



February 25, 2009

Ms. Gloria Blue, Executive Secretary
Trade Policy Staff Committee

Via Electronic Filing

RE: Request for Comments on the Proposed Trans-Pacific Partnership Free Trade Agreement with Singapore, Chile, New Zealand, Brunei Darussalam, Australia, Peru, and Vietnam

Dear Ms. Blue:

The National Council of Textile Organizations (NCTO) is submitting these comments in accordance with the *Federal Register* notice from January 26, 2009 regarding the proposed Trans-Pacific Partnership Free Trade Agreement with Singapore, Chile, New Zealand, Brunei Darussalam, Australia, Peru, and Vietnam. NCTO represents the entire spectrum of the United States textiles industry, including fiber, yarn, fabric, dyeing and finishing, and industry support companies. Our members are pleased to provide comments on this important matter, as they are increasingly concerned about the impact of this proposed agreement on the U.S. textile industry.

Of the TPP participants, we would note that the United States already has free trade agreements with Singapore, Chile, Australia, and Peru. All of these are based on the yarn forward concept based on the NAFTA rules of origin. Of all these countries, Peru is the largest export market for U.S. textiles.

However, the last minute inclusion of Vietnam as a negotiating partner by the Bush Administration at the very end of its term raises serious concerns within the textile industry in regards to the policy, process and economic impact of the TPP effort.

Concerns Regarding Policy and Process as Regards the TPP Effort

On the policy front, such an initiative would mark the first time an Administration has proposed moving ahead with a free trade agreement between the United States and a non-market economy. This is an extraordinary step even in the most normal of times. However, this step becomes even more extraordinary given that public support for trade agreements is at historic lows, when Congress has refused to move even relatively non-controversial agreements and when U.S. workers are being put out of jobs at such a horrific rate.

Non-market economies are considered to be particularly dangerous to free market economies and their workers because of the control that national governments exert control over key levers of the national economy and their ability to set prices and production in order to achieve specific export targets. According to Commerce Department criteria, non-market economies are

characterized by lack of currency convertibility, government imposed wage rates, government ownership and control of land, government control of banking and government control and direction of key sectors in the economy.

According to these criteria, Vietnam clearly remains a non-market economy: the dong remains unconvertible, wages rates are set by the government, the government is the sole owner of land, the government owns all major banks and the government continues to operate in major sectors of the economy, including the textile and apparel sector.

Indeed, government involvement in key sectors remains so significant that Vietnam still employs Five Year Plans to direct key industries. In January, the government directed key industries to achieve a 13 percent increase in exports in 2009, promising to use “government mechanisms” to invest in product expansion, technology innovation and cost cutting measures. And in regards to textiles, last December, the government reiterated its intention to retain control of Vinatex, Vietnam’s state-owned and operated textile and apparel company, one of the largest garment producers in the world.

Given the government of Vietnam’s pervasive influence in Vietnam’s economy, it is surprising that the United States would even consider Vietnam to be a potential free trade partner, much less enter into active FTA negotiations with Vietnam.

The Bush Administration initiative would also be the first time the United States government has proposed negotiating a free trade agreement with a communist country. In this regard, a free trade agreement with Vietnam undermines the very premise of U.S. foreign policy that trade will lead to political liberalization. Vietnam is a communist country without free and fair elections. A free trade agreement is the highest level of trade access that can be achieved, but by signing a free trade agreement with Vietnam, the U.S. will remove the greatest incentive for the country to liberalize its political system.

On the process side, NCTO is concerned that the staff at the Office of the United State Trade Representative (USTR) appears to be moving ahead with these controversial decisions before political oversight has been established over the agency. The United States Trade Representative has not yet been confirmed, yet the staff at USTR is already holding hearings. What is the particular haste?

From an economic impact side, for the textile and apparel sector in the United States the inclusion of Vietnam in FTA negotiations would be a disaster. The U.S. textile industry will strongly oppose any agreement which includes Vietnam. Since quotas on Vietnam were removed in 2007, textile and apparel imports from Vietnam have grown by \$2 billion or 60 percent, the fastest growth rate of any country in the world. This is no particular surprise – the government of Vietnam has poured billions of dollars of government support into the sector over the last ten years.

The removal of quotas on Vietnam’s government supported and subsidized textile sector was major factor in the loss of 97,000 U.S. textile and apparel jobs during the last two years. Other countries were impacted as well – Vietnam’s state textile sector took significant amounts of trade from trade preference partners in Africa, Central America and Mexico. Those countries lost

nearly \$2 billion in trade since Vietnam removed quotas, in addition to the loss of tens of thousands of jobs.

To that point, Vietnam's entrance in the WTO, which was championed as being good for the U.S. economy, has proven to be the opposite. The trade deficit with Vietnam has soared since Vietnam entered the WTO, with the deficit increasing by \$2.7 billion during just the last two years. While U.S. exports have increased, Vietnamese exports have increased much more. A free trade agreement with Vietnam would merely compound this error – and the U.S. public has clearly stated that it does not support trade agreements which cause the U.S. to lose more jobs and lose more wealth.

Regarding the other proposed TPP participants, because the U.S. already has FTAs with four of the seven countries, any gains or losses to trade or employment have already been realized. Brunei is a tiny market with no textile industry and little capacity for manufacturing finished goods. Of the seven countries, Peru continues to offer the greatest possibilities for the U.S. textile industry to work in partnership with its domestic apparel industry. The other countries are either sufficiently distant or have such a small apparel manufacturing base, that no significant opportunities exists to expand trade.

General Comments on Technical Issues regarding Textile FTA Negotiations

Regarding rules of origin, NCTO notes that in a letter dated October 28th, 2008 that Senator Obama stated that he supported the yarn forward rule of origin in any new negotiations. However, the P-4 negotiations have already agreed upon a value added rule for textiles and apparel which is another major concern. Transshipment is an ongoing concern with all agreements, and we support the strong customs cooperation language that was first incorporated in the Singapore FTA. We would also like to know if the P4 agreement will supersede and replace existing FTAs with signatory countries.

In terms of monitoring, we strongly support electronic filing requirements that allow Customs to track the origin of goods easily. Past agreements' reliance on paper filing makes paperwork easy to forge and impossible to track. Electronic filing would allow Customs to ensure that claims were made for necessary steps in the supply chain and focus their efforts on companies that fail to comply.

We also support a short supply process similar to the CAFTA agreement, but we note that the process needs improvements. We do note that CITA has already begun to implement some of the suggestions from a coalition of textile organizations for use in CAFTA. One major hole with the short supply system, however, involves the ability to measure which specific products are entering the U.S. under the short supply HTS line. When a petition includes a quantitative request, there is no way to track whether the limits are respected because all commercial availability claims are entered under a single HTS line.

The industry continues to strongly oppose tariff preference levels and cumulation with other agreements or non-signatory countries. A good commercial availability process will ensure that items unavailable from signatory countries are not excluded from the agreement, but TPLs and

cumulation will provide duty free treatment for third party goods without granting reciprocal treatment to U.S. producers.

Conclusion

NCTO strongly recommends that the Obama Administration reverse the late term Bush initiative on Vietnam by either declining to participate in the TPP negotiations or requiring that Vietnam withdraw. NCTO believes that it would be a mistake for the Administration to begin its new trade agenda by entering into free trade negotiations with a major non-market economy which does not follow free market principles and which threatens U.S. manufacturing jobs. If it did so, the Administration would be sending a confusing message to an American public that has repeatedly signaled its concern with trade policy, particularly free trade agreements.

Cass Johnson
President, NCTO