated industries targeted for retaliatory tariffs by the E.U. were picked to have maximum political impact.

"In the case of jeans, they targeted Southern California," he said. Travis said he suspects European Commission leaders were keen to send a message to California politicians, including U.S. Sen. Dianne Feinstein, D-Calif., who sits on the Senate Appropriations Committee. "It may be because you have a very powerful senator ...and they want to get her attention," he said.

Metchek said she drafted a letter last week on behalf of the **California Fashion Association** and the L.A. denim industry to California politicians, including Gov. Jerry Brown; Feinstein; and U.S. Sen. Barbara Boxer, D-Calif.

Peter Kim, chief executive at **Hudson Jeans**, another high-end denim company in Commerce, said he hopes legislators act quickly. "Our short-term and immediate solution is to take a margin hit as we do not want to pass the increase on to the customer," he said.

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