AMTAC Opposes CAFTA - Deal Harms Domestic Manufacturing

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WASHINGTON, DC - The American Manufacturing Trade Action Coalition announced its opposition to the Central American Free Trade Agreement (CAFTA).

The deal will increase the trade deficit, destroy U.S. manufacturing jobs, result in the loss of U.S. market share for domestic manufacturers, and encourage illegal transshipping.

"U.S. trade policy is inherently flawed. CAFTA replicates the failed policy of negotiating trade deals with countries capable of manufacturing large amounts of consumer goods for the U.S. market but incapable of buying significant numbers of finished U.S. goods in return," said AMTAC Washington Coordinator Auggie Tantillo.

"Instead of trying to figure out how the United States can decrease its already devastating trade deficit (an expected $550 billion in 2003), the government is once again proposing a trade deal that will make it even higher. Make no mistake, the U.S. government's trade policy of maximizing the trade deficit has got to stop," said AMTAC Co-Chair George Shuster, CEO of Cranston Print Works of Cranston, RI.

"Instead of negotiating a flawed CAFTA, the United States ought to have been sitting down with China and hammering out a comprehensive textile bilateral agreement to slow the surge of job-destroying Chinese imports. After quotas expire in 2005, China is expected to quickly capture 75 percent U.S. market share and at least 45 percent world market share. Not only will this displace 630,000 U.S. textile and apparel workers, but an additional 30 million textile and apparel manufacturing workers from around the world will lose their jobs if the China problem is not addressed," concluded Tantillo.

Cumulation, TPLs, and Rule of Origin Loopholes Will Destroy U.S. Jobs

Specifically on textiles, CAFTA includes several provisions that will displace U.S. yarn and fabric exports to the Central American countries. These provisions include cumulation, tariff preference levels (TPLs), and other rule of origin loopholes.

A cumulation rule of origin exception would allow apparel manufacturers in CAFTA countries to use Mexican and Canadian yarn and fabric and still receive duty-free treatment when they export their products to the United States. This rule would discourage Central American manufacturers from buying U.S. yarn and fabric.

The deal also grants tariff preference levels (TPLs) to Nicaragua. TPLs significantly damage U.S. textile and apparel industry by allowing CAFTA countries to buy yarns, fabrics and other apparel components from low-cost countries like China that do not have free trade agreements with the United States; use those parts in assembling apparel, and; export the finished goods made of non-CAFTA and non-U.S. components to the United States duty free.

In addition, the CAFTA deal carves out an exception that allows Central American countries to manufacture certain products made from non-U.S. components and ship them to the United States duty free in unlimited amounts. The products covered by this loophole will only have to undergo a single-step process of assembly. For example, China could supply 100 percent of the components for a product, have the product assembled in Central America, and then export the product in unlimited quantities to the United States duty free.

"Simply put, cumulation, TPLs and other rule of origin loopholes allow for non-CAFTA signatories to receive duty-free treatment for products exported to the United States using their components at the expense of U.S. manufacturers," said AMTAC Washington Coordinator Auggie Tantillo.

"U.S. law grants duty-free treatment to apparel assembled in CAFTA countries using U.S.-made yarn and fabric under the Caribbean Basin Trade Partnership Act. Why should a battered industry endorse a deal that would only increase the flood of job-destroying imports made with foreign components?" continued Tantillo.

Deal Encourages Illegal Transshipping

AMTAC also believes that cumulation will encourage illegal textile transshipping, making it likely that significant amounts of illegal Chinese components would be used in the production of Central American apparel that would then be shipped to the United States duty free.

On November 28, 2003, *The Boston Globe* reported that Mexican industry leaders estimate that contraband accounts for 60 percent of the country's $16 billion domestic clothing industry. Chinese goods are said to account for the vast majority of the illegal imports.

Remarked Tantillo, "The United States and Mexico cannot stop illegal textile transshipments from China right now. AMTAC sees no reason why this negative trend won't continue in the future."

General Manufacturing Facts

Since January 2001, 2.6 million manufacturing jobs have been lost. 316,000, or 30 percent, of all U.S. textile and apparel manufacturing jobs have been lost.

Approximately 730,000 American still work in textile and apparel manufacturing. More than 230,000 additional workers also are employed in related textile fiber, chemical and machinery sectors.

Also, 26 U.S. Senators and 143 U.S. Representatives have written President Bush and told him that they opposed TPLs and other third-party exceptions in any proposed CAFTA agreement.