

May 10, 2004

The Honorable Deanna Okum  
Chairman  
United States International Trade Commission  
500 E Street, SW – Room 112  
Washington, DC 20436

RE: April 27, 2004 Hearing on U.S. Free Trade Agreement with Central America and the Dominican Republic: Potential Economy wide and Selected Sectoral Effects (Inv. Nos. TA-2104-13) – Requested Follow-up Information From NCTO

Dear Chairman Okum:

At the U.S. International Trade Commission's April 27<sup>th</sup> hearing regarding the proposed free trade agreement (CAFTA) between the United States and five Central American nations, plus the Dominican Republic, you requested that the National Council of Textile Organizations (NCTO) provide additional details quantifying our concerns regarding CAFTA's loopholes. NCTO appreciates this opportunity to provide this information to assist you and your fellow commissioners in evaluating the impact of this proposed agreement on the domestic textile sector.

NCTO has summarized on the following page the various exceptions which create loopholes to CAFTA's yarn-forward rule of origin, including our estimates of how much impact each of them will have on the domestic textile industry. As the attached spreadsheet shows, we estimate that between 650 and 750 million square meters of *current* export sales will be lost annually under the proposed CAFTA and that another 350 to 450 million in *potential* export sales will also be lost each year. Using a conservative unit price of \$1.50 per square meter, which includes a reduced value added for lost yarn (versus fabric) sales, NCTO estimates that the annual dollar losses from the proposed agreement are between \$1 billion and \$1.8 billion.

NCTO would also like to clarify two matters for the commission and for the public record. First, toward the end of the April 27<sup>th</sup> hearing, there were comments made by other interested parties to the effect that CAFTA would be in the best interests of the U.S. textile industry. We would respectfully reiterate for the record that NCTO, which represents domestic producers of yarn and fabric, as well as our key fiber and other supplier industries, strongly disagrees with such claims. And as I noted, in addition to NCTO, every major U.S. textile and textile-related association is opposed to CAFTA.

Second, commissioners might have been left with the wrong impression by a CAFTA proponent's reference to Cotton, Inc., which is tasked with cotton research and promotion and which does not take positions on legislation. We would not want you to take that reference to Cotton, Inc. to mean that the domestic cotton sector supports CAFTA in its present form. On the contrary, the National Cotton Council, which represents all seven sectors of the U.S. cotton complex, including producers (farmers), is on record as opposing the CAFTA agreement that was concluded in December.

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**LOOPHOLES**

	Current CAFTA Exports to U.S. in Millions of SME	U.S. Components Share Today
Third country (most likely Asian) yarns will now be permitted for wool apparel	17	90%
Third country (most	369	60%

likely Asian) yarns will now be permitted for narrow elastics		
Third country (most likely Asian) yarns and fabrics will now be permitted for : - Pocketing, waistbands interlinings*	346	60%
Third country (most likely Asian) yarns and fabrics now OK for brassieres	17	90%
Third country (most likely Asian) yarns and fabrics now OK for woven boxers, nightwear**	134	17%
De minimi allows 3% more third country (likely Asian) yarns and fabrics	65	100%
Cumulation: Mexican and Canadian woven fabrics (made of Mex/Can yarns)	100 – 200	Up to 100%
Third country (most likely Asian) yarns and fabrics for Nicaraguan imports	100	Up to 50%
<p><b>Total:</b>  <b>650 million SME in lost export sales, and up to 1.2 billion SME in trade affected by specific changes from CBTPA</b>  <b>This equates to \$1 to \$1.8 BILLION in annual (and more in future years) lost export sales for U.S. textile producers as a result of these loopholes.</b></p>		

\* Duty drawback now allowed for non-essential character textile products – hurts US producers.

\*\*Mexico included because single trans-formation rule will force Mexican production to move to Central America.

I hope this information is helpful. If you have any questions, please let me know.

Sincerely,  
Robert DuPree  
Vice President