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Schwab Announces Implementation of Two CAFTA-DR Textile Provisions

GENEVA - U.S. Trade Representative Susan C. Schwab announced today that the United States plans to implement two textile provisions in the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR) with respect to materials made in Mexico. The textile cumulation provision and the pocketing amendment, when implemented on August 15, will change the CAFTA-DR Rules of Origin to promote regional production.

“The implementation of the CAFTA-DR textile cumulation provisions and the pocketing amendment marks another important step forward in the integration of apparel manufacturing in the region,” said Schwab. “The provisions will strengthen our already strong economic relationship with our trading partners in the region, and will create new opportunities for the use of U.S. fabric and yarn in apparel production in the region.”

Background

In Proclamation 8213 of December 20, 2007, as modified by Proclamation 8272 of June 30, 2008, the President proclaimed modifications to the Harmonized Tariff Schedule of the United States to implement both the pocketing amendment and textile cumulation provisions. Pursuant to that proclamation, USTR will publish a formal notice of the effective date of the cumulation provisions in the Federal Register. The United States anticipates that both the pocketing amendment and the textile cumulation provision, with respect to materials produced in Mexico, will enter into force on August 15, 2008.

Cumulation

The CAFTA-DR includes provisions that permit a limited quantity of woven apparel containing Mexican or Canadian inputs to enter the United States duty-free. The cumulation provisions cover a limited set of apparel and are subject to annual limits on the quantity of apparel that will receive preferential treatment.

Under the CAFTA-DR, several conditions must be fulfilled before the provisions can enter into force with respect to inputs from Canada or Mexico. We anticipate that each of Mexico’s free

trade agreements with the Central American CAFTA-DR parties will be amended, effective August 15, 2008, to provide on a reciprocal basis for preferential treatment of Central American apparel goods containing U.S. inputs that are exported to Mexico. Further, the required agreement between Mexico and the United States on customs cooperation and enforcement was signed in 2007 and is expected to enter into force by August 15. These steps will allow the cumulation rule to enter into force with respect to materials from Mexico.

Apparel goods of the Dominican Republic containing Mexican inputs will also be eligible under the cumulation provisions when they enter into force. However, the Dominican Republic must enter into an FTA with Mexico that provides for reciprocal treatment of U.S. inputs, in order for this treatment to continue beyond five years from the date that the CAFTA-DR entered into force for the Dominican Republic.

Pocketing

The CAFTA-DR Parties signed an amendment to the Agreement on pocket fabric and related textiles matters in August 2007.

Under the pocketing amendment, for apparel items containing at least one pocket, the pocket bag fabric must be formed and finished in the territory of one or more of the CAFTA-DR parties using yarn wholly formed in the territory of one or more of the CAFTA-DR parties before the apparel can qualify as an originating good and, therefore, duty-free treatment under the CAFTA-DR.

In exchange for the change in the rule of origin for pocket fabric, the United States agreed to other changes requested by the other CAFTA-DR parties, including liberalized rules of origin for certain apparel products.

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