

Verbal Testimony
Cass Johnson, NCTO
Before the International Trade Commission
On the Haiti Hope Act - November 8, 2007

On behalf of the American Manufacturing Trade Action Coalition and the National Council of Textile Organizations, I would like to thank you for holding this hearing today regarding the HAITI Hope Act.

As two trade associations which together represent a substantial portion of the U.S. textile industry, AMTAC and NCTO would like to share with you the serious policy concerns we have with the Act and also review the potential impact of the HOPE Act over time on the industry and the region.

First of all, let me make the point that to a significant degree, this hearing is premature. The purpose of the Hearing is to examine the impact of the new HOPE Act but that impact is yet to be fully or even barely felt. The new program only went into effect in March and the most recent trade statistics are for August 2007, only five months later. Clearly, most of what has come out of Haiti since that time were placed prior to that date.

From a textile perspective, however, we can tell you that our member companies report both a decline in exports to Haiti and as well as significant interest by importers in switching sourcing from the CAFTA countries to Haiti in order to take advantage of the new rules. During the first five months of the program, U.S. textile exports declined 60 percent compared to the previous year. We do not know how much of this is due to the Act but that kind of act is sobering. In addition, we have heard from member companies that have told us they have already lost orders in the CAFTA region for yarns and fabrics that go into, specifically, trousers, polo shirts and woven shirts.

This all tells us that we should expect to see more troubling trade statistics in the future. Imports are clearly in the process of switching sourcing for yarns and fabrics made in the United States, Mexico or the CAFTA countries to Asian sources, particularly China.

For us, this is one of the two cruxes of the problem. We cannot help but ask ourselves is taking export business away from the U.S. textile companies and giving it to China the only way to assist Haiti? A related question is whether it is necessary to hurt Haiti's neighbors in order to give Haiti a helping hand?

That is essentially the way this bill is constructed. By giving Haiti better benefits than any of the CAFTA, NAFTA or Andean countries, Haiti automatically becomes a magnet for their apparel business. And by cutting out the regional yarn and fabric requirements that exist in these agreements, textile production in the entire region will automatically suffer because Chinese textile manufacturers now get equivalent benefits.

So we again ask the question? Must U.S. textile workers lose their jobs along with textile and apparel workers in the Western Hemisphere so that Haiti can get ahead?

The answer of course is NO but that is the easy path that this legislation took. We could have gone another route. For instance, we could have targeted apparel products that are made mostly in Asian, rather than the Western Hemisphere, for special benefits. This grouping includes tens of billions of dollars in trade and it could have been done without costing one U.S. or Western Hemisphere textile or apparel job.

Another option would have been to take a more careful look at what is going on in Haiti. Contrary to many accounts, Haiti has been on an export surge in the apparel over the last several years – Haitian apparel exports are up over one hundred and fifty percent since 2002 and they accomplished that primarily using primarily U.S. or regional yarns and fabrics. So what this legislation essentially does is to take a win – win trading relationship and turn it into a win – lose one.

Which brings us to the other “crux” I mentioned. This is where the policy aspects of the case gets particularly bad. The new program contains a rule of origin which past history has consistently demonstrated cannot be enforced. This is the value-added rule of origin. We learned back in the Canada FTA that value-added rules of origin were a mistake because the value-added chains were so long and complex that they practically invite fraud. To give you one example, to correctly audit a value added chain for a pair of trousers, Customs will need to verify prices at 18 different links in the chain. And keep in mind that that there are literally dozens of variations in the definition of what can make up a pair of trousers.

This is not even the worst of it. The program also includes something called cumulation, which expanded the list of countries that parts of these 18 steps can be performed in to 30 different FTA or trade preference countries. So the ability to track these value added chains gets thrown right out the door. And then finally the bill’s authors threw in yearly aggregation, which allows unscrupulous importers to further play with the numbers.

So what we have created in this program is a magnet for fraud in a sector – textiles – where fraud is already endemic. According to U.S. Customs, textiles accounts for almost half of all Customs fraud committed, even though textile trade represents only a small portion of total imports. This occurs because textile tariffs are relatively high – around 15% - and so the potential savings from evading duties can be enormous.

So to conclude our remarks, we think this program needs to be reviewed and adjusted. The collateral damage that this program will create is both unnecessary and harmful while the rules that govern the program are unenforceable. Therefore, we urge that the ITC to look carefully at future regional trade patterns as they begin to reflect the new regional dynamic that has been created by the Haiti Hope Act. And we strongly urge you to review how the value added rule creates incentives for bad players to move in and displace legitimate producers. As a first step, we suggest that you discuss with Customs some of the problems they have experienced in the past in enforcing value added rules for textile products.

This concludes my testimony and I look forward to your questions. Thank you.