

**House Committee on Ways and Means Trade Subcommittee
Hearing on the Trans-Pacific Partnership
Wednesday December 14, 2011
Questions for the Record**

Questions from Rep. Erik Paulsen:

Paulsen Question 1: Ambassador Marantis, in response to my question during the hearing on apparel and the yarn-forward rule of origin, you stated, "*We believe that the yarn-forward rule of origin has a demonstrated record of success in attracting investment and helping, again, that we can encourage production and trade within the region.*" This is not what I hear from industry sources. Please provide detailed information supporting the claims that the yarn-forward rule has a "demonstrated record of success" and that it "can encourage production and trade within the region."

A: The yarn-forward model has demonstrated a record of success in promoting trade under our Free Trade Agreements (FTAs). The U.S. imported over \$14 billion in apparel under the yarn-forward rule of origin in the first ten months of 2011, and yarn-forward imports increased by over 16 percent between 2009 and 2010. Further, we have considerable evidence that FTA regions with yarn-forward rules of origin attract intra-FTA investment in textile production and manufacturing, as well as investment from non-parties to FTAs. For example, the U.S. textile industry has made significant investments in the Dominican Republic-Central America FTA (CAFTA-DR) region. Unifi, Inc., Asheboro Elastics, George C. Moore Co., Fruit of the Loom and Avery Dennison, among others, have built manufacturing facilities in the region to integrate the supply chain and take advantage of the yarn-forward rule of origin, and this has also benefited investment in the U.S. Not only have domestic companies invested further and upgraded manufacturing to take advantage of the regional opportunities, foreign companies have invested in the U.S., creating additional jobs. Hermann Bühler AG, a Swiss textile company built a plant in Jefferson, Georgia, to take advantage of the yarn-forward rule in CAFTA. Additional investments from Korea and Canada, among others, have been made in the U.S. and throughout the entire CAFTA-DR region.

Paulsen Question 2: Industry sources report that yarn-forward is a difficult rule because it severely limits the ability to source the best inputs, even if they are produced partially in the FTA countries. The combination of the restrictive rules and the difficult compliance associated with those rules usually leads apparel companies to do business outside of the FTAs. How do you plan to improve the customs, documentation, and enforcement provisions in the TPP for all products--including apparel--to reduce the documentation burdens for legitimate American importers?

A: We have reached out to the importing community to understand in greater detail their concerns with Customs compliance requirements under our Free Trade Agreements (FTAs). These requirements are essential to ensure that these agreements are enforced effectively and that the benefits of our FTAs flow only to Parties to the agreements, and not to third parties. Nevertheless, we are considering how to make these requirements work better, in close collaboration with U.S. Customs and Border Protection and U.S. businesses.

Paulsen Question 3: Last year, I joined with 29 other Members of Congress in urging the Administration to move away from the yarn-forward rules of origin in the TPP. The yarn-forward rule is widely perceived as offering limited apparel opportunities for the TPP partners because it incentivizes those partners to make less than ambitious offers in other sectors that are U.S. priorities. In response to our letter, are you planning to work with Congress to develop a fresh approach to the rules of origin for apparel in the TPP so we can incentivize more trade and investment in apparel in the TPP and enable the United States to better achieve its offensive priorities?

A: Our goal is to create and expand market access opportunities for U.S. and other TPP producers of yarn, fabric, and apparel. We believe an approach that includes a yarn-forward rule of origin, with flexibility in cases in which it is appropriate based on commercial realities, will best encourage production and trade throughout the TPP region. We have asked U.S. industry for input where certain flexibilities may be necessary in order to support the development of production and trade in the region by U.S. and other TPP businesses, and intend to consult closely with Congress as we move forward. We have existing free trade agreements with our TPP partners Australia, Chile, Peru and Singapore and the yarn-forward rule of origin is at the foundation of the textile and apparel market access component of those agreements. Each of these countries currently exports qualifying textile and apparel products to the United States, meaning that exports meet the applicable rule of origin. As we seek to expand beyond these free trade agreements to a regional TPP, we increase the yarn and fabric resources available to the region.

Questions from Rep. Ron Kind:

Kind Question 1: As you continue to make progress on the TPP Agreement, I want to underscore the importance of ensuring a high standard of intellectual property rights protection for America's innovative companies, including those in the biosciences industry that support four million jobs here in the U.S. With respect to biologics, U.S. law is very clear in providing for 12 years of regulatory data protection. It is critically important that the Administration strongly pushes U.S. law as the model for the TPP. What is the Administration doing to ensure that U.S. posture on IPR in the TPP, particularly in the area of biologics, are consistent with U.S. law and exemplary of a 21st Century Trade Agreement?

A: Creating a climate for innovation is a top priority in the TPP negotiations, and we expect all of our TPP partners to participate fully in that effort. Effective IPR protection and enforcement, including regulatory data protection for biopharmaceutical products, is an important element in encouraging innovation in new technologies and will stimulate investment in research and development, facilitate exports of U.S. products, and contribute to the creation of American jobs. Biologic drugs are a vital area of pharmaceutical innovation and will remain an important focus of discussions with our TPP partners.

Kind Question 2: We are seeing a growing threat to our dairy export markets with the EU trying to block our use of many traditionally used cheese names such as parmesan. Can USTR provide an update on what is being done in TPP to preserve our rights to keep using these common names and how that effort is currently being received in the TPP talks?

A: We have consulted closely with the U.S. dairy industry and other U.S. stakeholders about the challenges created by the EU's efforts to enforce geographical indications. Building on those discussions, we have worked cooperatively with other TPP partners to develop and advance innovative proposals that go beyond our past FTAs in seeking to ensure that trademark and geographical indication systems in the TPP region respect the territorial nature of intellectual property rights and do not unfairly favor products of other countries at the expense of U.S. exports, including dairy exports.