

A M T A C
American Manufacturing Trade Action Coalition

NCTO
NATIONAL COUNCIL OF TEXTILE ORGANIZATIONS

NTA NATIONAL TEXTILE ASSOCIATION



August 4, 2010

Ambassador Ron Kirk
United States Trade Representative
600 17th Street, N.W.
Washington, DC 20508

Dear Ambassador Kirk:

As the associations and the union representing the domestic textile industry and its workers, we are very concerned that several decisions were made by the Bush Administration in its rush to conclude negotiations of the United States-Korea Free Trade Agreement (KORUS) that could have a profound and negative impact on textile and apparel jobs in the United States. The textile chapter was among the last to close and the final result contains flaws that will open up the U.S. market to a massive one-way flow of South Korean textiles, apparel, and home furnishings into the United States. Further, based on the Bush Administration-negotiated text, we fear that very little opportunity exists for U.S. products to be exported to South Korea.

Noting that you have vowed to create a new trade policy for the 21st century and that you have decided to fix areas in the Bush Administration-negotiated text that would put U.S. industry and workers at a disadvantage, we urge you to revisit the textile issues reviewed below in order to correct several key mistakes and thus ensure that the KORUS does not end up accidentally hurting manufacturing jobs in the United States.

The textile negotiations with South Korea represent the first time since the North American Free Trade Agreement (NAFTA) that the United States engaged in talks with a major textile producing country. During the past forty years, South Korea has developed a sophisticated industrial and apparel fabrics sector and, as a consequence, is a major exporter of textile products to the United States. South Korea is the second largest supplier of textiles by volume to the United States. Regarding specific textile products, South Korea is the largest exporter to the United States of combed cotton yarn, polyester flat yarn, non-textured filament fabric and polyester filament fabric. It is the second largest exporter to the United States of knit fabric, specialty fabric, sheeting fabric, non-textured filament fabric, artificial filament fabric, polyester industrial yarn and polyester tire cord fabric. Furthermore, the U.S. textile industry is a major supplier to the U.S. auto industry and we remain concerned that the inequity in the text covering autos will hurt U.S. producers of tire cord, seat fabrics, lining fabrics and carpet, and other textile-related automotive components.

During the negotiations, the domestic textile industry asked the Bush Administration to keep in mind several key considerations. We asked that: 1) given the size and development of the South Korean textile industry, sensitive products should receive the longest tariff phase-outs possible and that phase-outs be reciprocal; 2) the rules of origin should be strict enough to prevent non-signatory countries from gaining unwarranted duty-free access to the U.S. market; and 3) given the prevalence of fraud in the export of textiles and apparel to the United States and South Korea's history of permitting China to use South Korea as an illegal transshipment point, strong and effective customs enforcement language must be included.

We repeatedly advised Bush Administration negotiators that our industry would be forced to oppose an agreement that did not include these provisions. Unfortunately, the language in the final agreement is deficient to some degree in all three areas. In order to prevent unnecessary and damaging textile job losses in the United States, we are asking you to fix these errors during the upcoming negotiations.

- 1) The tariff phase-out schedule in textiles is unacceptable. Contrary to the NAFTA agreement and all succeeding FTAs (free trade agreements), 60% of sensitive product tariff lines are duty free *immediately*. An additional 29% fall under the 5 year phase out. *Only 10% of the critical sensitive tariff lines have the longest (10 year) phase out period.* This was a stunning and unprecedented negotiating error on the part of the previous Administration which we can only assume occurred in the rush to conclude the negotiations. Such sensitive product areas never before have been exposed to immediate duty free access when a major competitor was involved. In fact, the final result turned the NAFTA experience on its head, with sensitive lines getting the fastest phase-out rather than the longest. We remind you that textile and apparel duties are relatively high, thus the need for a gradual phase-out is crucial because it allows U.S. producers time to adjust. As the text is written now, exposing sensitive portions of the textile industry to immediate duty phase-outs with South Korea is simply a recipe for rapid job losses and plant closings in the United States – the last thing our nation needs during these difficult economic times.

For example, South Korean exports of polyester fiberfill have entered the United States under anti-dumping orders for the past 14 years. This dumping case has passed two sunset reviews, the last of which was successfully completed prior to the end of the KORUS negotiations. Recently, South Korea's continuing unfair trade in polyester fiberfill was re-verified with dumping margins in 2009. Accordingly, the complete and immediate removal of this duty in KORUS is an inexplicable and totally unwarranted outcome for an unfair-trade product that is, to the best of our knowledge, unprecedented in U.S. negotiating history.

Furthermore, our member companies take exception to the fact that the U.S. and South Korean tariff phase out schedules for many highly sensitive textile tariff lines are nonreciprocal and benefit South Korean producers. The agreement, as currently drafted, provides South Korea with a more generous and expedited tariff elimination schedule than what is afforded U.S. producers and exporters for those products. Noting that the purpose of this agreement is to provide fair and equitable treatment for all parties, it is disturbing that the previous Administration agreed to a text that places the producers of these sensitive products at such a distinct disadvantage.

- 2) The Rule of Origin language must be strengthened to improve the integrity of the agreement. For example, certain components - sewing thread, narrow fabrics and pocketing fabrics - are not covered under the rule of origin. These products are in plentiful supply in the United States. Allowing these components to be sourced from countries not party to the agreement is a departure from recent agreements, such as Panama, where these components were covered by the rule of origin. It is illogical that they would be excluded in an agreement like KORUS where there are already very limited benefits for U.S. yarn and fabric producers.
- 3) The KORUS customs enforcement language is modeled on language in the CAFTA agreement and is deeply flawed. During the last five years, it has become painfully clear that the CAFTA model for customs enforcement is dangerously deficient and that retaining such language would leave the U.S. textile industry and its workers vulnerable to large-scale fraud. South Korea is a large and aggressive producer and exporter of textile and apparel products. In addition, the South Korean textile and apparel sector has made enormous investments in Chinese production. Moreover, South Korea has a long history as a major illegal

transshipment route for Chinese textile and apparel products. The relationship between the South Korean and Chinese industries mandates that the enforcement text be rewritten.

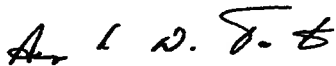
The current shortcomings in other U.S. FTA enforcement language have been documented during hearings before the U.S. House of Representatives Committees on Small Business and Ways and Means. In fact, these shortcomings have been so serious that legislation has been drafted to remedy them. H.R. 5393, the Textile Security and Enforcement Act (TESA), would direct USTR to revise customs enforcement measures in existing FTAs. New customs language must be included in KORUS if U.S. textile jobs are to remain secure.

Finally, we would like to note that while KORUS will give goods of South Korean origin duty-free entry into the U.S. market, U.S. exports to Korea will still be subject to a 10% Value Added Tax (VAT). It is misleading for U.S. officials to speak of zero-for-zero duty reductions when the United States imposes no comparable border tax on imports from South Korea. Remedying this inequity should be part of any FTA. Provisions such as these are persistent examples of FTAs placing domestic companies at a competitive disadvantage.

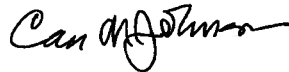
We believe that the upcoming negotiations over autos and beef present an opportunity to fix these damaging errors made by the Bush Administration and to create a KORUS that is truly in accordance with the high standards for trade negotiations that the Obama Administration has set forth.

We look forward to providing additional information upon your request and Thank you for your consideration of our views.

Sincerely,



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Executive Director
American Manufacturing Trade Action Coalition



Cass Johnson
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Mary Kay Henry
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cc: Secretary Gary Locke, U.S. Department of Commerce
The Honorable Sander Levin, Chairman, Committee on Ways and Means
The Honorable Dave Camp, Ranking Member, Committee on Ways and Means
The Honorable Max Baucus, Chairman, Committee on Finance
The Honorable Charles Grassley, Ranking Member, Committee on Finance