

## California's DENIM Manufacturing Industry AT RISK!!!

Effective May 1, 2013, the EU announced that tariffs on women's denim trousers will jump from 12% percent to 38%. For many EU fashionistas, the resulting rise in cost is likely to put their favorite U.S.-made jeans out of financial reach, and the growth of California denim brands in EU markets is doubtful for the next full year.

The category of 'women's denim trousers' had been dropped from the EU retaliation list several years ago; however the category is now hit with a 26% additional tariff, bringing the total import duty for the period May 1, 2013, through April 30, 2014, to 38%.

"Blue jeans were created in California!" says Tom Travis, managing partner of Sandler, Travis & Rosenberg, P.A. "Now, just as this traditionally American manufacturing sector makes its way back to home-grown profitability, the industry is facing a significant blow to an important and growing export market."

The Retaliation Effect: This duty rate hike on jean exports is a continuation of sanctions authorized by the World Trade Organization *in retaliation for the U.S. failure to fully comply with a WTO ruling* against the Continued Dumping and Subsidy Offset Act of 2000 (the Byrd Amendment). The law allowing the U.S. to distribute the additional duties collected on imports of 'unfairly traded' goods to those U.S. industries affected was found to be a violation of WTO rules and was repealed. *However, its effects were allowed to continue.* As a result, the WTO allows other countries to raise tariffs on goods imported from the U.S.

(Source: Sandler Travis & Rosenberg P.A.)

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*"Denim is more than just a commodity. It is a way of life for consumers. It is one of the few passionate fashion items left for consumers to 'invest' in and one that they are willing to spend big bucks on and feel it is worth the pain in the pocket to get the perfect pair."*

*The women's 'premium' jeans business represents 22% of the entire global jean's market; the global jeans market is projected to reach \$56 billion by 2018, according to research firm Global Industry Analysts, Inc. In the U.S., shoppers spent nearly \$16 billion on denim in 2011. The total dollar sales for women's denim jeans have increased by 8% in the months ending November 2012.*

*"The recession is over for the luxury denim market. The category is growing at the higher end of the average price paid. ....and **75% of the premium denim market comes from Southern California**"*

(Source: The NPD Group / Consumer Tracking Service)

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The immediate issue for U.S. jeans manufacturers affected by this action is to figure out how to preserve their EU export business through this crisis, and how to plan for the future. The U.S. Department of Commerce, and California's Export Initiative have focused on increasing domestic manufacturing, AND the development of increased exports!

With regard to local production of women's jeans, both of these plans will be adversely affected.

Jobs - jobs - jobs! This ruling affects the export distribution plans for all made-in-California denim brand developers. If companies decide to change their sourcing production from the US to other countries not affected by the EU ruling, jobs will be affected for domestic sewing contractors, cutting services, dye and wash facilities, textile suppliers, and a myriad of other indirect employee-based companies working on US-made denim brands.

Even if the company does not yet have a significant export program, business planning has clearly put 'export' on the radar for U.S. brand development. The **California Fashion Association** will be asking California's denim brands and suppliers to contact state and federal officials, defining the amount of employees (direct and indirect) that would be adversely affected if production planning would be focused off-shore for those categories currently still utilizing domestic manufacturing facilities.

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