



WITNESS STATEMENT OF
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for
THE NATIONAL COUNCIL OF TEXTILE ORGANIZATIONS
SENATE COMMITTEE ON FINANCE

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Chairman Baucus, Senator Grassley, and distinguished members of the Committee, thank you for the opportunity to appear today and outline the U.S. textile industry's perspective on the 2007 trade agenda.

My name is Anderson Warlick. I am President and CEO of Parkdale Mills, a privately held textile manufacturer headquartered in Gastonia, North Carolina. We employ some 4,080 workers in facilities in North Carolina, South Carolina, Alabama, and Virginia. Parkdale Mills is the largest cotton yarn spinner in the Western Hemisphere and our yarns are used in apparel, home furnishings, and industrial-end manufacturing. Our U.S. mills process 15 million lbs of cotton a week and most of our yarns are exported abroad, mostly to Central America, Mexico and the Caribbean region. Parkdale Mills has been a strong supporter of the NAFTA, CAFTA and Andean trade preference programs. I am also a member of the board of directors of the National Council of Textile Organizations.

In this testimony, I would like to touch on a number of issues, including the make-up of the U.S. textile industry, the recently-passed Haiti legislation and the need for a trade policy agenda that delivers benefits to manufacturers that produce in the United States and employ millions of workers here at home.

About this last point, I would like to make one initial observation. The recent elections demonstrated clearly that most Americans believe that trade policy has been headed in the wrong direction and needs to be turned around. As we debate what changes might be made, I implore you to keep your attention focused on rebalancing the playing field to make sure that American jobs stay here. U.S. workers are the most productive, creative and highest-skilled workers in the world, but our trade policy has tilted the playing field against them. Our goal should be to rebalance the field so that they can keep their jobs. Parkdale's workers would rather you help preserve their jobs rather than compensate them for lower paying jobs they must take once their jobs are gone.

U.S. Textile Industry Background

First, I would like to debunk some commonly held beliefs about the U.S. textile industry. I have often heard members of Congress and numerous retailers and importers refer to our industry as a dead or dying industry and one that is antiquated and not prepared to meet the challenges of manufacturing in the 21st Century. In fact, these self-serving comments are not true.

The U.S. textile sector continues to be one of the largest manufacturing employers in the United States. The overall textile sector employed nearly one million workers in 2005.

Our industry is the third largest exporter of textile products in the world exporting more than \$16 billion in 2005. These exports went to more than 50 countries, with 20 countries buying more than \$100 million a year.

The U.S. textile sector is a very important component of our national defense and supplies more than 8,000 different textile products a year to the U.S. military. The industry spends enormous resources on research and development each year to ensure that our military continues to be the most well-equipped and technologically advanced military in the world.

From 1994 to 2004, the U.S. textile industry invested more than \$33 billion in new plants and equipment and has increased productivity by 49 percent over the last ten years. This investment has secured our second place ranking among all industrial sectors in productivity increases over the past ten years.

As you can see, the U.S. textile industry is an innovative, productive industry that can compete with anyone in the world.

Unfortunately, our industry, as well as much of manufacturing, has been hamstrung by a series of trade policy initiatives that have created a disincentive to invest in this country and to employ workers in this country. For a snapshot of the difficulties that poorly thought out trade policy can cause to a U.S. manufacturer one need turn no further than the Haiti HOPE act passed by Congress just last December.

Haitian Hemispheric Opportunity through Partnership Encouragement Act

Before addressing the myriad of problems with the content of this legislation, I would like to touch upon the process by which this legislation was developed. Let's be clear, the HOPE Act is not a trade bill; it is a textile bill. Ninety-nine percent of the contents of this legislation impact U.S. textile manufacturers alone. Yet, the U.S. textile industry was never consulted, not even once, as Congress drafted this legislation. There was neither a hearing on this proposal nor a committee markup that would have allowed key stakeholders and those who represent us the opportunity to provide feedback and input.

As the CEO of a large manufacturing company, I cannot fathom undertaking a wholesale restructuring or change within our company without consulting all the stakeholders involved. So it is baffling to me how our elected officials could pass a major proposal, like the HOPE Act, without consulting those who would be most affected by it. It is these types of antics that continue to make American workers skeptical of trade. By putting the interests of Haitian workers above those of U.S. workers, Congress ensures that support for trade liberalization among U.S. workers and companies will continue to erode.

The irony in all of this is that the U.S. textile industry is supportive of a trade preference program for Haiti, just not this program. Again, if all the stakeholders had been consulted and worked together on this initiative, I am confident we could have developed a win-win proposal – a program that would have greatly benefited Haiti, but not at the expense of U.S. workers and not at a loss of \$200 million in U.S. exports to Haiti.

Finally, the HOPE Act is not a reciprocal agreement – the benefits under this program are extended to Haiti without any new benefits for U.S. companies. In fact, under the HOPE proposal, U.S. textile companies will lose market access, while new market access is created for China and Vietnam through the various loopholes and tariff preference levels that are established under this program.

The U.S. textile industry is extremely concerned that under the HOPE Act U.S. mills could lose substantial business if the United States government and the Haitian government do not appropriately administer the customs regulations required under this new program. Under the Caribbean Basin Initiative (CBI) and its successor program, the Caribbean Trade Partnership Act (CBTPA), Haiti has been an important export market for U.S. textile products – totaling nearly \$200 million a year. These programs have been relatively simple to enforce because of the requirement that U.S. yarns and fabrics are utilized in apparel receiving duty-free access to the U.S. market.

Effective enforcement of the HOPE Act is a major concern for the U.S. textile industry. This program will not be beneficial to Haiti or anyone else if it becomes a magnet for fraud as it has in other textile and apparel programs involving value-added rules. Indeed, Customs reports that because of its relatively high tariffs, fraud occurs in textiles and apparel far more than any other category of goods. (A comprehensive list of Customs concerns is appended to the back of my statement.)

As of today, Haiti does not have an effective visa system or any domestic laws covering enforcement of the new HOPE program. In addition, NCTO is aware of no legislation or regulations that Haiti has promulgated concerning access by U.S. Customs inspection teams and we are aware of no reporting systems that have been put in place regarding imports, exports or documents which could substantiate claims under the new value-added rules. Yet it appears that the HOPE program will come into force later this month.

I certainly hope that we have all learned something from this experience. Trade is important and the U.S. textile industry, and NCTO specifically, are supportive of trade liberalization, but it has to be done the right way. Understanding the benefits and costs of trade not only to the U.S. consumer, but also to the U.S. worker, requires careful and deliberative analysis and is not something that should be done under a veil of secrecy and without clear understanding of the impact on U.S. workers and companies.

Perspectives on the 2007 Trade Agenda

In order to understand the U.S. textile industry's current perspective on trade, we need to understand the historical context of textile trade. As part of the Uruguay Round Agreement, the U.S. textile industry agreed to a ten-year phase-out of quotas on textile and apparel goods that began in 1994 and ended with the final phase-out in 2004. During this ten-year period, the U.S. industry was told that new market access opportunities would be aggressively pursued to ensure we had a fair shot at the end of this transition.

At the time the quota phase-out agreement was made, China was not a member of the WTO and no one expected they would become a member in the foreseeable future. Yet China did become a member in 2001. And despite the fact that China was a manufacturing powerhouse, especially in textiles and apparel, China was not subjected to a ten-year phase-out of quotas; rather, it was allowed preferential treatment over the rest of the WTO members and had its quotas phased-out in just three short years.

What has this meant for the U.S. textile industry? In textile and apparel products that have been completely removed from quota, China has attained a 65 percent market share in apparel categories removed from quota more than three years and a 46 percent market share in apparel categories removed from quota since January 1, 2005. While China still has quotas on several sensitive categories as a result of the U.S.-China textile bilateral agreement that went into effect on January 1, 2006, these quotas will expire on January 1, 2008, and there is no mechanism to take its place. Once these quotas expire, the U.S. textile industry will be completely defenseless against dumped or subsidized goods coming from China.

But it is not just China. Since 1994 when the industry was told that new market access opportunities would be aggressively pursued, the exact opposite has indeed happened. During this time, one-way preferential trade programs and FTAs with loopholes for third-country fabrics have dominated the trade agenda in textiles and apparel, with very limited gains being made in new market opportunities for U.S. exports. In 2000, it was the African Growth and Opportunity Act (AGOA), a one-way preference program that allowed yarns and fabrics from China to be sent to Africa, assembled into apparel, and exported to the U.S. duty-free. Once again, China was the big winner and no real market access was established for U.S. exports. In 2005, the Egyptian Qualified Industrial Zones were implemented and then expanded in 2006. Yet again, China won and U.S. industry lost.

There is also the plethora of FTAs -- Bahrain, Chile, Jordan, Morocco, Oman, Singapore -- where exceptions to the rule of origin for textiles and apparel were prevalent and once again diminished new market access opportunities for U.S. producers by providing huge loopholes for third-country fabrics. And finally, the HOPE Act, which if not implemented and enforced correctly, will simply become a conduit for transshipped goods from China and the loss of \$200 million in U.S. exports to Haiti.

The obvious question is why does China win? China wins because it can offer whatever price necessary to make the sale. Chinese companies are not worried about profits or shareholder values or credit-worthiness -- they simply must make the sale to keep their plants operating and keep their people employed. They achieve this through a complex web of subsidies including currency manipulation, export tax rebates, non-performing loans, and subsidized transportation and utility rates to name a few. Many, if not most of these, are illegal under U.S. trade law and WTO law. Yet, there appears to be precious little interest in going after countries that do not live up to their WTO obligations.

As an example, I find it stunning that more than five years after China joined the WTO, the United States government still does not have a list of subsidies that China uses to put American workers out of their jobs. In fact, the only list that the U.S. government has is the very incomplete list that the Chinese government sent to the WTO last year, four years after it was required to do so under its accession agreement.

To my mind, this is the crux of the problem with trade policy today. We have a de facto trade policy that allows foreign governments to subsidize their exports and throw U.S. workers out of their jobs while our own Congress and government essentially look the other way or conveniently provide aid and assistance to China, its businesses and government.

While there are many examples of how government policy has tilted the playing field against U.S. workers, I would like to detail two which I think cost more American jobs than any other.

1) Currency Manipulation and Value-Added Taxes

In February, the government reported that the U.S. trade deficit with China grew to a high of \$232.5 billion in 2006, up from \$201.5 billion in 2005¹. This is the largest U.S. deficit ever with a single country. In the words of Professor Peter Morici a former economist at the International Trade Commission, "although Americans may be getting cheap t-shirts at Wal-Mart today, their children will be paying the Chinese interest forever."²

Why our government refuses to use access to the U.S. market as trade negotiating leverage to rein in the ballooning trade deficit with China defies logic. Such inaction is simply a green light to China that they can play by their own rules without consequence. Because of the Administration's refusal to act, the time has come for Congress to take matters into its own hands and address the plight of U.S. manufacturing before it is too late.

As a first step, Congress should quickly pass legislation to allow countervailing subsidies to be applied to non-market economies and to provide that currency misalignment is a countervailable subsidy. It is estimated that China's currency is undervalued by as much as 40 percent. This undervaluation acts as an export subsidy for Chinese-made products and puts U.S. manufacturers at a disadvantage and ultimately leads to plant closures and job losses. China cheats – that is a fact. Until the U.S. government forces them to behave otherwise, they will continue to play by their own set of rules and the U.S. manufacturing base will continue to erode.

Unfortunately, our trade imbalance will not be erased by simply addressing currency and other subsidies. Another significant problem for U.S. manufacturers is the prevalence of value-added tax systems (VATs) that are employed by 137 countries, including every major industrial power except the United States. These countries rebate VAT taxes on exported goods and levy VAT taxes on imported goods.

What does this mean for U.S. manufacturers? In real terms, U.S. producers were disadvantaged by an estimated \$294 billion in 2005 as a result of foreign VAT taxes. China alone accounted for \$48 billion of this total. Foreign countries with VAT systems are estimated to have rebated \$201 billion in VAT taxes on exports to the United States while imposing an estimated \$93 billion in VAT taxes on imports from the United States.

This is an important issue to keep in mind as Congress potentially weighs the benefits and costs of a Doha Round Agreement. Even if the U.S. were successful in tearing down trade barriers and creating real market access opportunities for U.S. manufacturers as part of this agreement, the trading environment will still be stacked against us because of the effects of the foreign VAT systems on U.S. exports.

If Congress would tackle these two issues alone – currency manipulation and foreign VAT systems – I am convinced the U.S. would experience a rebirth in manufacturing and the restoration of millions of U.S. manufacturing jobs.

¹ The U.S. China Congressional Economic and Security Commission reports that 1.5 million U.S. workers have lost their jobs because of China.

² Kristi Ellis, "Trade Deficit Hits Record as Industry Imports Rise," *Women's Wear Daily*, February 14, 2007.

Finally, I want to be clear that I am not China bashing. China is simply doing what it needs to do to continue growing its economy and providing adequate employment for its citizens. China is simply acting in its own national interest. The time has come for the U.S. government to do the same. It is time for the U.S. to stop utilizing trade policy for purely foreign policy and social objectives and to start looking out for the interests of U.S. workers and companies.

2) Free Trade Agreements

Parkdale Mills and the National Council of Textile Organizations fully support the pending FTAs with Colombia and Peru. These agreements contain a strict yarn forward rule of origin, no loopholes for Asian products and strong customs enforcement and will help the U.S. textile industry and its workers compete in world markets. Colombia and Peru represent important and growing export markets for U.S. textile products, totaling nearly \$200 million a year. These FTAs are essential if the Peru and Columbia markets are to continue to grow, and we urge Congress to quickly pass implementing legislation for these agreements.

At \$16 billion a year in exports, the U.S. textile industry is the third largest exporter of textile products in the world. These exports depend on trade agreements like the Colombia and Peru FTAs which ensure that FTA partners, not Asian exporters, are the true beneficiaries of these agreements. In fact, the textile provisions of these agreements should be used as a template for future trade agreements which can garner wide industry support. When trade agreements benefit U.S. textile workers and companies, the industry will back them enthusiastically.

In order for the Colombia and Peru FTAs to be effective, however, there must be no loss in benefits in the transition from the current trade preference program (the Andean Trade Promotion and Drug Eradication Act, or ATPDEA). The ATPDEA is scheduled to expire at the end of June and we strongly urge Congress to extend these trade preference benefits until the new FTAs can take effect. Congress must prevent the mistakes made during the CAFTA agreement when a staggered implementation caused substantial business to be lost to Asia because duty benefits for the region were suspended.

The Peru and Columbia FTAs are key components in making the Western Hemisphere a competitive alternative to Asia. With 2.2 million textile and apparel workers in the NAFTA, CAFTA and Andean region, textile producers in the United States and apparel manufacturers in the larger region have integrated their production lines. These FTAs will create the necessary predictability and stability that is needed to help ensure this region remains viable.

With respect to the current FTA negotiations with Korea, the industry is very concerned that an FTA with Korea will simply be a one-way street, with a massive flow of Korean textiles, apparel and home furnishings into the United States and no opportunities for U.S. products to be exported to Korea.

As this Committee continues to monitor the progress of the U.S.-Korea negotiations, we ask your consideration of several important issues. First, that the rules of origin for textiles and apparel in this agreement are strict enough to prevent non-signatory countries from gaining unwarranted duty-free access to the U.S. market. At the very least, this agreement should do no harm, and a yarn (fiber) forward rule of origin will ensure that all sectors of the domestic industry are included.

Second, since we believe this agreement could be a one-way street for trade, we ask that the longest tariff phase-outs possible are achieved. In NAFTA, USTR negotiated a 10-year phase-

out for most textile products. With respect to Korea, a long phase-out period is critical and will allow time for U.S. manufacturers to adjust to the new rules that will be put in place with Korea.

Third, the agreement must contain a strong and effective safeguard provision to prevent the domestic industry from damaging import surges. Such safeguards have been included in other agreements, and given the productive capacities in Korea, such a mechanism is vitally important should a surge in imports threaten the existence of some part of the industry.

Finally, the agreement must contain a customs cooperation provision that will allow U.S. inspectors access to Korean mills. Korea and neighboring China both have a history of transshipping textiles and apparel, and we are concerned that this agreement will encourage more of this illegal behavior. Again, this agreement must not be allowed to tempt unscrupulous companies from transshipping finished goods through Korea to gain duty-free access to our market.

3) Trade Promotion Authority

The U.S. textile industry will carefully examine any proposals to extend Trade Promotion Authority (TPA) in terms of their specific impact on our industry. Principle among the industry's concerns is whether TPA includes textile-specific negotiating objectives regarding the WTO Doha Round negotiations.

These objectives must address the need: 1) to maintain specific textile and apparel tariffs at current levels in order to preserve existing export markets under free trade agreements and preference programs, 2) to bring high overseas tariffs down to U.S. levels and 3) the development of a new textile safeguard for non-market economies, such as China, that threaten to disrupt markets and dominate world trade in textiles and apparel.

The U.S. textile industry has historically supported free trade proposals that have sought to enhance textile exports and competitiveness. These proposals include the CBTPA and Andean preference programs and the NAFTA, CAFTA, Australia, Colombia and Peru Free Trade Agreements. As discussed previously, these trade initiatives have enabled the U.S. textile industry to become the world's third largest exporter of textile products and to develop mutually beneficial economic partnerships with dozens of countries.

Trade negotiating authority should seek to enhance and grow those partnerships. However, current TPA authority lacks sufficient guidance in terms of textile exports and the global trade talks currently underway. NCTO remains very concerned that the government has not actively supported industry objectives for maintaining and growing textile exports thus far in the Doha Round.

U.S. industry concerns have historical precedence. As mentioned earlier, under the Uruguay Round agreements, the U.S. government agreed to dramatically increase access to the U.S. textile market, while committing to stronger enforcement of U.S. trade laws and greater textile market access abroad. While the government implemented its commitments to open the U.S. market, the government failed to enforce key commitments regarding attacking illegal subsidies, failed to achieve meaningful market access and failed to enforce the China accession agreement, which required China to stop subsidizing its state-owned textile sector and to stop using its currency as an economic weapon.

The net impact of this failure on textile workers and companies has been stunning. Over the last five years, the U.S. textile sector has lost over 300,000 workers, 35 percent of its workforce. The industry is concerned that similar but more dramatic distortions will continue under a Doha Round Agreement unless effective and meaningful guidance regarding textiles is included in new Trade Promotion Authority.

Finally, as the discussions regarding TPA extension move forward, I would like to address the notion that expanded Trade Adjustment Assistance (TAA) is the most appropriate way to deal with disaffected workers who are displaced by trade. In my opinion, this is putting the cart before the horse. First and foremost, Congress should be looking at ways to keep jobs in the United States and to create an environment where manufacturers are willing to invest and expand their operations within our own borders. If such an environment is created, then the need for TAA will diminish dramatically. Certainly there is a place for TAA programs for we live in a dynamic economy where jobs are created and lost each and every day. But it stands to reason that if you address the underlying cause for worker displacement, which is the fact that it is becoming less and less attractive to invest in manufacturing in the United States, then you take care of the disease as opposed to the symptom.

Conclusion

In closing, I would like to once again emphasize that the U.S. textile industry is supportive of trade; in fact, our livelihoods now depend on it. But a trade at any cost policy that is more about achieving foreign policy and social objectives than it is about creating an open and transparent trade environment means that U.S. manufacturers will continue to lose.

People in America are worried. They are worried about how they will pay their mortgage and send their kids to college. They are worried about their spouses and children who are serving in Iraq, Afghanistan and many other places around the world. These are very unsettling times. Despite this fact, many Americans have demonstrated a willingness to sacrifice some of their own economic security in the name of national security and the greater democratic good. I would posit that without economic security, we cannot have national security. So for the good of the country we must get our economic house in order if we ever hope to get a real grasp on the national security threats that confront us each and every day.

Thank you.

Background on Customs Concerns Regarding Haiti Legislation:

As preference programs have proliferated and Customs seizures have increased, Customs enforcement has been an increasing issue of concern for the domestic industry and this concern will continue to be tied to industry support for free trade programs. The issue was central to the industry's support for the CAFTA agreement; at that time, the industry insisted the Administration meet the funding obligations for textiles and apparel that had been earlier set out in TPA legislation. Since that time, Customs has been reorganized, despite strong industry objections, in a manner that takes the textile enforcement division off the front lines and puts it in an advisory role. This change in the organizational structure for Textile Enforcement at Customs and Border Protection could become very problematic with respect to future industry support for trade liberalization if the industry sees enforcement efforts taking a back seat to trade facilitation.

Finally, the new HOPE legislation creates new and significant burdens for textile enforcement and neither Congress nor the Administration have indicated how or whether you will provide the necessary resources to meet those burdens.

Throughout the history of the textile program, unenforceable rules have been a proven access point for large scale fraud, which displaces legitimate production both in the U.S. and in the country involved. As already noted, textile and apparel trade has the highest fraud content of any manufactured good.

Review of the principle enforcement concerns:

1. Value-added rules: Value-added rules are extremely difficult to enforce in textiles and apparel because of the complexity and differentiation of the wide number of products that fall under it. Apparel comes in dozens of forms, multiple shapes and sizes and in hundreds of types of fabrics and fiber contents. Under a value-added formula, Customs will need to verify value-added chains for dozens of types of garments, each with dozens of possible variations (type of fabric, type of yarn, sewing thread, trims, etc.) and each with different labor inputs.

Overhead costs must then be sub-divided by the type of garment produced, a very difficult task in factories that are typically producing several different types of garments at one time and potentially dozens of different types of garments over a year's time. In sum, development of such an intensive program is extremely difficult given the resources that Customs has available to it. We again note that the HOPE legislation added no new resources to CBP textile enforcement division while adding considerable new responsibilities.

In addition, the value-added rule will require domestic companies who import from Haiti to maintain extensive record keeping, while foreign entities may be able to skirt this requirement. Customs audits are required to cover a year's worth of imports, which means that audits, when performed, will be intensive and disruptive. This will upset the competitive balance for legitimate U.S. producers and importers because foreign entities will be beyond the reach of Customs and can "disappear" (e.g., rename themselves) if a Customs audit is ordered. These are major concerns that need to be dealt with in regulations to be issued and enforced by U.S. Customs and the Haitian government.

In fact, the Canadian FTA had a value-added rule for textiles and apparel which was converted to a transformation rule in NAFTA because of widespread fraud and the resource limitations of CBP.

2. Incentive for Abuse: The incentive to abuse these rules in textiles and apparel is greater than for any other product. Apparel has the highest level of fraud and abuse of any product category: according to Customs records, 85 percent of all Customs seizures are in textiles and apparel. Because average duty rates are relatively high -- 17 percent -- the incentive to try and circumvent these duties is high as well. Importers pay billions of dollars in duties each year to bring in goods from Asia and could stand to save hundreds of millions of dollars a year by bringing Asian goods in illegally and declaring them to be of Haitian origin.

We recently saw this happen when a trouser category for ramie trousers went quota free -- within a matter of months, imports of "ramie" trousers increased so rapidly that according to trade statistics nearly every person in America had bought a pair³. Once the trade "understands" that Customs cannot enforce a rule, the floodgates open.

3. Controlling entity: The HOPE bill contains a new term of art -- "a controlling entity" -- that would be an easy loophole for creating shell companies outside the United States that can be used to bring in Asian goods in violation of the legislation. Setting up shell companies is a common practice in the textile and apparel trade because it enables companies to "disappear" if wrong doing is found and then to reappear under new names and thus avoid substantial penalties. This fraud is already widespread in areas where tariffs are high or antidumping orders are being enforced. Customs cannot go after the companies or even compel them to open their books because they are not registered in the United States. Under such a structure, the value-added chain becomes even more difficult to enforce because the companies that make the goods in Haiti are not even required to vouch for the accuracy of their records. Customs rules must make sure that the rules regarding the "controlling entity" do not become a loophole for widespread abuse.
4. Aggregation: The HOPE bill requires that goods be aggregated on an annual basis. This requires a massive investment of auditing resources, a resource that Customs does not have. The textiles and apparel enforcement branch in Customs consists primarily of import specialists, not auditors. Import specialists monitor individual shipments as they reach the ports whereas auditors review a year's worth of records and, through value assessments, determine whether the goods meet the value-added rule.

³ In the course of one year, 190 million "ramie" trousers in Cat. 847 came in from China after the quota was lifted in 2002. The trousers were actually cotton trousers which were evading quota limits by being mis-declared as ramie trousers.

We are concerned that Customs does not have the personnel available to audit a quarter billion garments that currently arrive from Haiti each year. In addition, under this rule, any auditing penalties would take a year and a half to be imposed and the company would be able to easily change names and avoid charges. The main enforcement arm of the Customs textile enforcement program is essentially cut out as is the main enforcement tool, factory verification visits by trained Customs personnel.

The government must demonstrate that Customs will be given the resources to adequately monitor imports under the new program and prevent fraud and that the Haitian government will likewise devote resources to ensuring that proper auditing records are maintained and scrutinized by Haitian producers.

5. Cumulation: Cumulation makes value-added rules even more difficult to enforce: inputs which may legally contribute to the value-added formula can legitimately come from more than 30 countries. It will be extremely difficult for Customs to accurately monitor whether these goods are actually being produced in one or more of these 30 countries, particularly since many of these countries have historically been used as transshipment points.

In addition, there is a legitimate question as to whether this cumulation component of the program is WTO consistent. The U.S. government has questioned the WTO legality of such cumulation provisions in the past because it provides benefits to preference partner countries on a selective product basis and therefore upsets the balance of obligations clause in the WTO.

6. Corruption in Haiti ranks 155 out of 159: Corruption in Haiti ranks 155 out of 159 on the Transparency International Corruption Index. This raises additional concerns whether Haiti itself has the capability of enforcing a difficult, complex and easily-abused rule. The U.S. government must show strong evidence that Haiti can monitor and enforce this program effectively before the government certifies that Haiti should receive preferential treatment. The Textile Enforcement Division has already indicated that CBP cannot send enforcement personnel to Haiti until important safety issues are resolved.

Review of the Customs Steps Haiti Must Take In Order to be Certified

According to the HOPE Act, Haiti must, prior to being certified, have:

- 1) Adopted an effective visa system, domestic laws and enforcement procedures;
- 2) Enacted legislation or regulations that allows U.S. Customs to investigate allegations of transshipments;
- 3) Agreed to report, on a timely basis, on total exports from, and imports into Haiti;
- 4) Agreed to fully cooperate fully with the United States to prevent circumvention;
- 5) Requires all producers and exporters to maintain complete records for five years;
- 6) Agrees to report to U.S. Customs all documents establishing the rule of origin.