

February 28, 2003



LIZ claiborne inc

The Honorable Robert B. Zoellick
U.S. Trade Representative
600 17th Street, NW
Washington, DC 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 Wholesaling and Retailing for Trade Policy Matters (ISAC 17) on the U.S. Singapore Free Trade Agreement (Singapore FTA), reflecting consensus advisory opinions on the proposed Agreement.

Sincerely,

Frank Kelly
Chair
ISAC 17

The U.S.-Singapore Free Trade Agreement (FTA)

**Report of the
Industry Sector Advisory Committee on Wholesaling and Retailing for Trade Policy Matters
(ISAC 17)**

February 28, 2003

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Industry Sector Advisory Committee on Wholesaling and Retailing for Trade Policy Matters
(ISAC 17)

Advisory Committee Report to the President, the Congress and the United States Trade Representative on the U.S.-Singapore Free Trade Agreement

Pursuant to Section 2104 (e) of the Trade Act of 2002 and Section 135 (e) of the Trade Act of 1974, as amended, the Industry Sector Advisory Committee on Wholesaling and Retailing for Trade Policy Matters (ISAC 17) submits the following report on the substance of the U.S.-Singapore Free Trade Agreement (Singapore FTA).

Advisory Committee Opinion on Agreement

In general, the members of ISAC 17 support the Singapore FTA. Subject to the issues and concerns discussed below, it is the view of ISAC 17, that the agreement will, on balance, promote the economic interests of the United States, will largely achieve the applicable overall and principle negotiating objectives, and provides for general equity and reciprocity within the distribution services sector.

Textile and Apparel Rules of Origin

In past comments on preferential rules of origin for textile and apparel products, ISAC 17 has argued for flexible, commercially-viable rules that reflect the realities of global production and sourcing and actually promote new trade and investment. In the view of ISAC 17, the U.S.-Israel FTA rule of origin for textiles and apparel (substantial transformation), the U.S.-Jordan FTA rules of origin for apparel (Breaux-Cardin), and the pre-Breaux-Cardin rules of origin for textiles meet these criteria and have been advanced as models during various FTA negotiations, including those with Singapore. The argument for adopting these rules of origin is made more compelling by the fact that they are consistent with the rules governing origin for other manufactured products – i.e., origin is determined according to the most significant production processes performed in an FTA partner country.

Unfortunately, the agreement with Singapore incorporated the so-called “yarn forward” rule of origin for textiles and apparel, which determines origin according to where the inputs used to make the final product are produced. Under this rule, only apparel made from yarn and fabric originating in Singapore or the United States can qualify for duty-free treatment. This rule has two immediate negative consequences. First, it creates the anomalous situation where the effective amount of value added processing necessary for qualifying apparel is substantially

higher than for all other products – in the range of 80 to 90 percent. Second, since Singapore has no significant yarn or fabric production, this rule essentially requires the use of U.S. yarn and fabric in the production of qualifying apparel. The net result is that the yarn forward rule will retard, rather than promote textile and apparel trade under this FTA. The existence of tariff preference levels that provide benefits under the FTA to limited amounts of apparel made from third country yarn and fabric will do little to obviate this problem.

This conclusion is substantiated by a survey of major apparel retailers conducted by the National Retail Federation. It was the unanimous view of survey respondents that a yarn forward rule of origin is not cost effective and, in the case of Singapore, results in a net increase in the cost of apparel production, even when the savings from the elimination of tariffs and quota charges are factored in. All retailers participating in the survey further reported that yarn forward rules of origin have affected their sourcing operations by accelerating the shift in apparel trade away from preferential trading partner countries that are subject to this rule to certain large Asian suppliers, notably China.

This shift in sourcing patterns is especially evident in the case of Mexico, which, unlike Singapore, has the added benefit of close proximity to the U.S. market. As a result, one should expect a similar decrease in apparel trade with Singapore and any other FTA partner country that is subject to a yarn forward rule of origin, especially after the U.S. textile and apparel quota regime terminates on January 1, 2005. This result will also have an adverse impact on U.S. exports of various inputs – fiber, yarn, and fabric – used in apparel production, and thus operates to the detriment of U.S. manufacturers in those sectors.

With these considerations in mind, it is the view of the members of ISAC 17 that a yarn forward rule of origin undermines the goals of trade liberalization and is, therefore an inappropriate model for other FTAs.

In the case of Singapore, the disadvantages of a yarn-forward rule of origin are compounded by the inability to cumulate inputs from other FTA partner countries in the production of textile and apparel products. ISAC 17 has advised that cumulation under the preferential rules of all FTA agreements, in which the U.S. is a party, is necessary in order for U.S. companies to realize economies of scale and take full advantage of the U.S. preferential trade regime. Creating a regime that allows for a flexible cumulation system will also somewhat diminish the negative consequences of a yarn-forward rule of origin.

Sincerely,

A handwritten signature in black ink, appearing to read "Francis X. Kelly", with a long horizontal flourish extending to the right.

Francis X. Kelly
Chair