

April 22, 2004

The Honorable Robert B. Zoellick
United States Trade Representative
600 17th Street, N.W.
Washington, D.C. 20508

Dear Ambassador Zoellick:

Pursuant to Section 2104 (e) of the Trade Act of 2002 and Section 135 (e) of the Trade Act of 1974, as amended, I am pleased to transmit the report of the Industry Sector Advisory Committee on Textiles and Apparel (ISAC-15) on the U.S./Dominican Republic Free Trade Agreement, reflecting diverse advisory opinions on the proposed Agreement.

Sincerely,



Stephen Lamar
Chair
Industry Sector Advisory Committee
on Textiles and Apparel (ISAC-15)

The U.S./Dominican Republic Free Trade Agreement (FTA)

Report of the
Industry Sector Advisor Committee on Textiles and Apparel (ISAC-15)

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Industry Sector Advisory Committee on Textiles and Apparel (ISAC 15)

Advisory Committee Report to the President, the Congress and the United States Trade Representative on the U.S./Dominican Republic Free Trade Agreement (FTA)

I. Purpose of the Committee Report

Section 2104 (e) of the Trade Act of 2002 requires that advisory committees provide the President, the U.S. Trade Representative, and Congress with reports required under Section 135 (e)(1) of the Trade Act of 1974, as amended, not later than 30 days after the President notifies Congress of his intent to enter into an agreement.

Under Section 135 (e) of the Trade Act of 1974, as amended, the report of the Advisory Committee for Trade Policy and Negotiations and each appropriate policy advisory committee must include an advisory opinion as to whether and to what extent the agreement promotes the economic interests of the United States and achieves the applicable overall and principle negotiating objectives set forth in the Trade Act of 2002.

The report of the appropriate sectoral or functional committee must also include an advisory opinion as to whether the agreement provides for equity and reciprocity within the sectoral or functional area.

Pursuant to these requirements, the Industry Sector Advisory Committee on Textiles and Apparel (ISAC 15) hereby submits the following report.

II. Executive Summary of Committee Report

This report transmits input from the Committee, encompassing divergent opinions held by the various sectors of this industry (fiber, yarn, textiles, textile bag manufacturers, and apparel, including those with vertical textile interests). These opinions reflect the various import, export, manufacturing, and marketing interests that members hold, and which are described further in Section III. The most significant interest revolves around the rules of origin and the issue of whether these rules might become a precedent for other trade agreements. Here there is a division of opinions.

This report is intended to be read as an addendum to the ISAC 15 report on the U.S./Central American FTA, which was transmitted on March 19, 2004 and is published on www.usit.gov. In general, Committee members expressed many of the same opinions with respect to the Dominican Republic that were described in that report since the terms of the two agreements are virtually identical (since the two FTAs are intended to be merged).

Committee members expressed different opinions on several new elements that were incorporated into the U.S./Dominican Republic FTA – such as the special cumulation section, the yarn forward rule for wool articles, the side letter on Haiti co production – as well as the overall impact of adding the Dominican Republic to the U.S./Central American FTA.

All apparel members and some textile members support the agreement, believing it reaches an appropriate balance. They believe that expanded trade with the Dominican Republic under the terms of the FTA will be beneficial to both the United States and the Dominican Republic since that country is a large consumer of U.S. textile products (as inputs in articles that are subsequently exported back to the United States) and that an FTA advances the Western Hemisphere supply chain concepts discussed elsewhere in this report. Other textile members expressed strong opposition, arguing that there are too many provisions that permit non-originating inputs, which they believe create opportunities for transshipment and non-signatory third party countries to benefit. Several textile companies also questioned whether this agreement can benefit the United States because they believe income disparities may limit U.S. export opportunities to the Dominican Republic while creating Dominican export opportunities to the United States. As a result, the Committee is divided on whether Congress should pass the FTA into law, either by itself or as part of the U.S./Central America FTA.

III. Brief Description of the Mandate of the Industry Sector Advisory Committee on Textiles and Apparel (ISAC 15)

The Industry Sector Advisory Committee on Textiles and Apparel for Trade Policy Matters was established on March 21, 1980, and extended every two years since then, most recently on March 17, 2002, by the Secretary of Commerce and the United States Trade Representative pursuant to the authority delegated under Executive Order 11846 of March 27, 1975, as an advisory committee established under Subsection 135(c)(2) of the Trade Act of 1974 (Public Law 93-618), as amended by Section 1103 of the Trade Agreements Act of 1979 (Public Law 96-39), and Section 1631 of the Omnibus Trade and Competitiveness Act of 1988 (Public Law 100-418, 102 Stat. 1107 (1988)). In establishing the Committee, the Secretary and the USTR consulted with interested private organizations and took into account the factors set forth in Subsection 135(c)(2)(B) of the Trade Act of 1974. In accordance with the provisions of the Trade Act of 1974, as amended, and the Federal Advisory Committee Act, 5 U.S.C. App. 2, and 41 CFR Subpart 1016.1001, Federal Advisory Committee Management Rule, the Committee is rechartered.

The Committee currently consists of 26 members from the textiles and apparel industry sectors. The Committee is comprised of different perspectives, demographics, geography, and company size. They represent a full spectrum of textile and apparel interests ranging from importers to domestic manufacturers, and many combinations thereof. Collectively, they are involved in all facets of importing, exporting, and/or domestic production and, thus, present many diverse perspectives on this sector. The members, all of whom come from the U.S. private sector, serve in a representative capacity presenting the views and interests of a U.S. business in the fiber, textiles and apparel industry sectors; they are, therefore, not Special Government Employees.

The Committee advises the Secretary and the USTR concerning the trade matters referred to in Sections 101, 102, and 124 of the Trade Act of 1974, as amended; with respect to the operation of any trade agreement once entered into; and with respect to other matters arising in connection with the development, implementation, and administration of the trade policy of the United States including those matters referred to in Reorganization Plan Number 3 of 1979 and Executive Order 12188, and the priorities for actions thereunder.

In particular, the Committee provides detailed policy and technical advice, information, and recommendations to the Secretary and the USTR regarding trade barriers and implementation of trade agreements negotiated under Sections 101 or 102 of the Trade Act of 1974, as amended, and Sections 1102 and 1103 of the 1988 Trade Act, which affect the products of its sector; and performs such other advisory functions relevant to U.S. trade policy as may be requested by the Secretary and the USTR or their designees.

IV. Negotiating Objectives and Priorities of the Industry Sector Advisory Committee for Textiles and Apparel (ISAC 15)

ISAC 15 represents U.S.-based manufacturers and importers of textile and apparel products and their inputs. Because ISAC 15 members hold widely diverging views on whether rapid opening of markets in the United States and around the world through the FTA negotiations serve the best interests of this industry, they have not developed a uniform set of negotiating objectives. However, all members agree that the elimination of quotas on textile and apparel products on January 1, 2005, the final stage of the 10 year long phase out of the Agreement on Textiles and Clothing, will have a tremendous impact on the consumer and associated textile and apparel industries in countries producing and consuming textile and apparel products.

Most of the members agree that there should be greater opening of markets globally. Members have sharply divergent views how that should be accomplished, whether that involves greater U.S. market access for foreign textile and apparel products, and what interests consumer perspectives should play in this debate. There are strong differences over how the current agenda of trade negotiations can best accommodate the industries' needs to prepare for long-anticipated changes in the world trade system. Nevertheless, there is broad consensus that U.S. negotiators should continue to strive to level the playing field and achieve reciprocal tariff reductions on the part of negotiating partners. The Committee views the continued existence of non-tariff barriers as a major impediment that denies market access and prevents export opportunities for U.S. products. Finally, the Committee urges clear and transparent customs procedures and anti-circumvention/enforcement requirements so firms doing business under specific trading regimes can do so with predictability and certainty.

The Committee believes that the next few months and years represent a critical period for the U.S. textiles and apparel industry as it absorbs the impact of the quota elimination later this year. Many anticipate that there will be an enormous consolidation of production globally, with China, India, and Pakistan potentially emerging as major supplier nations. Committee members urge

that the negotiation of all FTAs be conducted with this development in mind.

In particular, Committee members note that the U.S. textile industry is largely dependent on the coupling of supply chains in countries of close proximity, primarily North and Central America. The U.S. is not a low cost producer, but linkages in the Western Hemisphere gain the advantage of quick delivery response in a rapidly changing, fashion driven industry. As a result, many urge that the primary focus of our textiles and apparel trade policy be directed toward strengthening the North and Central American industrial platform and ensuring a level playing field with respect to other supplying countries.

The Committee would also like to better understand the fit of these individual FTAs among each other and into a cohesive, market responsive textiles and apparel trade policy. The Committee urges the Administration to articulate its vision so that businesses can reduce the uncertainty in their long range strategic planning, and make appropriate use of their limited resources and investment.

V. Advisory Committee Opinions on Agreement

In most respects, the provisions of the U.S./Dominican Republic FTA are identical to the non-country specific provisions of the U.S./Central America FTA. Accordingly, advisors have confined their comments to the following four areas.

- A. **Cumulation:** The U.S./Dominican Republic FTA provides a mechanism through which the Dominican Republic gains access to cumulation inputs (from Mexico and Canada) on the same terms as the five Central American countries with two significant differences. First, the U.S./Central America FTA creates a 100 million square meter equivalents (SME) cap for inputs from Mexico and Canada for Chapter 62 products. That cap is divided among wool, denim, and other cotton/MMF articles. Subject to that 100 million cap, the U.S./Dominican Republic FTA creates a sublimit category of 1 million SME for wool (also under the 100 million cap) just for the Dominican Republic. The Dominican Republic does not have access to the other wool sublimit, but it does have access to the other sublimits for the other fabrics. Second, the Dominican Republic will lose its right to benefit from the cumulation provision if it does not complete negotiations with Canada and Mexico for an FTA within five years, including all the reciprocal and transshipment obligations contained in the U.S./Central America FTA cumulation provisions.

In general, apparel members applauded the inclusion of a cumulation provision for the Dominican Republic. While they appreciated the certainty that the Dominican Republic will now enjoy because they have a known quantity, they continue to believe the overall limits and the inclusion of sublimits may make it harder to use this particular aspect of the agreement. Several apparel members noted that the inclusion of a specific cumulation provision on wool reconfirmed their belief that there is a continuing inability of U.S. apparel companies to acquire U.S. originating wool

fabrics in sufficient quantities.

Some textile members expressed support for the way the cumulation provision was handled, noting there is no expansion of the overall cumulation levels initially agreed to under the U.S./Central America FTA and that this provision is not retroactive. Several suggested that a specific sub-limit for the Dominican Republic may create knowable market driven opportunities, particularly for US yarn companies selling to Mexican or Canadian customers. Other textile members complained that the Dominican Republic wool cumulation provision still effectively doubles the amount of non-originating wool apparel, which is a serious problem for what they view as a highly sensitive textile sector, especially given the amount of tailored clothing that is currently imported from the Dominican Republic using U.S. inputs.

- B. **Yarn Forward Rule for Wool Fabric:** The U.S./Central America FTA contains a yarn forward rule for many textile and apparel articles, but a fabric forward rule for wool articles. The U.S./Dominican Republic FTA contains a yarn forward rule for wool articles, partly to offset the additional access granted under the cumulation piece.

Apparel members expressed concern that the inclusion of a yarn forward rule of origin for wool apparel with the Dominican Republic would unnecessarily complicate and restrict the overall agreement since other wool articles from Central America will be fabric forward. Several textile members strongly criticized the inclusion of a yarn forward rule for wool apparel since this will make it harder for U.S. fabric companies to compete for this business. Other textile companies, however, applauded the yarn forward rule, noting that much of the rest of the U.S./Dominican Republic FTA is already yarn forward.

- C. **Co Production for Haiti:** The U.S./Dominican Republic FTA contains a side letter that will permit benefits for articles co-produced in Dominican and Haitian factories. This provision is intended to capture an existing trade dynamic under the current trade preference program that involves the use of both Dominican and Haitian factories to make garments for duty free entry into the United States.

Apparel members applauded the inclusion of the Haiti co production side letter, and expressed interest in learning more details about how this program can be structured so it creates incentives for U.S. apparel companies to remain involved in Haiti. Several apparel members noted that a similar situation exists between Haiti and other Central American countries, and with Jamaica, since co production in those scenarios may be disallowed as the Dominican Republic and Central America graduate from the existing preference programs.

Several textile companies complained that the side letter is so vague that it is impossible for them to infer that there is any potential benefit for U.S.

fabric producers. Others expressed the belief that the inclusion of co-production in Haiti will preserve U.S. business that is currently in the region, and may offer some growth potential.

D. General Comments Relating to Addition of the Dominican Republic to the U.S./Central American FTA

All apparel members and some textile members expressed support for the inclusion of the Dominican Republic in the U.S./Central America FTA. They believe a balance was achieved in the original U.S./Central American FTA negotiation and that this balance was advanced through the specific provisions negotiated with respect to the Dominican Republic.

Some textile members specifically noted that they do not expect the U.S./Dominican Republic FTA to lead to significant new competition to the existing domestic asset base. Rather, they expressed the opinion that this FTA will open up new business opportunities for the conversion of U.S. fiber and fabrics into finished articles, particularly with the expansion of qualified end uses that will come under this agreement, such as home textiles and industrial applications, which were not, included under the existing preference programs. Several textile companies specifically welcomed the fact that no Tariff Preference Levels (TPLs) were granted under this FTA.

Other textile members voiced strong opposition, reiterating deep concerns they expressed with respect to the U.S./Central America FTA. They state this FTA contains many of the provisions they view as harmful from the U.S./Central American FTA, and that it adds no provisions of benefit to stimulate U.S. fabric production. They voiced particular concern over the application of rules that they deem especially harmful to trade with the Dominican Republic. These textile members specifically mentioned rules that they believe will make it more difficult for U.S. fabric companies to make sales to Dominican producers of brassieres and tailored clothing, particularly since so much of the current trade for these products under the existing trade preference programs uses U.S. fabrics.

VI. Membership of Committee

The members of ISAC 15 are: Gerald Andersen, Men's Dress Furnishings Association, Inc.; James Cook, Sara Lee Branded Apparel; Joe Deadwyler, Haggar Clothing Corporation; Shawn Dougherty, Dillon Yarn Corporation; Robert Ecker, Cordage Institute; Charles Hansen III, Consultant to Pillowtex; Michael Hubbard, American Yarn Spinners Association; Mark Jaeger, Jockey International, Inc.; Jane Johnson, Unifi, Inc.; Robert Kaplan, Clothing Manufacturers Association of the U.S.; Stephen Lamar, American Apparel & Footwear Association; Lance Levine, MFI International Manufacturing, LLC; Connie McCuan-Kirsch, Textile Bag and Packaging Association; Wendy Wieland Martin, Kellwood Company; Richard Martino, Russell-

Newman, Inc.; Peter Mayberry, Association of the Nonwoven Fabrics Industry; John Miller III, Esq., Carpet and Rug Institute; Carlos Moore, Consultant to Galey and Lord; John Nash Jr., Milliken and Company; Paul O'Day, American Fiber Manufacturers Association; Theodore Sattler, Phillips-Van Heusen Corporation; George Shuster, Cranston Print Works Company; Karl Spilhaus, National Textile Association; Augustine Tantillo, American Manufacturing Trade Action Coalition; Mary Vane, Invista, Inc.; and Richard Williams, Sr, Williams Companies.