United States Government Accountability Office
Washington, DC 20548

December 14, 2012

The Honorable Max Baucus
Chairman
The Honorable Orrin G. Hatch
Ranking Member
Committee on Finance United States Senate

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

Subject: *Follow-up on the Haiti Earned Import Allowance Program*

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 Act[1] 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 CBTPA offer different avenues through which qualifying apparel goods produced in Haiti can be exported to the United States duty-free.

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[1]In 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.

[2]Public Law 106-200, Title II.

[3]Public Law 109-432, Div. D, Title V.

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

[5]Public Law 111-171.

One trade preference provision originally created under HOPE II was the "3-for-1" Earned Import Allowance Program (EIAP).[6] The provision under Hope II established that for every 3-square-meter equivalent (SME) of qualifying fabric a firm imports to Haiti,[7] 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.[8] 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 and a second report in November 2011.[9] This review follows up on the extent to which the EIAP is currently being utilized, as well as trends and developments over the past year.

To address the mandate, 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 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. To explore trends and developments since our 2011 review, we interviewed the lead OTEXA official responsible for managing the program. In our previous reviews 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 November 2012 through December 2012 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.

Results in Brief

Exports of Haitian apparel to the United States under EIAP have increased substantially since we last reported in 2011. Although only three account holders are actively earning credits and two have begun to use them, in the 12-month period ending November 19, 2012, the number of credits OTEXA issued increased to about 42 million SMEs from approximately 8 million SMEs during the same period 1 year earlier. Similarly, over this period, the number of credits redeemed, or used by account holders increased to about 25 million SMEs from approximately

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[6] 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.

[7] 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 partner countries, or countries designated as beneficiaries of certain trade preference programs, from yarns wholly formed in the United States.

[8] For 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.

[9] GAO, *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); and GAO, *Earned Import Allowance Program for Haiti*, GAO-12-204R, (Washington D.C.: November 30, 2011).

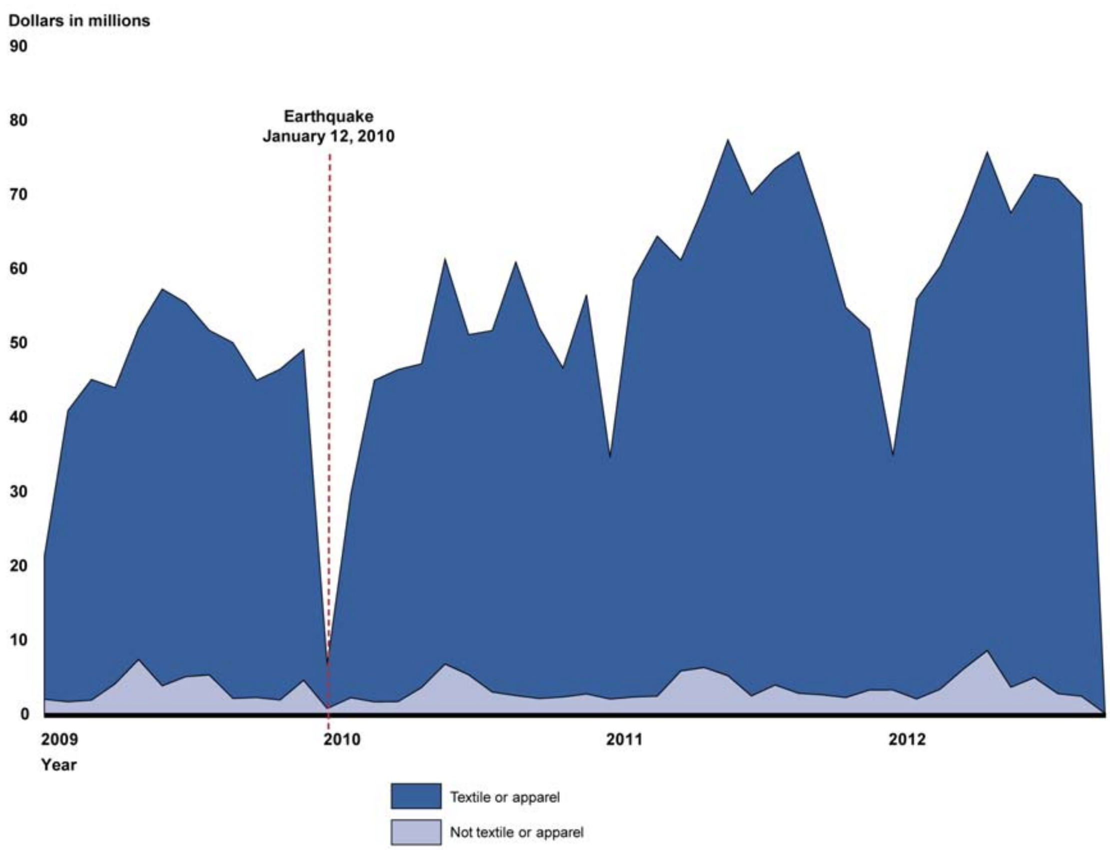
6 million SMEs in 2011. In addition, exports of Haitian apparel to the United States under EIAP have grown faster than non-EIAP exports. Last year, we reported that about $350,000 in Haitian apparel had been exported to the United States under EIAP from January through August of 2011—about 0.07 percent of all Haitian apparel exported to the United States during that period. In contrast, from January through August of 2012, nearly $18 million in Haitian apparel was exported under EIAP—about 4 percent of Haitian apparel exported to the United States during this period. Increased use of the program may be due to the growing awareness of companies already producing apparel in Haiti that their ongoing trade activities may qualify for additional benefits under EIAP.

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. 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, as shown in figure 1.

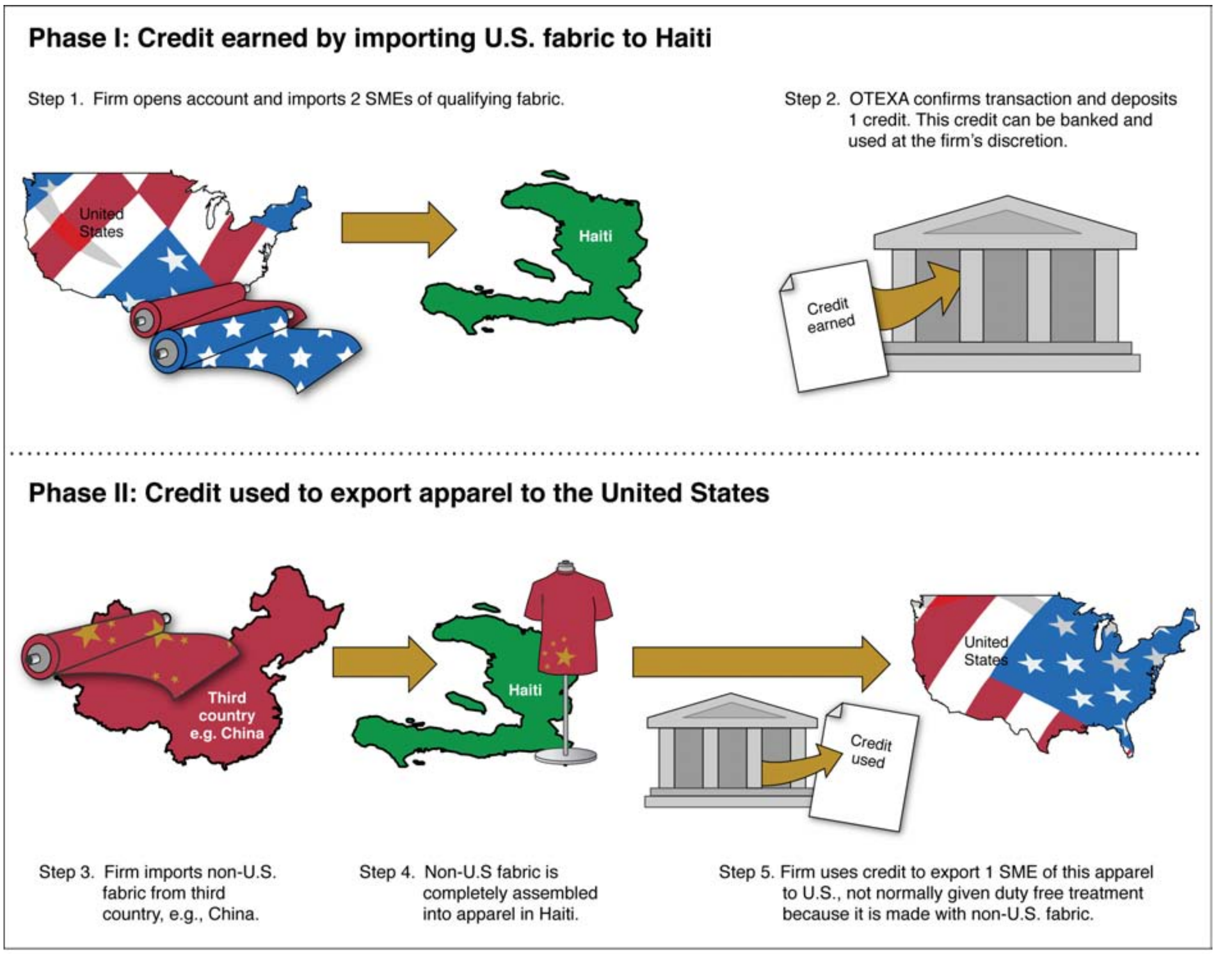
Figure 1: U.S. Monthly Imports from Haiti, January 2009 through September 2012



Source: GAO analysis of OTEXA data.

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 production[10] can qualify for a credit to export 1 SME of apparel produced in Haiti to the United Sates 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 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).

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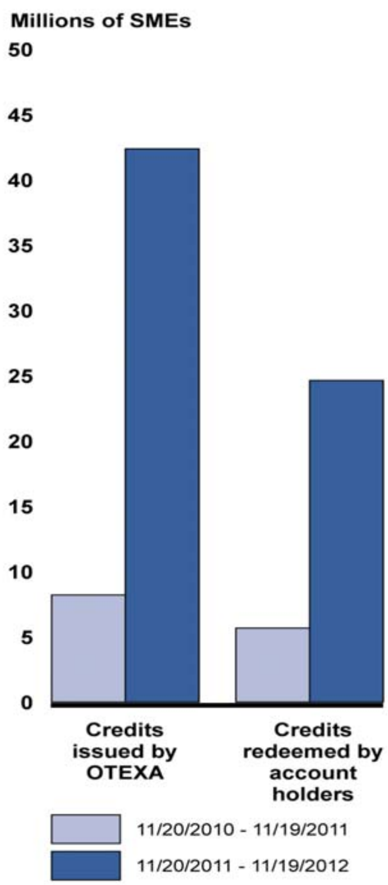
[10]Entities eligible to use the program are referred to as Qualifying Apparel Producers. Such an entity is defined as an individual, corporation, partnership, association, or other entity or group that exercises direct, daily operational control over the apparel production process in Haiti, or an individual, 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.

[11]Qualifying 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.

Haitian Exports under EIAP Substantially Increased in 2012

Although only a few companies have established accounts under EIAP, Haitian apparel exports to the United States under the program increased substantially in 2012. To date, five EIAP accounts have been opened with OTEXA, but not all accounts are being used to earn credits, according to OTEXA officials. Three account holders have earned credits to export apparel under EIAP and two are beginning to make substantial use of the program. As shown in figure 3, during the 12-month period ending November 19, 2012, the number of credits OTEXA issued under the program increased to about 42 million SMEs from approximately 8 million SMEs during the same period 1 year earlier.[12] Similarly, over this period, the number of credits redeemed, or used by account holders under EIAP to export Haitian apparel to the United States, increased to about 25 million SMEs from approximately 6 million SMEs a year before. In addition, U.S. imports of Haitian apparel under EIAP have grown faster than other Haitian apparel exports. We reported in 2011 that apparel exports from Haiti to the United States under EIAP from January through August of 2011 amounted to about $350,000, or about 0.07 percent of total Haitian apparel exports to the United States for that period. In contrast, from January through August 2012, U.S. imports of Haitian apparel under EIAP rose to $18 million, representing about 4 percent of the total exports for that period.

Figure 3: Credits Issued and Credits Redeemed under EIAP for Two Recent Timeframes



Source: GAO analysis of OTEXA data.

Note: OTEXA issues credits and EIAP account holders redeem these credits based on SME units.

[12]November 19, 2012, is the most recent date for which data are available from OTEXA.

According to a Commerce official, these companies' increased use of the Haiti EIAP over the past year may be the result of increased awareness that the program can complement their ongoing export activities under other U.S. trade preference provisions. This official explained that OTEXA has continued to inform companies about the benefits of the program in various ways, including webinars and direct communications.

However, the Commerce official also noted that the companies taking advantage of EIAP were already producing apparel in Haiti for export. They procure significant amounts of fabric from the United States and countries in the region, which, as noted above, qualifies them to earn credits under EIAP. These companies also produce certain apparel items in Haiti with fabric from outside the region, which precludes these goods from being imported into the United States duty-free under any other trade preference provision. However, the credits these companies earn under EIAP allow them to export those particular items to the United States duty-free. This is consistent with what a representative from one of the companies that opted to use EIAP to export apparel from Haiti to the United States told us in our prior review. He explained that the company has a high volume of qualifying U.S. exports to Haiti that allow it to earn credits under the program.

According to OTEXA, the remaining two EIAP account holders may not be earning 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. In the course of our prior review, the other account holders told us that they intended to hold on to the credits until it became 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 limits.

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 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 202-512-4802 or evansl@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; Joshua Akery; and Gezahegne Bekele.

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