AMTAC American Manufacturing Trade Action Coalition | NCTO National Council of Textile Organizations | National Textile Association | USIFI | American Fiber Manufacturers Association, Inc.

House Committee on Ways and Means

Hearing on the Pending Free Trade Agreements

Statement for Record

January 25th 2011

As representatives of the nearly 600,000 person fiber, textile and apparel sector, we are writing to you today to express our concerns regarding job losses that will occur in the sector if the United States-Korea Free Trade Agreement (KORUS) is passed. We have analyzed the agreement carefully and come to the unfortunate conclusion that the textile portions of the KORUS agreement are seriously flawed. If passed in its current form, the agreement will open the U.S. market to a massive one-way flow of sensitive textile products from South Korea, as well as illegal Chinese imports, while providing no new export business to our textile manufactures and workers.

Unfortunately, instead of expanding markets, the KORUS will result in the continued outsourcing of valuable textile, apparel, and other manufacturing jobs. Using export projections from the United States International Trade Commission (USITC) and other U.S. government analysis, we are very concerned that 40,000 textile and related jobs could be lost under the KORUS. With our nation struggling through one of the worst economic periods in its history, we believe this agreement sends the wrong message to our workers and to American voters.

The KORUS agreement represents the second largest free trade agreement (FTA) that the United States has entered into behind the North American Free Trade Agreement (NAFTA). In contrast to recent trade agreements, the KORUS is also the first agreement since NAFTA where the country in question has a large developed textile sector which exports significant amounts of textile products to the United States.

During the last 40 years, Korea has become a large textile-producing country with a vertically integrated industry as a result of extensive support from its government. In 2009, Korea was the second largest exporter of textile yarns and fabric to the United States. From a bilateral perspective, U.S. textiles and apparel imports from Korea are more than double times the value of our exports to Korea. This relationship in trade added $629 million to the U.S. trade deficit in the last twelve months alone.

Overall, Korea has substantial capability to produce finished goods for export, while they have limited ability to consume finished goods manufactured in the United States. As a result, we are greatly concerned about the KORUS agreement and the impact it will have on our industry and our ability to remain competitive in the global marketplace.

Our principal concerns include accelerated tariff phase-outs that do not give U.S. producers time to adjust, non-reciprocal tariff phase-outs that favor the Korean textile industry in key products, and strong evidence that Customs' ability to enforce this agreement will be ineffective. These concerns will have two simultaneous effects: 1) Korean textile producers will sharply increase exports of products to the U.S. industry while keeping their own industries safe behind tariff barriers, and 2) China will follow past practice and transship textile and apparel products at zero duty through Korea. Other major concerns include the vulnerability of key textile sectors to Korean dumped and undervalued goods and omissions in the rule of origin which allow Chinese producers to take advantage of the agreement to legally ship certain textile components under the agreement.

Tariff Phase Out

Contrary to the precedent established in the NAFTA agreement and all succeeding FTAs, 86% of textile and apparel product lines are duty free immediately under KORUS and an additional 10% fall under the 5 year phase. This is the first time an administration has allowed a large number of sensitive products from a country with a sophisticated textile industry to receive immediate access to the U.S. market.

The agreement also provides South Korea with a more generous and expedited tariff elimination schedule than what is afforded U.S. producers and exporters for certain products. Noting that the purpose of this agreement is to provide fair and equitable treatment to all parties, it is concerning that our own government would put our domestic industry at such a severe disadvantage.

Let us provide a pertinent example. South Korea exports of polyester fiberfill have entered the United States under anti-dumping orders for the past 15 years. This dumping case passed two sunset reviews, the last of which was successfully completed prior to the end of the KORUS negotiations. However, the KORUS agreement immediately removes the U.S. duty on polyester fiberfill, defeating the purpose of the anti-dumping rule and defying logic of equal trade negotiations.

As another example, in 2007, DuPont invested $500 million to significantly expand production of its high-performance DuPont™ Kevlar® para-aramid brand fiber for industrial and military uses in Cooper River, South Carolina. DuPont manufacturers and exports the fabric Kevlar, a super-tough flame retardant industrial textile. Kevlar and fabrics like it are made of the same tough fibers called aramids. DuPont is the main manufacturer of Kevlar worldwide, and South Korea is one of two major competitors in the aramids sector. In KORUS, South Korea will be allowed to export aramids to the U.S. with immediate duty free treatment, while access for DuPont is phased in over five years, putting DuPont at a direct disadvantage.

Customs Enforcement
The KORUS customs enforcement language is modeled on antiquated language in the original NAFTA agreement and is deeply flawed. Customs' own statistics for CAFTA and NAFTA show rapidly increasing fraud as dramatic reductions in Customs ability to intercept and deter illegal activity in these trade agreements.

These concerns are magnified by the fact that Korea has a proven history of both dumping manmade fiber textile products in the U.S. market (as well as elsewhere) and of transshipping goods from China, where Korean textile firms have made significant investments. Currently there are 18 anti-dumping and countervailing duty orders in place against U.S. imports from Korea. To the best of our knowledge, this is first U.S. trade agreement in history that extinguishes tariffs on a product covered by a U.S. anti-dumping order.

Retaining ineffective Customs language derived from a 15-year old agreement leaves the U.S. textile industry and its workers vulnerable to large-scale illegal imports from China through Korea. As a result, the industry fully expects Chinese textile exporters to be a primary beneficiary of the KORUS agreement.

All of these concerns were reinforced when The Korean Federation of Industries stated that it expects Korean textile exports to increase by 25 percent during the first year of the agreement. The Congressional Research Service also cited an ITC study delivered to USTR before the negotiations began which concurred that Korea textile producers, not U.S. producers, are expected to be big winners if this agreement is enacted into law.

We would also note that while KORUS will give South Korean goods duty-free entry into the U.S. market, U.S. exports to Korea will be subjected to a 10% Value Added Tax (VAT). It is important to address this inequity as part of any trade agreement as border taxes are another persistent example of foreign practices that place domestic companies at a competitive disadvantage.

The U.S. textile industry voiced its concerns regarding KORUS to the Bush Administration and the Office of the United States Trade Representative (USTR) when the agreement was first signed and then again to the Obama Administration this summer when it became apparent the they were prepared to renegotiate certain texts. Unfortunately, the Administration chose not to pursue these concerns, and the final textile chapter remains unchanged from its hastily negotiated text finalized in 2007.

As it now stands, KORUS will inflict swift, accelerating, and lasting damage across the American textile and apparel sector supply line, including fiber production, yarn spinning and texturizing, fabric weaving, knitting and finishing, and end product assembly. We expect to see a significant increase in job losses as well as the U.S. trade deficit as a consequence of this flawed agreement and the failure to address these concerns.

A recent analysis by the Economic Policy Institute estimates that 159,000 good paying American jobs will be lost if the KORUS agreement passes Congress. Of that total, we estimate that between 9,300 and 12,300 jobs will be lost in the U.S. textile and apparel sectors as a result of (legal) KORUS trade. U.S. government figures show that approximately three additional jobs are lost to the U.S. economy for each textile job that is eliminated; this increases the job loss estimate to nearly 40,000 textile and related jobs due simply to the textile text in the KORUS agreement. It is important to note that these figures do not account for the job losses as a result of illegal Chinese transshipments which are expected to be significant.

With job creation a central priority for Congress, we do not believe that the KORUS agreement meets that goal of expanding markets and creating U.S. jobs. We continue to urge that the textile chapters of the agreement be renegotiated to ensure that the U.S. textile industry and the jobs the industry provides in our communities are not put in danger. However, In light of the fact that the reasonable requests made by the industry were ignored, we have no choice but to oppose the agreement.

Thank you for providing us the opportunity to provide comments on the U.S.-Korea Free Trade Agreement. If you have any questions or require additional information, please do not hesitate to contact us.

Sincerely,

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