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INTERNATIONAL TRADE

Exporters' Use of the Earned Import Allowance Program for Haiti Is Negligible because They Favor Other Trade Provisions



GAO

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Highlights of [GAO-10-654](#), a report to congressional committees

Why GAO Did This Study

In 2006, Congress passed the Haitian Hemispheric Opportunity through Partnership Encouragement Act (HOPE), giving preferential access to U.S. imports of Haitian apparel. In 2008, Congress amended HOPE (now HOPE II), expanding existing trade preference provisions and creating new ones, including the Earned Import Allowance Program (EIAP). Under the EIAP, for every 3-square-meter equivalents (SME) of U.S. or other qualifying fabric a firm imports into Haiti, it earns a credit to export 1 SME of apparel produced in Haiti to the United States, duty-free, regardless of the fabric source. The Haiti Economic Lift Program (HELP) Act of 2010 amended the EIAP, reducing the qualifying fabric requirement from 3 to 2 (see figure). HOPE II also mandated GAO to review the effectiveness of the EIAP and to look for potential improvements. GAO examined (1) the extent to which the program has been used, (2) how U.S. government agencies implemented it, and (3) how might the program be improved.

To address these questions GAO reviewed data from the Department of Commerce’s Office of Textiles and Apparel (OTEXA); interviewed U.S. agency officials, Haitian and Dominican apparel producers, U.S. apparel buyers, and U.S. textile manufacturers; and reviewed relevant literature. Additionally, this report informs Congress of options provided by stakeholders to modify the program. GAO is making no recommendations in this report.

[View GAO-10-654 or key components.](#)
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What GAO Found

No apparel has been exported to the United States under the Haiti EIAP because exporters prefer to use other trade preferences. Three EIAP accounts have been opened, but not all have earned credits and no credits have been redeemed. According to industry stakeholders, other trade preferences, like the duty-free rules for woven and knit apparel under HOPE II, offer more benefits with fewer requirements. Those preferences are considered to be simpler and allow for fabric inputs from any source up to certain limits known as Tariff Preference Levels. The share of U.S. apparel imports from Haiti entering under these HOPE and HOPE II provisions has grown from 3 percent in 2007 to about 27 percent in 2009. Experts indicated the EIAP was not likely to be used unless exports under other HOPE II provisions approach their limits.

Participating firms are generally satisfied with the way OTEXA has implemented the EIAP; however, firms that are not currently taking part in the program often perceive the EIAP as too complicated. OTEXA administers the program through an online system where firms can establish an account, deposit credits, and receive an import allowance certificate. According to participating firms, this system is operating satisfactorily and the program in general is being well managed.

Industry stakeholders suggested several options to improve the EIAP. However, these options include potential trade-offs, which may benefit firms that export Haitian apparel, but be disadvantageous for certain U.S. textile producers. A frequent suggestion by stakeholders was to reduce the ratio of qualifying to nonqualifying fabric from 3-for-1 to 2-for-1, or 1-for-1. A ratio reduction to 2-for-1, expected to lower the average input costs, was incorporated in the HELP Act. Other suggestions included allowing the use of foreign (non-U.S.) yarn in qualifying knit fabrics, allowing qualifying fabrics to be finished and dyed outside of the United States, and expanding the EIAP concept beyond apparel.

Example of EIAP Transaction Process as Amended under the HELP Act



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

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Entering under CBPTA

Abbreviations

AGOA	African Growth and Opportunity Act
ATPDEA	Andean Trade Preference Drug Enforcement Act
CBP	Customs and Border Protection
CBTEA	Caribbean Basin Trade Enhancement Act
CBTPA	Caribbean Basin Trade Partnership Act
DR-CAFTA	Dominican Republic-Central America-United States Free Trade Agreement
EIAP	Earned Import Allowance Program
FTA	Free Trade Agreement
HELP	Haiti Economic Lift Program of 2010
HOPE	Haitian Hemispheric Opportunity through Partnership Encouragement Act of 2006
HOPE II	Haitian Hemispheric Opportunity through Partnership Encouragement Act of 2008
HTS	Harmonized Tariff Schedule
ITC	International Trade Commission
OTEXA	Office of Textiles and Apparel
SME	square meter equivalent
TPL	Tariff Preference Level

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United States Government Accountability Office
Washington, DC 20548

June 16, 2010

The Honorable Max E. Baucus
Chairman
The Honorable Charles Grassley
Ranking Member
Committee on Finance
United States Senate

The Honorable Sander M. Levin
Chairman
The Honorable Dave Camp
Ranking Member
Committee on Ways and Means
House of Representatives

The devastating earthquake that hit Haiti on January 12, 2010, inflicted extensive damage on what was already the poorest country in the Western Hemisphere. While U.S. efforts to aid Haiti have intensified since the disaster, the United States has historically provided assistance to support the country's development. Over the last several years, Congress has attempted to promote Haiti's economic development through the use of trade preferences for Haitian products. In 2006, Congress passed the Haitian Hemispheric Opportunity through Partnership Encouragement Act (HOPE), giving preferential access to U.S. imports of Haitian apparel.¹ 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.² 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. The various provisions included under this act offer different avenues through which qualifying apparel goods produced in Haiti can be exported to the United States duty-free. Most recently, Congress passed the Haiti Economic Lift Program (HELP) Act of 2010 to support Haiti's recovery from the devastation by the

¹Public Law 109-432, Div. D, Title V.

²Haitian Hemispheric Opportunity through Partnership Encouragement Act of 2008 (HOPE II), Public Law 110-234, Title XV, Subtitle D, Part I.

January earthquake.³ The HELP Act, which was signed into law on May 24, 2010, further expands certain HOPE II duty-free preferences for Haitian textile and apparel exports to the U.S. market.

One trade preference provision created under HOPE II was a “3-for-1” Earned Import Allowance Program (EIAP). The provision was set up under HOPE II so that for every 3-square-meter equivalents (SME) of qualifying fabric a firm imports into Haiti,⁴ it is 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.⁵ In this way, the EIAP is designed to aid Haiti’s apparel industry and encourage the use of U.S.-manufactured inputs. The EIAP was amended under the HELP Act, which includes a variety of changes to the provisions in HOPE II, including the reduction of the EIAP exchange ratio from 3-for-1 to 2-for-1. This report responds to a mandate in the Food, Conservation, and Energy Act of 2008, which requires GAO to review the EIAP annually to evaluate the effectiveness of, and make recommendations for improvements in, the program. The overall findings in this report relate to the EIAP as it existed during the process of our review, which included a 3-for-1 exchange ratio. While the mandate requires us to focus on the implementation of the Haiti EIAP, to gain additional insights, we expanded our research to include information for a similar program in the Dominican Republic. In this report we researched the following questions: (1) To what extent has the Earned Import Allowance Program for Haiti been utilized? (2) How have U.S. government agencies implemented the Earned Import Allowance Program for Haiti? (3) How might the Earned Import Allowance Program be improved?

To address these questions, 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; reviewed related studies and hearing transcripts produced by the International Trade

³Public Law 111-171 (H.R. 5160, 111th Cong., 2d Sess.)

⁴Qualifying 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 (FTA) partner countries, or countries designated as beneficiaries of certain trade preference programs, from yarns wholly formed in the United States.

⁵For example, a firm that bought 300 SMEs of U.S. woven fabric for apparel production in Haiti would earn credits that would allow that firm to export 100 SMEs of apparel made from fabric manufactured in another country, such as China, to the United States duty-free.

Commission (ITC); conducted interviews with various stakeholders including U.S. agency officials, Haitian industry representatives and associations, Dominican industry representatives and associations, U.S. apparel buyers and associations, and U.S. textile-manufacturing associations; and conducted a review of literature on issues related to the textile and apparel industry and investment in Haiti. Through these sources, we identified the key elements of the program, the extent to which it was being used, and some of the factors that were influencing that utilization. We also identified some options from the stakeholders we spoke with on how the U.S. government might improve the program in Haiti. GAO did not evaluate the potential impacts or the economic costs and benefits of the options discussed. We conducted our work from October 2009 through June 2010 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. Our scope and methodology are described in greater detail in appendix I.

Background

Haiti is the poorest country in the Western Hemisphere, with over 75 percent of the population living below the poverty line and estimates of 60 to 70 percent unemployment. These conditions were exacerbated when the largest earthquake in Haiti's recorded history devastated parts of the country, including the capital, on January 12, 2010. The earthquake killed an estimated 230,000 people, injured over 300,000, and displaced 700,000 out of a population of about 1.7 million in the metropolitan area around the capital, Port-au-Prince.

Prior to the earthquake, production in the apparel sector had been increasing, and was seen by the government of Haiti as an engine of economic growth and job creation. At its peak in the 1980s, Haiti had a well-established garment assembly industry that employed over 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, Haitian apparel exports to the United States increased steadily over the past 10 years, from \$251 million in 2000 to \$512 million in 2009. Before the earthquake struck, the industry consisted of 25 firms and approximately 25,000 employees. There are concerns that damage caused by the earthquake to an already poor infrastructure, particularly roads and port facilities, and to apparel production plants will be a major setback for Haiti's progress in apparel production. Recent reports by industry

representatives indicate that apparel production has been restored to an estimated 80 percent of the pre-earthquake level.

Over the last decade, Congress has taken steps to support apparel production in Haiti through the creation or extension of certain trade preferences. In 2000, Congress extended preferences under the Caribbean Basin Economic Recovery Act to allow for duty-free treatment of apparel through the Caribbean Basin Trade Partnership Act (CBTPA).⁶ In addition, in 2006, Congress passed the HOPE Act, giving additional preferential access to U.S. imports of Haitian apparel. Early imports under HOPE were valued at \$13.6 million in 2007, or just 3 percent of total U.S. apparel imports from Haiti. In response to this very modest performance, Congress amended HOPE in 2008 (HOPE II), with the intent to further help the Haitian apparel industry attract new investment, create jobs, and continue to provide incentives to encourage the use of U.S.-manufactured inputs. Furthermore, in May, Congress passed the HELP Act of 2010 to support Haiti's recovery following the January earthquake. The HELP Act further expands certain HOPE II duty-free preferences for Haitian textile and apparel exports to the U.S. market and extends existing trade preference programs for Haiti through September 2020.

The EIAP is one of several trade preference provisions created under HOPE II and amended under HELP. Like the other preferences, the EIAP was meant to assist the industry by providing incentives for the production of apparel in Haiti, and encourage the use of U.S.-manufactured inputs for that apparel production. In addition to the 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 (for a description of these provisions, and changes made by the HELP Act, see app. III). Under HOPE II these preferences were given a duration of 10 years and were set to expire in 2018, but, under HELP, have been extended until September 2020.

The U.S. Department of Commerce was mandated to establish and administer the newly created EIAP. Within Commerce, OTEXA is responsible for the administration and management of the program for Haiti, as well as a similar program in the Dominican Republic. While some

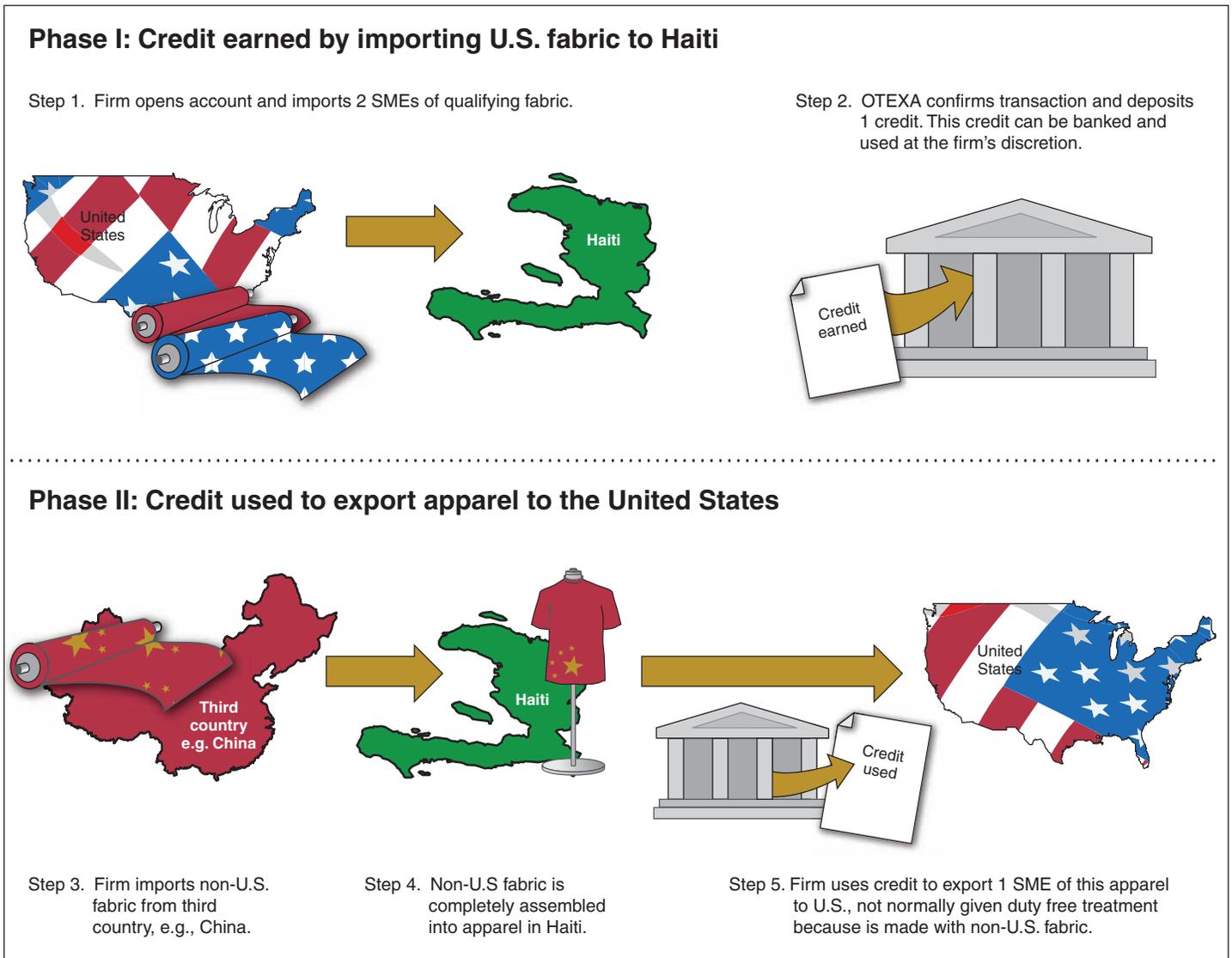
⁶Public Law 106-200, Title II.

of the rules differ, the system for administering the two programs is generally similar.⁷ Under the Haiti program, as originally laid out in HOPE II, producers or other entities controlling production could qualify for a credit to export 1 SME of apparel produced in Haiti to the U.S. free of duty, if they import 3 SMEs of U.S. or other qualifying fabric.⁸ Qualifying 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 (FTA) partner countries, or countries designated as beneficiaries of certain trade preference programs, from yarns wholly formed in the United States. However, as previously noted, the EIAP exchange ratio was reduced from 3-for-1 to 2-for-1 under the HELP Act. The EIAP is administered through an online account mechanism in which firms can open an account, submit requests for credits on qualifying purchases, deposit the credits for electronic storage, and ultimately redeem those credits in the form of a certificate qualifying the shipment for duty-free treatment. Figure 1 illustrates an example of an EIAP transaction as amended under HELP (for a full description of all the phases in the EAIP online system see app. II).

⁷The Dominican EIAP has a 2-for-1 ratio, rather than 3-for-1. Additionally, the Dominican program is for apparel made of cotton woven bottom weight fabrics, while the Haitian EIAP allows any type of woven or knit apparel.

⁸Entities eligible to use the program are referred to as Qualifying Apparel Producers, and 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.

Figure 1: Example of EIAP Transaction Process as Amended under the HELP Act



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

Note: The HELP Act changed the EIAP ratio from 3-for-1 to 2-for-1. However, the EIAP transaction process remains the same as it was during our review of the program.

Low Participation of Exporters in the EIAP Is Reportedly Due to the Availability of Other, More Flexible Trade Preferences

There Have Been No Exports of Apparel under the Haiti EIAP Program

To date, the Haiti EIAP has experienced very little activity, and there have been no exports of apparel under the program. Only three accounts have been opened with OTEXA, the office that manages the program. However, not all accounts are being used to earn credits. So far, 3.3 million SMEs of qualifying fabric have been imported into Haiti under the program, resulting in 1.1 million credits for duty-free exports of apparel approved and deposited. None of the credits have been used to export apparel to the United States; instead the credits are being banked.

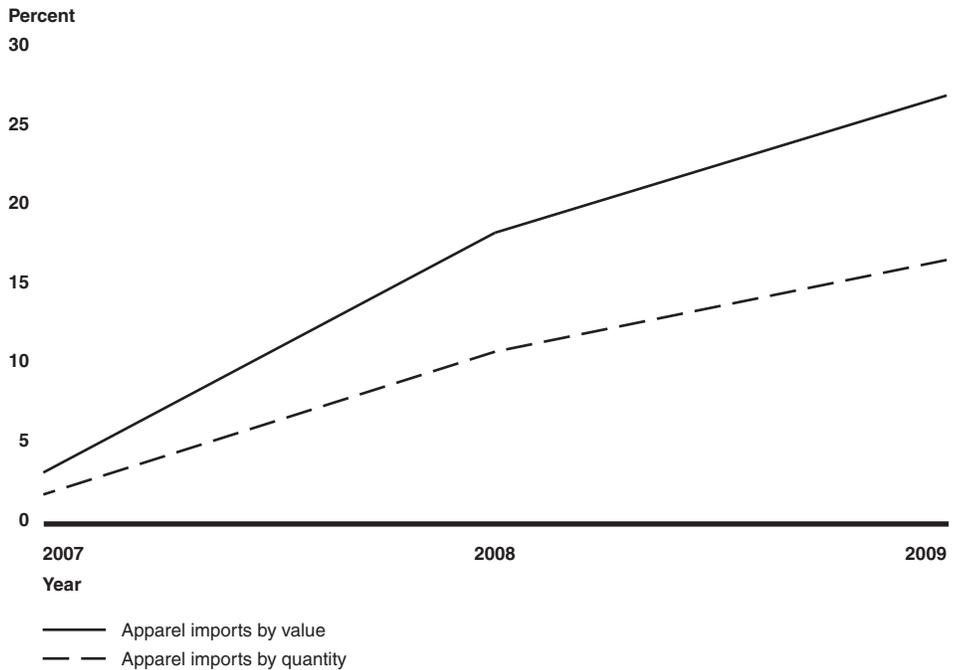
Account holders have not needed to use the credits because they have opted to export their products under other provisions of HOPE II. Companies are using the duty-free rules for woven and knit apparel to export their garments, since these provisions allow the import of Haitian apparel made with third-country fabric, without the need to earn or use credits. As long as these provisions are available, there is no reason to use the credits earned under the EIAP. One company decided to register for the EIAP and collect credits because it was already importing U.S. fabric for apparel production in Haiti, which qualified it to earn credits. Neither this company nor others that hold EIAP accounts imported additional fabric from the United States specifically in order to be eligible to accumulate credits under the EIAP. Furthermore, none of the companies enrolled in the program—account holders—have earned any credits since 2009. Account holders indicated they would hold on to the credits until it became necessary to use them. To date they have been able to export apparel duty-free to the United States under the other HOPE II provisions discussed above and have not needed to use credits earned under the EIAP.

Apparel Imports under the Other Provisions of HOPE II and Caribbean Basin Trade Partnership Act Have Grown

Apparel producers we interviewed agreed that the availability of other, more flexible trade preference provisions as originally laid out under HOPE II and CBTPA have made participation in the EIAP less compelling for most firms. While there have been no exports under the EIAP since it was implemented in 2008, the use of other trade preferences available for duty-free import of apparel produced in Haiti has grown significantly. In particular, producers noted that they prefer to use the duty-free rules for woven and knit apparel under HOPE II and other provisions under the CBTPA. These HOPE II provisions are considered to be simpler than the EIAP and, more important, allow for fabric inputs from any source. In addition, some T-shirt producers prefer CBTPA provisions because the rules for those provisions are clear and allow for the use of regional fabrics made from U.S. yarns.

While there have been no exports under the EIAP, the use of other HOPE and HOPE II provisions has grown steadily. In 2009, Haiti exported \$512 million in apparel to the United States, accounting for about 90 percent of all production in Haiti. As shown in figure 2, the share of U.S. apparel imports from Haiti entering first under HOPE and continuing under HOPE II, measured by value, has grown from 3 percent in 2007 to about 27 percent in 2009. The share of U.S. apparel imports from Haiti entering under HOPE and HOPE II provisions, measured by quantity, has grown from 1.6 percent in 2007 to 16.5 percent in 2009.

Figure 2: Share of U.S. Apparel Imports from Haiti Entering under HOPE and HOPE II



Source: OTEXA trade data.

Notes: Figures 2 and 3 include data of U.S. apparel imported from Haiti under the initial HOPE program, which was amended in 2008 and is now referred to as HOPE II.

The EIAP has had no imports; therefore these statistics represent imports under the other HOPE II provisions.

Most HOPE and HOPE II exports have entered under the Value-Added Restraint limit rule, but the share of imports under this rule is declining (see table 1). Haitian apparel exports under HOPE then under HOPE II increased from \$13.6 million in 2007 to almost \$138 million in 2009. Over half of these exports entered under the value-added rule. Under HOPE II, in order to receive duty-free treatment under this rule, 55 percent of the value of the exported product must be made from inputs and processes from Haiti, the United States, or a country in a free trade agreement or unilateral trade preferences arrangement with the United States.⁹ Despite

⁹The HELP Act of 2010 includes changes to the value-added rule provision that would set the value-added threshold to at least 50 percent for the period from 2010 to 2015, increase to at least 55 percent for the period from 2016 to 2017, and further increase it to at least 60 percent in 2018.

the amount of exports under the rule, it is considered to have some limitations. For instance, at the time of our review, the value-added content requirement was expected to rise from 55 percent to 60 percent in 2010, making it more difficult for Haitian producers to meet the value-added requirement. Overall, the requirement to meet the value-added thresholds can be limiting because yarn and fabric typically make up a larger portion of the value than this threshold. In effect, this means producers have a limited ability to use cheaper third-country fabric. Over the last 3 years, the percentage of apparel under HOPE and HOPE II exported under the value-added rule has decreased from 89 percent in 2007 to 49 percent in 2009. This decrease has occurred in part because exporters have increasingly chosen to export apparel under HOPE II's woven duty-free provisions, which do not have any value-added requirements, such as a restriction on the amount of inputs that must be sourced from specified countries.

The woven apparel duty-free provision of HOPE II also accounts for a significant portion of apparel exports from Haiti (see table 1). In 2009, close to half of the 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 a cap known as a Tariff Preference Level (TPL) that was set at 70 million SMEs a year at the time of our review.¹⁰ In 2009 the woven TPL was filled to 23 percent of the available 70 million SME cap. Exporters often favor this provision since it is easy to use for small and large producers.¹¹ Furthermore, exports of articles that started under the HOPE woven TPL then continued under the HOPE II amended woven TPL grew from \$1.4 million in 2007 to almost \$64 million in 2009. HOPE II includes a similar knit provision, which also has a TPL of 70 million SMEs.¹² However, this provision has experienced less activity, in part because it excludes T-shirts, which

¹⁰The HELP Act of 2010 increases the woven TPL to 200 million, with certain exceptions.

¹¹OTEXA data reported for the woven TPL fill rate in 2009 includes the period from September 2008 to December 2009. September 2008 was the month the TPL was expanded to 70 million SMEs per year.

¹²The HELP Act of 2010 increases the knit TPL to 200 million SMEs, with certain exceptions.

continue to be covered under CBTPA.¹³ (For a description of all apparel provisions under HOPE II see app. III.)

Table 1: U.S. Imports of Apparel from Haiti under HOPE and HOPE II

(Dollars in millions)			
Provision	2007 (HOPE)	2008 (HOPE II)	2009 (HOPE II)
Value-Added Restraint Limit	12.2(89%)	47.8 (64%)	67.3 (49%)
Woven TPL	1.5 (11%)	27 (36%)	63.9 (46%)
Knit TPL	N/A	0.14 (.2%)	6.6 (5%)
EIAP	N/A	0	0
Other ^a	N/A	0	0.006 (0.004%)
Total US HOPE and HOPE II imports	13.7	74.9	137.8

Source: OTEXA trade data.

Notes: Table includes data of imports under the initial HOPE program, which was amended in 2008 and is now referred to as HOPE II. The Knit TPL, EIAP, Certain Article and Short Supplies provisions passed in 2008 under HOPE II, and were therefore not available in 2007.

Some percentage totals do not add to 100 percent because of rounding. N/A stands for not applicable.

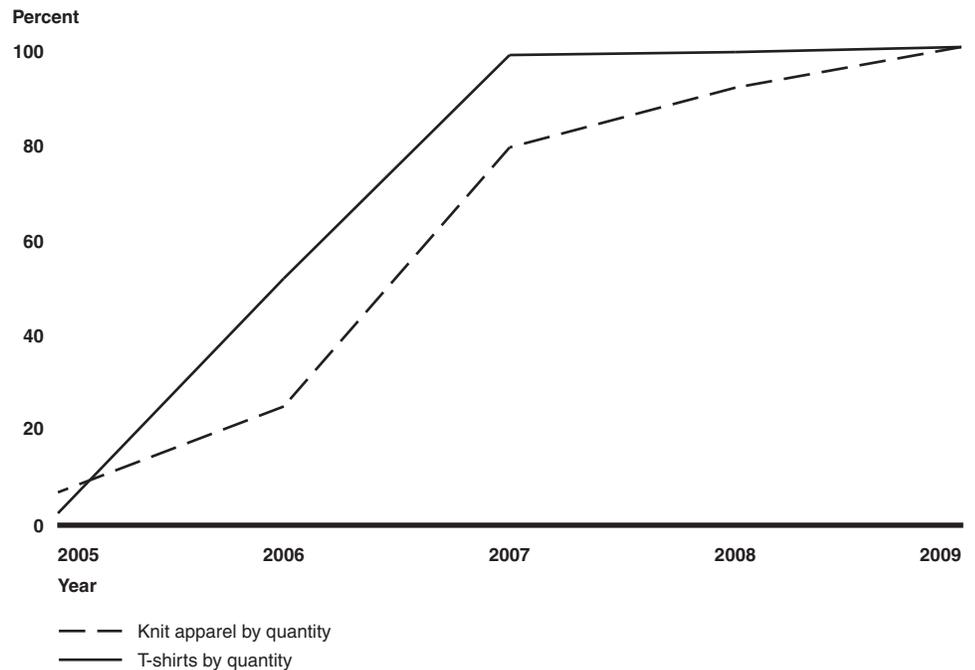
^aIncludes duty-free treatment of “certain articles” and articles made with materials in “short supply” from U.S. or other trade partners.

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 2009, almost three-quarters of all Haitian apparel exported to the United States entered under CBTPA. Since CBTPA supports the production of knits, which, according to a recent report from the Congressional Research Service, represented 80 percent of all Haitian apparel exports to the United States in 2009, it plays an important role in sustaining the Haitian apparel industry. In addition, CBTPA continues to be heavily utilized, 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 Dominican Republic-Central America-United States Free Trade Agreement (DR-CAFTA), Haiti has become the major

¹³The HELP Act of 2010 extends the CBTPA through September, 2020

beneficiary of preferences for apparel under the CBTPA.¹⁴ Haiti's share of imports under the CBTPA provision for duty-free treatment of knit apparel has grown from 5.4 percent in 2005 to 100 percent in 2009. Haiti's share of imports under the CBTPA provision for duty-free treatment of T-shirts has grown from 3.1 percent in 2005 to 100 percent in 2009 (see fig. 3). 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 of 63.5 percent was filled in 2009.

Figure 3: Haitian Share of U.S. Knit Apparel and T-Shirt Imports Entering under CBPTA



Source: OTEXA trade data.

¹⁴ As members of DR-CAFTA, the Dominican Republic and the Central American countries that are part of the agreement no longer qualify for CBTPA preferences. With the removal of these countries, Haiti has become the principal beneficiary of CBTPA.

Producers May Not Have Much Incentive to Use the EIAP unless the Caps Are Reached on Other Available Trade Preferences

Apparel producers and other experts indicated that participation in the EIAP would probably not increase significantly unless the HOPE II woven and knit apparel TPLs (now covered under HELP) and the CBTPA caps begin to approach their limit. The EIAP was described as a “tool of last resort” and a “safety valve” in case production was to unexpectedly increase significantly and the caps were reached on other available trade preferences. Apparel producers and buyers we spoke with said that instead of the EIAP, they expected other, more flexible trade preferences under HOPE II and CBTPA would continue to be used to export apparel from Haiti. Several exporters cited the woven and knits provisions under HOPE II as a main reason for locating production in Haiti. Exporters considered the HOPE II provisions simpler and more advantageous because firms can import most types of apparel duty-free, regardless of the source of the fabric, without being required to purchase any kind of qualifying inputs or to register for a program. These advantages remain under HELP. A producer that holds EIAP credits told us that currently there is sufficient room under the woven TPL; thus he did not need to use the credits earned up to this point, and did not have plans to use them in the near future.

In looking at the Dominican Republic EIAP, which is similar to the Haiti EIAP, we found that it has experienced more activity relative to the Haiti EIAP, in part because DR-CAFTA does not have the more liberal benefits provided by HOPE II.¹⁵ While the system OTEXA uses to administer the two programs is essentially the same, some of the rules for the Dominican Republic EIAP are different. Among the main differences are that the Dominican EIAP has a 2-for-1 ratio for qualifying inputs, rather than 3-for-1 (as the Haiti EIAP was set at the time of our review), and it is more limited in the type of apparel that qualifies for the program, with its primary usefulness being for pants made of woven material. Both programs were established about the same time; however, nine companies signed up for the Dominican program and they earned almost 9 million credits as of March 2010. Producers familiar with both programs said that the Dominican program, even though it included fewer qualifying products, is more relevant because the rules of origin under DR-CAFTA are more restrictive. They explained that there are few avenues to use third-country fabric in apparel produced in the Dominican Republic that qualify for duty-free entrance into the United States. Others said that the more favorable

¹⁵DR-CAFTA is now the primary trade arrangement available for Dominican producers to export apparel duty-free to the United States.

ratio has also contributed to the greater level of use of the Dominican program.

Current Participants Are Satisfied with OTEXA's Implementation of the EIAP, but Unenrolled Stakeholders Reported Having Limited Understanding of the Program

Program Participants in Both Haiti and the Dominican Republic Generally Agreed That the Program Is Well Managed

Program participants told us they were generally satisfied with the way OTEXA had implemented the EIAPs, and agreed that the programs are being well managed. HOPE II required Commerce to establish and administer the newly created EIAP. Within Commerce, OTEXA was made responsible for the implementation and day-to-day management of program rules and requirements. As discussed above, OTEXA also implements and manages the EIAP for the Dominican Republic, and while some of the rules differ, the system through which the two programs operate and are managed is essentially the same. We spoke with account holders in both programs to hear their opinions on how the programs were being run. We heard about a few minor administrative and logistical challenges, such as OTEXA's e-mail system being unable initially to accept large electronic files of required documentation. However, since those initial issues were resolved, OTEXA has regularly approved credits in a timely manner for both programs. Generally, account holders indicated those difficulties they had encountered using the program had been quickly addressed and satisfactorily resolved.

As directed by Congress, OTEXA designed an electronic management system for the EIAP and has dedicated a portion of its Web site to an online system that can be used to establish an account, claim and track credits earned, and print the paper certificates that serve as documentation for the duty-free import allowance. Program participants

told us that the online system is working adequately, and those using the system said they felt comfortable with how it was set up. A Web-based seminar, or webinar, explaining some of the basics of the Haiti EIAP and demonstrating parts of the online account system, is available on OTEXA's Web site, and account holders indicated that this information was helpful to understand how to use the system. However, some said figuring out the details of the system and the administration of the program was cumbersome in the beginning. Officials from OTEXA told us that they expected to update the Web site with an extensive section on frequently asked questions, including information for all of the preferences under HOPE II, but had not done so as of April 28, 2010.

Some Industry Stakeholders Reported Having Limited Understanding of the EIAP

While account holders we interviewed were generally satisfied with OTEXA's implementation of the EIAP, unenrolled producers and importers said they consider the program to be complex. For instance, representatives of apparel producers not enrolled in the program in Haiti and importers in the United States said that many in the industry continue to perceive the EIAP as overly complicated. One producer told us that an entrepreneur just starting out in the Haitian apparel industry would find it challenging to fully understand all the provisions under HOPE II and CBTPA. Since small producers may have limited staff and resources dedicated to figure out these trade provisions, they may not even attempt to use a program like the EIAP that is perceived as more complicated than the other HOPE II provisions. Although larger firms, such as U.S. retailers, have the resources to understand a program like the EIAP, they also have had to deal with a multitude of preference programs spanning many years and regions. One representative of U.S. importers explained that these retailers might be experiencing a kind of "program fatigue," where niche programs come to be considered too burdensome to invest in given their relative size. For instance, we heard from an industry representative that even when information is being presented on available apparel trade preferences at industry gatherings, by the time the companies hear about the EIAP, they have so much information to process in regard to the other provisions that limited attention is paid to the program. It is possible that lack of understanding and misperceptions may be leading some firms to undervalue the benefits of the EIAP.

Officials stated that, as part of OTEXA's efforts to implement and administer the Haiti EIAP, one of their goals is to make the program as accessible and user-friendly for qualifying entities as possible. OTEXA's more general responsibility to improve the domestic and international competitiveness of the U.S. textiles industry is in line with goals of the

program and its intent to make the program accessible to industry participants. Since the inception of the EIAP, OTEXA has taken steps to reach out and promote the use of the program to various members of the apparel industry. In September 2008, shortly after HOPE II was passed, OTEXA officials conducted and recorded the webinar mentioned above to inform interested stakeholders about how their office intended to implement and administer the program. During this 45-minute presentation, OTEXA officials outlined the steps firms would need to take in order to establish an account, deposit credits, and have certificates issued through the online system. According to officials, in addition to the 35 members of the industry who participated in the live event, the recorded presentation has received over 420 hits on OTEXA's Web site. OTEXA officials told us they are available to conduct further presentations on the program but have received no request to do so. Officials also told us that they regularly interact with members of the industry, U.S. importers and producers, and sometimes Haitian producers as well. During these interactions, which occur primarily by phone, or occasionally at general trade promotion events, they make themselves available to answer questions about HOPE II generally or the EIAP specifically. OTEXA officials attributed the lack of interest in the EIAP to the fact that exporters prefer to use other preferences; they told us that the program might benefit from additional outreach, such as in-person presentations tailored specifically for the EIAP.

Options Suggested by Stakeholders Might Improve EIAP but Involve Certain Trade-offs

During the course of our review, various stakeholders suggested options as to how the EIAP might be improved; however, these options involve potential trade-offs of benefits. These stakeholders included Haitian producers, U.S. importers of Haitian apparel, and representatives from trade and industry associations in Haiti, the United States, and the Dominican Republic. The range of options suggested for improving the EIAP may be limited by the very low number of firms that have direct experience using the EIAP in Haiti, though some stakeholders were able to suggest possible improvements based on their general knowledge of the industry and experience using the other available trade preferences. Suggestions provided by users of the Dominican program might be limited by certain differences between the two programs and the environment or context in which the programs operate. Additionally, given the differing interests of some of the stakeholders, "improvements" to the program can be subjective. For example, a Haitian producer or U.S. retailer might consider any actions to further liberalize the apparel trade to be improvements, while U.S. suppliers of fabric might not. The options are described qualitatively and are not intended to be exhaustive or weighted.

We are not ranking or otherwise making recommendations on the value of each option, but are reporting on these suggestions to inform Congress of the perspective of certain key stakeholders on ways to make the program more attractive for Haitian apparel exporters.

A basic policy trade-off with regard to trade preferences is the extent to which preference programs benefit businesses in beneficiary countries compared with those in the United States.¹⁶ Although the options suggested by the stakeholders might improve the participation rate in the program, these changes involve trade-offs among groups affected by the program. For example, among other objectives, the current legislation is aimed at encouraging the use of U.S.-manufactured inputs, and some of these changes might work counter to that goal. As a result, U.S. textile manufacturers might be likely to oppose some of the suggested changes that would result in significant increases in the use of foreign inputs. This type of trade-off should be carefully considered in the stakeholders' options presented below. Finally, with revision of several preferences under the recent HELP Act, some of the factors considered by those making suggestions may have changed.

Reduce the Exchange Ratio

The primary suggestion we heard from producers was to reduce the Haiti EIAP 3-for-1 ratio of qualifying to nonqualifying fabric to 2-for-1, or 1-for-1.¹⁷ A ratio reduction to 2-for-1, expected to lower the average input costs, was incorporated in the recently passed HELP Act. Because U.S. fabric and yarns are usually more expensive, the more the ratio is reduced, the lower the average cost of inputs, and the more beneficial the program is to program participants. This reduction would make the program more attractive and more flexible to producers. At the time of our review, some argued that a reduced ratio would serve to bolster investor confidence and reassure buyers that viable programs existed for duty-free access to U.S. markets even if the knit and woven TPLs were reached. We also heard that the 3-for-1 ratio made participation feasible only for firms with the economies of scale to allow for the production of large volumes of

¹⁶For further discussion of trade-offs involved in preference programs, see GAO, *International Trade: U.S. Trade Preference Programs Provide Important Benefits, but a More Integrated Approach Would Better Ensure Programs Meet Shared Goals*, [GAO-08-443](#) (Washington, D.C.: Mar. 7, 2008).

¹⁷The HELP Act changes the exchange ratio of the EIAP from 3-for-1 to 2-for-1.

apparel. Lowering the ratio might allow smaller firms to more easily take advantage of the program.

Apparel producers are very cognizant of the fact that the EIAP might become a much more attractive option if the TPL quotas are reached. However, they told us that as long as these other preferences are available, it would be unlikely that they would use the EIAP even if the ratio was reduced. One of the assumptions implicit in the design of the EIAP is that, generally speaking, most producers currently prefer to use non-U.S. fabrics and yarns; otherwise there would be no need for an incentive to use U.S. inputs. The reasons for this can vary, but industry stakeholders reported that it is primarily because certain non-U.S. inputs are usually less expensive than U.S. inputs. The value of the EIAP lies in the ability it allows to use lower-cost non-U.S. inputs while still receiving the duty-free treatment, which is normally accorded only to apparel made from U.S. inputs. The exchange ratio determines the extent to which the average cost of the inputs can be lowered. For example, if U.S. fabric was \$2/SME and Chinese fabric was \$1/SME, then a 3-to-1 ratio would result in an average cost of \$1.75/SME, while a 1-for-1 ratio would result in an average cost of \$1.5/SME. In a situation in which no preferences were granted at all and only the more expensive U.S. fabric received duty-free treatment, the EIAP would offer a significant advantage in comparison. However, in this example, the knit and woven TPLs would allow the use of Chinese fabric without the requirement to purchase any U.S. fabric, resulting in an average cost of \$1/SME. Therefore, it seems that a firm would have little incentive to use the EIAP before the TPLs were exhausted, no matter how much the ratio was reduced.

Modify the Qualification Requirements for Knit Fabric

This option would allow knit fabric made in qualifying countries from non-U.S. yarn to count as qualifying fabric for the EIAP. Current legislation says that knit fabrics can qualify for the EIAP if they are wholly formed, not only in the United States, but also in certain FTA partner countries, or countries designated as beneficiary countries under certain trade preference programs. However, like woven fabric, that knit fabric must also be formed entirely of U.S. yarn in order to qualify for the EIAP. One Haitian producer suggested that the EIAP requirements for knit fabric be modified to allow for the use of non-U.S. yarn. This would allow producers and buyers to select fabric transformed in other qualifying countries such as Honduras and Nicaragua using cheaper yarn from countries such as Pakistan. It was suggested that this added flexibility would benefit the regional production of fabric while creating even more incentive to participate in the EIAP. This option would require legislative action by

Congress. The trade-off with this proposal is that it appears to be at odds with the current goal of the program to encourage the use of U.S.-manufactured inputs and might lead to the reduction in the use of U.S. yarns.

Allow Finishing and Dyeing to Be Done outside of the United States

This option would allow woven fabric produced in the United States, but finished and dyed elsewhere in the region, to qualify for the earned import allowance credits. In order for woven fabric to qualify for the EIAP, it must be “wholly formed” in the United States. The same requirement is true for woven fabric to qualify under the EIAP in the Dominican Republic. The term “wholly formed” is not expressly defined in the relevant legislation, and recently the current interpretation of that definition under the Dominican EIAP has come into question. At issue is whether or not the term “wholly formed” requires processes, commonly referred to as finishing and dyeing, to be done in the United States. In a letter to the Secretary of Commerce, dated May 4, 2009, the chairman and ranking member of House Ways and Means committee noted that the legislation which created the Dominican EIAP does not expressly include such requirements. They also noted that similar trade preference programs, such as CBPTA, the African Growth and Opportunity Act (AGOA), and the Andean Trade Promotion and Drug Eradication Act (ATPDEA) use the identical term “wholly formed,” but finishing and dyeing are not encompassed within the definition. Rather, they pointed out “where the preference legislation requires dyeing, printing, or finishing in the United States, it expressly lists those processes as a distinct condition for receiving duty-free treatment. By contrast, the EIA legislation contains no such express condition that dyeing, printing, or finishing occur in the United States.”

OTEXA currently interprets “wholly formed” to require that all production processes and finishing operations, starting with weaving and ending with a fabric ready for cutting or assembly without further processing, take place in the United States. OTEXA believes this interpretation to be consistent with similar definitions and interpretations of the term “wholly formed.” This includes processes that are commonly referred to as finishing and dyeing, which are at the center of dispute in the Dominican program. Representatives of some U.S. textile firms and trade associations support OTEXA’s current interpretation. However, in addition to the House Ways and Means committee, there are other stakeholders in the Dominican Republic and the United States who believe that the legislative requirement that qualifying woven fabric be wholly formed in the United States did not intend to include the finishing and dyeing processes. On

April 3, 2009, OTEXA put out a request in the *Federal Register* for public comment on this issue, but as of May 3, 2010, a response to those comments has not yet been made.

Within the context of this dispute, we heard suggestions that the EIAP for Haiti could be improved if it could be made clear that woven fabric produced in the United States, but finished and dyed elsewhere in the region, would still qualify for the earned import allowance credits. Although Haiti does not currently have the capability to perform these processes, producers there may still find this change beneficial. This change could possibly reduce the cost of the fabric for producers in Haiti, as there would be a wider range of available sources. Additionally, this change would support the prospect of Haiti eventually developing its own facilities to perform these processes, further increasing opportunities for investment. While OTEXA has not as yet announced its determination on how it will interpret the term “wholly formed” for the purposes of the Dominican EIAP, once that decision is announced, OTEXA will apply that same interpretation for the purposes of the Haiti EIAP. The trade-off involved here is that certain U.S. firms in the textile industry might be harmed if these finishing services were obtained from foreign companies.

Expand the EIAP Concept to Other Industries

Although this might require the creation of a program separate from the EIAP, we did hear a suggestion to extend EIAP-like benefits to other industries in which products are assembled, such as footwear or auto parts. Currently the EIAP only covers apparel goods produced in Haiti. In the opinion of one facility manager we spoke with, some of the free trade zones created in Haiti are large enough to accommodate other industrial facilities. By creating incentives for other industries to set up businesses in these free trade zones, there would be indirect benefits to the apparel industry as well as direct benefits to the Haitians employed to work at these jobs. Moreover, it is not entirely clear how a mechanism like the EIAP could be applied to other industries, as there are a number of factors that would have to be considered, such as the need to provide incentives to use U.S.-manufactured inputs in those products, as well as the availability of such U.S. inputs.

Agency Comments and Our Evaluation

We requested comments on a draft of this report from OTEXA at the Department of Commerce, CBP, USTR, and the Department of State. OTEXA and CBP generally concurred with the draft report and provided technical comments, which were incorporated in the final report as appropriate. An official response from the Department of Commerce is

provided in app. IV. USTR and the Department of State did not provide any comments on the draft report.

We are sending copies of this report to interested congressional committees, the Secretary of Commerce, the Secretary of State, the Secretary of Homeland Security, and the U.S. Trade Representative. 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. GAO staff who made major contributions to this report are listed in Appendix IV.



Loren Yager
Director, International Affairs and Trade

Appendix I: Objectives, Scope, and Methodology

This report responds to a mandate in the Food, Conservation, and Energy Act of 2008, which requires GAO to review the Haiti Earned Import Allowance Program (EIAP) annually to evaluate the effectiveness of, and make recommendations for improvements in, the program. To respond to the mandate, we addressed the following questions: (1) To what extent has the Earned Import Allowance Program for Haiti been utilized? (2) How have U.S. government agencies implemented the Earned Import Allowance Program for Haiti? (3) How might the Earned Import Allowance Program be improved?

To address these questions, we conducted interviews with trade experts, apparel producers, trade associations, government officials, and other stakeholders in Haiti, the Dominican Republic, and the United States. We also conducted a review of relevant literature and official reports and documents. In addition, our research included a limited review of a similar Earned Import Allowance Program in the Dominican Republic.

Part of the literature we reviewed included studies conducted by the Congressional Research Service, the United Nations, and the International Trade Commission (ITC); the transcript of a related ITC hearing; and information gathered from a review of other relevant sources. In addition, we reviewed and analyzed documents from a variety of sources, including the law and regulations for the EIAP and other trade preferences for Haiti, Federal Register notices, and congressional guidance setting forth requirements for the program. We also examined information from the Department of Commerce's (Commerce) Office of Textiles and Apparel (OTEXA), which has responsibility for managing the Haitian and Dominican EIAPs, including its guidance and implementation for the program, a webinar on how the Haiti EIAP works, and interim rules of operation for the program. We collected data and examined data from OTEXA's Web site on Haitian apparel imports into the United States in recent years, which we determined to be sufficiently reliable for the purposes of this report.

We conducted interviews with relevant stakeholders in person and over the phone. We met several times with OTEXA and Customs and Border Protection (CBP), as the U.S. agencies responsible for the implementation of the program. We interviewed a representative of the Haitian government's HOPE Implementation Commission and a representative of the major business association to which most Haitian apparel exporters belong. We also interviewed representatives of business associations for major U.S. apparel retailers and U.S. textile producers. We also met with three major apparel brand companies that source from Haiti and the

Dominican Republic, three large producers of apparel in Haiti that combined employ about half of all people in the industry, and three large apparel producers in the Dominican Republic. Among them were included the companies that have signed up for the Haiti EIAP and several of the nine that have signed up for the Dominican EIAP. Through these sources, we identified the key elements of the program, the extent to which it was being used, and some of the factors that were influencing that utilization. We also identified some options from the stakeholders we spoke with on how the U.S. government might improve the program in Haiti. GAO did not evaluate the potential impacts or the economic costs and benefits of the options discussed. In order to protect business-sensitive information, these companies provided, per concerns raised by OTEXA officials, in our report we generally do not identify the precise number of companies that commented on a given issue.

We conducted fieldwork in Haiti and the Dominican Republic in January 2010. Because the January 12, 2010, earthquake limited our ability to travel to Haiti, we visited only one apparel production facility in the northern part of the country, which was not directly affected by the disaster. We were not able to visit Port-au-Prince, where the apparel industry is concentrated. We had scheduled several site visits to apparel factories and interviews with most export apparel producers in the country the week the earthquake happened. Several of the meetings were canceled and others were conducted over the phone in February and March 2010.

We conducted our work from October 2009 through June 2010 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.

Appendix II: Earned Import Allowance Online System

Establishing an account: A qualifying apparel producer may request that OTEXA open an account in which records of purchases of qualifying woven fabric or qualifying knit fabric may be deposited toward a balance from which to draw import allowance certificates. Such request can be made online, via the Haitian Hemispheric Opportunity through Partnership Encouragement Act of 2008 (HOPE II) online system, located on the OTEXA Web site. In making a request to open an account, the qualifying apparel producer must provide the full name and address of the qualifying apparel producer; all designated contacts and contact information; any designees authorized to have access to the account; and a statement affirming the accuracy and authenticity of the information submitted to OTEXA. Once the application has been received by the HOPE II online system and reviewed and approved by OTEXA, the qualifying apparel producer will be assigned a unique user identification number and a password to enable future access to its online account. The qualifying apparel producer may request to update contact and designee information in its account at any time through the HOPE II online system.

Depositing credits earned for qualifying fabrics: A qualifying apparel producer with an existing account may submit a request to deposit credits earned for purchases of qualifying woven fabric or qualifying knit fabric. The request must contain the name of the qualifying apparel producer; a complete description of the qualifying woven fabric or qualifying knit fabric; the quantity, in square-meter equivalents (SME), of the qualifying woven fabric or qualifying knit fabric; a statement that the qualifying woven fabric or qualifying knit fabric is intended for the production of apparel in Haiti; other miscellaneous supporting documentation; and an affirmation from the qualifying apparel producer as to the accuracy and authenticity of the information provided. The request must be submitted via the HOPE II online system. All supporting documentation must be submitted either electronically via the HOPE II online system or via fax. OTEXA will review the request and supporting documentation and make a determination whether to approve or deny the request to deposit credits. Should there be insufficient information with which to make a determination, OTEXA may request additional information from the qualifying apparel producer, the manufacturer of the fabric or components at issue, or any other entity identified in supporting documentation.

Requesting an earned import allowance certificate: A qualifying apparel producer may request the issuance of a certificate via the HOPE II online system. The qualifying apparel producer must log on to the HOPE II online system to access its account, and submit a request to redeem credits and be issued a certificate. As long as there are sufficient credits

available, a certificate will be automatically generated by the HOPE II online system, and the credits will be automatically withdrawn from the qualifying apparel producer's account. If there are insufficient credits in the qualifying apparel producer's account, the request for a certificate will automatically be denied by the HOPE II online system. The certificate is submitted to Customs and Border Protection along with other export documentation, to indicate that duties should not be placed on the apparel being exported.

Appendix III: HOPE II: Trade Preferences Provisions for Apparel

The provisions in this appendix are described as they were authorized under HOPE II. In addition, we provide a brief description of related changes made under the Haiti Economic Lift Program (HELP) Act of 2010. The HELP Act extended all of the below provisions until September 2020.

Earned Import Allowance Program: Apparel articles may qualify for duty-free treatment as long as the items are wholly assembled or knit to shape in Haiti and they are imported directly from Haiti or the Dominican Republic. There are no restrictions on the source of the inputs used to make these items as long as those items are accompanied by an earned import allowance certificate that reflects the amount of credits equal to the total square-meter equivalents (SME) of such apparel articles. A firm may earn 1 credit for every 3 SMEs of qualifying fabric that a firm imports into Haiti. Qualifying woven fabric must be wholly formed in the United States from yarns wholly formed in the United States. Qualifying knit fabric and knit-to-shape components must be wholly formed or knit to shape in the United States or any country or combination thereof that is a party to a U.S. free trade agreement or a beneficiary country under a unilateral preference arrangement, from yarns wholly formed in the United States. The exchange of qualifying imports for credits is administered through an online account mechanism where firms can open an account, submit requests for credits on qualifying purchases, deposit the credits for electronic storage, and ultimately redeem those credits in the form of a certificate qualifying the shipment for duty-free treatment. The HELP Act liberalizes the EIAP by changing the exchange ratio from 3-for-1 to 2-for-1.

Value-Added Restraint Limit: Certain apparel items may qualify for duty-free treatment, as long as Haitian or qualifying beneficiary country inputs constitute at least 50-60 percent of the value of the exported product, the items are wholly assembled or knit to shape in Haiti, and they are imported directly from Haiti or the Dominican Republic. There are no restrictions on the source of the remaining inputs. Besides Haiti and the United States, other countries whose inputs qualify may include (1) any country that is a party to a free trade agreement with the United States in effect from HOPE I's enactment (December 20, 2006) or enters into force thereafter, and (2) any country designated as a beneficiary country under the Caribbean Basin Trade Enhancement Act (CBTEA), the African Growth and Opportunity Act (AGOA), or the Andean Trade Preference Drug Enforcement Act (ATPDEA). Apparel may enter duty-free on an entry-specific basis or through an aggregated claim. An entry-specific claim is one that indicates that each specific entry or shipment of goods meets the applicable value-added requirements. An aggregated claim is

one that meets the value-added requirements by aggregating the costs of materials and processing for all apparel articles of a producer (wholly assembled or knit to shape in Haiti) that are entered in the initial applicable 1-year period.

HELP extends until December 20, 2015, the rule that provides duty-free treatment for apparel wholly assembled or knit to shape in Haiti with at least 50 percent value from Haiti, the United States, a U.S. free trade agreement partner or preference program beneficiary, or a combination thereof. HELP also extends until December 20, 2017, duty-free treatment for Haitian apparel with at least 55 percent of value from qualifying countries, and until December 20, 2018, duty-free treatment for Haitian apparel with at least 60 percent of value from qualifying countries.

Woven Apparel Restraint Limit: Woven apparel articles falling under Chapter 62 of the Harmonized Tariff Schedule (HTS) of the United States qualify for duty-free treatment as long as the items are wholly assembled or knit to shape in Haiti and they are imported directly from Haiti or the Dominican Republic. There are no restrictions on the source of the inputs used for this apparel. Originally, under HOPE I, this preference was offered for 3 years with a limit of up to 50 million SMEs of apparel articles in the first two 1-year periods and 33.5 million SMEs in the last 1-year period. Under HOPE II, this preference was expanded to allow for 70 million SMEs per year until September 2018. HELP further increases the limit to 200 million SMEs per year, with certain restrictions.

Knit Apparel Restraint Limit: Knit apparel articles falling under Chapter 61 of the HTS, excluding certain men's and boys' T-shirts and sweatshirts, qualify for duty-free treatment as long as the items are wholly assembled or knit to shape in Haiti and they are imported directly from Haiti or the Dominican Republic.¹ There are no restrictions on the source of the inputs used for this apparel. This preference was created under HOPE II and allows for 70 million SMEs per year until September 2018. HELP further increases the limit to 200 million SMEs per year, with certain restrictions.

Duty-free treatment for certain articles: Certain articles (brassieres, luggage, headwear, and certain sleepwear) qualify for duty-free treatment

¹Specifically, articles classified under the Harmonized Tariff Schedule headings 6109.10.00, 6109.90.10, 6110.20.20, and 6110.30.30.

as long as they are wholly assembled or knit to shape in Haiti and they are imported directly from Haiti or the Dominican Republic. There are no restrictions on the source of inputs used for these products. This preference was created under HOPE II and is allowed to be used without any limitations on quantity until September 2018. HELP expands the list of articles covered under this provision.

Short supply: 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, qualifies for duty-free treatment. This preference is given for the use of non-U.S. fabric and yarns not available in commercial quantities and can be used without any limitations on quantity until September 2018.

Appendix IV: Comments from the Department of Commerce



UNITED STATES DEPARTMENT OF COMMERCE
The Under Secretary for International Trade
Washington, D.C. 20230

JUN -2 2010

Dr. Loren Yager
Director, International Affairs and Trade
U.S. Government and Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Dr. Yager:

Thank you for forwarding the draft report, *International Trade: Exporters Use of the Earned Import Allowance Program for Haiti is Negligible Because They Favor Other Trade Provisions*, GAO-10-654, for the Department of Commerce's review. The International Trade Administration (ITA) concurs with the report and does not have any comments.

We appreciate the opportunity to provide comments on the draft report. If you have any comments about ITA's review of the draft, please contact Victor E. Powers, Director, Office of Management and Operations, at (202) 482-1422.

Sincerely,

A handwritten signature in black ink that reads "Francisco J. Sánchez".

Francisco J. Sánchez



Appendix V: GAO Contacts and Staff Acknowledgments

GAO Contact

Loren Yager (202) 512-4347 or yagerl@gao.gov

Staff Acknowledgments

In addition to the individual named above, the following persons made major contributions to this report: Juan Gobel, Assistant Director; Martin de Alteriis; Ann Baker; Karen Deans; Francisco Enriquez; Etana Finkler; Ernie Jackson; and Brian Tremblay.

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