



**Statement on Behalf of the National Council of Textile Organizations**

**The U.S. Free Trade Agreement with  
Central America and the Dominican Republic:  
Potential Economywide and Selected Sectoral Effects**

**Hearing of the U.S. International Trade Commission**

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Madam Chairman, Vice Chairman Hillman, members of the Commission.

Thank you for this opportunity to appear before you today.

My name is Robert DuPree. I am vice president of the National Council of Textile Organizations (NCTO), which was recently established to represent the entire unified spectrum of the U.S. textile sector, from fibers to finished products, from machinery manufacturers to power suppliers.

NCTO is comprised of four separate councils representing the fiber, fabric, supplier and yarn industries, each with its own board representation and each with a stake in the prosperity and survival of the U.S. textile sector. We are more broadly based than any previous domestic textile organization and we are very interested in the details of the proposed free trade agreement with the countries of Central America and the Dominican Republic.

Because NCTO was only established last month, our Board of Directors has not yet met to take a formal position on the proposed CAFTA. However, the vast majority of our board members were previously on either the board of directors of the American Textile Manufacturers Institute, which unanimously voted in December of 2003 to oppose the CAFTA accord that was concluded that month, or the board of directors of the American Yarn Spinners Association, which also voted in January not to support the agreement. As such, I can present you with an accurate assessment of our members' concerns based on the views they have already expressed individually on CAFTA and on the analysis done by NCTO staff regarding CAFTA's potential impact on the domestic industry.

To remind the Commission, over the past seven or eight years, the United States textile industry has experienced a wave of plant closings and job losses unlike any comparable period of time in our history. In the last five years – just sixty months time – we have lost some 206,000 textile jobs, fully 33 percent of our entire workforce. These job losses have only accelerated in the past three years, with 50,000 jobs having disappeared in 2003 alone. It is against this backdrop of plant closings and unrelenting mass layoffs that we view the proposed CAFTA with a sense of great fear that it will exacerbate our problems, rather than provide us with new and enhanced export opportunities, as could have been the case.

The domestic textile industry has a number of concerns with respect to CAFTA as it was agreed to last December, concerns which were not in any way lessened with the subsequent inclusion of the Dominican Republic as a party to the agreement.

Let me state that much of our industry was prepared to support a good CAFTA. Under the Caribbean Basin Trade Partnership Act (CBTPA), which granted duty-free treatment to garments made in the region of U.S. yarns and fabrics, our industry has been able to significantly expand our exports. In fact, in 2003, the CAFTA countries shipped to the United States approximately 2.2 million square meter equivalents (SMEs) worth of duty-free apparel made of U.S. yarns and fabrics. Looking at U.S. exports in dollar terms, last year we shipped to this region \$4.17 billion worth of yarns, fabrics and cut pieces, representing nearly 27 percent of total U.S. textile exports. (If the Dominican Republic is included, this figure rises to \$5.4 billion.) Indeed, these five countries together constitute our second largest export market after Mexico. All of this has been made possible by the Caribbean Basin Trade Partnership Act, which encouraged our industry to develop these trading partnerships with apparel producers in the CBTPA region.

And our industry worked with the U.S. government last fall to develop a new, innovative short supply arrangement that recognizes the need for speed and flexibility in today's marketplace. This process, which was included in the agreement, will allow Central American manufacturers to temporarily access items that are actually in short supply, while also creating a vehicle by which U.S. mills can potentially pursue new business opportunities. Our analysis showed that this new procedure could have brought hundreds of millions of square meters of orders from Asia to the CAFTA region, all without harming a single U.S. textile job.

The new procedures are also consistent with our long-held belief that issues of flexibility and temporary short supply should only be dealt with in the short supply process, not through the inclusion of loopholes in an agreement that will allow Chinese and other Asian goods to displace U.S. production. Indeed, the U.S. textile industry believed that this new, more effective short supply process, which would not displace U.S. production, eliminated the rationale for even considering loopholes to the basic yarn-forward rule of origin our industry sought.

Let me emphasize that the domestic textile industry repeatedly and very strongly urged the U.S. government to stick to the position it took last spring, which called for a yarn-forward rule of origin with no exceptions. Over 170 members of Congress wrote to the President urging him to maintain this yarn-forward position without any exceptions. But to our dismay, at the end of the day the U.S. negotiators abandoned that position, which would have been a win-win for both U.S. textile makers and CAFTA garment producers. And when the U.S. negotiators agreed to these loopholes, all chances for significant U.S. textile support for CAFTA vanished. Indeed, every textile association in the country opposes this agreement.

Specifically, the unified textile industry is very upset that the agreement grants duty-free benefits to numerous categories of items made of textile inputs from outside of either the United States or any of the CAFTA countries. These enormous carve outs that will benefit free riders – countries that are not party to the agreement and thus give up nothing in return – are a terrible blow to the U.S. textile industry.

First of all, CAFTA contains language establishing tariff preference levels (TPLs) which will allow as much as 100 million square meters' worth of apparel to be assembled from yarns and fabrics from anywhere in the world (in reality, most likely from China, India and other Asian producers) to enter the U.S. duty-free. This is nothing but a gift to foreign textile producers from countries not party to the agreement at our expense.

Also, much to our dismay, the concept of cumulation, whereby Mexican or Canadian fabrics can be used in garments qualifying for duty-free treatment, was included in the final agreement. Another 100 million SMEs worth of apparel will be permitted to gain duty-free access using the cumulation loophole, and this figure could increase to 200 million SMEs. This is an open invitation for Asian textile firms to set up operations in Mexico. Moreover, we are very concerned that this provision will lead to massive illegal transshipment, as it is estimated by the Mexican textile industry that as much as 60 percent of the apparel sold in that country is illegally smuggled in from China. Clearly, Mexico already has a problem with customs enforcement, and this agreement will only encourage further such cheating.

Along those same lines, our industry had urged the U.S. government to insist upon a “kick-out clause,” which would allow the United States to withhold textile and apparel trade preferences for those CAFTA countries that repeatedly fail to enforce the agreement’s textile rules of origin. Unfortunately, the agreement as negotiated contains no such enforcement mechanism. A recent GAO study on textile enforcement, which concluded that U.S. Customs’ efforts are woefully inadequate to the job, reinforced our concerns that insufficient safeguards are in place to prevent widespread cheating.

Further, the agreement’s single transformation rule of origin for brassieres, boxer shorts and woven fabric nightwear also permits the use of fabric from anywhere in the world – except the United States. Indeed, there are no limits to the amount of these apparel items that can be imported duty-free from CAFTA countries regardless of where their fabric originated.

The agreement also allows duty-free treatment for wool apparel made of Asian yarn, representing another blow to that sector of our industry.

Also, CAFTA eliminates the requirement currently found under CBTPA that certain apparel qualifying for duty-free treatment must be made with U.S.-formed linings and interlinings, and that CBTPA regional knit apparel must incorporate U.S.-formed yarn.

Finally, the retroactivity clause which will permit importers to receive duty-free treatment retroactive to January 1<sup>st</sup> of this year for goods assembled in the CAFTA region using non-U.S. yarns and fabrics, regardless of when CAFTA is ultimately voted on and enacted, is a blatant invitation to importers to go ahead and source garments made of foreign inputs knowing full well that they will be made whole by retroactive duty-free treatment. Thus, our pain will start this year, regardless of when CAFTA is voted on by Congress.

All told, we conservatively estimate that these loopholes to the rule of origin could cost the U.S. textile industry \$1 billion or more worth of export sales.

In conclusion, the CAFTA agreement that was reached last December will have a seriously adverse economic effect on the U.S. textile industry and its workers, and will result in the loss of current export sales and thus U.S. production and jobs. The National Council of Textile Organizations urges you to recognize this in your report. Further, we have encouraged the U.S. government to renegotiate CAFTA to correct these problems so that U.S. textile manufacturers might be able to support the agreement and preserve those trading partnerships which have provided job opportunities for our workers and for our apparel customers in the region.