

**Second Report to the
Congressional Textile Caucus
on
the Administration's Efforts on Textile Issues**

U.S. Department of Commerce

October 2003

EXECUTIVE SUMMARY

Since the publication of its first report in September 2002, the Administration has continued to place a high priority on measures to ensure a level playing field and create a healthy, competitive economic environment for the U.S. textile industry. Some of the highlights of the Administration's efforts include:

Trade Agreements

- As part of our commitment to ensuring our industry can take full advantage of the time allowed under the Agreement on Textiles and Clothing (ATC) transition, we have opposed efforts by foreign textile suppliers to accelerate the integration of textile quotas.
- The U.S. successfully defended U.S. rights to limit textiles and apparel imports under the ATC when challenged by India in the WTO with respect to textile rules of origin applied by the United States.
- We have continued to pursue the opening of foreign markets to U.S. textile/apparel products and have made reciprocal market access a priority in all of our trade agreements. Our Doha Round tariff proposal was framed to meet Administration commitments to obtain reciprocal access for our textile products in foreign markets
- The U.S. negotiated tough rules of origin and strong customs cooperation provisions in the Singapore and Chile Free Trade Agreements.
- We repeatedly held firm to our textile trade agreements and rejected numerous textile trade concession requests.
- A procedural framework was issued for consideration of textile safeguard actions against China. The first petitions for action have been received under the framework.
- We successfully negotiated extended and expanded quotas with Belarus.
- We have insisted in WTO accession negotiations with other countries that they must undertake and comply with solid market access and other market opening commitments.
- The Administration imposed quotas on an array of textile and apparel products from Vietnam in order to limit market disruption. We are committed to ensuring that the commitments of the agreement are performed in good faith and therefore included in the bilateral agreement a new provision allowing us to roll back quotas in the event that data shows that third country exports were used in calculating the agreed upon quota levels.

Market Access and Compliance

- An interagency working group has been formed and is working closely with industry to find ways that government and industry can work together to crack down on intellectual property rights violations.
- As part of the Commerce Department's new Standards Initiative, we have increased our outreach efforts with the textile industry. In June, we organized a teleconference to discuss the EU's new proposed chemicals policy and in October we will hold a roundtable with a number of the textile trade associations.
- We continue to investigate textile market access and compliance cases, giving special attention to compliance issues with India, Indonesia, Egypt, Japan, Pakistan, China, Venezuela, and Nigeria to determine their conformance with WTO rules.
- We are also involved in building a relationship with the EU Commission to address areas of possible cooperation in third country textile trade compliance problems. A dialogue has begun on

how we can work together on a number of issues.

- For the Doha Development Agenda negotiations, the United States has proposed textiles and apparel as a possible priority area for a vertical non-tariff barrier (NTB) agreement. This single industry, or vertical, approach, if successful, will allow textile-specific NTBs to be bundled together, making it easier to manage the negotiating process and to directly address industry's foreign market access concerns.

Transshipment and Enforcement

- In 2003, U.S. Customs and Border Protection seized in excess of \$160 million of wearing apparel that was smuggled from China.
- From May 2002 - 2003 U.S. Customs and Border Protection seized \$8.16 million worth of textiles and apparel that violated intellectual property rights laws.
- U.S. Customs and Border Protection stopped \$518 million in illegal trade involving 282 factories that were closed down as a result of the U.S./Hong Kong Customs joint enforcement efforts (5/01-5/03).
- The Oak Ridge Laboratories completed a study on behalf of the Department of Commerce identifying three possible technologies for confirming U.S. fabric content in preferential apparel imports.

Export Expansion

- Our centerpiece event was our participation as the "Partner Country" in the Heimtextil home furnishings show in Germany this past January. This event generated considerable industry excitement. Exhibitors reported over \$22 million in actual and projected sales.
- Three other events in Japan, China, and Germany generated over \$50 million in actual and projected sales.
- Future textile/apparel trade events are scheduled for South Africa, Germany, and Japan.

Trade Remedy Laws

- The U.S. continues to be sensitive to textile industry concerns in ensuring that we retain flexibility in the application of our antidumping and countervailing duty rules.
- We are actively enforcing our unfair trade practice laws. We are working closely with domestic industries to identify subsidies that may be improperly provided to manufacturers or exporters in major textile exporting countries. Where inappropriate subsidies or illegal dumping occur we will aggressively execute our trade laws.
- We used, for the first time, the developing country "export competitiveness" clause to pressure a developing country (India) to eliminate its export subsidies.

Trade Adjustment Assistance (TAA)

- A major accomplishment was implementation of the TAA provisions of the Trade Act of 2002, enacted on August 6, 2002, which included expanded eligibility provisions and several new benefits and services.
- Over 100,000 employees in the textile and apparel sector were granted eligibility for TAA program benefits from January 2002 through July 2003.

Diversification

- We continue to encourage trading partners to diversify into non-textile sectors.
- We have offered assistance from TDA, OPIC, and USAID, where appropriate.

ADMINISTRATION'S EFFORTS ON TEXTILE ISSUES

The Administration's Report to the Congressional Textile Caucus of September 2002 highlighted some of the areas in which the Administration has been working to try to improve the competitive environment for domestic industry. Some progress has been made since the issuance of that report, as indicated in the commentary that follows. However, it is clear that, in light of the critical situation currently facing our industry, further action and vigilance is warranted. The Administration intends to continue to focus on ways in which conditions in the industry may be effectively addressed, both in terms of measures specific to the industry as well as those which may be included as part of the Administration's broader manufacturing initiative.

As outlined in the September 2002 report, the interagency Textile Working Group, established last year, has focused on the following areas:

- Ensuring that textile concerns are reflected in the administration of our current trade agreements and in negotiation of new agreements;
- Ensuring foreign country compliance with our trade agreements;
- Strengthening enforcement efforts to combat illegal transshipment;
- Implementing an aggressive export expansion program and facilitate utilization of trade preference programs encouraging the use of U.S. textiles;
- Using the enhanced Trade Adjustment Assistance tools provided in the Trade Act of 2002 to ease the transition of U.S. workers affected by this adjustment;
- Ensuring continued full access to our trade remedy laws by U.S. industry; and
- Encouraging other countries overly dependent on textile and apparel exports to the United States to diversify their economy into industries outside the textile and apparel sector.

The Administration is also continuing to hold ongoing discussions with the textile manufacturing sector to determine additional areas in which the Administration may be supportive.

More broadly, the problems in the textile sector must be viewed through the prism of the overall challenges facing U.S. manufacturing. The Commerce Department has held roundtable discussions across the country to obtain industry insights and feedback for a report to be issued this year on U.S. manufacturing competitiveness. The first such roundtable was held in Highpoint, North Carolina, in April 2003, and a number of textile companies offered their views on potential approaches to improving competitiveness.

TRADE AGREEMENTS

China

On May 21, 2003, the Committee for the Implementation of Textile Agreements (CITA) published in the *Federal Register* the procedures CITA will follow in considering requests from the public, or self-initiating, safeguard actions on textile and apparel imports from China.

This procedural framework implements a special safeguard provision for textiles and apparel that is part of China's protocol of accession to the WTO. Under this safeguard provision, the United States retains the right to impose quotas to address market disrupting surges in imports of textile and apparel products from China that are threatening to impede the orderly development of trade in these products. The China textile safeguard will remain in effect until December 31, 2008, and is the only sector-specific safeguard specifically negotiated as a part of China's WTO accession.

The procedural framework provides transparency in implementation of the China textile safeguard and sets forth the information that must be furnished to CITA by firms, trade associations and workers seeking a safeguard action. The first petitions received under the safeguard procedure were submitted on July 24, 2003.

Doha Round

The U.S. Non-Agricultural Market Access proposal for the Doha Round of multilateral trade negotiations responds to Trade Promotion Authority guidance that trade negotiations seek "more open, more equitable, and reciprocal market access." The proposal also meets Administration commitments to the textile industry and to Congress to seek reciprocal market access for textiles and apparel, and is consistent with the Congressionally mandated negotiating objective to obtain competitive opportunities for U.S. textile and apparel exports substantially equivalent to those afforded foreign exports to the United States.

The U.S. proposal is designed to ensure that countries with high textile and apparel tariffs reduce such tariffs quickly to levels comparable to those of the United States. Most textile and apparel tariffs for major trading countries, including the European Union, Brazil, India, and China, would be reduced to between 3.6 and 6.6 percent by 2010. The maximum tariff would not exceed 8 percent. Under the U.S. proposal, the higher tariffs would drop further and the lower tariff rates would fall less, creating a flatter range of worldwide textile and apparel tariffs, thus creating a more level playing field. If the U.S. proposal is not accepted on a reciprocal basis then the United States will work towards other negotiating outcomes that meet the Trade Promotion Authority mandate.

In addition to pursuing agreement on tariff reductions, we will be focusing on removal of non-tariff barriers. The Administration has worked, and will continue to work, closely with the U.S. industry to identify significant barriers to U.S. exports of textile products.

Under our bilateral agreements subsumed under the WTO Agreement on Textiles and Clothing (ATC), countries are generally entitled to “carryforward” (borrowing against the following year’s quotas) by certain percentage amounts (typically 7%) to augment their quotas. However, since quotas under the ATC will expire in 2005, there will be no carryforward available to countries in 2004. A number of textile exporting countries have proposed that carryforward be allowed in 2004, regardless of the fact that there will be no 2005 quotas against which to borrow. The U.S. has vigorously resisted efforts by these countries in the WTO to obtain more quota via carryforward in 2004.

India’s Challenge to U.S. Textile Rules of Origin

On behalf of the domestic textile and apparel industry, this Administration has fought and won cases in the WTO. On April 25, 2003, a World Trade Organization (WTO) dispute settlement panel issued its final report on India’s challenge to U.S. rules of origin for textiles and made-up products. India had challenged two U.S. laws that set forth the rules of origin for these products, claiming that these laws violated U.S. obligations under the WTO Agreement on Rules of Origin. The United States prevailed on all claims. The final report was issued by the WTO on June 20, 2003, and is now final and binding

Free Trade Agreements

In Free Trade Area (FTA) negotiations, we have made clear that trade agreements must afford U.S. textile companies significant access to foreign markets. Our approach is to obtain full reciprocity to the comprehensive market access offer we table and to insist on tough rules of origin and anti-circumvention language. We have obtained specific language providing for cooperation to prevent illegal transshipment in the Singapore and Chile FTAs, including information sharing, enforcement measures, and penalties for violators. We have proposed similar language for the FTAs with Morocco, Australia, and Central America and will do the same in the Free Trade Area of the Americas (FTAA) negotiations and the FTA with the South African Customs Union.

These tougher rules of origin and enforcement provisions are of particular interest and importance to domestic textile and apparel producers. Therefore, we have insisted on these protections for this product sector in our free trade agreements. In addition, the intellectual property (IP) provisions of our free trade agreements strengthen IP protections for our industry in the countries with which we have negotiated agreements.

Vietnam

On December 10, 2001, the United States granted Normal Trade Relations (NTR) status to Vietnam. In May 2003, the U.S. and Vietnam established quotas on Vietnamese exports to the U.S. In addition, the accord obtained unprecedented access for the U.S. to Vietnam’s market, requires cooperation to prevent illegal circumvention of the Agreement and establishes penalties for violations, established specific provisions on labor rights, and created a monitoring system to track shipments from Vietnam. Importantly, the quotas will remain in place until Vietnam

becomes a member of the WTO, even if its accession occurs after 2004 when quotas on other countries expire.

Our firm commitment to enforcement and good faith negotiations are clear in the agreement. The U.S. introduced a new provision into the agreement that will allow the U.S. to reduce quotas if it is discovered that the negotiated limits were based on trade figures that included shipments that originated in third countries and were falsely claimed to be Vietnamese. U.S. Customs is currently investigating the negotiated quota numbers to confirm the veracity of the negotiated numbers.

Belarus

The U.S.-Belarus bilateral textile agreement has been extended and expanded. The agreement is in effect through December 31, 2005, one year past the termination of the WTO Agreement on Textiles and Clothing. At the request of domestic industry, the U.S. successfully negotiated with Belarus an agreement to limit imports of fiberglass fabric from Belarus. The negotiated quota was reduced below the level allowed in the previous agreement. Quotas were established on two new wool apparel categories, at reasonable uplifts from previous trade levels.

Cambodia

In bilateral negotiations regarding Cambodia's accession to the WTO, Cambodia requested to bind certain textile and apparel tariffs at rates in excess of those agreed to in the 1999 U.S.-Cambodia bilateral textile and apparel agreement. The U.S. took a firm position that the tariff levels negotiated under the bilateral textile agreement must remain in force upon Cambodia's WTO accession. Cambodia ultimately agreed to the U.S. position.

Requests for Additional Access

CITA continues to get requests for additional quota access from countries which anticipate filling their quotas. CITA has taken a consistently strong position in opposition to such requests. We have maintained our commitment to existing schedules by rejecting all of the requests for additional quotas.

MARKET ACCESS AND COMPLIANCE

The Interagency Textile Subgroup on Compliance and Enforcement (the Subgroup) continues to make strong progress in identifying foreign measures and practices that negatively affect U.S. textile exports. Some of the areas of concern include the use of arbitrary methods of customs valuation, overly burdensome and costly standards and labeling requirements, restrictive licensing requirements and bans, unfair foreign subsidies, and lax enforcement of intellectual property rights. Priority has been placed on certain markets identified by industry, but the scope includes all markets, large and small.

Members of the Industry Sector Advisory Committee for Textiles and Apparel (ISAC 15) are regularly briefed on market access and compliance issues and are encouraged to provide advice and to participate in information gathering efforts. Industry trade associations are asked to poll their membership for interest in various issues and to participate in discussions on foreign government actions affecting textile trade. The Department of Commerce network of domestic and foreign offices also assists in disseminating information and in identifying industry interest. Based on industry interests, task forces of government specialists have been established to work specifically on textile intellectual property concerns and on the increasing use of divergent product standards and redundant testing and compliance procedures. As a result of an aggressive membership drive, several new members have been added to the ISAC in the past year.

Textile design piracy by foreign manufacturers is a chronic problem for the domestic textile industry and costs U.S. textile companies \$100 million or more annually in lost sales. . To address textile design piracy and other IP-related concerns, a group of specialists from the International Trade Administration, the Patent and Trademark Office, the Copyright Office, and U.S. Customs has been formed to work with industry. Over the past year, this group has met with industry to discuss concerns specific to textiles and areas where industry and government should focus more attention. The possibility of a U.S. Customs intervention program for textiles was discussed, which would require the cooperation of industry to (1) record their copyrights with U.S. Customs, (2) provide intelligence information, and (3) provide appropriate information to train U.S. Customs agents in identifying pirated textile designs and assist in sting operations.

In February, the National Textile Association submitted a white paper, explaining the importance of intellectual property rights to the U.S. textile industry and suggesting steps the Administration could take to ensure that those rights are protected. The Administration's response to the white paper set forth steps to be taken in response to industry's recommendations, identified current tools available to industry, and highlighted areas in which the government and industry could work together to address this important issue.

On March 19, Secretary Evans rolled out Commerce's new Standards Initiative, which includes an eight-point plan to better monitor and address foreign standards and technical regulations that negatively impact U.S. exports. As part of this new initiative, outreach efforts with the textiles industry have been increased. In addition to monitoring current foreign standards and testing procedures, more attention is being focused on standards development in foreign markets in an effort to deter the implementation of product standards that are unnecessarily trade restrictive or serve as non tariff barriers to U.S. products..

In early June, textile industry representatives were invited to participate in a conference call regarding the European Union's new proposed chemical regulations, known as REACH. The proposed EU regulations, would require the registration, evaluation and authorization of some 30,000 chemical substances. The textile industry, because of its significant use of chemical substances (e.g., dyes, finishes, coatings), is expected to be widely affected. The purpose of the conference call was to increase industry awareness of the potential negative effects that REACH may have on U.S. exports to the EU and to encourage industry to submit comments regarding their concerns to the EU Commission.

The Compliance and Enforcement Subgroup continues to investigate textile market access and compliance cases involving issues raised by industry, as well as those identified through its monitoring efforts. A summary of key cases follows:

China:

- Intellectual property piracy: U.S. Government specialists have met with and advised several textile companies and industry associations on protection of intellectual property in China. A special government/industry working group has been established to address textile design protection concerns and to heighten industry's awareness of intellectual property holder rights.
- The Department of Commerce has proposed to create an Office of China in the Import Administration. This office will focus exclusively on enforcing our trade laws and negotiations with China.

India:

- Additional import taxes and fees: Investigation of India's complex tax regime continues. The Government of India has agreed to provide a diagram of its tax structure, which should assist our understanding of the tax regime as it affects textiles.
- Subsidies: The U.S. has aggressively sought to enforce WTO agreements regarding limiting export subsidies for developing countries textiles products once they are competitive. The U.S. successfully requested a determination by the WTO on India's textile export competitiveness that would require the phase out of many of their export subsidies. The WTO found that India exceeded the 3.25% of world trade threshold on a wide range of textile products. India has appealed the WTO's findings. The U.S. continues to aggressively pursue this issue.

Egypt:

- Tariff rates in excess of WTO tariff bindings: The U.S. Government has protested the implementation of excessive tariffs on imported apparel at the highest levels and intends to pursue all available avenues to ensure Egypt's compliance with its WTO commitments.
- Subsidies: During consultations with the Egyptian government, the United States expressed strong concern about an Egyptian cotton program and the damaging effects that it may be having on the U.S. textile industry. In July, Commerce Secretary Evans wrote to the Egyptian Minister of Foreign Trade requesting his cooperation in addressing this issue. The U.S. Government will continue its investigation of Egypt's programs and will continue to work with U.S. industry to address the impact on domestic production.

Indonesia:

- Import Licensing: In response to industry concerns, the United States requested and received from Indonesia additional information and clarification regarding a recently imposed import licensing requirement for textile fabric. Indonesia claimed that the new requirement does not prohibit or restrict trade and that the license is automatic as long as importers meet the set requirements. The U.S. Government will continue to monitor this program and to consult with industry on any negative trade effects that may arise.

Pakistan:

- Tariff rates in excess of WTO tariff bindings: The U.S. Government is currently working with Pakistan officials to resolve a number of tariff discrepancies involving textiles.

Japan:

- Formaldehyde Standards: A textile compliance team is working closely with industry to assess the effects of Japan's new standards for the use of formaldehyde in building materials (including wall coverings) on U.S. exports and to ensure that they are in compliance with Japan's international trade obligations.

Venezuela:

- Overly burdensome labeling requirements: The U.S. Government has had discussions with Venezuelan officials regarding Venezuela's new labeling requirements. The United States has requested that Venezuela explore alternative labeling requirements that are less trade restrictive to fulfill its objective.

Nigeria:

- Ban on printed fabrics: The United States has protested Nigeria's bans and intends to pursue all available avenues to ensure that the Government of Nigeria complies with its international trade obligations.

The Compliance and Enforcement Subgroup is also involved in building a relationship with the EU Commission to address areas of possible cooperation in third country trade compliance problems. Based on information provided by industry, there are several market barriers in third countries that negatively affect both U.S. and EU textile exports. A dialogue has begun on how the two governments can work together on a number of issues of mutual interest. t

In the Doha Development Agenda negotiations, the United States suggested textiles and apparel, along with automotive products, as a possible priority areas for "vertical" non-tariff barrier (NTB) agreements. U.S. negotiators believe that this single industry, or vertical, approach will make it easier to manage the negotiating process and to address those NTBs directly hindering a specific industry's market access. Members of ISAC 15 and other industry representatives have been asked to provide information on foreign NTBs of concern to the U.S. textile industry. Industry trade associations have also been encouraged to discuss this initiative with their foreign counterparts and to explore common goals and interests.

TRANSSHIPMENT AND CUSTOMS ENFORCEMENT

On March 1, 2003, the U.S. Customs Service became part of the Department of Homeland Security. U.S. Customs and Border Protection is responsible for the enforcement of over 40 bilateral and multilateral agreements, laws, and directives of the Committee for the Implementation of Textile Agreements (CITA) involving the import of textiles and wearing apparel. Over the last six years, Customs has made a concerted effort to increase its

enforcement activities regarding not only the circumvention of quotas and preferential trade agreements, but also the enforcement of Intellectual Property Rights affecting textiles and wearing apparel as well.

The TPA authorized \$9.5 million to be appropriated to the U.S. Customs Service for transshipment enforcement operations, outreach and education. This amount has been authorized to Homeland Security for these purposes.

The Textile Production Verification Team (TPVT) visit is one of the effective tools that U.S. Customs uses to combat illegal transshipment. When visiting factories, Customs officials not only determine the production capacity of the factory, but also take several transactions of goods that have entered into the United States and trace them back through the company's books and records in order to verify the country of origin or the eligibility for a trade preference.

In 2003 (January- June), Customs and Border Protection completed Textile Production Verification Team visits to Honduras, Botswana, Swaziland, Madagascar, Dominican Republic and Lesotho. For the remainder of the year, visits are scheduled to El Salvador, Sri Lanka, Vietnam, Macao and Thailand. The following chart reflects the results of the foreign factory visits:

	<i>Countries Visited*</i>	<i>Factories Verified</i>	<i>No Evidence of T/S</i>	<i>Evidence of T/S</i>	<i>High Risk</i>	<i>Low Risk</i>	<i>Closed Perm</i>	<i>Closed Temp</i>	<i>Refused Admission</i>	<i>T/S Problems</i>
2000	7	489	192	19	105	80	82	4	7	61%
2001	11	359	76	9	56	89	100	11	18	79%
2002	12	553	104	7	69	180	98	7	88	81%
2003**	6	98	38	0	31	21	6	2	0	61%
TOTALS	34	1499	410	35	261	370	286	24	113	73%
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* Multiple trips to same country occurred.

** Includes preliminary results for trips to the Dominican Republic, Lesotho and Madagascar. Does not include trips to Sri Lanka, Vietnam, Macao, Thailand and El Salvador, which are in progress or scheduled for later this FY.

During the TPVT visits, many targeted factories have been found to be permanently closed. However, merchandise continues to arrive at U.S. ports for entry into the United States. In conjunction with CITA, U.S. Customs and Border Protection has implemented a policy to disallow the import of merchandise from factories found to be closed, to be illegally transshipping, did not allow admission to the premises, or who were unable to provide production records.

From May 2001 - 2003, U.S. Customs and Border Protection identified 282 factories that were closed. Merchandise valued at approximately \$518 million has been denied entry into the country.

In 2002, U.S. Customs and Border Protection detained 1,050 entries valued at \$45.4 million and in the first quarter of 2003 detained 492 entries valued at \$23.5 million. In 2002, 500 entries worth \$20 million were excluded and in the first quarter of 2003, 278 entries worth \$11.2 million were excluded. Of that quantity, \$1.2 million was the result of counterfeit Maldives visas, \$2.4 million was from Hong Kong manufacturers who could not substantiate origin, \$760,000 were for Vietnam origin claims. There were recently false Kenya origin claims made by parties involved in counterfeit Maldives visas. The value of these goods is approximately \$150,000.

U.S. Customs and Border Protection has and will continue to aggressively pursue a number of investigations where textiles and wearing apparel have been smuggled into the United States. Thus far, these investigations have led to the seizure of more than \$160 million worth of goods.

In 2002, U.S. Customs and Border Protection excluded, had exported or seized approximately \$ 3 million worth of illegally transshipped goods claiming Russian origin. From January - June 2003, this figure is at \$670,000.

U.S. Customs and Border Protection reviewed African Growth and Opportunity Act (AGOA) claims for knit apparel when they discovered many Swaziland and Botswana manufacturers were using pre-knit collars and cuffs from outside the region for making AGOA claims. The total estimated duty recovered because of the false claims is estimated to be approximately \$12 million.

U.S. Customs and Border Protection has been an active participant in all Free Trade Agreement negotiations to ensure that strong anti-transshipment language and effective enforcement provisions are included.

Intellectual Property Rights Enforcement

In addition to illegal textile transshipment, U.S. Customs and Border Protection is also actively pursuing violations of Intellectual Property Rights. From May 2002 to May 2003 U.S. Customs and Border Protection seized \$8,169,026 of apparel in violation of intellectual property rights laws.

China accounted for 35 percent of the total, followed by Hong Kong at 9 percent, Pakistan at 6 percent, Korea at 5 percent, and Turkey at 2 percent.

Training

U.S. Customs and Border Protection has established a partnership with the Center for Applied Textile Technology in Belmont, North Carolina. Among other things, the Center is putting in final a multi-lingual video on the "Virtual Factory Tour." This is intended to assist U.S. Customs and Border Protection officials in the performance of their factory visits and will be used to train African Customs officials as part of the enforcement training U.S. Customs and Border

Protection is providing under the African Growth and Opportunity Act. This also includes a technical guide on manufacturing steps for various types of apparel.

African Growth and Opportunity Act (AGOA) Implementation

The Trade and Development Act of 2000 legislates that U.S. Customs and Border Protection provide enforcement and implementation training to those sub-Saharan African nations that are eligible to receive AGOA duty-free and quota-free benefits for

wearing apparel. From October 2002 – June 2003 U.S. Customs and Border Protection provided AGOA in-country enforcement training to government officials in Lesotho, Botswana, Swaziland, Madagascar, the Gambia, and Sierra Leone.

From October 2002 – June 2003, U.S. Customs and Border Protection actively participated in successful consultations with Botswana, Lesotho, Kenya, Malawi, Swaziland and Namibia which resulted in extended benefits for duty- and quota-free treatment for handloomed fabrics and handmade articles made from such handloomed fabrics.

The Trade Act of 2002 made changes to some of the requirements to obtain benefits for wearing apparel under AGOA. Working with the United States Trade Representative's Office, U.S. Customs and Border Protection recommended necessary changes to the current visa agreements and textile certificates of origins to permit the nineteen eligible sub-Saharan African countries to continue to obtain AGOA benefits.

Textile Marker System

Another example of the Administration's commitment to enforcement is our effort to help enforce rule of origin requirements in import preference programs. The Commerce Department contracted with the Oak Ridge Laboratories to identify potential "marker" systems to help make origin determinations. Three technologies were determined by Oak Ridge to show promise: UV Fluorescence; Nanophosphors; and DNA based systems. Industry has also worked with the Department of Agriculture to test the practicality of such a system. We anticipate that further work will be done to develop these technologies.

EXPORT EXPANSION

As in 2002, the Department of Commerce, through its Office of Textiles and Apparel (OTEXA), continues to administer an aggressive export expansion program for the textile and apparel industries, which is planned and implemented in close collaboration with individual companies and industry groups. A special Exporters' Textile Advisory Committee (ETAC) offers recommendations to the Department on appropriate venues and best methods for textile and apparel companies to develop their exports and advises on practices which act as impediments to

trade. These activities were supported by the mandate of the Textile Working Group to provide increased export opportunities for U.S. textile and apparel companies.

The program includes sponsorship of U.S. companies in overseas textile and apparel exhibitions, trade missions, export seminars, export counseling, and a comprehensive "Export Advantage" database offering a variety of information to U.S. exporters. A variety of events is scheduled over the coming year via a partnership between the OTEXA and the U.S. Commercial Service.

2003 Accomplishments to date

The Office of Textiles and Apparel organized four textile/apparel trade events during the period October 1 – May 31, 2003. The centerpiece of the program was sponsorship of the very first Partner Country Program at Heimtextil 2003 (Frankfurt, January 8-12). Under the umbrella theme, "Discover the Fabric and Fiber of America", a high profile and very successful multi-tiered promotional event was created on behalf of the U.S. textile industry that demonstrated continued industry competitiveness in this sector. The 23 companies exhibiting in the U.S.A. Pavilion and the 89 other companies that participated in other Partner Country events reported considerable satisfaction with the results. The U.S. exhibitors reported \$7 million in immediate sales from over 40 countries, \$22 million in projected sales, nearly 1,000 quality trade leads, and 130 documented export successes from over 30 other companies.

In addition to Heimtextil 2003, Commerce/OTEXA sponsored a first-ever Textile Information Booth at Intertextile in Shanghai, China; a Pavilion at the International Fashion Fair in Yokohama, Japan; and a U.S.A. Pavilion at the Techtextil show in Frankfurt. Twenty-five companies participated in these events, reporting over \$50 million in immediate and projected sales.

From September 6-9, 2003, Commerce/OTEXA sponsored two U.S.A. pavilions at the Decosit/DecoContract trade show in Brussels, Belgium. Decosit is a trade show for upholstery fabrics and DecoContract is a trade show for contract and hospitality products. The events featured 15 exhibitors and an additional 24 companies in a "mock-up" room exhibit featuring some of America's leading interior designers and contract/hospitality furnishing companies. Preliminary indications are that the show generated outstanding results.

In May of this year, OTEXA and the World Trade Center Association of Los Angeles – Long Beach sponsored a half-day seminar in Newport Beach, California. This was a joint OTEXA/Market Development Cooperator Program event. Speakers focused on Japanese market opportunities for U.S.-made apparel, shipping, finance, the Commerce Department's Textile and Apparel Export Development Program, and export success stories. We have also focused on bringing together potential buyers from foreign countries with U.S. manufacturers in connection with our Free Trade Area negotiations and other venues. For example, we arranged meetings of Chinese and Moroccan business delegations with U.S. associations and firms and encouraged Singapore industry to travel to the United States to explore U.S. sources of supply.

The Office of Textiles and Apparel has worked closely with textile companies to assist them in developing export plans. For example, Commerce Deputy Assistant Secretary Jim Leonard and staff met on several occasions with the owner and members of the senior management team of a major textile company emerging from Chapter 11 bankruptcy to discuss strategies to compete in the global marketplace, government military procurement, and how to prevent a plant employing nearly 1,200 people from closing.

TRADE REMEDY LAWS

Rules Negotiating Group

At the WTO Ministerial Conference at Doha, Qatar, in November 2001, Ministers agreed to a broad negotiating agenda and work program with respect to the WTO Agreements, including the Antidumping and Subsidies Agreements. Import Administration (IA) has the negotiating lead for the Antidumping Agreement, and USTR, with strong IA support, has the lead for the Subsidies Agreement. Our negotiating strategy is to: 1) maintain the strength and effectiveness of the trade laws; 2) enhance transparency and due process requirements; 3) enhance disciplines on trade distorting practices that lead to unfair trade; and 4) ensure that dispute settlement panels and the Appellate Body do not impose obligations that are not clearly contained in the Agreements.

The starting point for our participation in the Rules Group is the Doha Ministerial Declaration, which mandates the Group to “clarify and improve” disciplines under the Agreements, “while preserving the basic concepts, principles and effectiveness of these Agreements and their instruments and objectives, taking into account the needs of developing and least-developed participants.” The mandate also calls for improved disciplines on trade-distorting practices.

There have been ten formal meetings of the Rules Negotiating Group to date. Consistent with the Doha Ministerial Declaration, Members have identified provisions of the Agreements they seek to clarify in the subsequent phase of the negotiations. In a report to the Trade Negotiating Committee (TNC) on progress in the Rules Negotiating Group (RNG), the Chairman stated that the “work of the Group to date has been highly productive in identifying the provision and issues for negotiation in the areas of AD and SCM.” The United States continues to be very active in these negotiations, tabling more than 20 submissions to address U.S. concerns and questions in these negotiations. While additional issues will continue to be submitted, it is likely that the greater part of the issues already have been tabled and will likely constitute the basis for the discussions in the second phase following Cancun. Several developing countries have raised textiles as a specific area of concern before the General Council, proposing that there be a two-year moratorium on trade remedy cases on textile products once quotas are eliminated. The United States opposes any moratorium on trade remedy cases and considers such a proposal to be outside the mandate of Doha negotiations.

Trade Remedies

Last year, Commerce officials met with U.S. textile industry representatives to explain antidumping and countervailing duty procedures and analyze options available to the industry under U.S. trade remedy laws.

Although developing countries are currently exempt from the prohibition on export subsidies, and many will remain so for the foreseeable future, the WTO's Agreement on Subsidies and Countervailing Measures (the Subsidies Agreement) provides for possible ways to address the trade distortions caused by export subsidies for countries not currently subject to the prohibition.

For example, once a product of a developing country reaches "export competitiveness," as defined in the Subsidies Agreement, any export subsidies given on that product must be phased out. In January 2003, the United States requested that the WTO Secretariat review the export competitiveness of textile and apparel exports from India on the basis of criteria stipulated in the Subsidies Agreement. In March 2003, the WTO Secretariat reported its findings. We believe these results confirm that India is export competitive in several textile and apparel categories. This is the first time the U.S. has invoked this provision to pressure a developing country Member to eliminate its export subsidies for any product. In May, we raised the issue before the WTO at the Spring meeting of the Subsidies Committee. Because implementation of this provision remains open to interpretation, we are continuing to explore possible WTO strategies to address the problem of such textile subsidies.

TRADE ADJUSTMENT ASSISTANCE

The Trade Act of 2002 (P.L. 107-210), enacted on August 6, 2002, consolidated the Trade Adjustment Assistance (TAA) program and the NAFTA Transitional Adjustment Assistance (NAFTA-TAA) program, that assisted workers adversely affected by trade with Mexico or Canada, into a single enhanced TAA program and authorized it through fiscal year 2007. A major accomplishment of the past year was implementation of the TAA provisions by the U.S. Department of Labor and states, including expanded eligibility provisions and several new benefits and services. TAA has been a significant tool to assist workers in the textile and apparel industry sectors. The table below highlights data on TAA and NAFTA certifications for these sectors over the period January 2002 – July 2003. (NAFTA certifications are those through November 4, 2002, after which NAFTA certifications were consolidated into TAA.)

TAA & NAFTA Certifications for Apparel and Textiles: January 2002 - July 28, 2003				
	Number of Certifications		Number of Employees Covered by Certifications	
	Number	Percent	Number	Percent
TAA Certifications				
Total All Industries	2,839		367,278	
Apparel	445	15.67%	47,988	13.07%

Textiles	218	7.68%	23,911	6.51%
Total Textiles and Apparel	663	23.35%	71,899	19.58%
NAFTA Certifications				
Total All Industries	767		109,150	
Apparel	118	15.38%	21,162	19.39%
Textiles	63	8.21%	11,525	10.56%
Total Textiles and Apparel	181	23.60%	32,687	29.95%

Over this period, textiles and apparel accounted for nearly one quarter of all TAA and NAFTA certifications. Textile and apparel workers covered by TAA certifications made up about one-fifth of all covered employees, while under NAFTA about 30% of all employees covered by NAFTA certifications were in the textile and apparel industry sectors. Clearly TAA has played a major role in providing services to workers in the textile and apparel sectors.

New Features Under TAA Implemented in 2002-2003.

As noted, during the past year the Department of Labor and states implemented new eligibility requirements and new services, many of which have supported workers certified by TAA.

These new provisions include:

- Consolidating NAFTA into TAA after November 4, 2002, with all certifications being issued under TAA;
- Expanding eligibility to more worker groups;
- Increasing existing benefits and providing tax credits for health insurance coverage assistance;
- Authorizing specific waiver programs;
- Establishing other TAA programs.

Many of these provisions assist textile and apparel workers covered by TAA certifications including the health insurance coverage and assistance for older workers, all newly implemented in the past year.

TAA and Other Support and Benefits for Textile and Apparel Workers

Early intervention is a key principle to return workers to jobs. Over the last year there have been major efforts by the Department of Labor (DOL) and states to address potential and actual plant closings in the textile and apparel sectors. In this light, the Trade Act requires rapid response services be available to workers as soon as a petition for TAA is filed. Rapid Response Services provide immediate aid to workers affected by announcements of plant closings and large layoffs. Dislocated worker offices may send one or more representatives to the work site to coordinate the layoff before it occurs.

Early interventions are also facilitated by the Worker Adjustment and Retraining Notification (WARN) Act that requires employers of 100 or more full-time workers to provide 60-days advance notice of a plant closing or major layoff. During rapid response, specialists in helping workers cope with job change will gather information on workers' needs and begin to organize the services necessary to help them find new employment. As shown in the above table, tens of thousands of workers in the apparel and textile industry sectors received such services over the last 18 months. In particular, state workforce development systems funded by the U.S. Department of Labor were heavily engaged in providing these services to workers in the textile industry sector over the past year.

The TAA program provides training, income support, and other reemployment and supportive services to certified workers who lost their jobs or had their work hours or salary reduced because of increased imports or shifts in production to foreign countries. Tens of thousands of trade affected workers in the apparel and textile business sectors also received services as "dislocated workers" under the Workforce Investment Act (WIA), administered by the DOL. The Trade Act of 2002 requires close coordination with WIA services. Three types of services are potentially available to these workers.

- All workers have access to core services, information on unemployment insurance (UI) benefits, job search assistance, local area job openings, and job training through a local One-Stop Career Center or Rapid Response team.
- If the core services do not produce results, one-on-one assistance, group career workshops, and other assistance such as skills assessment, stress management workshops, and one-on-one job counseling may be available. TAA certified workers are entitled to financial assistance for out-of-area job search and relocation; and
- Training services, including on-the-job training (OJT), occupational skills improvement, and remedial education, such as English as a second language (ESL) may be available. One-Stop Career Centers have a list of approved training programs, descriptions and costs to help guide the decision-making process. Training must be full time and concluded within 104 weeks. However, if remedial training is needed initially, a total of 130 weeks of training and income support are possible.

Not everyone who is eligible to participate in the TAA program or WIA needs training. Dislocated workers will work with staff in the One-Stop Career Center to determine the type of services needed and whether or not training is needed to find a new job. The revised TAA program spells out specific criteria for approval of training: there is no suitable employment available, training is available and appropriate, and there is a reasonable expectation of a job after completion. The amount of funds available annually for training under TAA is \$220 million. The total appropriation for the TAA program in FY-2003 is \$972.2 million.

The revised TAA program also includes a temporary, 5-year program of alternative trade

adjustment assistance for older workers. Under this program, workers in firms with a significant number of workers over the age of 50 who are without easily transferable skills may choose, in lieu of the other benefits available under the TAA program, to receive payments of 50 percent of the difference between pre-layoff wages and their reemployment wages. A worker could receive payments for up to a two-year period, but the maximum amount paid may not exceed \$10,000. In order to qualify, the worker must be at least 50 years of age, become reemployed within 26 weeks of separation, and be reemployed at annual wages of less than \$50,000 in a full-time job that is not the job from which he/she was laid off.

The Act established new mechanisms by which certain eligible individuals can receive assistance in covering the cost of health insurance. The primary mechanism for such assistance is a federal tax credit to be administered by the Internal Revenue Service. The individuals eligible for such assistance include: (1) TAA participants who are receiving extended income support under the TAA program, or who would be eligible to receive such income support except they have not exhausted their unemployment insurance (UI); (2) TAA participants who are participating in the alternative TAA for older workers; and (3) individuals age 55 or older who are receiving pension benefits paid by the Pension Benefit Guaranty Corporation. Other Health Insurance provisions also are covered under TAA.

These services beyond core job search including training, wage differentials for older workers, and health insurance coverage have provided much needed support to workers in Textile and Apparel sectors who are eligible for TAA.

DIVERSIFICATION

State Department officials up to the under secretary level have continued to press both developed and developing countries to diversify into other industrial sectors in order to reduce their over-dependence on textile exports and mitigate the potential economic consequences of the elimination of import quotas at the end of 2004.

The response from virtually all countries has been an acknowledgment that diversification was necessary, but without any firm plans to accomplish it. We have offered modest assistance from the Trade Development Agency (TDA), the Overseas Private Investment Corporation (OPIC), and USAID where appropriate.

NEXT STEPS

The Administration's work on behalf of the U.S. textile industry is an ongoing effort which will remain robust as it continually evolves to meet new challenges. Textile industry concerns will

remain an important consideration in Administration decision-making relative to a broad array of trade and other economic issues.

Some of the things the Administration will be doing in the months ahead include:

- CITA is scheduled to make a determination in mid-November on whether imports from China of three textile and apparel product categories are, due to market disruption, threatening to impede the orderly development of trade in the products. If CITA makes an affirmative determination, the U.S. will request consultations with China with a view to easing or avoiding such market disruption and place into effect quantitative restraints on the relevant imports from China. In its efforts for full and proper enforcement CITA is also exploring possible ways in which production and other data can be obtained to ensure thatr valid safeguard cases do not fail because CITA lacks sufficient data.
- The U.S. has repeatedly indicated to China that there needs to be greater balance in our trading relationship generally, and particularly with respect to our textile trade. As a part of this process, the Commerce Department has initiated an ongoing dialogue with the Chinese to reinforce U.S. concerns over our textile trade disparity and to seek solutions. Secretary Evans will be visiting China in late October and will further emphasize this message. Commerce is also exploring with U.S. industry and the Chinese Government prospects for meetings between industry people from the U.S. and China to evaluate steps which may be taken to improve our textile trade balance.
- The U.S. Embassy in China is putting together an IPR Roundtable event in Beijing on November 18 which is scheduled to include a panel discussion on copyright protection for textile designs. The Embassy will host a non-textile specific IPR criminal enforcement seminar in October.
- The Commerce Department's Import Administration will work closely with the Office of Textiles and Apparel to gather information on and analyze textile subsidies which may be applied by China and other foreign countries. U.S. industry has expressed concerns related to possible subsidies in several major textile exporting countries. Research will focus on potentially countervailable subsidies that may be provided to textile manufacturers and exporters in these countries.
- Upon completion of an investigation by the Bureau of Customs and Border Protection, CITA will determine if Vietnam's quotas on exports to the United States under our bilateral textile and apparel agreement will need to be adjusted to account for any shipments that may have originated in third countries.
- A textile standards roundtable will be held on October 7, 2003, in an effort to assess the effect of foreign standards and technical regulations on U.S. competitiveness in foreign markets.
- The Textile Subgroup on Compliance and Enforcement will continue to take strong, proactive steps to address foreign barriers to U.S. textile exports. The group will focus its

priorities on those barriers of greatest concern to U.S. industry, and will increase its efforts to reach out to, and anticipate the needs of, U.S. manufacturers through focused industry work groups.

- Money has been set aside for the Center for Applied Textile Technology in Belmont, North Carolina, to develop a CD-ROM training for U.S. Customs and Border Protection personnel at the ports of entry on the Free Trade Agreement requirements and regulations. This initiative will start in the fall 2003.
- Trade agencies will work with the textile and apparel industry to address industry concerns about the availability of export financing from government institutions. Industry is particularly concerned about the high cost of financing full package apparel production, using U.S. fabric, in trade preference beneficiary areas such as the CBI. Several key industry associations will prepare a paper describing their concerns. The Department of Commerce will be consulting more generally with industry on ways to improve the global supply chain on textiles and apparel to facilitate use of U.S. inputs.
- The Commerce Department, under its Textile/Apparel Export Development Program will feature the following additional trade events over the coming year:

AGOA “Gold Key” Mission

The Office of Textiles and Apparel recruited three yarn and apparel fabric companies for individual “Gold Key” programs to Cape Town and Durban, South Africa, October 20-24, 2003.

Heimtextil 2004

There will be two U.S. Pavilions for an expected 25 U.S. producers of textile home furnishings products at the Heimtextil 2004 trade show in Frankfurt, January 14-17.

Tokyo International Fashion Fair

U.S.A. Pavilion at the International Fashion Fair in Tokyo, January 14-17, 2004 for 10-15 U.S. suppliers of men and women’s apparel.

Trade Missions and Export Seminars

Trade missions for bridal wear and accessories, and large size women’s wear are being planned for the first half of 2004 as well as textile and apparel export seminars in New York and Los Angeles.

Paris Lingerie Fair

We plan a U.S.A. Pavilion at the Salon International de la Lingerie trade show in Paris, France, January 23-26, 2004 for ten U.S. lingerie companies.

Iraq Reconstruction

The textile and furniture industries also may benefit from the re-building of Iraq. Although it is still too early to identify specific opportunities, the Department will work with U.S. AID and other federal agencies towards ensuring that infrastructure development includes U.S.-made products and services including American textiles and furniture. This may include a U.S. Government trade mission similar to an earlier trade mission to Kuwait. OTEXA also will use its Export Advantage Website to provide information on Iraq Reconstruction export opportunities to US textile and apparel companies.

This Administration cares deeply about the health of our domestic manufacturing base, of which the textile industry is a component. The International Trade Administration of the Commerce Department has held a number of roundtable discussions across the country to obtain industry insights and feedback in support of a broader Administration Manufacturing Initiative. As a part of those discussions, industry has been asked to comment on:

- Current Status - competitiveness, industry trends, technology leadership, the domestic business environment, manufacturing practices, and outsourcing/offshore procurement.
- The Future: 2020 - the manufacturing environment in 2020, what products will be produced in the United States, competitive advantages that U.S. manufacturers will carry forward, and human resource management issues.
- Suggestions for policy makers - government policies that enhance our manufacturing competitiveness, the government's role in developing technologies that industry will need to remain competitive, and the trade barriers that most affect industry competitiveness.

The report will describe the problems U.S. manufacturers are facing and, more importantly, make recommendations on actions the Administration, Congress, and others should take to revitalize the manufacturing sector of the U.S. economy. Certainly most of these recommendations will be relevant to the textile manufacturing industries.