

WRITTEN TESTIMONY

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THE AFRICAN GROWTH AND OPPORTUNITY ACT

SENATE COMMITTEE ON FOREIGN RELATIONS, AFRICA AND GLOBAL HEALTH POLICY SUBCOMMITTEE

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PERSONAL AND COMPANY INTRODUCTION

Chairman Flake, Ranking Member Markey, and distinguished Members of the Senate Foreign Relations, Africa Subcommittee: On behalf of PVH Corp. (“PVH”), I want to begin by thanking you for your work on the recent introduction of the “AGOA Extension and Enhancement Act of 2015”. There are several portions of that bill that are of great interest to PVH and the overall business community, not least of them is the decision to extend the US partnership with Africa through AGOA for a lengthy period of time. As I will explain later in my testimony, large investments by U.S. companies in Africa that can have the most significance in terms of job and economic generation on both continents depend in large part on the length of AGOA renewal. The current ten-year renewal is an important achievement and it must be maintained in this bill as it moves further towards approval in both Congressional chambers.

To start, allow me to introduce myself and the company that I represent. My name is William McRaith. I am Chief Supply Chain Officer for PVH. I also sit on the board for the American Apparel and Footwear Association. PVH’s history began in the 1881 and its growth since is a testament of the importance of expanding new markets and seeking new growth opportunities such as the ones we are discussing today in the context of AGOA. Back then, Moses Phillips and his wife Endel began mending and selling shirts for local coal miners in Pennsylvania. After achieving success in this limited market, the operation was moved to New York City. The family business had officially transitioned from small town to the national stage. In the early 1900’s, Isaac Phillips, Moses and Endel’s son, bought the US patent for the “soft-folding” collar from John van Heusen and the Phillips-Van Heusen alliance was born. What started with a pair of spouses in a small town in Pennsylvania became today one of the largest apparel companies in the world, with over \$8 billion in revenue in 2014, and employing approximately 16,000 associates in the United States and another 14,000 globally.

PVH is now headquartered in New York, with distribution, sales and other corporate locations in California, Georgia, North Carolina, New Jersey, New York, Nevada, Pennsylvania and Tennessee. Among others, PVH brands include *Calvin Klein*, *Tommy Hilfiger*, *Van Heusen*, *ARROW*, *IZOD*, *Warner’s*, *Olga* and *Speedo*¹.

PVH is a dedicated global corporate citizen. We take great pride in our products, our brands, and the positive economic and social footprint of our operations in the United States and globally. We build our brand recognition in developed markets around the world and constantly seek out underdeveloped and

¹ The *Speedo* brand is licensed for North America and the Caribbean in perpetuity from Speedo International, LTD.

new markets globally. Today there are over 4,000 retail locations outside of the USA where our brands are sold. Our focus has been in growing our brand recognition globally, because 95% of the world's population lives outside of the United States. As we expand throughout the world, we have made an unwavering commitment to corporate social responsibility, which we believe can be a key competitive advantage, as well as the right thing to do.

AGOA EXTENSION WILL BOOST INVESTMENT IN AFRICA

My comments today represent the views of PVH, although I'm certain that they reflect the thoughts of many other companies. In short, my message is simple and straightforward: Africa today, is primed to receive the type of large private sector investments that will generate the economic growth we all envision for Africa. The present infrastructure of global supply chains is changing before our eyes and soon large portions of the world's supply chain, mostly what is currently based in Asia will shift and be based in regions of Africa. The proposed ten-year extension of AGOA sends a message to US companies that their investment in sub-Saharan Africa will be given sufficient time to turn a profit. Ensuring the presence of US investment in Africa is crucial as this will not only generate economic growth for the US, but it also helps create jobs and export US values and business practices that are much needed in Africa.

Quite frankly, heretofore, the US has been mostly absent from Africa. China is in Africa in a very large way, mainly extractive in nature but in turn is building the infrastructure of many countries. The EU has been involved at a "commercial" level which enabled them to recently reach agreements with many sub-Saharan countries for an eventual reciprocal free trade agreement. The US has mainly shown only an "assistance" presence in Africa. It is time now to move from "aid" to "trade". The electrify Africa initiative and other legislation that seeks to build the trade capacity and facilitation mechanisms in sub-Saharan Africa combined with the ten-year AGOA extension will embolden US investors to enter those markets.

With US investment comes the export of good business practices. We export good business standards, worker rights policies and do not allow corruption. These basic standards are why the queue to work at a US brands or US company abroad are many times longer than that of other foreign investors. Workers know that they will be treated fairly by US companies.

It is important to note as well that over time, greater US presence in Africa will also help develop the economic partnerships and associations needed to press for deepening our trade relations beyond the current policy of unilateral preferences. This extension will allow us time to create incentives to link the

business communities of the two continents through AGOA. The US has already seen this happen for example with countries in the Caribbean and Latin America, where after decades of unilateral trade preferences relationships through programs like the Caribbean Basin Initiative or the Andean Trade Preferences Act, the business relationships blossomed and provided the political impetus needed to move towards more lasting, deeper and bilateral trade relations.

I fully realize that Africa is a vast region, with many countries still struggling mightily to achieve a modicum of the stability and investment potential that I just described. That is why despite the low costs of labor in Africa, many companies, including PVH, have been hesitant in the past to invest or move production there. However, I strongly believe that as more and more countries in Africa start seeing the growth and success of their neighbors, they will move towards making the changes necessary to take part in the success that can be achieved through strong governance and foreign direct investment. The changes in Africa are likely to take place first in specific regions and clusters and then spread out to others areas of the continent.

OUR RECENT BUSINESS ADVENTURE TO AFRICA

PVH has been monitoring Africa for several years as a potential location for production, as we sought to identify opportunities to improve our supply chain. The company has been a pioneer in driving investment and development, and we like to be the first into an area to help establish the workplace rules to be followed by future investors and market participants.

Let me share with you a story about a trip we made to Africa two years ago. PVH organized the trip and invited several other companies in the apparel and textile sector to conduct an exploratory business mission to countries in East Africa. Many of the companies we invited were hesitant to make the trip, being either skeptics or downright cynics, given that similar missions in the past had not yielded much success. Leveraging our long term relationships, we convinced them to come with us and give it another chance.

What we saw this time around changed everyone's mind. We have always known that Africa has great but raw potential in the form of resources. But aspects related to good governance have in general always left much to be desired. This time it was different. The countries we visited demonstrated that they had laid the foundations necessary to attract significant foreign direct investment and were prepared to undertake the commitments necessary to secure socially responsible companies. The Ministers and key government officials with whom we met were passionate in sharing their vision of

growth for their countries. They spoke of adherence to the rule of law, free markets, government stability and transparency. They highlighted major and well thought out modern infrastructure projects that were recently completed or about to be finalized. They understood and showcased the economic advantages that their countries have compared to others in the sub-Saharan region. Most importantly, they spoke about their commitment to their people by bringing investment and education to the country that will truly touch - for good- the lives of their citizens.

The level of professionalism, commitment and maturity that we are seeing from some governments in Africa reassures our interest to not only source from Africa, but to produce in Africa. Every one of the other companies we had initially cajoled to join us on the trip agreed that Africa is ready for significant investment. They, and I, saw the opportunities that reminded us of some apparel production powerhouses today – and where they were 20 years ago. As a result of our trip, we identified a great opportunity for the industry to invest nearly a billion dollars to create a vertically integrated apparel supply chain in some regions of Africa. In other words, create jobs in Africa not just in apparel, but also in the textile and even agricultural industry through better cotton production techniques.

While much work remains to be done, the initial foundations are there. As a result, Congress must send an unequivocal signal to the investor and business community that it truly is interested in seeing Africa develop and stand on its own two feet by promptly approving the bill that will extend AGOA. AGOA preferences are the thread that will keep together Africa's enormous potential.

PVH IS INTERESTED IN BUILDING VALUES AND A NEW PRODUCTION MODEL IN AFRICA

Apparel production has generally been one of the first industries to invest in low income countries. It is undeniable that there are significant cost advantages that come to companies sourcing from Africa, but this is not the only motivator or factor that PVH considers in making strategic decisions about the countries where we place production. Over the last 30 years, we have seen the great good that can come to these countries from the jobs created and the economic boost that our industry gives these countries. On the other hand, it is undeniable that there have been instances in which costly and even tragic mistakes have been made.

The apparel industry's mistakes of the past have often been the result of near-sighted investment in lawless environments. That model must and will change rapidly. For PVH, the value of our company is in the public's perception of our brands, thus we cannot risk our reputation being tarnished by pursuing short-term growth strategies when it comes to our sourcing decisions. PVH is interested in being a

partner in a long-term strategy for growth in the countries where we operate and with the people who work with us. We want to be in places where we can install not just good factories, but codes of conduct, values, environmental sustainability, positive worker relations, and the highest business and ethical principles to ensure the long-term success of our commitments.

As a result of this commitment by PVH, countries in Africa where we invest will be the beneficiaries of a new and more inclusive model of investment and growth in which we will be able to put in place, right from the beginning, facilities, norms and values that will guide the work at the factories and the relationships between workers, managers, associations, civil society groups, governments and any other stakeholders. That is why when we look at Africa we do not just look for a place to quickly set up a sewing operation. We know that to be successful you need to have a clear line of sight throughout your entire supply chain structure. To that end, we are identifying our best global supplier partner companies to join us on this journey. These are entities with which we have developed long and trusting relationships. We know that they meet PVH corporate social responsibility standards and are companies that we can trust to work with us in our mission.

Further, in all our communications with African leaders and officials, we have stressed that PVH is not interested in making a quick buck, but in establishing a lasting presence in their country. In order to do so, they must be equally committed to upholding the sustainable social standards we require across all sectors and with all investors and participants. We have asked those governments to review their Corporate Social Responsibility code at all levels and develop both educational and enforcement programs to ensure compliance. We asked each of them how they wanted the Brand name of their country to be thought of 10 years from now as the decision they made would ultimately determine the answer. As I mentioned previously, some indicated they want partners like PVH to help them implement these practices as the baseline standards in their country.

AFRICA CAN BE VERTICALLY INTEGRATED

The possibilities for investment in Africa are there and we need to encourage US companies to lead the way to investment because after 20 years of learning, we are positioned today to bring good business practices, standards and ethics to the region. I mentioned earlier that based on our recent trips to Africa, coupled with our experience with supply chains around the world, has lead us to explore an investment path in Africa where the countries where we have presence will be more than just

seamstresses. Instead we envision becoming the world's 1st example of how to proactively build a fully vertical, ground to finished product, socially responsible supply chain.

The old model of only cutting and sewing operations that can be installed and removed with relative ease does not fit with our vision of Africa. Africa can attract investment in other added value processes in apparel production such as cotton growing, yarn-spinning, weaving, and logistical operations. Cotton growing is a main staple in several African countries. Further, for man-made fibers they have the petroleum and natural fiber basics such as bamboo that can be converted to apparel yarns. In many countries, English is the primary or one of the top three primary languages, which makes it easier to train workers and future managers. When political and policy stability is added to this mix, we see no reason why some regions in Africa cannot developed into fully vertically integrated value chains.

OTHER AREAS IN WHICH THE U.S. CAN HELP

In addition to a long term renewal of AGOA, there are other ways by which the U.S. can partner with Africa to achieve a fully vertically integrated model of production. For instance, there is cotton production in Africa today, but is very inefficient and of poor quality compared to the high yields and high quality cotton produced in other areas. Many countries in Africa have been forced to source from Asia in recent years despite their fertile grounds and historic tradition as cotton growers. This can be changed by creating partnerships between developed and developing countries in Africa that would help transfer know-how to African farmers and facilitate the move from artisan to technologically advanced methods of growing and harvesting. Helping them to implement farming practices that use less water, less pesticides and have higher yields per acre will leapfrog them into the 21st Century. Implementing harvesting practices that use machines rather than people will help minimize labor risk potentials. Instituting cotton grading practices that mimic our own system will help ensure quality product and reliability for purchasers.

Training workers and management is also essential and this is another area where developed countries' know-how can prove crucial. Allowing employees access to visas to travel to the US for training in our practices and systems will enable us to ensure that best practices are exported and put in place globally. Trade infrastructure projects are critical, and in this regard we salute current Congressional efforts to promote energy investments in Africa. We also support the Trade Facilitation Agreement signed in Bali last year and look forward to its implementation. Creating support to the sub-Saharan nations to build an intra-regional connectivity that will allow goods necessary for apparel production to transit the

continent seamlessly will enhance the attractiveness of the continent and prevent each nation having to be completely vertically integrated on its own.

CONCLUSION - IT ALL STARTS WITH AGOA RENEWAL

Congress can be a great catalyst for growth as well by matching the long-term commitment expected from the private sector by approving a lengthy extension of the AGOA program. Companies cannot commit to individual investments ranging in the hundreds of millions of dollars unless they have more certainty about the rules in place. We are embarking on these types of investment. However, it will take 12-24 months to set up very expensive yarn spinning, fabric weaving/knitting and apparel making facilities. We then need to train workers on the use of complicated machinery, build production capacity and be able to have benefits long enough to cover the full depreciation of our investments which takes in the ideal world 8 years...if we have any delays along the way, we will need the full 10-year period to recoup costs. The proposed ten year AGOA extension is a strong signal showing that Congress is working with the private sector in helping Africa develop and diversify into economic independence.

We think the ten-year extension is a great start. There are some other changes that could be added which will make the program easier and more predictable. We applaud the provision in the proposed language that will allow for a 60-day notification to congress and we assume the business community of a proposed determination to terminate a country's eligibility. However, in practice, the time needed to clear the production channel is six months. We would like to see this provision amended to allow six months notice. We can use that time to both unwind our production and to pressure the host government to take remedial action prior to the end of the six month period.

Secondly, an important change would be to remove the visa requirement. Currently, apparel shipments require a visa accompany each shipment. This can be electronically transmitted but it is a "barrier" to entry. It is a "sink" for possible government corruption. It requires financial investment of the foreign governments. It is a remnant of the quota system that was eliminated in 2005...it is outdated and unnecessary.

PVH believes not only that Africa has great potential, but we believe that there are countries in the region that are ready to welcome the types of partnerships and investments that will yield significant economic gains in the next two decades. These economic gains will be accompanied by positive social changes in those countries, as they adopt the business and ethical values and practices that are the basis for attracting PVH and companies like us. With the right set of policies in place, Africa can also change the model of apparel sourcing by having a fully integrated supply chain that includes man made fibers, cotton, yarn, textile and apparel production. Congress must work hand in hand with the business community by passing a long-term AGOA extension. We look forward to working with the Members of this Subcommittee, other Members of Congress and with the Administration to share our business perspective and ensure that we do not lose momentum in the tremendous opportunities that await Africa. As someone who has been involved in global operations, I always ponder the question of where is the next region of growth. I believe we have the answer: It is Africa.

I thank you again for this opportunity and look forward to discussing it further and answering any questions you may have. Thank you Mr. Chairman.