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TEXTILE AND APPAREL TRADE ENFORCEMENT ACT

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

OF THE

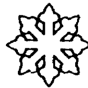
COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-NINTH CONGRESS

FIRST SESSION

JULY 15, 1985

Part 1 of 2



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TEXTILE AND APPAREL TRADE ENFORCEMENT ACT

MONDAY, JULY 15, 1985

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
COMMITTEE ON FINANCE,
Washington, DC.

The subcommittee met, pursuant to order, at 2:30 p.m., Hon. John C. Danforth (chairman) presiding.

Present: Senators Danforth, Packwood, Roth, Chafee, Heinz, Grassley, Bentsen, Matsunaga, Moynihan, Baucus, Bradley, and Mitchell.

Also present: Senator Arlen Specter.

[The press release announcing the hearing and the prepared statements of Senators Heinz, Mitchell, and Specter follow:]

[Press Release No. 85-0062, Friday, Aug. 9, 1985]

FINANCE SUBCOMMITTEE RESETS DATE, TIME FOR S. 680 HEARING

A September hearing on S. 680, the Textile and Apparel Trade Enforcement Act of 1985, has been reset by the Senate Committee on Finance, Chairman Bob Packwood (R-Oregon) announced today.

Senator Packwood said the hearing before the Committee's Subcommittee on International Trade originally scheduled for Monday, September 16 will instead be held at 2 p.m., Thursday, September 12, 1985. An additional hearing will be held as originally scheduled at 9:30 a.m., Monday, September 23.

Both hearings will be held in Room SD-215 of the Dirksen Senate Office Building in Washington.

Senator John C. Danforth (R-Missouri), Chairman of the Subcommittee on International Trade, will preside at the hearings.

Senator Packwood noted the Subcommittee had opened hearings on S. 680 with a five and one-half hour session July 15. Senator Strom Thurmond (R-South Carolina) is chief sponsor of S. 680.

A markup of S. 680 is to be scheduled by the Committee on Finance in October, Senator Packwood has said.

STATEMENT BY SENATOR JOHN HEINZ

Before we get into the details of this bill, I think we should consider what kind of future we envisage for the textile and apparel industry in this country. First of all, I think we would all agree that it is in the nation's interest to see a strong, healthy textile and apparel industry. Its prosperity is crucial to a fully employed economy. Second we would like to see a well-run and efficient industry, that could hold its own against foreign competitors, and would serve the best interests of the consumer. Finally we need an industry in some kind of stable equilibrium; it is common-knowledge that an industry whose fortunes are constantly fluctuating will suffer from a lack of investment, which in the long run will lead to its demise.

If we agree on these objectives then the debate arises on how best to achieve them. It is quite apparent to me that the current arrangements are not satisfactory. The Multi-Fiber Arrangement was supposed to keep growth in imports to a fixed

percentage, yet implementation has failed completely. For example agreements with Korea, Hong Kong and Taiwan were supposed to control imports to an increase of 1 or 2% annually, but since 1982 imports from these countries have increased by 40%. I could give numerous other specific examples, but the overall result has been over 300,000 U.S. jobs lost in the textile, apparel industry since 1980. In five years if current policies remain in effect, the textile and apparel industry, and well over a million jobs, may well cease to exist.

This legislation will only make effective what was intended by the original M.F.A. Import penetration would be lowered to the reasonable levels that would have existed if the M.F.A. had been properly enforced. If this legislation is passed the textile and apparel industry in America will survive. More than that, its enactment will create the stability necessary in the industry for investments and improvements in efficiency to take place. This in turn will allow the industry to continue to improve its productivity and competitiveness. But before this can be done, we have to make effective what was originally proposed in the Multi-Fiber Arrangement and give our industry some breathing space.

Statement of Senator George J. Mitchell

Since the Multifiber Arrangement was last renewed in 1981, this nation has experienced unprecedented growth in the importation of textile and apparel products. Apparel imports more than doubled between 1980 and 1984, while textile imports increased 73 percent. Over this period of time, the industry lost almost 300,000 jobs in direct employment. Plants have closed and the productive capacity of the industry continues to contract at a rapid rate.

By any objective standard, the existing Multifiber Arrangement, which contemplated import growth of six percent annually, is not working. Imports continue to increase at a rate much faster than the growth of the domestic market and jobs in American industry are being lost.

We are all frustrated with the inability of existing trade agreements to effectively regulate the flow of imports. This legislation, the Textile and Apparel Trade Enforcement Act, is an expression of our frustrations and of our overwhelming desire to maintain this domestic industry.

We want to send a clear and simple message to the Administration and to the major exporting nations; Congress will not tolerate the continuing destruction of an important part of our industrial base. We must provide for effective enforcement of the Multifiber Arrangement by limiting import growth from the major textile and apparel nations to the level comtemplated in the 1981 agreement.

The proposed legislation is a reasonable solution that has attracted broad based and bipartisan support. We know the Administration is opposed to this legislation, but we have to ask what alternatives does it offer to deal with the rapid destruction of this and other American industries? What strategies does it propose to deal with our deteriorating trade situation? What programs does it advocate to assist the thousands of workers who have lost their jobs from imports?

Surely, we cannot sit idly by as this and other industries are destroyed by a rapid increase in the level of imports.

Mr. Chairman, I am pleased you have called this hearing. I look forward to the testimony that will be presented today.

Statement of Senator Arlen Specter

Mr. Chairman, I will soon introduce legislation to expand even further the ambit of S. 236, the "Unfair Foreign Competition Act of 1985." When Senators Heinz, Byrd, Kennedy and others joined me in introducing S. 236 earlier this session, we sought to give American industries direct access to federal courts to promptly halt the injurious import of dumped and subsidized products, and to deter future dumping and subsidy.

My new bill will make several improvements upon S. 236 to accommodate concerns which have been voiced about venue, standing, and preferred remedies. More significantly, the bill will now extend the central component of S. 236's approach—a private right of action and the availability of swift injunctive relief—to include not only dumping and subsidy but to Customs fraud as well.

Given the President's favorable attitude toward vigorous enforcement of existing trade laws—which is the very heart of my bill—I think it is safe to say that this bill would not face the Presidential veto that the President has virtually promised to exercise in the event Congress passes a protectionist bill. That is the beauty and the

practicality of this bill: tangible, significant, and effective relief for the hardest hit American industries, by virtue of vigorous private enforcement in federal court, not resort to protectionism.

The evidence is plain that enormous quantities of dumped and subsidized products, and goods which violate the Customs laws, are entering this country every year. Equally clear is that the current laws prohibiting such imports are—for various reasons—not being effectively enforced.

Illegal dumping, subsidy, and Customs fraud have cost hundreds of thousands of Americans their jobs in recent years. Yet present laws prohibiting dumping, subsidy, and Customs fraud have been little if any help to the critically injured American industries. Proceedings brought before the International Trade Commission typically consume months or even years, by which time dumpers have captured new markets and gathered huge ill-gotten profits. Indeed, even when the ITC last year recommended that new tariffs and quotas be imposed on foreign steel because of clear evidence of widespread dumping, the President rejected the recommendation in favor of voluntary restraints.

By the government's own admission, Customs fraud is rampant with regard to textiles, apparel, computer software, hand tools, sugar, electronics, automotive products, chemicals, petrochemicals, agricultural products, pharmaceutical products, and other industries. Illegal dumping is severely injuring American steel, chemical, glass, textile, electronics, agriculture, rubber, and cement industries, among others. Foreign subsidies injure American manufacturers of footwear, steel, textiles, apparel, glass, wool, leather, tires, cement, sugar, iron, railway cars and other products.

The bill I will soon introduce would in no way interfere with the Administration's pursuit of voluntary import restraints. It would offer no new tariffs or quotas or protectionist barriers. Rather, it would reduce the pressures for resort to such disfavored measures, by allowing vigorous enforcement of laws already on the books.

Mr. Chairman, there is nothing like the vigor of private plaintiffs when it comes to enforcement of trade laws. We have many decades of evidence of this with regard to private enforcement of our antitrust laws. The theory that private plaintiffs would find strong incentive to bring such antitrust suits—and in so doing would both recoup deserved compensation for their injuries and advance strong national public policy interests—certainly has proved correct. There is no reason that the same would not be true of private suits to enforce our international trade laws.

As noted, the bill broadens the approach of S. 236 in an extremely important way, by providing for private suits to enforce not only the existing dumping and subsidy laws but the Customs laws as well. Violations of the Customs law are flagrant, widespread, and extremely debilitating to some of our most basic domestic industries: textiles, apparel, footwear, and many others.

Customs violations are rampant in several pernicious forms. Massive "country of origin" fraud occurs, whereby a country which has reached its permissible quota for a given item or product circumvents the quota by trans-shipping the continued imports through another country which has not yet reached its quota. Most commonly—indeed, in hundreds of thousands of cases—imports are fraudulently mislabelled. Given the sheer volume of imports and the limited resources of the Customs Service, many imported textiles, apparel and footwear simply are declared to be something which they are not, or are immensely underdisclosed in number—again, in order to evade quotas fixed by the Administration.

Domestic textile, apparel and footwear manufacturers and their employees pay a very heavy toll for these illegal imports. Beyond the individual injury, our national goals and policies are thwarted. In my state alone, more than 15,000 textile jobs were lost in the last year.

Mr. Chairman, we should not be surprised by recent protectionist calls for new tariffs against goods from countries with large trade surpluses with the U.S. I sympathize with the frustrations which lead to such efforts, even as I question their appropriateness. The way to avert such counter-productive measures is to enforce the trade laws which already are in place. My bill will greatly increase the enforcement of those laws, by letting injured American businesses go directly to federal court—just as they can for violations of the antitrust laws—and seek quick injunctions against continued illegal importation.

We desperately need the vigorous private enforcement this bill would spur if we are to successfully chart a course between the grave dangers of increased protectionism and the certain peril which would result from unabated illegal foreign imports.

Senator DANFORTH. This afternoon begins the hearings on S. 680, the Textile and Apparel Trade Enforcement Act of 1985. As evi-

denced by the number of people in the room today, and the others who are standing out in the hallway, this bill has attracted a great deal of attention. More than half the Members of the Senate are cosponsors of the bill; more than half the Members of the House are cosponsors of the bill. We have received more than 40 requests to testify on the bill from a variety of people, and therefore it is not going to be possible to wrap up the hearings today. I have discussed with Senator Packwood the need to hold additional hearings, and we are attempting to schedule whatever it takes—1 or 2 days of additional hearings on the bill.

We have several Senators and Congressmen who have asked to testify, and we are delighted to have all of them. I see Senator Helms is here, and I know Congressman Broyhill is here, and Congressman McMillan is here.

Gentlemen, if you could just start. Would you mind all doing it together? Would that be all right?

Senator Hollings is coming into the room now. He may have some feelings on the bill. [Laughter.]

I think Senator Thurmond is on his way. Also Senator Evans said that he would like to be testifying today, but he is unable to be here this afternoon; so at the next hearing he plans to be here.

Does anyone have a statement?

Senator GRASSLEY. Mr. Chairman, I have no statement I am going to read, but I will submit one for the record.

Senator DANFORTH. Fine.

Senator Helms, would you like to begin? Congressman Broyhill? Anyone who would like to start is welcome to start.

STATEMENT BY HON. JAMES T. BROYHILL, U.S. REPRESENTATIVE FROM THE STATE OF NORTH CAROLINA

Mr. BROYHILL. I see you believe in seniority on this side, also. So thank you very much, and I will make it brief.

We do appreciate your holding these hearings today. This bill has the support of 290 Members in the House of Representatives, which indicates of course not only the strong support but the fact that there is a great deal of concern about this situation out there in the country.

It is most important, Mr. Chairman, to the Nation's economy as well as to the some 2 million people who are employed in the textile and apparel industry.

I want to summarize my feelings on this issue for just about 1 or 2 minutes. I know my good friends Mr. Grassley and Mr. Roth served with me in the House of Representatives and know we have a 1-minute rule. I will stray maybe slightly over that, but I would like the chance to say a word or two.

I am worried. I am very worried about the unprecedented rate at which the imports of textile and apparel are coming into this country, and it demands strong action.

We are told by those who have studied trends and know how to analyze these things that if the trend continues at this rate, by 1995 our Nation is no longer going to have a textile industry, and we could lose close to a million jobs in the textile and apparel industry and close to another million jobs in related industries as the

result of the ripple effect. Furthermore, the failure to pass this bill is going to cost the Government, because it is going to increase the Federal deficit by some $24 billion, lower consumer disposable income by $19 billion, and lower the gross national product by $40 billion.

I would invite members of this committee, all of whom I have worked with before on many matters, to study our testimony as we have submitted it here today. I would also suggest that you pay special attention to an econometric analysis that will be submitted to you which has been done by Data Resources that documents what I am talking about.

Now, Mr. Chairman, we are, as I say, concerned about the situation. There is an ad in the local paper today, I think, that really summarizes my concerns. If we do nothing, imports will continue to increase, job losses will soar, the trade deficit will continue to go up, the Federal budget deficit will continue to go up and the gross national product will lose $40 billion. All of these things are things that we can correct if we pass this legislation. And I would hope that this committee would give it consideration at the earliest possible time.

Thank you very much.

[Congressman Broyhill's written testimony follows:]

TESTIMONY OF THE HONORABLE JIM BROYHILL (R-N.C.)

Mr. Chairman and distinguished colleagues:

I appreciate the opportunity to appear before you today to share my support, and the support of 290 members of the House for the Textile and Apparel Trade Enforcement Act of 1985.

The introduction of this timely and significant piece of legislation is important to this Nation's economy as well as to more than 2 million textile and apparel employees across the Nation.

The unwarranted and unprecedented rate at which imports are entering this country demands strong action. That is why we are here today.

If current import trends continue, by 1995 our Nation will no longer have a textile industry. Last year, in North Carolina alone, 43 plants closed displacing some 18,000 employees. A recent econometric analysis by Data Resources, Inc. (DRI), states that the failure to pass this legislation will result in unemployment for not only 947,000 Americans in the textile and apparel industries, but 943,000 others, in related industries due to the ripple effect.

Furthermore, the study contends that the failure to pass this legislation will increase the federal budget deficit by $24 billion, lower consumer disposable income by $19 billion and the GNP by $40 billion.

The United States' market is virtually the only market in the world that other textile and apparel producing contries target for growth and possible takeover; yet an estimated 75% of the world's nations are managed by governments that unfairly subsidize their industries' exports and protect their own markets.

It is difficult to compete with nations who do not know the definition of the word "minimum wage;" who pay the equivalent of 16¢ per hour; have no regulatory overhead nor a concern for the "health and safety" of their employees. Instead, these nations expend their energies acquiring U.S. dollars and buying U.S. market share at any cost. This year the merchandise trade deficit is expected to top $140 billion -- a staggering record.

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Free trade, if it does exist outside of textbooks, does not exist in the textile and apparel trade. Many nations exclude our exports through tariff and non-tariff barriers. I would like to take a moment to comment on some specific examples of barriers faced by U.S. textile and apparel manufacturers.

The International Trade Administration (ITA) reports that Brazil requires import permits and commercial invoices for goods. Import licenses are refused for most imported goods such as yarn, fabrics, carpets and apparel items, if similar products are also manufactured in Brazil. Furthermore, the country places merchandise circulation taxes, industrialized product taxes, and airport & port improvement taxes on imported goods.

Indonesia requires imported textile products to pass through registered importers who have been accredited by the Minister of Trade and Cooperatives. Importers must obtain both an "Importers' Certificate" and a "Fiscal Certificate" in order to import. Most imports are subject to surcharges up to 200%. Restricted goods include grey and finished sheeting, yarn, thread waste and nylon hosiery.

Since 1967, Korea has had an import plan based on a restricted list of items whose import license must be approved by the appropriate ministry or trade associations. Within the restricted list, certain items are specifically banned.

The Phillippines totally bans used clothing, remnants, wearing apparel, and textiles, except those used in the manufacture of apparel items which will be re-exported.

India requires import licenses for practically all products. Aside from a few items in short supply, commercial imports of textile products are banned. Furthermore, an excise tax and countervailing duty is levied on almost all textile products. Imports are governed by foreign exchange considerations and the availability of foreign aid.

These are only a few of the barriers facing U.S. manufacturers who would like to do business overseas. It is obvious that the United States is not dealing with a "free trade" world. The fiber, textile, and apparel industries can compete with other nations when the field is evenly balanced. The passage of the Textile and Apparel Trade Enforcement Act seeks to set that balance.

I was extremely disappointed by the letter which the Administration sent out a few weeks ago in opposition to this legislation. I share the thoughts of an overwhelming majority of my colleagues in the House of Representatives who feel that is is high-time the Administration faces reality with respect to the devastating effect imports are having on the American economy.

We maintain that this legislation is completely consistent with the objectives of the MFA and that it would mandate actions very similar to those taken unilaterally by the European Community several years ago. The EEC cut back trade from major suppliers, set up low growth rates and a global approach on imports. Those actions were accepted and in fact, the MFA itself was modified through a protocol of understanding to specifically permit the kinds of actions taken by the EEC. The EEC is now absorbing one fourth of the imports that the U.S. absorbs.

The Administration has expressed its concern about the domestic consumer. I feel strongly that if we persist in giving away our domestic production to plants overseas, it is domestic consumers who will pay the price. Competition among U.S. textile and apparel producers has historically held price increases of domestic textiles and apparel to around 50% of the U.S. inflation rate. Do we as a nation want to depend on foreign sources for all of our needs? I do not think so.

If we do, we will more than likely face a repeat of the situation in which U.S. velveteen producer was forced to close his door -- within hours, foreign producers raised their prices by $1.00 per yard. The American consumer was not the beneficiary of that action.

Consumers generally face mark-ups of 200 to 300% for imported goods at the retail level. Many imported goods actually sell at higher prices than their domestically produced counterparts. The consumer is not the beneficiary of such mark-ups.

I am aware that many of my distinguished colleagues have expressed concerns about potential retaliation by other nations against U.S. agricultural markets. Increased foreign production capabilities, as well as the value of the dollar, have led other nations to push the U.S. aside in the demand for wheat, corn, tobacco, and cigarettes.

The People's Republic of China (PRC), for example, is currently self-sufficent in cotton production. The country has become a formidable exporter of cotton and could well destroy that segment of the U.S. industry by 1990.

The PRC's interna production of wheat is expected to increase so that the country will be self-sufficient in that area by the end of the decade.

Simply speaking, China is positioning itself so that it will be self-sufficient in many of these area Why are we, as an industrial power, allowing the industries which made this country so strong to die?

Mr. Chairman, since 1980, the objectives of orderly market growth set forth in the Multi-Fiber Arrangement have not been achieved. The MFA signed by 41 countries, provides for a 6% annual rate of growth for textile imports for most exporting countries and a lower growth rate from major exporting countries. In the period 1981-1984, imports of textiles and apparel have grown at an annual rate of 19%. In 1984, imports soared 32% over the 1983 levels. At the same time, the U.S. market grew a mere 1%.

Reality dictates that strong action be taken in an expeditious manner. I would urge this Subcommittee to note that a majority of both bodies supports this legislation and to act favorably in the near future.

Senator DANFORTH. Congressman, thank you very much.
Congressman McMillan, would you like to go next?

STATEMENT BY HON. J. ALEX McMILLAN, U.S. REPRESENTATIVE FROM THE STATE OF NORTH CAROLINA

Mr. McMILLAN. Thank you, Senator.

My name is Alex McMillan. I represent the Ninth District of North Carolina. Charlotte is the center of my district and is basically a financial and service center for the economies of both North and South Carolina.

The textile and apparel industry in the Carolinas employs—at the end of last year—485,000 people, with an annual payroll in excess of $6 billion, despite losing 20,000 jobs to imports last year. That industry has withstood subsidized imports beginning with Japan decades ago, and today faces a renewed crisis from subsidized imports from relatively new entries in the game. It has responded over those years by making the surviving industry, the textile industry, the most modern and productive in the world.

Saturday night I was talking to a young friend of my son whose father is also one of my closest friends. This 22-year-old is a rising senior at North Carolina State University majoring in textile management. His father is vice president of sales at the most efficient yarn producer in the United States. His grandparents and great-grandparents were pioneers in the textile industry in America. And he asked me, "Are we going to be able to save the textile industry in America? If not, I'd better look for something else."

That answer is in our hands. He and I know that the textile industry employs directly over 2 million Americans, that imports have grown at an average rate of 19 percent a year for the last 4 years—32 percent last year—and that we are likely to run a trade deficit this year of $150 billion and probably well over $16 billion of that will be in textiles. We also know that textiles play a vital role in the strategic industrial base of America, and that while our trade deficit equals almost 4 percent of gross national product—a year's worth of real growth in GNP—it is not counted as such, and that import-related job losses contribute heavily to high unemployment rates in this country. And textiles do not stand alone as a victim of trade subsidies. Over 100 major U.S. industries are adversely affected.

The fact of the matter is, the textile and apparel industries are so widespread, and rely on so many suppliers that almost every Member of Congress has an interest in the industry's survival. In rural areas of west Texas and Montana, wool growers supply plants in North Carolina and New England. Machinery manufacturers in Massachusetts depend on a strong domestic textile industry. Chemicals produced in New Jersey and Illinois form the raw materials, along with cotton from California, Texas, and Mississippi, for mills on the Eastern Seaboard States. This is not a regional problem.

My young friend and most textile people I know emphatically believe in free and fair trade on a level playing field. The fact is, we don't have free or fair trade when our trading partners can subsidize exports to the United States through tax concessions, regulatory ease, low interest loans, direct subsidy, and sheer product tar-

geting. We don't have free or fair trade when our trading partners restrict U.S. imports to their countries while exporting freely to the United States.

S. 680 and its companion bill H.R. 1562 are designed to restore and enforce the principles agreed to under the Multi-Fiber Agreement of 1981, negotiated in accord with the General Agreement on Tariffs and Trade. They provide ample opportunity for our trading partners to grow with the American market, yet provide a measure of order to the process so vital to our economy, our strategic industrial base and 2 million American jobs.

The Textile and Apparel Trade Enforcement Act of 1985 is an important, but only an intermediate, remedy. If Americans truly believe in free and fair trade in the long run, and if our trading partners share that belief, then we had better provide an orderly process to get there. This bill provides one step, as will other legislation directed toward impacted industries. In the long run, in my judgment, we must consider broader legislation that first reaffirms our commitment to free, unrestrained trade but provides a mechanism to offset foreign subsidies. We expect our trading partners to do likewise and are willing to immediately remove such mechanisms when subsidies cease. The burden of proof must be on the exporter.

Moreover, we must insist that our markets will be open only to those who will open theirs to our products.

Gentlemen, let's give at least equal weight to the hopes and aspirations of 2 million Americans and my young 22-year-old friend. And I urge you to give this bill your careful and favorable consideration.

Thank you very much.

Senator DANFORTH. Thank you, Congressman.

Who would like to go next? Senator Helms, I think you were the next one here.

STATEMENT BY HON. JESSE HELMS, A U.S. SENATOR FROM THE STATE OF NORTH CAROLINA

Senator HELMS. Thank you very much, Mr. Chairman.

I know from experience that the most melodious sounds that a chairman can hear is, "I will offer my full statement for the record and will summarize."

Senator DANFORTH. That depends on the length of the summary. [Laughter.]

Senator HELMS. Mr. Chairman, we appreciate the opportunity, as my colleagues have said, to discuss a matter of great importance to my State and indeed to the entire Nation.

The United States, Mr. Chairman and members of the committee, has embarked on a unilateral policy of free trade—unilateral—because not one of our trading partners worships at the altar of free trade to the extent we do. Now, in the abstract this is commendable on our part, but the reality is that it is having disastrous consequences for the U.S. economy in general and for American industry in particular.

Our unilateral free trade policy is comparable to a policy of unilateral disarmament—it is just as foolish and just as dangerous in the long run.

The United States is at economic war with the rest of the world, and our leaders are following a unilateral policy of economic pacificism. Our trading partners are armed to the teeth and firing at will. We are disarmed, and we are in disarray.

So we have a real problem, Mr. Chairman. We had better wake up and smell the coffee. America must demonstrate to her trading partners that we will not endure economic brutality at their hands. We must not tolerate our trading partners' subsidies for their domestic industries that compete in the United States with American-made products. We must support buy-America efforts promoting products made in America; we must adopt specific measures to limit or deny foreign manufacturers access to U.S. markets where such remedies are justified as in the case of textiles, apparel, and man-made fiber.

Now, let's talk about the domestic textile-apparel-fiber industry complex, which employs 1 out of every 10 manufacturing employees in America. It is the largest manufacturing employer of women and minority workers. It is the key employer in countless cities and towns, and indeed the principal employer in many of them. When a textile mill goes on short time, an entire community is affected. And when a textile mill shuts down, the impact on a community can be devasting.

The point is this, Mr. Chairman and gentlemen: 2.4 million Americans depend on textiles, apparel, and man-made fiber for their livelihoods. This industry is the largest employer in my State, employing roughly 300,000 people. In 1984 alone, 7,719 textile workers in North Carolina lost their jobs as 43 plants were closed. This year still more plants have shut down, and more workers have found themselves out of work. And nationwide the situation is scarcely better. Some 300,000 textile, apparel, and fiber workers have lost their jobs since 1980, and countless others fear daily for their jobs. The cause of this misery can be stated in two words: Unfair imports. There is a direct correlation between the growth of textile and apparel and fiber imports relative to the growth of the domestic market and increases in unemployment among textile, apparel, and fiber workers.

Now, this situation, as my colleagues have already stated, calls for immediate and prompt relief. The textile family simply cannot wait longer for help. The time to act is now.

Of course, we recommend the Textile and Apparel Trade Enforcement Act of 1985. This bill, with 53 cosponsors in the Senate and 290 in the House, would require the effective enforcement of the Multi-Fiber Arrangement. It would limit the growth of textile, apparel, and fiber imports without damaging our trade relationships with Canada, Mexico, and our European and Caribbean Basin trading partners. It would allow less-developed nations access to a relatively greater share of the domestic market.

The bill is consistent with our international agreements. It represents the simplest and most straightforward approach to addressing a very serious problem that has gotten out of control.

So, Mr. Chairman and members of the committee, I would say this: I suspect everyone here is a free trader. Contrary to the thinking of some of the academic free traders, however, I understand something that is very important. That is that trade that is not fair is not free. The policies of the U.S. Government foster free trade, but they do not insist that it be fair. And I think we have to do everything possible to move in the direction of responsible reaction to what is going on in the world before it is too late.

Thank you, Mr. Chairman, and gentlemen of the committee.

Senator DANFORTH. Thank you, Senator Helms.

Senator Hollings, I think you were next in the room.

[Senator Helms' prepared testimony follows:]

PREPARED STATEMENT OF HON. JESSE HELMS ON THE TEXTILE AND APPAREL TRADE ENFORCEMENT ACT OF 1985

Mr. Chairman, I appreciate the opportunity to appear before this distinguished committee today to discuss a matter of great importance to my state, and indeed, the entire nation. I welcome this opportunity to talk about a problem that concerns me greatly, and to offer a solution. Presently, I shall direct my comments at the crisis facing the domestic textile, apparel, and fiber industries; and my recommendations for addressing it. But first let me comment briefly on my perception of our trade situation generally.

The United States has embarked on a unilateral policy of free trade. Not one of our trading partners worships at the altar of free trade to the extent we do. In the abstract, this is commendable on our part; but the reality is that it is having disasterous consequences for the U.S. economy in general and for American industry in particular.

Our unilateral free trade policy is comparable to a policy of unilateral disarmament. It is just as foolish, and just as dangerous in the longrun.

Let's be clear about one thing: This policy is not unique to the current administration. Free trade has been the policy of previous administrations for as far back as I can remember. Remember when President Carter extended Most Favored Nation trading status to Red China? That decision has had almost disasterous consequences for our domestic textile, apparel, and fiber industries. Imports from Red China have soared, and countless workers in North Carolina, South Carolina, Georgia, New York, California, and elsewhere have suffered the consequences.

The effect of our unilateral free trade policies has been a decline in employment. According to the Bureau of Labor Statistics, 107 of our 139 manufacturing industries today employ fewer workers than they did at their peak employment levels prior to the 1980 and 1981-82 recessions. In other words, they have not regained their levels of employment lost as a result of the 1980 and 1981-82 recessions.

48 of our 139 manufacturing industries have lost employees since the 1981-82 recession. They have continued to lose jobs even in the midst of a strong economic recovery. The trend is continuing. In May, total U.S. manufacturing employment fell by 28,000 jobs. Employment in North Carolina, for example, is 1.3 per cent less today than it was at this time in 1979.

Imports contribute significantly to the job losses; and textiles, apparel, and manmade fiber have been disproportionately affected: Of the ten industries with the largest job losses relative to the pre-1980 recession peak, half are in the textile/fiber/apparel complex. Of a total of 697,000 jobs lost in these ten industries, 197,000 or 28 per cent, are in the textile/fiber/apparel complex. Of the ten industries with the largest employment gains since the recession, none are among the textile/fiber/apparel complex.

The United States is at economic war with the rest of the world. Our leaders are following a unilateral policy of economic pacifism. Our trading partners are armed to the teeth and firing at will. We are disarmed and in disarray.

This is a shameful scenario with costly ramifications. We have lost so much of our manufacturing base that only massive capital investment will restore the United States to a competitive position in terms of global manufacturing. In the meantime, extraordinary measures are required.

The academic free traders (some call them traitors) insist that in the future, jobs in America will be in service industries. Indeed, the industries with the most employment growth since the recession have been service industries. 8 million new

service jobs have been created since 1980. This is fine, but whom are these people going to serve if we have no manufacturing? Or, as Bill Klopman once remarked, "One of these days we are all going to be selling hamburgers to each other."

We have a real problem, and we had better wake up and smell the coffee. America must demonstrate to her trading partners that she will not endure economic brutality at their hands. We must not tolerate our trading partners' subsidies for their domestic industries that compete, in the U.S., with American-made products. We must support Buy-American efforts promoting products made in America. And we must adopt specific measures to limit or deny foreign manufacturers access to U.S. markets where such remedies are justified, as in the case of textiles, apparel, and man-made fiber.

Now let's talk about the domestic textile/apparel/fiber industry complex, which employs one of every ten manufacturing workers in America. It is the largest manufacturing employer of women and minority workers. It is a key employer in countless cities and towns, and indeed the principal employer in many of them. When a textile mill goes on short time, an entire community is affected. When a textile mill shuts down, the impact on a community can be and usually is devastating.

2.4 million Americans depend on textiles, apparel, and man-made fiber for their livelihoods. This industry is the largest employer in my state, employing roughly 300,000 people.

The figures alone don't begin to reflect the consequences of unemployment that has become epidemic among textile, apparel, and fiber workers in recent years. But here they are: In 1984 alone, 7,719 textile workers in North Carolina lost their jobs as 43 plants were closed. This year, still more plants have shut down and more workers have found themselves out of work. The impact of shortened working hours adds to the agony felt by all but the luckiest workers.

Nationwide, the situation is not much better. Some 300,000 textile, apparel, and fiber workers have lost their jobs since 1980, and countless others fear daily for their jobs.

The cause of all this misery can be stated in two words, Mr. Chairman: unfair imports. There is a direct correlation between the growth of textile and apparel and fiber imports relative to the growth of the domestic market, and increases in unemployment among textile, apparel, and fiber workers. Since 1980, imports have grown at an annual rate of 19 percent, well in excess of the 1 per cent per year growth rate in the size of the domestic market; and also well above the 6 per cent growth rate contemplated in 1981 when the Multi-Fiber Arrangement was renegotiated.

In 1984, textiles, apparel, and fiber accounted for 13 per cent of the record $123 billion U.S. trade deficit. By some estimates, one-half of the textiles, apparel, and fiber sold in this country today are manufactured overseas.

Mr. Chairman, this situation calls for immediate and prompt relief. The textile family simply cannot wait any longer for help. The time to act is now. It may already be too late.

S. 680 (H.R. 1562) the Textile and Apparel Trade Enforcement Act of 1985 is the remedy I recommend. This bill, with 53 cosponsors in the Senate and 290 in the House, would require the effective enforcement of the Multifiber Arrangement. It would limit the growth of textile, apparel, and fiber imports without damaging our trade relationships with Canada, Mexico, and our key European and Caribbean Basin trading partners. It would allow less developed nations access to a relatively greater share of the domestic market. The bill is consistent with our international agreements. It represents the simplest and most straightforward approach to addressing a very serious problem that has just about gotten out of control.

Before I conclude, Mr. Chairman, I must address a growing concern I have about activities of the administration relating to this legislation. I'm referring in particular to a letter to Members of Congress bearing the date June 19, 1985, and signed by Secretary Baker, Secretary Schultz, Secretary Baldridge, Secretary Brock, and Michal Smith. Mr. Chairman, I don't know where the information in this letter came from, but I have seldom seen so much misinformation crammed into so little space. When I saw this letter I was tempted to call the gentlemen whose names appear on it to say, "Someone signed your name to a ridiculous letter."

It is a ridiculous letter because President Reagan gave his word to the textile family that he will seek to limit the growth of textile imports to the growth of the domestic market. He has done so in writing; he has done so on more than one occasion to me personally, and Mr. Chairman, I believe the President of the United States. So I cannot for the life of me understand why officials in this administration would take a public position against this bill, particularly one based upon such an obviously shallow understanding of the facts. Many in the textile community are deeply concerned about the fate of this bill when it reaches the President's desk—

and I have the utmost confidence that it will reach the President's desk. I'm not worried, Mr. Chairman, because to repeat, I believe the President of the United States, and I expect he will sign this bill.

But let's look at some of the misstatements in the June 19 letter. It contends, for example, that this legislation would impose a very high cost on U.S. consumers. How so? It might have a high cost to U.S. retailers, who enjoy hefty markups on cheap foreign-made items. But I cannot see how it would hurt consumers. And besides, aren't textile workers consumers, too?

The letter claims that this legislation would invite retaliation against U.S. exports. I'm not sure which exports the authors of the letter purported to be talking about, but I often hear from some in the agricultural community about the threat of retaliation directed at American agricultural products.

Let's take one example: Red China has become a major supplier of textile and apparel products to the U.S. since President Carter pushed thorough Most Favored Nation trading status in 1980. Textile and apparel imports from Red China have increased roughly 200% in volume. Red China has also been a major purchaser of American farm commodities. In recent years, however, we have witnessed phenomenal reductions in Chinese agricultural imports: For example, from 1980 to 1984, Red Chinese imports of American wheat have dropped 28 percent. During the same period, coarse grain imports dropped 50 percent, and cotton imports dropped 94 percent. Red China imported no American soybeans in 1984.

So I'm not at all convinced that the threat of retaliation is any more than just that—a threat.

The letter also alleges that that this bill would be inflationary, which is so ludicrous that I don't even know how to begin to respond except by giving an elementary economics lesson.

And finally, Mr. Chairman, the letter alleges that the bill would violate our international agreements. I have already addressed this point, but I say again, it simply is not so.

In conclusion, Mr. Chairman, I am, and I suspect everyone else here is, a free trader. But contrary to the thinking of "academic free traders" I understand something very important. That is, that trade cannot be free unless it is also fair. The policies of the U.S. Government foster free trade, but they do not insist that it be fair. We have to do everything possible to move in the direction of responsible reaction to what's going on in the world—before it is too late.

A step in that direction can be taken by adopting the Textile and Apparel Trade Enforcement Act of 1985. Mr. Chairman, I urge you and the members of your distinguished committee to give this bill your prompt and favorable consideration.

STATEMENT BY HON. ERNEST F. HOLLINGS, U.S. SENATOR FROM THE STATE OF SOUTH CAROLINA

Senator HOLLINGS. Thank you, Mr. Chairman. If the committee please, I would like to submit my statement in the record at this point, and perhaps at this point emphasize our gratitude for the leadership given by the Finance Committee over many, many years. This thing has been going on now for 30 years. I appeared before the Tariff Commission back 25 years ago when Tom Dewey was the attorney for the Japanese Government, chasing me around the hearing room for two solid afternoons. And we went then, later, to President Kennedy, who had his hearings and gave us his seven-point program which Senator Moynihan can remember very clearly, because he was a participant in that administration. At that time we had the Cabinet Committee hold hearings to determine the importance or significance of textiles to the national security. And thereupon it was their finding that textiles next to steel was the second most important for our national security.

We have been in this, like I say, with the one-place cotton and the seven-point program and thereupon the Multi-Fiber Arrangement, negotiated in 1973, instituted in 1974, renewed in 1977 and in 1981. And what this bill S. 680 really does is reestablish the Multi-Fiber Arrangement at the 1982 level. It has been devastating. This

particular industry is different. I say it is different in the light that, if you go back to the premise of free trade under David Riccardo back in 1817, he will show you in his Economics 101 course that the Doctrine of Comparative Advantage required that that country produce and sell what it could produce and sell best. And the example given by Professor Riccardo at that particular time was that America could produce food better than Europe, and Europe could produce clothing better than America. Well now, after a couple of hundred years, that has changed around entirely.

For one thing, we find tnat the agriculture of Europe is being subsidized so that, where some 10 years ago Europe was a net importer of the world's wheat, last year they exported 20 percent of the world's wheat, and everyone is quite familiar with the 25-percent subsidy in France that we are having to compete against. So they are now taking over international markets through subsidies, and we, in turn, having worked under the leadership of this committee with the Multi-Fiber Arrangement, temporarily had textile exports as a winner, because the textile industry, with the agreement of this Government, for some arrangement whereby they could invest and modernize, have done exactly that—billions of dollars—so that now we have had over the last 5 years an increase of 4 percent in productivity each year, over twice the average manufacturing increase. We have, in other words, then, the most productive of industries. We do not have the extravagant wage scales that some of the industries have suffered from. No one can say textile workers are making too much. And no one can say that the industry has been lethargic, as we have taken through—and we would gladly this afternoon go down to Charlotte with my Congressmen friends, or South Carolina, or otherwise, and show you a weave room where we used to have 115 and we have only 15 now in that room. So, employee-wise, in productivity, we have already lost jobs just modernizing. And we have done that.

But what really occurs—and let me emphasize that now, because I wanted to follow through with that thought, because whereas we had a lag in productivity, the average American textile worker will have I think 130,000 stitches per worker per hour, which is twice the rate of the French textile worker and three times the British textile worker.

But what we are really looking at is that worker in downtown Shanghai. You see, we have moved into a global economy. And you and I, we, the politicians, have exacted the American standard of living. And we say to the American industry, "You shall have a minimum wage; you shall have Social Security; you shall have unemployment compensation: you will have a safe place to work; you will have safe machinery; you will have clean air; you will have clean water," and we go right on down. And we pass these laws willy-nilly right on through the Congress.

And in contrast, you can get, without any of those requirements, this shirt that I have on made for 18 cents an hour in downtown Shanghai.

We have been trying to meet the world competition, but it is obvious to everyone within the hearing of my voice here that that cannot be done. We are not going to draw down America's standard of living to 18 cents an hour. And what are we doing? We are

hesitating. We have been waiting to try to get the budget balanced so we could get rid of the disparity of the over-valued dollar, which impacts, and we could go into that. But more than anything else to try to get a trade policy.

The nearest thing to a trade policy on any particular item is the multifiber arrangement under S. 680. And it has worked. But now in the last several years it is not being enforced. I had to force-feed President Carter. You remember that particular filibuster back there in 1978. And we had the Carter-Mondale administration agree to enforce the Multi-Fiber Arrangement, not to exceed 6 percent of domestic consumption in imports.

I see Senator Thurmond is along, and the principal author. He got that commitment from this particular President Reagan, and as Senator Thurmond said on the floor the week before last, if we had gone forward with that particular commitment this S. 680 would not be necessary.

So what, in essence, we are doing is highlighting a particular measure that has been promulgated by the Congress, has worked well with the industry and the worker, and has kept us competitive. The prices of textile products have not gone up; it is one-half the rate of the CPI in the American economy.

So the consumers have not suffered. The workers, generally speaking, have held their jobs. The industry is modernized. The wages, at best, can be described as either reasonable or a little bit less than reasonable; I would like to see them raised. But it has been a lack of enforcement at the executive level.

Now, how do we get their attention? With S. 680, that is what we are trying to really do. We need an overall trade policy. That will come about with all of these other particular commodities that are coming down the pike with the Finance Committee. You have got steel, you have got shoes, and all of these other particular things. But we have had this one now over 30 years and seven or eight different Presidents, and now is the time to treat this one as a different situation, because it is; and it is fundamental to our national security. It is not a question of consumerism versus jobs. Necessarily the consumers are involved; necessarily American jobs are involved. But more than anything else, the fundamental involved here is America's capacity to produce competitively in a world or global economy. And this is exactly what has occurred.

We have gone from private free enterprise to government-to-government enterprise. We have had State-enforced competition upon us. And I could go down all the items which I have in my prepared statement where they are just not enforcing it.

We were told, Chairman Danforth, that in Commerce they didn't have the computers. We gave them millions of dollars over there with computers so they could tell when there was a violation. Then they said, "customs agents." So last year you and I put in the amounts for the customs agents. As I testify this minute, there are 408 customs agents or vacancies short, that they have money for, that they don't even hire. We wanted to put them overseas, and the State Department said, "Oh, no." The British do. The other countries do. They could monitor it better there and give us forewarning. But they said, "Oh, no, the State Department objects to it."

So going right on down this list, I don't know of any better way to bring this to the attention, and immediately to the attention, of this particular administration than through S. 680.

So I do appreciate your attention and the chance to submit my prepared statement at this time.

Senator DANFORTH. Thank you, Senator Hollings.

Senator Thurmond.

[Senator Hollings' prepared testimony follows:]

STATEMENT OF SENATOR HOLLINGS

SENATE FINANCE COMMITTEE
INTERNATIONAL TRADE SUBCOMMITTEE

JULY 15, 1985

CHAIRMAN DANFORTH AND OTHER SENATORS, I THANK YOU FOR THE OPPORTUNITY TO TESTIFY ON S. 680, THE TEXTILE TRADE AND ENFORCEMENT ACT OF 1985. I BELIEVE THE TITLE OF THIS BILL PERFECTLY DESCRIBES THE SITUATION WE FIND OURSELVES IN TODAY. WE HAVE LAWS ON THE BOOKS, AGREEMENTS MADE, AND COMMITMENTS FROM THE ADMINISTRATION, BUT WHAT WE LACK IS ENFORCEMENT. THIS LEGISLATION IS URGENTLY NEEDED BY OUR DOMESTIC TEXTILE AND APPAREL INDUSTRY. SINCE 1980:

- 300,000 TEXTILE AND APPAREL WORKERS HAVE LOST THEIR JOBS. IF CURRENT TRENDS CONTINUE, ANOTHER 950,000 JOBS WILL BE LOST BY 1990;
- IMPORTS ARE UP 100%;
- THE TEXTILE TRADE DEFICIT IS RUNNING AT RECORD LEVELS -- $16.2 BILLION LAST YEAR;
- DOMESTIC SHIPMENTS ARE VIRTUALLY STAGNANT;
- 250 TEXTILE MILLS HAVE BEEN CLOSED;
- IMPORTS HAVE INCREASED AT RECORD LEVELS -- UP 32% LAST YEAR;
- AND IN MY STATE OF SOUTH CAROLINA ALONE, 70 MILLS HAVE BEEN CLOSED AND 22,000 PEOPLE ARE OUT OF WORK.

I COULD GO ON AND ON WITH STATISTIC AFTER STATISTIC. BUT, THE GRAVE SITUATION FACING THE U.S. TEXTILE INDUSTRY SHOULD NOT BE IN DISPUTE.

WE HAVE THE MULTI-FIBER ARRANGEMENT AND WE HAVE OUR 34 BILATERAL AGREEMENTS AND THE IMPORTS CONTINUE TO POUR IN. THE PURPOSE OF S. 680 IS TO COMPEL THIS ADMINISTRATION TO ENFORCE THE LAW. LET ME CITE SOME EXAMPLES: TEXTILE IMPORTS IN MARCH 1984 JUMPED 55% OVER MARCH 1983. AT THE BEHEST OF SENATOR THURMOND AND OTHERS, THE PRESIDENT PUT OUT A STRONG STATEMENT ON TEXTILES THAT SPRING: WE ARE GOING TO VIGOROUSLY ENFORCE. WE ARE GOING TO HIRE MORE CUSTOM AGENTS AND INSPECTORS. NOW, IN 1985, THE ADMINISTRATION PROPOSED CUTTING BACK 788 CUSTOMS AGENTS NATIONWIDE.

IN ADDITION, I FOUND OUT THAT THE TREASURY DEPARTMENT HAD REQUESTED ADDITIONAL CUSTOMS PERSONNEL TO BE POSTED ABROAD TO STOP TEXTILE FRAUD. THE STATE DEPARTMENT REFUSED TO AUTHORIZE THOSE ADDITIONAL AGENTS. THIS SITUATION IS NOW IN A STALEMATE AND HAS BEEN SINCE OCTOBER OF LAST YEAR.

IN 1983, THE TEXTILE INDUSTRY BROUGHT A COUNTERVAILING DUTY CASE AGAINST THE PEOPLE'S REPUBLIC OF CHINA. SEVERAL OF US TESTIFIED AT THE HEARING. THE CHINESE HAD ALREADY ADMITTED THAT THEIR DUAL EXCHANGE RATE AMOUNTED TO AN EXPORT SUBSIDY, SO WHY DID WE EVEN HAVE TO HAVE A HEARING? THE TEXTILE INDUSTRY WITHDREW ITS PETITION AFTER A PLEDGE FROM THE ADMINISTRATION THAT THE IMPORT PROGRAM WOULD BE MORE "VIGOROUSLY" ENFORCED. AGAIN, PRECIOUS LITTLE FOLLOW-THROUGH. EACH MONTH THERE ARE LITERALLY DOZENS OF TIMES WHEN THE CUSTOMS AND COMMERCE PEOPLE SHOULD BE MAKING "CALLS" ON EXCESS AND ILLEGAL SHIPMENTS, BUT MANY CALLS ARE NEVER MADE. WHEN A TRADING PARTNER IS DISRUPTING OUR MARKET WITH TEXTILE IMPORTS, A CALL

FOR CONSULTATIONS SHOULD BE MADE TO THE FOREIGN GOVERNMENT. OVER 100 POTENTIAL CANDIDATES FOR CALLS SINCE THE ADMINISTRATION'S PLEDGE -- CASES WHERE CALLS WERE NOT ACTUALLY MADE -- AND THIS REPRESENTS OVER 400 MILLION SQUARE YARDS OF TEXTILES. AND WHEN THE COMMERCE DEPARTMENT DOES DECIDE TO MAKE A CALL, THE STATE DEPARTMENT MAY REFUSE TO ISSUE THE CALL. THIS HAS HAPPENED 15 TIMES SINCE LAST YEAR.

IN AUGUST OF 1984, THE TEXTILE INDUSTRY FILED A SERIES OF COUNTERVAILING DUTY CASES AGAINST ELEVEN COUNTRIES. THESE CASES RESULTED IN COUNTERVAILING DUTIES BEING IMPOSED -- BUT AT A RIDICULOUSLY LOW LEVEL IN MOST CASES. THERE WERE A FEW CASES WHERE STRONGER, MORE SIGNIFICANT DUTIES WERE IMPOSED, FOR EXAMPLE, A 14% DUTY WAS ASSESSED FOR TEXTILE MILL IMPORTS FROM COLUMBIA. BUT THE ADMINISTRATION TURNED AROUND AND NEGOTIATED AN AGREEMENT TO SUSPEND THAT 14% DUTY WITH THE COLUMBIAN GOVERNMENT.

S. 680 CONTAINS A SIMPLE MESSAGE -- A MESSAGE NOT TO OTHER GOVERNMENTS, BUT TO OUR OWN -- ENFORCE THE LAW. ENFORCE THE LAW, THE AGREEMENTS WORKED OUT BY THE U.S. AND OUR TRADING PARTNERS, AND GIVE OUR TEXTILE INDUSTRY A CHANCE TO COMPETE. THE BILL WILL BRING THE LEVEL OF TEXTILE AND APPAREL IMPORTS DOWN TO THE GROWTH LEVEL ENVISIONED BY THE MFA -- 6% -- NOT THE 19% AVERAGE ANNUAL GROWTH WE'VE BEEN EXPERIENCING OR THE 32% GROWTH IN 1984.

THERE WILL BE SOME WHO ARGUE THAT PASSAGE OF THIS BILL WILL RESULT IN HIGHER PRICES. THE TRUTH IS, MOST IMPORTED GOODS SELL WITHIN A FEW CENTS OF THE PRICE OF U.S.-MADE ITEMS, AND MANY IMPORTS ARE ACTUALLY MARKED UP ABOVE THE PRICE OF DOMESTIC GOODS. THE U.S. INDUSTRY HAS A LONG HISTORY OF VIGOROUS COMPETITION AND WITH ALL ITS UNUSED CAPACITY, COMPETITION IS ASSURED EVEN IF WE STEM THE IMPORT FLOOD.

SOME WILL ARGUE THAT IF S. 680 IS PASSED, OTHER COUNTRIES WILL RETALIATE. WITH THE $60 BILLION TRADE DEFICIT WITH OUR BIG FIVE TEXTILE EXPORTERS -- TAIWAN, KOREA, HONG KONG, CHINA AND JAPAN -- WHAT ELSE CAN THEY POSSIBLY DO TO US? THERE IS NOT ONE SECTOR OF OUR ECONOMY THAT ISN'T ALREADY UNDER ATTACK IN THE WORLD MARKETPLACE.

THE U.S. TEXTILE WORKER IS THE MOST COMPETITIVE AND PRODUCTIVE WORKER IN THE WORLD. IT IS NOT THE TEXTILE WORKER'S FAULT THAT PLANTS ARE CLOSING -- IT'S OUR GOVERNMENT'S FAULT, IT'S THIS ADMINISTRATION'S FAULT, FOR FAILING TO CARRY OUT ITS RESPONSIBILITY TO ENFORCE THE LAW. OUR AMERICAN TEXTILE INDUSTRY CAN BE COMPLETELY COMPETITIVE IN A FAIR TRADE ENVIRONMENT. IT HAS MODERNIZED ITS FACILITIES; ITS PLANTS AND EQUIPMENT ENABLE IT TO HOLD ITS OWN -- IF WE DON'T STACK THE DECK IN FAVOR OF OTHER COUNTRIES. TO BE FREE, TRADE NEEDS TO BE FAIR. WHEN FOREIGN GOVERNMENTS UNDERWRITE AND SUBSIDIZE AND IN DOZENS OF WAYS SUPPORT THEIR OWN DOMESTIC TEXTILE INDUSTRIES, THEN WE MUST WONDER ABOUT THE FAIRNESS OF TRADE. THESE ARE LOW-WAGE COUNTRIES -- WITH WORKERS IN SHANGHAI MAKING 18 CENTS AN HOUR -- WHAT WOULD WE HAVE OUR INDUSTRY DO? REDUCE OUR STANDARD OF LIVING TO 18 CENTS AN HOUR -- GET RID OF MINIMUM WAGE, SOCIAL SECURITY, UNEMPLOYMENT COMPENSATION, CLEAN AIR AND CLEAN WATER?

THAT'S NOT THE WAY TO GO. LET'S HEAD DOWN THE RIGHT ROAD FOR A CHANGE. THE PRESIDENT TALKS A LOT ABOUT ENTERPRISE ZONES -- YET HIS TRADE POLICY IS THROWING TEXTILE EMPLOYEES OUT OF WORK -- AND THIS IS AN INDUSTRY WHERE 60% OF THE WORK FORCE IS WOMEN AND 27% ARE MINORITIES, MANY OF WHOM WILL FIND IT IMPOSSIBLE TO GET ANOTHER DECENT JOB. NO ONE ELSE IN THE WORLD IS GOING TO LOOK AFTER THEIR WELL-BEING. IT'S

OUR JOB TO DO. WE STILL HAVE THE CHANCE, ALTHOUGH IT IS LATE. I ASK THIS SUBCOMMITTEE NOT TO ALLOW THE TEXTILE AND APPAREL INDUSTRY TO DISAPPEAR. IN 1978, I CAME BEFORE THIS SAME SUBCOMMITTEE TESTIFYING ON ANOTHER TEXTILE BILL. WE GOT THAT BILL PASSED, BUT PRESIDENT CARTER VETOED IT. AT THAT TIME, IN 1978, I ASKED FOR YOUR HELP ON BEHALF OF THE 2 1/2 MILLION WORKERS IN THE TEXTILE AND APPAREL INDUSTRY -- TODAY, I COME BEFORE YOU AGAIN, BUT I NOW ASK FOR YOUR HELP FOR THE REMAINING 2 MILLION WORKERS.

IF WE CONTINUE DOWN OUR PRESENT COURSE, IT MAY NOT BE NECESSARY FOR ME TO TESTIFY AGAIN IN 1990 BECAUSE THIS INDUSTRY MAY NOT BE AROUND. I SAY THIS AT THE RISK THAT SOME PEOPLE WILL FEEL I'M BEING OVERLY DRAMATIC. BUT I HONESTLY BELIEVE THIS TO BE THE CASE. THE AMERICAN TEXTILE INDUSTRY IS FADING FAST -- NOT BECAUSE ITS WORKERS ARE UNPRODUCTIVE, NOT BECAUSE ITS PRODUCT IS LOW-QUALITY OR OBSOLETE, BUT BECAUSE OUR GOVERNMENT WON'T ENFORCE THE TRADE LAWS THAT WERE DESIGNED TO GIVE THIS INDUSTRY A FIGHTING CHANCE. IF WE DON'T ACT NOW TO TURN THINGS AROUND, IT WON'T BE LONG BEFORE YOU'LL HAVE TO VISIT THE SMITHSONIAN TO SEE A "MADE IN U.S.A." LABEL.

STATEMENT BY HON. STROM THURMOND, U.S. SENATOR FROM THE STATE OF SOUTH CAROLINA

Senator THURMOND. Thank you very much, Mr. Chairman.

Mr. Chairman, I appreciate the opportunity to testify this afternoon on S. 680, The Textile and Apparel Trade Enforcement Act of 1985.

This legislation holds the key to the future of 2 million men and women who work in the American textile industry. Since I introduced this bill on March 19, 53 of my Senate colleagues and 290 House Members have gone on record as cosponsors. This overwhelming support, Mr. Chairman, makes it unmistakable that the textile-apparel trade issue is a national problem, that hundreds of thousands of people thrown out of work is a national problem, and that fair trade for U.S. textiles is a national goal.

For 1984, textile domestic market growth was 1 to 2 percent. I repeat, 1 to 2 percent. While import market growth was a record 32 percent.

Members of Congress from 43 States, distinguished men and women from South Carolina to South Dakota, from California to Connecticut, many of whom seldom agree on public policy issues, have considered this legislation and concluded that it is needed, and that it is in the best interests of the United States.

Mr. Chairman, the American textile-apparel industry has been engaged in a long and difficult struggle for fair trade. The roots of this legislation go back more than four decades. At that time the industry saw the need for a reliable trade program that would provide order. Arguments were made for fair trade year after year; while nearly every year American job casualties mounted because of the imported products made by workers whose wages and conditions would be unlawful in the United States.

Mr. Chairman, since I was elected to the U.S. Senate in 1954, the textile-apparel trade issue has come before 9 Secretaries of State, 11 Secretaries of Labor, 13 Secretaries of the Treasury, and 15 Secretaries of Commerce. Seven Presidents of the United States over the past 30 years have had a hand in textile policy. Some took steps to try to ease the problem. One who made a bold and solid commitment to do something was Ronald Reagan. Then presidential candidate Reagan—and I have his letter here and it will be in the record—then Presidential candidate Reagan said in part, in a letter to me dated September 3, 1980, that "the Multi-Fiber Arrangement needs to be strengthened by relating import market growth from all sources to domestic market growth. I shall work to achieve that goal." Those are the words of Mr. Reagan.

Mr. Chairman, the administration has not kept this commitment. Some may say that statement was written before he became President, and we all know that the realities of public office decisionmaking are far different from the vision and rhetoric of the campaign trail. The reply, in part, would be that after he was in the White House, President Reagan again wrote me on October 4, 1982, and said, and I quote:

> As I mentioned during our recent discussion concerning textile industry problems, I made a commitment that was reaffirmed last December by Jim Baker, to seek to relate total import growth to the rate of growth in the domestic market.

Mr. Chairman, keeping imports approximately even with domestic market growth is precisely the purpose of S. 680. I believe that the President of the United States knew of what he was talking when he made his pledge. And I ask your unanimous consent to make the President's correspondence a part of the hearing record.

Mr. Chairman, the goal of S. 680 is to provide orderly textile-apparel trade, so that domestic manufacturers, big Asian producers, and less developed countries share in the U.S. market.

However, we should not lose sight of the bottom line. Mr. Chairman, the bottom line is jobs. I repeat: The bottom line is jobs.

Mr. Chairman, since 1980 we have allowed imports of textiles and apparel to double. The cost has been 300,000 fiber, textile, and apparel jobs. Today textile employment is 699,000, the lowest figure in modern times. In my home State of South Carolina, the State Employment Security Commission has released figures showing 1,200 textile jobs were lost in the past month of May alone—1 month—leaving textile employment at a record low.

Mr. Chairman, the tragedy of overpowering imports is seen in the faces of these proud workers who suddenly must look to their Government for support. Many of these newly unemployed come from small towns where the textile industry is the only employer of consequence. For many, the chilling reality is that retraining and new jobs are just another empty promise from the Government.

While some would say that the trade problem is temporary, let me point out that in May the Commerce Department reported that textile and apparel imports increased a record 16 percent over May 1984, and that base month was a record itself. Furthermore, from January through May the textile and apparel trade deficit was 13 percent above last year's record level.

Mr. Chairman and members of this committee, I ask you: Is this evidence of a trade policy that is in the best interests of the United States?

I would suggest that a majority of both Houses of Congress believes it is not. And the reality of surging imports and lost jobs provides a clear and ringing mandate for passage of the Textile and Apparel Trade Enforcement Act.

Mr. Chairman, I would like to add that the textile and apparel industry is doing everything in its power to survive. Investment in new plants and equipment has topped $1 billion every year for the past 10 years. Last year, new investment totaled $1.9 billion, and this year $2 billion is projected to be reinvested. The American textile industry has become the most productive in the world and is determined to meet the challenge of worldwide competition. What our country lacks is a trade program that is both predictable and fair. That is the reason for the Textile and Apparel Trade Enforcement Act of 1985. It puts trade on a level playing field again.

This legislation sends a message that cannot be misunderstood: Namely, that our American Government will not allow a basic manufacturing industry which is vital to both our economy and our defense posture to fade away, nor will it turn its back on the working men and women who are dependent on that industry for their livelihoods.

Mr. Chairman and gentlemen of this committee, I understand that an additional hearing is to be held on this subject. If that is absolutely necessary to allow all interested parties to be heard, I would request that this hearing be held as expeditiously as possible. With a majority of the Senate cosponsoring this measure, the Finance Committee has an obligation to allow the full Senate to consider this matter, and the seriousness of the problem demands prompt attention.

Mr. Chairman, thank you for allowing me to testify today, and I urge that the committee promptly report favorably on S. 680. Thank you.

Senator DANFORTH. Thank you, Senator Thurmond.

[Senator Thurmond's written testimony and his letter from President Reagan follow:]

PREPARED STATEMENT OF SENATOR STROM THURMOND BEFORE THE SENATE FINANCE COMMITTEE ON THE TEXTILE AND APPAREL TRADE ENFORCEMENT ACT OF 1985

Mr. Chairman, I appreciate the opportunity to testify this morning on S. 680, the "Textile and Apparel Trade Enforcement Act of 1985". This legislation holds the key to the future of two million men and women who work in the American textile industry.

Since I introduced this bill on March 19, 53 of my Senate colleagues and 290 House members have gone on record as cosponsors. This overwhelming support, Mr. Chairman, makes it unmistakable that the textile/apparel trade issue is a National problem, that hundreds of thousands of people thrown out of work is a National problem, and that fair trade for U.S. textiles is a National goal. For 1984, textile domestic market growth was 1-2%, while import market growth was a record 32%.

Members of Congress from 43 states, distinguished men and women from South Carolina to South Dakota, from California to Connecticut, many of whom seldom agree on public policy issues, have considered this legislation and concluded that it is needed, and that it is in the best interest of the United States.

Mr. Chairman, the American textile/apparel industry has been engaged in a long and difficult struggle for fair trade. The roots of this legislation go back more than four decades. At that time the industry saw the need for a reliable trade program that would provide order. Arguments were made for fair trade year after year, while nearly every year, American job casualties mounted because of imported products made by workers whose wages and conditions would be unlawful in the United States.

Since I was elected to the United States Senate in 1954, the textile/apparel trade issue has come before nine Secretaries of State, 11 Secretaries of Labor, 13 Secretaries of the Treasury, and 15 Secretaries of Commerce. Seven Presidents of the United States over the past 30 years have had a hand in textile policy. Some took steps to try to ease the problem. One who made a bold and solid commitment to do something was Ronald Reagan.

RONALD REAGAN

September 3, 1980

The Honorable Strom Thurmond
209 Russell Senate Office Building
Washington, D. C. 20510

Dear Strom:

The fiber/textile/apparel manufacturing complex provides 2.3 million vitally needed American jobs, including a high percentage of female and minority employees. As President, I shall make sure that these jobs remain in this country.

The Multifiber Arrangement (MFA), which is supposed to provide orderly international trade in fibers, textiles, and apparels, was first negotiated under a Republican Administration. The MFA expires at the end of 1981 and needs to be strengthened by relating import growth from all sources to domestic market growth. I shall work to achieve that goal.

Sincerely,

RONALD REAGAN

Then Presidental Candidate Reagan said, in part, in a letter to me dated September 3, 1980, that the Multifiber Arrangement "needs to be strengthened by relating import market growth from all sources to domestic market growth. I shall work to achieve that goal." The administration has not kept this commitment.

Some may say that statement was written before he became President, and we all know that the realities of public office decision-making are far different from the vision and rhetoric of the campaign trail. The reply in part would be that after he was in the White House, President Reagan again wrote me on October 4, 1982, and said, "As I mentioned during our recent discussion concerning textile industry problems, I have made a commitment that was reaffirmed last December by Jim Baker, to seek to relate total import growth to the rate of growth in the domestic market."

Mr. Chairman, keeping imports approximately even with domestic market growth is precisely the purpose of S. 680. I believe that the President of the United States knew what he was talking about when he made his pledge, and I ask unanimous consent to make the President's correspondence a part of the hearing record.

The goal of S. 680 is to provide orderly textile/apparel trade so that domestic manufacturers, big Asian producers and less developed countries share in the U.S. market. However, we should not lose sight of the bottom line. Mr. Chairman, the bottom line is jobs.

Since 1980, we have allowed imports of textiles and apparel to double. The cost has been 300,000 fiber, textile and apparel jobs. Today, textile employment is 699,000, the lowest figure in modern times. In my home State of South Carolina, the State Employment Security Commission has released figures showing 1,200 textile jobs were lost in the month of May alone, leaving textile employment at a record low.

The tragedy of overpowering imports is seen in the faces of these proud workers who suddenly must look to the government for support. Many of these newly unemployed come from small towns where the textile industry is the only employer of consequence. For many, the chilling reality is that re-training and new jobs are just another empty promise from the government.

While some would say that the trade problem is temporary, let me point out that in May the Commerce Department reported that textile and apparel imports increased a record 16 percent over May 1984, and that base month was a record itself. Furthermore, from January through May, the textile and apparel trade deficit was 13 percent above last year's record level.

Mr. Chairman and members of this subcommittee, I ask you, is this evidence of a trade policy that is in the best interest of the United States? I would suggest that a majority of both Houses of Congress believes it is not, and the reality of surging imports and lost jobs provides a clear and ringing mandate for passage of the Textile and Apparel Trade Enforcenent Act.

I would like to add that the textile/apparel industry is doing everything in its power to survive. Investment in new plants and equipment has topped $1 billion every year for the past 10 years. Last year new investment totaled $1.9 billion, and this year $2 billion is projected to be reinvested. The American textile industry has become the most productive in the world and is determined to meet the challenge of worldwide competition.

What our Country lacks is a trade program that is both predictable and fair. That is the reason for the Textile and Apparel Trade Enforcement Act of 1985. It puts trade on a level playing field again. This legislation sends a message that cannot be misunderstood—namely that our American government will not allow a basic manufacturing industry which is vital to both our economy and our defense posture to fade away, nor will it turn its back on the working men and women who are dependent on that industry for their livelihoods.

Mr. Chairman, I understand that an additional hearing is to be held on this subject. If that is absolutely necessary to allow all interested parties to be heard, I would request that this hearing be held as expeditiously as possible. With a majority of the Senate cosponsoring this measure, the Finance Committee has an obligation to allow the full Senate to consider this matter, and the seriousness of the problem demands prompt action.

Mr. Chairman, thank you for allowing me to testify today, and I urge that the Committee promptly report favorably on S. 680.

Senator DANFORTH. Any questions for the witnesses?

[No response.]

Senator DANFORTH. Gentlemen, thank you very much for being here.

Senator MOYNIHAN. Mr. Chairman?

Senator DANFORTH. Yes?

Senator MOYNIHAN. Could I just take the pleasant opportunity to introduce in the record the letter which Senator John F. Kennedy sent to Governor Ernest Hollings on August 30, 1960, committing Mr. Kennedy, were he to be elected, to a program for the orderly management of the import market of textiles and apparel?

He kept that agreement: the long-term cotton textile agreement was what resulted from the pledge made to Senator Hollings. As Mr. Kennedy mentioned, Senator Thurmond was a member of Senator Pastore's committee.

I think, if we recall, sir, that at that time we faced the prospect that as much as 20 percent of textiles and apparel might be imported in this country, and we felt we had to do something about it. Today we are at 50 percent. I would like to put that in the record, if I may, sir.

Senator DANFORTH. All right.

[The letter follows:]

51-752 O--85----2

LABOR AND PUBLIC WELFARE
JOINT ECONOMIC COMMITTEE

United States Senate
WASHINGTON, D.C.

August 30, 1960

FROM JFK

(see top. p. 2.

The Honorable Ernest Hollings
Governor of the State of South Carolina
State Capitol Building
Columbia, South Carolina

Dear Governor Hollings:

I would, of course, be delighted to discuss with you and with textile industry leaders the problems of the textile industry and the development of constructive methods for showing the growth and prosperity of the industry in the future. The critical import situation that confronts the textile industry which you so eloquently describe in your letter is one with which I am familiar. My own State of Massachusetts has suffered and is suffering from the same conditions. The past few years have been particularly difficult for this industry. There seems to have been a basic unwillingness to meet the problem and deal constructively with it. During the first six months of this year imports of cotton cloth are twice what they were during the same period in 1959, the highest year on record. Similarly alarming increases are occuring on other textile and apparel products. Since 1958 imports have exceeded exports by constantly increasing margins. There are now 400,000 less jobs in the industry than there were 10 years ago. It is no longer possible to depend upon makeshift policies and piecemeal remedies to solve the problems which the industry faces.

As you know, I supported the establishment of the Special Senate Sub-committee for the Textile Industry, under the chairmanship of Senator Pastore, of which Senator Strom Thurmond is a member. In an effort to help develop suggestions to improve the competitive position of the industry in the United States and world markets, this Subcommittee for the first time undertook a broad investigation of the problems of the United States textile industry and offered a number of constructive recommendations. With only minor exceptions, the Eisenhower Administration has failed to implement these recommendations.

I agree with the conclusions of the Pastore Committee that sweeping changes in our foreign trade policies are not necessary. Nevertheless, we must recognize that the textile and apparel industries are of international scope and are peculiarly susceptible to competitive pressure from imports. Clearly the problems of the industry will not disappear by neglect nor can we wait for large scale unemployment and shutdown of the industry to inspire us to action. A comprehensive industry-wide remedy is necessary.

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Governor Ernest Hollings
Page 2
August 30, 1960

The outline of such a remedy can be found in the Report of the Pastore Committee. Imports of textile products, including apparel, should be within limits which will not endanger our own existing textile capacity and employment, and which will permit growth of the industry in reasonable relationship to the expansion of our over-all economy.

We are pledged in the Democratic Platform to combat sub-standard wages abroad through the development of international fair labor standards. Effort along this line is of special importance to the United States textile industry.

The office of the Presidency carries with it the authority and influence to explore and work out solutions within the framework of our foreign trade policies for the problems peculiar to our textile and apparel industry. Because of the broad ramifications of any action and because of the necessity of approaching a solution in terms of total needs of the textile industry, this is a responsibility which only the President can adequately discharge. I can assure you that the next Democratic Administration will regard this as a high priority objective.

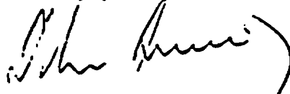
Additionally, we shall make vigorous use of the procedures provided by Congress such as Section 22 of the Agricultural Adjustment Act and the Escape Clause in accordance with the intention of Congress in enacting these laws.

Lastly, I assure you that should further authority be necessary to enable the President to carry out these objectives, I shall request such authorization from the Congress.

I hope that these thoughts are helpful to you in your own deliberations and I reaffirm my interest in discussing problems of mutual concern with you.

With all good wishes, I am

Sincerely yours,



John F. Kennedy

JFK/js

Senator DANFORTH. Gentlemen, I spoke too quickly; I was trying to follow Senator Thurmond's wishes that we act expeditiously in this committee. But I am told by Senator Roth and Senator Heinz, at least, that they have some questions.

Senator Roth.

Senator ROTH. Mr. Chairman, I will be very brief in my questions, but I would like to raise at least two points. One, as I understand the legislation, it does not apply to Europe, to Canada, and I believe to Mexico. At the same time, I understand that imports from those regions have increased rather substantially.

I also understand that it does not apply to silk, linen, and is it ramie, r-a-m-i-e? Well, if I am inaccurate in these, I would ask them to correct it; but it is my understanding that a number of these materials are not covered.

My question is, why are these regions not included? And if these materials are not included, why were they not covered? What was the reasoning behind that?

Senator THURMOND. Mr. Chairman, I think the reasoning was that those countries are so close here and have not in the past sent any excessive exports from their countries.

Senator ROTH. Am I correct in understanding they are responsible for something like 20 percent of the increase of the imports?

Senator THURMOND. They are increasing now, and the committee may want to take that into consideration when they go to markup this bill.

Senator ROTH. Well, the products, I understand, are covered.

Second, as a matter of approach—and I want to thank the gentleman for bringing this most serious problem to our attention in a very vivid fashion—I wonder if we adopt this legislation, and one of you addressed this question, why won't we be compelled to adopt similar kinds of legislation with respect to other products, whether it is steel or shoes and so forth? Can't you make some of the same cogent arguments? And would you support this being a precedent as a matter of approach to trade policy?

Senator THURMOND. Well, Mr. Chairman, I maintain the position that we should not allow imports to come in, of any category that closes down industry and throws thousands of people out of jobs. And that is exactly what has happened here. And I understand that is happening to some others such as shoes and so forth.

Senator ROTH. I guess what I am saying here, and I am not passing judgment at the moment, Senator Thurmond, is that this would be a precedent-establishing legislation.

Senator THURMOND. Well, it might be a precedent, but I think you have got to consider the situation with regard to each industry, and this industry here is going to go out of business unless something is done.

As was brought out in 1950 during the Pastore hearing, when I was a member of the Commerce Committee and the Textile Subcommittee, textiles were found to be second in importance to steel. And what is going to happen to the uniforms and the parachutes and all those things that the service have to use in time of war? Suppose we are in a war—where are we going to get these things? I think it is very important that we take steps.

The next thing, as I repeated, is jobs. I just stated how many jobs we have lost in this country. In my own State there, we have lost all those jobs, and in other States we have lost jobs. And this is not just a regional problem; it is a national problem. It concerns Pennsylvania, it concerns New York, it concerns Maine, it concerns California, it concerns every State in the Nation. Every State has textiles and apparel.

Congressman BROYHILL. Mr. Chairman, can I address that?

Senator ROTH. Yes, and since it is my questioning, the question I am getting at, and I am not passing judgment but think it is a factor that we in the committee must consider when we decide what to do with this legislation, and that is a question of what to do with this legislation, and that is a question of whether or not, if we adopt this approach here, and I have to agree with you that there are terribly serious problems, and I agree with you, Strom, about the importance of jobs, the same can be said of course in the area of steel. I think steel was number one according to your testimony. We have already seen what has happened in the area of shoes and so forth. But what I am trying to get at is a sense of feeling on whether you feel this is the new road, not only in the area of textiles but in other areas of addressing the problem of a trade imbalance.

Congressman BROYHILL. Let me respond in part to this, then I would like to yield to the Senator from South Carolina, because he has already partially touched on the answer to your question.

There is no doubt when you examine the record that we are being impacted by imports in many other areas, but this bill is only going to the problem as it applies to textile and apparel goods, and the reason, as pointed out in testimony by Senator Hollings, is that we have had this Multi-Fiber Arrangement now for—what?—25 years or so, or thereabout. In other words, world trade in textile and apparel products has been treated differently under GATT than has trade in all of these other items such as steel and shoes and so forth. And we feel that this legislation is consistent with the objectives of the multi-fiber arrangement in that it does take action to ensure orderly trade. All the other textile and apparel producing nations of the world are not taking in increases in textile and apparel imports like we are; we are the only country in the world taking these huge increases. All we are saying is that we ought to seek a fair balance.

And the multi-fiber arrangement is just not being enforced.

I would make one other point, that this action is also consistent with action that the European Community took several years ago. The EEC cut back trade from major suppliers of textile and apparel. They set up low growth rates, and they also established this global approach on imports. These actions were accepted back in those days when they were taken by EEC countries. And now the EEC is absorbing one-fourth of the imports in textile and apparel that the United States absorbs.

Well, I answered in part what the gentleman has already started out to say a few minutes ago.

Senator HOLLINGS. Thank you very much.

Senator Roth, if you please, I would like to include Bob Kuttner's article right here entitled "The Free Trade Fallacy," which touches

directly on answering your question. The answer is yes, it could set the example. He and other economists like Wolfgang Hegger of the Common Market have stated we no longer of course live in the free trade theory of full employment. And in citing an approach that has worked, he talks about the textile industry, and he measures the degree of protection—because it is a multifiber arrangement entered into voluntarily by the other competitive nations, guaranteeing them a percentage of the growth in the domestic consumption.

He touches on the climate of cooperation between the two major labor unions, where they withheld and restricted themselves. That has not occurred throughout the steel industry.

He talks about the heavy investment in modernization that has come about, which did not occur. When United States Steel got the trigger-price-mechanism from this particular committee, they ran around and bought Marathon Oil. That is what I am talking about. You have got to have some reliability.

And then he goes on and discusses the prices and everything else. But we don't hesitate saying that this might set a precedent that would be bad; on the contrary, the best of economic minds right now are looking upon it, if properly enforced, freely and voluntarily entered into by all segments of the industry, and not total protection—allowing competition and allowing the consumer to benefit. Yes. The answer is "Yes," this could set the example.

And I must emphasize, of course, the flexibility of the example, because different industries have different requirements and everything else with respect to employment, prices, and worldwide competition.

Thinking about the unthinkable.

THE FREE TRADE FALLACY

BY BOB KUTTNER

IN THE FIRMAMENT of American ideological convictions, no star burns brighter than the bipartisan devotion to free trade The President's 1983 Economic Report, to no one's surprise, sternly admonished would-be protectionists An editorial in *The New York Times*, midway through an otherwise sensibly Keynesian argument, paused to add ritually, "Protectionism might mean a few jobs for American auto workers, but it would depress the living standards of hundreds of millions of consumers and workers, here and abroad "

The Rising Tide of Protectionism has become an irresistible topic for a light news day Before me is a thick sheaf of nearly interchangeable clips warning of impending trade war. With rare unanimity, the press has excoriated the United Auto Workers for its local content legislation *The Wall Street Journal*'s editorial ("Loco Content") and the *Times*'s ("The Made-in-America Trap") were, if anything, a shade more charitable than Cockburn and Ridgeway in *The Village Voice* ("Jobs and Racism") And when former Vice President Mondale began telling labor audiences that America should hold Japan to a single standard in trade, it signaled a chorus of shame-on-Fritz stories

The standard trade war story goes like this recession has prompted a spate of jingoistic and self-defeating demands to fence out superior foreign goods These demands typically emanate from overpaid workers, loser industries, and their political toadies Protectionism will breed stagnation, retaliation, and worldwide depression. Remember Smoot-Hawley!

Perhaps it is just the unnerving experience of seeing *The Wall Street Journal* and *The Village Voice* on the same side, but one is moved to further inquiry Recall for a moment the classic theory of comparative advantage As the English economist David Ricardo explained it in 1817, if you are more efficient at making wine and I am better at weaving cloth, then it would be silly for each of us to produce both goods Far better to do what each does best, and to trade the excess. Obviously then, barriers to trade defeat potential efficiency gains Add some algebra, and that is how trade theory continues to be taught today.

To bring Ricardo's homely illustration up to date, the economically sound way to deal with the Japanese menace is simply to buy their entire cornucopia—the cheaper the better If they are superior at making autos, TVs, tape recorders, cameras, steel, machine tools, baseballs, semiconductors, computers, and other peculiarly Oriental products, it is irrational to shelter our own benighted industries Far more sensible to buy their goods, let the bracing tonic of competition shake America from its torpor, and wait for the market to reveal our niche in the international division of labor.

But this formulation fails to describe the global economy as it actually works. The classical theory of free trade was based on what economists call "factor endowments"—a nation's natural advantages in climate, minerals, arable land, or plentiful labor. The theory doesn't fit a world of learning curves, economies of scale, and floating exchange rates. And it certainly doesn't deal with the fact that much "comparative advantage" today is created not by markets but by government action If Boeing got a head start on the 707 from multibillion-dollar military contracts, is that a sin against free trade? Well, sort of If the European Airbus responds with subsidized loans, is that worse? If only Western Electric (a U.S supplier) can produce for Bell, is that protection? If Japan uses public capital, research subsidies, and market-sharing cartels to launch a highly competitive semiconductor industry, is *that* protection? Maybe so, maybe not

Just fifty years ago, Keynes, having dissented from the nineteenth-century theory of free markets, began wondering about free trade as well. In a 1933 essay in the *Yale Review* called "National Self-Sufficiency," he noted that "most modern processes of mass production can be performed in most countries and climates with almost equal efficiency." He wondered whether the putative efficiencies of trade necessarily justified the loss of national autonomy Today nearly half of world trade is conducted between units of multinational corporations As Keynes predicted, most basic products (such as steel, plastics, microprocessors, textiles, and machine tools) can be manufactured almost anywhere, but by labor forces with vastly differing prevailing wages.

With dozens of countries trying to emulate Japan, the trend is toward worldwide excess capacity, shortened useful life of capital equipment, and downward pressure on wages. For in a world where technology is highly mobile and interchangeable, there is a real risk that comparative advantage comes to be defined as whose work force will work for the lowest wage.

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In such a world, it is possible for industries to grow nominally more productive while the national economy grows poorer. How can that be? The factor left out of the simple Ricardo equation is idle capacity. If America's autos (or steel tubes, or machine tools) are manufactured more productively than a decade ago but less productively than in Japan (or Korea, or Brazil), and if we practice what we preach about open trade, then an immense share of U.S. purchasing power will go to provide jobs overseas. A growing segment of our productive resources will lie idle. American manufacturers, detecting soft markets and falling profits, will decline to invest. Steelmakers will buy oil companies. Consumer access to superior foreign products will not necessarily compensate for the decline in real income and the idle resources. Nor is there any guarantee that the new industrial countries will use their burgeoning income from American sales to buy American capital equipment (or computers, or even coal), for they are all striving to develop their own advanced, diversified economies.

AGAINST THIS BACKGROUND of tidal change in the global economy, the conventional reverence for "free trade" is just not helpful. As an economic paradigm, it denies us a realistic appraisal of second bests. As a political principle, it leads liberals into a disastrous logic in which the main obstacle to a strong American economy is decent living standards for the American work force. Worst of all, a simple-minded devotion to textbook free trade in a world of mercantilism assures that the form of protection we inevitably get will be purely defensive, and will not lead to constructive change in the protected industry.

The seductive fallacy that pervades the hand-wringing about protectionism is the premise that free trade is the norm and that successful foreign exporters must be playing by the rules. Even so canny a critic of political economy as Michael Kinsley wrote in these pages that "Very few American workers have lost their jobs because of unfair foreign trade practices, and it is demagogic for Mondale and company to suggest otherwise." But what is an unfair trade practice? The Common Market just filed a complaint alleging that the entire Japanese industrial system is one great unfair trade practice!

To the extent that the rules of liberal trade are codified, they repose in the General Agreement on Tariffs and Trade (stay awake, this will be brief). The GATT is one of those multilateral institutions created in the American image just after World War II, a splendid historical moment when we could commend free trade to our allies the way the biggest kid on the block calls for a fair fight.

The basic GATT treaty, ratified in 1947, requires that all member nations get the same tariff treatment (the "most favored nation" doctrine), and that tariffs, in theory at least, are the only permissible form of barrier. Governments are supposed to treat foreign goods exactly the same as domestic ones: no subsidies, tax preferences, cheap loans to home industries; no quotas, preferential procurement, or inspection gimmicks to exclude foreign ones. Nor can producers sell below cost (dumping) in foreign markets.

Since 1947 there have been seven "rounds" of multilateral negotiations under GATT auspices, which have sharply reduced prevailing tariffs. In the last series of negotiations, the so-called Tokyo round, the United States pressed unsuccessfully for reductions in "nontariff barriers." Not surprisingly, this campaign failed, for what we consider nontariff barriers are the essence of other nations' economic development strategies.

Moreover, the GATT lacks an enforcement mechanism. If an alleged treaty violation is confirmed, the complaining country has the right to impose countervailing duties. But this action itself invites further retaliation and is usually decided on political, not legal, grounds. For example, when the European Airbus consortium cracked the U.S. market with a billion-dollar sale to Eastern Airlines, the deal included loans far below market rates, an unequivocal violation of the GATT regime. But the United States, torn between alienating Boeing—or alienating Eastern and half of Europe—did nothing.

Nor does the United States quite live up to its own saintly standards in trade. Probably the most famous recent example is the 1971 Domestic International Sales Corporation Law, which gives tax advantages to American exporters. The Common Market filed a GATT complaint against the patent tax favoritism; the GATT upheld it; and nothing else happened. The law is still on the books. We also periodically pressure trading partners to adopt voluntary import quotas; we export billions of dollars worth of subsidized farm products. And for years the Europeans have complained that Pentagon spending on research and development is a hidden subsidy to the United States aerospace industry.

IN CLASSICAL free trade theory, the only permissible candidate for temporary protection is the "infant industry." But Japan and its imitators, not unreasonably, treat every emerging technology as an infant industry. Japan uses a highly sheltered domestic market as a laboratory, and as a shield behind which to launch one export winner after another. Seemingly, Japan should be paying a heavy price for its protectionism as its industry stagnates. Poor Japan! This is not the place for a detailed recapitulation of Japan, Inc., but keep in mind some essentials.

The Japanese government, in close collaboration with industry, targets sectors for development. It doesn't try to pick winners blindfolded; it creates them. It offers special equity loans, which need be repaid only if the venture turns a profit. It lends public capital through the Japan Development Bank, which signals private bankers to let funds flow. Where our government offers tax deductions to all businesses as an entitlement, Japan taxes ordinary business profits at stiff rates and saves its

tax subsidies for targeted ventures The government sometimes buys back outdated capital equipment to create markets for newer capital.

The famed Ministry of International Trade and Industry has pursued this essential strategy for better than twenty years, keeping foreign borrowers out of cheap Japanese capital markets, letting in foreign investors only on very restricted terms, moving Japan up the product ladder from cheap labor intensive goods in the 1950s to autos and steel in the 1960s, consumer electronics in the early 1970s, and computers, semiconductors, optical fibers, and just about everything else by 1980. The Japanese government also waives antimonopoly laws for development cartels, and organizes recession cartels when overcapacity is a problem And far from defying the discipline of the market, MITI encourages fierce domestic competition before winnowing the field down to a few export champions

Free-trade purists and neoprotectionists alike can readily agree that America should bargain harder for reciprocal access to Japanese markets, but that would solve only a small part of the Japan problem The other elements of Japan's brilliantly successful mercantilism—the development loans, the incubation of supply with state-seeded demand, the cartels—constitute a fundamentally different strategy of economic development, which happens to be attractive to much of the world It is not likely to be banished from international commerce by American appeals to the GATT or the sainted memory of David Ricardo

THE JAPANESE not only sin against the rules of market economics They convert sin into productive virtue By our own highest standards, they must be doing something right. The evident success of the Japanese model and the worldwide rush to emulate it create both a diplomatic crisis for American trade negotiators and a deeper ideological crisis for the free trade regime. As Berkeley professors John Zysman and Steven Cohen observed in a careful study for the Congressional Joint Economic Committee last December, America, as the main defender of the GATT philosophy, now faces an acute policy dilemma "how to sustain the open trade system and promote the competitive position of American industry" at the same time.

Unfortunately, the dilemma is compounded by our ideological blinders. Americans believe so fervently in free markets, especially in trade, that we shun interventionist measures until an industry is in deep trouble. Then we build it half a bridge.

There is no better example of the lethal combination of protectionism plus market-capitalism-as-usual than the steel industry. Steel has enjoyed some import limitation since the late 1950s, initially through informal quotas. The industry is oligopolistic; it was very slow to modernize. By the mid-1970s, world demand for steel was leveling off just as aggressive new producers such as Japan, Korea, and Brazil were flooding world markets with cheap, state-of-the-art steel.

As the Carter Administration took office, the American steel industry was pursuing antidumping suits against foreign producers—an avenue that creates problems for American diplomacy The new Administration had a better idea, more consistent with open markets and neighborly economic relations It devised a "trigger price mechanism," a kind of floor price for foreign steel entering American markets This was supposed to limit import penetration The steelmakers withdrew their suits Imports continued to increase

So the Carter Administration moved with characteristic caution toward a minimalist industrial policy Officials invented a kind of near-beer called the Steel Tripartite Together, industry, labor, and government would devise a strategy for a competitive American steel industry The eventual steel policy accepted the industry's own agenda more protection, a softening of pollution control requirements, wage restraint, new tax incentives, and a gentlemen's agreement to phase out excess capacity What the policy did not include was either an enforceable commitment or adequate capital to modernize the industry By market standards, massive retooling was not a rational course, because the return on steel investment was well below prevailing yields on other investments. Moreover, government officials had neither the ideological mandate nor adequate information to tell the steel industry how to invest. "We would sit around and talk about rods versus plate versus specialty steel, and none of us in government had any knowledge of how the steel industry actually operates," confesses C. Fred Bergsten, who served as Treasury's top trade official under Carter. "There has never been a government study of what size and shape steel industry the country needs If we're going to go down this road, we should do it right, rather than simply preserving the status quo"

THAT VIEW, of course, was heresy to most of the Carter Administration (not even Bergsten is quite comfortable with it) It is even clearer heresy to the Reagan Administration The steel story has an intriguing epilogue. The Reagan Administration put a stop to the government's mild flirtation with industrial policy U.S Steel repaid the Tripartite by purchasing Marathon Oil. The industry continued to hemorrhage. And in 1982, under pressure from the now comatose steel industry, the Administration negotiated new, tougher import quotas There was, of course, no talk of quid pro quos. Reagan believes in free markets

Well, we have all read that steel is just a dying smokestack industry In the new information age, we won't really miss it anyway. All right, take semiconductors, the basic building block of advanced electronic technology. We invented them. Did you know that Japan, Inc., successfully leapfrogged over the last generation of semiconductor technology, and now has 56 percent of the U.S. market in advanced computer mem-

ories? The Japanese accomplished this feat through the usual methods. They kept out direct U.S. investment, while insisting that American manufacturers wishing to sell in the Japanese market share their technology with Japan. Texas Instruments was permitted to set up a joint venture with Sony, but had to limit its market share to 10 percent and license its patents to Sony, Hitachi, Toshiba, and Mitsubishi. In the early 1960s, MITI organized a consortium of Japanese firms into the Japan Electronic Computer Company, which got loans from the Japan Development Bank. This, in turn, provided a market for the infant semiconductor industry.

OR CONSIDER the important machine tool industry. The future belongs to computerized machine tools, which can be reprogrammed to perform a wide variety of industrial tasks—another natural target of MITI. In 1976 Japanese suppliers held just 3.7 percent of the U.S. computer-controlled machine tool market. Last year the Japanese share was 60 percent. The Reagan Administration is nervously weighing an unusual petition from a major U.S. maker of computerized machine tools, Houdaille Industries; the case captures all the elements of the free-trade trap.

In early 1982, Houdaille's president, Phillip O'Reilly, stumbled on a little noticed provision of U.S. law. Under the 1971 tax act, the President of the United States may disqualify foreign products from the 10 percent investment tax credit if he finds that they originate in a country that violates trade norms. O'Reilly set out to document that the Japanese machine tool industry systematically engaged in practices that would be illegal in the United States, hiring the prestigious Washington law firm, Covington & Burling. So far the investigation has cost Houdaille a million dollars, and has produced one of the most intimate pictures of Japanese industrial strategy yet available in English.

MITI began by ordering marginal producers out of the Japanese machine tool industry. The remaining big producers then got exemptions from Japanese antitrust laws. The venture got the usual R&D help and the preferential loans. The Japanese also devised an ingenious subsidy to help Japanese manufacturers become customers for the new computerized machine tools. Several hundred million dollars in revenues from the popular spectator sports of motorcycle and bicycle racing are funneled to municipal research centers for the application of advanced technology.

Covington lawyer Richard Copaken videotaped Japanese officials proudly describing the process. A Japanese watch manufacturer, for example, asks the Tokyo technology center to evaluate whether he can use numerically controlled machining centers. The center's engineers design software, test it, and use it to produce prototype watch parts. The manufacturer then purchases a state-of-the-art numerically controlled machining center, with the computer program ready to go. Japanese, of course. A smiling official explains, "These manufacturers cannot afford to do this work themselves and still make a profit. So the center does this work for them."

The Reagan Administration wishes that Houdaille would go away. Denying the investment tax credit to purchasers of Japanese machine tools would invite a stampede of similar petitions from other domestic industries. Instead, the Administration hopes to get the Japanese to "voluntarily" cut machine tool exports. Using tax policy as a far more targeted instrument of industrial policy runs counter to the ideological embrace of free markets. Houdaille was not an issue during Prime Minister Yasuhiro Nakasone's January visit. It was mainly about beef, citrus products, and the Administration's campaign to make Japan rearm. Presumably if the Japanese let us sell them more oranges, filet mignons, and mortars, we needn't worry about semiconductors or machine tools. The Japanese, incidentally, in their defense against the Houdaille petition, employ a wonderfully nervy argument. Restriction of the investment tax credit to American capital goods, they contend, would violate the GATT.

THE ARGUMENT that we should let "the market" ease us out of old-fashioned heavy industry in which newly industrialized countries have a comparative advantage quickly melts away once you realize that precisely the same nonmarket pressures are squeezing us out of the highest-tech industries as well. And the argument that blames the problem on overpaid American labor collapses when one understands that semiskilled labor overseas in several Asian nations is producing advanced products for the U.S. market at less than a dollar an hour. Who really thinks that we should lower American wages to that level in order to compete?

In theory, other nations' willingness to exploit their work forces in order to provide Americans with good, cheap products offers a deal we shouldn't refuse. But the fallacy in that logic is to measure the costs and benefits of a trade transaction only in terms of that transaction itself. Classical free-trade theory assumes full employment. When foreign, state-led competition drives us out of industry after industry, the costs to the economy as a whole can easily outweigh the benefits. As Wolfgang Hager, a consultant to the Common Market, has written, "The cheap [imported] shirt is paid for several times: once at the counter, then again in unemployment benefits. Secondary losses involve input industries . . . machinery, fibers, chemicals for dyeing and finishing products."

As it happens, Hager's metaphor, the textile industry, is a fairly successful example of managed trade, which combines a dose of protection with a dose of modernization. Essentially, textiles have been removed from the free-trade regime by an international market-sharing agreement. In the late 1950s, the American textile industry began suffering insurmountable competition from cheap imports. The United States first imposed quotas

on imports of cotton fibers, then on synthetics, and eventually on most textiles and apparel as well. A so-called Multi-Fiber Arrangement eventually was negotiated with other nations, which shelters the textile industries of Europe and the United States from wholesale import penetration. Under M.F.A., import growth in textiles was limited to an average of 6 percent per year.

The consequences of this, in theory, should have been stagnation. But the result has been exactly the opposite. The degree of protection, and a climate of cooperation with the two major labor unions, encouraged the American textile industry to invest heavily in modernization. During the 1960s and 1970s, the average annual productivity growth in textiles has been about twice the U.S. industrial average, second only to electronics. According to a study done for the Common Market, productivity in the most efficient American weaving operations is 130,000 stitches per worker per hour—twice as high as France and three times as high as Britain. Textiles, surprisingly enough, have remained an export winner for the United States, with net exports regularly exceeding imports. (In 1982, a depressed year that saw renewed competition from China, Hong Kong, Korea, and Taiwan, exports just about equaled imports).

But surely the American consumer pays the bill when the domestic market is sheltered from open foreign competition. Wrong again. Textile prices have risen at only about half the average rate of the producer price index, both before and after the introduction of the Multi-Fiber Arrangement.

NOW, IT IS POSSIBLE to perform some algebraic manipulations and show how much lower textile prices would have been without any protection. One such computation places the cost of each protected textile job at several hundred thousand dollars. But these static calculations are essentially useless as practical policy guides, for they leave out the value over time of maintaining a textile industry in the United States. The benefits include not only jobs, but contributions to G.N.P., to the balance of payments, and the fact that investing in this generation's technology is the ticket of admission to the next.

Why didn't the textile industry stagnate? Why didn't protectionism lead to higher prices? Largely because the textile industry is quite competitive domestically. The top five manufacturers have less than 20 percent of the market. The industry still operates under a 1968 Federal Trade Commission consent order prohibiting any company with sales of more than $100 million from acquiring one with sales exceeding $10 million. If an industry competes vigorously domestically, it can innovate and keep prices low, despite being sheltered from ultra-low-wage foreign competition—or rather, thanks to the shelter. In fact, students of the nature of modern managed capitalism should hardly be surprised that market stability and new investment go hand in hand.

The textile case also suggests that the sunrise industry/sunset industry distinction is so much nonsense. Most of America's major industries can be winners or losers, depending on whether they get sufficient capital investment. And it turns out that many U.S. industries such as textiles and shoes, which conventionally seem destined for lower-wage countries, can survive and modernize given a reasonable degree of, well, protection.

WHAT, THEN, is to be done? First, we should acknowledge the realities of international trade. Our competitors, increasingly, are not free marketeers in our own mold. It is absurd to let foreign mercantilist enterprise overrun U.S. industry in the name of free trade. The alternative is not jingoist protectionism. It is managed trade, on the model of the Multi-Fiber Arrangement. If domestic industries are assured some limits to import growth, then it becomes rational for them to keep retooling and modernizing.

It is not necessary to protect every industry, nor do we want an American MITI. But surely it is reasonable to fashion plans for particular key sectors like steel, autos, machine tools, and semiconductors. The idea is not to close U.S. markets, but to limit the rate of import growth in key industries. In exchange, the domestic industry must invest heavily in modernization. And as part of the bargain, workers deserve a degree of job security and job retraining opportunities.

Far from being just another euphemism for beggar-thy-neighbor, a more stable trade system generally can be in the interest of producing countries. Universal excess capacity does no country much of a favor. When rapid penetration of the U.S. color TV market by Korean suppliers became intolerable, we slammed shut an open door. Overnight, Korean color TV production shrank to 20 percent of capacity. Predictable, if more gradual, growth in sales would have been preferable for us and for the Koreans.

Second, we should understand the interrelationship of managed trade, industrial policies, and economic recovery. Without a degree of industrial planning, limiting imports leads indeed to stagnation. Without restored world economic growth, managed trade becomes a nasty battle over shares of a shrinking pie, instead of allocation of a growing one. And without some limitation on imports, the Keynesian pump leaks. One reason big deficits fail to ignite recoveries is that so much of the growth in demand goes to purchase imported goods.

Third, we should train more economists to study industries in the particular. Most economists dwell in the best of all possible worlds, where markets equilibrate, firms optimize, and idle resources re-employ themselves. "Microeconomics" is seldom the study of actual industries; it is most often a branch of arcane mathematics. The issue of *whether* governments can sometimes improve on markets is not a fit subject for empirical inquiry, for the paradigm begins with the assumption that they cannot. The highly practical question of *when* a

little protection is justified is ruled out *ex ante*, since neoclassical economics assumes that less protection is always better than more

Because applied industrial economics is not a main stream concern of the economics profession, the people who study it tend to come from the fields of management, industrial and labor relations, planning, and law They are not invited to professional gatherings of economists, who thus continue to avoid the most pressing practical questions One economist whom I otherwise admire told me he found it "seedy" that high-wage autoworkers would ask consumers to subsidize their pay Surely it is seedier for an $800-a-week tenured economist to lecture a $400 a-week autoworker on job security, if the Japanese have a genuine comparative advantage in anything, it is in applied economics.

Fourth, we should stop viewing high wages as a liability After World War II, Western Europe and North America evolved a social contract unique in the history of industrial capitalism. Unionism was encouraged, workers got a fair share in the fruits of production, and a measure of job security The transformation of a crude industrial production machine into something approximating social citizenship is an immense achievement, not to be sacrificed lightly on the altar of "free trade." It took one depression to show that wage cuts are no route to recovery Will it take another to show they are a poor formula for competitiveness? Well-paid workers, after all, are consumers

WHICH BRINGS ME full circle to the United Auto Workers' much maligned domestic content legislation. The U A W. bill would require a large fraction of the value of automobiles sold in the United States to be assembled here Over thirty countries have similar restrictions. Western Europe drastically limits sales of non-European cars, and it encourages non-European producers such as Ford, GM, and Toyota to build for the European market in European plants. Most likely, content legislation would invite just the sort of retaliation we want: foreign automakers would produce here.

Unlike import quotas, the content approach keeps Detroit under real competitive pressure, because it places no limits on the number of Toyotas and VWs Americans may buy. The claim that U S.-built Toyotas would sell at inflated prices is vastly exaggerated Much of Japan's price advantage reflects more efficient production; it takes fewer man hours to build a Japanese car. If the yen rises 10 to 15 percent against the dollar, as many experts say it should, a U.S.-built Toyota would sell for about the same price as one built in Japan

There is no guarantee that wage reduction by itself would sell more cars. A grand bargain for the U.S auto industry would surely include wage restraint—coupled with some protection, with a massive investment in retooling and an industry commitment of job security. That is a bargain the U.A.W. would gladly accept But nobody is offering it The automakers have shown time and again that they will take the wage restraint and continue to shift production overseas anyway. The Administration is opposed to both the concept of domestic content and the philosophy of using government to broker quid pro quos In this climate, the U.A.W. is not rushing forward to disarm unilaterally as a grand sacrifice to American competitiveness

Unfortunately, too, most of the 226 members of Congress who co-sponsored the U.A.W.'s bill did so with guilty consciences There is still no permissible vocabulary in American liberalism to discuss managed alternatives to free markets Walter Mondale, reeling from one superficial question after another on a recent "Meet the Press," finally sighed, "I have for many years resisted local content legislation, but I've come to the point where I don't know what other defense there is. . . ."

DOMESTIC CONTENT, to be sure, is only half a policy. The problem is not that content legislation is the wrong half, but that the other half is missing. And it will be missing until more liberals and professional economists become comfortable with economic planning. Until then, the pressures of trade will continue to back America into third-best versions of industrial policy Strangely enough, even the Reagan Administration has put in place some piecemeal ingredients of industrial planning A new Bureau of Industrial Economics created in the Commerce Department late in the Carter Administration has been expanded Commerce now publishes import penetration data. For the first time since World War II, the government is minimally competent to analyze America's own industries Commerce is also helping to finance a multimillion-dollar applied-research venture designed by labor and management to modernize production technology in the men's apparel industry. And the Justice Department's antitrust division has blessed a research cooperative in the semiconductor industry Recently, at MITI's suggestion, U.S. Trade Representative William Brock announced a joint U.S.-Japanese hi-tech working group.

But it would pain the Reagan people terribly to have anybody brand this an industrial policy, just as it pains the Administration to admit that it engages in protectionism A spokesman for the U S. Trade Representative patiently explained to me that the forthcoming extension of the Japanese quota on autos is a "unilateral initiative by the Japanese" that we have nothing to do with, for to impose a quota would violate the GATT.

Nor is the government getting much better at coordinating its nonprotection policy with its nonindustrial policy. Last year, in response to semiconductor industry complaints of Japanese dumping, Commerce Undersecretary Lionel Olmer advised MITI to alert Japanese manufacturers to the risk of pricing exports below their costs. Not long afterward, the U.S. Justice Department notified Japanese semiconductor manufacturers that they were under investigation for fixing prices too high. The Japanese thought that was hilarious.

Senator ROTH. Well, my time is up, and I thank you for your comments.

I agree with the earlier comment that the multifiber agreement does somewhat distinguish this area from the others. At the same time, I think your candor is appropriate here. I think jobs are jobs, whether they are in one industry or another, if you are impacted. And one of the questions that we in the committee have to decide, and in the Senate ultimately, is whether we feel this is the best way—and it may well be—of handling an extremely serious problem.

Senator HOLLINGS. Yes, sir.

Senator THURMOND. Senator Roth, may I just remind you again that the textile import growth last year, in 1984, was 32 percent. Domestic growth? One to two percent. No business, no industry, can stay in business like that. The mills are closing. People are thrown out of jobs. I hope the committee reports favorably on this bill.

Senator ROTH. Well, I agree with you, Senator Thurmond; this is an extraordinarily serious problem. Thank you for your attention.

Senator DANFORTH. Any other questions at this time?

Senator HEINZ. Mr. Chairman, first I would ask unaminous consent that my statement appear in the record at the appropriate point.

Second, I just want to compliment the witnesses, who I note are all either from North Carolina or South Carolina. They are bipartisan, but they seem to be from one region of the country. Yet, as Senator Thurmond pointed out, the textile and apparel industry is not a regional industry. I represent the State of Pennsylvania, and in spite of the fact that the Senator from South Carolina said that the steel industry, from a defense standpoint, is the most important industry, and I would agree with him, yet in my State of Pennsylvania the textile and apparel industry employs more people than the steel industry does today. The textile and apparel industry in Pennsylvania is the single largest manufacturing employer in our State and has been for quite some time.

This is a national problem; it is a national issue, and it is one which we must act on promptly for the reason that, if we don't, if we procrastinate for another 4 or 5 years, we will see somewhere between 500,000 to 1 million more jobs lost in this industry. And if we see that, we may just as well forget it; there will not be a textile and apparel industry in New York or Pennsylvania or California or North Carolina or South Carolina or any other State. And gone with that will be the opportunities and hopes for people on the lower rungs of the economic ladder who start out climbing up often with entry-level jobs in some of our textile and apparel and garment mills. These are not wealthy workers; these are sometimes just above minimum-wage-level jobs. And yet today, those are jobs where people, often women, people just starting into the work force for the first time, get their first foothold on the rungs of the ladder of opportunity. And we are just shortening that ladder and cutting the rungs out. And we will rue the day that we lose this industry for all of those reasons.

I really don't have a question, Mr. Chairman; I just want to compliment our witnesses for so forcefully advocating the legislation

that means an awful lot, not just to them but to citizens throughout the United States.

Senator THURMOND. Senator, I want to compliment you on your statement. I want to add again what has been brought out here, that no industry employs as large a percentage of women and as large a percentage of minorities as the textile industry and apparel industry. And those categories need these jobs. And it is just not right to take those jobs away from them.

Senator HEINZ. And if the Senator will permit me to add one other thing: This is an industry where we are competing against a very low-wage-rate labor, sometimes as low as 12-cents-an-hour. And there is no way, even if you pay the minimum wage, that you can compete against 12-cents-an-hour labor.

That is why President Reagan, when he was running for office, as the Senator from South Carolina has mentioned, agreed to a strict multifiber agreement where we would share the growth of our market with the other suppliers, but not simply throw the doors open and allow the vast transference of jobs—hundreds of thousands of them, 300,000 in the last 4 years—by virtue of that tremendous labor-cost advantage.

If we don't reinstate the integrity of the multifiber agreement, and that is all this legislation seeks to do, we will lose hundreds of thousands more jobs each year.

Senator THURMOND. I think the rule that President Reagan adopted in his commitment to me and reaffirmed 2 years later, to keep the import growth in line with the domestic growth, is a fair rule, and I hope we can follow that.

Senator HEINZ. I thank the Senator.

Senator HOLLINGS. Mr. Chairman, could I include in the record at this point that the distinguished Senator from Pennsylvania, 2 years ago on the floor of the Senate, made a brilliant exposé of the Smoot-Hawley tariff bill, entitled the "Myth of Smoot-Hawley." I would ask unanimous consent to include it in the committee's hearing record at this time.

Senator HEINZ. Reserving the right to object, was that the junior or the senior Senator from Pennsylvania?

Senator HOLLINGS. That is Senator Heinz. [Laughter.]

Senator DANFORTH. Without objection.

[The article on Smoot-Hawley follows:]

THE MYTH OF SMOOT-HAWLEY

Mr. HEINZ. Mr. President, every time someone in the administration or the Congress gives a speech about a more aggressive trade policy or the need to confront our trading parterners with their subsidies, barriers to imports and other unfair practices, others, often in the academic community or in the Congress immediately react with speeches on the return of Smoot-Hawley and the dark days of blatant protectionism. "Smoot-Hawley," for those uninitiated in this arcane field, is the Tariff Act of 1930 (Public Law 71-361) which among other things imposed significant increases on a large number of items in the Tariff Schedules. The act has also been, for a number of years, the basis of our countervailing duty law and a number of other provisions relating to unfair trade practices, a fact that tends to be ignored when people talk about the evils of Smoot-Hawley.

A return to Smoot-Hawley, of course, is intended to mean a return to depression, unemployment, poverty, misery, and even war, all of which, apparently were directly caused by this awful piece of legislation. Smoot-Hawley has thus become a code word for protectionism and in turn a code word for depression and major economic disaster. Those who sometimes wonder at the ability of Congress to change the

country's direction through legislation must marvel at the sea change in our economy apparently wrought by this single bill in 1930.

Historians and economists, who usually view these things objectively, realize that the truth is a good deal more complicated, that the causes of the Depression were far deeper, and that the link between high tariffs and economic disaster is much more tenuous than is implied by this simplistic linkage. Now, however, someone has dared to explode this myth publicly through an economic analysis of the actual tariff increases in the act and their effects in the early years of the Depression. The study points out that the increases in question affected only 231 million dollars' worth of products in the second half of 1930, significantly less than 1 percent of world trade; that in 1930-32 duty-free imports into the United States dropped at virtually the same percentage rate as dutiable imports; and that a 13.5 percent drop in GNP in 1930 can hardly be blamed on a single piece of legislation that was not even enacted until midyear.

This, of course, is not to suggest that high tariffs are good or that Smoot-Hawley was a wise piece of legislation. It was not. But it was also clearly not responsible for all the ills of the 1930's that are habitually blamed on it by those who fancy themselves defenders of free trade. While I believe this study does have some policy implications, which I may want to discuss at some future time, one of the most useful things it may do is help us all clean up our rhetoric and reflect a more sophisticated—and accurate—view of economic history.

Mr. President, I ask that the study, by Don Bedell of Bedell Associates, be printed in the record.

The study follows:

BEDELL ASSOCIATES,
Palm Desert, Calif., April 1983.

TARIFFS MISCAST AS VILLAIN IN BEARING BLAME FOR GREAT DEPRESSION—SMOOT-HAWLEY EXONERATED

(By Donald W. Bedell)

SMOOT/HAWLEY, DEPRESSION AND WORLD REVOLUTION

It has recently become fashionable for media reporters, editorial writers here and abroad, economists, Members of Congress, members of foreign governments, UN organizations and a wide variety of scholars to express the conviction that the United States, by the single act of causing the Tariff Act of 1930 to become law (Public Law 361 of the 71st Congress) plunged the world into an economic depression, may well have prolonged it, led to Hitler and World War II.

Smoot-Hawley lifted import tariffs into the U.S. for a cross section of products beginning mid-year 1930, or more than 8 months following the 1929 financial collapse. Many observers are tempted simply to repeat "free trade" economic doctrine by claiming that this relatively insignificant statute contained an inherent trigger mechanism which upset a neatly functioning world trading system based squarely on the theory of comparative economics, and which propelled the world into a cataclysm of unmeasurable proportions.

We believe that sound policy development in international trade must be based solidly on facts as opposed to suspicions, political or national bias, of "off-the-cuff" impressions 50 to 60 years later of how certain events may have occurred.

When pertinent economic, statistical and trade data are carefully examined will they show, on the basis of preponderance of fact, that passage of the Act did in fact trigger or prolong the Great Depression of the Thirties, that it had nothing to do with the Great Depression, or that it represented a minor response of a desperate nation to a giant world-wide economic collapse already underway?

It should be recalled that by the time Smoot-Hawley was passed 6 months had elapsed of 1930 and 8 months had gone by since the economic collapse in October, 1929. Manufacturing plants were already absorbing losses, agriculture surpluses began to accumulate, the spectre of homes being foreclosed appeared, and unemployment showed ominous signs of a precipitous rise.

The country was stunned, as was the rest of the world. All nations sought very elusive solutions. Even by 1932, and the Roosevelt election, improvisation and experiment described government response and the technique of the New Deal, in the words of Arthur Schlesinger, Jr. in a New York Times article on April 10, 1983. President Roosevelt himself is quoted in the article as saying in the 1932 campaign, "It is common sense to take a method and try it. If it fails, admit it frankly and try another. But above all, try something."

The facts are that, rightly or wrongly, there were no major Roosevelt Administration initiatives regarding foreign trade until well into his Administration; thus clearly suggesting that initiatives in that sector were not thought to be any more important than the Hoover Administration thought them. However, when all the numbers are examined we believe neither President Hoover nor President Roosevelt can be faulted for placing international trade's role in world economy near the end of a long list of sectors of the economy that had caused chaos and suffering and therefore needed major corrective legislation.

How important was international trade to the U.S.? How important was U.S. trade to its partners in the Twenties and Thirties?

In 1919, 66% of U.S. imports were duty free, or $2.9 Billion of a total of $4.3 Billion. Exports amounted to $5.2 Billion in that year making a total trade number of $9.6 Billion or about 14% of the world's total. See Chart I below.

CHART I.—U.S. GROSS NATIONAL PRODUCT, 1929-33

[Dollar amounts in billions]

	1929	1930	1931	1932	1933
GNP	$103.4	$89.5	$76.3	$56.8	$55.4
U.S. international trade	$9.6	$6.8	$4.5	$2.9	$3.2
U.S. international trade percent of GNP	9.3	7.6	5.9	5.1	[1] 5.6

[1] Series U., Department of Commerce of the United States, Bureau of Economic Analysis.

Using the numbers in that same Chart I it can be seen that U.S. imports amounted to $4.3 Billion of just slightly above 12% of total world trade. When account is taken of the fact that only 33%, or $1.5 Billion, of U.S. imports was in the Dutiable category, the entire impact of Smoot/Hawley has to be focused on the $1.5 Billion number which is barely 1.5% of U.S. GNP and 4% of world imports.

What was the impact? In dollars Dutiable imports fell by $462 Million, or from $1.5 Billion to $1.0 Billion, during 1930. It's difficult to determine how much of that small number occurred in the second half of 1930 but the probability is that it was less than 50%. In any case, the total impact of Smoot/Hawley in 1930 was limited to a "damage" number of $231 Million; spread over several hundred products and several hundred countries!

A further analysis of imports into the U.S. discloses that all European countries accounted for 30% of $1.3 Billion in 1929 divided as follows: U.K. at $330 Million or 7½%, France at $171 Million or 3.9%, Germany at $255 Million or 5.9%, and some 15 other nations accounting for $578 Million or 13.1% for an average of 1%.

These numbers suggest that U.S. imports were spread broadly over a great array of products and countries, so that any tariff action would by definition have only a quite modest impact in any given year or could be projected to have any important cumulative effect.

This same phenomenon is apparent for Asian countries which accounted for 29% of U.S. imports divided as follows: China at 3.8%, Japan at $432 Million and 9.8%, and with some 20 other countries sharing in 15% or less than 1% on average.

Australia's share was 1.3% and all African countries sold 2.5% of U.S. imports.

Western Hemisphere countries provided some 37% of U.S. imports with Canada at 11.4%, Cuba at 4.7%, Mexico at 2.7%, Brazil at 4.7% and all others accounting for 13.3% or about 1% each.

The conclusion appears inescapable on the basis of these numbers; a potential adverse impact of $231 Million spread over the great array of imported products which were Dutiable in 1929 could not realistically have had any measurable impact on America's trading partners.

Meanwhile, the Gross National Product (GNP) in the United States had dropped an unprecedented 13.5% in 1930 alone, from $103.4 Billion in 1929 to $89 Billion by the end of 1930. It is unrealistic to expect that a shift in U.S. international imports of just 0.2% of U.S. GNP in 1930 for example ($231 Million on $14.4 Billion) could be viewed as establishing a "precedent" for America's trading partners to follow, or represented a "model" to follow.

Even more to the point an impact of just 0.2% could not reasonably be expected to have any measurable effect on the economic health of America's trading partners.

Note should be taken of the claim by those who repeat the Smoot/Hawley "villain" theory that it set off a "chain" reaction around the world. While there is some

evidence that certain of America's trading partners retaliated against the U.S. there can be no reliance placed on the assertion that those same trading partners retaliated against each other by way of showing anger and frustration with the U.S. Self-interest alone would dictate otherwise, common sense would intercede on the side of avoidance of "shooting oneself in the foot," and the facts disclose that world trade declined by 18% by the end of 1930 while U.S. trade declined by some 10% more or 28%. U.S. foreign trade continued to decline by 10% more through 1931, or 53% versus 43% for worldwide trade, but U.S. share of world trade declined by only 18% from 14% to 11.3% by the end of 1931.

Reference was made earlier to the Duty Free category of U.S. imports. What is especially significant about those import numbers is the fact that they dropped in dollars by an almost identical percentage as did Dutiable goods through 1931 and beyond: Duty Free imports declined by 29% in 1930 versus 27% for Dutiable goods, and by the end of 1931 the numbers were 52% versus 51% respectively.

The only rational explanation for this phenomenon is that Americans were buying less and prices were falling. No basis exists for any claim that Smoot/Hawley had a distinctively devastating effect on imports beyond and separate from the economic impact of the economic collapse in 1929.

Based on the numbers examined so far, Smoot/Hawley is clearly a mis-cast villain. Further, the numbers suggest the clear possibility that when compared to the enormity of the developing international economic crisis Smoot/Hawley had only a minimal impact and international trade was a victim of the Great Depression.

This possibility will become clear when the course of the Gross National Product (GNP) during 1929-1933 is examined and when price behaviour world-wide is reviewed, and when particular Tariff Schedules of Manufacturers outlined in the legislation are analyzed.

Before getting to that point another curious aspect of the "villain" theory is worthy of note. Without careful recollection it is tempting to view a period of our history some 50-60 years ago in terms of our present world. Such a superficial view not only makes no contribution to constructive policy-making. It overlooks several vital considerations which characterized the Twenties and Thirties:

1. The international trading system of the Twenties bears no relation to the interdependent world of the Eighties commercially, industrially and financially in size or complexity.

2. No effective international organization existed, similar to the General Agreement for Tariffs and Trade (GATT) for example for resolution of disputes. There were no trade "leaders" among the world's nations in part because most mercantile nations felt more comfortable without dispute settlement bodies.

3. Except for a few critical products foreign trade was not generally viewed in the "economy-critical" context as currently in the U.S. As indicated earlier neither President Hoover nor President Roosevelt viewed foreign trade as crucial to the economy in general or recovery in particular.

4. U.S. foreign trade was relatively an amorphous phenomenon quite unlike the highly structured system of the Eighties; characterized largely then by "caveat emptor" and a broadly laissez-faire philosophy generally unacceptable presently.

These characteristics, together with the fact that 66 percent of U.S. imports were Duty Free in 1929 and beyond, placed overall international trade for Americans in the Twenties and Thirties on a very low level of priority especially against the backdrop of world-wide depression. Americans in the Twenties and Thirties could no more visualize the world of the Eighties than we in the Eighties can legitimately hold them responsible for failure by viewing their world in other than the most pragmatic and realistic way given those circumstances.

For those Americans then, and for us now, the numbers remain the same. On the basis of sheer order of magnitude of the numbers illustrated so far, the "villain" theory often attributed to Smoot/Hawley is an incorrect reading of history and misunderstanding of the basic and incontrovertible law of cause and effect.

It should also now be recalled that, despite heroic efforts by U.S. policy-makers its GNP continued to slump year-by-year and reached a total of just $55.4 billion in 1933 for a total decline from 1929 levels of 46 percent. The financial collapse of October, 1929 had indeed left its mark.

By 1933 the 1929 collapse had prompted formation in the U.S. of the Reconstruction Finance Corporation, Federal Home Loan Bank Board, brought in a Democrat President with a program to take control of banking, provide credit to property owners and corporations in financial difficulties, relief to farmers, regulation and stimulation of business, new labor laws and social security legislation.[2]

[2] Beard, Charles and Mary, New Basic History of the United States.

So concerned were American citizens about domestic economic affairs, including the Roosevelt Administration and the Congress, that scant attention was paid to the solitary figure of Secretary of State Cordell Hull. He, alone among the Cabinet, was convinced that international trade had material relevance to lifting the country back from depression. His efforts to liberalize trade in general and to find markets abroad for U.S. products in particular from among representatives of economically stricken Europe, Asia and latin America were abruptly ended by the President and the 1933 London Economic Conference collapsed without result.

The Secretary did manage to make modest contributions to eventual trade recovery through the Most Favored Nation (MFN) concept. But it would be left for the United States at the end of World War II to undertake an economic and political role of leadership in the world; a role which in the Twenties and Thirties Americans in and out of government felt no need to assume, and did not assume. Evidence that conditions in the trade world would have been better, or even different, had the U.S. attempted some leadership role can not responsibly be assembled. Changing the course of past history has always been less fruitful than applying perceptively history's lessons.

The most frequently used numbers thrown out about Smoot/Hawley's impact by those who believe in the "villain" theory are those which clearly establish that U.S. dollar decline in foreign trade plummeted by 66 percent by the end of 1933 from 1929 levels, $9.6 billion to $3.2 billion annually.

Much is made of the co-incidence that world-wide trade also sank about 66 percent for the period. Chart II summarizes the numbers.

CHART II.—UNITED STATES AND WORLD TRADE, 1929-33

[In billions of U.S. dollars]

	1929	1930	1931	1932	1933
United States:					
Exports	$5.2	$3.8	$2.4	$1.6	$1.7
Imports	4.4	3.0	2.1	1.3	1.5
Worldwide:					
Exports	33.0	26.5	18.9	12.9	11.7
Imports	35.6	29.1	20.8	14.0	[1] 12.5

[1] Series U Department of Commerce of the United States, League of Nations, and International Monetary Fund

The inference is that since Smoot/Hawley was the first "protectionist" legislation of the Twenties, and the end of 1933 saw an equal drop in trade that Smoot/Hawley must have caused it. Even the data already presented suggest the relative irrelevance of the tariff-raising Act on a strictly trade numbers basis. When we examine the role of a world-wide price decline in the trade figures for almost every product made or commodity grown the "villian" Smoot/Hawley's impact will not be measurable.

It may be relevant to note here that the world's trading "system" paid as little attention to America's revival of foreign trade beginning in 1934 as it did to American trade policy in the early Thirties. From 1934 through 1939 U.S. foreign trade rose in dollars by 80% compared to world-wide growth of 15%. Imports grew by 68% and exports climbed by a stunning 93%. U.S. GNP by 1939 had developed to $91 Billion, to within 88% of its 1929 level.

Perhaps this suggests that America's trading partners were more vulnerable to an economic collapse and thus much less resilient than was the U.S. In any case the international trade decline beginning as a result of the 1929 economic collapse, and the subsequent return by the U.S. beginning in 1934 appear clearly to have been wholly unrelated to Smoot/Hawley.

As we begin to analyze certain specific Schedules appearing in the Tariff Act of 1930 it should be noted that sharp erosion of prices world-wide caused dollar volumes in trade statistics to drop rather more than unit volume thus emphasizing the decline value. In addition, it must be remembered that as the Great Depression wore on, people simply bought less of everything increasing further price pressure downward. All this wholly apart from Smoot/Hawley.

When considering specific Schedules, No. 5 which includes Sugar, Molasses, and Manufactures of, maple sugar, cane, sirups, adonite, dulcite, galactose, inulin, lactose and sugar candy. Between 1929 and 1933 import volume into the U.S. declined by about 40% in dollars. In price on a world basis producers suffered a stunning

60% drop. Volume of sugar imports declined by only 42% into the U.S. in tons. All these changes lend no credibility to the "villain" theory unless one assumes, erroneously, that the world price of sugar was so delicately balanced that a 28% drop in sugar imports by tons into the U.S. in 1930 destroyed the price structure and that the decline was caused by tariffs and not at least shared by decreased purchases by consumers in the U.S. and around the world.

Schedule 4 describes Wood and Manufactures of, timber hewn, maple, brier root, cedar from Spain, wood veneer, hubs for wheels, casks, boxes, reed and rattan, toothpicks, porch furniture, blinds and clothespins among a great variety of product categories. Dollar imports into the U.S. slipped by 52% from 1929 to 1933. By applying our own GNP as a reasonable index of prices both at home and overseas, unit volume decreased only 6% since GNP has dropped by 46% in 1933. The world-wide price decline did not help profitability of wood product makers, but to tie that modest decline in volume to a law affecting only 6⅛% of U.S. imports in 1929 puts great stress on credibility, in terms of harm done to any one country or group of countries.

Schedule 9, Cotton Manufactures, a decline of 54% in dollars is registered for the period, against a drop of 46% in price as reflected in the GNP number. On the assumption that U.S. GNP constituted a rough comparison to world prices, and the fact that U.S. imports of these products was infinitesimal, Smoot/Hawley was irrelevant. Further, the price of raw cotton in the world plunged 50% from 1929 to 1933. U.S. growers has to suffer the consequences of that low price but the price itself was set by world market prices, and was totally unaffected by any tariff action by the U.S.

Schedule 12 deals with Silk Manufactures, a category which decreased by some 60% in dollars. While the decrease amounted to 14% more than the GNP drop, volume of product remained nearly the same during the period. Assigning responsibility to Smoot/Hawley for this very large decrease in price beginning in 1930 stretches credibility beyond the breaking point.

Several additional examples of price behavior are relevant.

One is Schedule 2 products which include brick and tile. Another is Schedule 3 iron and steel products. One outstanding casualty of the financial collapse in October, 1929 was the Gross Private Investment number. From $16.2 billion annually in 1929 by 1933 it has fallen by 91% to just $1.4 billion. No tariff policy, in all candor, could have so devastated an industry as did the economic collapse of 1929. For all intents and purposes construction came to a halt and markets for glass, brick and steel products with it.

Another example of price degradation world-wide completely unrelated to tariff policy is Petroleum products. By 1933 these products had decreased in world price by 82% but Smoot/Hawley had no Petroleum Schedule. The world market place set the price.

Another example of price erosion in world market is contained in the history of exported cotton goods from the United States. Between 1929 and 1933 the volume of exported goods actually increased by 13.5% while the dollar value dropped 48%. This result was wholly unrelated to the tariff policy of any country.

While these examples do not include all Schedules of Smoot/Hawley they clearly suggest that overwhelming economic and financial forces were at work affecting supply and demand and hence on prices of all products and commodities and that these forces simply obscured and measurable impact the Tariff Act of 1930 might possibly have had under conditions of several years earlier.

To assert otherwise puts on those proponents of the Smoot/Hawley "villain" theory a formidable challenge to explain the following questions:

1. What was the nature of the "trigger" mechanism in the Act that set off the alleged domino phenomenon in 1930 that began or prolonged the Great Depression when implementation of the Act did not begin until mid-year?

2. In what ways was the size and nature of U.S. foreign trade in 1929 so significant and critical to the world economy's health that a less than 4% swing in U.S. imports could be termed a crushing and devastating blow?

3. On the basis of what economic theory can the Act be said to have caused a GNP drop of an astounding drop of 13.5% in 1930 when the Act was only passed in mid-1930? Did the entire decline take place in the second half of 1930? Did world-wide trade begin its decline of some $13 billion only in the second half of 1930?

3. Does the fact that duty free imports into the U.S. dropped in 1930 and 1931 and in 1932 at the same percentage rate as dutiable imports support the view that Smoot/Hawley was the cause of the decline in U.S. imports?

4. In the fact that world-wide trade declined less rapidly than did U.S. foreign trade prove the assertion that American trading partners retaliated against each

other as well as against the U.S. because and subsequently held the U.S. accountable for starting an international trade war?

5. Was the international trading system of the Twenties so delicately balanced that a single hastily drawn tariff increase bill affecting just $231 million of dutiable products in the second half of 1930 began a chain reaction that scuttled the entire system? Percentage-wise $231 Million is but 0.65% of all of 1929 world-wide trade and just half that of world-wide imports:

The preponderance of history and facts of economic life in the international area make an affirmative response by the "villain" proponents an intolerable burden.

It must be said that the U.S. does offer a tempting target for Americans who incessantly cry "mea culpa" over all the world's problems, and for many among our trading partners explain their problems in terms of perceived American inability to solve those problems.

In the world of the Eighties U.S. has indeed very serious and perhaps grave responsibility to assume leadership in international trade and finance, and in politics as well.

On the record, the United States has met that challenge beginning shortly after World War II.

The U.S. role in structuring the United Nations, the General Agreement on Tariffs and Trade (GATT), the International Monetary Fund, the Bretton Woods and Dumbarton Oaks Conferences on monetary policy, the World Bank and various Regional Development Banks, for example, is a record unparalleled in the history of mankind.

But in the Twenties and Thirties there was no acknowledged leader in international affairs. On the contrary, evidence abounds that most nations preferred the centuries-old patterns of international trade which emphasized pure competition free from interference by any effective international supervisory body such as GATT.

Even in the Eighties examples abound of trading nations succumbing to nationalistic tendencies and ignoring signed trade agreements. Yet the United States continues as the bulwark in trade liberalization proposals within the GATT. It does so not because it could not defend itself against any kind of retaliation in a worst case scenario but because no other nation is strong enough to support them successfully without the United States.

The basic rules of GATT are primarily for all those countries who can't protect themselves in the world of the Eighties and beyond without rule of conduct and discipline.

The attempt to assign responsibility to the U.S. in the Thirties for passing the Smoot/Hawley tariff act and thus set off a chain reaction of international depression and war is, on the basis of a preponderance of fact, a serious mis-reading of history, a repeal of the basic concept of cause and effect and a disregard for the principle of proportion of numbers.

It may constitute a fascinating theory for political mischief-making but it is a cruel hoax on all those responsible for developing new and imaginative measures designed to liberalize international trade.

Such constructive development and growth is severely impeded by perpetuating what is no more than a symbolic economic myth.

Nothing is less worthwhile than attempting to re-write history, not learning from it. Nothing is more worthwhile than making careful and perceptive and objective analysis in the hope that it may lead to an improved and liberalized international trading system.

Senator DANFORTH. Now, Senator Matsunaga has a question, and Senator Bradley has a question, and Senator Mitchell has a question.

Senator Matsunaga.

Senator MATSUNAGA. I note that S. 680 covers principally 12 countries—Hong Kong, Japan, Taiwan, Kórea, Thailand, Brazil, Singapore, the Philippines, et cetera. Now, the only one of the 12 principal countries to be restricted under the bill which is not Asian is Brazil. In addition, the bill as I understand, specifically excludes the European Community and Canada from coverage. Now, what is the rationale of the cosponsors of this measure in making such a provision? And I might say discriminatory provision.

Congressman BROYHILL. Mr. Chairman, could I comment on that to my good friend from Hawaii.

Senator MATSUNAGA. My good friend Jim.

Congressman BROYHILL. I think the record will show, and I am sure you have the information there that your staff can make available, that shows very clearly that the vast majority of the textile and apparel imports are coming from those countries. So, it isn't anything we have done; it is only pinpointing those countries where these products are being produced and thus are competing against our domestic manufacturers. So, the vast majority of the goods that are coming into this country have been coming from those countries historically.

Now, of course, the marketplace does change, and we find that there are other countries entering the market who have never been involved in the manufacture of textile and apparel products. Suddenly, we find that products are coming in from those countries, and we do see some increase in the production from the EEC countries as well. But, historically, you will find, and the record provided by your staff will document, that the majority of imports come from those countries.

Senator MATSUNAGA. Would there be any objection to making 100 percent coverage?

As I understand it now, the Asian nations named and Brazil accounted for about 70 percent or more of total imports, and the European Community and Canada maybe slightly less than 30 percent. But would there be any objection, for the protection of our domestic textile industry, to making this bill applicable to all nations?

Congressman BROYHILL. I would be willing to discuss that with you, but I don't know if we would want to, without looking at all of the ramifications and all of the facts and figures, agree with that as we sit at the table today. But as the negotiations and the discussions go on, certainly we would be delighted to sit down and talk with you and go over all of those ramifications.

Senator MATSUNAGA. All right; I would be happy to do that.

Senator THURMOND. I think the total import growth is what counts—the total growth. And that is what President Reagan said in his statement that he favored the import growth being kept in line with the domestic growth. And so, if the committee has any suggestions or ideas or modifications that would accomplish that, then I think the goal would be accomplished.

Senator MATSUNAGA. I am in full agreement with your earlier statement, Senator Thurmond, that the bottom line is jobs. The effectuation of S. 680 would mean, according to analysts in Hawaii, a loss of 2,950 jobs in Hawaii, because it would mean the closing of 138 apparel and textile firms. We get our material primarily from Japan, because Japan is about the only country which will accept orders for as low as 3,000 yards per order. American textile firms won't accept such an order. So, my next question is: Will the sponsors of the bill object to exempting Hawaii which is a small speck in the Pacific Ocean, close to the Asian countries and the Pacific Rim, from the coverage of S. 680 to save 2,950 jobs?

Senator THURMOND. Well, I think the committee would have to take the entire matter under consideration, and in their discretion

come up to solve it in such a way that we would preserve jobs throughout the whole Nation.

Senator MATSUNAGA. I am glad to hear that, because I know that the Senator's discretion and that of this committee would be favorable to Hawaii.

Senator HELMS. Always. Always.

Senator DANFORTH. Senator Bradley, then Senator Mitchell and then Senator Baucus.

Senator BRADLEY. Thank you very much. Mr. Chairman.

Let me ask the panel: As I read it, this legislation provides for a 1-percent cap in the growth of textile or apparel imports after 1985, and that is a permanent cap of 1 percent growth per year.

My question to you is: Do you feel so strongly about that that you would urge the committee to stay with that 1 percent growth rate permanently, regardless of what the domestic textile and apparel industry produces, how they produce it, or what the cost of their production is? Are you locked into that figure, and are you locked into a permanent approach?

Congressman BROYHILL. Well, Mr. Chairman, I would like to comment. Perhaps I am talking too much, but I don't think that 1 percent growth for the major suppliers is too much. Now, I admit that I am looking at this from a different standpoint, if I can say that to my good friend from New Jersey.

This ad which is in today's paper has some figures which are current. An independent retail audit shows that imports at 64 percent in men's apparel—in men's apparel—and 56 percent overall. It seems to me that it is time we do put a cap on, in order to protect those American jobs. Now, I happen to be a little bit more hardnosed about this, I suppose, because so much of the textiles made in my district go into these products that could be providing jobs in our area.

Senator HOLLINGS. Senator Bradley, the 1 percent is in light of the growth in imports—well, on average 19 percent, last year 38 percent, the year before it jumped 43 percent. You see it goes right back to 1980-81, and we are now up for renewal again in July 1986. And you look back at that particular time when we had the commitment of Carter-Mondale, and later the commitment from President Reagan. If we had adhered to that, you would have a deficit imbalance in textile trade of around $5 billion—$4.8 billion to be exact. Instead, it has quadrupled to $16.2 billion. So, the 1 percent, where we had formerly agreed to 6 percent, is in the light of these mammoth jumps over the last 4 or 5 years, which have decimated the industry.

But the answer is no. Nothing is permanent. We entertained the idea. The Multi-Fiber Arrangement is in accordance with the Finance Committee's policy that it be renewed every 5 years, and we are trying to set some kind of stability and understanding here under the crisis. We can't wait until July of next year. If you wait until July of next year, you know, you can have one of those singsongs we had last night for everybody in Africa; we can have it for everybody in South Carolina. I can tell you that right now. [Laughter.]

We'd be gone.

So, no, the answer is that it is not permanent; but it is in the light of the real facts.

Senator BRADLEY. So that, really, the intent of the legislation is to try to make up for the surge in imports in the last several years, and the damage that that has created in terms of lost jobs.

Senator HOLLINGS. Exactly. It is not a rollback, but it is a stabilizer.

Senator BRADLEY. So, essentially, if you could address the loss over the last several years, that is your major concern?

Senator HOLLINGS. Yes, sir.

Senator BRADLEY. Thank you.

Senator THURMOND. I might add this, Senator, that Canada and the EEC are not covered by the MFA because the governments of the United States and the EEC and Canada agreed not to put MFA quotas on. Some question was asked, I believe, along that line.

Congressman MCMILLAN. Senator, my understanding of the 1 percent—I didn't write the bill—is that it is an attempt to build in a future real growth rate that is somewhat in proportion to historic real growth rates in the domestic textile market. So, that those participating nations from that day's point can then continue to expand their exports into this market in the same proportion with the growth in the domestic market. And it is an average rate, but it does give some degree of certainty that both our industry can rely upon as well as an exporting nation to this country can rely upon.

Senator DANFORTH. Senator Mitchell.

Senator MITCHELL. Thank you, Mr. Chairman. I would ask that my opening statement be included in the record at the appropriate point.

Senator DANFORTH. Without objection.

Senator MITCHELL. I commend all of the witnesses for their testimony, and I would like to comment specifically on Senator Thurmond's statement in which he referred to the letter from the President, which I believe was addressed to Senator Thurmond.

There has been a lot of discussion in this committee with previous administration spokesmen about that letter and the statements which accompanied it. And I was gratified to hear Senator Thurmond say, as the person perhaps most directly involved in it, that he understood the letter to be an intention to limit the growth of imports to the domestic market. That is, as the domestic market grew, it was anticipated that imports could grow to that extent. And I believe you stated that in your statement, clarifying what at least from your standpoint, was your understanding of that statement. Is that correct, Senator?

Senator THURMOND. That is correct. In other words, the President said in the letter of September 3:

> The multifiber arrangement needs to be strengthened by relating the import market growth from all sources to domestic market growth. I shall work to achieve that goal.

Senator MITCHELL. Fine.

Senator THURMOND. And then on October 4 he wrote me again and said: "As I mentioned during our recent discussion"—we had been to the White House and had talked with him—"concerning

textile industry problems, I have made a commitment that was reaffirmed last December by Jim Baker"—Jim Baker talked with us, we met with him—"to seek to relate total import growth to the rate of growth in the domestic market." So, I think that speaks for itself; but the people who would carrry out this program haven't done it. We had might as well face it.

Senator MITCHELL. That's the point. That is why you have this bill in, as I understand it.

Senator THURMOND. That is correct.

Senator MITCHELL. Because in fact that commitment has not been met.

Senator THURMOND. If that commitment had been fulfilled, there wouldn't be any need for this bill.

Senator MITCHELL. That's right. And so now we have next July, a year from now, the Multi-Fiber Arrangement extension, the discussions preparatory to which will commence this month, and we are going to have representatives negotiating that. And it has to be viewed in the history of the past 4 years.

And the history of the past 4 years is clear, as you have said, Senator Thurmond, very clearly here, that a commitment was made but it was not met, because the growth of imports during the past 4 years has vastly exceeded the growth of the domestic market. Isn't that correct?

Senator THURMOND. That is correct.

Senator MITCHELL. And that is why we need this legislation.

Senator THURMOND. It is the only way I think you are going to control it, Senator; and the fair way to do it is to keep the import growth in line with the domestic growth. Otherwise, you are discriminating against the citizens of America, and you are discriminating against women and minorities more than anybody else among those citizens.

Senator MITCHELL. Well, I thank the Senator very much for that, and I thank all the gentlemen for their statements.

Senator DANFORTH. Senator Baucus?

Senator BAUCUS. Thank you, Mr. Chairman.

Gentlemen, I have looked at our STR's statement. He is going to testify following you. Something that struck me in his statement is that, according to his latest statistics, imports from countries where we have controls in place are down 7 percent from January through May of this year compared to the same period in 1984.

He then goes on to say—on page 5 of his statement—that the growth we are now experiencing is coming largely from uncontrolled sources such as the European Community.

Therefore, the question I have is similar to one that has been asked before: If growth from uncontrolled sources such as the European Community is the major problem, and growth from controlled sources—for example, Taiwan and Brazil—is actually down 7 percent, what are we doing here? Specifically, why shouldn't the European Community be included, or why can't we go ahead and see if this present trend continues?

Senator THURMOND. Well, we certainly have no objection if the committee wants to modify this bill to accomplish the purpose of keeping import growth in line with the domestic growth, regardless of where they come from.

Now, the People's Republic of China is sending in a lot of goods and we have got to keep that in mind.

Now, one reason it is down a little bit at this time is that the Customs Office is enforcing the regulations more. A lot of goods had been coming in illegally, and they are now enforcing that more, and that has brought it down some.

But the general situation has changed very little.

Congressman BROYHILL. Could I address that for just a minute, my friend Senator Baucus?

Senator BAUCUS. Sure.

Congressman BROYHILL. I would like to call to your attention a chart which I have, which indicates that imports have doubled since 1980. And I will be glad to furnish this to you.

The fact is that this line has gone up tremendously just in the last 4 years—as the Senator from South Carolina said, a 5-million to 10-million square yard equivalent. I just don't see how the Administration could now be trying to brag on that record. Just because it leveled off they think they are doing a good job. It seems to me that if that line were coming down and doing it on a month-to-month basis, it might have something that they could point to with a little bit of pride; but it is not happening. All it has done is leveled off for the time being. I feel certain it is going to go back up unless we do something in this Congress to pass legislation of this kind.

Senator HOLLINGS. Senator Baucus, that 7.6 percent decline is in the light of an actual decline, also, of shipments, textile shipments, by 10.9 percent. You see exports and imports—all trade has been down. So, in reality, the textile and apparel trade deficit in 1985 has been 9.4 percent higher this year. So, actually, the impression given when you use that 7.6-percent figure, that the thing is down and the problem is solving itself is not true at all.

Senator BAUCUS. Now, excuse me. What is higher, and what is lower?

Senator HOLLINGS. The real value of apparel industry shipments is down 7.6 percent. That is what the Special Trade Representative will attest to. But textile shipments themselves, all trade has fallen 10.9 percent. So, that the textile and apparel trade deficit in 1985 is actually 9.4 percent higher. The trade deficit is going up.

Senator BAUCUS. Well, that figure jumped out at me.

Senator HOLLINGS. I know. It jumped out at me. They used that in the letter. Do you remember when we had the administration's letter to several Secretaries, Cabinet Members? And you know, you can use figures different ways. They know it is down, because exports and imports are down. They are just using one side of the for mula. Overall—overall—the deficit is on the increase in textiles.

Senator THURMOND. Senator Baucus, I would like to remind you again that, since 1980, we have lost 300,000 jobs in the fiber, textile, and apparel industry. And I want to say, in my own State this past May we lost 1,200 jobs in 1 month. And I think that is typical of what is happening throughout the country or will happen with all the States unless some action is taken.

Senator BAUCUS. All right. I don't want to belabor the point here, but it still seems to me somewhat strange that the proposed limitation is on controlled countries from where imports—at least

according to some figures—are declining but not on noncontrolled countries where—as I understand it—from imports are actually increasing. The bill doesn't address the controlled countries in nearly the same way as it does the noncontrolled countries.

Senator THURMOND. Well, whatever action the committee can take to keep the import growth in line with the domestic growth, that is the way to control it.

Senator BAUCUS. Thank you.

Senator DANFORTH. Gentlemen, you have been very patient. I want to just ask you one last parting question that was asked me in 1981. I introduced a quota bill for automobiles at that time, and it turned out that the administration negotiated voluntary restraints with Japan. The question that was asked me was: "Do you really want to get the bill passed, or are you trying to send the administration a message?"

Senator HOLLINGS. Get the bill passed and send the administration a message—both. Both, Senator.

Senator THURMOND. We would like to have the bill passed, because I just don't know what commitments mean anymore. In other words, what can we actually do? What assurance? If you've got a letter, and they don't live up to it, what will happen again if you get another commitment? It seems to me the Congress has to act, Senator. That is what I would prefer to be done.

Senator DANFORTH. All right. Is that the unanimous view of the panel?

Senator HELMS. Yes, sir.

Congressman BROYHILL. Yessiree.

Senator DANFORTH. Gentlemen, thank you very much.

Senator THURMOND. Thank you very much, Mr. Chairman, for your patience and kind attention, and the same to the rest of the members of your committee.

Senator DANFORTH. Thank you.

Next we have Mr. Yeutter and Secretary Baldrige.

Gentlemen, Thank you very much for being with us.

Mr. Yeutter, would you like to begin?

STATEMENT BY HON. CLAYTON YEUTTER, U.S. TRADE REPRESENTATIVE, ACCOMPANIED BY AMBASSADOR RICHARD IMUS, CHIEF TEXTILE NEGOTIATOR, USTR

Mr. YEUTTER. Thank you, Senator Danforth, it is nice to be back with you again.

I would like to indicate that with me is Ambassador Imus who has been our textile negotiator in recent years, as you well know. I understand that we should do this in about 5 minutes, Senator, so I will just provide my comments for the record, if that is all right, and then quickly summarize them for you.

Senator DANFORTH. All the witnesses' comments would be automatically placed in the record without even asking. So, if you could summarize, that would be fine.

Mr. YEUTTER. All right. Thank you, Mr. Chairman.

The economic difficulties that have been suffered by the textile and apparel industries here are evident to all of us, so I don't see

any significant need to repeat those again today; you are well aware of them, and they have been articulated before you.

Certainly what has transpired in textiles over the last 2 or 3 years has been serious, for a whole variety of reasons of which you are all aware. There has been an import surge, as you well know, and that import surge has probably been the single factor that has done as much or more than anything else to lead to the development of this legislation.

There are a lot of other factors involved in the surge, of course, other than the desire of companies to penetrate our markets. We have brought some of these problems on ourselves, of course, with our own basic macroeconomic policies, and the impact of those policies on the dollar, and the attractiveness that is thereby provided for exporters of a lot of goods to the United States, not just textiles. And that is something we discussed in my confirmation hearing, so there is no need to go further into that today, either.

The real question that is before us, Mr. Chairman, it seems to me, is how to respond to these kinds of issues, many of which are on your agenda at the moment here in the Senate Finance Committee—textiles and apparel simply being one of those. And the additional question, obviously, is how we as an administration should respond to those problems.

And it is not only what government should do; it is obviously what the private sector itself should do. And here it seems to me that one can provide some commendation for this industry for making a very strong attempt to modernize itself and to make itself a whole lot more competitive in recent years.

But there are a lot of things that private sector can and should do, and for firms out there in the textile and apparel industry that are not yet competitive, I think all of us should point out the importance of achieving the necessary efficiencies and the management skills to be competitive.

Somehow in this country, Senator Danforth, we have to learn to compete with imports, and we have to learn how to sell in the face of a strong dollar in exports. This isn't to say that there is not a role for Government action or Government policy in all of this; there is. We have talked about macroeconomic policies being the first priority, and they are the first priority. We do need to deal with the Federal budget deficit, and then along with that the monetary policy questions, and hopefully we will ultimately see an impact on the value of the dollar. That alone would provide some relief to this industry and other industries.

To the extent there are unfair trade practices that are out there in the textile-apparel area, we need to deal with those. That is my responsibility, or the administration's responsibility through my efforts as USTR. If there are adminstrative problems in this particular legislation, that is Secretary Baldrige's responsibility, and I will not speak for him, he can speak for himself here in just a few minutes. But I am sure he intends to be responsive and has been responsive during his tenure.

All of that aside, which is really fundamental—we need to do those things well, the macroeconomic policy decisions, the dealing with unfair trade practices, and the administration of the act and the series of bilateral agreements under which we function in this

area—there is another fundamental question that is involved in this legislative proposal and one which has led the administration to indicate its strong and vociferous disapproval of the idea, and that is whether, to the degree any response is necessary, it ought to be done legislatively or administratively. And, Mr. Chairman, I would come down very strong on the administrative side vis-a-vis the legislative side. I simply do not believe there are many trade problems that can be answered legislatively. Legislation is not a flexible vehicle. It never has been, it never will be. You understand that much better than I.

We cannot deal with problems like this in a legislative framework; there has to be discretion and judgment involved. And it is simply imperative and indispensable for the Congress to place some responsibilities on the part of the executive branch to deal with questions like this.

Now, if we don't deal with them well, then I think it is perfectly appropriate for every member of this committee to go to the President of the United States and say, "Get a new USTR," or if Secretary Baldrige is not doing his job well administering these agreements, then you ought to suggest to the President that he get a new Secretary of Commerce.

Secretary BALDRIGE. Speak for yourself. [Laughter.]

Mr. YEUTTER. Well, that generated a reaction over on this side of the table.

But I don't believe that this is a function that can be performed effectively, with all due respect to the talent of the members of this committee and their staffs, by the legislative branch of government. It has to be done by the executive branch of government in order to deal with the matter in an appropriate way.

In addition to that, I obviously should mention, Mr. Chairman, that legislating on this subject would cause a lot of problems internationally, and let us not underestimate those. This kind of legislation is absolutely violative of our GATT obligations. It would be considered such by our trading partners. We would owe them compensation, and clearly they would have full discretion to seek compensation from us, and that could be very major indeed.

Just one final comment, and we can expand further in questions. It seems to me that we have got to do the responsible thing in these kinds of trade areas. They are all delicate and sensitive. There are no easy answers legislatively or administratively. But the proper answer here is an administrative one in the renegotiation of the multifiber agreement, in my judgment, and in the way we handle that agreement, and the way we handle it administratively. The proper answer is not in the legislative process.

Thank you, Mr. Chairman.

Senator DANFORTH. Thank you, Mr. Yeutter.

Secretary Baldrige.

[Mr. Yeutter's written testimony follows:]

PREPARED STATEMENT OF AMBASSADOR YEUTTER ON THE TEXTILE TRADE ENFORCEMENT ACT

I appreciate the opportunity to come before you on the issue of S. 680, the Textile Trade Enforcement Act. I view textile and apparel trade as an extremely important, indeed critical, element of my overall responsibility for guiding U.S. trade policy. It

is, therefore, appropriate that scarcely two weeks after appearing before you for confirmation, my first appearance here as U.S. Trade Representative is on a major textiles issue. I share with you a deep concern regarding the problems experienced by the textile and apparel industry as a result of the import surge experienced in 1983 and most of 1984. However, I believe strongly that S. 680, the specific legislation before this committee, is not in the interests of the United States.

No one doubts that the U.S. textile and apparel industry suffered first because of the recession of 1982 and then faced stiff competition due to the large import surge which only began to abate at the end of 1984. The import problem for textiles and apparel was not, however, a unique phenomenon. The rise in textile and apparel imports in the 1982-84 period reflects recovery from the recession and basic macroeconomic factors rather than conditions peculiar or special to this industry. Comparable, and in some cases even greater, import growth has been experienced by other U.S. manufacturing sectors. I would also submit that declining exports in other sectors such as agriculture also have caused painful dislocations. Some figures may serve to illustrate this point.

From 1982 to 1984 imports of nonferrous metals increased 53 percent, nonelectrical machinery 71 percent, electrical machinery 76 percent, motor vehicles and parts 58 percent; chemicals 58 percent, and rubber and plastics 52 percent. The equivalent figure for textiles and apparel was 65 percent.

This data makes clear, in my view, that the import surge in textiles and apparel is not an isolated trade problem, but rather a part of an overall macroeconomic imbalance. A strong dollar and stronger consumer demand in our country compared to other developed markets has, as most realize, drawn in imports overall at an unprecedented rate. The resulting trade deficit is alarming for all of us in government, in the Congress and administration alike. The solution, however, is not to erect individual protectionist barriers, but to pursue two fundamental positive policies, one at home and one abroad. At home we need to attack the fundamental problem within our control, the budget deficit.

The second focus for our attention should be directed abroad. In my confirmation hearings I emphasized that I planned to take an aggressive posture to opening more foreign markets to U.S. goods and services. Our textile mill sector maintains it is the most modern and efficient in the world. Indeed, just a few years ago it had a solid export performance. I believe that a policy of bringing the deficit into line and thereby restoring better currency relationships coupled with an aggressive export policy can return our textile industry to the stronger export position it enjoyed earlier. Those steps are basic to resolving the largest part of our trade problem. I also recognize, however, that our apparel industry, still highly labor intensive, has fundamental adjustment problems competing with low-wage suppliers.

Even as we resolve the broader macroeconomic problems, I believe that we must continue to have a multilateral trade regime. As in the past we will be working with business, labor and the Congress to be sure whatever international agreement succeeds the present MFA is in the best interest of our Nation.

I am sure that my colleague Secretary Baldrige, who has primary responsibility for the implementation aspect of our textile/apparel import program, will want to comment on the range of actions the administration has taken to combat the import surge. I would, however, note for the committee that according to our latest statistics, imports from countries where we have controls in place are down 7 percent this year (January-May) over the same period in 1984. In short, much of the growth we are now experiencing is coming from uncontrolled sources such as the European Community. That disparity is already aggravating tensions in our relations with restricted developing countries, some of whom are among the poorest in the world. S. 680 would exacerbate this situation, annually cutting back trade from some of the poorest countries while exempting current EC countries and Canada.

In a joint letter of June 19 the heads of the five Government Departments most concerned with trade issues conveyed the administration's strong opposition to S. 680, the Textile Trade Enforcement Act. I will not reiterate that letter except to say that we believe that the textile/apparel import problem can and should be dealt with by the administration. Legislation which would tie our hands in an arbitrary matter is unwise and will, I believe, be detrimental to our country in the end.

It is clear to me and all of my colleagues in the administration that this legislation is completely contrary to our commitments in the MultiFiber Arrangement. While the MFA does provide a means to control disorderly import growth as problems arise, the MFA emphasizes equally that any regulation of trade be done through cooperation and consultation. A unilateral and arbitrary approach such as envisaged in this legislation is not only completely contrary to the letter and spirit of the MFA, but also negates the basic commitments we have made to some 34 na-

tions in our bilateral textile agreements. Our Nation has internationally a reputation for keeping its word. To alter that view through drastic legislation such as S. 680 would bring profound and long-term harm to our ability to enhance and maintain our international interests in other areas.

Our trading partners signed the MFA because we have in turn agreed to play by certain rules. Most specifically our partners have foregone their normal GATT rights, principally the right of compensation and retaliation for our quotas. In return we have pledged to follow the market disruption guidelines, and growth and flexibility provisions of the MFA. If we arbitrarily scrap these rules, these commitments, we can expect retaliation in return. It is hard to estimate the extent of such retaliation. Some of the weak and the poor probably could do little. The rich and powerful can do more, although I realize that at this time many of them are exempt from the bill in any case. We also should not underestimate the power of some of those in between to strike back in ways painful to other U.S. export industries. And those poorly positioned to retaliate now are not likely to forget our action in the future. I cannot make the case for opening developing country markets, our major potential growth area, if we pursue the unilateral approach of this bill.

One must be mindful that nearly $33 billion of U.S. exports were shipped to our 12 major textile suppliers last year. Among the areas where they might consider action are their $5.1 billion of corn and wheat imports from the United States, nearly $2.9 billion in aircraft imports or even three-quarters of a billion dollars of cigarette and tobacco imports, largely from States which are major textile producers. Trade diversion of competitive LDC textile exports from the United States to other, vulnerable industrial markets could also lead to some form of retaliatory reaction by U.S. industrial trading partners, perhaps affecting an even broader range of U.S. exports. Whatever the immediate dollar export loss, in aircraft, agriculture or services may be, I believe it is extremely dangerous to undo nearly half a century of a cooperative approach. The consequence will be irreparable, perhaps fatal harm to the international trading system.

Indeed, in textiles and apparel we have a chance for a multilateral solution to today's problems. The MFA is up for renewal next year. The administration has begun a process of consultation with the private sector and with Congress, a process that will intensify, I will work vigorously for an internationally acceptable agreement of greatest benefit to U.S. interests. We have the chance to deal with this issue in a manner which I believe can yield maximum benefit at minimum cost. In fact next week the nations of the world engaged in textile and apparel trade will meet in Geneva to begin discussions on this issue. This is an opportunity for us to begin a meaningful negotiation to resolve some of the problems we have experienced. I hope the Congress will agree that this approach is far sounder than attempting to legislate drastic unilateral actions carrying such grave risks.

STATEMENT BY HON. MALCOLM BALDRIGE, SECRETARY OF COMMERCE, WASHINGTON, DC, ACCOMPANIED BY WALTER C. LENAHAN

Secretary BALDRIGE. Mr. Chairman, I agree with the proponents of this legislation about the health of the domestic textile and apparel industry, and I won't downplay the effect of recent economic developments on that industry, because during the last 2 years the impact of these developments has been significant. In an industry that employs almost 2 million workers and over 28,000 plants, you recognize very quickly when there is a problem.

But textiles and apparels are not the only industry that has experienced a surge in imports in the last several years. A broad range of domestic industries has been competing intensely against rising imports. Just two or three examples: Industrial chemicals, by value, have grown 54 percent since 1982; copper has grown 48 percent; imports of household appliances, 25 percent; electronics, 71 percent. These trends can be traced directly to worldwide economic conditions that have affected virtually every industry in the United States. The strong dollar, reinforced by the economic recovery here in the United States, which has been disproportionately large com-

pared with the rest of the world and exacerbated by debt problems in the Third World, has caused strains in our trading position across the board.

Over the last 5 years we have seen the dollar appreciate by 40 percent against some currencies. And in part because of that dollar strength, foreign goods can now be sold in the United States at half or less than half of the price at which they were sold 5 years ago. There is no question that the strenght of the dollar has contributed significantly to our huge and growing trade deficit, and that is across the board, Mr. Chairman, not just in one or two industries. It is one of our most pressing problems, because deficits of this nature are unsustainable. It can't continue without causing serious disruption to our economy. They already have in some areas. We simply have to improve our overall trade performance, and the best way I can think of doing this is to see the dollar move down so we can be price-competitive at home and abroad.

To do this, we are going to have to reduce our Federal budget deficit. I have been making this point every way I know how and in every form I know how, Mr. Chairman. I have made the point before this committee. We cannot continue to run up $200 billion budget deficits and expect our trade performance and our competitiveness as an economy to improve or to expect protectionism to solve the problem when it is caused by another reason.

The first point that needs to be made on this legislation is that it is not necessary to achieve its goals. This administration is not advocating a sink-or-swim approach to the problems experienced by this or any other industry, and particularly this industry that is so important to our domestic wellbeing. We have taken some vigorous steps under the existing structure to ensure the continued health of this industry, and we believe our existing authorities are sufficient for this purpose.

In 1981, we extended and strengthened the MFA, and got the authority to negotiate tighter bilateral agreements. We began using this authority in 1982. We renegotiated the Big Three Agreements with increases in imports limited to less than 1 percent for all products subject to quotas. The Committee for the Implementation of Textile Agreements has actively responded to rising import levels. In 1981 we established additional quotas in 18 separate instances. In 1982 we established 38 new quotas. In 1983 and 1984, between them, we established an additional 220 new quotas, including five countries not previously subject to the control program. And our assertion of our rights under the program has continued through 1985, because so far this year we have made 51 new calls on 13 different suppliers.

Beginning on January 1 of this year we adopted a new phased-entry policy which permits Customs to release embargoed goods only gradually after the end of the quota year. We have taken significant steps to improve the technical administration of the quota. We have made new investments in computer technology.

We have revised import documentation requirements to let us more easily identify discrepancies between foreign government export data and U.S. data.

We have established an automated visa verification system between the United States and Taiwan, which has substantially re-

duced the amount of fraudulent trade, and this system will soon be expanded to include Korea. And I want to press for its extension to all countries with whom we have bilateral agreements.

Customs initiated its Operation Tripwire at the end of 1983. As a result, 84 shipments of fraudulent textile and apparel imports were identified with over $7.9 million in penalties assessed. During 1984, 50 percent of Customs fraud-related seizures involved textiles and apparel products.

The administration issued regulations this year clarifying the rules of origin for textiles and textile products to avoid circumvention of our agreements. These regulations became effective April 4 of this year, and the same executive order also called for the establishment of a Customs task force to provide better coordination between Customs and CITA on issues concerning textiles and apparels. That task force is now in operation.

These steps are all vigorous, Mr. Chairman, and they have begun to show results. So far this year, textile and apparel imports have leveled off, actually showing a slight decline over the first 5 months. This has been a welcome sign in the trade picture that has not seen too many bright spots in recent years.

However, Mr. Chairman, S. 680 is bad trade policy and worse economics. Protectionism is expensive. Our preliminary estimates suggest that this legislation would result in a net loss to the U.S. economy measured in billions of dollars. We estimate this bill would cost American textile and apparel consumers approximately $14 billion a year in increased prices, an increase on the order of 10 percent or more, and low income families would be particularly hard hit by this bill since its greatest impact would be on lower priced imports. Any gains in domestic production and employment resulting from the bill would be small and would come at a very high price. We estimate that for every job saved by this legislation, it would cost the United States consumer $140,000. That is $140,000 per job, per year. This figure does not take into account the employment losses we anticipate would come in related industries.

Further, Mr. Chairman, this bill, as expensive as it is, wouldn't have the effects intended by its proponents. The availability of textile and apparel products from Asia and other areas would indeed be reduced; however, much of these import sources would simply be transferred to Europe, where production costs are higher but exchange rate advantages still exist over domestic products. Thus, the legislation would not provide the full import relief sought by domestic manufacturers but would nevertheless result in more expensive textile and apparel products here in the United States.

In addition, Mr. Chairman, there is no question at all—I want to emphasize this—no question that this bill would also violate our obligations under the Multi-Fiber Arrangement, as well as the 34 bilateral agreements we have negotiated under that arrangement. In case there is any confusion on this point, I want to make it clear: Enactment of this legislation will cut us loose from the international framework under which international trade in textile and apparel products has achieved, lately, some degree of stability.

In addition, this legislation would almost certainly invite retaliation against U.S. exports of other goods and services. Our exports to the 12 major textile and apparel suppliers to the United States,

which would be affected most adversely by the bill—our exports to those countries totaled over $54 billion in 1984, much of it in agricultural products. Retaliation by our trading partners resulting in lost profits and further employment loss would only add to the price tag on this legislation.

I don't think that further insulating our economy from the rest of the world is the way to go. I don't think that this protectionist bill is in the national interest, neither is it in the long-term interest of the textile and apparel industry.

That concludes my remarks, Mr. Chairman. Thank you.

[Secretary Baldrige's written testimony follows:]

STATEMENT OF MALCOLM BALDRIGE, SECRETARY OF COMMERCE, BEFORE THE SUBCOMMITTEE ON INTERNATIONAL TRADE, SENATE COMMITTEE ON FINANCE

Mr. Chairman and members of the committee: I am glad to have this opportunity to share with you the administration's views on S. 680

On June 19, I joined with four other Cabinet officers in outlining for the Congress the reasons the administration opposes S. 680. Today I would like to tell you in greater detail why I believe enactment of S. 680 would be a mistake.

First of all, Mr. Chairman, I agree with the proponents of this legislation about the health of the domestic textile and apparel industry. I will not downplay the effect of recent economic developments on the domestic textile and apparel industry. During the last 2 years, the impact of these developments has been significant.

Since 1981, the import share of domestic consumption of all cotton, wool and manmade fiber finished products of textile and apparel, in terms of value, has risen from 14.5 to 21.2 percent. This represents a 54-percent increase in 3 years.

When you apply these numbers to an industry that employs 1,950,000 workers in over 28,000 plants, you recognize very quickly that there is a problem.

However, textile and apparel is not the only industry that has experienced a surge in imports in the last several years (although the effect of the strong dollar has been particularly pronounced in areas, such as textiles and apparel, where demand is highly price-sensitive).

A broad range of domestic industries has been competing intensely against rising imports.

For example, imports of industrial chemicals, by value, have grown 54 percent since 1982. Imports of copper have grown by 48 percent. Imports of household appliances have increased by 25 percent. Imports of electronics have grown by 71 percent.

These trends can be traced directly to world-wide economic conditions that have affected virtually every industry in the United States. The strong dollar, reinforced by the economic recovery here in the United States and by debt problems in the third world, has caused strains in our trading position across the board.

Over the last 5 years, the dollar has appreciated by 40 percent against some currencies. In part as a result of the dollar's strength, foreign goods can in many cases now be sold in the United States at half of the price at which they were sold 5 years ago. There is no question that the strength of the dollar has contributed significantly to our huge and growing trade deficit. In my view, Mr. chairman, the trade deficit is one of the most pressing problems we face today.

Between 1982 and 1984, our trade deficit rose from $36.8 billion to $123.3 billion. Based on the information I have, I think the trade deficit may reach $150 billion during this year.

Deficits of this nature are unsustainable. They cannot continue without causing serious disruption to our economy. We simply have to improve our overall trade performance. The best way I can think of to do this is to see the dollar move down so we can be price-competitive at home and abroad.

To do this, we will have to reduce our Federal budget deficit. Mr. Chairman, I have been making this point every way I know and in every forum I can find. I have made this point before this committee. There are no two ways about it: we cannot continue to run up $200 billion budget deficits and expect our trade performance and our competitiveness, as an economy, to improve. I know I can speak for the President on this—bringing budget deficits under control is his top priority. I know Ambassador Yeutter shares this view.

Now, Mr. Chairman, let me discuss for a moment why I am opposed to the legislation being considered by your committee.

The first point that needs to be made is that this legislation is not necessary to achieve its goals.

Mr. Chairman, this administration is not advocating a sink-or-swim approach to the problems experienced by any industry, and particularly an industry as important to our domestic well-being as the textile and apparel industry. We have taken vigorous steps under the existing structure to ensure the continued health of this industry. We believe our existing authorities are sufficient for this purpose. In fact, in response to the accelerating import growth experienced in the industry, this administration has taken unprecedented steps to strengthen controls over imports in the textile sector. In 1981, we extended and strengthened the MFA and got the authority to negotiate tighter bilateral agreements. We began using this authority in 1982 when we renegotiated the "big three" agreements with Taiwan, Korea and Hong Kong. In these agreements, the increase in imports was limited to less than 1% for all products subject to quotas.

The Committee for the Implementation of Textile Agreements ["CITA"], chaired by my Department, has actively responded to rising import levels.

In 1981, we established additional quotas in 18 separate instances on five supplying countries. In 1982, 38 new quotas were established on 8 supplying countries. With the import surge of 1983 and 1984, we established an additional 220 new quotas on 23 supplying countries, including 5 countries not previously subject to the control program. Our vigorous assertion of our rights under the program has continued during 1985. So far during this year, we have made 51 new "calls" on 13 suppliers.

During 1984 and 1985 we expanded the product coverage of our agreements to include new categories. We established a lower threshold for sounding the alarm on increases in imports in specific instances. Beginning on January 1 of this year, we adopted a new "phased entry" policy which permits the customs service to release embargoed goods only gradually after the end of the quota year.

We have taken significant steps to improve the technical administration of the program:

We have made substantial new investments in computer technology and training which will allow us to track the flow of imports more quickly and more accurately.

We have revised import document requirements to let us more easily identify discrepancies between foreign government export data and U.S. import data.

We have established an automated visa verification system between the United States and Taiwan which has substantially reduced the amount of fraudulent trade in textiles and apparel from Taiwan. This system will soon be expanded to include Korea and I intend to press for its extension to countries with whom we have bilateral agreements.

The Customs Service has significantly expanded its enforcement program, with emphasis in the textile/apparel area. Customs initiated its operation "trip wire" program at the end of 1983. As a result, 1984 seizures of fraudulent textiles and apparel imports were up 300% over 1983 with $7.9 million in assessed penalties. During 1984, 50 percent of Customs' fraud-related seizures involved textile or apparel products.

Finally, Mr. Chairman, on May 9, 1984, the President issues Executive Order No. 12475, instructing the Secretary of the Treasury to issue regulations clarifying the rules of origin for textiles and textile products to avoid circumvention of our agreements. These regulations, issued in accordance with policy guidance from "CITA", became effective April 4 of this year. Executive Order 12475 also called for the establishment of a Customs Task Force to provide better coordination between the customs service and "CITA" on issues concerning the textile and apparel import program. That task force is now in operation.

Mr. Chairman, these steps, and our vigorous enforcement of our agreements, have begun to show results. So far this year, textile and apparel imports have leveled off, actually showing a slight decline over the first 5 months of this year when compared with the same period in 1984. This has been a welcome sign in a trade picture that has not seen too many bright spots in recent years.

So, Mr. Chairman, I have no apologies to make regarding the performance of this administration in vigorously enforcing our rights under the MFA. We have made a number of changes that have brought about an improved and tougher administration of the present program. I believe we can deal with further threats of import surges through the improvements already made.

However, Mr. Chairman, S. 680, in addition to being unnecessary, is bad trade policy and worse economics. Protectionism is expensive. Our preliminary estimates suggest that this legislation would result in a net loss to the U.S. economy which may be measured in the billions of dollars. We estimate that this bill would cost

American textile and apparel consumers approximately $14 billion per year in increased prices—an increase on the order of 10 percent or more. Low income families would be particularly hard hit by this bill, since its greatest impact would be on lower priced imports.

Any gains in domestic production and employment resulting from the bill would be small and would come at a very high price. We estimate that every job saved by this legislation would cost U.S. consumers $140,000. That's $140,000 per job, per year. This figure does not take into account the employment losses we anticipate would occur in related industries, such as shipping, rail, trucking and retailing.

Furthermore, Mr. Chairman, this bill—expensive as it is—would not have the effects intended by its proponents. The availability of textile and apparel products from Asia and other areas would indeed be reduced; however, much of these import sources would simply be transferred to Europe, where production costs are higher, but exchange rate advantages still exist over domestic products. Thus, the legislation would not provide the full import relief sought by domestic manufacturers, but would nevertheless result in more expensive textile and apparel products here in the United States.

In addition, Mr. Chairman, there is no question that this bill would also violate our obligations under the Multifiber Arrangement, as well as the 34 bilateral agreements we have negotiated under the arrangement. In case there is any confusion on this point, I should make that view unequivocally clear. Enactment of the legislation will cut us loose from the international framework under which international trade in textile and apparel products has achieved some degree of stability. In addition, this legislation would almost certainly invite retaliation against U.S. exports of other goods and services. Our exports to the 12 major textile and apparel suppliers which would be affected most adversely by the bill totalled over $54 billion in 1984—much of it in agricultural products. Retaliation by our trading partners—resulting in lost profits and further employment losses—would only add to the price tag on this legislation.

Finally, Mr. Chairman, the legislation is contrary to the free market principles of this administration, which have made our economy the envy of the world. Wherever possible, this administration has sought to reduce obstacles to free trade, rather than create them. To further insulate our economy from the rest of the world is just not the way to go. I simply do not believe that this protectionist bill is in the national interest, or in the long-term interest of the textile and apparel industry.

That concludes my prepared remarks, Mr. Chairman.

Senator DANFORTH. Gentlemen, thank you very much.

Secretary Baldrige, first let me say to you that, with respect to the budget deficit and the effect on the value of the dollar and the effect of the value of the dollar on trade, I agree with your conclusions. But if the administration had done as good a job dealing with the budget deficit as the Senate has done, I think that we would be in a much better position than we are right now.

Secretary BALDRIGE. How about the House, Mr. Chairman?

Senator DANFORTH. Well, you can preach your sermon over there, but I really think that the administration is to be faulted on handling the budget deficit, and that we in the Senate, particularly on our side of the aisle, have been the leaders in this area.

Let me ask you, if you could, to elaborate, Mr. Yeutter, on your comments. You say that you would rather not have this problem of textiles and apparel solved in the legislative forum, and that you would rather have it solved administratively. I don't disagree with that at all; I think there are a number of problems with legislating. The first problem is the one that was mentioned by Senator Roth earlier. Clearly, when Congress enacts a major quota bill, it is precedent for all kinds of industries. The shoe industry hasn't asked for special legislation; it has proceeded under section 201. I think everybody and his brother is going to be coming. Maybe they should. Maybe the previous panel was correct.

I think, also, when you have a Brazil, for example, being cut back 70 percent at a time when it is not exactly one of the great economic centers of stability in the world, that poses real problems.

So I am sure that the administrative area, the executive branch, has much more flexibility than we do in Congress. But where does that leave us? I mean, if all the administration is going to do is to talk about the budget deficit or to talk about the good job that it is doing without recognizing that there has been a surge of about 100 percent since 1980, that doesn't get us very far. I mean, it sort of sounds like, "Let them eat cake." I don't think that Congress would put up with that.

We get problems in Congress, generally, when there is a strong perception that the administration is not doing its job, and therefore the Congress of the United States is a court of last resort, and that is why there are 43 cosponsors in the Senate and more than half of the Members of the House as cosponsors.

So what would you say to people in Congress who are very concerned? They see factories in their States closing. And what would you say to people like Senator Thurmond who said, "We have already been promised by President Reagan that textile imports are going to go up no faster than the growth of sales in the economy as a whole." He says, "The President hasn't kept that promise; so we want legislation, not more promises." How would you answer that? Are we now in a position where this is a matter that is timely in the court of last resort, which is the Congress?

Mr. YEUTTER. Well, my first response, Senator Danforth, would be to suggest that as U.S. Trade Representative I have had only 2 weeks to deal with this problem, and I would hope you would give me more than two. And in addition, we will have a new textile negotiator coming onboard within the next few days, and I hope he gets more than 2 weeks as well to deal with what is obviously a very intricate and delicate problem. And we will certainly concentreate on it to a very major degree, and I will concentrate personally on it, Senator Danforth, because of its importance to this group, to the nation as a whole, and to the industry that is involved. So that is one thing—it will just be the personal commitment to the issue.

Second, with respect to the promise that was made by President Reagan, I was not privy to the history of that commitment, although I have read it and have been briefed on it by a number of people. I am told, Mr. Chairman, that the promise is not as definitive as some read it to be. Clearly, the intent that was involved is clear to the President and to the administration, but that intent has been interpreted a bit too liberally.

Senator DANFORTH. Well, I don't think this is the proper forum for adjudicating the precise language of the letter, but the fact of the matter is there are people in Congress who would say to the administration, "We wouldn't believe any representations that you'd make." And how would you answer that?

Mr. YEUTTER. I agree. I think my answer, Senator Danforth, would be that I am pleased to put my own personal integrity on the line any day to this committee or anywhere else.

Just two quick additional responses: One, in terms of the comments you made about rollbacks, it seems to me that one of the

major deficiencies of this legislation, other than the fact that it is just here at all, is that it substantially rolls back access rights to the American market. And this is the first time in the history of the MFA that this has ever occurred.

Finally, I would simply embellish my earlier comments about legislation to say, Senator, that the world changes too rapidly to deal with the textile issue legislatively.

Senator DANFORTH. I understand, but you haven't given me much basis for hope from your answer that the administration is going to do anything other than stonewall on this.

Mr. YEUTTER. Not at all. I can't give you a definitive response on what we will do administratively, because we have not taken it to the Cabinet level as yet, Senator Danforth. But if all goes as I anticipate it will, we should have an administrative position in the next few days that will favor renegotiation of the multifiber agreement.

Senator DANFORTH. Secretary Baldrige, do you have any comment?

Secretary BALDRIGE. Yes, Senator. First, sometimes this isn't palatable, I suppose, but I think it is important to put this in the proper framework.

Textiles and apparel have the same problem as most of our industry does today. It is not an isolated case in any way, shape, or form. By value, textile and apparel imports have gone up 50-odd percent in the last 3 years. For the United States as a whole, our total imports have gone up over 50 percent in the last 2 years. So we are not looking at an isolated phenomenon; we are looking at an overall problem that reaches most of the industries in the United States.

Now, in dealing with that problem, if we are to take each industry that is affected and put up protectionist legislation to try and protect it, this could go on endlessly, and it would not solve the problem, it would make it worse.

Now, with that background, let me say that, specifically with respect to textiles, as the USTR said, we will be reviewing the MFA to see what changes are necessary to assist our domestic industry. We have already created a senior level task force to make recommendations on improvement in the present MFA, and we will review all aspects to see what we can do, including the increase in imports of nonquota ramie apparel that I heard mentioned before that has undercut the quota program for knitwear.

Second, we will examine new measures for improvement in the implementation of the present textile program. We have submitted a bill, H.R. 2721, to require mandatory quarterly reporting of domestic apparel production so we can better track it; we should be reviewing Custom activities to see if we could tighten down more there; and we are going to continue the kind of implementation of the textile program that we have done in the last 2 years.

Now, it is beginning to work, and I think we ought to give it a chance. It is not just happenstance that in the first 5 months we have seen imports flatten out. They would have been lower if it hadn't been for a 33-percent increase in imports in textiles and apparels coming from Europe. They are not covered by any quota. It would be lower than flat if that were not the case.

We have taken the steps that I mentioned in my opening statement. There comes a point when you don't know what else can be done to strengthen the system, and when that point comes we will admit it. But I think we can go further in strengthening it right now.

I think that we have seen the dollar reach a peak—this is a personal opinion—and begin to go down. That could have a significant effect on this. But I think for the first time we have seen a diminution, if not a cessation, of the tide of textile imports, and I don't think this is the time to enact protectionist legislation.

Senator DANFORTH. Senator Roth?

Senator ROTH. Thank you, Mr. Chairman. I would like to carry on just a bit in the same area because, gentlemen, I don't really feel that time is on your side.

The fact is that much of this industry, as I understand it, and I have a fair amount of the textile industry in my own state, has modernized. I don't think you can argue that their pay is exhorbitant, as you may be able to in some industries that have suffered adverse trade problems. But the fact is that they have already got a majority, and I am not sure, even if you had a veto, that that could be overridden. So I don't think the answer is to say, "We are going to negotiate." I understand and sympathize with your problems, Mr. Yeutter, as you have barely been in the job. But I think there has to be some pretty specific guidelines set forth as to what you are going to do if you want to go the route of negotiation. I would prefer that, myself. But I think at the present time increasing numbers are questioning whether it can adequately cover the situation.

In talking about negotiation, I know you are starting them, but is this something that can be expedited so that quick action can be taken?

Mr. YEUTTER. We have talked about that some already, Senator Roth. That obviously depends to a considerable degree on the attitude of our negotiating partners, because we can't command them to sit down at the negotiating table with us. But we have had internal discussions on that very point because of the time frame being as critical as it is, and we have instructed our people to have further discussions on that very issue in Geneva when the group of nations involved in the MFA will meet a few days from now. So I can give you a better answer to that a few days from now. But that clearly is one option—renegotiation of the multifiber agreement as rapidly as possible.

Now, I can't make any commitments to you, Senator Roth, as to the ultimate content of that agreement; all I can say to you is that I will make sure that we come out with a result that I would deem to be in the long-term best interests of this country.

And I am perfectly willing to work both with the industry and with you in that process. I think there has been a very good relationship in the past between USTR and all of those involved in the negotiating process, and this committee, and the Ways and Means Committee, and also with the industry. And that should continue.

But it just seems to me that we have got to deal with this problem in that format rather than in the legislative format. I just

don't see any way that is practical or feasible to do this legislatively.

Senator ROTH. I just want to underscore what the chairman has already said, that time is of the essence, and I think that the solution has to be set forth in some particularity. I know that is not easy. And if the other sides aren't willing to sit down, there is no question in my mind that then Congress is going to act.

But one of my concerns also is in trying to make a quick decision—and I am not going to go into organization today, as we will do that at another time at another hearing. But I am concerned about who is going to call the shots. We used to have two trade leaders in the executive branch. I think the textile letter was signed by five Cabinet members, and I don't think we have any strong advocate in the trade area. That bothers me greatly. And I am not sure the Secretary of State—who has many serious problems, whoever he may be—is the one who is going to take the toughest look at how we are going to be tough in these textile negotiations.

So I am not critical of you or Mac in this area, but I am critical of the splintering of the policymaking; I think something has to be done in that.

One further question.

Mr. YEUTTER. Senator, I am not at all worried about my authority in that area.

Senator ROTH. Well, we are happy for you. [Laughter.]

I think it is important that we have a strong voice. And I know that you in your personality is such that you will try to give it that.

Let me ask one final question, as my time is running out at least for this round.

You heard me talk earlier. I am very concerned about the fact that we include the Pacific basin, one of the fastest-growing areas but leave out the European Community and Canada. It not only sort of carries some racist overtones, and the Pacific area has great potential for export growth. If we negotiate, are you going to include such areas as Europe, Canada, and others?

And second, the same question with respect—I think I am correct this time—such such matters as silk and some of the other fibers that I think are not being covered in the multifiber.

Mr. YEUTTER. All right. I would like to ask Ambassador Imus to respond to those more technical questions at the end.

As to whether we include Canada and the European Community, that obviously could happen but has never been done traditionally for a whole variety of reasons that are well known to all members of this group. And certainly if were to embark upon an inclusion of Canada and the European Community, that changes the entire negotiation in a very dramatic way that we probably don't want to expand on now. But we can do so later.

Dick, would you like to respond on the latter part of his question?

Ambassador IMUS. Thank you, sir.

Senator, the European Community and Canada are members of the multifiber agreement and have been since its inception. We have not, however, during the course of this multifiber arrange-

ment, felt that it was necessary to issue requests for consultations to put on quantitative limits. But for the record, they are members of the MFA and have the same relationship to us through the MFA in this trade as does an exporter from the Far East, Latin America, or any other part of the world. It is because of the nature of their products, the pricing, the competitiveness of their products versus ours, that we have not asked for quantitative restraints. But we do have the authority, and we could if the trade warranted.

Senator ROTH. Well, in conclusion, Mr. Chairman, I would just point out that it is my understanding that 16 percent of the import growth is from the EC and Canada, a not inconsiderable amount, and that 20 percent of the import growth are in these products not covered. So I think they are a critical part of the overall problem.

Mr. YEUTTER. Senator, I would like to just add a response to that, because I had heard that brought up earlier. Sometimes we have a tendency to forget that, if we put quotas on another nation, they have certain rights to do things to us. And that becomes a very relevant factor in terms of relationships with the European Community. There is not quesion in my mind but that if we chose to apply textile and apparel quotas to the European Community we would pay a comparable price in other products flowing from the United States to the Community. And whether we end up being a net gainer or a net loser in that in terms of jobs, which is an issue that I have heard raised repeatedly here today, is another question. The Community is not without skill in this process and would clearly recognize its own interests and protect its own interests.

Senator ROTH. Well, I would just say that Europe has not hesitated to have some very tough policies with respect to agricultural products, so maybe they are asking for a tough fight.

Mr. YEUTTER. I am well aware of those, Senator Roth.

Senator ROTH. Thank you, Mr. Chairman.

Senator DANFORTH. Senator Moynihan?

Senator MOYNIHAN. Mr. Chairman, I will be brief, because we have a long afternoon ahead of us. With respect I will address myself to Ambassador Yeutter and thank him for his candor and his willingness to engage in a subject that comes new to him.

But I would say, if I can, sir, as Senator Hollings said earlier, I have been now 25 years with this subject, since the 1960 campaign, and was one of the negotiators with Mike Blumenthal and others of the Long-Term Cotton and Textile Agreement of 1962, which was the predecessor of the MFA.

Now, sir, we had a very simple proposition. It was never to impose a freeze on the importation of textiles or apparel in this country; rather, it was to provide for orderly growth.

Mr. YEUTTER. Correct.

Senator MOYNIHAN. As you recognize. And we saw that growth continue. Our market expanded. World markets expanded. This is not an agreement between the United States and the rest of the world; it was an agreement among all the producing and importing nations, at least the major ones.

Between 1962 and 1980, the point was reached where about 25 percent of the American market was imported, quite a bit more than when we began. The growth had taken place, but it was at least to some degree orderly and moderate. And the kind of market

disruption and community disruption and turmoil that we were trying to avoid was avoided.

Now, sir, in 4 years we have gone from 25 to 50 percent. We have lost some 300,000 jobs. Could I ask you, doesn't that qualify as market disruption?

Mr. YEUTTER. I would say that we have had a market disruption in recent years, Senator Moynihan. I would not, however, conclude that the MFA should receive all the blame for that. We have had market disruption for a variety of reasons, some of which might be attributable to the MFA but others perhaps are not.

Senator MOYNIHAN. Oh, I would much agree, sir. That is our problem. We go through this situation, a major issue is the overvalued dollar, and when we ask about the overvalued dollar we are told, "Balance the budget." And if we ever have the temerity to say to a representative of the administration, "Well, if you want a balanced budget, why don't you send us one?" then they say, "Well, we can't do that because of the overvalued dollar." [Laughter.]

And it seems to go round.

Sir, with the greatest respect to Secretary Baldrige who is a friend of this committee and well regarded by its members, the trade situation in the last 4 years has been disastrous, and you know it, sir. We are losing industries that we won't get back, ever. A pattern of the next 60 years is being formed, and it is not one that we look to with any prospect for chemicals, steel, or textiles.

This Congress is of a view to give you every chance, but I think we are going to give you some legislation to encourage you as well.

Mr. YEUTTER. Well, Senator, I hope that is not the case, because I really believe that would not be in the best interest of this country and not be in the best interests of the textile industry. It certainly would not be in the best interest, in my judgment, of the Senators who represent textile districts in textile States. And I would like to embellish that, if I could. That is simply because, if we can have an effective MFA, we can achieve much for our industry. You may wish to call that into question now, Senator Moynihan, because of the market disruption we have experienced over the last 2 years. I can't defend that other than to say, as I did earlier, that it is not entirely attributable to the MFA. But if we can deal with market disruption within the MFA, and I really feel reasonably optimistic about doing that—perhaps not all elements of market disruption, because as you well know the MFA does not encompass European Community imports which have been a major factor here recently. So some of these things cannot be handled unless we alter the MFA or get at them in another way. But I am convinced that we can do a reasonably effective job of dealing with market disruption through the mechanism of the MFA—maybe not perfect, probably not perfect, but hopefully better than we have been. It seems to me that maybe we need to be a little quicker, a little more perceptive, add products a little sooner, and all of these kinds of things.

To me, that is infinitely preferable to legislating because with legislation we are inevitably going to pay a price in compensation. We don't pay compensation with the MFA, and we have got to remember that. There is a lot difference between no compensation in the MFA and compensation through legislation, whereby that com-

pensation can come from export industries in your State or your district.

Senator MOYNIHAN. Could I just say, Mr. Chairman, that Mr. Yeutter comes to us as a friend and a person we have the greatest respect for. But I am going to have to suggest there was the possibility of a very subtle, but profoundly important, statement that he just made. He promised he would at least do better than we have done in the last 4 years. You have got to do a lot better than that, sir.

Mr. YEUTTER. Well, I am prepared to discuss with you, Senator Moynihan, what "a lot better" means.

Senator MOYNIHAN. All right, sir.

Senator DANFORTH. Senator Matsunaga?

Senator MATSUNAGA. Sir, as I understand it, the MFA today covers only products of cotton, wool, and manmade fibers, while S. 680 would include other products not presently covered such as the products of all textile fibers including those of silk, linen, ramie, and jute.

You say that under existing MFA and other laws you will be able to accomplish what S. 680 is trying to do. I would like to know how you can do that if these other products named in S. 680 are not presently covered under any quota program.

Mr. YEUTTER. You are beyond my technical competence in this area, Senator Matsunaga. Let me refer that one to Ambassador Imus.

Ambassador IMUS. Thank you, sir.

Senator, you are correct that the multifiber arrangement does not include these fibers. This is an element, however, of great concern to us in the MFA. In October of last year, in appearing before the GATT Textiles Committee that oversees the operation of the MFA, I underscored the importance and the urgency that we attach to this issue.

When we renegotiate or reexamine at the MFA, obviously we can look at a variety of issues, and it would seem to me, personally again, that this is an issue that should be examined and looked at.

We have also, however, within the scope of our present authority, attempted to induce our trading partners where we had negotiating leverage to cooperate with us in a reasonable control of this trade.

By not having ramie in the MFA, we do not have the authority to impose quotas like we do with the other fibers; however, we can work toward mutually acceptable agreements, and we recently achieved one with Indonesia.

Senator MATSUNAGA. Have you any figures as to the percentage of the total imports now, which are covered and which are not covered?

Mr. YEUTTER. I would like to refer this one to our Commerce colleagues, but I wanted to underscore Ambassador Imus' answer, Senator Matsunaga, in that, since we will presumably renegotiate the MFA, there is nothing that would preclude us from adding products like that if we sought to do so. Now, clearly we would have to have the agreement of our negotiating partners to do that, but you see this MFA, as you well know, expires 12 months from now, so this is a question we can answer over the next 12 months.

But let me now refer to my Commerce colleagues.

Mr. LENAHAN. Yes, Senator. At the current time, that is through May 1985, imports of non-MFA fibers, mostly in the apparel area, are equal to about 8 percent of total apparel imports under the MFA—that is, cotton, wool, and manmade fiber.

Senator MATSUNAGA. Just 8 percent?

Mr. LENAHAN. Yes, sir.

Senator MATSUNAGA. And other fiber and garment imports are not covered at all under the quota program?

Mr. LENAHAN. Well, if you are talking about the so-called non-MFA fibers—ramie, linen, and silk imports—they basically come in the apparel field. At the current time, the imports of those fibers, apparel in those fibers, are equal to about 8 percent.

Senator MATSUNAGA. Eighty?

Mr. LENAHAN. Eight.

Senator MATSUNAGA. Just eight?

Mr. LENAHAN. Eight percent of total apparel imports.

Senator MATSUNAGA. Do you mean to say that 92 percent of the fiber import then, are not covered by MFA?

Mr. LENAHAN. No, sir. The MFA covers cotton, wool, and manmade fibers. Conversely, 92 percent of current imports are covered by the MFA, and approximately 8 percent are not.

Senator MATSUNAGA. Are you going to propose any changes in the MFA which expires in 1986; and if so, specifically what?

Mr. YEUTTER. There has been no decision on that yet, Senator Matsunaga. As I indicated earlier, we have not yet taken that issue even of renewal and renegotiation to the Cabinet level, but we will do so within the next few days. So there won't be any decision on negotiating strategy or objections until that decision is made.

Senator MATSUNAGA. Since the administration is opposed to S. 680, and I know you represent the administration's view, I presume, then, that you have no objections to exempting the provisions of S. 680 application to Hawaii?

Mr. YEUTTER. Well, let us not draw immediate conclusions, Senator Matsunaga.

Senator MATSUNAGA. I see my time is up.

Senator DANFORTH. Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman.

Gentlemen, Senator Danforth and Senator Moynihan were gentle with you in saying one of the big problems we have here is the failure of the administration to act to reduce the budget deficit. Both of you, time and time again—in fact the administration time and time again—say, "No, we shouldn't have restrictive trade legislation. The answer is get the dollar down; the answer is get the Federal budget deficit down." My question is, Given the administration's backing away from efforts to reduce the deficit last week, how can the two of you in good conscience come up before us here today as representatives of the administration and say that the deficit has to be reduced?

Secretary BALDRIGE. Well, Senator, it takes three to tango in this case.

Senator BAUCUS. I am talking about the administration. There are three players here, that is right.

Secretary BALDRIGE. There are three players including the House of Representatives.

Senator BAUCUS. And you are not the House, you are the administration.

Secretary BALDRIGE. Yes.

Senator BAUCUS. Why did the administration agree to a proposal which cut back on any effort to reduce the deficit?

Secretary BALDRIGE. Well, the best answer I could give you is because they didn't see a chance of getting the House moving toward specific lowered cuts that would make a difference.

Senator BAUCUS. Why didn't the administration press on? Why didn't the administration press on to get the budget deficit reduced more.

Secretary BALDRIGE. Well, I am not the Secretary of the Treasury or OMB.

Senator BAUCUS. But it is your administration. You come up here, and you make the same points.

Secretary BALDRIGE. I couldn't give a qualified answer to that question. But that is our problem. And it is not just a problem for textiles. As I mentioned before, textile imports have gone up 50-odd percent by value in 3 years. All imports have gone up 50 percent in 2 years. And my simple point today is that, to use a piece of protectionist legislation just for textiles is not going to get the job done.

Senator BAUCUS. That is exactly my point. Because it affects not only textiles but also many other products, why isn't the administration being a little more determined to reduce the budget deficit?

Secretary BALDRIGE. Well, I think they are determined to get it down.

Senator BAUCUS. I am sorry, Mr. Secretary, that is not the fact. The facts are, last week the administration backed away from efforts to get the deficit down as much as it should have. Those are the facts.

Secretary BALDRIGE. Well, I hope the last chapter in that story is not written, and I don't think it is.

Senator BAUCUS. What you might do is reconsider and take David Stockman's job. Maybe you could do something there.

Secretary BALDRIGE. You are a friend of Dave's, Senator. [Laughter.]

Senator BAUCUS. It could be better than this—I don't know. [Laughter.]

Secretary BALDRIGE. I would like to make another point, if I may.

Senator BAUCUS. Sure.

Secretary BALDRIGE. It goes in looking to some of the causes. I am a battle-scarred veteran of going through steel, tuna fish, copper, and you name it. And the problem is always laid entirely on the door of imports, that imports are the sole reason for those industries not doing well.

In the case of textiles, that has been also said, and there is no question but what imports are a serious problem. But I think before we dive off with a bill like this, that we don't feel is going to solve the problem but as a matter of fact make it worse, before we do that we ought to understand a couple of rather basic facts:

It is a sad and true fact that employment went down some 270,000 jobs in the last 10 years. That is about 12-percent loss in

employment in the textile and apparel industry. Most of that was in the textile industry. And a portion that we cannot measure, but it must have been a substantial portion of that, was because the textile industry was doing a good job in modernizing and reequipping and making their plants more efficient. While employment fell 12 percent, production increased 15 percent during that same period in the textile business. They were hiring fewer people to get more work out. And that is what they felt they had to do to get competitive.

So you cannot say that all that unemployment can be laid at the door of imports. I am not denigrating what has happened to imports, but I am saying that there are other factors that we have to consider here.

And in apparel, their production increased 20 percent over those same 10 years. And the actual productivity increase in textiles averaged 5.2 percent for the last 10 years. Now, that is way higher than the U.S. average, which is about 1.7 or 1.8 percent.

Senator BAUCUS. I appreciate that, Mr. Secretary.

Secretary BALDRIGE. So those factors have to be taken into account when you look at the job loss in this important industry.

Senator BAUCUS. I appreciate that. But I think the Chairman of this committee put his finger on the key point here: people are losing jobs, the President has made some assurances that certain measures would be put into effect, specifically only 6 percent growth in each of those years under the multifiber agreement, but that has not happened. In the same vein, the administration talks a lot about reducing budget deficits to get the dollar down, but not much happens. It is a question of credibility. What are we going to say to people who are losing jobs?

The fact is, as many have said, the administration does not have a trade policy. If the administration had a trade policy with some teeth in it, a little bit of bite along with the bark, it seems to me that we wouldn't be here today. So we need a little more bite. The trouble is, it is hard for us in the Congress to be reassured by statements from the administration that you are going to do anything meaningful. Without action by you we have virtually no recourse but to pass protective legislation like this.

So I am encouraging you to act very, very strongly—and very quickly, I might add—to come up with a little more bite along with the bark so that we don't have to go through all of this.

Mr. YEUTTER. May I just add a quick response to that, to supplement what Secretary Baldrige said? First, with respect to a trade policy, I committed to this committee a response on that issue at a relatively early date, and I want you to know that that is a subject that is under intense consideration at the moment, and I plan to come back and talk to you about our overall sense of direction on trade policy relatively soon. It is an issue that is getting considerable attention at the moment.

Second, with respect to the budget deficit, I was not privy to all of the earlier discussions; they preceded me. But this is an issue that we are going to have to battle not only this year but in a good many years to come, and this is one Cabinet officer that is certainly committed to that battle for the future, Senator Baucus.

And third, it seems to me it is important to recognize that whatever we do in macroeconomic policy is not going to resolve the problems of the textile industry overnight, or any other industry. We are all going to face these protectionist pressures in the immediate future, irrespective of how much progress we make on macroeconomic policy, because there is a lag time involved. So we have to do what we can in the interim. And in my judgment the interim here calls for the answer I gave Senator Roth earlier: We have to respond through the administrative process, meaning the MFA.

Senator BAUCUS. Well, there is not much time. I appreciate that.

Senator DANFORTH. Senator Bradley.

Senator BRADLEY. Thank you very much, Mr. Chairman.

When Secretary Baker was here, he said, "Above all, what this committee has to do is to avoid a wave of protectionism." Mr. Yeutter, you have said, "Above all, what we have to do is avoid a wave of protectionism." And Secretary Baldrige, you have said, "Above all, what we have to do is avoid a wave of protectionism."

I would like to ask you, Mr. Secretary, did you support the VRA on automobiles in 1981?

Secretary BALDRIGE. Yes, sir.

Senator BRADLEY. Did you support the large motorcycle duty issue in 1982.

Secretary BALDRIGE. No.

Senator BRADLEY. You did not, even though it was administration policy?

Secretary BALDRIGE. Well, I thought you were asking about during the deliberations before the final decision. Every final decision that this administration has made, as a Cabinet officer I support.

Senator BRADLEY. Absolutely. I am asking your position, though. You did not support that?

Secretary BALDRIGE. In the deliberations ahead of time I was opposed to that.

Senator BRADLEY. OK.

Did you support the specialty steel proposal in 1982?

Secretary BALDRIGE. Yes.

Senator BRADLEY. Did you support the stainless steel proposal in 1982?

Secretary BALDRIGE. The stainless and the specialty were the same.

Senator BRADLEY. Did you support the change of rules of origin for textiles in 1983?

Secretary BALDRIGE. That was our initiative.

Senator BRADLEY. Did you support the VRA steel quotas in 1984?

Secretary BALDRIGE. Yes.

Senator BRADLEY. Well, would you call any of those a "wave of protectionism"?

Secretary BALDRIGE. I wouldn't call them "a wave." [Laughter.]

Senator BRADLEY. OK.

Secretary BALDRIGE. If I can make this point, Senator, I understand the humor involved, but some of that has not been very funny. We are looking at a $120 billion trade deficit last year, and the number of protectionist legislative actions that this Congress and administration have actually taken—not just talked about but

actually taken—is amazingly small. Any other country with the same kinds of pressures that we have would have had these walls covered with protectionist legislation, and in my opinion we have done a good job in holding that off.

Senator BRADLEY. Well, I think there has been a great deal of restraint; I agree with that.

In your analysis, you attributed a great deal of the cause of the deficit to the value of the dollar. Is that correct?

Secretary BALDRIGE. Yes.

Senator BRADLEY. Would you support jawboning the Federal Reserve to get the interest rates down, aggressively and publicly on the part of the administration?

Secretary BALDRIGE. No, because I think they are.

Senator BRADLEY. OK.

Secretary BALDRIGE. If I thought they were departing from a good course, I would.

Senator BRADLEY. I am just interested in listening to your view. You would not support jawboning the Fed to get the interest rates down. Would you support any intervention in the exchange rate markets to get the value of the dollar down?

Secretary BALDRIGE. I think that is a useless exercise. There is not enough money for a long-term sustained intervention, and a short-term intervention won't do any good.

Senator BRADLEY. And you would support a deficit reduction package that has neither a tax increase nor a change in Social Security? In fact, you would urge that, as you did last week?

Secretary BALDRIGE. Yes, I think we have to take the hard cuts before there is any discussion of a tax increase.

Senator BRADLEY. So you are presenting us with a situation where we have a $120 billion trade deficit, and growing, where we have to avoid a wave of protectionism although there are certain selective reliefs to motorcycles, steel, and automobiles, and you are saying that the problem is the value of the dollar but that you are impotent to do anything about the value of the dollar coming down in terms of interest rates or exchange rates, and you accept less than what you had initially wanted in budget deficit reduction.

Meanwhile, you have as the testimony has confirmed 270,000 fewer people working in textile and apparel today and a lot of other industries with very high unemployment.

Now, the purpose of this kind of legislation in the past has been to provide relief intended for adjustment rather than permanent protection. Do you agree with that philosophy, adjustment as opposed to permanent protection?

Secretary BALDRIGE. That is what 201 is about. Yes.

Senator BRADLEY. Would you describe for the committee the administration's "adjustment policy" that give those workers who are displaced by these imports that are caused by the high value of the dollar, about which you will do nothing, some hope?

Secretary BALDRIGE. Well, Senator, it is not true that we are not doing anything about the high value of the dollar. I mean, that is a complicated question. If you would like to go into that, I would be glad to. But there are three reasons for the high value of the dollar, and one of the major reasons for our increase in imports is of course that high value of the dollar.

But we also have the less developed countries, developing countries, where we are their biggest exporter, that have not been able to take the imports from us that we did before, which has hurt the trade deficit.

Senator BRADLEY. No, my last question was not the value of the dollar; my last question was: What is the administration's adjustment policy? You have a hall full of people who just lost their jobs because of imports. What do you say to those people? What is the administration's policy to give those people some hope?

Secretary BALDRIGE. Well, first, Senator, it is uncertain how many of those people lost their jobs because of imports. As I stated before, there was definitely a modernization program going on in the textile business, where they have increased their productivity steadily, and as a result are employing less people.

Senator BRADLEY. All 270,000?

Secretary BALDRIGE. No, no. No, no. But you can't lay the whole 270,000 simply on imports. But those people who are laid off have an administration policy that does not—we have been against, as you know, adjustments to firms, because it has clearly been shown that it hasn't worked. Sixty percent-plus of the loans we have made to firms who claimed that they were injured by imports have defaulted. So the company part of the trade adjustment simply hasn't worked; and if it had, we would have kept it.

On the workers, we have worker-retraining programs that you are familiar with, and we have trade adjustment assistance there.

Senator BRADLEY. Well, what is the budget figure for that?

Secretary BALDRIGE. Well, I don't remember offhand.

Mr. YEUTTER. Senator Bradley, could I add a couple of supplementary comments?

Senator BRADLEY. That is up to the chairman. Sure.

Senator DANFORTH. You can, but let me just say we have a number of additional witnesses and a number of Senators still to ask you two questions. But if it is a pressing matter, of course.

Mr. YEUTTER. Well, only 30 seconds. I think there are some incomplete issues involved here, and unfortunately there isn't time to embellish them.

But in terms of adjustment programs, I think we should recognize the factual situation that exists in the States. Maybe it isn't quite as troublesome in terms of alternative job opportunities, Senator Bradley, as your question might have implied. The eight major textile-producing States gained 1,600,000 jobs in the 1980–84 period; so there were some alternative job opportunities, obviously. Now, whether the textile workers who were displaced could qualify for those jobs is another question, and that gets into adjustment.

Clearly, it seems to me, adjustment is a major part of this issue, one which perhaps deserved more attention and thought. It is one that I wrestled with when I was Deputy USTR in the 1970's, and I am wrestling with it again. And there are no easy answers.

Second, getting back to your comparisons of protectionism, Senator Bradley, I would like to point out that this is an industry that has obviously been involved with protectionism for a long time. Whether that is good or bad is something all of us could argue about for hours, perhaps, but nobody here is suggesting that we not have protectionism in the textile and apparel industry, irrespective

of the philosophy that is involved. The question is, how much and at what price? And my judgment is that this bill provides too much and at much too high a price.

Senator DANFORTH. Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman.

I would like to ask Mr. Yeutter and Mr. Baldrige the following question:

It seems to me, when we are dealing with the textile industry, we are dealing with something different than with the steel industry or even the auto industry. In the auto and steel industries we had workers paid at very high income levels with every kind of imaginable benefit. At wages up to $22 or $23 an hour, they were the highest-paid industrial workers in the world. No one will say that the textile workers are anything like that. They earn $7 or $8, $9 maybe, with fringes. The management is not getting high salaries. The return on investment is extremely low. We all know those statistics differ from those of the auto industry.

At the same time you both have acknowledged the tremendous investment the textile people have made. Secretary Baldrige touched on the industry's increased productivity. As he acknowledged, that didn't come about by just some whim; it came about because of tremendous capital investment.

Therefore, it seems that they present a very sympathetic case in that they have done everything that anybody could do. Indeed, the Cranston Print Works, which has a home base in my State, has reported that the employes in one of their branches in Fletcher, NC, voluntarily took a 5-percent pay cut. We have never seen anything like that in the steel or auto industry.

So, what more can they do? Why aren't they entitled to some protection, Mr. Yeutter?

Mr. YEUTTER. Oh, I think they are entitled to some protection, Senator Chafee. I implied that in my response to Senator Bradley's question. The issue really becomes how much? How to do it? And whether and for what period of time that is necessary?

I would just answer it in a simple way, like this: That because the industry has been making some of the necessary capital investment that you alluded to, it is becoming increasingly competitive. I haven't had a chance to visit those plants yet, though many manufacturers have invited me to do so, but I am willing to take their word for the fact that they are inherently competitive today in a lot of those plants. That means that if we do the right things in terms of macroeconomic policy, and they result in a lowering of the dollar—and I agree with Secretary Baldrige; I think we have probably peaked out, and it is coming down—they are going to do very well. I think their import competition is going to slack off in the next few years, and I think we might even see some improvement in export opportunities for them.

The question is, What can you do for them in the interim?

Senator CHAFEE. You know, I don't want to say that is wishful thinking, but the dollar continues to be strong. Currently, we are making valiant efforts to get the budget under control. We have always said in Finance Committee that if we get the deficit under control then the interest rates will fall and the dollar will slacken. I am not sure that is the correct scenario; I think the country will

appear more stable, and the dollar might strengthen. That is no reason not to reduce the deficits, but, to predicate the health of the industry on the fact that the dollar's value has peaked and is going to decline is like "grasping at a straw" right now.

Mr. YEUTTER. Senator Chafee, it has come down substantially in the last few days, and interest rates have come down even more substantially in the last few weeks.

Secretary BALDRIGE. Senator, I think it is the proper perspective to look on how much protectionism. There is nobody denying that the industry is already protected; some would wish it were protected a good deal more. But we had about 60 percent—this was back in 1982—of all of the developing nations' imports under quota. Today that figure is 80 percent. We have gone up that much. There are 650 products under quota now—textile products and apparel products; 300 of the 650 were put in by this administration, most of them in the last 2 years, and we are continuing that process.

Senator CHAFEE. I appreciate that point and I think you made it in your opening statement. However, there is one quick question I would like to ask.

Mr. Yeutter, you said that this bill would be bad for the States that have textiles or the districts in States that we represent. My State doesn't produce any airplanes or airplane parts, so we would not be hurt by a retaliation. Why did you make that statement?

Mr. YEUTTER. Well, then, you are one of the fortunate ones, Senator Chafee, but a lot of others are not going to be in that category.

Senator CHAFEE. Well, we would take Boeing any day. [Laughter.]

Mr. YEUTTER. You know, it is an all-lose, no-gain proposition, Senator Chafee, as compared to the MFA, because if we go with the MFA there is no compensation involved for any State, so nobody has a loss in terms of export opportunities. If we go the route of this legislation, somebody is going to pay. It may not be your State, Senator Chafee, but some State is going to pay, and some States are going to pay more than they are going to gain.

Secretary BALDRIGE. The farmers are going to pay.

Senator CHAFEE. Well, I agree with that.

Secretary BALDRIGE. They are going to pay all over the country.

Senator CHAFEE. Thank you, Mr. Chairman.

Senator DANFORTH. Senator Mitchell?

Senator MITCHELL. Thank you, Mr. Chairman.

I thank both the Secretary and Mr. Yeutter for their vigorous defense of their position. I am, however, very deeply concerned about what we are hearing here.

Essentially, I gather what you are saying is that you acknowledge that to some extent there is a problem but suggest that this legislation is not the answer, that it is best left to the workings of the executive branch of Government. That might be all right, were this a new problem, a new situation, new participants, as you may be, Mr. Yeutter. But you are part of an administration. And since the most reliable indicator of future human behavior is past human behavior, it seems to me that we and the people of this country are entitled to look at what has happened in the past.

In September 1980, Mr. Reagan made a commitment, a firm, clear, explicit commitment. Senator Thurmond was here today. He

was a principal participant in that. He understood it to be a commitment. And the best indication that it was a commitment was that, as this letter which I now hold in my hand was widely circulated throughout the Southern and Northeastern parts of the country between September and November of 1980, nobody representing Mr. Reagan stood up and said, "Wait a minute; that's not a commitment." It was intended to convey the impression of a commitment, and it did convey the impression of a commitment. There is in Anglo-Saxon law, and has been for 500 years, a principle of law that says if a person makes a statement and others act in reliance on it, and that person acquiesces in their action, he cannot later say, "Well, wait a minute; you didn't understand what I meant." Everybody knew what was meant then. It was intended to convey the impression of a firm commitment to hold imports down to the level of the domestic growth of the market. And it was not until years later that administration spokesmen began to say, for the first time, "Well, wait a minute; that wasn't really a commitment. That was a goal, or an objective, or something we are trying to do." And the commitment was not kept.

The domestic market has grown at an annual rate of about 1 percent, and imports have increased at a rate of 19 percent. So the commitment was not kept by 1,900 percent. And that is why we are here. It is as simple as that.

And I think you have to understand how we feel hearing your testimony against that background. You said, Mr. Yeutter, "Let us have a chance," and if you don't succeed, then have the President get another Trade Representative. Well, of course, that is just what he has done. [Laughter.]

Mr. YEUTTER. You can recommend that he get another one tomorrow, if you would like.

Senator MITCHELL. No, I don't. As you know, I have great respect for you, voted for you enthusiastically.

Mr. YEUTTER. Thank you.

Senator MITCHELL. But that is no answer. All you would have to say 2 or 3 years from now, "Well, Yeutter is out and someone else is in, and let's start anew." And I don't think we can do that.

I will say, one of the most alarming statements I have heard—Mr. Secretary, I am not sure I heard you right, and I want to confirm it. In describing the textile industry's problems as "not being unique," you said, "Imports in the textile industry have increased 50 percent by value in the past 3 years." But you said all other American industries have experienced an increase of 50 percent in 2 years. Did I understand that correctly?

Secretary BALDRIGE. Yes; I said that in the last 2 years the trade deficit has gone up by 50 percent. In short, imports of other areas in the economy have gone up 50 percent in the last 2 years; textiles have gone up 54 percent, I think it is, in the last 3 years.

Senator MITCHELL. Three years, yes.

Secretary BALDRIGE. I was trying to make the point, Senator, that the textile industry is not alone in this problem. And we can't solve it all, for every one of them, by putting a quota bill in.

Senator MITCHELL. No; but you have to understand how the textile people feel. They feel like the guy who has been hit by a car; now he is in a ditch; he has a broken arm and a broken leg. A

fellow comes over and looks at him and says, "Well, there is a guy on the other side of the road in a ditch that has two broken arms and two broken legs, so you stay here for a while, and we will worry about him." That is not much relief. Something has to be done.

Secretary BALDRIGE. Senator, but so does copper, so does steel, so do appliances, so do the industries of other countries around the world. This is not just an American problem. We are seeing in England and on the Continent companies in the steel area, for example, having tremendous trouble readjusting with all of the overcapacity and the worldwide problems. It is not just a U.S. problem, and it is not just a textile problem. We are going through a difficult transition now.

Senator MITCHELL. I understand that. Let me just make a concluding comment. I will just say that for 40 years our trade policy has been to subordinate our economic interests to other considerations, particularly the need to maintain a military alliance among our allies. And while I am, as you obviously are, concerned about what is happening in Great Britain and in other countries, and it is in our interests to be concerned about that, I think we have to be principally concerned about the effects among our own people.

Secretary BALDRIGE. Well, of course we do. I think the United States has to be No. 1 with us. But on any kind of legislation, as both Mr. Yeutter and I have pointed out, in trying to fix something with a quota bill you can end up in twice as much trouble for U.S. people—not abroad—with the kinds of retaliation that you can legitimately expect.

Senator MITCHELL. But the textile industry can't experience 4 more years of what they had and be any worse off.

Secretary BALDRIGE. I agree with that, absolutely.

Mr. YEUTTER. Can I embellish for just a moment?

Senator MITCHELL. Well, my time is over, Mr. Yeutter, and I apologize for that, but I want to defer to the other Senators.

Senator DANFORTH. Well, if you insist. We do have a number of witnesses.

Mr. YEUTTER. No, I don't insist. Go ahead.

Senator DANFORTH. Senator Heinz.

Senator HEINZ. Thank you, Mr. Chairman.

I just want to make one observation, then I have a number of questions. The observation is that, in view of the enormous growth in textile and apparel imports from Hong Kong, Korea, Taiwan, and the People's Republic of China, it seems rather farfetched to me to argue that were the dollar not to have appreciated by 30 or 40 percent, we wouldn't be having substantial surges of imports from those four countries in particular. Does anybody want to contest that statement?

Secretary BALDRIGE. Well, those countries, Senator, are under a very strict cap now.

Senator HEINZ. Oh, I am not talking about what they are under now; I am talking about the performance over the last 4 years. The argument has been "Solve the dollar problem; we'll solve the trade problem." And I have no doubt we will solve a lot of it.

Secretary BALDRIGE. Well, this has been in the last 2 or 3 years that they have been under that cap. What we have seen, and the

reason I related it to the dollar, partially, is, for example, in the first 4 or 5 months of this year we have seen minus 4 or 7 percent on the Asian countries' shipments to us, and we have seen a plus-33 percent in shipments from Europe. And that is directly due to the price of the dollar.

Senator HEINZ. You would maintain then that, if the dollar had never appreciated the way it had, if it had just strengthened moderately, we would not have had surges of imports from Hong Kong, Korea, Taiwan, and the People's Republic of China in 1981, 1982, and so forth? Is that your position?

Secretary BALDRIGE. Well, since we put the cap on.

Mr. YEUTTER. But, Senator Heinz, the strength of the dollar does have an impact on some of those exports, because they are tied so closely to the dollar, which means when the dollar goes up they don't sell in Europe but sell here.

Senator HEINZ. I understand that. But I am still trying to understand the answer to the question, and I am hearing two different stories from you. What I am hearing you saying is that we wouldn't have those problems. But let's move along.

Mr. YEUTTER. No. Those are very competitive industries, and we would have problems without constraints of the MFA.

Senator HEINZ. Well, that is the point I really want to get across.

Mr. YEUTTER. Sure.

Senator HEINZ. You are going to have problems even if the dollar problem were somehow cured tomorrow.

A lot has been made of the issue of compensation, retaliation. What can the countries that would be most severely affected by this bill, which I understand would be the big four, Korea, Hong Kong, Taiwan, China. Where could they hurt us? How could they retaliate? In what way would they seek compensation against us? Mr. Yeutter.

Mr. YEUTTER. Well, I would just say that all of them are significant importers from the United States. So they would have to make their own decisions as to where they wanted to apply the pain and suffering to us. But they would have full rights to do so, and they could make their product selection as they saw fit.

Indonesia, for example, is a major importer of cotton and other agricultural products, and could easily cut those off. Korea and Taiwan are two of our largest agricultural importers. Some of them import chemical products and a lot of other things. So they could choose their product mix on which to retaliate. Whether they would wish to do so politically, Senator Heinz, is another matter. But even the little guy——

Senator HEINZ. We don't receive any foreign aid or military assistance from Korea or Taiwan. Do they receive any from us?

Mr. YEUTTER. Well, you know.

Senator HEINZ. What?

Mr. YEUTTER. Obviously they do, but obviously we have our own national interest in mind in providing that aid, too. I doubt very much that we are going to withdraw our foreign military personnel from Korea over what happens in textiles.

Senator HEINZ. Do they receive any supporting assistance from us?

Mr. YEUTTER. In terms of economic assistance?

Senator HEINZ. No, it is euphemistically called "supporting assistance." It is direct aid to their military.

Mr. YEUTTER. I can't answer that question, but I assume they do.

Senator HEINZ. That's right.

Mr. YEUTTER. But as to whether they have leverage, Senator Heinz, I don't know. All I would say is that even a little guy, if he is hit hard enough and long enough by a big guy, is going to sometime hit back.

Senator HEINZ. In 1977, did the European Community impose quotas on a variety of apparel and textile products in Korea, Hong Kong, and Taiwan?

Mr. YEUTTER. I assume they did, but you are out of my time period.

Dick?

Senator HEINZ. I guess, Mr. Imus, you have been elected to answer the question.

Ambassador IMUS. Well, that is also out of my time period. But I did consult with a predecessor of mine who was around at that time. The situation, as I understand it, is that what the European Community did in 1977 was very similar to what they did immediately after this present MFA, and that was to negotiate these kinds of cutbacks, but to negotiate them in a mutually acceptable arrangement. They did not impose them as this legislation would.

Senator HEINZ. Did they negotiate any rollbacks?

Ambassador IMUS. They negotiated rollbacks in trade. They compensated in some respect for those rollbacks in other ways. It is interesting, for example, in the case of Hong Kong, that the year after they negotiated a rollback in trade, total Hong Kong exports to the Community increased.

Senator HEINZ. Was there a general pattern—this is my last question, Mr. Chairman—was there a general pattern of compensation paid by EC or granted by EC to Hong Kong, Korea, and Taiwan, as based on the rollbacks they received in 1977?

Ambassador IMUS. Since these rollbacks were mutually agreed, they came under the aegis of the multifiber arrangement, and compensation therefore was not relevant because the MFA cover got them out, as it gets us out from compensation.

Senator HEINZ. One quick last question: Mr. Yeutter, are you committed to negotiating significant rollbacks?

Mr. YEUTTER. No, sir; but I am committed to, if we make an administration decision, Senator Heinz, to renegotiate the MFA, the only commitment I will make to this committee is that as effectively as I possibly can and in what I deem to be the long-term best interests of this country. Whether that requires a rollback in a given situation has to be decided as a later date, and I am not prepared to commit to that now.

I want to say that the history of the administration of the MFA, Senator Heinz, has been one of providing for orderly growth. This country has never insisted on rollbacks. Now, if the committee believes that we ought to insist on rollbacks, I hope the committee will say that to me. But I really think that it is going to be a bit difficult to justify that. I think we would be making a major contribution to the industry if we negotiate orderly growth.

Senator HEINZ. Mr. Yeutter, I thank you.

Mr. Chairman, I only would observe that we wouldn't be having this discussion if the MFA had been properly policed and implemented. The reason we are talking about rollbacks is not because anybody likes the idea of having rollbacks but because the limitations that were agreed to in principle, 6 percent growth per year, turned out to be 19 percent growth per year. And the only way I know that you can get back on some kind of an even keel after that record of performance is to do what the bill does. Maybe there are better ways; but I get a little discouraged when I hear you say that, "No," you are not committed to rollbacks.

So, I thank the Chair and my colleagues.

Mr. YEUTTER. If I could just embellish that for 30 seconds, Senator Heinz, I think there might be some dispute over what the growth has been over the last few years. Everybody has an inclination to play with numbers; but, irrespective of what that is, you know, I am prepared to agree that conditions have been disorderly at times and that we have an obligation to try and make them as orderly as possible.

Senator DANFORTH. Senator Bentsen?

Senator BENTSEN. Thank you very much, Mr. Chairman.

Mr. Chairman, I have a hunch that if these four gentlemen were in charge of trade for our country, our trade deficit would be a lot less. But, unfortunately, they are not. One day I think they are, and the next day I am sure that the Secretary of State is, and then the next day I know it just has to be the Secretary of Defense who is. The problem is, nobody is in charge. And we do trade off economic points for foreign policy points at the moment. "Don't take on France on their dumping of agricultural products in Egypt, because we are trying to put cruise missiles there." And "certainly don't take on Japan, because they are an ally of ours." We spend 6 percent of our GNP on defense, and Japan is totally dependent on the sealanes, as an island, and spends less than 1 percent of their GNP on defense.

I heard Ambassador Yeutter talking about manufacturing jobs and talking about the increase in total jobs. Last month we lost 45,000 manufacturing jobs; we have lost 220,000 so far this year.

The history of this country has been that everybody thought they were going to have a chance for a stepup in life. You talk about the increase in jobs; well, what kind of jobs are there? They are jobs generally that pay less than manufacturing jobs. So, folks are just trying to hang on to the status quo if they are in manufacturing. I see an erosion of the manufacturing base of this country, and that deeply concerns me. And we cannot remain a strong nation without a diversified manufacturing base.

Mercantilism is the new trade policy around the world. And for us to go and say we are going to be a free-trade nation, alone, by ourselves, makes just about as much sense as unilateral disarmament.

You talked about our buying from the lesser developed countries. We do. Fifty-eight percent of their output. Japan takes 8 percent.

What we are looking at is a specific piece of legislation to protect one industry. And we have talked about that for specialty steel, we have talked about it for heavy motorcycles. But what I am asking, gentlemen, is would you seriously consider a comprehensive trade

policy? That is what we need. Some of us are working together here trying to come up with something that would be a comprehensive trade policy to help us buy the time for this dollar to get back in balance with the currencies around the world. It is making some headway in that direction, but I am not sure it is going to get back to where it was in 1980.

Mr. YEUTTER. Senator Bentsen, you were not here when I commented on this issue earlier, but I indicated that, in accordance with my commitment to the committee during my confirmation, that both Secretary Baldrige and I are hard at work on that very issue at the moment, and it will be discussed at the highest levels of Government, including the President of the United States, very soon. And I will be back to talk to you soon in terms of articulation of trade policy, the sense of direction, and all of those things. That is not an issue that is lying idle.

And while I am at it, I would like to just quickly respond to a couple of aspects of your comments and question. I thoroughly agree with you about the erosion of our manufacturing base in this country. I have been giving speeches on that subject in my private sector days over the last several years, and I believe I feel as strongly about it as you do. It is important that we maintain that base, even though in many cases the job transfer is an upgrade rather than a downgrade. I want to add that.

Senator BENTSEN. Not most of them, from the numbers I have been studying lately.

Mr. YEUTTER. Well, we are doing pretty well in the services area. Not all services jobs are McDonald's; there are a lot of high-technology services jobs, too. But that is clearly irrespective of that transfer.

Senator BENTSEN. I had some high-tech people in my office 1 hour ago; that is why I was late coming to this meeting. And they were telling me about how many people they are laying off.

Mr. YEUTTER. Yes; well, irrespective of that, I happen to think high tech has a lot of potential in this country, Senator Bentsen. If we don't become a high technology nation, we are in deep trouble. I don't think any of us want to go back to a nation that is——

Senator BENTSEN. I am about to run out of time. I want to get parochial with you for just a moment here.

I would like to talk to you about the cotton industry. My State grows a lot of cotton. And we are looking at China, and we are looking at Pakistan—self-sufficient. We are looking at cotton manufacturers in trouble in this country. What specifically do you plan to do in seeing that cotton producers can stay in business in this country?

Mr. YEUTTER. Well, keeping this bill from becoming law will probably help in that regard, because we are a cotton exporting nation, and some of those cotton exports come back in the way of textiles.

Senator BENTSEN. Well, I am looking at China right now, with 28 million bales of cotton, as I recall, and about 18 million of it available for export.

Mr. YEUTTER. That's right. As you well know, agriculture is my background, Senator, and I have spent a lot of time with that. Cotton is just indicative of the travail that we have in agriculture

worldwide today. It would take 1 hour to analyze that issue here, but suffice it to say it is one that all of us have to confront. You have a deep interest because it is a major factor in Texas; but it is a global problem, and clearly it is going to be on my front burner as a trade negotiator. I wish we had time to analyze it, but we just don't. I will be glad to come back and talk cotton with you for as long as you would like.

Senator BENTSEN. Well, we'll take that hour. We had one the other day, and I told you at your confirmation hearing that that was probably the high point in your unified support. [Laughter.]

Senator DANFORTH. Gentlemen, thank you very much.

Senator MITCHELL. Mr. Chairman, may I ask if we would be permitted to submit questions in writing? I have a long list of questions I would like to ask.

Senator DANFORTH. Of course.

Senator BRADLEY. I do, too, Mr. Chairman.

Senator DANFORTH. OK. I am sure a number of Senators will have questions to ask.

Gentlemen, I want to just make one observation as you are leaving. I think it is clear that trade policy, such as it is, is totally out of control, and that there is a race going on between the administration and the Congress to regain control of the trade policy.

I think that we are going to win the race. I don't know that we should win it, but I think we are going to, because I think the administration is just limping along. And I think that this is really a classic example of the problem, this hearing today. There is no doubt that this is a bellweather—what happens in textiles and apparel, as the Senators who testified made very clear, is a bellweather for what is going to happen in other industries. Everybody is going to be knocking on our door here in Congress. And I think there is a very good chance that this bill is going to be passed, and perhaps by a veto-proof margin—I don't know. But I don't know of any way the administration can forestall this development unless the administration very aggressively takes control, not only on the textile and apprarel issue but on trade policy in general. You really haven't indicated that yet, and therefore the lack of control is an indication for the Congress to act.

Secretary BALDRIGE. I think we would agree with that, Senator. I think we would agree with that 100 percent. No question.

Mr. YEUTTER. Senator, I have negotiated about two trade disputes in 2 weeks, so I haven't had a lot of time to devote to trade policy, because we have to deal with those issues when they arise, too. But I can assure you that we are going to do our best to get on top of that. Both of us agree with that. I just hope that good sense prevails on Capitol Hill and that we don't do something foolish.

Senator DANFORTH. Don't count on that. [Laughter.]

Gentlemen, thank you very much.

Next we have a panel, a large panel but with one spokesman. The spokesman is Mr. William Klopman, who is the chief executive officer of Burlington Industries, and he is the chairman of the board of the Fiber, Fabric, and Apparel Coalition for Trade.

Senator MOYNIHAN. Mr. Chairman, might we have order in the room?

Senator DANFORTH. The other members of the panel are Mr. Sol Chaikin, president of the International Ladies' Garment Workers Union; Jack Sheinkman, secretary-treasurer, Amalgamated Clothing and Textile Workers Union; Stephen Gillmor, chairman of the board of the National Wool Growers Association; John Gregg, chairman, Manmade Fiber Products Association; William Houston, National Cotton Council; E.S. McKissick, Jr., American Textile Manufacturers Institute; Larry Shelton, American Apparel Manufacturers Association; and John Meinert, Clothing Manufacturers Association.

This might go in the Guinness Book of World Records as the largest panel ever to appear before a congressional committee. [Laughter.]

Senator CHAFEE. With the fewest spokespersons for it.

Mr. KLOPMAN. Right.

STATEMENT BY WILLIAM A. KLOPMAN, CHIEF EXECUTIVE OFFICER, BURLINGTON INDUSTRIES, INC., GREENSBORO, NC, AND CHAIRMAN OF THE BOARD, FIBER, FABRIC, AND APPAREL COALITION FOR TRADE

Mr. KLOPMAN. Mr. Chairman, I would like to ask, in consideration for the fact that we have bunched our testimony, that you will be a little easy with me on that light. It makes me nervous when you get to that yellow sign, because I am trying to cover a lot of territory here, and I will do it as fast as I can, and I will try not to be redundant, and that is going to be a little bit difficult.

Senator DANFORTH. Do your best. We will give you 10 minutes, and if you want to fudge on that because you represent so many people, that is fine.

Mr. KLOPMAN. Fine.

I hope that Senator Bentsen takes note of the fact that the vice president of the National Cotton Council is at the table with us. I don't know what that says about Ambassador Yeutter's testimony.

We are representatives of the Fiber, Fabric, and Apparel Coalition for Trade, an organization that was formed 4 months ago to support congressional efforts to stem the flood of textile and apparel imports. We are united in our support of the Textile and Apparel Trade Enforcement Act of 1985 currently under consideration by this committee.

We feel that the fiber, textile, and apparel industries are a vital component of our country's industrial base. They are acknowledged by the Department of Defense as fundamental to our defense. In fact, the former U.S. Trade Representative Bill Brock stated in April 1984 that, "Every U.S. industry insists it is essential for national security. Textiles is the only one we accept and that goes back 20 years."

Our work force of 2 million is one of the largest, if not the largest, in the manufacturing sector. The industry's contribution to the gross national product is $80 billion. We don't believe we can afford to lose—or worse, to give away—this important component of our

national economy. But in the present international trading environment, that is exactly what is happening.

Over the past 4 years, imports of textiles and apparel grew at an average annual rate of 19 percent. You have heard that several times today. As a result of this growth, imports have doubled since 1980, seizing 50 percent of the domestic apparel market by some measures—even more by others. For example, recent comprehensive surveys of retail outlets where over 1 million garments were counted across the Nation indicate that the share may in fact be much higher, on the order of 65 percent.

Now at this point I would like to comment on Secretary Baldrige's numbers. I don't know whether he was confused or whether he was just taking a few years, but the growth in textiles as reflected in the textile trade deficit has been from $4.7 billion in 1980 to $16 billion in 1984. Now, that's a far cry from the 50 percent he mentioned in 3 years; that is 250 percent in 4 years.

The growth in units alone during this same period was from 4.9 billion square yard equivalents to 10.2. So, no way is it in that 50-percent growth category.

Now, the Government has said that the problem is behind us, and you heard Secretary Baldrige say that. We had a slight decline in imports for the first 4 months in 1985 of 4 percent. In May we had an increase of 16 percent, one of the largest monthly increases in the history of the textile trade. Now, Secretary Baldrige takes credit for the fact that we had a slowdown in the rate of growth of imports for the first 5 months of this year. Let me tell you what that slowdown is all about—business is lousy. You have all read retail reports. I am sure that Senator Moynihan knows from his friends in New York. Retail business is bad. That's why the imports are not growing as fast as they were. But our production is "growing" by a negative 12 percent. So imports are still getting an increased market share. And in fact, there were some Government representatives here, one who was notably quiet, who along with some of those in STR have predicted that import growth will be at the magnitude of 15 percent at the end of 1985, in spite of the fact that it is somewhat flat at this moment in time.

And import growth doesn't always go like that; it does have little plateaus from time to time, and then it shoots up. We feel that this portends disaster for the balance of the year, with the increase, as I said, expected to be of the magnitude of 15 percent for all of 1985.

This deluge of imports has a devastating impact. It contributed $16 billion to our 1984 trade deficit, and the figure for 1985 could well be $20 billion. And that is an administration number, not my number.

In the last 5 years, as you have heard, we have lost more than 300,000 jobs, and more than 250 plants have been closed. Now, that's not because we have modernized our facilities. Yes, we have had some reduction in employment due to modernization; but the bulk of it has been due to the impact of imports. More often than not, such plants serve as a major employer in a small community, and their closing guts the local economy.

As bad as things are, they will in all likelihood get worse. Projections by Data Resources, Inc. indicate that at the current rate of growth, imports will capture over 80 percent of the apparel market

by 1990, and that is not a very long way off. That will represent a loss of another 1.9 million jobs. Now, half of those would be from fiber, textile and apparel industry, and half of them would be due to the ripple effect.

The forecasts go on to show that these higher levels of imports will cause the 1990 Federal budget deficit to increase by $24 billion, in today's dollars, and the merchandising trade deficit to worsen by $21 billion, and the GNP to drop by $40 billion.

We are all investing heavily in state-of-the-art facilities and processes. Our productivity improvement, as you have heard, has been more than double the average of all manufacturing. Despite this commitment to excellence, our industries are under siege. The reason is found in the way international trade is conducted by nearly every country other than our own. The strategy of modern trading nations perfected by certain countries on the Pacific Rim is "managed trade" through close business-government cooperation. Unless the United States modifies its blind adherence to unrealistic principles of free trade, we will never again regain our competitive position.

Our foreign competitors go to great lengths to sell in this country. Tax rebates, currency manipulation, and dumping are some of the abuses that characterize their marketing efforts. Low or no quotas for competing goods, sky-high tariffs, and import licensing controlled by industry associations are some of the more flagrant means by which these countries protect their own markets. And I think there has been some conversation around here about Brazil. Their tariffs and import fees are in excess of 300 percent on textile products.

Free trade advocates talk about comparative advantage, but Government actions can create comparative advantages. Furthermore, in today's world the free flow of technology and capital leaves wages often as the sole variable.

Administration officials would have you believe that they have worked wonders on behalf of the fiber, textile, and apparel industries. You have heard about orderly growth. Now, there has been no such thing as orderly growth—certainly not in the last 4 years.

You heard one gentleman mention they put a cap of 1 percent on some countries, and I think he referred to Taiwan. Now, let me tell you what that cap of 1 percent did: In 1980, Taiwan shipped 782 million square yard equivalents into this country, and in 1984 it was up to 1.6 billion. Now, if that is 1 percent, I'll eat my hat.

They talk about calls. They talk about quotas. Ambassador Yeutter talks about MFA. I don't think he mentioned to you that the MFA remains in its present position until July 1986. And gentlemen, the clock is running; the ship is burning; we don't have until July 1986 to hope and pray that he is going to put in place an MFA that is going to do something for us.

I think when we talk about these issues, when we talk about what we ought to be doing, equity plays an important part in it. There is no equity in textile and apparel trade today. The United States is the marketplace for the world, absorbing over 60 percent of the developing countries' apparel exports. The entire European Community takes in only 23 percent while Japan, with a population half the size of the United States takes in one-tenth the im-

ports, a meager 6 percent. Japan in fact runs a net surplus in total textile and apparel trade with developing nations. On a per capita basis, Japan in 1984 had a surplus of $12 per capita. That compares to a whopping $58 per capita deficit in the United States and a $17 per capita deficit in the European Community.

Now, the last word in this ongoing argument that we would have with the administration as to what they have done and how all these wonderful things have worked for us is in the numbers. And the numbers are horrible. I don't have to tell you that; you all know the numbers just as well as I do. Not only has the President's pledge to limit import growth to market growth gone unfulfilled, but the administration has not even made full use of measures permitted by the Multi-Fiber Arrangement.

The American fiber, textile, and apparel industries have the spirit and the means to compete, but we need your help to level the playing field. The bill you have before you will go a long way toward that objective.

Let me say one more thing that has to do with what the European Common Market did. The Europeans did roll back trade, and it is in the numbers. In 1980, textile and apparel imports from the developing countries into the European Economic Community amounted to $34 per per capita. In 1984, they imported $28 per capita. So, they clearly had a rollback.

In the United States, in comparison with that, in 1980 we imported $37 per capita, and in 1984 we imported $67 per capita. So there has been tremendous growth in the United States, while there has been an almost 20-percent rollback of textile and apparel trade in Europe.

Now, no one has retaliated against our friends in Europe, and in fact I would suggest to you that the retaliation issue raised by Ambassador Yeutter is kind of ridiculous when you are looking at a $63 billion overall merchandise trade deficit for the United States with the Pacific Rim countries. I can't believe—and I think it was aptly pointed out in some of your questioning—that Korea and Taiwan and Japan are going to retaliate against the United States. I don't know what they are going to retaliate with, and I don't know of any other countries in that area that are going to retaliate.

So, at any rate, that is the end of my remarks, and I appreciate the time.

Senator DANFORTH. Well, Mr. Klopman, thank you very much.

Mr. KLOPMAN. The group here is prepared to answer your questions.

[The prepared statements of Messrs. Klopman, Chaikin, Sheinkman, Gillmor, Gregg, Houston, McKissick, Shelton and Meinert follow:]

TESTIMONY OF WILLIAM A. KLOPMAN, CHAIRMAN AND CEO, BURLINGTON INDUSTRIES, INC.

Mr. Chairman, my name is William Klopman, chairman and CEO of Burlington Industries. With me at the table are E.S. McKissick, president of the American Textile Manufacturers Institute; Bill Houston, vice-president of the National Cotton Council of America; Sol Chaikin, president of the International Ladies' Garment Workers' Union; Murray Finley, president of the Amalgamated Clothing and Textile Workers Union; Larry Shelton, chairman of the American Apparel Manufacturers Association; and John Gregg, chairman of the Man-Made Fiber Producers Association. We are here as representatives of the Fiber, Fabric and Apparel Coalition for Trade, an organization formed four months ago to support congressional efforts to stem the flood of textile and apparel imports. The membership of this unique coalition is drawn from the full range of our industries -- from cotton farmers and wool growers; to producers of man-made fibers; to fabric manufacturers; to apparel makers; and including labor organizations representing men and women who work in these industries. We are united in our support of the Textile and Apparel Trade Enforcement Act of 1985 (S.680 and H.R.1562) currently under consideration by this committee.

The fiber, textile and apparel industries are a vital component of our country's industrial base. They are acknowledged by the Department of Defense as fundamental to our national defense. In fact, the former Special Trade Representative, Bill Brock, stated in April 1984 that "Every U.S. industry insists it is essential for national security. Textiles is the only one we accept." Our work force of two million is one of the largest in the manufacturing sector. The industries' contribution to the gross national product is $80 billion. We can't afford to lose -- or, worse, give away -- this

important component of our national economy. But, in the present international trading environment, that is exactly what's happening.

Over the past four years, imports of textiles and apparel grew at an average annual rate of 19 percent. As a result of this growth, imports have doubled, seizing 50% of the domestic apparel market by some measures. Recent comprehensive surveys of retail outlets indicate that the share may in fact be much higher -- on the order of 65 percent. Now, the government has said that the problem is behind us, based on a slight decline of 4 percent in imports during the first four months of 1985. This same period, however, brought nearly a 12 percent decline in domestic industry's production, so imports continued to absorb market share. Furthermore, May imports surged 16 percent above last year, one of the largest volume gains in history. This portends disaster for the balance of the year, with the increase for the full year expected to be on the order of 15 to 20 percent.

This deluge of imports has a devastating impact. It contributed $16 billion to our 1984 trade deficit; the figure for 1985 could be $20 billion. In the last five years, more than 300,000 jobs have been lost in the textile and apparel industries and more than 250 plants have been closed. More often than not, such plants serve as the major employer in a small community, and their closing guts the local economy.

As bad as things are, they will in all likelihood get worse. Projections by the highly respected econometric firm, Data Resources, Inc., indicate that at the current rate of growth imports will capture over 80 percent of the apparel market by 1990. That will represent a loss of another 1.9 million jobs -- half of them in the fiber, textile and apparel industries and the other half throughout the rest of the economy due to a ripple effect. The forecasts go on to show that these higher levels of imports will cause the 1990 federal budget

deficit to increase by $24 billion, the merchandise trade deficit to worsen by $21 billion and the GNP to drop by $40 billion.

Our industries have a long and proud heritage. American apparel makers are world leaders in style. We are all investing heavily in state-of-the art facilities and processes. In the textile industry alone, our capital expenditures have averaged $1.4 billion annually over the past decade. For 1985, the amount will exceed $2 billion. Our productivity improvement has been more than double the average for all manufacturing.

Despite this commitment to excellence, our industries are under siege. The reason is found in the way international trade is conducted by nearly every country other than our own. The strategy of modern trading nations, perfected by certain countries on the Pacific Rim, is "managed trade" through close business-government cooperation. Unless the United States modifies its blind adherance to unrealistic principles of free trade, we will never regain a competitive position.

Our foreign competitors go to great lengths to sell in this country. Once they decide to export textiles and apparel, their governments make loans available at ridiculously low rates. Tax rebates, currency manipulation, and dumping are some of the abuses that characterize their marketing efforts. Low or no quotas for competing goods, sky-high tariffs and import licensing controlled by industry associations are some of the more flagrant means by which these countries protect their own markets.

Free trade advocates talk about comparative advantage, but government actions can create comparative advantages. Furthermore, in today's world, the free flow of technology and capital leaves wages as the sole variable. Professor John Culbertson of the University of Wisconsin has written that "free

trade" pulls wages down toward the lowest common denominator. Nations like the United States, with high wages, are bound to be losers in such a system.

America's private enterprises cannot compete with foreign governments without some assistance from our own government. Administration officials would have you believe that they have worked wonders on behalf of the fiber, textile and apparel industries. In reality, the steps that have been taken are too little and too late. The last word in this ongoing argument is revealed in the numbers. Not only has the president's pledge to limit import growth to market growth gone unfulfilled, but the administration has not even made full use of measures permitted by the Multi-Fiber Arrangement. The result is import growth 8 times greater than the president's commitment.

The American fiber, textile and apparel industries have the spirit and the means to compete, but we need your help to level the playing field.

The bill you have before you will go a long way toward that objective. It will permit us to meet our responsibility to the world economy by continuing to share our market, the world's richest, with nations that must export in order to develop their economies. At the same time, it will allow us to fulfill our responsibility to our own country, which is to maintain a viable, competitive industry.

Let me stress that the Multi-Fiber Arrangement with its protocol encompasses the kind of actions that are called for in this legislation. In fact, the European Community's members, faced several years ago with an import situation similar to ours, used the MFA to roll back imports. No one retaliated against our European friends. Exporters simply looked for other markets, and found them in the U.S.A.

You have heard it said that enactment of this legislation would provoke retaliation. The area most often cited is agriculture. But as you well know,

agricultural exports are tied to world market prices, not ideology, and the overvalued dollar is the chief culprit here. It is hard to imagine that the Pacific Rim states would retaliate, since they enjoy a $60 billion trade surplus with the United States. Even with this bill, our market would remain more open than most of those with whom we trade. Our trading partners recognize this, even while our critics in this country do not.

You have also heard that enactment of this bill would place an economic burden on the American consumer through higher prices. That is just not true. The energetic competition that exists among the thousands of domestic firms in our industry is what has kept apparel price increases at half the inflation rate over the past ten years. In fact, there is often very little difference between retail prices of foreign and American-made garments. The result is higher profit margins for retailers, not lower prices for consumers. The real danger of higher prices would come if deterioration of the domestic industry were allowed to continue, and if foreign suppliers had the predominant market share. Take the case of the Crompton Company, America's oldest textile mill and our last producer of velveteen. Crompton's bankruptcy last year was swiftly followed by a 33 percent increase in the price of Japanese velveteen. Is the handwriting on the wall plain enough?

There's another side to this question of the cost to the consumer. It has to do with the cost of the unemployment resulting from unchecked imports. We have a serious unemployment problem, with what looks more and more like a structural rate of over 7 percent. The opportunities for people who lose their jobs are limited. Each lost job costs our country $40,000.

The federal government is deeply concerned about issues of deficits, tax reform and national defense. Yet public opinion polls show that the trade question is among the greatest concerns of the American people. The Congress,

to its credit, is the only arm of the government that seems willing to take action to solve this nation's disastrous trade problem.

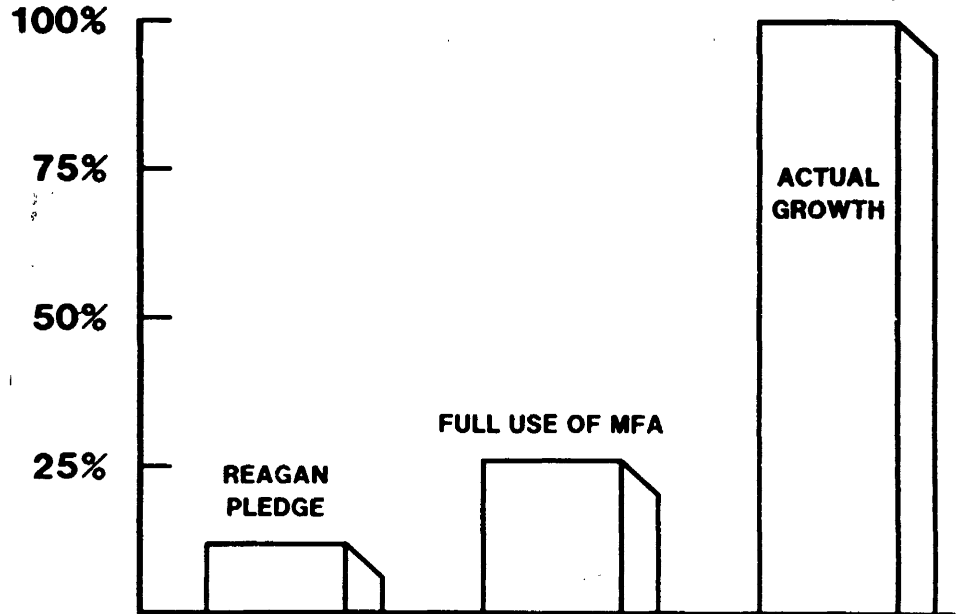
All of us in the fiber, fabric and apparel industries and major segments of the retail community are gratified by the breadth of support for this bill that has developed in both houses of Congress. We believe that your support is a genuine reflection of the mood of the country.

The two million hard-working men and women of the American fiber, textile and apparel industries will continue to serve the national interest and meet the needs of the American people, but they labor under great difficulties. We are here today because we have nowhere else to turn. We have exhausted all other remedies available to us. Passage of S.680 (H.R.1562) is essential.

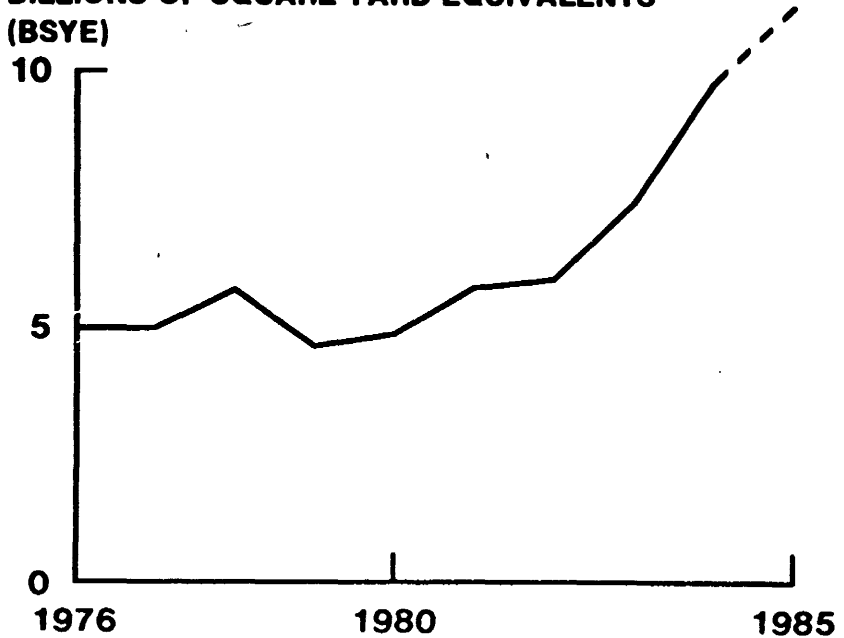
Mr. Chairman, members of the committee, thank you for the opportunity to appear before you this afternoon.

TRADE POLICY SCORECARD

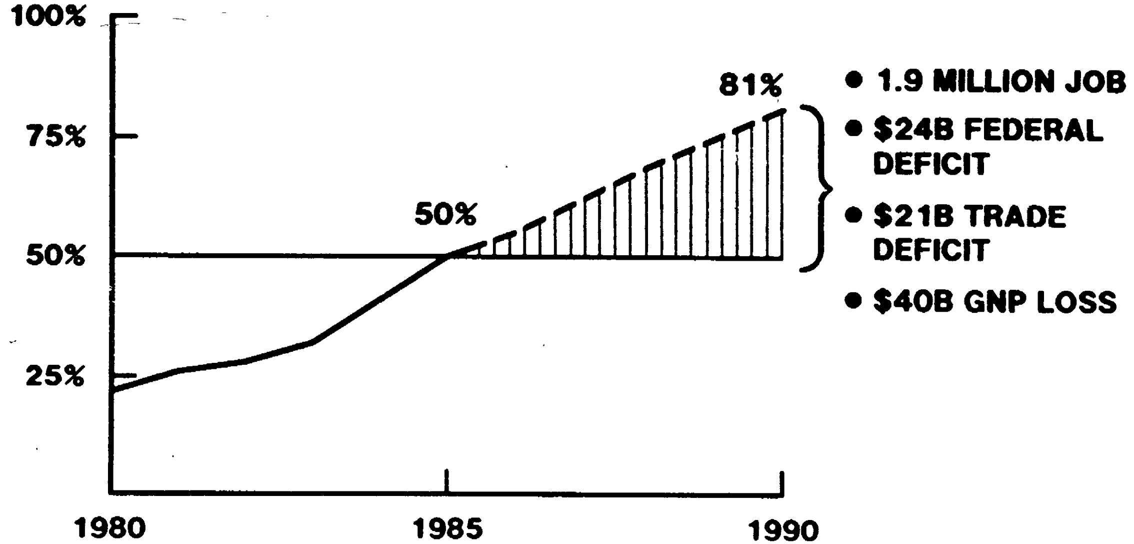
(Textile and Apparel Import Growth 1980-84)



TEXTILE AND APPAREL IMPORTS



IMPORTS' SHARE OF U.S. APPAREL MARKET



Before the Subcommittee on International Trade
Committee on Finance
U.S. Senate

STATEMENT

OF

SOL C. CHAIKIN, PRESIDENT

INTERNATIONAL LADIES' GARMENT WORKERS' UNION, AFL-CIO

JULY 15, 1985

This statement is submitted on behalf of the International Ladies' Garment Workers' Union, AFL-CIO. Our Union has 250,000 members employed in the production of women's and children's apparel in more than two-thirds of the states spread throughout our nation.

This is a critical juncture for the future of our nation's apparel and textile industries. Although it is often alleged that our industry is the most protected in the U.S., the rapid acceleration in apparel imports in the last four years and the dangerously high import penetration level prove otherwise. As administered by our government, the intended purpose of the Multifiber Arrangement (MFA) quota system -- limiting the growth of aggregate import volume to avert serious market disruption -- has not been fulfilled. Textile mills and garment shops in our country are curtailing production or closing down altogether and thousands of workers are losing their jobs.

When MFA was being negotiated in 1973, the import share of the domestic apparel market was 21 percent. Today, after 11 years of MFA, the import share is 50 percent and climbing. Had domestic consumption grown proportionately, the problem would have been of manageable scope. Unfortunately, this has not been the case. Apparel consumption in the United States has grown at only a fraction of the pace of imports.

The Textile and Apparel Trade Enforcement Act (S. 680) has been introduced in an effort to restore order to the U.S. trade situation and to prevent further harm to the domestic industry. This much needed legislation is designed to serve the twin objectives of MFA -- protection against market disruption and orderly growth for the exports of truly developing countries.

The Textile and Apparel Trade Enforcement Act serves these objectives by establishing more realistic import levels and growth rates for shipments from the major exporting countries. The bill accomplishes two things: it lowers the present devastating overall level of import penetration; thereafter, it provides for aggregate import growth that is considerably closer to the rate of domestic market growth.

Under this legislation, the overwhelming domination of our imports by a handful of countries would be reduced to permit a more equitable sharing among truly developing countries. Many of the present major textile and apparel exporting countries have graduated to newly industrialized country status. They are now actively engaged in the entire range of more sophisticated industrial activity and no longer require special incentives.

On the other hand, there are those countries that are truly developing. The most effective way to assist them without further disruption of our market and more job losses is to allow their exports to increase while reducing shipments from the major exporting countries.

This bill would extend MFA quota provisions to fibers not presently controlled and provide for the licensing of yarn, textile and apparel imports by the U.S. government. Licensing by our government is needed to insure effective quota enforcement, especially to limit fraud and transshipment for the purpose of quota evasion.

The Act provides special treatment for the countries covered by the Caribbean Basin Initiative, and for Mexico, by exempting them from the tighter growth limits applicable to "major exporting countries". We support this provision because the bill specifically spells out a decrease in shipments from the newly industrialized nations, which, in turn, would provide for our neighbors to the south as well as for other truly developing nations and for new starters.

In arguing against this legislation, the Economic Policy Council discusses various Administration actions and other developments that supposedly obviate the need for a significantly stronger approach, such as the Textile and Apparel Trade Enforcement Act entails. In fact, the administration of MFA in recent years has been wholly inadequate; it is the ineffectiveness of the Administration's actions that have generated the need for this legislation.

In its June 19, 1985 letter to the Congress, the President's Economic Policy Council outlined the Administration's position on the bill. The Council points to the more than 300 quotas established since 1981 as an indication of the Administration's efforts on behalf of the domestic textile and apparel industry. What is important, however, is not the number of quotas but the level of shipments that is permitted and the relationship of the aggregate volume of shipments to the size of the domestic market.

Given the diversification of production in the major exporting countries, the proliferation of foreign supply sources and the speed with which foreign shipments can be increased, the piecemeal administrative approach to regulating imports amounts to a never-ending and ultimately futile process of catch-up. Indeed, considering that there are more than 100 fiber specific MFA product categories (covering only the current MFA-subject products made of cotton, wool or manmade fibers), and that more than 100 countries ship textile and apparel products to the U.S., the universe of possible quotas is extremely vast.

All too often quotas have not been introduced until imports have risen to tremendously high levels. In many instances the Administration has moved very slowly. Import ceilings negotiated by our government have been excessively generous and are permitted to increase further, usually by considerably more than six percent a year. Even where quota growth is kept under six percent, unusually generous initial restraint levels are permitted. This provides for very high

base levels from which to subsequently expand by what is claimed to be "reasonable" growth rates. An agreement reached with China earlier this year provides at least two typical illustrations of the Administration's proclivity to establish intolerably high ceilings.

In 1982, imports of cotton underwear from China totalled 144,000 dozen. While imports of this product from China rose rapidly in 1983, the government did not act until shipments reached 710,000 dozen, five times the 1982 level. Consultations with the Chinese were requested in October of 1983 and, pending agreement, a limit of 740,000 dozen was set for 1984. In March of this year, it was announced that agreement had been reached on quota levels for 1985 through 1987. According to Wu Shudong of the Chinese Embassy, the 1985 level was set at 1,254,000 dozen, and is permitted to increase by 4.5 percent a year in each of 1986 and 1987. (Women's Wear Daily, March 12, 1985)

The 1985 import limit was thus raised by an extraordinary 69 percent from the interim 1984 quota level. While the growth rate in 1986 and 1987 is only 4.5 percent annually, the magnitude of the increase permitted between 1984 and 1985 makes a mockery of assertions that import levels are being controlled by the many recent quota calls.

A similar travesty was acted out regarding imports of cotton dresses from China. Shipments had doubled in the first half of 1983 over the same period a year earlier. Consultations were requested and an interim quota for 1984 was set at 72,300

dozen. Yet, the final agreement reached earlier this year, as reported by the Chinese, sets the 1985 restraint level 64 percent above the 1984 level, with three percent annual growth permitted for each of the next two years. The low growth factor should not obscure the real damage inflicted in allowing the base restraint level to rise to an extraordinarily high level.

The fundamental problem is that in implementing the MFA the government's focus seems to be on limiting marginal quota growth rather than restraining the volume of import shipments by setting quotas at reasonable levels in the first place. Regulating imports is transformed into a charade if the effective import growth is far above growth limits compatible with the avoidance of market disruption. The Textile and Apparel Trade Enforcement Act takes the much needed action of placing aggregate growth limits on imports from the major shipping countries.

The Economic Policy Council states that 80 percent of all imports from low-cost suppliers is under quota. The critical fact, however, is that the present import penetration level is dangerously high. Even with a quota in existence, substantial import growth is still possible since quota levels often may be greater than current shipping levels. Quota ceilings also continue to increase even where shipments fall well below the restraint levels. Although 81 percent of imports from low-cost suppliers was reportedly under quota in 1982, imports from these countries have increased by 59 percent since then.

The bilateral agreements also build in a number of provisions that allow quota levels to be exceeded, provided that a corresponding reduction in square-yards-equivalent (SYE) is made in one or more other categories. Quota may also be borrowed from future years, and unused quota carried forward. These provisions heighten the potential for sudden large import increases.

The Administration's statement contends: "Notwithstanding the cyclical nature of the textile and apparel market, we are confident that our (textile and apparel) industry will continue to benefit from the unprecedented measures the Administration has taken to assist domestic producers."

The available data make it evident that major damage has been done to the domestic industry and its workers by errors of commission and omission in the negotiation of bilateral agreements, calls and enforcement.

The original MFA recognized a six percent a year growth rate in bilateral agreements. Subsequent renewals accepted the need for lower growth rates for sensitive items. However, despite the ability to control import growth at rates much closer to domestic consumption than six percent a year, apparel imports have not only exceeded the six percent mark but have been rising dramatically.

Apparel imports increased 8.7 percent in 1981 and 7.9 percent in 1982. In 1983 apparel imports grew by 14.6 percent while the domestic market increased by only 6.8 percent. Last year the onslaught worsened as total imports increased 21.3

percent, and domestic consumption grew but 5.9 percent. For items of women's and children's clothing alone, imports grew 20.8 percent in 1983, and 19.9 percent in 1984. Taken together, textile and apparel import growth has averaged 19 percent a year in each year since 1981.

The domestic market growth of six to seven percent recorded in the past two years has been highly unusual and is not expected to continue in 1985 because of the tremendous inventory overhang accumulated in the last half of 1984. Over the past ten years, domestic apparel and textile consumption has grown at an average of between one and two percent a year. Imports, on the other hand, have been increasing many times faster, with double-digit growth rates all too common.

Growth rates for apparel imports from individual countries have been more outrageous than even the world totals suggest. Major shippers continue to dominate the market while newer entrants have shown spectacular growth. For example, consider the following apparel import growth rates between 1980 and 1984: Taiwan 43 percent, Hong Kong 30 percent, South Korea 39 percent, China 168 percent, Indonesia 2263 percent, Singapore 79 percent, India 89 percent, Malaysia 282 percent and Brazil 614 percent.

The Administration cites figures on the constant dollar increase in domestic apparel shipments in the last four years and implies that our industry has held up well in the face of this import deluge. However, data compiled by the ILGWU Research Department, using Commerce Department information,

percent, and domestic consumption grew but 5.9 percent. For items of women's and children's clothing alone, imports grew 20.8 percent in 1983, and 19.9 percent in 1984. Taken together, textile and apparel import growth has averaged 19 percent a year in each year since 1981.

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indicate that the physical volume of output in the women's and children's apparel industry declined by 5.5 percent from 1980 to 1984. Over the same period, total apparel imports grew by 65 percent from 2.9 billion SYE to 4.8 billion SYE.

Import penetration has reached unacceptable levels in numerous major items of women's apparel. Imports account for approximately two-thirds of domestic consumption of sweaters, cotton coats and many types of blouses and knit shirts. Many other product areas are also marked by extraordinarily high import penetration, including brassieres, rainwear and cotton slacks and skirts. In other product lines, such as dresses, playsuits ard man-made fiber nightwear and underwear, where imports have traditionally played a less significant role, astronomical import surges of 40 to 50 percent or more annually have been experienced in the last two years. In short, the entire spectrum of women's apparel has been seriously undermined by an unrelenting wave of imported goods.

The very slight recovery from the depths of the last recession that domestic apparel production experienced in 1983 and early 1984 was reversed in the second half of last year. For the year as a whole, 1984 production was below 1983 levels in eight of nine women's and children's apparel product lines, with the declines ranging from five to 24 percent. In women's suits, the only product area where 1984 production exceeded that of 1983, production was still only half its 1979 level. The unemployment rate in apparel averaged 10.8 percent last year, one-and-a-half times the overall unemployment rate.

In an unwarranted burst of optimism, the Administration asserted: "substantial import growth experienced during the past two years has been halted". While apparel imports were basically flat through the first four months of the year because of excessive retail inventory levels and reduced retail sales, the most recent data show that apparel imports skyrocketed almost 20 percent in May of this year compared to May of 1984. For the first five months of the year, imports of cotton, wool and manmade fiber apparel were up 3.9 percent from 1984.

Imports from the three major low-cost suppliers increased sharply in May. Apparel imports from Taiwan increased by 9 percent in May compared to a year ago; imports from Hong Kong grew by 11 percent and South Korean imports were up 14 percent.

Even though the five-month aggregate data suggest the import surge may have moderated slightly compared to last year's torrid pace, continuing market disruption is undeniably evident. Retailers continue to rely on imports at the expense of domestic producers. For the January-May period, employment in women's and children's apparel was off by 6.2 percent from the same 1984 months. All nine of the major product areas experienced declines. The apparel industry unemployment rate in this year's second quarter stood at 11.5 percent, more than half again the 7.3 percent national average. Total apparel industry employment in June was 58,000 below the year earlier level.

The Economic Policy Council statement offers the new textile rules of origin as an example of the Administration's

efforts in behalf of the domestic industry. New rules of origin were announced last year in response to the spreading practice of transshipping garment parts to evade quota. To get around one country's quotas, partially finished garments were being transferred to countries with open quota where they were completed and marked to show the country performing minor operations as the country of origin.

While the new rules are necessary to curb this type of quota evasion, they cannot be expected to slow the import surge for long. Production will either be transferred back to the original country or shifted to areas not yet subject to quota restraints. As The Wall Street Journal put it last August, "retailers have become creative Marco Polos, roving the world for suppliers in countries like Sri Lanka and Bangladesh where apparel exports are in their infancy and haven't been hit with many quotas".

The Administration contends that the Textile and Apparel Trade Enforcement Act would raise costs to American consumers by some $14 billion a year. While the Economic Policy Council did not provide any documentation to support this claim, such estimates typically are based on questionable assumptions derived from an academic economic model at odds with real world pricing and other business practices. Moreover, since these models generally assume a full employment world their estimates fail to consider the entire range of costs and repercussions associated with lost employment opportunities in the textile, apparel and supplier industries. Nor do they take into account

job losses in industries that benefit from the consumer spending of workers in the industries directly affected.

The many costs related to higher unemployment include reduced consumer income, higher unemployment payments and welfare spending, reduced tax revenue, and, inevitably, various forms of personal, physical, psychological and social suffering. To consider just one measure of these costs: the Congressional Budget Office estimates that a one million person increase in unemployment entails a $29 billion increase in the Federal budget deficit because of higher unemployment and social spending and foregone revenues. The costs of not passing this bill are unquestionably great.

There is no economic rationale for relinquishing the livelihoods of hundreds of thousands of garment and textile workers for the sake of greater retailers' and importers' profits. Apparel produced in countries with abysmally low living standards and virtually no workers' rights is no bargain for the American people.

Such low-cost imports threaten our living standards, particularly those of low income groups, by destroying badly needed employment opportunities for the U.S. apparel workforce. The workers in our industry are 85 percent female, many of them the sole supporters of their families. In the major cities, these workers are largely minorities -- Blacks, Hispanics, Asians -- and new immigrants. Throughout the rest of the country, where more than two-thirds of the workforce is located, the industry is concentrated in small towns, often one-factory

towns. When a shop closes down in such areas, there is literally no other employment opportunity.

Over sixty percent of apparel imports now originate in just four countries: Hong Kong with an applicable wage rate of $1.18 per hour; Taiwan at $0.57; South Korea, $0.63; and China, where a garment worker earns the U.S. equivalent of $0.16 per hour. Wages are similarly low in other Asian countries, such as Indonesia, Malaysia, Sri Lanka, Thailand and the Philippines, which have boosted their garment shipments to the U.S.

Despite the grand assumptions of theoretical economists, the use of low-wage labor abroad in garment production does not translate into lower prices paid by consumers. Retailers acknowledge they prefer to sell imported garments because of the higher markup taken on imports than on domestically produced goods. To cite just one of numerous examples, when asked by Women's Wear Daily whether retailers are really buying markups when they purchase imports, Allied Stores president Thomas M. Macioce responded, "Sure, we are indeed buying better markup, but that's our job. We would be delighted to buy only American-made goods if we could make the same type of markup". Invariably, imported garments retail for the same price as U.S. produced items of precisely the same design and style, with the difference padding someone's profits.

Again, without any supporting evidence, the Administration contends that passage of the Textile and Apparel Trade Enforcement Act would lead to price increases of 10 percent or more. Such a claim could only be made out of

ignorance of the fiercely competitive conditions existing among domestic apparel producers. The extremely low degree of concentration in an industry with upwards of 20,000 firms demonstrates that individual apparel firms have little or no opportunity to exert market power over prices, styles or quantity of supply.

According to the Consumer Price Index, apparel price increases since 1970 have averaged about two-fifths of the total for all items. This relationship is just the same for the 1970 to 1980 period as it is for the 1980 to 1984 period when apparel imports skyrocketed. A lower level of imports should not in itself result in higher prices.

It is indeed ironic that to argue against this bill the Administration would raise the possibility of reduced U.S. exports as a result of retaliation. Largely as a result of Administration economic policies, U.S. exports have been battered by a tremendous increase in the foreign exchange value of the U.S. dollar. Even with the increased value of the dollar, the dollar value of U.S. exports was less in 1984 than it was four years earlier.

Moreover, total U.S. exports to the major apparel shipping countries have not increased in the last four years. Many of the countries that have increased textile and apparel shipments to the U.S. the most have in fact been buying fewer U.S. goods as it is. U.S. exports to India and the Philippines in 1984 were down by 11 percent from 1980, exports to China and Indonesia were 20 percent lower, and Brazil bought 39 percent less from the U.S. in 1984 than in 1980.

U.S. exports have suffered as a result of a variety of factors that have little to do with trade retaliation. Besides the detrimental effects of the high valued dollar and such factors as forced austerity in the case of Brazil, increased industrial and agricultural production abroad have displaced U.S. export-oriented production. For example, a U.S. Department of Agriculture publication notes: "total Chinese agricultural output has risen 50 percent since 1979, and record crops have given China self-sufficiency in several important U.S. export commodities". (Agricultural Outlook, May 1985)

It should be noted that while apparel exports have never been of great significance for the U.S. industry, even that relatively small volume has declined precipitously with the appreciation of the dollar. Excluding the export of Item 807 garment parts, which eventually come back to the U.S. as finished garments, 1984 U.S. apparel exports were less than one-third the 1980 level.

On the other hand, the dollar's rise has little to do with the overall apparel import problem. It has led to sizable percentage import increases from a number of Western European countries but European Community countries accounted for only 2.4 percent of all apparel imports for the year ending April 1985. The decisive factor behind apparel imports from the major shipping countries is labor -- the extremely low level of wages, the lack of modern labor standards and tight restrictions on trade union activities.

The Administration is disingenuous in stating that the Textile and Apparel Trade Enforcement Act would violate the 34 U.S. bilateral agreements and our obligations under MFA. The Act is fully consistent with the twin objectives of MFA to prevent market disruption and provide for orderly growth for developing country exports. In 22 of the bilateral agreement countries the bill allows for significant increases in shipments. The remaining agreements could be re-negotiated, as has been done in the past.

The Administration statement does not address the growing problem of imports of non-MFA fiber textile and apparel products. The MFA presently pertains only to textile and apparel items chiefly made of cotton, wool or man-made fibers; ramie, silk and linen fibers are not controlled. Women's and children's apparel imports of non-MFA fiber products that are beyond control at present increased by 62 percent in value in 1983, and by 149 percent in 1984. Relative to the total value of women's and children's apparel imports, non-MFA fiber products increased from four percent in 1980, to 14 percent in 1984. The chief purpose in using these fibers has been to circumvent quotas on MFA fibers.

While the garment industry shares many problems with other industries, its simple technology, small capital requirements and dependence on relatively low-skilled labor make it particularly vulnerable to imports from low-wage countries. Recognition of this acute vulnerability to low-cost imports was an important justification for the special treatment that MFA

accorded to the apparel and textile industries under the auspices of the General Agreement on Tariffs and Trade.

We must address the severe apparel and textile import situation before it is too late. Our industry employs women, minorities, immigrants and so many others for whom few alternative employment opportunities exist. In many senses -- for example, the predominance of women, ethnic origins, and low skill levels -- U.S. garment workers are similar to their counterparts in third world exporting countries. As a diverse society we have a collective responsibility to ensure that our economy provides a full range of job opportunities.

The government's approach to implementing MFA has been made obsolete -- if it ever truly reflected domestic needs -- by vast changes in world apparel and textile production and procurement. We urge you to give careful consideration to the Textile and Apparel Trade Enforcement Act in the interest of developing a more rational and reasonable approach to our trade in textiles and apparel.

AMALGAMATED CLOTHING AND TEXTILE WORKERS UNION

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STATEMENT OF

JACK SHEINKMAN
SECRETARY-TREASURER

AMALGAMATED CLOTHING & TEXTILE WORKERS UNION, AFL-CIO

on

S.680
TEXTILE AND APPAREL TRADE ENFORCEMENT ACT OF 1985

to the

Subcommittee on International Trade
Committee on Finance
United States Senate

July 15, 1985

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SUMMARY STATEMENT OF

AMALGAMATED CLOTHING & TEXTILE WORKERS UNION, AFL-CIO

Today there are 250,000 fewer workers in the textile/apparel industry than in 1980. One-hundred thousand textile and apparel jobs were lost in the past year alone. These are jobs held by workers who do not have the kinds of skills that allow them to get other jobs easily. They tend to wind up in lower paying service sector jobs, if they can find jobs at all. Conditions in this industry and the prospects of its workers have never been worse. Because of this situation our members are supporting the Textile and Apparel Trade Enforcement Act of 1985 (S. 680). This legislation will simply provide for the kind of import growth that we were led to believe would be the case when the MFA was renegotiated in 1981.

The current import situation is out of control. There are several reasons why the MFA as currently implemented is not working to control imports effectively: the President's directive of December 16, 1983 is being ignored; there is no unity of purpose, or recognition of the importance of the effective operation of the Multifiber Arrangement, among the government agencies that administer this program; by the time the call for negotiations is made, so much time has passed that the country in question has increased its product base by substantial proportions; the program takes a back seat to foreign policy objectives; there is fundamental and widespread fraud and abuse of the program; the U.S. imports textiles and apparel from over 100 countries, while maintaining bilateral agreements under the MFA with only 34 countries; and there is the growing problem with imports of textile products not covered by the MFA. These are the reasons why we need the Textile and Apparel Trade Enforcement Act of 1985. It is a rational and thoughtful approach to orderly trade in textiles and apparel. It will provide what was promised under the MFA but what has not been delivered.

We have the most modern, technologically advanced and productive textile/apparel industry in the world today. Given the current climate of uncertainty brought by this flood of imports, we are concerned that the remarkable efforts being made to modernize, which our union supports and in which we are fully participating, will come to a halt. Our union is actively pursuing the goal of technological advancement. We have developed robotization techniques for application to the garment industry and we see further break-throughs ahead in bringing down costs.

As currently implemented, the Multifiber Arrangement, despite its promise, has clearly been a failure. There is now only one solution: S. 680.

STATEMENT OF

JACK SHEINKMAN
SECRETARY-TREASURER

AMALGAMATED CLOTHING & TEXTILE WORKERS UNION, AFL-CIO

on

S. 680
TEXTILE AND APPAREL TRADE ENFORCEMENT ACT OF 1985

to the

Subcommittee on International Trade
Committee on Finance
United States Senate

July 15, 1985

The Amalgamated Clothing and Textile Workers Union, AFL-CIO, has a membership of approximately 360,000 workers who produce various items of men's and boys' clothing and textile mill products.

The textile and apparel industry operates in forty-eight states, employs directly slightly less than 1.9 million workers, and indirectly another 1 million workers in supporting industries. Today there are some 250,000 fewer workers in the textile/apparel industry than in 1980. There are almost a half million fewer textile and apparel workers today than when the Multifiber Arrangement went into effect in 1974. One-hundred thousand textile and apparel jobs were lost in 1984 alone.

How does one calculate the loss of such jobs to our economy? A recent U.S. Chamber of Commerce study* found that a

* U.S. Chamber of Commerce, <u>What 100 New Jobs Mean to a Community</u>, 1985.

community adding 100 new manufacturing jobs would derive an increase of $1,948,353 in aggregate personal income. If you reverse this scenario, using the Chamber formula, and calculate the loss of manufacturing jobs in textiles and apparel over the past five years, the loss of such jobs to our communities at the wages paid to textile and apparel workers adds up to an astronomical loss of $3 billion in personal income. Textile and apparel jobs represent one out of every ten manufacturing jobs in this country. Textile and apparel firms are the lifeblood of many communities. When the industry falls on hard times, the whole community suffers.

The men and women who work in our industry are people with pride, pride in their craft and pride in their industry. Many of them do not have the kinds of skills that allow them to get other jobs easily. Unfortunately, they tend to wind up in lower paying service sector jobs -- that is if they can find jobs at all. Alternative job opportunities are not easy to come by.

Our workers in the textile and apparel industries have been on the firing line of international trade for decades and have borne the brunt, more than those in any other industry, of the tremendous growth in international trade that the world has experienced since World War II. This has occurred despite the existence for more than two decades of multilateral efforts to alleviate the hardships caused by growing imports of textiles and apparel. Conditions in this

industry are deteriorating rapidly and the prospects of our members have never been bleaker. This industry and its workers face a true crisis such as they have never experienced before.

Because of the dire circumstances facing our workers and their families, we urge the Subcommittee to favorably report S. 680, the Textile and Apparel Trade Enforcement Act of 1985. More than half of the members of the Senate and almost two-thirds of the membership of the House have now co-sponsored this important bill. Given the existence of the Multifiber Arrangement, whose sole purpose is to provide for orderly and nondisruptive increases in imports of textile and apparel products, some may question why we need legislation to deal with the current unprecedented crisis in our industry. We would answer by saying look at the record, examine what the MFA is supposed to do, and then see what has actually happened. Then judge our case for S. 680, legislation which simply provides for the level of import growth that we were led to believe would be the case when the MFA was renegotiated in 1981.

The current Multifiber Arrangement provides for an annual growth rate of 6 percent when quotas are established, as well as departures from this norm if negotiated between countries. As a result, lower growth rates were negotiated for the most import-sensitive categories shipped to us by the major exporting countries.

But what have actual growth rates been? Since 1980, instead of an expected 6 percent or lower annual growth rate, textile/apparel imports have doubled, averaging an annual rate of growth of 19 percent at a time when growth of the domestic market has averaged no more than about one or one-and-a-half percent per year. In 1984 alone, imports increased by 32 percent above the 1983 level, producing imports in such numbers that they now have captured 50 percent of our apparel market. Thirteen percent -- $16.5 billion dollars -- of the nation's unprecedented trade deficit in 1984 of $123 billion was textiles and apparel. Imports in the first five months of 1985 have shown no retreat from the record high levels of last year. The textile/apparel trade deficit was 13 percent higher in the first five months of 1985 than a year earlier.

Why did this happen? Major suppliers moved into categories where they had no restraints. Large unused quotas were allowed to continue building with enormous increases in shipments thereby made possible. Secondary suppliers were allowed to expand enormously before the government moved to restrain them. Transshipments flourish because no penalties exist to act as a deterrent. This is not the definition of orderly and nondisruptive growth and it represents an enormous failure on the part of the Administration to implement the Multifiber Arrangement effectively.

Why the MFA Has Ceased to be Effective

The Multifiber Arrangement acknowledges the need for industrial countries to maintain their own textile and apparel industries while allowing orderly growth in textile and apparel trade. What has actually happened, however, is that a handful of Asian countries dominate the U.S. market for imported textiles and apparel leaving the truly needy countries out in the cold. The current import situation is completely out of control due in large part to the fact that the Executive Branch is unwilling or unable to utilize the full powers of the Multifiber Arrangement in a timely and effective manner. For example, what happened to the President's directive of December 16, 1983 which established specific criteria to automatically trigger a presumption of market disruption and therefore a call for negotiations? The directive's purpose was to ensure that appropriate action regarding market disruption be taken on a more timely and predictable basis. Obviously these criteria are being largely ignored by those officials who implement the President's trade programs. Based on the formula of the President's directive of December 1983, textile/apparel industry estimates indicate that well over 100 calls meeting the criteria have not been made, representing perhaps 500 million square yard equivalents of imports that remain unrestrained, adding to the disruption of the domestic market. And, it is important to note, the making of calls

for consultation is only a first step in a negotiating process that results in a negotiated quota at least 20 percent and sometimes more than 100 percent above the call level.

Why is the President's directive being ignored? There are many reasons. First, there is no unity of purpose, or recognition of the importance of the effective operation of the Multifiber Arrangement, among the government agencies that administer this program. The President has apparently failed to communicate his commitment to the agencies. What exists among them is a lot of bickering, but not much consensus, which has disrupted the administration of the program.

Second, too often the operation of the program takes a back seat to foreign policy objectives. There is a tendency to be more generous in our negotiations with foreign governments than we should be for fear of irritating some foreign country. Last April in testimony before the House Ways and Means Trade Subcommittee, Walter Lenahan, Deputy Assistant Secretary of Commerce for Textiles and Apparel, admitted under questioning that the State Department had refused to transmit between 15 and 20 calls against Korea, Hong Kong, and Taiwan which the President's December 1983 directive authorized him to make. Even if a call is made, often, so much time has passed that the country in question has been allowed to increase its product base by substantial proportions, to the great detriment of a specific sector of the domestic industry.

The MFA has also ceased to be effective because of the fundamental and widespread abuse of the program. Last year a Customs' official labeled it a "multi-billion dollar scam by countries around the world to beat U.S. textile quotas" (see attached). The practices are plentiful including gross understatements of quantity on visa documents, transshipments, manipulation of fiber content in order to circumvent bilateral restraint agreements, and counterfeited visas. Moreover, the major foreign supplying countries have abused the Export Authorization system to run up a large quota base.

We have fresh examples of this fraud everyday. The following story is a microcosm of all the failures of this program's ability to control imports effectively. ACTWU was directly involved in this matter as ACTWU members also produce men's and boys' headwear. In early 1984, the U.S. Customs Service discovered that imports of man-made fiber headwear from Taiwan and Korea were entering the U.S. illegally. Both Korean and Taiwanese producers were purposely understating visa weights on import documents, thus circumventing existing quota levels. Customs moved quickly to halt the illegal overshipments, but prior to its discovery the practice had been going on for some time. For over a year the industry pressed CITA to move on redressing the problem. The industry even called on Capitol Hill for support. Finally, in May 1985, the U.S. announced in the

Federal Register that these overshipments, some 750,000 pounds, equal to about 25 percent of Taiwan's 1985 man-made fiber headwear quota, would be deducted from Taiwan's 1985 quota. But the Taiwanese then requested that these overshipments be spread over the three years (1985 to 1987) remaining in the bilateral with Taiwan. Despite the fraudulent nature of these overshipments, which the Taiwanese did not question, the agencies that administer the program agreed with the Taiwanese -- to the detriment of domestic headwear producers and their workers -- minimizing any penalty that the Taiwanese might have faced.

This solution is virtually painless for the Taiwanese. There was no reason why our U.S. negotiators had to give Taiwan three years to make-up for these illegal imports. Taiwan should have been required to deduct the entire amount of the overshipments from their 1985 quota, thereby giving U.S. headwear manufacturers a chance to recapture their lost market. Is not the entire purpose of the MFA perverted when our Government bends over backwards to accommodate foreign producers who have been engaging in fraud, fraud which puts our firms and our workers out of business? This is just one of many horror stories about the operation of the program. No wonder some foreigners cheat and abuse the program. Crime obviously pays handsomely, and foreign producers know that if a penalty is exacted, it probably will not hurt very much. To add insult to injury, to date, no action whatsoever has been taken by our Government with respect to

Korea which was equally guilty as Taiwan of understating visa weights.

It is not surprising that imports under the MFA program have grown when you consider the fact that the U.S. imports textiles and apparel from over 100 countries, while maintaining bilateral agreements under the MFA with only 34 countries.

There is also the growing problem with imports of textile products not covered by the MFA, now running at over 10 million dozen garments a year! More and more foreign producers are blending cotton with other vegetable fibers, or shipping silk products to avoid the MFA altogether. Yet these non-MFA products are directly competitive with U.S.-made textile/apparel products. These blends, particularly of ramie, were created solely for quota circumvention and not for market demand. Yet the power exists in the hands of the President to restrain such imports under Section 204 of the Agricultural Act of 1956, as amended.

These factors taken together demonstrate why the MFA as it is currently operated has failed so miserably to provide the kind of orderly and nondisruptive growth which it promised. That is why we need the Textile and Apparel Trade Enforcement Act of 1985. It is a rational and thoughtful approach to orderly trade in textiles. It will provide what the MFA has promised, but has not delivered.

International Trade Distortions

Even if the MFA were a perfect instrument to provide orderly growth in textile/apparel trade, our industry, indeed all U.S. industry, is confronted increasingly by another problem -- large volumes of trade aided and abetted by government subsidization, dumping, targeting and countertrade arrangements. These practices which are either ignored or ineffectively addressed by U.S. countervailing duty and anti-dumping laws, have a profound distorting effect on international commerce. One year ago our union as part of a textile industry coalition filed countervailing duty petitions against 13 exporting countries. Our petitions alleged numerous subsidy practices -- preferential export financing, tax rebates to exporters, and a host of other tax and investment incentives.

In its preliminary determinations on these petitions, the Department of Commerce cited 34 separate programs in eleven different countries which were believed to confer subsidies on textile mill and apparel products (see attached). Commerce's final determinations in these cases were profoundly disappointing. In cases where duties were imposed at all, they were unbelievably low. In some cases Commerce negotiated suspension agreements. These suspension agreements no doubt will come back to haunt them and us as so many have in the past when the commitments are not lived up to. In other cases, the country simply signed the

Subsidies Code, thereby requiring an injury test. Those countries, under the terms of their Subsidy Code commitments, will for varying periods of time be able to continue to subsidize their textile/apparel exports to the U.S. while receiving the benefit of an injury test in any countervailing duty case brought against imports of these products into our market. Subsidies provided by foreign governments are unfair. No U.S. industry, no matter how productive or technologically advanced, can compete with foreign government subsidization or lack of cost accountability.

Efforts to Compete: A Modernization Program

Many economic theoreticians believe that certain "sunset" industries should be allowed to fall by the wayside. They believe that we should concentrate where we have a competitive edge -- for example, in high tech industries and in services. I believe the President's Commission on Industrial Competitiveness, which recently published its findings, speaks volumes on this point: The U.S. has lost world market share in 7 out of 10 high technology sectors. This sends a message about putting all our eggs in the high-technology industry basket. As far as services are concerned, the report contends that a strong manufacturing sector is vital to our nation's well being and both services and manufacturing are essential to a competitive U.S. economy. Indeed the biggest market for high-tech applications and services is manufacturing industries.

There are a lot of myths about the textile and apparel industry today. Myths that it is not productive; that it is technologically sluggish, and, therefore, not competitive; and that capital investment is low. These are myths. The reality is that we have the most modern, technologically advanced and productive textile/apparel industry in the world today. Given the current climate of uncertainty brought by this flood of imports, we are concerned that the remarkable efforts being made to modernize this industry, efforts which our union supports and in which we are fully participating, will come to a halt.

The continuous modernization of American industry is basic to maintaining America's competitiveness in international trade and U.S. labor is willing to do its part. We understand the need for technological advances to assist in bringing down costs and improving our competitiveness. It would be foolish for labor to think otherwise, since the alternative is rapid attrition of jobs and closed plants as U.S. firms fail to compete with imports.

Our union is actively pursuing the goal of technological advancement. The men's clothing, textile and fiber industry represents an outstanding example of labor and management working together to reduce costs and thereby improve its competitive position. The Textile/Clothing Technology Corporation, or TC^2 as it is commonly known, was created through funding by our Union, individual companies, and the

U.S. Government. The union and several participating companies are each investing substantial sums each year in this program. Supported by these funds together with grants from the U.S. Department of Commerce, the Textile/Clothing Technology Corporation is conducting extensive research into reducing production costs.

TC^2 is looking at ways of transforming the method of manufacturing garments by looking outside traditional methods. For example, it has been determined that only 25 percent of labor requirements in the manufacture of tailored clothing are in the sewing of the garment. Clearly, we must attempt to reduce handling costs and TC^2 is addressing itself to the reduction in handling requirements. There have been real break-throughs here. We have developed robotization techniques for application to the garment industry.

We see further break-throughs ahead in bringing down costs in the tailored clothing industry. Significantly, the Japanese are spending some $60 million for research and development for its apparel industry, many times what we are able to spend for the same program in the U.S., yet with the same objectives as ours. The Japanese recognize that apparel production represents the greatest value added per unit of energy input of any manufacturing product.

Our Union is willing to face the responsibility, with management's cooperation, for dealing with the robot-related problems of compensation for our members who may be

displaced. In this way and others, we expect to make this industry more competitive and viable, and thus help build a stronger domestic economy.

By and large, the textile and apparel industry has a history of management and labor working together to solve the problems posed by imports. We are both striving for maximizing output, we both see the critical importance of being competitive in our own market, and in markets abroad. We both understand the vital importance of preserving America's industrial base.

We are doing our part, but the government makes the market environment impossible to operate within. Without a government policy that prevents the market from being destroyed by imports, all of this cooperation and these joint efforts will be rendered moot.

Conclusion

The textile and apparel industry is in a state of siege today. This is not rhetoric. It is a fact. The implementation of the Multifiber Arrangement, despite repeated commitments, has clearly been a failure. If this American industry is to survive anywhere close to its present stripped down state, there is now only one solution: S. 680. Our members will fight for this legislation. We need this Committee to be our partners in this effort.

THE WASHINGTON POST [illegible]

Customs Says Textiles Pose Serious Problem

By Stuart Auerbach
Washington Post Staff Writer

When they landed in Los Angeles, the bolts of polyester fabric carried "Made in Korea" labels. But on the boxes they were shipped in, the same label had been crudely crossed out and the documents accompanying the shipment declared that the fabric's country of origin was Japan.

That $2 million shipment was described by a U.S. Customs agent yesterday as a drop in the bucket of a multibillion-dollar scam by countries around the world to beat U.S. textile quotas.

Some countries try to sell textiles and wearing apparel that exceeds their U.S. quotas by transshipping the excess through another country that cannot fill its own quotas, senior Customs agent Thomas Gray told the House Commerce Committee's investigations panel.

Gray, who is based in Hong Kong, said textile products made in China are shipped to the United States under the quotas of Bangladesh, Macao and countries in the Middle East and South and Central America. Similarly, shipments of garments originating in Taiwan sometimes are labled as coming from Japan, Singapore, the Philippines, South Africa, Panama and countries in the Middle East.

Gray said customs agents discovered Korea's transshipment of the polyester fabric through Japan six months ago and have been seizing illegally labled cartons of the products ever since.

"They didn't even bother to repack it," said a somewhat nonplused subcommittee Chairman John D. Dingell (D-Mich.). "They just lined out the country of origin. That indicates a certain supreme contempt for American enforcement."

Gray replied that that case showed unusually "sloppy" work. "They are very clever," he said.

Although he declined to put a precise dollar figure on the fraudulent playing with textile quotas, Gray said customs agents are currently investigating cases involving $2.5 billion of shipments. From last October to mid-July, Customs officials said they had seized $19.6 billion in illegally shipped textile products.

The increased level of seizures comes as the American textile industry is pressing the Reagan administration to tighten up even more on imports, which hit a record high of 4 billion square yards—an increase of 45 percent—during the first five months of this year. The United States' textile trade deficit totaled $6.2 billion in that period.

U.S. manufacturers and labor unions this week filed unfair trade cases against 11 countries—Panama, Colombia, Argentina, Indonesia, Malaysia, Peru, Portugal, Singapore, Sri Lanka, Thailand and Turkey—and said other complaints will be filed against Mexico and the Philippines.

Running down the list of America's major textile suppliers in the Pacific Rim, Gray said:

- Taiwan, the largest supplier of apparel to the United States, is likely to remain a problem as the quota system exists.
- South Korea, which has just moved up as the No. 2 supplier, runs a gamut of fraudulent activities that includes transshipping textiles, counterfeiting of trademarks and brand name products, and misdirecting and undervaluing merchandise to evade customs duties. Korean transshipments go through Japan, the Middle East and Panama.
- Hong Kong, the No. 3 supplier, cooperates better than any other country with U.S. authorities to prevent fraud. Nevertheless, with its booming textiles industry, it is "a primary source of transshipments."
- China, the giant of the Pacific Rim that has emerged as the fourth-largest supplier of textiles to the United States, is known for transshipping its excess production through a number of countries.
- Japan, No. 5 among major U.S. suppliers, serves as a transshipment point for products originating in Korea, Taiwan and Macao.
- Singapore, which offers U.S. authorities "the lowest level of cooperation" in the Asian region, serves as a base for the transshipment of acrylic knit sweaters and cotton and synthetic jackets from Taiwan, and for other apparel from Malaysia and China.
- Sri Lanka strictly monitors its own industry, so a "Made in Sri Lanka" label means it is the country of origin.
- India, whose government "makes nice gestures but is not very cooperative with U.S. authorities," is a source of textiles transshipped through neighboring nations of Nepal, Bhutan and Bangladesh.
- Bangladesh, with a new textile industry that first moved into the U.S. market in 1982, is increasing exports to get larger quotas, currently serves as a transshipment point for shorts and pants that are made in China.
- Pakistan transships towels and similar products and poses problems as a source of undervalued and misdescribed goods.

PROGRAMS PRELIMINARILY DETERMINED BY THE U.S. DEPARTMENT OF COMMERCE TO CONFER A BOUNTY OR A GRANT ON TEXTILE MILL AND APPAREL PRODUCTS IN ELEVEN COUNTRIES

Malaysia

- Tax Incentives for Exporters
- Preferential Short-Term Financing

Turkey

- Export Tax Rebate and Supplemental Export Tax Rebate Program
- Deduction from Taxable Income for Export Revenues
- Preferential Short-Term Export Financing

Thailand

- Export Credits
- Rediscount of Industrial Bills
- Electricity Discount for Exporters
- Tax Certificates for Exports
- Assistance to Trading Companies

Argentina

- Post-Financing of Exports Under Circular OPRAC-9
- Reembolso (Tax Rebate on Exports)
- Regional Tax Incentives

Indonesia

- Preferential Short-Term Financing for Non-Oil Exports
- Tax Holidays, Accelerated Depreciation, and Other Tax Benefits
- Import Duty Exemptions for Capital Equipment

Peru

- Certificate of Tax Rebate System (CERTEX)
- Nontraditional Export Fund (FENT)
- Law for the Promotion of Exports of Nontraditional Goods (Exports Law)

Singapore

- Monetary Authority of Singapore Rediscount Facility
- Double Deduction of Export Promotion Expenses

Sri Lanka

- Investment Promotion Zone
- Export Development Board
- Pre-Shipment Export Refinancing Program

Colombia

- Export Rebates Under Law 67 of 1979
- Export Financing through The Export Promotion Fund
- Preferential Financing through the Industrial Development Institute

Mexico

- Fund for the Promotion of Exportation of Mexican Manufactured Products (FOMEX)
- Preferential Federal Tax Credits (CEPROFI)
- Export Credits at Below Market Rates (FONEI)
- Guarantee and Development Fund for Medium and Small Industries (FOGAIN)

The Philippines

- Preferential Export Credits
- Preferential Tax Benefits
- Development Bank of the Philippines Interest Moratorium

1/ Source: Federal Register, Vol. 49, 49651-93 and 50753; Vol. 50, 301 and 1607.

Statement
of
Steve Gillmor
Chairman of the Board
National Wool Growers Association
415 Judge Bldg., Salt Lake City, UT, 84111
before the
International Trade Sub-Committee
of the
Senate Committee on Finance

Let me tell you a little about our Association and its makeup. The National Wool Growers Association is a federation of State Wool Growers Associations. We currently have 32 state members and another eight associated organizations. We have been around since 1865 and one of the major issues we have confronted over the past 120 years has been imports - imports of wool, lamb, and now wool textiles. We joined the coalition of fiber, fabric, and apparel workers and manufacturers supporting the enactment of S.680, the Textile Trade Enforcement Act of 1985 because we are slowly, but surely, being put out of business. In the 1950's, we had 50 million sheep in this country. Today, we have 9 million. The cause of this decline is economic, it just hasn't been profitable for many people to raise sheep in the U.S. But there are still 120,000 people out there with sheep on their farms and ranches, and for the most part, those people would like to stay there. One of the leading causes of economic problems in the sheep industry has been the effect of imports, and especially imports of wool textiles that are swamping our markets right now. For example, in 1975, 45 million pounds of wool and wool equivalent came into the U.S.. Last year, in 1984, 190 million pounds of wool and wool equivalent came into this country. That is an increase in nine years of 322%! That has made it damn tough to stay

BEST AVAILABLE COPY

in the sheep business. As you would guess, the consumption of domestic wool by U.S. mills has gone steadily down along with the sheep numbers. If there had been a reasonable and enforceable limit on woolen imports, the U.S. mill consumption of domestic wool would have increased because the demand for wool products has increased, as is apparent.

We estimate that a 50 percent increase in demand for U.S. wool would yield an average price increase of 18 to 24 percent. Where wool brought an average price of 78 cents in 1984, with reasonable and enforceable import levels, the price would have been in the range of 92 to 97 cents.

This would have helped the average wool producer to make some money, not lose money. The average wool producer would have been in a position to expand his operation, instead of cutting back. The average wool producer would not have to rely on Wool Act payments to stay in business.

The average wool producer would be a more aggressive consumer of domestic products, a more substantial taxpayer, and a reliable contribution to the nation's wavering ecomony.

However, in the absence of reasonable restraints on imported textiles and apparels, the U.S. wool industry will almost certainly dwindle, and at some point become a hobby.

Let me call your attention to the two charts you have in front of you. The first dramatically shows how the imports of raw wool into the U.S. have been "converted" into textile wools because of the

uncontrolled flow of woolen apparel into this country. Just go to any department store and look on the racks, and you'll see what we mean. The second shows the percentages of woolen imports from the leading exporting countries to the U.S.

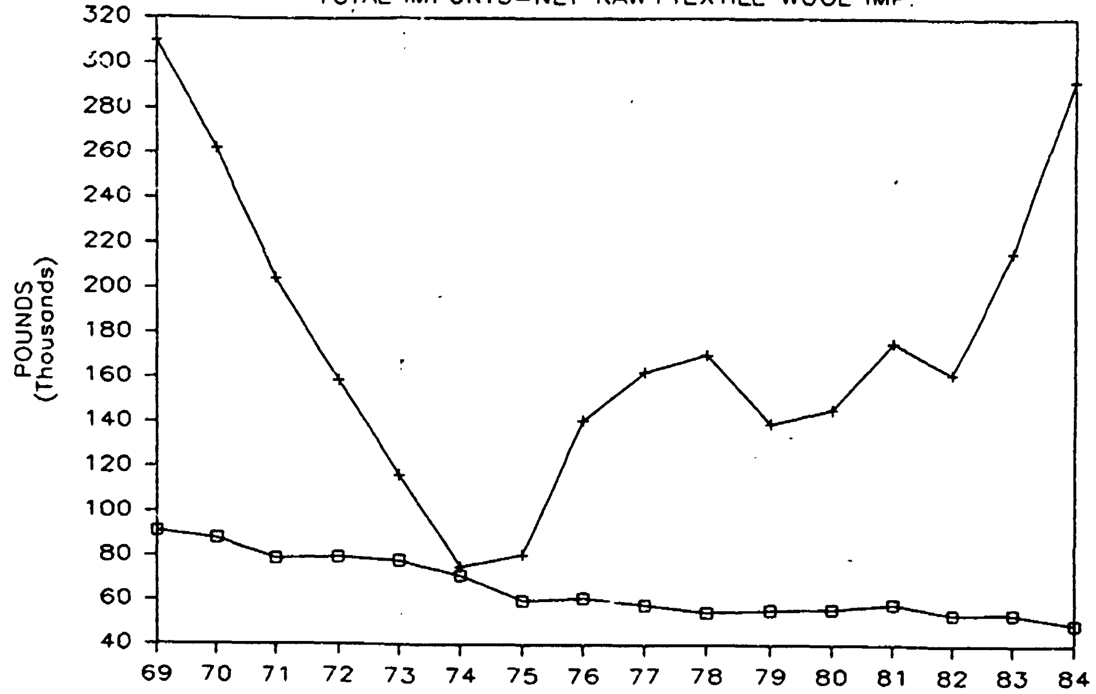
The U.S. sheep industry cannot remain a viable force without a steady and increasing market for its wool. The elimination of the U.S. wool textile industry would eliminate 98 percent of our market. Wool growers would go out of business. So would lamb producers.

Without the existence of a viable wool industry, how long can we expect to hold the domestic textile industry together. Although we represent only half of their consumption, that half is extremely important to our textile operations. Without some meaningful relief from woolen imports, it can only be a matter of time until the last wool producer will have been forced from the land because the last textile firm will have been forced from the factory.

We must now reason together. We must now work together. We have an opportunity, through S.680, to help change the disasterous course upon which we have set this nation's sheep industry.

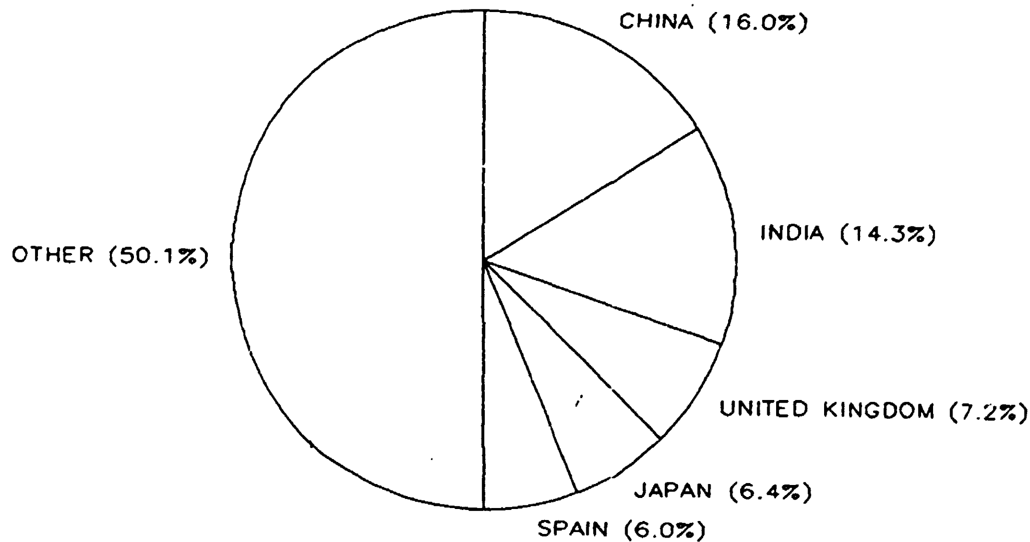
There must be more reasonable means to accommodate all concerns.

We must find it.


DOM. WOOL SUPPLY VS. TOTAL IMPORTS
TOTAL IMPORTS=NET RAW+TEXTILE WOOL IMP.
POUNDS
(Thousands)
320
300
280
260
240
220
200
180
160
140
120
100
80
60
40
69
70
71
72
73
74
75
76
77
78
79
80
81
82
83
84
SOURCE: ASPC PRODUCER SERVICES / USDA
NET DOMESTIC SUPPLY
TOTAL IMPORTS

1984 PERCENTAGE OF CARPET IMPORTS

BY COUNTRY, RAW WOOL EQUIVALENT



STATEMENT OF

JOHN N. GREGG
CHAIRMAN AND PRESIDENT
AVTEX FIBERS INC.
and
CHAIRMAN
MAN-MADE FIBER PRODUCERS ASSOCIATION, INC.

Before The

SUBCOMMITTEE ON INTERNATIONAL TRADE

Of The

COMMITTEE ON FINANCE

UNITED STATES SENATE

July 15, 1985

Mr. Chairman, my name is John N. Gregg. I am Chairman of Avtex Fibers Inc. In addition, I serve as Chairman of the Man-Made Fiber Producers Association, Inc., a trade association whose members account for over 90 percent of the man-made fiber produced in the United States. I appreciate this opportunity to testify before the Subcommittee on the reasons why enactment of S. 680 is essential to our industry.

The American man-made fiber industry employs more than 70,000 workers in plants in 30 states. In 1984, our sales totaled about $10 billion. The industry produces two basic classes of fiber: cellulosic fibers, such as rayon, acetate and

triacetate, that are produced from wood pulp, and non-cellulosic fibers, such as nylon, polyester, acrylics, and olefin, that are produced from petrochemical feedstocks.

These products serve three primary end-use markets -- apparel, home furnishings, and industrial products -- with thousands of applications. Our firms maintain ongoing, aggressive research and development programs continually to engineer new and better fibers for the changing needs of the American economy. Constant innovation and dedication to product quality is essential to keep pace with rapid changes in fashion, the ever increasing, varied uses in home furnishings, with specialty industrial fabric needs; and with a wide range of emerging high technology needs best served by new high performance fibers. The U.S. man-made fiber textile industry is a highly productive, capital-intensive industry. We believe our industry is the most efficient of its type in the world.

Our productivity has increased nearly 2 1/2 times since 1967, far exceeding the performance average for U.S. manufacturing industries. Given open and fair trading practices, we would enjoy the benefits of this outstanding record. Historically, the U.S. man-made fiber industry has demonstrated its ability to compete effectively in the world market. But, in recent years, the industry has found it increasingly difficult to export fiber. The trade balance for man-made fiber finished goods also has seriously deteriorated under the disruptive surge in imports over the past few years.

When added together, the aggregate trade balance for man-made fibers and man-made fiber products amounted to an export balance of 1.5 billion pounds in 1980. That has changed to an import deficit of 325 million pounds in 1984. This swing in trade balance in just four years is equivalent to 23 percent of our total 1984 production.

The growing strength of the dollar in recent years has made it more difficult for our companies to export. It also has contributed to increased levels of imports, but this is not the primary cause of the industry's trade problems.

We, and our customers, are consistently excluded from overseas markets by discriminatory government and industry practices that protect inefficient industries at home while they target the U.S. market and often subsidize their exports, as well as dump textile products in the U.S. market. The effects are being felt across our industry. In 1984, while the rest of the economy grew by 7 percent, shipments of man-made fiber declined nearly 1.5 percent. Employment fell 4 percent, and inventories at year-end were up 6.5 percent over 1983. Thus far in 1985, we have seen further declines in production and shipments. Several facilities have closed and we face more shutdowns this year. In my own company, we have been forced to shutdown our acetate production facility in Meadville, Pennsylvania. Over 700 employees have lost their jobs. The tragic human costs involved are particularly frustrating because we know that far less efficient plants worldwide are propped up by subsidies and protected by import bans.

These practices are part of national strategies abroad that are aimed directly at the U.S. market. Their success is clear to all. Textile and apparel imports into the U.S. grew to all-time records in both 1983 and 1984. In the third quarter of 1984, for the first time, imports claimed 51 percent of the U.S. apparel market. A recent nationwide study carried out by the Merchandising Group showed a 59 percent import share for apparel on retailers' selves in June of this year. The American apparel market has, until recent years, been the largest market for U.S. produced man-made fiber -- but with the explosion of imports in recent years this critical market is being lost to overseas suppliers.

The import problem is even more serious in view of the fact that in fiber volume terms, the total U.S. textile and apparel market has grown at a rate of just 0.1 percent annually from 1973-1984. Imports of yarn, fabric, and garments have grown at an annual rate of 19 percent for the past five years -- and at a devastating 65 percent over the past two years combined. Yet we are excluded from important overseas markets by government barriers ranging from prohibitive tariffs to absolute bans on imports. These unfair trading practices are particularly severe in the very countries that hold the largest shares of textiles and apparel imported into the United States market.

For example, in East Asia, major exporters such as South Korea, Taiwan, and China impose tariffs on textile and clothing imports that typically run as high as 100 to 250 percent. In addition, imports in this sector usually are subject to centralized review and control to take care of any of our

products that are competitive even in the face of these exclusionary tariffs. South Korea maintains tariffs on textile products that range from 30 to 85 percent, but most textile and apparel items face outright import bans. In Taiwan, textile tariffs run from 75 to 100 percent, but to cover situations where we would be competitive enough to overcome these barriers Taiwan specifies that many items may be imported only with licenses approved by our competitors there -- to be absolutely certain they are not the least bit harmed by us, or by any other offshore producers. In China, the direct control of import purchases is well known -- and on top of that textile tariffs run up to 250 percent.

Many other countries that maintain high levels of textile and apparel exports to the U.S. completely ban imports of similar products in return. In our own hemisphere, Brazil maintains textile and clothing tariffs at 205 percent, but most items also are banned either directly, or indirectly via import licensing.

In general, these developing countries allow U.S. fiber and textile products into their markets only when they are necessary for export production and when there is insufficient local supply.

In short, Mr. Chairman, we face a world that consistently prevents us from making use of the substantial competitive advantage we have developed in many areas through consistent investment, modernization, and product innovation. We simply cannot continue to exist if we are the only open market in this international network of restrictive practices.

These practices not only stop our direct exports, they result in a major deflection of worldwide textile and apparel producing capacity to the U.S. market. The massive import surge in the U.S. during the past two years bears this out. We have seen a 65 percent increase in textile and apparel imports to the U.S., while most other major developed country markets have maintained nearly flat, controlled import levels.

The European Community illustrates this best of all. Notwithstanding a major export drive by the less developed countries over the past two years to gain foreign exchange, Europe has managed its import regime in a manner that has allowed only modest growth in textiles and apparel. Following the last MFA, the EC negotiated much tighter agreements with Hong Kong, Taiwan, and Korea resulting in rollbacks in their trade levels -- just as they did after the previous version of the MFA in the late 1970's. Since then, the EC has administered its import control system in a tight, careful manner. This provided room for some increases in imports from China and from the Community's important trading partners in the Mediterranean regions. Thus, the EC has been able to prevent disruption in its own market while accommodating growing trade relationships with its most important trading partners. Our Government has done its part to help them by allowing in all of the trade diverted away from the EC market by these practices.

Mr. Chairman, the U.S. practices during this period stand alone in the worldwide trading community -- and they have cost hundreds of thousands of jobs with no end in sight. Notwithstanding repeated commitments to prevent disruption and to relate import growth to growth in the domestic market, our Government has in fact done neither. Imports have been allowed to explode into the U.S. market from all sources, whether from old established suppliers or from new entrants encouraged to build textile and apparel producing capacity to target the one significant open market in the world.

This situation simply cannot continue if the U.S. fiber/textile/apparel sector, and the four million workers who depend upon it directly and indirectly, are to survive.

S. 680, the Textile and Apparel Trade Enforcement Act of 1985, will redress the unfairness of the past four years. It will impose order and stability in this critical sector, while granting the smallest and poorest countries the major part of U.S. import growth, now and in the years ahead. The impressive co-sponsor list for the bill -- compromising more than a majority of both Houses of this Congress -- attests to its appeal as the best and most timely solution to the unfair, targeted trading practices we face.

Mr. Chairman, I urge the Subcommittee to give this necessary legislation the urgent attention it deserves.

Thank you for this opportunity to present the viewpoint of the American man-made fiber producers on this critical topic.

Statement of
William H. Houston
Before the
Subcommittee on International Trade
Senate Committee on Finance
July 15, 1985

I am William H. Houston, cotton producer from Tunica, Mississippi and vice president of the National Cotton Council, in whose behalf I appear. The Council is the central organization of the American cotton industry representing producers, ginners, seed crushers, warehousemen, merchants, manufacturers and cooperatives from the Carolinas to California.

Because of the severe adverse impact of textile imports, the U.S. cotton producer finds himself on a treadmill, trying to compensate for domestic market losses with increased raw cotton exports. The rapidly accelerating speed of the treadmill suggests it will be next to impossible to keep up with it in the years ahead.

The situation is summarized in Exhibit A. appended. Net domestic consumption (mill consumption plus textile imports minus textile exports) is a fairly good approximation of retail offtake. Two recessions gave impetus to a downtrend in net domestic cotton consumption between 1973 and 1982. But with economic recovery in 1983, net domestic consumption jumped to 7.7 million bales, and it was running at an annual rate of nearly 8.2 million in 1984. This is the highest net domestic cotton consumption in 12 years. It clearly reflects an improving demand for cotton products at retail.

Unfortunately, the amount of the total market supplied by U. S. textile mills has dropped to just over 5.1 million bales, with the gap supplied by imports widening dramatically since 1982. The implications of this are indeed ominous for both the U.S. textile industry and the raw cotton industry.

During the 1973-84 period, the average annual rate of increase in cotton textile imports was 9.1 percent. For purposes of comparison this will be referred to as the "long-term" rate of growth in imports. For man-made fiber textiles, the long-term import growth rate was 7.8 percent.

Using the beginning of the '80s to capture the more recent acceleration in textile import growth, we find the average annual rate of increase for cotton textiles to be 16 percent. It was even higher for man-made fiber textiles, at 18 percent.

To explore some implications of such growth in cotton textiles imports, it is optimistically assumed that net domestic cotton consumption will stay well above the historical trend, and go to 9 million by 1989.

Assuming that import growth recedes to the long-term rate of 9.1 percent annually, the amount of the U.S. market supplied by domestic mills would have to decline to 4.3 million bales by 1989. If nothing is done, however, and if the more recent annual growth rate of 16 percent were to continue, then the amount supplied by domestic mills would have to drop to 2.8 million bales.

To put it another way, the long-term growth rate in textile imports (that is, 9.1 percent per year) would result in the domestic market being totally taken over by imports in 12 years. The more recent growth rate would result in total takeover in just 7 years. Furthermore, during last year, cotton textile imports soared an astounding 29 percent. If that growth rate is allowed to continue, the domestic market will be gone in just 4 years.

None of these recent growth rates in textile imports is consistent with survival of cotton's domestic market nor, indeed, survival of a viable U. S. cotton industry, considering that 4 out of 5 bale equivalents of cotton in imported textiles are foreign-grown.

The symptom of shrinking markets that is most painful to cotton producers is depressed cotton price. If cotton product imports had held the same market share in 1983-84 as in 1980, it is estimated that the farm price for cotton would have approximated 75 cents per pound, rather than the 66 cents that actually occurred. If so, the 12.7 million bales actually sold would have brought 9 cents per pound, or $43 per bale more (Exhibit 8). This makes the total loss on cotton actually sold exceed $550 million. Furthermore, total sales would have increased by about a million bales, which at 75 cents per pound makes the loss on cotton not sold reach $350 million. Therefore, the total lost revenue to cotton farmers from the avalanche of cotton textile imports may have approached 900 million dollars in 1983 alone.

Of course some of that loss was offset by deficiency payments, but that imposed nearly a half billion cost on government which was directly attributable to cotton textile imports.

Without question, the cotton farmer's back is to the wall. He would have to expand export markets with a vengeance to offset the kind of losses he is incurring from textile imports. And under even the most optimistic expectations for the near term, significant expansion of export markets is not in the cards. In fact, a decline of 20 to 30 percent is expected next season.

Given that annual textile import growth over the past four years should have approximated 6% under existing bilateral agreements, and considering that actual growth exceeded 16% over that period (and escalated to 29% in 1984), there can be little doubt about the inadequacy of federal enforcement of quota laws.

That's why some kind of relief — significant relief -- must be forthcoming, and it must be granted soon, if the U.S. cotton industry is to survive long enough for fair trade policies to be implemented which will permit raw cotton and cotton textiles to be traded competitively in international markets.

Exhibit A

U.S. COTTON TEXTILE MARKET
(Mil. Bales)

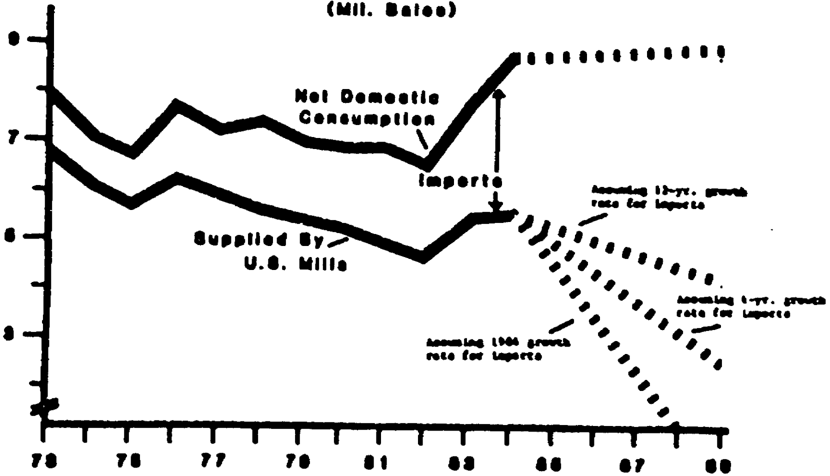


Exhibit B

1983-84 Crop Year

Predicted Farm Price with 1980 Market Share Cotton Product Imports	75¢/lb.
Actual Farm Price	66¢/lb.
Difference	9¢/lb.
	$43/bale
Loss on Cotton Sold	$546 Million
Loss on Cotton Not Sold	$350 Million
TOTAL LOSS	$896 Million

TESTIMONY OF ELLISON S. MCKISSICK, JR.

PRESIDENT

AMERICAN TEXTILE MANUFACTURERS INSTITUTE

Mr. Chairman, members of the Subcommittee on International trade, my name is Ellison S. McKissick, Jr. On behalf of the American Textile Manufacturers Institute, I am here today to testify at this critical moment in our history.

I am president of Alice Manufacturing Company, Inc., in Easley, South Carolina, for 62 years makers of broadcloth and printcloth for apparel. I am also president of the American Textile Manufacturers Institute, the industry's national trade organization representing 85 percent of the primary textile mill products industry in the United States.

The American fiber, textile and apparel industry is a significant player in the economies of 48 of 50 states. The textile and apparel industry employs 2 million people nationwide, more than automobiles and steel combined, and we are a leading manufacturing employer of women and minorities.

The textile industry had sales of $55 billion last year and is composed of large corporations and many smaller enterprises, like my own company, where I know nearly everyone of our 2,000 employees by name.

The American textile industry is tied closely to our fiber suppliers. For example, we buy all of the wool produced in the United States. We consume more than 40 percent of the cotton grown in the United States and historically have been our cotton industry's most reliable customer. Some 80 to 90 percent of the U.S. man-made fiber production is consumed by the domestic industry. So, it is obvious that a slump in textiles is felt all the way up the line.

I wish I could say that the problems this industry faces are just a slump, a dip in the road and nothing more.

But what this industry is up against is a crisis, nothing less.

Our markets are being flooded by imports of yarn, fabric, clothing and home furnishings from Asian manufacturers whose low wages and working conditions would be unlawful in the United States.

We are competing not just against manufacturers, but against foreign governments who routinely subsidize exports and keep the door shut to American products.

Imports are marked up 300 - 400 percent more than comparable domestic products, and therefore are almost irresistable to mass merchandisers. According to government statistics, more than 40 percent of apparel and apparel fabrics now are imported. A recent survey of goods actually on the racks of clothing stores shows imports are much higher.

This one-way trade, so clearly out of balance, is the product of a U.S.trade program that is both useless and ignored. As a result, imports have doubled since 1980. Textile employment is at 699,000, the lowest point since records have been kept.

The last four years have been heralded as a period of economic recovery, but the textile industry isn't sharing in it.

Since 1980, imports have grown at an average annual rate of 19 percent. At the same time, the domestic market for textiles and apparel has grown less than 3 percent per year. This is despite President Reagan's well-publicized commitment to keep import growth in line with market growth.

The textile and apparel trade deficit of $16 billion for 1984 was fully 13 percent of the national merchandise trade deficit. Already this year we are experiencing a 13 percent increase over that record.

It is difficult to explain the virtues of the Reagan economic recovery to the 300,000 textile, apparel and fiber workers who have lost their jobs since 1980. During the last 2 years at least 90 textile plants have closed. Thus far in 1985 at least 40 have shut their doors.

Mr. Chairman, at this point I'd like to request that the 1984 and 1985 plant closings be inserted in the record of these hearings.

This list of plant closings and jobless workers will lengthen if the present trend continues.

The textile industry has seen this crisis developing for several years, and we have been moving aggressively to do everything we can to insure our survival.

For example, the industry has invested an average of over $1 billion every year for the past 10 years in new plants and the most modern equipment money can buy.

Even last year, with a record imports increase of 32 percent the industry invested a record $1.9 billion in capital improvements. Spending for 1985 should top $2 billion.

The result is that the American textile industry is universally recognized as the most productive and most efficient in the world. The average annual increase in American textile productivity has out paced that of manufacturing in general.

The industry is actively exploring new methods of production, developing new products, improving quality and trying to shorten lead time.

Private companies and the federal government are financing, on a 50 - 50 basis, research by the Textile Clothing Technology Corporation into machinery to automate apparel production. The first of a new generation of machines is already being field tested.

We are going directly to the public with a marketing effort called Crafted with Pride in U.S.A. aimed at heightening awareness of American textiles and apparel.

But all the equipment, all the research, all the marketing, and all the presidential promises in the world won't matter if the textile industry doesn't have the tools it needs to compete in the world market.

That is why the Textile and Apparel Trade Enforcement Act of 1985 is so important. It is the tool America needs to restore balance to trade.

This legislation, which was introduced March 19, has been endorsed by every major segment of our industry and it has been co-sponsored by 53 Senators and 290 House members.

The objective of the bill is to achieve the goals of the Multifiber Arrangement, which anticipated reasonable import growth, by providing orderly and non-disruptive increases for all fiber, textile and apparel products.

The administration has raised some objections to this legislation which simply are not valid. There, is for example, the contention that the legislation would violate of the Multifiber Arrangement (MFA). Yet, the Textile and Apparel Trade Enforcement Act is fully consistent with the objectives of the MFA, which are to prevent market disruption and provide for growth of developing country exports. The bill would mandate actions similar to those taken unilaterally in 1977 by the European Economic Community. The EEC cut back trade from major suppliers, imposed low growth rates and established a global approach to controlling key imports. Their actions were accomodated by a memorandum of understanding agreed to by MFA participants and there was no retaliation.

The administration further contends that actions it has taken have brought import growth to a halt. I don't need to do anything but submit for the record the U.S. Department of Commerce's trade statistics for May 1985 to illustrate that this is not true.

U.S. IMPORTS
(millions sye)

	May		
	1985	1984	%Chg.
Total	953.0	821.8	+16.0
Textiles	504.7	447.5	+12.8
Apparel	448.3	374.2	+19.8

The 16 percent growth hardly means that import growth has been "halted."

On the contrary, imports are clearly out of control.

The administation obviously is not willing to take actions which will result in achieving the President's own commitment to relate growth of imports to growth of the domestic market.

In view of this, it is up to Congress to act now and provide the means for bringing about orderly trade in textiles.

It is absolutely essential that the Textile and Apparel Trade Enforcement Act of 1985 be passed this year if we are to maintain a textile and apparel industry in this country.

Mr. Chairman, the essence of this legislation is that it would strike that delicate balance so that textile and apparel trade is on a level table. It doesn't guarantee that we will prosper and survive, only that we have a fair chance.

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51-752 O—85——6

Statement

By

Larry B. Shelton

For the

American Apparel Manufacturers Association

Thank you, Mr. Chairman. My name is Larry B. Shelton. I am Chairman of the American Apparel Manufacturers Association and President of the Greif Companies, a major manufacturer of tailored clothing located in Allentown, Pennsylvania. AAMA is the central trade association for the American apparel manufacturing industry. Our membership represents some two-thirds of U.S. capacity for apparel manufacturing and produces all lines of apparel in virtually every state.

We very much appreciate your interest in our industry and the problems caused by the flood of imports. It is our privilege to be here today.

The AAMA is in strong support of the Textile and Apparel Trade Enforcement Act of 1985 which was introduced in both the House and the Senate on March 19. We believe passage of this bill is necessary to bring order to a chaotic import situation and to provide domestic garment manufacturers a reasonable share of the American market.

Despite our problems, our industry is a viable one, making an enormous contribution to the domestic economy. We provide employment for about 1.2 million people, about one million of them women. Wages and benefits paid by the apparel industry in 1983 were about $16 billion. The industry creates two to three times as many jobs in other industries -- retail, transportation, service, etc. The value of the fabric consumed by our industry represents 50 percent of the total value of the output of the domestic textile industry. Forty percent of the fiber consumed in the United States goes into the fabric used to manufacture apparel.

Our industry has not been without government support and for that we are grateful. Some form of international regulation of textile and apparel trade has existed since 1957 when the Japanese voluntarily limited their exports of cotton fabric. It extended through three international agreements limitnig imports of cotton products. In 1973, the first Multifiber Arrangement, covering cotton, wool and man-made fibers, went into effect and it has twice been renewed. The United States has negotiated about 30 bilateral agreements under the umbrella of the MFA.

We also are appreciative of the efforts this Administration has made to bring a measure of certainty and reasonableness to the import control program. The guidelines issued on December 16, 1983, represented an effort to bring under control at the earliest possible moment imports in uncontrolled categories from countries with which we have bilateral agreements and rapidly increasing imports from non-bilateral countries. Likewise, the new rules of origin published on August 3, 1984, were a sincere attempt to cope with transshipments and quota avoidance. I might add that the AAMA is most pleased that these rules have been amended to close a large loophole they accidentally created.

Despite these efforts, the Administration has fallen short of its commitment to relate the growth of imports to the growth of the domestic market. Imports of apparel in calendar year 1984 totaled four billion 722 million square yards equivalent, up 21 percent from the previous record year of 1983. Since 1980, the last year before this Administration took office, imports of apparel have increased 64 percent.

In letters recently sent to each of you, the Administration noted that imports during the first four months of this year were lower than last year. Well, that honeymoon is over. Apparel imports in May, the fifth month, shot upward, recording a 20 percent increase over May 1984.

It also is interesting to compare the current import situation with the situation as it existed in 1973, the first year the Multifiber Arrangement was in effect. In 1973, the domestic industry produced 13.1 outerwear garments for every American and imports provided 3.7 garments per person. Last year, the domestic industry produced an estimated 13.2 outerwear garments for every person, an increase of one-tenth of one garment over 21 years. In 1984, by comparison, imports accounted for 8.1 garments per person, an increase of 219 percent since 1973. Put another way, in 1973 imports provided American 22 percent of their outerwear garments. In 1984, imports accounted for 39 percent of those garments.

This import growth is the primary cause of the loss of 274,000 jobs in the apparel industry since peak employment of 1,438,000 in 1973. Many more jobs have been lost in the textile, fiber and other industries. Currently, the unemployment rate in the apparel industry is 12.2 percent, more than half again as high as the national average. Unemployment in the apparel industry has increased two percentage points in the last three months.

By comparison, the European Economic Community appears to have done quite well in controlling apparel imports. Between 1979 and 1983, apparel imports into the EEC grew only 7.1 percent, compared to 45.6 percent into the United States. The EEC actually rolled back Hong Kong, Korea and Taiwan by 11 percent in that time span while imports from those three countries into the United States grew 44.3 percent. There is one area where apparel imports into the EEC did grow rapidly and that is from a group of countries around the rim of the Mediterranean which grew 30.2 percent. Significantly, these countries probably are participating in outward processing -- the EEC version of our Tariff Item 807 -- and the apparel being imported is made of cloth manufactured in the EEC.

It becomes apparent that the Multifiber Arrangement and the bilateral agreements negotiated under it are not bringing order to the American marketplace. Import penetration has doubled during the life of the MFA and the domestic industry is suffering from a new avalanche of imports.

One reason the MFA has not worked for the United States is that the bilaterals negotiated under it are not comprehensive. There are 109 categories of textile and apparel imports and none of the bilaterals begins to provide full coverage. A brief case history may be interesting. In 1981, the United States renegotiated its bilaterals with the three largest suppliers -- Hong Kong, Korea, and Taiwan -- to reduce the growth rate provided on specific categories to one percent or less. Yet in 1982 apparel imports from these countries increased 5 percent and they grew another 14 percent in 1983. This growth came largely in categories not covered by quotas.

However, the Administration action of December 16, 1983, resulted in a significant increase in the number of categories with quota coverage from these three countries. The result of this action? A shift in production to a group of secondary suppliers. Imports in the following year, 1984, increased 52 percent from India, the Philippines, Indonesia, Singapore, Sri Lanka and Thailand.

Another and more recent reason the MFA is not working is because it covers only products made from cotton, wool or man-made fibers. It does not cover other fibers such as linen, silk and ramie. Until recently this has not been a problem. However, when quotas on sweaters began to bind, manufacturers in the low-wage countries found a way around them. Imports of sweaters from Hong Kong in 1984 totaled four million 967 thousand dozen, nearly double the quota available. However, of that number nearly 2.4 million dozen -- 48 percent of the total -- were made of non-MFA fibers and not subject to quota. Imports of non-MFA sweaters from Hong Kong increased 284 percent in 1984.

Another 1.4 million dozen non-MFA sweaters come from Korea, while Taiwan sent 378,000 dozen and China sent 250,000. Non-MFA imports of all products in 1984 were 8.6 million dozen.

Finally, the MFA does not work for the United States because the U.S. import control program is operated by a bulky interagency committee that is slow and reluctant to act on rising imports and because the administration of the program has been woefully inadequate.

For these reasons, the American Apparel Manufacturers Association is in support of S. 680, the Textile and Apparel Trade Enforcement Act of 1985. This bill would translate the intent of the MFA into law.

It would limit 1985 imports to the levels they would have reached had we not suffered the massive import increases of the last four years. It would restrict the largest exporting countries which have dominated our market and allow for growth from the smaller countries which are seeking a share of the American marketplace. It would provide for orderly growth in the future.

This bill would reduce the imports of the major low-wage exporting countries to their 1980 levels, then provide them six percent growth for each year through 1984. This six percent growth figure is consistent with the intent of the Multifiber Arrangement. Their authorized levels for 1985 then would be 101 percent of the new 1984 level.

The smaller countries seeking to ship textiles and apparel to the United States would receive bonuses. Their 1985 export limits would be 115 percent of their actual 1984 exports.

In years after 1984, import growth from the largest suppliers would be limited to one percent a year, while the smaller suppliers would have six percent growth limitations. This formula would have the effect of allowing the smaller countries much greater access to our market.

Also, S. 680 would provide quota coverage for the non-MFA fibers that have appeared in large volume in the last two years, and it would require the establishment of an import licensing system.

Consistent with S. 680, AAMA has offered a proposal for the creation of an import permit system which would provide a significant improvement in monitoring imports of apparel and provide more certainty in the operation of the import control program. This system could be implemented by the Administration under current authority and it would be consistent both with the MFA and the General Agreement on Trade and Tariffs.

Under this system, an exporting company would obtain a permit from the United States Department of Commerce. A request for a permit must be accompanied by legitimate evidence of an order for the goods. In the case of goods covered by quota, the exporter must present evidence that he has been allocated quota. This would prevent a few major exporters from obtaining large numbers of permits. A permit must be obtained no earlier than 18 months and no later than 90 days prior to shipment. The Department of Commerce could charge the exporter a reasonable fee for the permit.

Permits would be considered authorizations to import and their issuance would be automatic except in cases where quotas are filled. Permits also would provide an early warning system under which their accumulation would alert government and industry to impending threats of market disruption. Permits would be required for imports from all countries.

The exporting company would be required to have the permit validated by an appropriate government agency in its own country. This validation would affirm that the goods are what they are purported to be and that they are goods of origin in that country. This permit then would accompany the goods and no goods would be admitted through U.S. Customs without an appropriately validated permit.

The one thing that all persons concerned with the textile and apparel import control program can agree on is that it is not working properly. Domestic manufacturers are concerned about the rapid increases in imports. Importers and retailers are concerned about embargoes and the inability to plan their businesses.

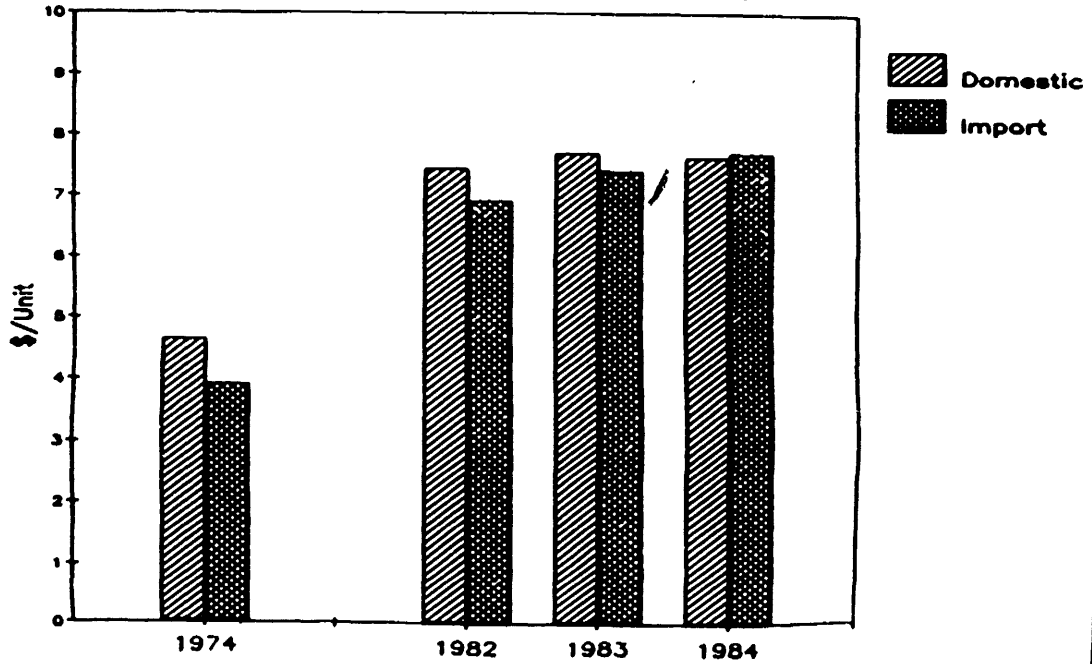
We believe the system we propose combined with passage of S. 680 would provide more certainty to the program, allowing both domestic manufacturers and importers the luxury of advance planning.

Mr. Chairman, I would like to discuss for a minute the subject of the effect of the apparel import control program on inflation. It often is claimed that the prices of imported apparel are lower than the prices of garments produced domestically and that any limitation on the amount of apparel imported comes at the expense of the consumer.

Recent data, however, belies that claim. The Marketing Research Corporation of America is a respected consumer diary that reports regularly on what American consumers buy. Data provided includes the description of the garment, its fiber content, its price and its country of origin. This data is a real report on what American consumers are buying and what they are paying for it.

In 1984, according to this survey, the price of imported apparel in the United States was virtually the same as the price of domestically-produced garments. Compared item for item, men's and boys' garments cost $6.68 per garment if they were made in the U.S.A. and $6.63 each if they were imported. In women's wear imports actually were more expensive, costing $7.72 each compared to $7.65 for the domestic item. A copy of the study is attached to this statement.

Mr. Chairman, I want to thank the Subcommittee for the opportunity to appear here today. We appreciate your interest in our industry and your concern for our problems. I would be pleased to answer any questions you may have.


AVERAGE RETAIL PRICE DOMESTIC Vs IMPORT
Women & Girls Garments
(At Domestic Mix)
$/Unit
0
1
2
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1974
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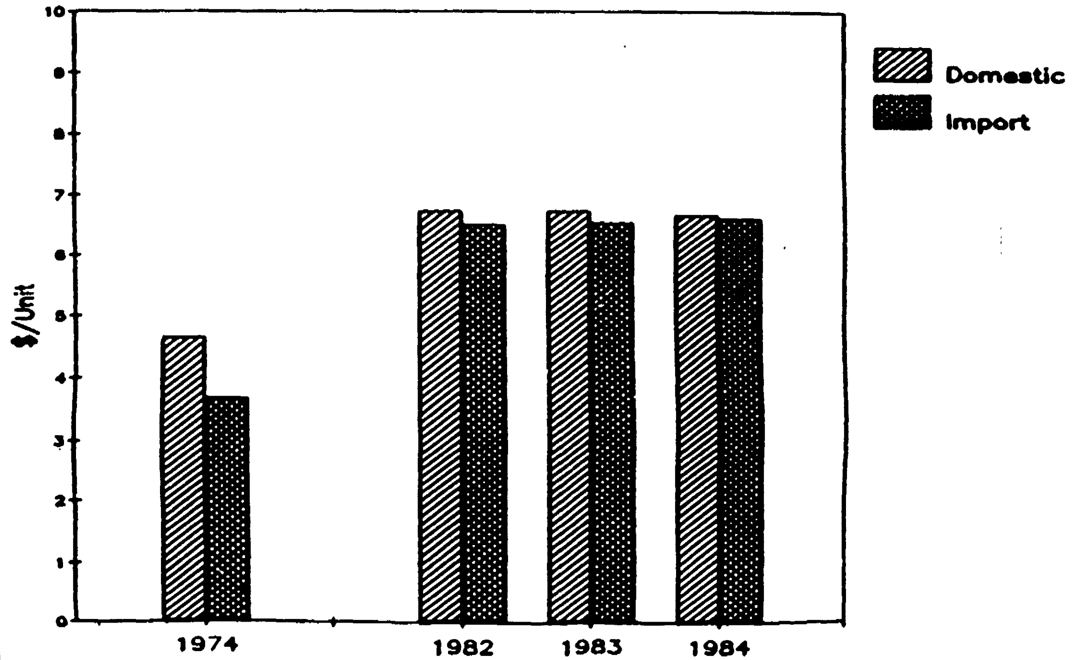
1983
1984
Domestic
Import

AVERAGE RETAIL PRICE DOMESTIC Vs IMPORT
Men & Boys Garments
(At Domestic Mix)



MEN & BOYS

APPAREL DOMESTIC: Share of Key Categories

	1976			1981			1982		
	MM Units	Avg.Price*	Share	MM Units	Avg.Price*	Share	MM Units	Avg.Price*	Share
Coats	96.7	$17.20	3.1%	39.0	$32.69	1.3%	45.9	$35.96	1.3%
Suits/Sportcoats	51.9	52.06	1.7%	36.5	86.80	1.2%	35.8	85.61	1.0%
Slacks/Jeans	563.5	7.06	18.1%	462.4	13.40	15.8%	445.4	13.76	13.0%
Shorts	16.4	3.90	0.5%	28.0	6.06	0.9%	83.8	5.98	2.4%
Dress Shirts	190.7	6.30	6.1%	116.2	10.73	4.0%	105.3	11.50	3.1%
Knit Sport Shirts	248.1	4.06	8.0%	288.5	6.53	9.8%	391.0	6.36	11.4%
Woven Sport Shirts	130.5	5.31	4.2%	93.4	9.91	3.2%	110.7	10.36	3.2%
Sweaters	43.6	10.53	1.4%	70.6	16.19	2.4%	67.9	15.45	2.0%
Underwear	779.0	1.19	25.0%	674.5	1.01	23.0%	805.4	1.05	23.5%
Nightwear	69.5	5.67	2.2%	49.7	9.20	1.7%	86.2	8.10	2.5%
Hosiery	833.0	0.81	26.7%	881.6	1.19	30.1%	962.5	1.26	28.0%
Other	94.5	3.65	3.0%	192.0	3.00	6.6%	295.7	8.75	8.6%
Totals	3115.6	$ 4.67	100.0%	2932.4	$ 6.91	100.0%	3434.6	$ 6.75	100.0%

	1983			1984		
	MM Units	Avg.Price*	Share	MM Units	Avg.Price*	Share
Coats	45.2	$34.00	1.3%	46.6	$33.68	1.4%
Suits/Sportcoats	37.0	80.98	1.1%	34.0	80.02	1.0
Slacks/Jeans	391.9	13.58	11.6%	389.2	13.40	11.6
Shorts	85.1	6.80	2.5%	87.9	6.28	2.6
Dress Shirts	105.9	12.33	3.2%	101.5	12.67	3.0
Knit Sport Shirts	364.0	6.64	10.8%	361.0	6.05	10.7
Woven Sport Shirts	97.3	10.56	2.9%	86.0	10.72	2.6
Sweaters	67.9	15.75	2.0%	71.4	15.10	2.1
Underwear	838.7	1.90	24.7%	842.5	1.92	25.2
Nightwear	78.6	8.30	2.3%	78.2	8.37	2.3
Hosiery	983.2	1.28	29.2%	976.0	1.27	29.0
Other	283.2	9.44	8.4%	287.6	9.17	8.5
Totals	3371.0	$ 6.75	100.0%	3330.5	$ 6.60	100.0%

Source: MRCA Consumer Diary Panel

*Current Dollars

BEST AVAILABLE COPY

MEN & BOYS

APPAREL IMPORTS: Share of Key Categories

	1976			1981			1982			1983			1984		
	MM Units	Avg. Price*	Share	MM Units	Avg. Price*	Share	MM Units	Avg. Price*	Share	MM Units	Avg. Price*	Share	MM Units	Avg. Price*	Share
Coats	26.0	$12.05	11.8%	28.8	$23.62	7.2%	39.6	$27.82	7.2%	50.2	$28.30	8.3%	51.7	$27.60	7.9%
Suits/Sportcoats	5.8	30.95	2.6%	4.8	82.94	1.2%	7.8	77.50	1.4%	9.3	79.29	1.5%	9.8	76.77	1.5
Slacks/Jeans	24.9	5.25	11.3%	45.9	12.52	11.4%	56.7	11.12	10.3%	58.0	11.37	9.5%	66.1	12.11	10.1
Shorts	2.3	4.04	1.0%	6.6	7.88	1.6%	19.4	7.10	3.5%	23.8	7.30	3.9%	26.1	7.54	4.0
Dress Shirts	48.8	6.28	22.2%	65.0	8.40	16.2%	63.8	9.61	11.6%	75.9	9.06	12.5%	83.4	10.99	12.7
Knit Sport Shirts	22.1	4.42	10.0%	65.7	11.06	16.4%	95.2	8.00	17.2%	107.1	9.44	17.6%	118.0	9.36	18.0
Woven Sport Shirts	41.8	4.33	19.0%	89.5	7.27	22.3%	119.6	7.95	21.7%	112.5	8.53	18.5%	104.4	9.50	16.0
Sweaters	15.6	9.57	7.1%	39.5	14.43	9.8%	44.1	14.63	8.0%	51.0	14.40	8.4%	56.9	15.40	8.7
Underwear	6.2	1.13	2.8%	7.4	2.03	1.9%	9.8	2.21	1.8%	14.3	1.90	2.3%	19.9	2.11	3.0
Nightwear	6.7	4.21	3.0%	12.9	8.22	3.2%	13.8	9.00	2.5%	15.4	8.90	2.5%	15.3	9.73	2.3
Hosiery	8.7	1.05	4.0%	15.6	1.39	3.9%	16.1	1.34	2.9%	17.5	1.40	2.9%	18.8	1.35	2.9
Other	11.2	3.81	5.1%	19.8	5.45	4.9%	65.8	9.50	11.9%	73.6	10.03	12.1%	84.5	9.58	12.9
Totals	220.1	$ 6.37	100.0%	401.5	$11.11	100.0%	551.7	$11.39	100.0%	608.6	$12.12	100.0%	654.9	$12.39	100.0
Adj. to Domestic Mix		$ 3.71			$ 6.73			$ 6.53			$ 6.56			$ 6.63	

Source: MRCA Consumer Diary Panel

*Current Dollars

WOMEN & GIRLS

APPAREL DOMESTIC: Share of Key Categories

	1976			1981			1982			1983			1984		
	MM Units	Avg.Price*	Share	MM Units	Avg.Price*	Share	MM Units	Avg.Price*	Share	MM Units	Avg.Price*	Share	MM Units	Avg.Price*	Share
Coats	51.2	$30.46	1.2%	44.0	$50.00	0.9%	36.4	$51.17	0.7%	33.6	$56.19	0.7%	36.0	$53.04	0.7%
Suits/Blazers	91.3	22.15	2.1%	56.6	36.92	1.1%	67.7	36.91	1.3%	66.4	42.30	1.3%	62.5	41.06	1.2
Dresses	246.9	17.12	5.6%	257.8	23.00	5.0%	239.6	23.00	4.7%	244.3	24.25	4.7%	245.2	24.28	4.7
Skirts	68.9	9.16	1.6%	247.2	16.23	4.8%	139.9	16.60	2.8%	145.0	16.16	2.8%	144.5	16.00	2.8
Shorts	43.4	3.07	1.0%	64.5	6.01	1.3%	92.1	6.60	1.8%	97.1	6.90	1.9%	104.7	7.10	2.0
Slacks	190.4	8.75	4.4%	194.0	12.02	3.8%	256.3	12.65	5.1%	251.5	13.15	4.9%	268.0	12.64	5.2
Jeans	92.9	7.54	2.1%	201.0	14.40	3.9%	151.2	15.00	3.0%	142.0	15.60	2.8%	136.0	15.40	2.6
Blouses/Shirts	475.3	6.44	10.9%	734.0	10.07	14.4%	758.1	10.23	15.0%	746.3	10.36	14.5%	704.6	9.97	13.6
Sweaters	87.9	8.18	2.0%	162.5	13.27	3.2%	131.2	13.27	2.6%	149.7	13.76	2.9%	172.8	14.24	3.3
Underwear	1015.9	2.06	23.2%	845.0	3.45	16.6%	788.3	3.42	15.6%	800.5	3.62	15.6%	820.4	3.72	15.9
Nightwear	214.4	6.13	4.9%	237.1	9.97	4.6%	228.1	9.71	4.5%	245.2	10.37	4.8%	240.7	10.10	4.7
Hosiery	1649.8	0.93	37.7%	1877.5	1.29	36.7%	1865.4	1.37	37.0%	1900.6	1.43	37.0%	1909.5	1.47	36.9
Other	144.4	5.26	3.3%	184.7	7.62	3.7%	295.9	7.96	5.9%	316.3	8.43	6.1%	330.9	8.64	6.4
Totals	4376.4	$ 4.67	100.0%	5109.1	$ 7.50	100.0%	5050.2	$ 7.46	100.0%	5136.5	$ 7.72	100.0%	5170.4	$ 7.65	100.0%

Source: MRCA

*Current Dollars

WOMEN & GIRLS

APPAREL IMPORTS: Share of Key Categories

	1976			1981			1982			1983			1984		
	MM Units	Avg. Price*	Share	MM Units	Avg. Price*	Share	MM Units	Avg. Price*	Share	MM Units	Avg. Price*	Share	MM Units	Avg. Price*	Share
Coats	12.8	$19.95	3.4%	23.0	$32.76	3.7%	33.5	$33.16	4.1%	39.3	$36.10	4.2%	40.7	$38.40	3.9%
Suits/Blazers	6.3	21.43	1.7%	11.3	35.01	1.8%	16.9	32.79	2.1%	17.6	36.07	1.9%	21.1	38.00	2.0
Dresses	9.9	17.51	2.6%	19.5	26.49	3.1%	26.6	18.71	3.3%	36.9	23.03	3.9%	63.0	26.65	6.1
Skirts	2.5	9.44	0.7%	18.9	16.12	3.0%	16.1	15.57	2.0%	19.5	16.17	2.1%	24.7	16.37	2.3
Shorts	12.6	2.56	3.4%	13.3	5.99	2.1%	30.6	6.23	3.8%	37.0	7.16	4.0%	40.4	7.26	3.8
Slacks	20.1	6.12	5.4%	18.9	14.77	3.0%	35.9	13.91	4.4%	45.4	13.47	4.9%	57.0	14.00	5.6
Jeans	11.6	5.47	3.1%	43.4	15.11	6.9%	38.6	14.06	4.8%	43.9	14.30	4.7%	65.7	14.43	6.3
Blouses/Shirts	124.8	4.62	33.3%	215.2	9.00	34.4%	293.9	8.67	36.2%	322.7	9.63	34.5%	337.3	9.93	32.1
Sweaters	61.4	7.73	16.4%	121.6	14.69	19.4%	137.6	14.12	16.9%	157.9	14.61	16.9%	174.9	16.98	16.7
Underwear	41.2	1.57	11.0%	80.5	3.63	12.9%	90.0	3.65	11.0%	114.6	3.76	12.2%	132.9	3.93	12.7
Nightwear	8.1	4.70	2.2%	18.0	7.07	2.9%	23.9	8.76	2.9%	24.2	9.11	2.6%	27.2	10.74	2.6
Hosiery	36.6	0.88	9.8%	18.4	1.20	2.9%	15.3	1.51	1.9%	20.0	1.33	2.1%	20.9	1.45	2.0
Other	26.7	3.70	7.0%	23.3	7.62	3.7%	47.5	8.80	5.8%	56.2	9.60	6.0%	76.6	10.15	7.3
Totals	374.6	$ 5.62	100.0%	626.1	$11.74	100.0%	812.4	$11.25	100.0%	935.2	$12.07	100.0%	1030.4	$12.53	100.0%
Adj. to Domestic Mix		$ 3.94			$ 7.40			$ 6.93			$ 7.43			$ 7.72	

Source: MRCA Consumer Diary Panel

*Current Dollars

John R. Meinert

Hartmarx Corporation
101 North Wacker Drive
Chicago, Illinois 60606
312 372 6300

July 15, 1985

To: United States Senate, Finance Committee
Subcommittee on International Trade

Re: Textile and Apparel Trade Enforcement Act of 1985 (S680)

From: John R. Meinert, Vice Chairman of Hartmarx and its subsidiary, Hart Schaffner & Marx, and President of the Clothing Manufacturers Association.

Hartmarx's corporate headquarters are in Chicago, and its subsidiaries operate 33 manufacturing plants and 460 retail stores employing 25,000 men and women throughout the U.S.

As the representative of one of the nation's oldest, largest, and most respected apparel companies and as a leader in the tailored clothing industry, I urgently request your support of this legislation.

My company, which will celebrate its centennial in 1987, has sales of over $1.1 billion annually and 25,000 employees about equally divided between manufacturing and retailing. Most of our production is sold to independent retailers, and our stores sell the apparel we manufacture as well as hundreds of millions of dollars of goods purchased from other manufacturers. Our company has an international marketing perspective in both manufacturing and retailing, ranging from our worldwide selection of goods and designs for our customers to receiving millions of dollars annually from international licensing.

As a major presence in the apparel industry, Hartmarx shares this committee's interest in promoting a balanced economic perspective on the issue of imports.

As a manufacturer, we provide retailers with Hart Schaffner & Marx, the nation's foremost brand of tailored clothing, and with many other brands such as Hickey-Freeman, Christian Dior, Jack Nicklaus, Austin Reed of Regent Street, Johnny Carson, and Pierre Cardin--all "Crafted with Pride in U.S.A."

As a retailer, we provide the best fashions for American business and professional men and women.

In acquiring our global view of imports, we have many views that we wish to share with you and your colleagues.

Hartmarx does import some goods from abroad. However, the thrust of our importing--and that of others who share our view--is to provide the American consumer appropriate access to fashion, quality, and choice in apparel. The legislation before you is, in our view, adequate to assure the continuation of this intention among conscientious apparel retailers in this country.

What must be emphasized most strongly is that the absence of this legislation is an open door for retailers and importers of lesser intentions--and the effect will be to sacrifice the production and economic well-being of American apparel workers to their competitors in low-wage countries.

It is no secret that a big attraction of cheaper imported goods is the exceptional mark-up available to be taken by retailers. It is argued that such low-base pricing is passed on to American consumers through lower prices. That argument has been demonstrated incorrect. The high margins available on these imported goods are used to benefit those who import them, as the differential is retained by the importer-seller. The American consumer does not receive lower prices, and we know this to be true from our information about companies which compete in our retail markets.

If this committee accepts misrepresentations in the name of consumer benefit, the consequence will be distortions in trade, substantial sacrifice of American competitiveness, and potential devastation for hundreds of thousands of American workers and their families.

My company's experience as a manufacturer of apparel illustrates the importance of the point I raise. Among the 12,500 people we employ in our factories, many are first and second generation Americans who lack the language and skills to participate in other sectors of our economy. Employment in apparel manufacturing has been the means by which generations of new Americans have raised themselves from conditions they fled, and that remains the case today, as our industry represents an opportunity for those who have chosen this nation for their future and the futures of their children.

Whether you visit our factories in the North or the South, in Chicago, Buffalo, or Miami, we--and other manufacturing companies--have provided and are providing jobs, benefits, and dignity for Americans whose origins were in scores of other nations. These people are participating in the American heritage. That heritage and its opportunities will be denied without the assistance of the measure before you, and

it would be ironic to penalize our fellow citizens by providing additional economic benefits to the countries they left.

Defeat of this legislation will seriously hamper employment for those currently employed in apparel manufacturing. As president of the Clothing Manufacturers Association, I can testify that the number of workers employed in clothing manufacturing has declined by half over the past decade. This declining trend will continue unless you and your colleagues pass this measure. It is likely--if the historical trend is permitted to prevail--that apparel manufacturing can cease to exist as a viable industry in this country and American companies will find themselves marketing the production of other countries.

The potential for damage is not only particularly acute in our large industrial cities but also in many small towns throughout the country.

For example, in addition to operating stores in over 80 percent of the states and selling to independent retailers everywhere, we also operate plants in about 30 communities. About two-thirds of these are in small towns, and the remaining are substantial employers in larger cities, as we have manufacturing plants in one-third of the states. Many of our manufacturing facilities are the principal employer in areas ravaged by industrial rerationalization.

While we employ over a thousand workers in each of our large Buffalo and Rochester, New York, plants and in Chicago, we also employ several hundred to over a thousand workers in states such as Florida, Georgia, Alabama, Arkansas, Missouri, both Carolinas, Virginia, Indiana, Maryland, Kentucky, Tennessee, Ohio, Pennsylvaina, and California.

In the Quad Cities area of Iowa and Illinois, for example, our manufacturing facility is a principal employer in an area that has lost hundreds of jobs through the decline of farm equipment manufacturing. Without our presence, many important areas of the American heartland--already badly hurt by declining farm markets--would be virtually without a major employer.

But even if we move our attention from such cases, it should also be recognized that apparel manufacturing jobs employ thousands of women who in many cases are the sole support for families plagued by structural unemployment. Of the approximately 12,500 total employees in our manufacturing operations, almost 10,000 or close to 80 percent are women. We provide the underpinning for the maintenance of their families, and we give marginally employable but earnest workers the skills to pursue a lifetime of employment.

Hartmarx is not alone in the manner by which we contribute to the economic stability--if not survival--of these citizens, their families, and their communities. The clothing manufacturing industry as a whole likewise serves this vital economic function. This important American industry needs the legislation before you. Hundreds of thousands of your constituents need it. I urge you to act decisively in assuring its passage.

Senator DANFORTH. I have a couple of questions.

One thing that has puzzled me is, why don't the textile and apparel industries file a case under section 201 of the Trade Act? We have on the books a means of dealing with injured industries when there are surging imports; for example the shoe industry has filed a 201 case, there is a specialty steel 201 case. These are laws that are on the books now; they are available to everyone who wants to use them and to initiate the case and avail themselves of the remedies provided by law. The textile and apparel industry has not utilized the generic law, but instead has come to Congress and said, "We don't want to pursue the remedies available to everybody else, we want special treatment." Why don't you use section 201?

Mr. KLOPMAN. Senator, could I call on some legal advice?

Mr. GREENWALD. Senator, my name is John Greenwald with the law firm of Wilmer, Cutler & Pickering. We have looked into the question of relief available under trade laws. You mentioned specifically 201; I believe this committee knows full well the record of the administration in dealing with 201 actions.

In January-February 1984, five or six 201 actions were filed on behalf of industries. Each one cost several hundred thousand dollars. The administration denied relief as a formal matter in every single one of them, and only in steel did they grant any relief outside of section 201.

Based on that track record, it is very difficult as counsel to advocate that the time and investment be put into a 201 case.

Senator DANFORTH. OK. Well, then, I don't know, maybe Mr. Klopman would want to come back, or maybe you would like to answer. We are going to find out how the administration feels about section 201 very quickly when the shoe case is decided, the relief for the shoe industry is decided.

Would you agree that as a general principle it would be better to follow the generic form of relief rather than ask for special legislation for your industry?

Mr. GREENWALD. Sir, a 201 action would take 8 months. You have seen the statistics. That would be before any relief whatsoever could be granted. You have seen the statistics.

Senator DANFORTH. Well, you could have filed 201 in January.

Mr. GREENWALD. There was very little basis on which to have any credibility in the remedy afforded 201 action, given the persistent pattern of denying section 201 relief by the administration. To do so now would require another 8 months. By that point, the damage becomes irreparable.

[Reply to Senator Danforth's question as to why the industry has not filed a section 201 case:]

You have asked us to set forth reasons why we believe section 201 does not offer a solution to the U.S. textile and apparel industry's current trade problems. While section 201 cannot be wholly ruled out as a useful tool in securing relief for some segments of these industries, it is not an appropriate mechanism for achieving a satisfactory resolution of the current trade problem. It is not a substitute for the enactment of comprehensive legislation.

INADEQUANCY OF RELIEF AVAILABLE UNDER SECTION 201

The most important drawback to a section 201 action is that the relief which it offers will not resolve the basic trade problems confronted by the U.S. textile complex. In these industries, two problems are presented:

Low wage countries enjoy a substantial labor cost advantage over developed countries.

The progressive reduction in trade barriers envisioned by the GATT system is not happening and is not likely to happen in this sector in any country, particularly in the developing exporting countries.

It is precisely because of these factors that the MFA system was established as a derogation from general GATT principles to govern trade in textiles and apparel. The experience of these industries represents an exception to the much faster liberalization of trade that has occurred in most other industrial sectors pursuant to the GATT Most nations, particularly the low wage exporting countries, continue to employ a substantial degree of overt protection on behalf of their domestic textile and apparel industries, a reality which will not change under any foreseeable set of circumstances.

Given the remedy available under the statute, it is unclear what a section 201 action could be expected to achieve. Such an action seeks temporary relief—a maximum of 5 years—to permit the U.S. industry to "adjust" to international competition. How is the U.S. apparel industry expected to adjust to foreign wage rates of 18 cents an hour? Such phenomena will still exist 3 or 5 years from now, when temporary relief granted pursuant to section 201 would expire.

PROCEDURAL PROBLEMS

The procedural problems involved in bringing a section 201 action in this industry would be substantial. For example, in past section 201 actions, the USITC has found that industries much more homogeneous than textiles and apparel are actually divisible into separate sub-industries. In a 1976 stainless steel case the Commission found that the U.S. stainless steel industry was actually four separate industries—stainless steel strip, stainless steel bar and rod, alloy tool steel, and stainless steel plate.

In this case, defining the domestic industry in an adequate fashion would present a major hurdle. The textile crisis affects a major industrial complex consisting of producers of fiber, fabric, and clothing. The upstream, midstream and downstream sectors are segmented into a large number of subsectors. The textile complex is far more diverse than the stainless steel industry, and the Commission could easily find that it consists of dozens of different industries, some requiring import relief according to the Commission's criteria, others not. If relief were granted pursuant to section 201 in one "industry," foreign producers could quickly shift their production to other "industries" (e.g., from men's shirts to women's blouses)—presumably necessitating additional section 201 actions. The relief which eventually emerged from such a hodgepodge of section 201 decision could well be no more effective in addressing the overall trade problem than the current U.S. import regime.

DISCRETIONARY NATURE OF RELIEF

Even if the USITC recommends relief for a broad segment of the industry, the ultimate grant of relief is a matter for Presidential discretion. In a substantial number of section 201 cases, the President has denied relief after the USITC recommended that relief be granted, reflecting political, foreign policy or other concerns unrelated to the merits of the industry's case. In this situation, the prospect of a large number of separate section 201 decisions, coupled with the uncertainties created by Presidential discretion—which could exacerbate the haphazard quality of the relief granted—makes it highly unlikely that an effective U.S. import regime could emerge from the section 201 process.

Senator DANFORTH. Well, I don't know. My understanding is that shipments of U.S. apparel were up last year rather than down, and that employment was up a little bit—not much—rather than down.

I agree that there is a serious problem, but I am wondering if it is an 8 or 9 month problem in view of the fact that shipments and employment were up a little bit last year.

Mr. KLOPMAN. Senator, I believe that if you take a look at more recent statistics, you will find that the slight gain in domestic apparel shipments and in textile and apparel employment in the first half of 1984 were only a temporary phenomenon. Once inventories were built up, domestic activity fell off again. Mill consumption of

fiber for apparel products was up 1.5 percent in the first half, but fell sharply in the latter half to finish the year down 7 percent. In like manner, textile and apparel employment was up 3 percent in the first half of the year, but finished the year 2.4 percent below year ago levels. The import problem is not a short-run problem.

Senator DANFORTH. But you understand the seriousness of the question. The seriousness of the question is that it really is precedential to get special relief for an industry when a general statute is available and you haven't ever made any effort to utilize the general statute—ever—under any administration.

Mr. SHEINKMAN. If I may, Mr. Chairman, as I understand it, the textile and apparel industry covers some 3,000 items, unlike the shoe industry, unlike specialty steel, which deal with one or a few specific items. It would be very hard to bring an action involving all countries on 3,000 items before the ITC.

Second, we sought relief in terms of countervailing duties, with 13 countries over a year ago. And the kind of relief we got was meaningless, out of the Commerce Department and the U.S. Trade Representatives Office. In some cases the countries agreed to abide by the new injury codes, which in effect negated our cases. And I would like to cite a specific case—we are talking about going the administrative route—involving my own industry.

Now, we had a situation involving imports of headwear, where the country involved was Taiwan sending into the United States illegally, a misrepresentation of hats made out of synthetic fiber. Instead of slapping a penalty immediately, the administration agreed to spread it out over 3 years, which means the industry has no time to recoup. So when you are talking about administrative relief—and I might point out, the amount of relief that has been granted by the ITC in terms of the 54 cases is minimal. So you are dealing with a very complex industry which embraces many categories of products, and you can't very well deal with this in terms of an ITC remedy.

Senator DANFORTH. Senator Roth.

Senator ROTH. Mr. Klopman, you make a very strong, hard-hitting statement. Let me ask you a question or two as to where you think we should have headed.

You of course have this specific piece of legislation; but in your testimony you say, "The strategy of modern trading nations perfected by certain countries on the Pacific rim is managed trade close business-Government cooperation. Unless the U.S. modifies its blind adherence to unrealistic principles, a free trade will never regain a competitive position."

So if I understand your testimony, and you have heard a lot of criticism from up here about our lack of trade policy, I assume that you are urging that there be some kind of business-Government cooperation in the United States in these areas. I wonder if you could expand on where you think we should be headed. Is it possible, if you have the right textile trade negotiators, that they could do what is necessary? Or do you think that sector-specific legislation is the wave of the future?

Mr. KLOPMAN. Well, I have been at this for 8 years, and we have avoided, except in one occasion where we dealt with Ambassador

Strauss on tariff issues, we have avoided the legislative route because it is the most difficult.

Clearly, if the administration were doing its job, clearly if the administration were enforcing the MFA and were using all the tools at their fingertips, we wouldn't be here today. But they are not. And we don't have any great confidence that they will. And frankly, in listening to them testify I had less confidence, because they are talking a year out. And a year out isn't going to cut it. And then they are talking about no rollbacks, while the EEC did have rollbacks—and you know, those rollbacks really had a great impact on us, Senator Roth, because they deflected imports into this country. But when other people seem to find a way to do it and we don't, we see the legislative route at this point as being the only route.

Senator ROTH. But if I understand what you are saying, then, you are proposing some kind of—I don't know whether you want to call it "an industrial policy" or what, but that the Government, not only in the case of textiles but in other areas as well, should clearly begin to work out some kind of quotas, as a general approach.

I am not either agreeing with you or disagreeing with you; I am just trying to determine what you are proposing.

Mr. KLOPMAN. Yes, I think that is basically true. I think we have to take a look at what Secretary Baldrige refers to as a $150 billion merchandise trade deficit for 1985 and say, "Can we live with that?" And if we can't, maybe we ought to get in the business of tit-for-tat and decide that we are going to have a little bit better balanced situation with the rest of the nations in this world. And if we are going to give away trade, give it in the form of aid to those countries where we think it is needed.

Maybe I am stupid, but I just don't see how we can exist as a real strong nation being a debtor nation.

Senator ROTH. If I may carry you just one step further: If you had confidence in the negotiators, you would prefer that approach; but using legislation is sort of a backup?

Mr. KLOPMAN. Yes, sir. But the will has to be there. In the first place, Americans are very poor negotiators, anyway. I think we all know that. But you know, before you can have confidence in a negotiator, you have got to have confidence that the people behind him really want to get the job done. And I haven't had that feeling. I don't think any of you around the table feel any differently.

Senator ROTH. Since my time is disappearing, let me ask you one further question with respect to the specific negotiations. I have touched on this twice before, but the proposed legislation does not cover the European countries, which you say have already used a rollback, and does not include, I gather, Canada and Mexico. The same is true of certain materials such as silk. Why these omissions when there are rather significant import increases in these areas, and why shouldn't they be covered?

Mr. KLOPMAN. Well, I think you heard it said before that, if the Congress wanted to do some of those things, we would accept it. But we thought the exclusion of Canada and the EEC made sense. Products of silk and other fibers not subject to the MFA are included.

First let's take Mexico, sir. Mexico is covered. It isn't covered in the same way that the other 1.25-percent import share countries are. We covered Mexico the way we did because we thought it was a special case. It is on our border, and we read in the paper every day about all the problems that are there.

Senator ROTH. But let me ask—Europe is not on our border. We are talking about loss of business, and we are talking about loss of jobs. Whether you lose it because of an export from Europe or Canada or wherever, as far as the worker is concerned it is the same. So I am curious about the strategy. Why the strategy of not including them?

Mr. KLOPMAN. Well, it might have been poor strategy, but the thinking was that Europe or the Common Market was a different animal simply because we have an open trading relationship. From time to time when the dollar situation is different our ability to penetrate that market is much different. So our relationship with Europe is different.

Let's look at our relationship with the Pacific countries—Korea and Taiwan, for instance. We can't ship goods into Korea, because we have to get a license from the local textile industry to get those goods in. We can't ship goods into Taiwan unless we sign a document that says they are going to come back out in some other form. So there is no equity in that part of the world, as opposed to EEC and Canada. I think that is why we treated those two groups differently. Now, maybe we were wrong; we would be glad to consider a change.

Senator ROTH. Mr. Chairman, my time is about up.

Let me just say that seriously concerns me. No. 1, the Pacific basin is a great growth area; I think we want to do business there. I think it is important that we do appear evenhanded and not even give the suggestion—I know it is not intended—even the suggestion that there is some kind of prejudice involved. But more importantly, if we need legislation, it seems to me that it has got to be perhaps worldwide, because you are talking about a 16 to 18 percent increase in imports from Europe as well as a substantial increase in the products not covered by the MFA, such as silk, linen, and ramie.

Thank you for your very helpful testimony.

Senator DANFORTH. Senator Moynihan.

Senator MOYNIHAN. Mr. Chairman, I would like to ask the panel a question, which is largely for your benefit, if I can put it this way.

You very properly asked whether there was a precedential quality to the proposal we have here, and I think there is in some respects, surely. But it is the fact that for 23 years we have had an arrangement with the rest of the world, with our trading partners, negotiated openly and agreed to, to provide for an orderly growth of imports; but not the disruption that Mr. Yeutter granted had taken place. And this began with the long-term cotton textile agreement, of which I was one of the negotiators, as Mr. Chaikin and Mr. Sheinkman know.

I want to ask you what has happened administratively. I mean, I sat for 2 years on the committee that was chaired by the Secretary of Commerce, to administer the long-term textile agreement. We

managed our problems. Has there been an administrative breakdown? Has there been misfeasance? Has there been incompetence? Has there been the deliberate intention to bring about the result?

I mean, that red bar in your second chart there says, "The full use of MFA would have given you perhaps a 25-percent increase in this 4-year period," and there was a 100-percent increase.

Would you volunteer, if you feel you are competent—I know Chick Chaikin has followed it with endless detail—what is going on in the program's administration? How did this breakdown occur? This is in violation of an agreement, and wholesale—not slipping a few extra things on edge.

Mr. CHAIKIN. Well, Senator Moynihan, if I may make a quick response to your series of questions it would be, "Some of each."

We suffer greatly from the fact that action by the U.S. Trade Representative and his associates comes too little and too late in almost each of the instances. And we suffer also from the syndrome of locking the barn after the cows have strayed a long, long way from home.

When new starters come on track, we don't call for consultations in a timely fashion. It is after they have impacted us in a very meaningful way that we then call for consultations. And then, in order to bring them to the negotiating process, the quota offer that we make is always very generous. And that generous offer comes out of the domestic share of the market. There is no process whereby we can say to the four major exporters, who in the question of ladies and childrens apparel export about 60 percent of all of the imports into the United States, "Would you please be content to take 1 percent less so that we can give this new starter an opportunity to come into the domestic market?"

Senator MOYNIHAN. Yes.

Mr. CHAIKIN. Every time a new starter comes on, he gets a share of our portion, not a share of anybody else's portion. And that is a major problem.

Second, our industry, which is highly mobile within the United States, is easily as mobile when importers buy in foreign lands. And they move from one country to another, always in search of a better deal, always in search of an area where there are subsidies in the form of land, manufacture, equipment, training, lack of taxes, and a country where there is no quota. So the importers shift their production needs from one country to the another. When that happens, we suffer, because, again, the goods come in.

They also search for new blends which were not covered. For example, it was stated somewhat mildly that only 8 percent of the total imports are now made of silk, linen, and ramie. But 8 percent of the total imports is an enormous amount of ladies apparel coming into the United States, in the last several years. Silk, linen, and ramie are not covered by MFA and under our agreements and are not about to be covered. If they were covered, you can take my assurance that the ingenuity of apparel manufacturers and apparel importers and retailers in the United States is such that they would invent additional combinations and blends which would not then be covered by any agreement and bring them into the United States.

Senator MOYNIHAN. Could I, Mr. Chairman, ask one quick question of the panel?

Is it your experienced judgment—and there isn't one of you that hasn't been with this a long time—that the kind of agreement that the MFA represents, given the mobility of the industry and the increasing number of producing countries that, with the best of intentions, you cannot get to your objectives by the administration of such an agreement, that it just doesn't work anymore?

Mr. CHAIKIN. Senator, the only way that you could guarantee the existence of a domestic industry is, No. 1, if we negotiated under the MFA aggregate totals of imports into the United States of every item of textile, apparel, and clothing.

Senator MOYNIHAN. I see. I take it that would provide for your new-entry problem.

Mr. CHAIKIN. It would not only provide for the new-entry problem but it would also provide for new blends, provide for fibers, et cetera, or combinations of fibers not now covered.

Senator MOYNIHAN. But absent the aggregate total, you don't think we could administer that kind of agreement anymore?

Mr. CHAIKIN. Well, there are 140 nations the world around which have the capacity to make textile, apparel, and clothing. And there will always be movement of money, movement of technology, movement of know-how to those countries with the lowest wage costs. And here, parenthetically, permit me to make a statement.

A lot has been said about the strong dollar. The apparel industry in the United States takes about half of the total output of the textile fabricating industry in the United States. Our problem is not the strong dollar when our importers go the Peoples Republic of China, they buy and bring in garments made for 16 cents an hour. The problem is not the dollar. If the dollar were twice as strong, the net effective cost of labor would be just 32 cents an hour, or 40 cents an hour. The problem is not the strong dollar when we import from South Korea where the effective wage rate is 53 cents an hour. If the dollar were twice as strong, the wage rate would still be only a dollar an hour.

The problem with us is that every one of these countries has the capacity and the ability to make apparel, and they make apparel according to American creativity. They use our styles, our size ranges, our patterns in the factories of the foreign countries, where the garments are then made up and returned to the American market. It is the unconscionably low wage rates that are critical in a highly labor-intensive industry.

Now, you have heard a lot of talk this afternoon about the fact that the textile industry has become highly productive and increasingly capital intensive, and that is absolutely true. But the fact of the loss of jobs in textile, apparel, and clothing is not due simply to the fact that they have become more efficient, and, for example, where 15 people were formerly employed only 3 or 4 may now be employed with the same or higher output.

The fact is that in the apparel and clothing industry there has not been such a surge in productivity. The industry is a highly labor-intensive industry and it is not yet subject to capital intensity. And the fact is that we have lost these jobs, and the textile manufacturers have lost their customers, because we cannot com-

pete against the abject poverty of a number of billions of people the world around in countries where they have the capacity to make these garments.

Senator DANFORTH. Senator Matsunaga.

Senator MATSUNAGA. Thank you, Mr. Chairman.

Before I proceed to the questioning, I ask unanimous consent that a letter from the ad hoc textile and trade legislation committee from Hawaii, dated July 12, 1985, addressed to you, Mr. Chairman, be inserted in the hearing record at the appropriate place.

Senator DANFORTH. Without objection.

[The letter follows:]

AD HOC TEXTILE & TRADE LEGISLATION COMMITTEE

P.O. Box 419
Honolulu, Hawaii 96809
(808) 845-9921

July 12, 1985

The Honorable John C. Danforth
Chairman, Sub-Committee on International
Trade, Committee on Finance
219 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Danforth:

The Ad Hoc Textile and Trade Legislation Committee is an informal association of leading garment manufacturers, and the formal garment manufacturing group (Hawaii Fashion Guild - representing some sixty firms) in the State of Hawaii, formed with the specific purpose of opposing the Trade and Apparel Enforcement Act of 1985 (S680 and HR1562).

We have set forth our position herewith, and would like to further state that this position has received the endorsement of it by most of the state's business associations to include the Hawaii State Chamber of Commerce, Economic Development Corporation of Hawaii, District Export Council, Hawaii Business Roundtable, Hawaii Visitors Bureau, National Federation of Independent Business (Hawaii chapter), Small Business Hawaii. It is our understanding that the Governor of the State of Hawaii will be joining in opposition to the passage of this bill in the next day or so.

The primary provisions of these bills are:

A) To a greater or lesser degree, unilaterally roll back the importation of textile and apparel imports from Asian countries to 1980 levels with various percentages of growth of 1% or more to 1984 levels, while giving Canada, the EEC, Mexico, and the Caribbean countries free access to the American market. This rollback will result in reductions of textile and apparel imports from affected countries of between 20-30%, in some cases 60-70%, from existing levels.

B) Provides for an import licensing scheme that would control all imports of textiles and apparel at the port of entry by the Department of Commerce, as opposed to the worldwide systems which have been in place for thirty years. The worldwide systems currently in place establish export control as per multi- or bi-lateral agreements (e.g., the General Agreement on Tariffs and Trade).

The results of the proposed legislation would be as follows:

A) Consumers of textile and apparel products in the U.S., primarily in the lower income categories, would be faced with increases in prices of at

ra Bora, A. Michaels; Fashion Guild, J. Smith; G. Von Hamm, G. Von Hamm; Malia International, W. Foster; Pomare', J. Romig; Surfline, D. Rochlen; Tori Richard, S. Morketter
tumull's, G. Watumull

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least 20%. The ultimate impact on the American consumer will be dramatically adverse.

B) The framework of the free world's international trade agreement system will be effectively dismantled, resulting in retaliation by target countries against U.S. primary exports (agriculture, electronics, etc.). The proposed legislation contains specific bias against Pacific Rim countries, giving favored treatment to Canada, EEC, and the Caribbean.

C) The import licensing scheme, which is strongly opposed by the U.S. Department of Commerce as unworkable, would unquestionably cause the complete disruption of the import delivery system and the elimination of a great many import companies almost overnight.

What will be the effects of the proposed legislation on the economy of Hawaii?

A) The mechanics of the licensing scheme, alone, will virtually shut down completely the textiles and apparel industry in the State, inasmuch as 85-90% of our textiles come from Pacific Rim countries. The garment industry employs 2,950 workers and has an annual gross product of approximately $80,000,000.

B) The Hawaii garment manufacturing industry has depended, almost from inception, on imported textiles because of the quality, accommodation, and prices which have made Hawaiian wear affordable. The proposed quota rollback will effectively and dramatically reduce the total amount of textiles needed to maintain current production.

C) Most of the major apparel manufacturers in Hawaii import apparel from the Orient that cannot be manufactured here, to the extent of 20-30% of total gross sales. These imported products are primarily targeted for re-export to the mainland, and both local and mainland sales would be adversely and severely affected by the proposed legislation.

D) The specific anti-Asian bias of the proposed legislation will have a dramatically adverse impact on our tourism industry, with regard to visitors from the Orient.

It is our understanding that this legislation is responding to the following conditions in the domestic industry:

A) Since 1981 textile/apparel imports have increased at an average of 19% per year. 1984 imports increased 32% over 1983.

B) Since 1980, 300,000 workers have been displaced (fiber, fabric and apparel workers).

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C) In certain categories, market penetration of some imports has been up to 50% of domestic production.

We believe that the following facts must be carefully considered in responding to this situation:

A) Two million (2,000,000) workers in the textile and apparel industry are still employed - thus, in 5 years, the reduction in the number of jobs has been 13%.

B) The loss of jobs which has already occurred in the domestic industry is not due entirely to imports. This reduction is, in part, the result of:

1. increased automation

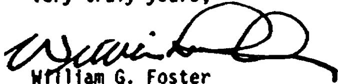
2. a reduction in U.S. textile and apparel exports to foreign markets, due to the strength of the U.S. dollar against foreign currencies.

C) The proposed legislation will only exacerbate job displacement in this industry and, therfore, throughout the country. Specifically, it would result in the elimination of most of the jobs in the Hawaiian apparel industry.

We believe that international trade agreements such as the General Agreement on Tariffs and Trade (GATT) and specifically the Multi-Fiber Arrangement (MFA) mandate the control of textiles and apparel products among some 31 free world countries. The negotiators for MFA will convene again in July 1986. If they exist, problems involving the trade of textiles and apparel products in international markets should be addressed and solved in an orderly manner in this international forum, which was established just for this purpose.

We do not believe unilateral legislation in the field of international trade agreements is an informed or reasonable approach. Whereas the U.S. Congress can, and must, insist on fair treatment of all its citizens, it should be through clear signals to the nation's trade negotiators. As noted, aside from this general mandate, the proposed legislation will protect the interests of a few in the textile industry at the expense of the nation's consumers and the import industry. Finally, the U.S. must maintain its leadership role in promoting orderly international trade agreements.

Very truly yours,



William G. Foster

WGF:tlc

Senator MATSUNAGA. Of course, I am as concerned about labor conditions as any of you are, I'm sure, and my record of 23 years in the Congress will support that view. I am sure you are equally concerned about what the labor forces in Hawaii will enjoy or suffer as a consequence of the passage of S. 680 in its present form.

As I said earlier, the garment manufacturers in Hawaii, as you well know, put out the so-called "aloha shirts and muu-muus" in Hawaii, which are sold not only in the United States but in foreign countries as well.

As the bill is presently written, the most recent estimate puts the number of apparel-textile firms which will go out of business in Hawaii at 138. Right now we have a gross shipment of goods estimated in textiles and garments at $104 million annually, and employment is estimated at 2,950.

Would you oppose—any of you, with Mr. Klopman as spokesman—the exemption of Hawaii from the coverage of the act as it is presently written? I don't know if it would amount to even 1 percent—a fraction. Hawaii represents just a little speck in the middle of the Pacific Ocean, in the Pacific rim area. We would hardly make a dent in the world textile trade.

Mr. KLOPMAN. Well, I guess I am having trouble with the numbers, Senator. Are you suggesting that because of the bill your manufacturers are not going to have fabric available, so that they are going to go out of business? Because, you know, we are not eliminating imports; we are trying to make a little order out of chaos, and we are reducing, not eliminating imports in certain areas.

Senator MATSUNAGA. Well, the garment manufacturers in Hawaii, right now, as you probably know, import the textiles that form the basis for the aloha shirts and muu-muus principally from Japan. As you well know, although Mr. Chaikin talked about 16 cents an hour wage, in Japan the wage rates are much higher, so that it is not a case of competing too much with the U.S. wage level. Most of our fabric for aloha garments is imported from Japan. As I stated earlier, if you were in the audience, Hawaii garment makers import from Japan primarily because the American manufacturers will not ship amounts less than 3,000 yards; whereas, the Japanese manufacturers do sell in units of less than 3,000 yards.

Mr. KLOPMAN. All right. I really don't want to get into a merchandising discussion with you. I would have to question those figures. But I would also like to get back to the Japanese issue.

The Japanese buy their cotton greige goods from China, and they print and finish them and ship them on. So they do take advantage of that 16-cents-an-hour labor. But nonetheless, there is going to be a small suggested rollback in Japan. It isn't going to put 2,900 workers in Hawaii out of work; in addition to which, if they have a problem, we'll supply the Hawaiian manufacturers with those short runs. We are doing so today. Give me the names, and I'll contact them. [Laughter.]

Senator MATSUNAGA. Will you repeat that offer, please? [Laughter.]

Mr. KLOPMAN. I think it is on the record.

Senator MATSUNAGA. I would like very much to support this bill just as a number of my colleagues do, but not if it means disaster to the garment industry in Hawaii.

Mr. KLOPMAN. I understand that.

Senator MATSUNAGA. I might even filibuster against the bill if that were the case. Otherwise, I wouldn't be worth the people of Hawaii's faith in me.

Mr. KLOPMAN. OK.

Mr. MEINERT. Senator, we have the same problem, and we are not in the textile business. Hart, Shaffner and Marx is an apparel manufacturer and retailer. We buy our fabrics on a worldwide basis, and we buy large quantities from Japan and from all over the world. In fact, I was going to say to Senator Roth that there is no desire in this bill to restrict the consumer selection of fashion goods. In other words, we don't want to hurt sales; we are trying to do a good merchandising job.

The difference is that, to have goods come here only because they are cheap, only because they perhaps are inferior or at a lower cost, and, therefore compete—whether they are fabrics or apparel manufactured finished goods—would be unfair to the workers in this country.

In our own company we have 25,000 people. We are evenly divided between retailing and manufacturing. We have about 12,500 in each field. And we are very strong marketers. And we are a big purchaser of goods from all over the world, and we have manufacturing plants in 17 States employing 12,500 people. So we would be concerned, too, as you would. And this bill does not do that kind of damage. It is not a problem.

Senator MATSUNAGA. But you are not 2,000 miles off the coast of California.

Mr. MEINERT. So you are closer to Japan than we are.

Senator MATSUNAGA. That's right; we are much closer.

Mr. MEINERT. And we buy from Japan.

Senator MATSUNAGA. So if you have a limitation of the coverage of the bill to 1,999 miles off the west coast into the Pacific Ocean, I would be happy.

Senator DANFORTH. Senator Bradley.

Senator BRADLEY. Thank you, Mr. Chairman.

I guess Senator Matsunaga wants to know from you, Mr. Klopman, how large are the short runs, and how long will they continue to run? [Laughter.]

Let me ask you about the bill as it is now written. It has a 1-percent cap in import growth. And my question is: Do you see that as absolutely essential to its passage? Or do you have some flexibility at that level? And do you have some flexibility as to whether this should be permanent or not?

Mr. KLOPMAN. OK. Let me address the import growth number first, Senator Bradley.

The number is 2.5 percent. It is 1 percent for the large importing nations, and it is 6 percent for others. And the whole package allows for a growth of 2.5 percent, versus a market growth of 1 percent.

I have a lot of colleagues involved in this issue with me who would have opinions. You know, I think we would have a great

deal of flexibility, but we certainly need some time. I can't tell you what is going to happen 5 to 10 years out and what our attitude is going to be then.

Senator BRADLEY. So you are saying you are supporting only the legislation if it were permanent?

Mr. KLOPMAN. No, I'm not, sir.

Senator BRADLEY. No?

Mr. KLOPMAN. No, I am not saying that. No.

Senator BRADLEY. So you are saying that in a few years it can expire, as far as you are concerned?

Mr. KLOPMAN. Well, I am saying that I am trying to avoid a specific response. [Laughter.]

Senator BRADLEY. Well, then, you know, the committee makes its decision, and you had your shot.

Mr. KLOPMAN. No, I realize that, and I am not trying to be funny. But I agree that there should be some flexibility. But I can't sit here and tell you that 5 years makes sense, or 10 years makes sense. Yes, I think there should be some flexibility, and I don't view it as a permanent thing, personally. Maybe there are eight other positions at the table here, but that is my personal position.

Mr. MEINERT. I would think the condition would get worse rather than better. I do not agree with the administration position in this particular area, as much as I may agree with them in other areas. This one—I think they are missing the point. I happen to know as a manufacturer and retailer that European, Japanese, American know-how is being spread all over the world. Our own company takes in millions of dollars in licensing income on know-how, and brand name licensing, and we voluntarily restrict ourselves on imports so that we do not go overboard. We have a very, very tight restriction--almost nothing in tailored clothing.

The point is, there are a lot of people out there all over the world now with the resources and the technology to do it. And if the administration doesn't see fit to put any restraints on this, then there is no reason why we can't take our technology and know-how and our capital resources and put it anywhere in the world where we can make the greatest profit. We prefer not to do this. We would rather keep the investment here. We believe that the investments here are certainly safer and perhaps more patriotic. But if this is not viewed that way, then what are you going to see in the industry is an attitude that we should go where the low wages are and bring in those low-wage imports, and use our marketing and retailing know-how to do that.

And that means, even though you will have service jobs, you will not have the manufacturing jobs that some of the Senators here have said we need, a diversified manufacturing base.

Senator BRADLEY. So you think it should be permanent?

Mr. MEINERT. I think there should be some built-in growth aligned with the growth of the market. But I think if we don't do that, the manufacturing jobs will gradually disappear.

I happen to know, in our case, the fact about employing women, the lower-rung, as Senator Heinz indicated. It is very true. Eighty percent of the 12,500 workers in our company are women, and we are a large employer of minorities. These are people that do not

have the language skills or the educational skills to move into other jobs.

I have gone into villages and communities where we have employed people, women in particular, and they had been out of jobs for 2 or 3 years. They weren't in your unemployment figures; they weren't even regarded as being ready for employment. They had given up. And they were at home, the wives and daughters of the farmers in the smaller communities. And they came in and worked. And if you don't want that kind of employment in America, not passing this bill is a good way to do away with that kind of employment; it will just disappear.

Mr. CHAIKIN. Senator Bradley?

Senator BRADLEY. Mr. Chaikin?

Mr. CHAIKIN. Perhaps I might respond from our vantage point.

You have to understand that we start with an import penetration of 52 percent or more in the market for ladies' and children's apparel. That is a terrible, terrible blow to the domestic industry.

Second, it is a fact that if this bill were passed there would be future growth, going forward of 2.5 percent once the base was established, as against the demonstrated growth in domestic demand over the past 10 years of approximately 1 to 1.25 percent. So, once the import penetration rolled back to where this bill would put it, it would again be creeping upward.

Second, unless there is a long enough period of time to stabilize the situation, how could you expect additional capital investment in the domestic industry, whether it be in the textile fabricating part of the industry or in the apparel and clothing manufacturing part of the industry?

Senator BRADLEY. I think that is a good point.

Mr. CHAIKIN. People putting in some money must have some reasonable assurance that they are going to be alive the next day or the day after that.

Senator BRADLEY. I think that is a good point.

Mr. CHAIKIN. And the last thing I would say is, that we can always come and take a look at it 10 years from now.

Senator BRADLEY. That might be a magic number.

If I could just follow up on what you said, let's assume this passes, that S. 680 passes. The panels have talked today about the major investments that you have made and that you are the most modernized textile industry in the world.

What kind of new productivity-enhancement measures do you see the industry putting in if S. 680 passes?

Mr. SHEINKMAN. I would like to speak about something that we have been working on, sitting around this table, and that is called the Textile-Clothing Technology Corp., which was started with union and management support, and some Government help, to modernize the industry. We realized that in the apparel end, and my own union has never opposed the introduction of technology, provided of course that you have to take care of the people displaced, and how you do it.

One of the things we have been working on is an automated sewing system. We are putting in a paltry sum compared to the Japanese that are putting $60 million in their automated sewing project. We are putting in some $13 million to try to provide auto-

mation in the apparel end where the handling constitutes 75 percent of the work. Working with MIT and Draper Labs, we are at the point now where we are going to have a machine available. This is something we have been working on for the last few years.

So this industry, in the apparel end, is also interested in putting in new technology. And I might indicate that while you have had a 4.5- to 5-percent growth in productivity in the textile end, you have also had a 3.5-percent growth in the apparel end as well, above the national average, at a time when we were less than 1 percent in productivity.

So this corporation, which is sponsored and supported and financed jointly between the industry and the union involved, my own, and Government help, is moving in a direction of trying to do things, not just sitting back.

And I might say, are we going to be punished because of this productivity, which I heard Secretary Baldrige talk about? Because we have tried to respond and have tried to do things, and the textile industry has been putting in billions of dollars, are we to be punished and have it said because we have tried to help ourselves we don't get the help we need to survive? Because ordinarily you are faced with industries that have not done anything, and you try to help them. And here we are being asked to try to get some help from the Congress at the same time we have been trying to help ourselves.

Senator DANFORTH. Well, nobody is punishing you; you are asking for special legislation.

Mr. SHEINKMAN. Well, we are asking for legislation, Senator, in terms of what we feel the MFA should try to give us. We are not carving out something new. All we are saying is the MFA provided us with something, and we are trying to get an enforceable instrument, in answer to Senator Moynihan, that would get the MFA to work.

Senator DANFORTH. Senator Chafee?

Senator CHAFEE. Thank you, Mr. Chairman.

As the chairman has pointed out, what you are requesting is something very special for your industry. Without being flip in any way, I want to point out that my state makes textile machinery. I read recently, Mr. McKissick, an article about what you have invested in your plant. I believe you bought 150 Swiss looms. I didn't greet that with as much enthusiasm as perhaps I should have. Is there a difference between your industry—and I don't know what you have done, Mr. Klopman, with your modernization—buying foreign machinery abroad to compete and those purchasing foreign textiles for the same reason? Why shouldn't our textile machinery industry have the same protection that you are seeking for your industry?

Mr. KLOPMAN. Well, sir, we buy a mix. We buy everything we can in the United States. There are some things that are no longer produced in the United States, and looms are one of them. If I say "no longer," I must note an exception, as the Draper Corp. has just shown the first new loom they have made available for a number of years. Draper and Crompton-Knowles largely went out of the loom business, and the only place that looms are available is either in Germany, Switzerland, or in Japan.

Mr. McKissick. Senator, the Swiss looms that you are referring to are the ones that our company purchased, and we are very proud that we were instrumental in encouraging the Sulzer Corp. to form the Sulzer-USA Corp. Now, granted, most of the parts of these machines were made in Switzerland, but the looms were assembled in North Carolina, and they built a plant right above Gastonia, NC; but unfortunately they are going to discontinue operation. But that is where those looms were manufactured.

As Mr. Klopman said, Draper Corp. showed, in April of this year, the first new loom that has been shown in the United States in a number of years. We are very proud of it. Draper has an order now something in the order of 40 air-jet looms, and they will be selling those in this country.

Senator Chafee. Whether it is accurate or not, what bothers me a bit is the testimony from Mr. Baldrige and Mr. Yeutter regarding the imports from the European Community and Canada. I just have great difficulty understanding why those countries should be exempt, and similary why Mexico and the Carribean should be exempt to a great degree. I just don't understand it.

Mr. Chaikin, do you have membership in Canada.

Mr. Chaikin. Senator, we do. But it is very, very small compared to our membership in the continental United States.

Senator Chafee. How about you, Mr. Sheinkman?

Mr. Sheinkman. We do, too. We have membership in Canada. One of the things we should point out, at least with respect to Canada, is that the wage rates that Mr. Chaikin referred to earlier and was in some of the other testimony are not an issue, because the rates are as high or higher in terms of the earnings of the people there.

Senator Chafee. And that would be the rationale for Europe, too?

Mr. Sheinkman. Yes. In many cases in Europe, there is the same thing.

Senator Chafee. Was that statement of Mr. Baldrige or Mr. Yeutter accurate, that the great share of certain influx came from Canada or Europe? Or is this primarily a Pacific Basin problem?

Mr. Klopman. Well, I think if you look at it over time, and certainly look at it over the past 4 years, it has been primarily a Pacific Basin problem, without question. In the past few years, imports from the Common Market and Canada have grown, but we don't look at that the same way as we do the others. I think as I mentioned before, first we look at it on the basis of equity. We find that the people in the Pacific Basin use many different methods of penetrating our market, including dumping. We have a situation now where one of them is shipping in computer tape already put in the cartridges. They are sending the tape in labeled as cartridges or spare parts as opposed to fabric. So they get a much lower duty rate. They know every trick in the world, and they penetrate this market whether or not they make money, just to get the market share.

Now, that type of situation does not exist with the Europeans. We have had a very good competitive situation with them over the years. I just don't think it makes a great deal of sense in getting them into this particular act.

Senator CHAFEE. Thank you.

Thank you, Mr. Chairman.

Senator DANFORTH. Senator Mitchell.

Senator MITCHELL. Thank you, Mr. Chairman.

Mr. McKissick, would you describe for us what has happened with respect to the closing of textile mills in the past few years? And can you indicate to what extent that may be due to the import growth that has been described here?

Mr. MCKISSICK. Senator, I have a list of the textile manufacturing plants that have been closed in the last 4½ years, and it is a total of 225 with 45,035 employees. Out of that number, 48 were closed down in the last 6 months.

One thing that I think is so critical and so important for you to hear before this committee is that, if we don't get the legislation that we are talking about today, there will be a lot more mills closed down by this time next year. And that is what we are so dreadfully afraid of.

Senator MITCHELL. Well, thank you.

Mr. Chairman, I wonder if that list might be made a part of the hearing record?

Senator DANFORTH. Yes.

Senator MITCHELL. Thank you.

[The list follows:]

Summary of Textile Mill Closings
1981 - 1985

	Plants Closed	Employees Laid Off	Other Permanent Layoffs
1981	25	5,191	N.Av.
1982	59	11,520	N.Av.
1983	47	8,646	1,162
1984	46	11,236	2,909
1985 (6 mos.)	48	8,217	1,348
Totals 4-1/2 years	225	45,035	5,419

American Textile Manufacturers Institute

July 1985

1981 - PLANT CLOSINGS

COMPANY	PLANT	PRODUCT	CITY	STATE	NUMBER OF E
J.P. Stevens	Appalache	corduroy	Apalache	SC	275
Lowenstein	Orangeburg		Greer	SC	143
Ryco Knitting		greige & finished warped knitted cloth	Simpsonville	SC	36
J.P. Stevens	Riverine	carpeting	Taylors	SC	71
J.P. Stevens		cotton flannels	Jonesville	SC	237
J.P. Stevens	Republic #1	blended fabrics, corduroy	Great Falls	SC	400
Union Textile			Union	SC	12
J.P. Stevens	Republic #2	blended fabrics, corduroy	Great Falls	SC	549
J. Logan	Butteknit	piece goods for dresses, Jersey & double knit	Spartanburg	SC	1200
Monsanto		synthetic fiber warping		SC	250
EMC			Easley	SC	166
J.P. Stevens	#1 plant	pillowcases and towels	Taylors	SC	385
J.P. Stevens	Cleveland	synthetic drapery fab	Shelby	NC	311
Greenwood	Greenwood Plant	corduroy	Greenwood	SC	150
UMM			Homestead	GA	350
Mt. Vernon		manmade fiber & yarn	Columbia	SC	
Canton Mills		denim	Canton	GA	
Burlington	Cowan	knitted apparel fabric	Marion	NC	246
Cone	Revolution Pl	shirt division	Greensboro	NC	
J.P. Stevens	Walterboro	glass screening	Walterboro	SC	
Bemis		industrial fabrics	Talladega	AL	
Fabrics Am.		greige goods	Enterprise	AL	
Springs		drills, jeans, twills batistes, blended fabrics, sheetings	Chester	SC	
Burlington		dye, finish knits	Rocky Mt.	NC	207
Burlington		textured yarns	Stoneville	NC	123

1982 - PLANT CLOSINGS

COMPANY	PLANT	PRODUCT	CITY	STATE	NUMBER OF E[illegible]
Dan River		textured yarn	Mebane	NC	75
Dan River		blend print cloth polyestic & polyester	Norris/Cateechee	SC	175
J.P. Stevens		cashet cloth	Ferrun	VA	40
J.P. Stevens		synthetic yarn	W. Boylston	AL	110
WPP	Tanett Bleachery	dyeing & finishing	Tannett	AL	300
Dixie Yarns	Candlewick	carpet yarn	Belmont	NC	116
Dixie Yarns		apparel yarn division	Cedar Falls	NC	164
J.P. Stevens	Administrative		Greensboro	NC	195
Specialty Dyes			Concord	NC	160
Burlington	Phenix		Kings Mt.	NC	245
H&S Processors			Crouse	NC	40
Guilford	Towell		Towell	NC	165
Lynx			Mt. Airy	NC	50
Texfi			Fayetteville	N[illegible]	50
Belding Lily			Shelby	NC	80
Unifi			Burlington	NC	225
Mt. Vernon	Lanier		Clarkton	NC	130
Dixie Yarns			Stonfield	NC	160
London Mills	Weaving Pl.		Rocky Mt.	NC	200
Alba-Wald.	Mr. Albert		Valdese	NC	100
Genesco	E&C Plant		Burlington	NC	31
Vel-Cord			Lumberton	NC	85
Anderson			Prosperity	SC	240
Plusa			Jamestown	SC	70
Cneita			Tone	SC	380
Milliken	Excelsior		Union	SC	175
Newberry			Newberry	SC	363
Mars Bluff			Florence	SC	40
Bibb		carpet yarn	Hanover	PA	200
Burlington		textured yarns	Goldsboro	NC	218
Uniroyal			Shelbyville	TN	
J.P. Stevens	Industrial	denim	Rock Hill	SC	640
Scottdale Mills		automotive fabrics	Scottdale	GA	
Goodyear	Cedartown	tire cord & fabric	Cedartown	GA	
Burlington		Industrial & apparel fabrics	Central Falls	NC	322
Cone	Tabardrey	greige goods	Hall River	NC	
Mt. Vernon		blended fabrics	Callassee	AL	1000
Milliken		blended fabrics	Gaffney	SC	
Milliken		greige goods	Machias	ME	100
Burlington		drapery	Galax	VA	310
Graniteville		narrow denim	Warren	SC	500
Riegel	Cons. Product	denim	Walhalla	SC	100
Riegel	Apparel Fab	yarn	Ware Shoals	SC	850
Crompton	Pilot	greige goods	Raleigh	NC	320
Marval Mills			Williansport	PA	
Cannon	#8	sheetings	China Grove	NC	
Burlington	Cascade	apparel fabrics	Moresville	NC	393

1982 - PLANT CLOSINGS

COMPANY	PLANT	PRODUCT	CITY	STATE	NUMBER OF EMP
Firestone		tire cord & fabrics	Bennettsville	SC	130
Woodside	Norris	broadman fibers	Cateechee	SC	175
Stevens	Victor		Greer	SC	320
Burlington		Industrial fabrics	Rhodhiss	NC	245
Milliken	Droyton	greige woven & knit fabrics	Spartanburg	C	
Dan River		corduroy	Greenville	AL	200
UMM	Seminole		Clearwater	SC	375
Fieldcrest		rugs	Whiteville	NC	50
Dan River		yarns	Fountain Inn	SC	200
Circle Knit			Spartanburg	SC	30
Milliken	Ottaray		Union	SC	228
Springs	Ft. Mill		Ft. Mill	SC	500

Plant Closings & Permanent Layoffs (L)
1983

COMPANY	CITY/PLANT	PRODUCTS	STATE	NUMBER OF EMPLOYEES
Cannon	Social Circle	Muslin Shtg.	GA	222
Burlington	Postex	Sheets	TX	370
	Statesville	Knits	NC	80 (L)
American Thread	Marion		NC	15 (L)
	Willimantic		CT	64 (L)
	Tallapoosa		GA	42 (L)
	Bennettsville		SC	10 (L)
	Marble		NC	6 (L)
	Clover		SC	32 (L)
	Old Fort		NC	5 (L)
Ti-Caro	Wilmington	Knits	NC	120
	Whitmire	Sewing Threads	SC	35
Greenwood Mills	Greenwood	Corduroy	SC	100
	Orangeburg	Knits, Text. polyester	SC	115
Little Cotton	Wadesboro (3)		NC	0
	Hamer		SC	0
	Roseboro		NC	0
	Timonium	Filterite/ Brunswick	MD	3
Cone Mills	Haw River	Cotton Yarn	NC	120
	Hillsborough	Grey Fabrics	NC	550
M. Lowenstein			SC, NC, AL	404
Kendall	Edgefield	Wound Mgmt.	SC	155
	Pelzer	Diapers	SC	240
J. P. Stevens	Randleman	Sgn. Yarn	NC	135
	Allendale	Wool Scouring	SC	135
Bloomsburg Mills	Bloomsburg	Text. Poly.	PA	100
	Monroe		NC	29
Milliken & Co.	Pacolet	Ind. fabric, Demin, Twills	SC	310
	Spartanburg	Twstd. Yarn	SC	45
	McCormick	Spun Yarn	SC	230
	Laurens	Fil. Fabric	SC	179
	Union	Pc. Gds.	SC	45
Coats & Clark	Clarkdale	Swg. Thd.	GA	355
	Albany	Hand Yarn	GA	96 (L)
	Pelham	Thd. & Croch. Yarn	GA	47 (L)
	Thomasville	Swg. Thread	GA	26 (L)
	Ashburn	Hd. Knit Yarn	GA	44 (L)
	Douglas		GA	13 (L)
	Acworth	Swg. Thread	GA	8 (L)
Crompton	Griffin	Corduroy	GA	520
	Waynesboro		VA	444
Crimptex of RI	Woonsocket	Woolen Yarns	RI	105
Spartan Mills	Spartanburg	Knit Fabric	SC	85
Riegel	Enterprise	Sportswear	AL	141
	Fries		VA	50 (L)
Carisbrook	Wytheville	Wool Spun Yarn	VA	121
	Luray	Text. & Twstd. Yarn	VA	128 (L)

1983 PLANT CLOSINGS CONTINUED

COMPANY	CITY/PLANT	Product	STATE	NUMBER OF EMPLOYEES
Mt. Vernon Mills	Calhoun	Woven Cotton Fabric	GA	126 (L)
Dan River	Burlington	Wrp. Knit	NC	300
WestPoint Pepperell	Anderson	Duck	SC	280 (L)
Springs Ind.	Fort Mill	Sheeting	SC	285
	Mullins	Finishing	SC	85
	Lancaster	Apprl. Fabrics	SC	479
Graniteville Co.	Graniteville	Twills, grey cloth	SC	207
	Augusta	Grey Goods, Duck, Twills	GA	413
				3 (L)
	Graniteville	Grey Mfg.	SC	12 (L)
				5 (L)
				8 (L)
				15 (L)
Marion Mfg.	Marion	Oxford	NC	780
Parkdale Mills	Gastonia	Yarns	NC	270
	Prattville		AL	
Weave Corp.	Berwick	Necktie-Apprl Woven Fabrics	PA	38
Frank Ix	Lincolnton	Woven Text. Poly.	NC	32 (L)
	New York		NY	15 (L)
Manetta Mills	Lando		SC	0
Dartmouth Woolen	Torrington	Woolen Yarn	CT	90
Perservance Text.	Charleston		SC	25
Finishers. Inc.	Fort Mill		SC	18
TASCO	Calhoun Falls		SC	16
Salem Carpet	Trenton		SC	75
Dixie Yarns	Stonefield	Carpet Yarn	NC	152

Summary: 1983

	Number of Plants	Employees
Permanent Closings	47	8,646
Permanent Layoffs	25	1,162
Totals	72	9,808

Source: ATMI Survey

1984 Permanent Plant Closings
and Permanent Layoffs (L)

COMPANY	CITY/PLANT	PRODUCT	STATE	NUMBER OF EMPLOYEES
Adelaide Mills	Anniston (C)		AL	230
American Cotton Growers	Littleton	Denim	TX	60 (L)
American Thread	Sevier		NC	6 (L)
	Clover		SC	53 (L)
	Tallapoosa		GA	29 (L)
Ames	Cleveland	Long Staple Yarn	GA	150
Armtex, Inc.	Crowders Mtn.	Yarn	NC	30
Bloomsburg	Abbeville		SC	55 (L)
Burlington	Bristol	Lining, Text. Wvns.	VA	350
	Franklinton	Lining	NC	295
	Lincolnton (Dec.)	Yarn	NC	180
Cannon Mills	Concord	Upholstery	NC	375
	Kannapolis	Cam Towels	NC	400 (L)
Carisbrook	Stehli/Carysbrook	Double Knits	VA	235
Caron Int'l	Robbins/Silver City	Long Staple Yarn	NC	200
	Needlecraft/Dalton	Dyeing	GA	200
Cone	Hillsborough	Greige Goods	NC	550
Crompton	Several	Velveteen, Corduroy	AR, VA	2,300
Dan River	Greenville	Poly/rayon printcl.	SC	350
	Danville	Yarn for Knitting and Weaving Operations	VA	200
	Danville	Denim	VA	123
Dixie	Exeter	Carpet Yarns	CA	300
Doran Textiles	Dora/Cherryville	Sales Yarn	NC	60 (L)
	Dover/Shelby		NC	60 (L)
	J.C.Dyeing/Shelby	Sales Yarn	NC	12 (L)
Elk Yarn Mills	Hope Mills	Spun Yarns	NC	22 (L)
Fitchburg Woolen	Fitchburg	Woolen System Yarns	MA	75
Glen Raven Mills (C)		Yarn	GA	76 (L)
Graniteville	Graniteville	Greige Mfg.	SC	49 (L)
		Dye, Finishing	SC	37 (L)
	Graniteville	Greige Mfg.	SC	31 (L)
	Augusta	Greige Mfg.	GA	5 (L)
	Augusta	Security Dept.	GA	10 (L)
	Graniteville	Security Dept.	SC	25 (L)
		Maintenance	SC	52 (L)
Greenwood Mills	Greenwood	Spun Yarn	SC	76
	Ninety Six	Greige Fabric	SC	182 (L)
J. P. Stevens	Great Falls	Shirtings	SC	600
	Piedmont	Defense Uniform Fabric	SC	165
	Gastonia (C)		NC	
	Clemson (C)		SC	
	Seneca (C)		SC	
Kendall	Pelzer	Diapers	SC	240
Kenyon Ind.	Paterson	Printer	NJ	38-55
	New Jersey		NJ	30

M. Lowenstein	Rock Hill	Dyeing & Finishing	SC	132 (L)
	Anderson		SC	14 (L)
	Honea Path	Greige	SC	24 (L)
	Columbia	Greige	SC	16 (L)
	Lyman	Dyeing/Finishing	SC	105 (L)
	Huntsville	Greige	AL	32 (L)
Manetta Mills	Monroe	Blankets	NC	36 (L)
	Monroe		NC	20 (L)
Marion	Marion	Sales Yarn	NC	144 (L)
	Clover		SC	48 (L)
Milliken	Manchester (weave)	P/C Woven	GA	105
	Gainesville (weave)	P/C Woven	GA	114
	Bostic/Garden Valley	Textile Yarn	NC	140
	Greenville (weave)	Home Furn/Outer-wear	SC	90
	Spartanburg	Textile Yarns	SC	150
	Hartsville	Spun Yarn	SC	154
Mt. Vernon Mills	Calhoun	100% Cotton flat woven goods	GA	100 (L)
Parkdale	#6B Thomasville	O.E. Yarns	NC	58
Reeves Brothers	Eastman (C)	Apparel Fabric	GA	350
Riegel	Ware Shoals	Knitwear, Comm Fin.	SC	1,040
	Dallas	Distrib. Network	NC	31 (L)
	Trion	--	GA	142 (L)
Springs Ind.	Chester	Shirting	SC	34
Taurus Textiles, Inc.	Asheboro (C)	Knitting, Dyeing	NC	
	Statesville (C)	Finishing, Sheet	NC	250
	Gastonia (C)	Mfg.	NC	
UM & M	Old Fort	Finished Fabrics	NC	475
Unifi	Yadkinville	Tex Poly Spinning	NC	150
Union Bleachery	Greenville Co. (C)	Corduroy	SC	400
Vinton Weaving Company	Vinton (C)	Nylon Impression Fabrics or Ribbons	VA	40-50 (L)
WestPoint	Ahoskie	Knit Fabrics	NC	340
	Fairfax/Valley	Terry	AL	126 (L)
	Shawmut Cord./Valley	Corduroy	AL	217 (L)
	LaGrange	Terry Cloth and Towels	GA	448 (L)
	Lumberton (C)		NC	65
	Elizabethtown (C)		NC	12

Summary: 1984	No.	Employees
Closings	46	11,236
Permanent Layoffs	36	2,909
Total	82	14,145

SOURCE: ATMI survey of its membership plus newspaper clippings (C).

1985 Permanent Plant Closings
and Permanent Layoffs (L)

COMPANY	CITY/PLANT	PRODUCT	STATE	Number of Employees
American Thread	Clover/Atco	Hand Knitting Yarn	SC	117
	Tallapoosa/Atco	Greige Thread Yarn	GA	170
	Roseman/Sylvan	Cotton Sewing Thd.	NC	45 (L)
Ames	Lowell/Lawrence Mfg.	Knit Fabrics	MA	100
	W. Warwick/Narrow Fabric	Knit Webbing	RI	35
Avondale	Lafayette/Lafayette	100% Acrylic Yarns	AL	84
	Sycamore/Sycamore	Poly/Cotton Blend Yarn	AL	241
Bamberg Textile Mills	Bamberg (C)	Gauze & Cheese-Cloth	SC	300
B.F. Goodrich	Thomaston/Martha Mills	Sales Yarns, Hose & Belting Fabrics	GA	111 (L)
The Borden Mfg.	Goldsboro/Borden Mfg.	Yarn	NC	6 (L)
Burlington	Dillon/Dillon	Carpet Yarn	SC	75
	Lincolnton (C)	Corduroy	NC	175
	Calhoun Falls (C)	Sheeting	NC	75
	Raeford (C)	Worsteds	NC	100
	Vinton (C)	Computer Ribbons	VA	85 (L)
	Greensboro (C)	Industrial & non-Woven Finishing	NC	39 (L)
Cannon Mills	Kannapolis	Yarn	NC	95
	China Grove	Sheeting	NC	95
	Concord	Yarn	NC	268
Cranston Print Works	Fletcher/Fletcher	Prints	NC	150 (L)
Dacotah Mills	Lexington/N. Dacotah	Greige Goods	NC	200
DePoortere	Wilmington (C)	Fabrics	NC	
Dixie Yarns	Chattanooga (C)	Yarn	TN	50
Frank Ix & Sons	Lexington	Greige Woven	NC	69
	Charlottesville	Greige Woven	VA	63
	Lincolnton	Dyeing & Finish	NC	7
Graniteville	Augusta/Sibley	Greige Mfg.	GA	6 (L)
	Graniteville	Greige Mfg.	SC	18 (L)
	Graniteville	Greige Mfg.	SC	5 (L)
Greenwood Mills	Enwood (C)		SC	400 (L)
	Joanna Greige (C)		SC	123
	Matthews/Greenwood (C)		SC	127
Homestead Mills	West Swanzey	Worsted Fabrics	NH	200
Jackson Mills (C)		Apparel Fabrics	SC	
J. P. Stevens	Goldsboro (C)	Fabrics	NC	180
	Anderson (C)	Yarn & Flannel	SC	500
	Rockingham (C)	Yarn	NC	180
	Whitmire (C)	Yarn, Cotton/Polyester	SC	250 (L)
	Dallas (C)	Yarn	NC	120
	Piedmont (C)	Yarn	SC	330
Kayser-Roth	Concord (C)	Hosiery	NC	270
Marion Mfg. Co.	Marion/Marion Fabrics		NC	16 (L)
Milliken & Co.	Manchester	Yarn & Weave	GA	250
	Gainesville	Yarn & Weave	GA	264
	Williamston	Weave	SC	175
	Red Springs	Weave	NC	281
Mt. Vernon Mills	Calhoun/Echota	100% Cotton Fabric & Yarn	GA	184
	Clarkton/Lanier	Synthetic Sales Yarn	NC	100

Opelika Mfg.	Hawkinsville (C)		GA	150
Pottsville Bleaching & Dyeing	Independence/Schulkill Haven (C)		PA	120
Reeves Brothers	Eastman (C)	Apparel Fabrics	GA	350
Riegel Textile	Fries	Yarn	VA	56 (L)
	Alto/Alto I		GA	11 (L)
	La France	Upholstery	SC	3 (L)
	Alto/Alto II	Yarn	GA	1 (L)
	Whitmire	Kitchen Products	SC	2 (L)
	Johnston		SC	5 (L)
	Johnston	Diapers	SC	2 (L)
Shuford Mills	Hudson/Spun-Set	Carpet Yarn	NC	12 (L)
South Fork Mfg.	Belmont (C)	Cotton Yarn	NC	100
Springs Ind.	Lancaster	Apparel Fabric	SC	106
Swift Textiles	Martha Mills (C)		GA	350
Ti-Caro	Cleveland/Amtex	Knit Fabric	TN	180
Thomaston Mills	Thomaston (C)		GA	400
Tuscarora Yarns	Bynum (C)	Yarn	NC	150
UM & M	Clearwater (C)	Finishing	SC	125 (L)
	Aiken Co. (C)	Finishing	SC	450
WestPoint Pepperell	Dixie Mill (C)		GA	133
	Graniteville Mill (C)	Towels	GA	275

Summary 1985:	No.	Employees
Closings	48	8,217
Permanent Layoffs	20	1,348
Total	68	9,565

SOURCE: ATMI survey of its membership plus newspaper clippings (C).

Senator MITCHELL. Mr. Shelton, I would like to ask you a question. Because of the number of witnesses and the obvious length of the hearing, only Mr. Klopman spoke, and we appreciate his testimony.

I have read your testimony, Mr. Shelton, and you made one point that I would like to inquire about, because we are going to hear it from the next panel and we have heard it many times regarding this legislation, and that is how much it will cost the consumer and especially how much this will cost low-income Americans, the concern for which always rises when matters of this type are discussed.

In your statement at page 9 you refer to a survey, and you state, and I quote:

> In 1984, the price of imported apparel in the United States was virtually the same as the price of domestically produced garments. Compared item for item, mens' and boys' garments cost $6.68 per garment if they were made in the U.S.A., and $6.63 each if they were imported. In women's wear, imports actually were more expensive, costing $7.72 each, compared to $7.65 for the domestic item.

And you attach a copy to your statement that I ask, Mr. Chairman, also be made a part of the record.

I would like to ask you, then—we have heard references to 16 cents an hour and 53 cents an hour—where is that money going?

Mr. SHELTON. Obviously, based on these statistics and some other ones that were also quoted as part of our record, they are finding their way into longer profit margins at the retail level.

Senator MITCHELL. And if the data in the survey that you referred to are correct, is it fair to conclude that the restrictions proposed in this legislation will have very little effect on prices charged to consumers, if past experience as expressed in this survey is any guide?

Mr. SHELTON. That is the position we take. Yes, sir.

Senator MITCHELL. All right. Thank you, Mr. Shelton.

Mr. Klopman, you stated in your testimony that the European Community has rolled back its imports of such products, and you gave some figures which I do not recall readily, you contrasted them with the United States where there has been an enormous per capita increase in imports.

I would like to have you tell us if you can now, and if not, in a written statement following this, what steps were taken by the European Community to accomplish this rollback? Was the action taken within the framework of the MFA? Were threats of retaliation made? Has retaliation occurred?

Mr. KLOPMAN. I think we would rather do it for the record, Senator. I think we could answer most of the questions but we would prefer to do it in written form.

Senator MITCHELL. That is fine. I would appreciate that because perhaps there is a lesson there for us here.

[The information follows:]

REPORT

The EEC and the Multi-Fiber Arrangement (MFA)

The 1977 Renegotiation

In 1977 the European Economic Community (EEC) was faced with a serious textile and apparel import problem. Imports from a number of countries had increased significantly under MFA I (1974-1977) as shown on the attached graph. Because import penetration had reached almost 50% in the EEC apparel market, the European Commission was persuaded to take stronger measures to control these imports.

With MFA i due to expire at the end of 1977, the United States government in early 1977 adopted a position of renewal without change. This position posed problems for the Europeans since they were seeking cutbacks in trade and lower quota growth. Such measures were not consistent with the MFA as written.

By the end of 1977 the EEC had already negotiated tougher bilateral agreements with 21 MFA countries and was looking for a means to justify those agreements in MFA II. The EEC was prepared to walk away if the MFA could not accomodate the new bilaterals. In July 1977 the EEC proposed, as part of a protocol of understanding to the MFA, a special clause which permitted "reasonable departures" from MFA principles, provided those departures were bilaterally agreed. The American negotiating team worked with the EEC to seek acceptance of the reasonable departures clause on the part of the other MFA signatories. After extensive negotiations, agreement was reached on a protocol which did contain the reasonable departures clause. At that time the U.S. negotiator, Ambassador Michael B. Smith, assured the U.S. industry and labor advisors to the MFA talks that the U.S. would avail itself of every provision of MFA II and its protocol.

As the attached graph shows, the Europeans were successful in slowing import growth under MFA II (1978-1981). The reasonable departures clause gave them the needed "cover" so that there was no talk of retaliation or compensation, nor was any other controversial issue raised by the restrictive actions which they took.

The 1981 Renegotiation

In 1981, when MFA II was due to expire, the situation was similar to 1977 inasmuch as the Europeans again were seeking a tougher MFA to deal with problems of continued import surges and fraud. At the opening of the negotiations in December 1981 Ambassador Peter Murphy of the United States stated before the GATT Textiles Committee that the U.S. would not support any measures aimed at rolling back trade. This positioned the U.S. opposite the EEC. Only after considerable political pressure in Washington from the U.S. industry did the U.S. agree to a rollback provision in the protocol of understanding which was acceptable to the EEC. Paragraph 6 of the 1981 protocol indicates that countries which dominate textile and apparel trade can be treated differently than provided for in the MFA if those dominant suppliers agree. This paragraph was not identical to the reasonable departures clause but accomplished the same result. The reasonable departures clause was modified because it carried such a connotation of restrictive actions by the EEC that the developing countries would not permit it in the new protocol of understanding.

At the conclusion of negotiations on MFA III, the EEC delayed signing until it had concluded satisfactory bilateral agreements with the its 27 MFA supplier countries, and made clear that it would withdraw from the MFA altogether if bilaterals which satisfied its criteria were not negotiated. The Community had two basic negotiating objectives: 1) a reduction in the

level of access to the Community market, and 2) a satisfactory mechanism for preventing disruptive import surges. At the conclusion of its bilateral negotiations, the EEC felt that these conditions had been met, and acceeded to the MFA III accord in December 1982.

The EEC bilaterals imposed the most restrictive measures on imports in eight "sensitive" product categories. These quotas were negotiated by reference to "global ceilings" in the sensitive categories -- that is, a limit on the cumulative imports from all countries combined in each product category. The global ceilings negotiated for 1983 represented a net reduction from 1982 levels. This was accomplished by cutting back the quotas of the EEC's major suppliers: Korea, Taiwan, Macao and Hong Kong, by 6-8 percent from 1982 levels. Lower growth rates in quota levels were also established. Major suppliers' quota growth rates in sensitive product categories ranged from 0.1 to 1.0 percent. Other suppliers' growth rates ranged from 0.9 to 4.5 percent, versus 1.0 to 6.0 percent under MFA II. (In contrast, U.S. quota growth rates for suppliers other than Taiwan, Hong Kong and Korea are usually 6-7 percent.)

The EEC bilaterals contained safeguards against disruptive surges in the form of an "anti-surge" clause (for controlled categories) and a "basket exit" mechanism (for uncontrolled categories). The anti-surge clause is aimed at preventing a sudden increase in imports in categories where quotas have not been significantly used. It permits the EEC to request a supplier country to revise a quota (downward), or to suspend the use of flexibility mechanisms, if imports in a controlled category exceed the prior year's shipments by 20 percent. The anti-surge mechanism can come into play, for example, if a major supplier seeks to circumvent its quotas by transshipping or shifting production to a third country to take advantage of that country's unfilled quotas.

The "basket exit" mechanism is aimed at controlling growth in uncontrolled categories not under quota. The mechanism permits the EEC to establish quotas if imports in a category exceed a "trigger threshold," which is expressed as a percentage of the prior year's shipments in that category. The trigger thresholds are very low, ranging from 0.2 to 3.0 percent for major suppliers to 0.5 to 5.0 percent for other suppliers. Thus, for example, the EEC may call for establishment of quotas if imports from Korea in a sensitive category exceed prior year levels by 0.2 percent. (In contrast, under current guidelines, the U.S. may call for consultations if imports in an uncontrolled category exceed prior year levels by 30 percent or import penetration in the product or category is 20 percent or more, and imports equal one percent or more of U.S. production.)

The EEC bilaterals also contain an "anti-fraud" clause permitting the EEC to deduct from the quotas of the genuine country of origin quantities exported under a false declaration of origin. The U.S. bilaterals contain no comparable provision.

The results of these restrictive actions by the EEC are apparent from the data in the attached table. The EEC's textile and apparel imports peaked in 1980. The reduction since then coupled with the maintenance of its exports has allowed the EEC to reduce its textile and apparel trade deficit from $4.7 billion in 1980 to $2.3 billion in 1984.

In contrast, the U.S. has seen a continuing growth in imports (up 103%) and a decline in exports (down 34%). This has caused the U.S. textile and apparel trade deficit to grow from $4.7 billion in 1980 to $16.2 billion in 1984.

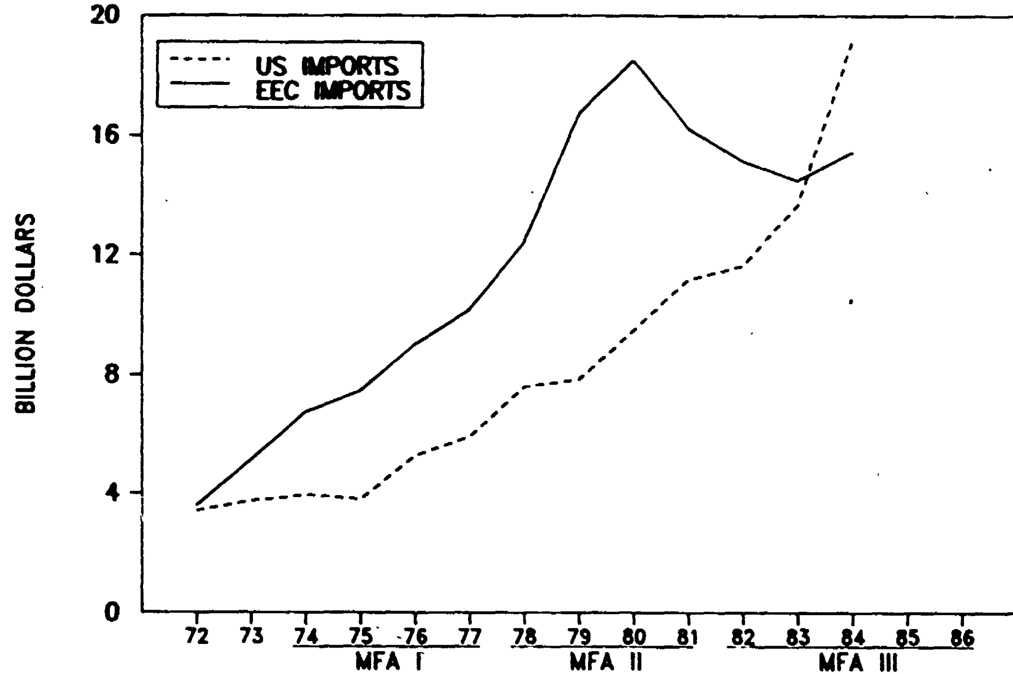
Conclusion

During MFAs I and II the EEC was faced with import problems similar to those which now face the U.S. The EEC's problems were dealt with effectively and the MFA was modified through its protocols to accommodate the actions required by the EEC. Those actions included quota cutbacks, low growth rates, special provisions for countering fraud and a "global" concept. There was no retaliation by the countries affected.

Further information on the EEC's system of import restrictions is available in a study prepared for FFACT by Dewey, Ballatine, Bushby, Palmer, and Wood, "The Textile and Apparel Trade Crisis," August, 1985.

42b/EECMFA
Prepared by ATMI International Trade Division
August 8, 1985

TEXTILE AND APPAREL IMPORTS
U.S. VS. E.E.C



SOURCE: GATT, International Trade, various issues 1974–1984, 1984 data are from Eurostat, Monthly External Trade Bulletin, No.5 of 1985.

U.S. vs. EEC
Textile/Apparel Trade with World
Years 1974-1984
(Billions of Dollars)

	U.S.			EEC*		
	Imports (CIF)	Exports (FAS)	Trade Balance	Imports	Exports	Trade Balance
1974	4.27	2.17	(2.10)	6.74	7.44	.70
1975	4.16	2.03	(2.13)	7.44	7.03	(.41)
1976	5.73	2.48	(3.25)	9.00	7.72	(1.28)
1977	6.43	2.57	(3.86)	10.15	9.17	(.98)
1978	8.51	2.90	(5.61)	12.42	10.66	(1.76)
1979	8.69	4.12	(4.57)	16.73	12.64	(4.09)
1980	9.53	4.83	(4.70)	18.49	13.83	(4.66)
1981	11.26	4.85	(6.41)	16.22	13.14	(3.08)
1982	11.70	3.74	(7.96)	15.13	12.32	(2.81)
1983	13.75	3.19	(10.56)	14.49	12.33	(2.16)
1984	19.39	3.19	(16.20)	15.44	13.19	(2.25)

*Excludes Trade Among EEC Countries

Source: U.S. Data from U.S. Department of Commerce
EEC Data from GATT, International Trade; 1984 Data from Eurostat, Monthly External Trade Bulletin (FFACT Study, August 1985)

Prepared by ATMI International Trade Division
August 8, 1985
42b/EECt

Senator MITCHELL. Finally, I would like to ask some of the other members of the panel who haven't spoken to tell us as concisely but candidly as possible: Is this a case of crying wolf? If this legislation isn't enacted and the administration performs as it has in the past 4 years, what is going to happen?

Mr. GREGG. Senator Mitchell, I will be glad to take a shot at that. I am John Gregg with the Man-Made Fiber Association.

No; we are not crying wolf. And I can tell you about a good example of this—you heard Senator Thurmond talk about losing 1,200 jobs in his State, South Carolina—I closed down a plant roughly 60 days ago in the State of Pennsylvania that had 750 to 800 employees on a consistent basis, and when it was running at its normal operating rate, it had over 1,000 employees.

This was a plant that was modernized in the last 3 years. A fair amount of capital was put in it. One of the things that we did not project as we worked in this modernization program was the fact that this MFA wouldn't be policed and that we would see the kind of growth in imports that we have seen.

This plant was an acetate plant; it produced yarn that was sold primarily to the ladies' apparel trade. It is very difficult to lose half your customer base, and that is what we are talking about—50 percent of the ladies' apparel is imported. We never had a shot at making a sale. We can't export those fibers because those other countries who are weaving the goods, that are producing garments and sending them in here, won't buy from us. We can't get license from them to import. They have those borders closed.

So here was the case of a modern plant—and when I say "modern," it was a reasonably modern plant by today's standards. The plant should have been successful. It had been quite profitable. Here is a plant that got closed down. We never had an opportunity. And I think that is what we are looking at, certainly from the manmade fiber side.

I think it is going to be very difficult for manmade fiber companies—be it my company, up to the larger companies—to put new capital in an operation today when imports are as far out of control as they are. The return on investment is just not there.

I think the only way we are going to keep this industry stimulated is to see some signs of control.

Senator DANFORTH. Senator Heinz.

Senator HEINZ. Mr. Chairman, let me just take up where George Mitchell left off.

I want to welcome John Gregg along with Mr. Shelton, Larry Shelton, who are both constituents.

The plant which Mr. Gregg was referring to was in Meadville, PA.

You had almost 1,000 employees there, John; is that right?

Mr. GREGG. Yes.

Senator HEINZ. Now, they have all been laid off. What has happened to them? Have they gotten any assistance from the Government? Did they get any retraining, or are they benefiting from the Displaced Workers Program? Did they get any retraining, or are they benefiting from the Displaced Workers Program? Did they get any help?

Mr. GREGG. No, sir. To the best of my knowledge, they are not. Meadville is a very difficult situation. As you know, we were one of three industries there. There was a zipper company, Conrail had a large repair facility, and then I had a plant there. We were the last ones in Meadville. The others are gone. The people have no chance. The real estate values are obviously depressed, because there is nobody who is going to buy. I am sitting there with a very large plant. In order of magnitude, I have a plant that is 35 or 40 acres under roof, with a powerhouse, and I have no idea what I am going to do with it.

Senator HEINZ. And, the employees, are they out of work? Do they have any help other than unemployment compensation?

Mr. GREGG. They are out of work and are on unemployment compensation, yes, sir.

Mr. SHEINKMAN. Senator Heinz, we represent the workers there. The help they are getting is essentially what the union is providing through our social services program and unemployment. Otherwise, they are getting no help at all.

Senator HEINZ. But they are not getting any help finding a new job, and they are not getting any other assistance?

Mr. SHEINKMAN. They are not certified for trade adjustment assistance. All they are getting, essentially, is their unemployment insurance and whatever we have been able to raise through our own funds, through our own social service program to try to help them.

Senator HEINZ. They are examples of casualties in a trade war, where all the casualties are taking place on this side of the Pacific.

Mr. SHEINKMAN. Yes. And there are many cases, when you are talking about all the workers, Senator, that I don't know what you would retrain them for.

I can tell you a story about another one in Pennsylvania.

Senator HEINZ. Don't go too far, because I only have 5 minutes.

Mr. SHEINKMAN. OK. Well, I will tell you the story very briefly. I found a couple of steel workers working in one of our plants when United States Steel closed its plant in that area. And they had a choice between earning $6 an hour and earning $3.35. And you eliminate that, and you are depressing the wages even further, which was what Senator Bentsen was talking about.

Senator HEINZ. I see Mr. Meinert flinching.

Mr. Meinert, one of the very interesting parts of your testimony that you didn't have a chance to give, on page 2, was something that Larry Shelton also mentioned a few moments ago. You contend that American consumers are not benefiting from these imports through lower prices. Would you like to elaborate a little bit on that?

Mr. MEINERT. Yes; we have a balanced perspective, Senator, because we are in both manufacturing and in retailing, and we know what we are competing against. And we know and we can testify that the long markups are taken. And quite often the retailer is his own worst enemy, frankly. He thinks he is getting a long markup, he thinks he is going to make a bigger profit, and the fact is that the goods are always not that good. He thinks he is getting a bargain, and he thinks he is going to make more profit.

The only way we have been able to compete against that is the fact that we have a strong marketing arm, and we have strong brand names, and we are able to sell against that. And we have shown, the facts show, that actually the consumer gets a better deal from domestic goods—there is a more normal markup taken, the goods are more likely to fit his needs. We are aware of the American public and the consumer, and we know how to satisfy him. And many of the people who are trying to satisfy him from imports are not as knowledgeable as we are. And the fact is that we think the consumer is getting a better bargain today, and in my opinion this legislation will not increase consumer prices at all, not at all.

Senator HEINZ. You use the phrase "normal markup."

Mr. MEINERT. Yes.

Senator HEINZ. Can you demonstrate that the markups on imported goods are above normal? Can you provide statistics?

Mr. MEINERT. Yes; we know from empirical evidence, and we go out and test this.

Senator HEINZ. Can you provide statistics for the committee?

Mr. MEINERT. I think we could. There was an interesting article, I think that was provided by the Wall Street Journal in the March 19 issue, where they actually went to the Orient and went through plants and saw the goods marked, and even saw markdowns that had already been pretaken on the ticketing. And it shows the kinds of shenanigans that are going on with imported goods.

I do not think the consumer is getting any better deal, in fact quite the contrary. I think he is getting a better deal from domestic goods.

Senator HEINZ. I would urge all of the people on the panel to help the committee by supplying for the record all of the information on this point that you possibly can. The administration's contention, and the contention of the retailers, whom we will hear from, is that the consumer is getting a very good deal from these imports. Occasionally they will say, "No; the imports are actually subsidizing the sale of American products." For that to be true, you would expect that American products would be selling at a very low markup, as opposed to a normal markup, and that somehow the markups on the imports would be very, very high.

What you, therefore, need to demonstrate to prove that retailers are gilding the lily, so to speak, is that American products are being sold at near normal markups and that the imports are being sold at a much higher markup. And we need information about that.

[Subsequently, the following information was provided for the record:]

John R. Meinert
Hartmarx Corporation

July 31, 1985

TO: United States Senate, Finance Committee
Subcommittee on International Trade

RE: Textile and Apparel Trade Enforcement Act of 1985 (S680)

FROM: John R. Meinert, Vice Chairman of Hartmarx Corporation and its subsidiary, Hart Schaffner & Marx, and President of the Clothing Manufacturers Association

Elbert O. Hand, President and Chief Executive Officer, Men's Apparel Group, Hartmarx Corporation

Harvey A. Weinberg, Chairman and Chief Executive Officer, Hartmarx Specialty Stores, Inc., Hartmarx Corporation

We have been asked to provide our informed judgment, as a company with 25,000 employees equally divided between apparel manufacturing and retailing, on the comparative pricing and economic benefits of imported apparel as compared to domestic apparel. Wide selections of merchandise in broad price ranges representing the best values in quality and fashion may be enhanced with the appropriate inclusion of some imported goods, but it is not otherwise true that imported merchandise gives better value to the consumer, or diminishes inflation, or provides the retailer with an overall profit to subsidize the sale of domestic apparel. The proportion of goods which would continue to be imported under the proposed legislation is far more than adequate to provide worldwide selectivity for retailers and strong competition to curtail prices in an industry that is already efficient with highly productive workers as well as extremely competitive.

We know from extensive empirical evidence what usually happens in retailing when excessive amounts of apparel are imported and attempts made to gain long markups while promoting imported "bargains" to the consumer. Frequently, the retailer starts with the hope that the imported goods will bring large profits, and pricing starts with a long markup so any purchaser would be paying a high price. The retailer may plan an immediate price reduction, but the apparent "markdown" may still not sell cheap imported apparel that appears superficially comparable to better-known domestic goods. It often takes further, real markdowns to sell the goods and the retailer finds that the big profit disappears. When

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TO: United States Senate, Finance Committee
Subcommittee on International Trade

July 31, 1985

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the consumer buys imported apparel, thinking that the purchase is a bargain only to find that cheaper goods are not as satisfactory as dependable domestic apparel tailored to American needs and tastes, the sad result for all concerned is that the retailer may not get the expected profit, the consumer may be an unhappy customer or return the goods, and domestic manufacturers and workers have lost an opportunity for producing the goods in the U.S. The Wall Street Journal and other publications have investigated some of the strange practices in the making and pricing of imported apparel. Despite surveys showing the American consumer's preference for domestic apparel, the games being played with imported apparel, particularly cheaper, less identifiable goods, are diverting sales from more reliable domestic apparel while not achieving the profit, satisfaction or value alleged.

The consumer has learned to rely on American apparel, especially recognizable branded products, and has confidence in retailers whose reputations were built by offering customers the best selections and values provided by an extremely competitive industry. Retailers must exercise a high degree of care and appreciation for the needs of the American consumer in importing apparel if the consumer is to be properly served. Otherwise, bargain hunting for cheaper products to dump on the American market will backfire on both the retailer and the consumer, even when attempts to copy better quality U.S. goods are made to take advantage of the successful efforts of domestic apparel manufacturers.

The opportunity to testify before your Committee was appreciated. The President and Chief Executive Officer of our Men's Apparel Group and the Chairman and Chief Executive Officer of our Hartmarx Specialty Stores, Inc. join in urging legislation to set appropriate balances of fair trade in the textile and apparel industry.

Very truly yours,

John R. Meinert, Vice Chairman
Hartmarx Corporation and
Hart Schaffner & Marx
President, Clothing Manufacturers Association

ert O. Hand, President and CEO
's Apparel Group
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Harvey A. Weinberg, Chairman and CEO
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RETAILERS' PROFIT AND PERFORMANCE

ON

IMPORTED VERSUS DOMESTIC

WOMEN'S SWEATERS

EXECUTIVE SUMMARY REPORT

of

A Study Prepared by

THE NATHAN KATZ CO.

for

THE NATIONAL KNITWEAR AND SPORTSWEAR ASSOCIATION

INTRODUCTION

Objective

This is a summary of the findings of a study, conducted in 1984, of the relative profitability for retailers in importing women's sweaters versus buying them domestically.

To date, much of the discussion over imports has been focused on the legislative and political front. This study moves away from those areas of controversy, and instead, focuses on more basic issues that affect retailers and domestic manufacturers -- relative profitability and competitiveness.

Lack of Present Knowledge

To date, the _full_ facts on the _retailer's_ profitability on imports appear to be somewhat unevenly known and incompletely analyzed even by many of the retailers themselves. While there may be a few retailers who have done a complete, integrated analysis on every cost element affecting the profitability of importing, _many have not_. Providing an accurate assessment of the profitability of imports versus domestic goods can be of major assistance in allowing retailers to arrive at effective merchandising decisions.

Realistic calculation of retail profit on imports entails much more than just the initial markon -- the difference between landed cost and selling price. Accurate comparison between domestic and import goods must take into account many other

factors that affect profitability, if a complete evaluation of the relative benefits of these two sources is to be obtained.

This analysis has attempted to take a step forward in this effort by going to a representative cross-section of retailers themselves. As full a set of facts as possible was sought on which to build an evaluation of profit performance.

These findings should not be taken as the last word on the issue. Retail accounting concepts are open to widely varying interpretations. Retail finance and merchandising executives can give quite diverse interpretations and treatment to the myriad of elements that enter into an evaluation of profitability on imports.

This study can best be viewed as an aid, reference point or benchmark for each retailer to structure his own inquiry into the relative profitability of imported vs. domestic sweaters for his own company.

This executive summary and the study was conducted by the Nathan Katz Co., management consultants and specialists in retail analysis. For over 20 years, the company has served many leading retailers and their vendors in cost, profit and marketing analyses.

The study was commissioned by the National Knitwear and Sportswear Association.

STUDY HIGHLIGHTS

A survey of 73 retailers, ranging in size from $20 million in sales to over $1 billion, was conducted in 1984. The survey's purpose was to analyze the relative profitability of imported versus domestic knitwear goods. Women's sweaters were selected as the survey's focus since this product is well represented in the American market by both imports and domestic goods.

The survey measured gross margin, costs, profits as a percentage of sales, as well as other factors inherent to both imports and domestic goods. Major study findings:

- Despite substantially higher initial "markons" on imports than domestic sweaters, the gross margins for imports were reported to be only 3.8 percent higher than domestic due to less favorable purchase discount terms, sizeable "markdowns" and other price adjustments.

- Offsetting the gross margin advantages of imports are the operating, logistics and merchandising costs for imports that ranged from 4.1% to 7.3% of sales higher on imports than domestic goods.

- Inventory turnover was significantly lower for imports than domestic goods, most retailers reported. 3 out of 4 stated that sweater imports were likely to remain in stock for a longer period than domestic -- on average 5.6 weeks longer -- and as high as 17 weeks longer.

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- Retailers finance imports for approximately 15 weeks longer than they do domestic sweaters, because of early prior-to-shipment payment via letter of credit, considerable ocean transit time and longer storage time.

- Imports "tend to create inflexible open-to-buy position and limit ability to respond quickly to market developments," retailers reported by a margin of 5 to 1.

- Inability to reorder caused the loss of more sales on imports than domestics; 24% of domestic sweaters represent reorders versus 5% of imports.

- The retailers themselves report that, given equivalent product and price, 3 out of 5 of their customers would prefer domestic sweaters over imports.

GROSS MARGIN AND PROFITABILITY

The underlying differences in the nature of the retailer's process of buying and merchandising imports as compared with domestic goods gives rise to cost, profit, and operating structures that can be measured with some accuracy and consistency. These differences are reflected in such areas as:

- Elements of gross margin
- Rate of merchandise movement, turnover and interest costs
- Selected elements of expense structure

In the following, these measurable aspects of retailer profitability are examined.

Measurement Choices Needed

Measuring retailers' import profitability is a complex process since so many factors are at work.

Determining which elements to measure in this analysis meant concentrating on those which appeared the most significant and would account for the biggest part of any differences in performance between imports and domestics.

It is recognized, however, that other approaches might modify, or add to the elements chosen. Since the present analysis should be considered as an opening effort into this profit measurement area, additional contributions by retailers to further define methods of analysis and concepts would be welcome.

Gross Margin Components Defined

Gross margin may be defined as the excess of sales over the cost of sales. In computing the cost of sales these are the main elements considered: The delivered cost of merchandise; the resultant initial markon, markdowns, purchase discounts and shortages.

Respondents were asked for information on the major elements that most affected gross margin in sweaters -- initial markon, markdowns, and purchase discounts. Supplementary information on differences in shortgage was also asked for and is presented in later sections. Workroom cost is a part of the gross margin but was not measured since it is not a significant factor in sweater merchandising.

High Initial Markon on Imports

HOW DOES YOUR INITIAL MARKON COMPARE FOR IMPORTED VS. DOMESTIC SWEATERS?

As expected, virtually all reporting retailers (95%) said their initial markon, based on the initial retail price placed on the goods, was substantially higher on imports than on domestic sweaters.

About one in six reported markon higher by as much as 13% to 22% of sales. The median performance was 9.3% higher.

Import initial markons were often substantial: one in five reported them at 65-70% of sales. For some respondents however, import markon was lower -- in the 50-59% range. These

mainly reflected the lower markons realized by import of sizeable quantities via separate importers rather than through direct foreign purchasing; weight of such purchasing was a factor in yielding a median initial markon of 61.4%.

Retailers reported domestic sweater markon at a median of 51.6%. However, numerous retailers had domestic markon ranging from 52% to 61%.

Purchase Discount

HOW MUCH DOES PURCHASE DISCOUNT ON DOMESTICS VERSUS IMPORT AFFECT GROSS MARGIN ON SWEATERS?

A major element reported by retailers narrowing the difference in gross margin performance between imports and domestics is purchase discount.

While more than two-thirds of respondents reported no purchase discounts on imported sweaters, 76% reported obtaining 8/10/EOM discount terms on domestic sweaters.

On balance, there was an advantage equal to about 6% to 7% of purchases favoring domestic goods which equals about 3 to 4 percent of sales. This represents a considerable offset to the higher initial markon shown by retailers on imports and contributed to the narrowing of the gap at the gross margin level.

Markdowns

HOW MUCH DO MARKDOWNS AND OTHER RETAIL PRICE ADJUSTMENTS OFFSET ANY INITIAL MARKUP ADVANTAGE THAT IMPORTS MAY HAVE?

Higher markdowns were another element offsetting part of

imports' advantage in markon and contributing to the narrowing of differences at the gross margin level. On reported markdowns, by more than two to one, 50% vs. 22%, retailers stated that import markdowns were higher than domestic.

Among the larger group reporting import markdowns higher than domestic almost a fifth had import markdowns higher than domestic by 10% of sales or more: the median amount higher was 6%.

For the smaller group who said domestic markdowns were higher than imports, the amount by which they were higher was also about 6%.

About one in four retailers had import sweater markdowns of over 30%. Only about one in six had domestic sweater markdowns of over 30%. Median markdowns for all reporting retailers were 17.0% in domestic and 19.2% in imports.

Markdown Accounting Note

It is probable that markdowns on imports are even larger than reported. In the study, markdowns were intended to also include "Other Retail Price Adjustments," "Mark Up Cancellations," and the like. However, in their accounting some retailers carry certain retail price adjustments and reserves on imports separately from their usual markdown data and may not always have included them in their reporting. Some of the earlier reported initial markon import figures may also be somewhat understated because some of these special price revisions may have been recorded by reducing initial markon rather than including them with markdowns.

It is therefore probable that applying all price revisions to "markdowns" would have resulted in a higher import markdown figure than reported as well as a higher import initial markon. However, these would have offset each other, and the reported gross margin figure would not have been changed.

Gross Margin

HOW MUCH HIGHER IS GROSS MARGIN ON IMPORTED VS. DOMESTIC SWEATERS?

Overall, four out of five (81%) retailers reported their gross margin on imported women's sweaters as higher than on domestic; 9% said they were lower.

The median gross margin reported on imported sweaters was 49.1%. However, among one-fourth of the retailers it was under 43%. The median reported gross margin on domestic sweaters was 45.3%; but among one-third of the retailers it was over 47%. Some retailers were realizing higher gross margins on domestic women's sweaters than others were realizing on imports.

The Difference Between the Median Gross Margins Favored Imports by only 3.8%.

This relatively small difference reflected the fact that a large beginning advantage in initial markon favoring imported over domestic women's sweaters was strongly offset when the other key gross profit elements of purchase discounts and markdowns came into play.

Offsets Narrow Gross Margin Difference

Retailers, then, begin with a high advantage in initial markon (about 9.3%) favoring imports. However, heavier markdown elements and a lower purchase discount structure than domestic substantially erode this initial advantage, and bring the gross margin on imports to a point averaging under 4% of sales higher than on domestic sweaters.

COSTS AND PROFITABILITY

Areas of Analysis

It is now essential to look "below" the gross margin line to see if differences in operating expenses reflecting differing modes of handling and merchandising imports vs. domestics affect the profit gap further.

The survey approach taken was to select primarily those aspects where differences in the importing versus the domestic merchandising process would seem likely to create meaningful differences in operating methods and thereby in costs. In some cases, cost areas were reviewed that might be somewhat beyond the usual ken of merchants or buyers. For those areas a supplementary sample group of Retail Financial Executives (referred to hereafter as "Controllers") was queried.

Summary of Costs

A summary of these differences in import operations costs follows. They are expressed as a "range." This gives recognition to the fact that responses were often based on estimates, since numerous retailers do not keep ongoing detailed cost data on an "import" versus "domestic" basis. The range shown is where most of the responses would tend to cluster.

Selected Operating Costs In
Women's Sweater Retailing

Excess of Import Costs Over Domestic Costs
(As a % of Import Sales)

	Range
Effect of Co-op Ad Allowances	0.4% - 1.0%
Foreign Travel (Out-of-Pocket)	0.5 - 0.8
Import Merchandising Services	0.4 - 1.0
Merchandise Extra Storage & Handling	0.1 - 0.4
Shortage Difference	0.1 - 0.3
Import Processing	0.9 - 1.1
In-Store Merchandise Processing	0.0 - 0.1
Total "Other Costs"	2.4 - 4.7
Add: Interest cost - Import Financing	1.7 - 2.6
Total Added Import Costs (Range)	4.1% - 7.3%
Midpoint	5.7%

The sum of these additional costs borne on imports over domestic ranges from 4.1% to 7.3% on import sales, with the midpoint at 5.7%.

These excess costs about equal or exceed the gross margin advantage on imports earlier shown of 3.8%. They indicate a percentage rate of profit on sales about the same, or slightly better for domestic as compared to import sweaters.

The basis for these cost estimates follows:

Inventory Patterns

WHAT ARE SOME OF THE TIME FACTORS AND WHAT ARE THEIR IMPLICATIONS FOR THE COSTS OF IMPORTING VS. PURCHASING DOMESTICALLY?

FIRST, WHICH MERCHANDISE TENDS TO STAY IN INVENTORY LONGER -- IMPORT OR DOMESTIC SWEATERS? HOW MUCH LONGER?

Just about three out of four (74%) of the retailers reported that sweater imports were likely to remain in stock for a longer period than domestic sweaters. Only 7% of the total group held that imports stayed in stock for a shorter time. The median "additional" time reported by all retailers was almost a month and a half longer -- 5.6 weeks, and for about one in four, 7 to 17 weeks.

Imports in Early for Most

Further underlining the "additional" time in stock, retailers reported that on average imports came in and were held in "special" storage for about 5.3 weeks before "their actual selling period."

Only one in five of those who received imports early put them directly "on the floor" to be immediately absorbed into regular "selling" stock. The majority, 72%, held them in "separate storage" for some period of time until their selling period was due.

Half the Controller Group also reported that imports were held or recorded in a "special" corporate account for a time until they were released and charged to a regular department merchandise account.

Longer held import inventories contributed strongly to the slower turnover and less flexible open-to-buy situation reported by the majority of reporting retailers.

Letter of Credit and Transport

HOW IS THE EFFECT OF SLOW-TURNING INVENTORY FURTHER COMPOUNDED BY IMPORT PAYMENT TERMS AND TRANSIT TIME? TO WHAT EXTENT?

The considerable additional time imports are held in stock entails correspondingly high interest on investment in inventory.

Early payment on imports adds to that financing load.

By far, the most frequent form of import payment -- reported by two-thirds of retailers -- was immediate letter of credit. Payment by deferred letter of credit or by "open account" (19%) were mainly via groups buying from importers or through buying offices.

This meant the great majority of payments were made abroad immediately at time of shipment from foreign vendors.

By contrast, domestic sweaters were usually paid for by retailers well after receipt of merchandise on their own premises -- usually 20 to 30 days (or more) after. This compared to foreign vendors who were being paid at time of shipment, well before delivery to the retailer.

Transport Time

An important element in the cost of financing imports is the time expended in transportation. In most cases, payment has already been made via letter of credit, and the retailer is financing the inventory while it is traveling.

The great majority (85%) of the import goods come via ocean freight -- according to retailer respondents: only 9%

come by air freight. This meant that import merchandise could probably be in transit for an estimated 4 to 6 (or more) weeks including customs clearance and delivery to the retailer.

Calculating Costs of Inventory Financing

HOW DO THESE PAYMENT, TRANSIT, AND INVENTORY TURN FACTORS AFFECT FINANCING COSTS ON IMPORTED VS. DOMESTIC SWEATERS?

Most import sweaters appear to bear higher financing costs than domestics because overall a retailer is carrying the cost of financing his import inventory for about 14 to 16 weeks longer than he does on his domestic sweaters. The time period breaks down as follows:

I. He usually pays for a given import shipment 8 to 10 weeks earlier than for a given domestic goods shipment;

   a. Payment is made "up front," at time of shipment from foreign suppler via immediate letter of credit. Imported goods are in transit via ocean (and custom's clearance) for 4 to 6 weeks or more, conservatively, an average of about 5 weeks.

   b. Payment is made to foreign vendor; therefore, approximately 5 weeks before receipt of import merchandise by the U.S. retailer.

   c. By contrast, domestic merchandise is paid for approximately 20-30 days or 3-4 weeks or more after receipt of goods by retailer.

II. Retailer then carries the import goods in stock about 6 weeks longer than his domestic goods. In total, then, the retailers are paying for carrying these import purchases about fifteen weeks longer than their domestic purchases. (I plus II above.)

III. To estimate financing costs:

a. Assume an interest cost of 1.5% a month. (These rates can vary depending upon a given retailer's policy, and the business cycle.)

b. Multiply 1.5% times 3-3/4 months (15 weeks). This equals a total added interest cost of 5.6% -- to be borne by import purchases.

c. Since purchases are approximately 40% of sales in imports, the estimated interest cost as a percent of sales is 40% of 5.6% -- or 2.2% in excess financing cost of imports as compared to domestic sweaters. To allow for varying practices, the "range" is about 1.7%-2.6%. This finance cost is a critical element in evaluating the retailers' profitability on imports.

Co-op Ad Allowance

WHAT ARE THE EFFECTS OF OTHER COSTS?

In addition to the cost of money, numerous other costs affect the relative retail profitability of imports vs. domestic sweaters.

Vendors' co-op advertising allowances are important in reducing costs. These are allowances paid by vendors toward offsetting costs of advertising their product by retailers.

Co-op advertising is reported by retailers as being widely offered by domestic vendors; but hardly at all by import sources.

1. More than 9 out of 10 retailers said the domestic suppliers offered ad allowances -- and they were offered by most vendors.
2. Only about one in five retailers said allowances were obtainable from among import sources (mostly by retailers buying through separate importers).

An estimate of the co-op ad cost effect follows:

1. Among domestic vendors, typical co-op advertising programs (according to trade sources) usually offer between 3% to 5% of purchases.
2. Estimating that retailers use anywhere from 1/3 to 1/2 of this available amount would yield a contribution ranging from 1/3 x 3% to 1/2 x 5.0% or 1% to 2.5% of purchases. This would equal about 0.5% to 1.2% of sales.
3. With little co-op advertising, the import contribution is estimated at 0.2% to 0.4% of import purchases -- or about 0.1% to 0.2% of import sales.
4. This leaves an advertising co-op advantage for domestic of about 0.4% to 1.0% of sales.

Other Costs

IN WHAT OTHER OPERATING COST AREAS ARE THERE DIFFERENCES FOR RETAILERS BETWEEN IMPORT AND DOMESTIC SWEATERS?

"Other" areas were selected in which import and domestic costs might differ reflecting differing operational factors.

Foreign Travel Costs

Foreign travel was estimated at about 8% of merchants and buyers time.

About 20% of retailers reporting that it took from 10-25% of merchants' and buyers' time.

The cost of overseas transport and lodging is estimated to range between 0.5% to 0.8% of import sales.

Costs of Import Merchandising Services

This includes costs of internal personnel on imports; offices and personnel maintained overseas; import services of corporate or other buying offices. Almost all respondents recognized such a plus cost factor on imports. Most cost estimates ranged between 0.4% to 1.0% of sales.

Merchandise Storage and Handling Costs

More than half of the retailers responding held that physical processing of imports created an extra cost in terms of added storage, trans-shipping and handling. Some estimates ranged as high as 3.0% of import sales. However, the central range of estimates was between 0.1% to 0.4%.

Shortage Difference Noted

Of those responding, 40% said that import shortage was higher than domestic; 60% said there was no difference. None said domestic was higher. Some estimated import shortage as high as 1.5% of sales more than on domestic. Overall, however, the range is more conservatively estimated at about 0.1% to 0.3% higher.

Import Processing Cost

Miscellaneous import processing costs include customs brokerage, customs attorneys, insurance, bank service charges, letters of credit. The central range is estimated between 0.9% to 1.1%. (Accounting methods differ. Some of these import processing costs are considered as part of landed cost by various retailers.)

In-store Merchandise Processing Costs

These costs include added store "paper work" processing factors on imports as in receiving, marking, and accounting functions. As reported by controllers the difference in cost appeared small, ranging from 0.0% to 0.1%.

Net Effect

When a full array of the relevant factors in imports versus domestic goods are analyzed, a large difference in initial markon favoring imports, is mostly whittled away by gross margin and expense factors favoring domestic goods.

The net effect is that there appears to be little difference in the actual "percent of profit earned on sales" as between imports and domestic women's sweaters.

MERCHANDISING

Merchanding Implications

HOW STRONGLY DO RETAILERS FEEL THAT IMPORTING CREATES DIFFICULTIES IN MERCHANDISING?

Five times as many retailers agreed with as disagreed with the statement: "A large commitment to imports tends to create an inflexible Open-to-Buy condition and limits the ability to respond quickly to current market developments and changes."

The predominant reasons given by the retailers, cited by 61%, centered on the difficulties involved in buying far ahead.

Some Typical Verbatim Comments -- Why Importing is Difficult

"Domestics are at hand. Getting re-orders on imports are difficult."

"You don't know 6 months prior to a season what will be popular."

"In order to do import, you have to order 1 year in advance."

"No cancellation on import - locked in - if trends change you're still locked in with dollars."

"If they are cancelled you are in a lot of trouble. You buy so far ahead of time."

"Tied up with merchandise and can't react. Have to turn dollars by (special) sales and mark downs."

Reorders

HAVE RETAILERS LOST MORE BUSINESS ON IMPORTS OR DOMESTIC SWEATERS-- BECAUSE OF INABILITY TO OBTAIN REORERS? HOW MUCH MORE?

By about five to one, retailers stated that they lost more sales on imports than on domestic goods because of their inability to reorder.

When asked why they were losing more import sales because of reorder problems, most (about 80%) of retailers reported that basically it was the long lead time needed in the import operation that prevented reordering from foreign vendors. Another 9% cited quota problems.

Typical Verbatim Comments--Why Losing Reorder Sales on Imports

"By the time you could get delivery and the item back into this country, the selling trend would be over."

"Can't reorder any import. Have to order 8-10 months in advance."

"You are completely closed off if you get a good seller. It's a one shot arrangement."

"If something should be good, I can't get back into it."

"When we hit on an item that is sensational, transit time alone wipes it out. Production time. Takes too many weeks."

"There is basically no re-ordering."

Of the few who said they could not reorder from domestic suppliers, half based it on the fact that their funds were tied up in imports:

"Our dollars are tied up in imports."

"Strapped by imports. Not able to buy; committed to imports far in advance."

Domestic Reorders Important

Five times as large a proportion of purchases of domestic sweaters as of imports -- 24% vs. 5% -- represented reorders, according to the responding retailers. The import reordering ratio was thus about 20 percentage points lower for imports

than for domestic goods. In fact, almost 70% of all retailers place no import reorders against only 5% who placed no domestic reorders.

"Reorder" business may be regarded as "premium" profitable volume. It represents "market proven" merchandise with the likelihood of moving quickly, turning inventory over rapidly, and often selling at full price with few markdowns.

Reordering capability appeared as an essential element in domestic merchandising, but not in importing.

Returns

TO WHICH SOURCES ARE RETAILERS MORE ABLE AND LIKELY TO RETURN MERCHANDISE -- OFFSHORE OR DOMESTIC.

By a ratio of more than four to one, 57% vs 13%, retailers said their returns were higher to domestic sources than to import sources.

Profitability Effects

HOW DO THESE DIFFERENCES IN MERCHANDISING AND DELIVERY PERFORMANCE REFLECT IN ADDITIONAL PROFITABILITY IMPACT FOR RETAILERS OF IMPORT VS. DOMESTIC SWEATERS?

Despite their heavy import activity most retailers appeared strongly aware that importing presented dilemmas and problems.

Considerable merchandising inflexibility due to need for making import commitments long in advance; difficulties in reordering; difficulties in returning goods were reported by retailers as much more prevalent in importing than in buying from domestic sources.

These drawbacks must be considered to have a considerable impact in terms of loss of potential volume. They would appear to offset some of the sales gains imports have been assumed to bring.

The amount of this volume loss and the attendant loss of profit on those unrealized sales, though sizeable, is difficult to measure. However, these should be taken into account as additional important, though unmeasured elements, in evaluating retail profitability on imports vs. domestic women's sweaters.

Customer Preference

DO YOU THINK YOUR CUSTOMERS WOULD PREFER DOMESTIC OR IMPORT GOODS -- IF PRICE AND STYLE WERE EQUAL?

The retailers themselves recognized an inherent preference among their customers for domestic goods.

On the average, retailers believed that three-fifths (59%) of their customers would prefer a domestic over an imported sweater -- provided price and styling factors were equal. And numerous retailers believed over 75% of their customers would prefer domestic.

As a further indication of customer preference, retailers reported that the ratio of returns by customers to retailers was likely to be lower on domestic sweaters than on imports: 28% felt import returns would be higher against 19% for domestics.

NOTE ON METHOD

Sample

This sample represents a sizeable cross section of U.S. retailing. It was planned to be representative of the more significant retail organizations. It includes many of the nation's largest retailers -- including some with over $1 billion in total retail volume. More than half were estimated to have total volumes of over $100 million. The remainder were substantial medium-sized companies, $20-$100 million.

Interviews were conducted with a total of 73 retailers. Of these, 58 were with Merchants and Buyers and 15 were Financial Executives (referred to in the text as "Controllers).

The Financial Executive-Controller group sample was included especially for responses in some of the more detailed cost areas. They also provided answers on selected questions from the basic questionnaire.

Full confidentiality was assured to all respondents. No individual data are revealed in this study. All figures are based on composites. Only medians, averages or "range" figures are given.

Questionnaire and Presentation

In preparing the questionnaire, on which this study was based, numerous merchandising and financial retail executives were queried. The questionnaire was subjected to comprehensive pre-testing where respondents were asked to express any comments

on factors that may have been omitted, or that should have been asked about differently.

The retail method of accounting is used as the basis for the data. For non-retailers, the key fact to remember is that if an item is purchased for $2 and sold for $4, the markup (markon) is 50%, not 100% (i.e. 50% of selling price is markon).

In numerous tables, the median is used as the measure of central tendency. The "median" is a variant of the more common "average." The median is the middle case in an array. Medians are based only on those answering a given question.

Heavy Importers

Most of the reporting retailers are heavy importers of women's sweaters. Since they were chosen at random this characteristic can be expected to be representative of the average retail industry.

Many retailers bought imports through a combination of methods: (1) their own merchants and buyers; (2) a resident buying office, (3) an outside import firm.

DEFINITIONS

Markon or markup, is the difference between the delivered cost of the merchandise (landed cost for imports) and the selling price originally set. In retail accounting, if an item costs $6.00 and its retail price is $10.00, the markon is 40%.

Markdowns are the reductions taken from the originally set retail price of merchandise. (See detailed note in text and aspects of markdowns accounting)

Gross Margin is the resultant gross profit after the original markon has been reduced by markdowns -- as well as other elements such as inventory shortages and alternative costs. It also reflects purchase discounts earned from vendors.

Purchase Discounts are discounts or allowances granted by vendors to retailers, usually in connection with prompt payment of invoices, or as usual track practice:

> Example: 8/10/EOM are discount terms frequently available in the domestic sweater industry. They indicate that there is an 8% discount if invoices are paid within 10 days after the end of the month in which goods are received by the retailer or the invoice is dated.

Shortage is often referred to as inventory shortage. It is the difference between the "book" value of the inventory and the actual physical inventory.

Open-to-buy is a basic tool of retail inventory management. It represents the amount of merchandise a buyer is permitted to purchase during a given period.

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Nathan Katz - Biographical Note

Mr. Katz is President of The Nathan Katz Co., Retailing and Consumer Goods Analysts.

Prior to forming his own Company, Mr. Katz spent several years as a Senior Marketing and Financial Analyst for R. H. Macy and Co. There his responsibilities centered on analyzing Marketing, Merchandising and Financial problems in major apparel and home furnishings departments.

The Nathan Katz Co., in business for over twenty years,. continues to be strongly Retail oriented in its Research and Consulting assignments but serves many manufacturing and service organizations as well. It is rather unique in that it conducts not only Marketing Studies, it is also continually involved in Retail financial and profitability analysis.

The Nathan Katz Co.'s clients include many major and medium size retailers in the U.S. In addition it has conducted many analyses for leading vendors in the apparel related and other consumer goods fields, analyzing their retail markets, their relations with retailers, their profitability for retailers, and their consumer markets.

Mr. Katz is a graduate of C.U.N.Y. School of Business Administration and took Graduate Work in Economics and Finance at American and New York Universities. He conducted the Retail Research Thesis Seminar at N.Y.U.'s Graduate School of Business.

Mr. Katz has addressed numerous groups such as the National Retail Merchants Association, Frederick Atkins Buying Group, and the Retail Research Association.

Studies among retailers have covered such companies as Davison's, Atlanta, Bamberger's, Strawbridge, Bergdorf Goodman, Associated Merchandising Corp., B. Altmans, Macy's, Cherry and Webb, W. R. Grace, Herman's, Alexanders, F. A. O. Schwarz, J. B. Ivey and Co., Lord and Taylor, Frederick Atkins, and many others.

Others include, Celanese Corp., Cannon Mills, Warnaco, Springs Mills, Allied Chemical Corp., G. E., Conso, Jockey, Patchogue-Plymouth Propylene Fibers and additional vendors in varied fields.

A Nathan Katz Company recent study, "Women Look at Apparel Retailing," conducted for The Celanese Fibers Corp. was a featured presentation at the National Retail Merchants Association annual convention.

Mr. MEINERT. Senator, they are trying to plant in your mind that something is going to happen, that there will be less selection, less supply, and this shortage of supply will raise prices, and there will be undue profits and higher prices—this is simply not true. This is a highly competitive, an extremely competitive industry. We have excess capacity, we have excess labor supply, and the fact is that even without imports the prices would not rise.

But the fact is that there will be substantial imports under this legislation; they are not being done away with. And if they want to import, the selection will still be there, and there will still be a strong restraint—if that is a restraint—on our pricing.

Senator HEINZ. Mr. Meinert, I hate to cut you off, but the chairman is going to cut me off. I thank you very much.

Thank you, Mr. Chairman.

Senator DANFORTH. Gentlemen, thank you very much.

Mr. KLOPMAN. Thank you.

Senator DANFORTH. Well done, by a large group in close harmony.

Mr. KLOPMAN. Incidentally, our Common Market imports of apparel amount to less than 1 percent of our total market, so it is one of the reasons it wasn't——

Senator DANFORTH. Let me say this, Mr. Klopman, in my own opinion, it would be very hard to pass legislation directed only against brown and yellow people.

Mr. KLOPMAN. Well, I think someone asked me why the act excluded the EC and Canada and I was just trying to give you the answer. I didn't say it was right.

Senator DANFORTH. Thank you, sir.

The next panel—Mr. Larry Mounger, Northwest Apparel and Textile Association and the Northwest Free Trade Alliance; Mr. Thomas Hays, Retail Industry Trade Action Coalition; Mr. Sim Gluckson, Textile and Apparel Group of the American Association of Exporters and Importers; and Mr. Peter Phillipes, Levi Strauss.

Gentlemen, let me thank you for your extreme patience in waiting here for over 4 hours to testify. If the previous panel was in the Guinness Book of World Records for the size of the panel, you are in it for the length of time spent in this hearing room waiting to testify.

Mr. Mounger, would you like to proceed?

STATEMENT BY LARRY C. MOUNGER, PRESIDENT, PACIFIC TRAIL, SEATTLE, WA, ON BEHALF OF THE NORTHWEST APPAREL AND TEXTILE ASSOCIATION, SEATTLE, WA, AND THE NORTHWEST FAIR TRADE ALLIANCE

Mr. MOUNGER. Thank you, Mr. Chairman.

My name is Larry Mounger, and I am the chief executive officer of Pacific Trail, a 40-year-old Washington State based apparel company. I am testifying today on behalf of the Northwest Apparel and Textile Association and the Northwest Fair Trade Alliance.

The alliance is a coalition of industries in the Pacific Northwest which will be impacted if the Textile and Apparel Trade Enforcement Act of 1985, Senate bill 680, is enacted into law.

The Northwest apparel industry will be signficantly impacted by this legislation. Our importing industry is relatively new in terms of other large industries in the Northwest. Many of our companies have been in existence for less than 10 years and have experienced excellent growth. These companies source almost exclusively in the Far East, the area most impacted by this legislation. Quota rollbacks as proposed in this legislation will not allow for a continuation of the basic lines of many of these companies without a substantial transformation of sources and apparel design. In effect, the legislation will close the door to sources of supply for many Northwest apparel companies, jeopardizing the existence of the companies themselves.

Northwest industries are almost universally opposed to the provisions of this bill. This bill is a substantial departure from the present philosophy of multilateral cooperation and bilateral implementation. Senate 680 will restrain imports of all fibers but will impact Pacific Rim countries most severely. Exports of other Northwest products to Pacific Rim countries could be severely impacted by the countries' reaction to this bill. In addition, the bill proposes a new regulatory burden for importers with the corresponding supporting bureaucracy to enforce it.

For my own company, this bill, if enacted, would result in a substantial increase in costs and decrease in gross sales and force yet another realignment of our company.

My father started Pacific Trail in 1946, with a prayer and a dream, six sewing machines, and very little capital. We produced domestically for 30 years, never going overseas. In the 1970's we saw an increase in operating costs occasioned by Government regulations—OSHA—cost of working capital when we got that tremendous inflation of the late 1970's and, correspondingly, increased labor costs.

At the same time, we began to see new apparel with higher levels of workmanship being manufactured in the Far East. Much of this manufacturing was with the help of U.S. aid and technology.

The administration reacted properly to these new economic shifts by calling for and instituting the arrangement regarding international trade and textiles, also known as the multifiber arrangement. These new controls, along with changing factors of competition, prompted Pacific Trail to look at different sources of supply in order to continue to provide products of a value and a quality demanded by our customers. In 1974, Pacific Trail made the corporate decision to secure some lines in the Far East. We made that decision to ensure that we would continue to be competitive and to preserve our business. We looked at other domestic sources in addition to our own production but determined that alternative sources would not produce the product our customers demanded. Pacific Trail products are sold in over 4,000 retail outlets, and we have sales offices in 20 cities in the United States. We are a healthy, viable company today because we made the correct corporate assessment of U.S. policy in the world economy. This bill changes that assessment and provides for additional Government interference in an already highly protected and regulated marketplace.

The principles of free trade are signficant to the growth and stability of the Northwest economy. We are composed of the ports of Seattle, Tacoma, and others, freight forwarders, customs brokerage, trucking companies, and I might add unions and warehousemen, and a lot of labor people.

The Pacific Northwest also relies on imports to strengthen its economy. We are the doorway for $12.3 billion worth of goods that are imported into the Pacific Northwest that go into the Midwest and then into the Eastern part of the United States. In short, the economy of the Northwest depends on international trade, and international trade depends on the concept of free trade.

The alliance recognizes the problems of domestic textiles and apparel manufacturers but feels strongly that these problems should not be solved by unilateral implementations or protectionist legislation.

Four years ago I started a domestic apparel company that produces swimwear exclusively in the United States. We have grown by over 100 percent each of those 4 years, and we only make it in the United States, so we have no plans to change from the United States. But we work in a competitive atmosphere, and it is in our best interests to produce domestically in the United States with this swimwear company, and it is in our best interests to import our outerwear.

In sum, Mr. Chairman, the passage of this legislation will seriously threaten the viability of the apparel industry in the Pacific Northwest and have a severe negative impact on many related industries.

I appreciate the opportunity to testify, and I am prepared to answer your questions. Thank you very much.

Senator DANFORTH. Thank you, sir.

Mr. Hays.

[Mr. Mounger's written testimony follows:]

July 15, 1985

TESTIMONY OF

LARRY MOUNGER

BEFORE THE COMMITTEE ON FINANCE

SUBCOMMITTEE ON INTERNATIONAL TRADE

UNITED STATES SENATE

Good afternoon, my name is Larry Mounger and I am the chief operating officer of Pacific Trail, a forty-year-old Washington State-based business. I am testifying today on behalf of the Northwest Apparel and Textile Association and the Northwest Fair Trade Alliance. The alliance is a coalition of industries in the Pacific Northwest which will be impacted if the Textile and Apparel Trade Enforcement Act of 1985 (S. 680) is enacted into law.

The Northwest apparel industry will be significantly impacted by this legislation. Our importing industry is relatively new in terms of other large industries in the Northwest. Many of our companies have been in existance for less than ten years and have experienced fantastic growth. These companies source almost exclusively in the Far East, the area most impacted by this legislation. Quota rollbacks as proposed in this legislation will not allow for a continuation of the basic lines of many of these companies without a substantial transformation of sources and apparel design. In

effect, the legislation will close the door to sources of supply for many Northwest apparel companies, jeopardizing the existance of the companies themselves.

Northwest industries are almost universally opposed to the provisions of this bill. This bill is a substantial departure from the present philosophy of multilateral cooperation and bilateral implementation. S. 680 will restrain imports of all fibers but will impact Pacific Rim countries most severely. Exports of other Northwest products to Pacific Rim countries could be severely impacted by the countries' reaction to this bill. In addition, the bill proposes a new regulatory burden for importers with the corresponding supporting bureaucracy to enforce it.

For the Northwest apparel industry, we are concerned that this precipitous action will increase our costs, reduce our choices in the marketplace and cause long-term business instability. For my own company, this bill, if enacted, would result in a substantial increase in costs and decrease in gross sales and force yet another realignment of our company.

The world marketplace is constantly shifting as a result of economic and political factors. Pacific Trail has been successful because of its ability to adjust to those changes. When my father founded Pacific Trail in 1945, there was no multifiber arrangement. Control over cotton imports did not begin until after the Korean War. Major competition in

outer wear, Pacific Trail's primary product line, was from Europe and other domestic manufacturers. We built our own factories, developed our own product lines, and instituted distribution and sales networks. In the early '60's, we began to notice a decrease in worker productivity; and in the '70's we saw an increase in operating costs occasioned by government regulations, costs of working capital and increasing labor costs. At the same time, we began to see new apparel with higher levels of workmanship being manufactured in the Far East. Much of this manufacturing was with the help of U.S. aid and technology.

The Administration reacted properly to these new economic shifts by calling for and instituting the Arrangement Regarding International Trade in Textiles, also known as the Multifiber Arrangement. These new controls, along with changing factors of competition, prompted Pacific Trail to look at different sources of supply in order to continue to provide products of a value and quality demanded by our customers. In 1974, Pacific Trail made the corporate decision to secure some lines in the Far East. We made that decision to insure that we would continue to be competitive and to preserve our business. We looked at other domestic sources in addition to our own production but determined that alternative sources would not produce the product our customers demanded. Pacific Trail products are sold in over 4000 retail outlets and we have sales

offices in 20 cities in the United States. We are a healthy, viable company today because we made the correct corporate assessment of U.S. policy and the world economy. This bill changes that assessment and provides for additional government interference in an already highly protected and regulated marketplace.

The implications of this legislation are so significant to the economy of the Northwest that an alliance of related industries has been formed to oppose the bill. The Northwest Alliance for Fair Trade is composed of the members of the Northwest Apparel and Textile Association; the Ports of Seattle, Tacoma and others; Freight Forwarders; Customs Brokerages; trucking companies; and other impacted industries.

Each of the companies composing the Alliance have always shared the common goal of fair trade in the world marketplace that is growing more interdependent every day. The principles of free trade are significant to the growth and stability of the Northwest's economy. The Pacific Northwest is rich in natural resources. Timber, wheat, fruit and fish are major export commodities from the Pacific Northwest. Most of our exports are to Pacific Rim coutries which are the targets of this bill.

The Pacific Northwest also relies on imports to strengthen its economy. The Northwest is not a large consuming center like the Northeast, yet because of its throughput

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capability $12.3 billion of goods were imported through the Ports of Oregon and Washington in 1984. These imports resulted in jobs not only at the Port but in all of the related industries. Inland transport from the Northwest is highly dependant on international trade. In short, the economy of the Northwest depends on international trade and international trade depends on the concept of free trade.

This bill represents a substantial deviation from the Nation's long-term position favoring free trade. The Alliance recognizes the problems of domestic textiles and apparel manufacturers, but feels strongly that those problems should not be solved by unilateral implementation of protectionist legislation. As the Administration correctly pointed out in its June 19, 1985 letter to all Members of Congress, the domestic textile and apparel industry is protected by relatively high tariffs in comparison to other domestic industries and has benefited from this Administration's aggressive imposition of quotas. These new quotas have resulted in coverage of approximately 80 percent of all imports from developing countries. These quotas have all been established consistent with our international responsibilities under the Multifiber Arrangement. Our trading partners have participated in these negotiations as they will in the upcoming Multifiber negotiations.

I have already indicated the implications of unilateral action to the Northwest economy. Those impacts mean more than just the short-term loss of dollars and jobs. It will mean a change in the way the United States is viewed by its trading partners and will produce long-term economic losses. Retaliatory action has already been rumored in China, a country that the Northwest is aggressively pursuing as a customer for high technology, agriculture and timber exports.

In sum, Mr. Chairman, the passage of this legislation will seriously threaten the viability of the apparel industry in the Pacific Northwest and have a severe negative impact on many related industries. Our companies have been built on successful business strategies which rely on high quality imported products. I should point out that I am not unaware or unsympathetic to the concerns of domestic manufacturers. In addition to Pacific Trail, my family company owns a domestic apparel manufacturing company in California and a chain of fourteen retail apparel stores on the West Coast. From that perspective, I have looked at this issue from every angle. I am convinced that the Northwest industry's current strategy is productive and effective and in the best interests of the American consumer and the American economy. I appreciate the opportunity to testify and am prepared to answer your questions. Thank you.

STATEMENT BY THOMAS A. HAYS, VICE CHAIRMAN, MAY DEPARTMENT STORES CO., ST. LOUIS, MO, ON BEHALF OF RETAIL INDUSTRY TRADE ACTION COALITION [RITAC]

Mr. HAYS. Good afternoon, Mr. Chairman, and members of the subcommittee.

I am Thomas Hays, vice chairman of the May Department Stores Co. May has its corporate headquarters in St. Louis, MO, but over 70,000 of its employees are located in 145 department stores, including the Hecht stores here in Washington, DC, and other retail stores in 38 States within this country.

I appear today on behalf of the Retail Industry Trade Action Coalition [RITAC], whose member companies employ in excess of 1 million Americans, with stores located in all 50 States. As a matter of fact, there are about 3 million people employed in general merchandise and apparel sales in the United States, many of whom, in fact most of whom, are women, and many of whom are minorities.

My purpose here today is to underscore RITAC's opposition to S. 680 and to demonstrate why the bill would, if enacted, impose a tremendous and unnecessary cost on the U.S. economy.

Before discussing our specific objections to the legislation, let me first mention RITAC's most immediate concern, the concerted effort by some to rush this bill through Congress quickly without substantive congressional hearings.

We are deeply concerned that all of the facts are not out and that certain aspects of the bill have been understated, both in terms of its effects on jobs and the cost it would impose on the economy.

RITAC thanks this committee for beginning the process of analyzing thoroughly all aspects of this precedent-setting legislation.

At this point let me emphasize that textile and apparel workers are among our valued customers. We as retailers are hurt whenever workers in any industry, in any business are unemployed.

Retailers are also supportive of strong domestic apparel and textile industries, because we purchase the vast majority of our goods from domestic sources. Simply put, we all prefer to buy domestically. U.S. apparel manufacturers still account for three-quarters of the finished apparel that retailers sell in this country—three-quarters, not one-half as some may have led you to believe.

In the total retail sector, an average of 78.5 percent of all textile and apparel merchandise is purchased domestically.

My written submission contains a detailed discussion of the retailers' objection to Senate bill 680. Today I will summarize that discussion by describing the effect of the bill on retail customers, retail employees, and retailers.

From the customer's viewpoint there are two important issues—first, a decrease in the availability of variety and value; and, second, significant cost increases. As to variety and value, the proposed additional restrictions would cut trade dramatically. Based on the estimates by the International Business and Economics Research Corp. [IBERC], apparel imports from countries targeted by the legislation would be reduced by 20 percent. Similarly, total textile imports would fall by 36 percent. Because of these restrictions, many of the products our customers currently demand simply will

not be available. Domestic manufacturers either cannot or will not fill this need.

Also, as foreign manufacturers change their product mix to adjust to the new quota limits, they will increasingly concentrate on producing higher priced items to garner the higher profit on a limited number of products that they can export—not dissimilar to the automobile industry. As a result, many of today's lower priced items will not be available, and of those items that will be available in retail stores, many will be too expensive for persons on a limited budget. In fact, without imports, many lower income customers will simply have no alternative but to go without certain basic clothing essentials or to spend a bigger percentage of their income on clothing, and thus reduce their standard of living.

The increased costs resulting from these restrictions are staggering. IBERC estimates that the restrictions will cost apparel consumers an extra $2.4 billion annually, and textile consumers $1.0 billion annually. This is on top of costs of existing restrictions on apparel and textile which have been estimated to currently cost the consumer $23 billion annually.

In the first 5 years of the proposed legislation, the total cost to the apparel consumer and the textile consumer is about $15 billion, in 1984 dollars.

From the retail employee's point of view, the additional cost of this proposed legislation is jobs. According to the IBERC study, the additional import restrictions on apparel would support 36,000 jobs in domestic apparel manufacturing, at a cost of $66,000 per job. For the domestic textile manufacturing industry S. 680 means 35,000 jobs at a cost of $27,000. The IBERC study found that the bill would cause the retail industry to suffer a decline in retail sales that would mean a loss of some 62,000 jobs in the retail industry. If you offset the gains against the losses, there is a net gain of 9,000 jobs at a cost of $360,000 per job.

The State-by-State analysis of these employment changes by IBERC shows that the vast majority of the States would experience net job losses if the legislation were enacted.

Finally, from the retail company's point of view, the proposed licensing provisions would be extraordinarily expensive to implement and administer—indeed, the compliance with the proposed program may be impossible. In any event, this scheme would entail an extra level of cost and, with all other product costs, would undoubtedly result in higher prices for the retail customer.

The competitive situation in retailing is fierce. Value is a key factor in this competition. Import restrictions proposed by the bill would seriously inhibit retailers in providing variety, value, and choice to their customers. Also, retailers' volume would be down, and price competition would be more limited. The results of this scenario are obvious—increased prices, less variety and value, dwindling retail employment, and increased store closings. Many of these store closings would undoubtedly be in inner cities, in part because of the lack of lower priced merchandise for these stores.

To conclude, Mr. Chairman and members of the subcommittee, American retailers support strong, viable domestic textile and apparel industries. The bill is not the answer. To date, this bill has not received thorough consideration. We believe that the bill

cannot and will not withstand careful and objective scrutiny by this Congress. The bill will impose an extremely high and unnecessary cost on U.S. consumers, inviting retaliation against U.S. exporters, spur inflation, violate our international obligations under the MFA, and provide to the domestic textile and apparel industry an unprecedented level of protection.

For the sake of retailers, a nation of retail customers, and millions of retail employees, you should not report out this legislation. It is time to put an end to this year's apparel and textile pilgrimmage for protection.

Thank you, Mr. Chairman. I would like to add at this time, if I may, to add the IBERC study into the record.

Senator DANFORTH. Fine. Thank you, sir.

Mr. Gluckson.

[Mr. Hays' written testimony and the IBERC study follow:]

BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL TRADE
COMMITTEE ON FINANCE
U.S. SENATE

Testimony of
Thomas A. Hays
Vice Chairman
The May Department Stores Company

on behalf of
RETAIL INDUSTRY TRADE ACTION COALITION
(RITAC)

on
S. 680
The Textile and Apparel Trade Enforcement Act
of 1985

ted: July 15, 1985

SUMMARY OF TESTIMONY

The Retail Industry Trade Action Coalition (RITAC), whose member companies employ in excess of one million Americans in retail stores located in all 50 states, is strongly opposed to S. 680. If enacted, this bill will --

- decrease the selection and variety of merchandise available in retail stores. Preliminary estimates indicate that apparel imports from countries targeted by the legislation would be reduced by 20 percent. As a result, many of the products our customers currently demand will not be available. Moreover, as foreign manufacturers change their product mix to adjust to the new quota limits, they will increasingly concentrate on producing higher priced items to maximize their profit on a more limited number of exports;

- increase consumer costs by an estimated $3.4 billion annually. In the first five years of the proposed legislation, the total cost to apparel and textile consumers has been estimated at $15 billion in 1984 dollars. Apparel import prices would increase on average by 16 percent at wholesale. Textile import prices would increase on average by 33 percent;

- for the majority of states, cause net job losses, while primarily benefitting three southern states. The decline in overall textile and apparel consumption would mean the loss of some 62,000 jobs in the retail industry. These losses offset the estimated 71,000 jobs supported in the textile and apparel industries by new import restraints. Thus, the economy gains a net 9,000 jobs at a staggering cost;

- create an expensive and complex licensing scheme that would further raise costs to the retail customer and unduly complicate the importing process; and

- require the creation of a bureaucracy and cost the U.S. Government nearly $800 million annually in reduced tariff revenues.

With an insatiable appetite for protection, the domestic textile and apparel industries have successfully erected over the years more barriers to competition than any other sector of our economy. Retailers, their customers, and their employees should not be forced to bear the substantial costs that will result from this year's textile and apparel pilgrimage for protection.

July 15, 1985

BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL TRADE
COMMITTEE ON FINANCE
U.S. SENATE

Testimony of
Thomas A. Hays
Vice Chairman
The May Department Stores Company
on behalf of
Retail Industry Trade Action Coalition

Good Afternoon, Mr. Chairman and Members of the Subcommittee. I am Thomas A. Hays, Vice Chairman of The May Department Stores Company. May has its corporate headquarters in St. Louis, Missouri, but over 70,000 of its employees are located in 145 department stores--including the Hecht's stores in the Washington, D.C. area--and other retail stores in 38 states.

I appear today on behalf of the Retail Industry Trade Action Coalition--RITAC--which is composed of 38 large and small retail companies and 7 retail associations which have joined together to encourage the development of an equitable and productive system of international trade. RITAC's member companies employ in excess of one million Americans, with stores located in every state in the United States.

Having carefully reviewed S. 680, the "Textile and Apparel Trade Enforcement Act of 1985," RITAC is convinced that the legislation, if enacted, would be extremely harmful to retailers and their customers, invite retaliation against U.S. exports,

violate our international obligations, and legislate a guaranteed market share approach totally at odds with this country's free enterprise system. In short, S. 680 represents a costly and dangerous initiative that could very well lead to extremely damaging (and irreversible) consequences.

Before discussing our specific objections to the legislation, let me first mention RITAC's most immediate concern: the concerted effort by some to rush this bill through Congress as quickly as possible without substantive Congressional hearings. As you know, the legislation now has a majority of both Houses of Congress listed as cosponsors. We are deeply concerned that all the facts are not out and that certain aspects of the bill have been understated (if not misrepresented), both in terms of its effect on jobs and the cost it would impose on the economy. RITAC thanks this Committee for beginning the process of analyzing thoroughly all aspects of the legislation. Serious questions regarding the true cost of the bill, its net impact on jobs, and its effect on the American consumer and U.S. exports must be addressed through careful deliberation before any final action is taken.

In April, RITAC representatives appeared before the Ways and Means Trade Subcommittee in opposition to H.R. 1562, the House counterpart to S. 680. My purpose here today is not only to underscore RITAC's continued opposition to this proposed legislation, but also to demonstrate why the bill would, if enacted, impose a tremendous--and unnecessary--cost on the U.S.

economy. This substantial burden would far outweigh the additional relief bestowed on two industries which already enjoy far more protection from import competition than any other sectors of our economy.

There are several serious problems with this bill. If enacted, this bill will--

1. dramatically decrease the selection and variety of merchandise available in retail stores;
2. increase consumer costs by an estimated $3.4 billion annually;
3. for the majority of states, cause net job losses while primarily benefitting three southern states;
4. create an enormously expensive and complex licensing scheme that would further raise costs to the consumer and unduly complicate the importing process; and
5. cost the U.S. Government nearly $800 million annually in reduced tariff revenues, which is certainly inconsistent with Congressional efforts to reduce the national deficit.

At the outset, let me emphasize that textile and apparel workers are among our valued customers. We as retailers are hurt whenever workers in any industry or business are unemployed. Obviously, it is in the best interests of retailers to have strong domestic industries with full employment.

Retailers also are supportive of strong domestic textile and apparel industries because we purchase the vast majority of our goods from domestic sources. Simply put, we prefer to buy domestically. U.S. apparel manufacturers still account for about three-quarters of the finished apparel that retailers sell in this country--three-quarters, not one-half, as some may have tried to lead you to believe. In the total retail sector, on average 80 percent of all textile and apparel merchandise is purchased domestically. Speaking for the May Company, in our 145 department store locations nearly 88 percent of textile and apparel merchandise is purchased domestically. Indeed, major segments of the textile market are free of competition. For example, American-made textile products for home furnishings and for industrial uses enjoy 97 percent of the U.S. market. Such sectors hardly need more protection from imports.

Now let's return to the textile quota/licensing bill. As I mentioned earlier, we think it is critical that this Subcommittee carefully analyze the impact this legislation will have on our economy. Our concerns are as follows: (a) because of changes to the present balance between domestic and imported sources of supply, wholesale prices will increase dramatically and lower price point merchandise will be less available, (b) disruptions and confusion over the new licensing system will delay shipments from abroad and add even additional costs to these products, and (c) because sales will no doubt drop drastically, retailers ultimately will be forced to eliminate jobs. To detail our

concerns, let us review the five serious problems which I just mentioned.

1. Decrease in selection available to customers. The additional restrictions being proposed would cut trade dramatically. Overall, based on preliminary estimates by the International Business and Economic Research Corporation (IBERC), apparel imports from countries targeted by the legislation would be reduced by 20 percent. Similarly, total textile imports would fall by 36 percent. Several countries would be particularly hard hit. Imports from China, for example, would be reduced by 57 percent from 1984 levels; Indonesia by 85 percent; Brazil by 66 percent. Moreover, while the legislation does not roll back imports from the many smaller suppliers serving the U.S. market, it effectively eliminates any meaningful growth opportunities for them in the future.

As a result of these substantial decreases in imports, retailers and their customers will be hurt in a variety of ways. First, many of the products our customers currently demand simply will not be available. Domestic manufacturers either cannot or will not fill this need. Buyers for the May Company estimate that the availability of children's wear and budget department items in particular will be substantially reduced, if not eliminated. Second, as foreign manufacturers change their product mix to adjust to the new quota limits, they will increasingly concentrate on producing higher priced items to garner the higher profits on the limited number of products they

can export. As a result, many lower-priced items will not be available and those items that will be available in retail stores will be too expensive for persons on a limited budget. In fact, without imports, many lower-income customers will simply have no alternative but to go without certain basic clothing essentials.

2. Increased costs to the consumer. The costs of these restrictions to the American consumer are significant. Based on IBERC's initial assessment, the restrictions will cost apparel consumers an extra $2.4 billion annually and textile consumers $1.0 billion annually. This extra cost comes on top of the gains of prior apparel and textile industry pilgrimages to Washington, which have been estimated by economists to currently cost the American retail customer over $23 billion annually.

In the first five years of the proposed legislation, the total cost to the apparel consumer has been estimated at $11 billion in 1984 dollars, and to the textile consumer, $4 billion in 1984 dollars.

Where does this increased cost fall? Apparel import prices would increase on average by 16 percent at wholesale. Textile import prices would increase an average of 33 percent. These increases reflect both quota-induced price increases and product upgrading as foreign producers concentrate on the export of higher unit-value goods. These increases will also have an upward effect on domestic product prices. In short, our customers will be faced with higher prices and will necessarily be forced to forego purchases currently possible.

3. Net job losses. Does anyone "gain" from this legislation? According to the IBERC study, the additional import restraints on apparel would support 36,000 jobs in the domestic apparel manufacturing industry, at a cost of $66,000 per job, and 35,000 jobs in the domestic textile manufacturing industry, at a cost of $27,000 per job. However, the quota-induced decline in overall domestic textile and apparel consumption (i.e., retail sales are down) would mean the loss of some 62,000 jobs in the retail industry. If you offset the textile and apparel industries' gains in jobs with the retail sector's losses, it would appear that the economy will gain 9,000 jobs, but at a staggering cost of over $360,000 per job.

A state-by-state analysis of these employment changes by IBERC shows that the vast majority of states would experience net job losses if the legislation were enacted. Although, as one would expect, labor in three southern states (North Carolina, South Carolina and Georgia) would be the prime beneficiaries of additional quotas, labor in many other states would on net decline substantially. For example, additional quotas will reduce employment in Oregon, Missouri, Kansas, Wyoming, Minnesota, Colorado, Idaho, Iowa, Louisiana, Texas, Hawaii, Montana, Oklahoma, and Arkansas. In other states, such as New York, Pennsylvania, Rhode Island, New Jersey, and Maine, the legislation will only marginally increase net employment.

4. Import licensing scheme. The proposed licensing provisions would be extraordinarily expensive to implement and administer. Moreover, it would cause disruption to import and retail operations. Indeed, the proposed program may be impossible to comply with, since the legislation seems to require a separate license for each product line on each of the approximately 250,000 textile and apparel entries made every month in the United States--that would be millions of licenses each month. Finally, regardless of how the licenses are allocated, serious disruptions will occur--if by auction, small importers and retailers will be hurt and, if based on historic levels, newcomers to the trade will be most adversely affected. In any event, this scheme would entail an extra level of cost and, as with all other product costs, would undoubtedly result in higher prices for the retail customer.

5. Revenue loss to the government. The U.S. Government will incur significant costs, a factor totally ignored by supporters of the legislation. Because the quota will reduce imports, the government will lose nearly $800 million dollars annually through reduced tariff revenues, as estimated by IBERC. Moreover, it will be necessary to expand bureaucracy in order to handle this licensing scheme at some significant but unknown cost.

In view of these substantial costs to consumers and the marginal impact the legislation will have on employment levels, I would hope this Subcommittee will assess carefully the need for

further protection. After all, the domestic textile and apparel industries currently enjoy more protection than any other sector of our economy. Through multilateral and bilateral agreements, unilateral government actions, high tariffs, and exemptions from trade liberalizing measures, the domestic textile and apparel industries have successfully obtained protection from foreign competition for decades. They now are asking for even more protection through this far reaching legislation, which would further stifle trade in textiles and apparel. Adding yet one more layer of protection, particularly at such an astonishing cost to the rest of the economy, is simply unconscionable.

* * *

Before concluding, I would like to tell the Subcommittee about the business of retailing.

I mentioned earlier that retailers purchase the vast majority of their goods from domestic sources. Of course, retailers also purchase from overseas. Every purchase, whether domestic or foreign, is driven by our customers' needs. Sometimes that need is price. Sometimes it's quality. Sometimes it's innovation. Sometimes it's fashion uniqueness. We are purchasing agents for our customers, and our primary objective is to bring value to those customers. Unfortunately, the retailer's ability to fill those customer needs has been increasingly and severely restricted by a combination of import controls, quotas, high tariffs, and administrative directives which now regulate

trade in textiles and apparel to a degree unmatched by any other commodity or manufactured product. As a result, retailing has been severely hurt not only by all of the economic vagaries that have beset the nation, but also by the additional problem of unnecessary, unfair, and often unpredictable restrictions on our purchase of goods from abroad.

Retailers deal with the existing restrictions and other trade problems everyday. Competition in the retail business is fierce. Retailers do not have the luxury of the guaranteed market share system sought by the domestic textile and apparel industries. In fact, I know of no other industry in this country that enjoys this unprecedented system of legislated market share. Retailers know all too well the effects of job losses and business shut-downs, but we have not made a practice of continually pleading for more protection from the government under such circumstances. Retailers have not made annual pilgrimages to Washington for protection from competition. Look at the many retail establishments that have been forced to close their doors forever. Just as some American textile plants have gone out of business, so have formerly large and successful retailers--Grant's, Korvette's, Robert Hall--and literally hundreds of other local retailers, all out of business because of competition. Those of us who have not gone out of business have had to improvise, innovate, and adjust in order to survive.

Because retailing is such a competitive industry, profit margins have historically been very low. For example, according

to the most recent study prepared by the National Retail Merchants Association, the pre-tax earnings of department stores as a percent of sales were 5.83 percent, and for specialty stores only 3.76 percent. This compares with 7.4 percent for non-durable manufacturing and 5.6 percent for textile mill products. Incredibly, you are being asked once again to provide relief to an industry that has higher pre-tax earnings than the businesses it seeks to hurt through this legislation.

The competitive situation in retailing means that everything is in constant change, especially prices. If one company tries to increase prices, you will quickly see the store down the street advertising lower prices. Retailers rely on volume to create profits--that is, retailers are competing to attract the greatest number of consumers to the widest scope of merchandise. Value is a key factor in this competition. Each retail company has its own strategy for pricing merchandise. Each retailer would like to think he is the exclusive purchasing agent for all of the customers in his market area. The customer's purchasing decisions indicate whose strategy in combining variety, value, and choice was successful.

I would like to try to correct some fundamental misconceptions about the term "markup." First of all, there are four retail accounting terms that are sometimes confused or used incorrectly. The first is "gross margin," which is basically the difference between what was received for a sale and what the direct costs associated with that sale were. In retail

accounting this involves a consideration of purchases, discounts, shortages, and ending inventory. The second term is "profit," which is basically the gross margin number minus all other expenses. The third term is "markup," which is not gross margin and not profit, but an arbitrary number that is applied to the retailer's purchase price for goods to arrive at an initial selling price. If the selling price is later changed (and when products are not sold the price is reduced in order to promote a sale), this change is effected in retail accounting terms by a "markdown." Keep in mind that the retailer's goal is not to have the highest markup--his goal is to sell the product. Thus, if his initial markup is too high, a markdown must be taken in order to reach the desired goal.

Let me further note that the "first cost"--the price the retailer pays to its vendor, whether domestic or foreign--contains different elements for a domestic product than for an import. As a result, the "markup" on these products will vary to adjust for these different components. A domestic product typically comes with direct advertising by the manufacturer, a co-op advertising offer for the retailer, some or all of the transportation paid, a return option, shorter lead time for ordering, and other items, as well as a discount for payment within certain agreed upon time frames. None of these are available when a retailer goes overseas to buy a product. The "markup" on imports, thus, tends to be higher to cover those costs and a variety of expenses <u>not</u> included in the cost of a domestic product.

It is misleading and disingenuous to compare the markup on imported and domestic products. First, imports involve significantly higher buying expenses. Second, the long lead time required on imports raises their cost to retailers. Third, risk factors are substantially higher on imports, especially in terms of changes in fashion trends. Fourth, the final cost of imports is harder to predict because of currency fluctuations, changes in customs valuation, and the like. Fifth, retailers directly assume many costs on imports borne by manufacturers on domestic products.

Keep in mind that the details of this discussion regarding markups on imported products relates to about only 25 percent of the products that retailers presently sell. In the case of the May Company, these details apply to less than 13 percent of the apparel and textile products that we sell in our department stores. I think it is obvious that retailers prefer to buy domestically.

Conclusion

Mr. Chairman, as the Members of this Subcommittee analyze this legislation and, at the same time, take into consideration the possibility of the renewal of the MFA next year, we hope that you will keep some fundamental policy questions in mind.

First, do you wish to sanction arbitrary and unilateral trade restraints designed to stifle growth and competition? The proposed bill is much more than a mere "enforcement" measure to advance the purposes of the Multi-Fiber Arrangement. It is

inconsistent with and contrary to the MFA and, if enacted, would have far-reaching effects totally at odds with our country's free market system. It is an extreme proposal which would radically alter the extensive regulatory system now in place to restrict textile and apparel imports.

Second, do you wish to invite retaliation against those sectors of our economy so dependent on exports, simply to provide further protection to the most protected of our industries? As the Administration recently pointed out in a June 19, 1985 letter from five Cabinet officials to all Members of Congress, S. 680 would cause affected countries to retaliate to the detriment of our exporters. Given the strength of the dollar, many of our most important sectors--for example, wheat and soybean growers and the shipping companies that move their products--already face a bleak export market. Do you want to crush whatever hope they have left of expanding export markets?

Finally, do you wish to raise substantially the costs of clothing to consumers, in particular families with school children and families who have a limited clothing budget? Are they to be asked to pay higher prices simply to provide further relief to industries with an insatiable appetite for protection? Similarly, are retail employees from a majority of states to be put out of work solely to create jobs in a few other states?

To conclude, Mr. Chairman and Members of the Subcommittee, American retailers support strong, viable domestic textile and

apparel industries. S. 680, however, is not the answer. To date, this bill has not received thorough consideration. We believe that S. 680 cannot--and will not--withstand careful and objective scrutiny by this Congress.

As you know, the concerns of retailers are fully shared by members of the President's Cabinet. The Secretary of State, the Secretary of Treasury, and the Secretary of Commerce were among the Cabinet officials to jointly sign that June 19 letter of opposition to this bill, in which they stated that,

> if enacted, this legislation would impose a very high cost on U.S. consumers, invite retaliation against U.S. exports, spur inflation, violate our international obligations, and provide the domestic textile and apparel industry an unprecedented level of protection.

RITAC joins the Administration in urging opposition to S. 680 for these reasons.

For the sake of retailers, a nation of retail customers, and millions of retail employees, RITAC urges you not report out this legislation. It's time to put an end to this year's textile and apparel pilgrimage for protection.

Thank you.

THE RETAIL INDUSTRY TRADE ACTION COALITION

Retail Companies

Associated Dry Goods Corporation
Associated Merchandising Corporation
Balliet's, Inc.
BATUS Retail Group
Carson Pirie Scott & Co.
Carter Hawley Hale Stores, Inc.
Cole National Corporation
County Seat
Dayton Hudson Corporation
Edison Brothers Stores, Inc.
Evans, Inc.
Federated Department Stores, Inc.
Generation One Apparel
Hills Department Stores
Hutzler Brothers Company
Jamesway Corporation
Jacobson Stores, Inc.
J. C. Penney Company, Inc.
J. L. Brandeis & Sons, Inc.
K Mart Corporation
Laura Ashley
Liberty House
Montgomery Ward & Co., Inc.
Nordstrom, Inc.
G. C. Murphy
Palais Royal of Houston, Inc.
Parisian
Proffitt's, Inc.
R. H. Macy & Co., Inc.
Scarbroughs
Sears, Roebuck and Co.
Selber Brothers, Inc.
Spiegel, Inc.
Strawbridge & Clothier
Sunrise Knitwear Company
Tandy Corporation
The May Department Stores Company
Woodward & Lothrop
Zale Corporation
Zayre Corporation

Associations

American Association of Exporters & Importers - Textile & Apparel Group
American Retail Federation
Association of General Merchandise Chains, Inc.
National Mass Retailing Institute
National Retail Merchants Association
National Shoe Retailers Association
Footwear Retailers of America, Inc.

STATEMENT BY SIM GLUCKSON, PRESIDENT, SUNRISE KNITWEAR, NEW YORK, NY, AND CHAIRMAN, TEXTILE AND APPAREL GROUP OF THE AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS [AAEI-TAG], ACCOMPANIED BY MICHAEL P. DANIELS, ESQ., COUNSEL FOR TAG, MUDGE, ROSE, GUTHRIE, ALEXANDER & FERDON, WASHINGTON, DC

Mr. GLUCKSON. Thank you, Senator Danforth. And I also greet you with a good evening. It is indeed a pleasure to have both Senator Moynihan and Senator Bradley here for our testimony. Thank you, gentlemen.

My name is Sim Gluckson. I am chairman of the Sunrise Knitwear Co., New York City, and we have been in existence approximately 61 years. I appear before this committee in my capacity as chairman of the Textile and Apparel Group of the American Association of Exporters and Importers, known in Washington as AAEI-TAG. I am also a member of the Importers and Retailers Textile Advisory Committee, and there, Senator Moynihan—if I may insert a note—I think you will find that when we get our information 6 months late, that is the reason that the Government cannot give better figures to the domestic industry. And both MLTAC and IRTAC would greatly urge you and your colleagues to look into the updating of information based on imports and exports. It would make a very interesting subject for discussion. I am sorry; I took that as a moment of personal privilege.

I am accompanied today by the counsel to the group, Michael P. Daniels of the law firm of Mudge, Rose, Guthrie, Alexander & Ferdon.

While the supports of S. 680 have managed to obtain a sizable number of cosponsors, we believe a great deal of this support is predicated on information that is often misleading and not totally accurate. We would like to take the opportunity today in appearing before this committee to present not just the other side of the story but what we and the many other groups opposed to the bill believe to be the facts concerning S. 680, especially with regard to the real costs and job effects of this bill.

The textile and apparel industries have received ever-increasing protection for almost 30 years, including numerous quotas, high tariff rates, and the exclusion of imports from programs such as GSB and CBI.

In its recent comments on the MFA submitted to the Office of the USTR, AAEI-TAG described these protections in detail, and we would like to submit a copy of those comments here today for the record.

Mr. GLUCKSON. The problems confronting the domestic textile and apparel industries are part of a larger problem affecting the U.S. economy generally, such as the budget and trade deficits, and to some extent the overvalued dollar. It makes no sense to focus on a single industry already received special protection as a way of resolving the broader problem.

Not only is S. 680 an inappropriate way to attack the problems of the domestic industry, but it is also extremely harmful to many segments of our economy.

One of the hardest-hit areas will be that of the importer such as myself, and many of the larger firms. There are many more in the import-service area—shippers, longshoremen, carriers, warehousemen, carters, custom brokers, port personnel, et cetera. If an importing company must cut back its business or is put out of business completely as a result of this bill, not just those who work directly for the company but the workers in those related industries will also suffer.

While the exact number of jobs which would be lost in these areas cannot be calculated precisely, a recent study found that 62,000 jobs in the retail sector alone will be lost solely because of the increased costs and diminished sales resulting from the bill as passed in 1985. We believe the job losses in other importer-related sectors would be in the thousands. And therefore, the net job gain of S. 680 in the economy as a whole will be minimal, if at all.

Moreover, the import licensing scheme proposed by this bill would not only be an administrative nightmare costing millions of dollars to administer but would constitute a severe nontariff barrier to textile trade. The fee would be like imposing an additional tax on the very group harmed by the bill in the first instance. Licensing would also create a great deal of uncertainty for importers trying to do business. Whether it be similar to a Treasury auction or a line up at the desk window on January 1, no plan devised can do anything but interfere with businessmen trying to make businesslike decisions in order to protect their very survival.

Another sector of our economy which will suffer greatly as the result of this bill is the export sector, both in agricultural and industrial goods. This bill would severely cut back textile imports from many developing countries, and some of our largest trading partners.

I heard Mr. Klopman say, "Well, give them aid if we can't give them trade." I have always believed it is trade and not aid that we really strive for in this country.

We estimate that as a result of these bills, these countries will lose nearly $3.5 billion in foreign exchange each year. For example, in the case of China alone, over half a billion dollars will be lost. These foreign exchange losses will inevitably result in large job losses in the United States in export industries such as agriculture, aerospace, locomotives, fertilizers, chemicals, et cetera.

Another cost of this bill is the increased prices to the American consumers, which I won't reiterate since I think Tom Hays did an excellent job on that.

AAEI-TAG believes that the best course of action for the United States to follow is not the enactment of still greater protection as provided in S. 680, but the negotiation of the extension of the MFA for a final additional period, with a binding provision of phaseout, and a definite termination of the bill. With the assistance of the Government and domestic industries, we should work together to resolve the problem confronting our economy generally, so that our industries may once again regain their competitive position without the need for protection.

The elimination of trade deficits and a strong domestic economy is our mutual goal, based upon a positive comprehensive trade policy. Thank you.

Senator DANFORTH. Thank you, sir.

Mr. Phillipes.

[Mr. Gluckson's written testimony follows:]

Exective Summary of the

AABI-TAG Statement on S.680

The Textile and Apparel Trade Enforcement act of 1985

Introduction

S. 680, one of the most controversial bills of this session of Congress, has obtained a large number of co-sponsors. However, AABI-TAG believes that this support is predicated on misleading and inaccurate information. The purpose of AABI-TAG's statement is to present a more accurate picture of the current situation and the effects of S. 680.

I. The Domestic Textile and Apparel Industry Is Not "Dying" Because of Imports.

Claims by the domestic textile and apparel industry that hundreds of thousands of jobs will be lost and that the industry will vanish because of imports are not true. The domestic industry, which still controls 75-80 percent of U.S. textile fabric consumption, generally follows the condition of the U.S. economy. Imports react in a similar manner, but with a slight time lag due to their inherent inability to respond to market condition changes as quickly as domestic production.

To the extent that imports may have actually displaced some domestic production, the causes are basically the overvalued dollar and the lower quality of workmanship and/or the inflexibility of domestic production and marketing. In addition, as textile and apparel plants modernize and shift production to be more competitive, job losses will occur.

II. The Bill Will Not Result in a Net Benefit of Jobs, Nor Will It Benefit the U.S. Economy as a Whole.

According to the administration, this bill will cost American consumers $14 billion annually. Taking into account the jobs lost in the import-related and retail sectors (shipping, warehousing, importing, advertising, etc.), it is obvious that the United States as a whole will not benefit from this bill, and that American consumers in particular are hurt by the bill.

In addition, the import licensing scheme provided for in this bill would be an administrative nightmare costing many millions of dollars and requiring hundreds of employees.

Finally, the job loss picture under the bill becomes even bleaker if one considers the loss of exports which will result from this bill either through conscious retaliation by foreign suppliers or because of the detrimental effects this bill will have on the economies of the developing countries.

III. The Provisions of S. 680 Are Not Consistent With U.S. International Agreements, Especially the MFA.

Almost every provision of this bill abrogrates the MFA and the various U.S. bilateral textile agreements. The MFA provides that quotas can only be imposed after a finding of market disruption and consultations have been had, and that generally 6 percent growth must be allowed. S. 680 imposes quota levels across the board (except for certain developed countries) and provides only 1 percent growth for most textile and apparel imports. The bill also extends its coverage to fibers such as silk, ramie and linen, which are not covered by the MFA, and the bill violates the most-favored-nation clause of the GATT.

Conclusion

The arguments being used by the domestic industry to promote S. 680 must be reexamined and scrutinized for what they are -- myths which have little or no basis in reality. The reality of the situation is that this bill is unnecessary and unwarranted; that it imposes a heavy burden on the American economy especially American consumers and importers; that it violates many of our international agreements and will hamper our trading relations with other countries. The potential adverse consequences from this bill on both a national and international level are overwhelming. Hopefully, the realization of these consequences will never be allowed by this Congress and this Administration.

Statement of Simeon Gluckson, Chairman of Textile and Apparel Group, American Association of Exporters and Importers

Mr. Chairman, members of the Subcommittee on International Trade:

My name is Sim Gluckson; I am Chairman of Sunrise Knitwear of New York City. I appear before this committee in my capacity as Chairman of the Textile and Apparel Group of the American Association of Exporters and Importers of (AAEI-TAG). I am also a member of the Importers and Retailers Textile Advisory Committee. I am accompanied today by counsel to the group, Michael P. Daniels of the law firm of Mudge Rose Guthrie Alexander and Ferdon.

On March 19th of this year, a bill was introduced into Congress, the Textile and Apparel Trade Enforcement Act of 1985, which has become one of the most controversial bills of this session. It has managed to obtain a sizable number of co-sponsors in both Houses of Congress. We believe that a great deal of this support was predicated on information that was often misleading and not totally accurate. We would like to take the opportunity you have given us today in appearing before this subcommittee to present not just the "other side of the story" but what we and the many other groups opposed to the bill believe to be the more accurate facts concerning S. 680.

I. <u>The Domestic Textile and Apparel Industry Is Not "Dying" Because of Imports.</u>

The domestic textile and apparel industry claims that it has been severely and irreparably damaged by imports and that without this bill it will vanish. It claims that hundreds of thousands of jobs in the textile and apparel industry have been lost because of imports.

These allegations are simply not true for a number of reasons. In the first place, the domestic textile and apparel industry, which still controls 75-80 percent of U.S. textile fabric consumption, is not in such dire straits as it claims. The condition of the industry has for the most part mirrored the condition of the economy. For example, 1983 and the first half of 1984 saw an strong upswing in the U.S. economy. During this period, personal consumption expenditures were way up, and as a result, so were domestic industry production, shipments, employment and profits. By any measure, this was a good period for the economy and for the domestic textile and apparel industry. Yes, imports also increased, but domestic manufacturers were the primary beneficiaries of the economic recovery as evidenced by their 80 percent share of the increase in the aggregate textile fiber consumption.

The recent slow down in domestic textile and apparel industry activity, beginning in the second half of 1984, has been largely a reaction to changes in domestic market conditions. All of the primary components of domestic textile fiber demand -- apparel,

home furnishing and industrial uses -- recorded lower rates of growth or negative growth in the third quarter of 1984. Sales at retail have failed to regain the upward momentum of the prior years and this has been reflected throughout the distribution pipeline in the form of decreased manufacturing/importing activities.

While imports continued to grow in the third quarter of 1984 even as domestic output and employment deteriorated, that short-lived phenomena was simply a reflection of the fact that imports do not respond as quickly to changes in market conditions. Overseas purchases require longer leadtimes than domestic purchases and generally cannot be cancelled, being made on the basis of irrevocable letters of credit. The import pipeline cannot be shut off easily or quickly.

Taking into account the difference in leadtime, imports have responded to the same general market conditions which have negatively influenced domestic industry activity. Import growth began to decline in the fourth quarter of 1984, just one quarter behind the decline in U.S. industry growth. The change in the trend of imports has become even more evident in 1985. Aggregate textile and apparel imports were down 0.6 percent in the first five months of 1985, compared to the period in 1984. (An interesting side note here is that if one excludes imports from the developed countries, e.g., the European Community member countries, which

the domestic textile and apparel industry insists be excluded from the provisions of this bill, the decline in imports would be even more pronounced.)

To the extent that domestic goods have been displaced by imported goods, the causes of such displacement are not ones that this bill even attempts to deal with. Many of the job losses and plant closings are the result of the domestic industry doing exactly what it should be doing in order to more effectively compete with imports. Plants and factories are being modernized which results in increased productivity and decreased labor. Companies are also shifting production and closing certain plants so that resources can be utilized in developing other areas. For example, J.P. Stevens & Company is shutting down most of its finished apparel fabric producing plants in order to place more emphasis on their home furnishings business. The chairman of J.P. Stevens & Co. was quoted in an interview a couple of weeks ago as saying that the main reason for its decision to divest itself of its finished apparel fabric operations is not imports. Although he admitted "the import issue, of course has had some effect on the decision we are making, to conclude that it is the main reason would be totally wrong...Our goal is to shift the focus of our business to home furnishings - towels, sheets, bedroom accessories, carpets - away from finished apparel [fabric], and one step closer to the consumer." (Women's Wear Daily, July 2,

1985, p 1.) As much as the domestic industry would like us to believe it, their bill would not have saved even one of the job losses due to this shift in production.

In a recent interview with key sportswear executives, other problems of the domestic industry were discussed. The sportwear executives were quoted as saying: "If the domestic industry improves the quality of its workmanship and agrees to smaller minimums, it could effectively compete against imports." These executives went on to predict increases in domestic sourcing if the dollar drops. (Womens Wear Daily, June 17, 1985, p.8).

What it comes down to is, first, the domestic industry is severely hampered by the overvalued dollar. The U.S. dollar is at very high levels against other international currencies, and as such, acts as a double-edged sword cutting against the domestic industry in two ways. Because the cost of imported goods relative to the cost of domestic goods is of course lower, imports are encouraged while at the same time exports by the domestic industry are discouraged. In fact, many of the job losses cited by the industry are not due at all to an increase in imports but can more accurately be traced to a decrease in exports. From 1980 to 1984 exports of textile fibers dropped from 1,318.4 million pounds to 699.2 million pounds -- a cut of almost 50 percent!

The problem of the overvalued dollar is a complex one and is not easily solved. However, the imposition of additional quotas

on imports will do nothing to alleviate the cause of the problem, and by attempting to treat only the symptom of the problem, the bill's provisions will actually exacerbate the real underlying problems relating to the dollar.

The second major reason cited above by the sportwear executives for the non-competitiveness of the domestic industry relates to the quality of their workmanship and the flexibility of their production and marketing. Indeed, the domestic industry itself has recognized this problem. John Fennie, President of Celanese Fibers Operations is quoted as saying: "[t]he industry won't go down the drain, but we must decrease lead times, make more specialties, institute shorter runs, have quicker responses, manufacture quality products, lower costs and INVEST." (Women's Wear Daily, June 17, 1985, p.7.) It is essential that these changes be made, but the bill before us will do absolutely nothing to encourage and assist in such changes.

II. The Bill Will Not Result in a Net Benefit of Jobs, Nor Will It Benefit the U.S. Economy as a Whole.

In its recent letter to members of Congress, the Administration stated that enactment of this bill would cost the American consumers of textiles and apparel as much as $14 billion per year. This cost is on top of the $23 billion that already existing tariffs and quotas on textiles and apparel cost the American consumer annually. The administration found in that same letter

that the increase in domestic production would be small, a maximum of four to five percent over present levels. Taking the upper figure of five percent, we find that the bill would save 98,000 jobs in the textile and apparel industry. However, what is not accounted for here is the obvious fact that a bill such as this will also result in substantial job losses in other areas. Many jobs will be lost in the import-related sector. Not only importers but warehousemen, cartmen, customs brokers, shippers, and so forth will feel the adverse effects of this bill. One area where jobs will be lost that can be readily quantified to some extent is that of the retail industry. Studies have shown that, even when ignoring all of the other job losses resulting from the effects of this bill and focusing only on the retail jobs which will be lost as a result of the cost of these goods going up and the American consumer not being able to buy as much, 62,000 retail jobs will be lost. Under this analysis, which does not begin to calculate <u>all</u> the jobs lost in our economy as a result of the bill, the number of net jobs gained by virtue of the bill is really only 36,000.

As one would expect, the effects of the bill are very regionalized. Comparing the textile and apparel jobs gained to the retail jobs alone which would be lost, the South would experience a net gain of about 27,000 jobs, but the Mid-West and West would have a net loss of 16,500. While the Northeast comes out almost even under this analysis, one has only to walk down to the

docks of the Port of New York and Newark to realize that New York and New Jersey, too, would be big losers under the bill. Moreover, even the job losses in the West do not adequately reflect the additional jobs lost at the ports and in the import-servicing industries of that region. What becomes obvious if one looks closely at this bill and its effects is that some regions of the country, some sectors of our economy, and American consumers in general are being asked to subsidize some of the workers in one industry in one region of our country.

The effects of this bill fall particularly hard on American consumers. Nontariff barriers, especially quotas of this nature, impose temendous costs on consumers, especially on lower and middle class groups. First, these controls invariably result in higher prices to consumers. Based upon information contained in a 1978 study by the Council on Wage and Price Stability, two World Bank analysts estimated that in 1980, the cost to the consumer of existing restrictions was 10 percent of the value of all apparel consumption in the United States. Given the tremendous increase in restraints this bill would impose, the cost figure would be considerably higher. Moreover, increases in prices like this, act as a regressive tax (like a sales tax on the alternative merchandise), thereby having the greatest effect on low and middle-income consumers.

In addition, consumers choices, especially consumers of lower income and of children's wear, are severely decreased. This is because restrictions on a manufacturer's production invariably result in upgrading products to maximize profits. Accordingly, production of the lower end of the line and children's wear will suffer.

Another very important aspect of this bill to be considered regarding the benefits and costs of this legislation, is the import licensing scheme. Requiring import licenses for the many products involved in each of these entries would be an administrative nightmare costing many millions of dollars and requiring hundreds of employees. Walter Lenahan, the Commerce Department's Deputy Assistant Secretary for Textiles and Apparel, has stated that import entries of textiles and apparel amount to 250,000 per month or 3,000,000 per year -- half of all import entries of all products. (Testimony before House Government Operations, Commerce, Consumer, and Monetary Affairs Subcommittee, March 6, 1985.) In these times of government cutbacks in expenditures and resources, when the agencies administering the textile program, especially the Customs Service, are already understaffed and overworked, the establishment of an import licensing scheme makes no sense.

Moreover, the establishment of an import licensing system and the fees for funding it would constitute another nontariff

barrier. The fee, in essence, would be like imposing a new tax on the very group harmed by the legislative proposal in the first place. A licensing system would create an enormous amount of uncertainty for importers trying to do business. There would be inequities and unfairness associated with any method finally chosen for the allocation of import licenses. Import licensing schemes have been tried in other countries, such as Canada and Norway, and have not proved successful.

The above analysis on the cost of the bill does not include the effects of retaliation and decreased exports which would result from this bill. An examination of the effects of S. 680 on the affected exporting countries shows that many of our large trading partners will have their levels of textile trade severely cut back. According to the Administration, the major suppliers, which are defined under the bill as those having 1.25 percent of the total textile and apparel imports to the United States (in other words, those countries contributing one-quarter of one per-cent to total U.S. textile and apparel consumption), will see a 40 percent cutback in their textile trade to the United States. Certain developing countries will experience especially severe cutbacks such as 90 percent for Indonesia, 81 percent for Brazil, and 64 percent for Thailand. China, one of our largest trading partners with a potentially large market for many of our exports, will be cut back by 56 percent. One certain result of these cutbacks

will be a marked decrease in U.S. exports to these countries. How significant will these decreases be? In 1984, U.S. exports to the 12 major suppliers alone was approximately $50 billion. While no one knows for sure how these countries will react, the following factors should be kept in mind.

To begin with, this bill will stifle the development of many developing countries by hitting an industry that has traditionally been considered a "take-off" industry, i.e., a labor-intensive industry common to the first stage of industrialization, and accordingly of utmost importance to the labor-abundant LDC's. Moreover, the bill will drain them of important foreign exchange currency, and threaten debtor countries with insolvency. Without such necessary currency, their ability to develop will be curtailed further.

In addition, one cannot take lightly the probability that these countries will consciously restrict their purchase of U.S. exports in retaliation for the bill's adverse effects against them. An instance where retaliation was used under similar circumstances was in 1982 when over $500 million of wheat sales to China were lost because of restraints the U.S. unilaterally imposed against certain textile imports from China. The Administration anticipates that the U.S. products most likely to be targets of retaliation would be: corn and wheat (5.1 billion

in 1984 exports to the 12 major suppliers); aircraft (nearly $3 billion); and cigarettes and tobacco ($750 million).

The potential exports which could be lost as a result of this bill, whether because of the adverse effects of this bill on the foreign countries' economies or because of retaliation, are mind-boggling. At a time when exports are already experiencing difficulties imposing such additional and unnecessary hardships is intolerable.

III. The Provisions of S. 680 Are Not Consistent with U.S. International Agreements, Especially the MFA.

Again and again the U.S. textile and apparel industry has stated that the purpose of the bill is to enforce the Multifiber Arrangement (MFA) and the various bilateral textile agreements. However, in reality, almost every provision of the bill abrogates the MFA and the bilateral agreements. For example, the MFA provides that, the annual rate of growth in such quotas which are imposed must be not less than 6 percent except in exceptional cases, and can be imposed only after there has been a determination of market disruption and consultation between the exporting and importing countries. This bill allows only one percent growth in all categories for the major suppliers (this alone accounts for 70 percent of all textile and apparel imports) as well as for what the bill designates as "import-sensitive" categories in the other

exporting countries (except Canada and the E.C. which are excluded from the bill's provisions altogether). Import-sensitive categories are estimated to cover approximately 40 percent of all imports. Only in the remaining nonimport-sensitive categories from nonmajor suppliers will 6 percent growth be allowed.

Moreover, the MFA provides that quotas on textile and apparel products can be imposed only on particular imports from particular countries which have caused, or are determined likely to cause, serious economic injury to a particular product made in the importing country. Even then, quotas cannot be established until certain notification and consultation procedures between the two countries have occurred. S. 680 simply imposes strict quota levels across the board with no specific determination of market disruption by that product or country and certainly no consultation with the countries.

The provisions of this bill will totally abrogate the many bilateral agreements the United States has with foreign countries as well. The bill affects not just the absolute numbers and categories restrained under the provisions of the bilateral agreements, but also the consultation mechanisms and the enforcement mechanisms which have been agreed to by the countries.

In addition, the bill violates the MFA and the bilateral agreements by extending its coverage to all natural and man-made fiber products, including fibers such as silk, ramie and linen

which are not covered by the MFA or other international agreements. The bill also provides for import caps where the level of trade, as determined by a formula which relates back to 1980 trade levels, is currently below certain minimum levels. Trade even from the smallest suppliers would be held to these absurdly low levels irrespective of the sensitivity of the product. Nowhere does the MFA or the bilaterals provide for such unwarranted treatment of textile imports. Moreover, the bill is a patent violation of the most-favored-nation clause of the GATT, which provides the basic framework for international trade.

Conclusion

As discussed above, many of the premises upon which this legislation has been introduced and promoted are lacking in substance.

The U.S. textile and apparel industry is not dying, nor is it even in the dire straits it portrays itself as being in. The industry has had problems, but the basis of the problems is the overvalued dollar, the failure to adequately adjust to changing market conditions, and the failure to provide the necessary assistance to workers when adjustments result in job losses -- not imports.

This bill will not benefit the textile and apparel sector nearly as much as it will damage many other sectors of the American economy. The jobs lost by retailers, shippers, customs

brokers, importers, and other port personnel, as a result of this bill, far outweigh the jobs gained by the one isolated sector this bill is intended to benefit. The cost of providing the additional jobs in the textile and apparel sector, even when one nets out only the jobs lost in the retail sector, is astronomical. American consumers are particularly hard-hit by the effects of the bill. In addition, the imposition of an import licensing system would be extremely disruptive and costly for importers.

Moreover, the bill will further hurt U.S. exports which are already feeling the adverse effects of a high dollar. Huge losses in exports also manifest themselves as losses in jobs -- e.g., the producers, the carriers, the shippers, the exporters.

The severe restraints against textile exports of developing countries will further weaken and hamper the development of their economies. This, compounded with a decrease in the available foreign exchange, will act to discourage and perhaps effectively prohibit the establishment and promotion of these countries as the large export markets they could be. In addition, the United States will risk widespread retaliation by all the countries adversely affected by the enactment of this legislation.

Finally, it is beyond question that this bill does not merely enforce the MFA and our other international agreements. It is ludicrous to believe that the bill does anything but totally and

completely abrogate every one of the bilateral textile agreements as well as the MFA.

This last point is especially important at this particular time when the United States is attempting to expand market access for U.S. products and services in foreign countries. If the United States wishes to proceed in negotiations (either bilaterally or multilaterally) regarding trade issues it considers important, such as trade in agriculture, services, and technology, and intellectual property, as well as improve its access to foreign markets, it must realize that now is not the time to be abrogating its foreign agreements and erecting more severe trade barriers for textile imports.

All of the arguments being used by the domestic industry to promote this legislation must be reexamined and scrutinized for what they are -- myths which have no or little basis in reality. The reality of the situation is that this legislation is unnecessary and unwarranted; that it imposes enormous burdens on the American economy, consumers, and the public in general, as well as on the specific sectors such as retailers, shippers and importers; and that it violates bilateral and multilateral international agreements, and will hamper our trading relations with all countries. The potential adverse consequences from this bill on both a national and international level are overwhelming. Hopefully, the realization of these consequences will never be allowed by this Congress and this Administration.

STATEMENT BY PETER M. PHILLIPES, ASSOCIATE GENERAL COUNSEL, LEVI STRAUSS & CO., SAN FRANCISCO, CA, ACCOMPANIED BY RICHARD BURNS, DIRECTOR, DOMESTIC AND OFFSHORE CONTRACTING, LEVI STRAUSS & CO, AND JAMES KILGORE, CUSTOMS MANAGER, LEVI STRAUSS & CO.

Mr. PHILLIPES. Thank you, Mr. Chairman.

My colleagues and I from Levi Strauss & Co. appear before you today in opposition to S. 680. We believe that this proposal will not improve the apparel industry's long-term economic health, may encourage retaliation by our trading partners, and will prevent apparel companies from operating in the American consumer's best interest.

Levi Strauss & Co., is the world's largest manufacturer of apparel and has produced high quality garments in the United States for over 130 years. We are also the largest domestic employer of garment workers, with 26,000 workers in over 60 facilities. More than 90 percent of the products that we sell domestically are made in the United States and are likely to be made here for the foreseeable future.

The original fabric used in Levi's overalls in the 1850's was imported from France. Today, for the domestic market we rely on American denim and other U.S.-made fabric to produce our jeans. We looked worldwide, but we have found that when it comes to denim and corduroy, domestic textile mills are both competitive and quality conscious. However, to remain competitive and successful we must be flexible and free to explore new raw material and product sources both here and abroad.

Our opposition to the bill is based upon our belief that first the apparel industry receives substantial protection from imports under present law; second, that further protection will prevent apparel companies from providing consumers with the best available product at the best price; and, third, that more desirable alternatives are available to improve the international competitiveness of our industry.

Apparel is one of the basic needs of the American consumer. That consumer expects and deserves value—the best product at the best price. Levi Strauss & Co. has responded to the needs of its costomers by producing a broad range of products efficiently and economically. In most cases, this has resulted in production in or near the market where the goods are sold; but in selected cases, the consumers' needs are better served through foreign sourcing.

A good contrast is provided by Levi's jeans and woven shirts. In the case of basic jeans, our domestic production costs average nearly $3 per unit below that at which we could produce a comparable product in one of our own facilities in the Far East. Woven shirts provide a different result. By producing these garments through contractors in the Far East, we have reduced our production costs by over $3 per unit. In each case, the results translate into considerable savings for the retail consumer.

Conversely, we believe that this legislation would create higher retail prices for many apparel products. It might mean a $30 shirt as against a $20 shirt.

We believe this legislation will prevent apparel companies from operating in the consumer's best interest by imposing an inequitable quota system and establishing a massive new licensing bureaucracy. More effective solutions can be found elsewhere. One lies in more efficient internal operations. For example, Levi Strauss & Co. has streamlined its domestic business and invested heavily in new production technology. We faced problems not created by imports but rather by changes in market demand. We responded at the production and at the marketing ends of our business. Today we are a stronger domestic producer than we were when this investment process began.

A second potential solution is offered by the administration's tax reform proposals. The apparel industry currently pays the highest effective tax rate of any major U.S. manufacturing industry—it averages nearly 40 percent. In our own case it is about 43 percent. Contrast this with the rates paid by manufacturers in Taiwan: 25 percent, in Korea: 21 percent, and in Hong Kong: 14 percent. This disparity translates to a wholesale price difference of nearly 8 percent. Reduction of the U.S. corporate rate from 46 to 33 percent would narrow this competitive advantage for imports.

Another solution is offered by the upcoming MFA negotiations, which provide an excellent opportunity to address the specific problem areas relating to apparel imports within the framework of our international trade agreements.

There are other arguments as well which indicate to us that this legislation will not solve the apparel industry's problems. Among these, let me note very briefly: (1) The bill's major provisions would force the United States to violate its commitments under MFA and the GATT, thus exposing us to retaliation; (2) present trade imbalance is more the result of the inflated U.S. dollar and the huge budget deficit than any failure to place further curbs on apparel imports; (3) the unrealistic import limits that are encompassed in this bill could set off a chain reaction of protectionism; and, (4) sufficient domestic capacity to meet market demand in some products simply is not there.

We share the Congress' concern that the U.S. apparel industry remains viable and competitive in world markets and that domestic jobs be preserved. We differ, however, both with the bill's proponents and some members of our own industry as to the most desirable and effective solutions to the problem.

History has shown that restricting competition is not a long-term solution to the temporary disruptions caused by competitive pressures. One need only look back to the Smoot-Hawley Tarifff of the 1930's to learn that severe protectionism leads to retaliation, reduced exports, and ultimately a slump in domestic production and unemployment. There are better ways to preserve and protect the economic health of the American apparel industry. None requires sacrificing the interest of the American consumer or the obligations of the United States under international agreements.

Mr. Chairman, we trust you and the members of this subcommittee will thoroughly examine the alternatives, and we hope that your conclusion, like ours, will be that this legislation is neither necessary nor desirable.

Thank you.

Senator DANFORTH. Thank you very much.
[Mr. Phillipes' prepared testimony follows:]

TESTIMONY OF PETER M. PHILLIPES, ASSOCIATE GENERAL COUNSEL, LEVI STRAUSS & CO.

Summary of Principal Points in Testimony

of Levi Strauss & Co.

Levi Strauss & Co. opposes S. 680 because the bill will not improve the apparel industry's economic health, may encourage retaliation and is not in the American consumer's best interest.

History has shown that protectionism inevitably leads to retaliation, reduced exports and ultimately a slump in domestic production and unemployment.

The American apparel industry already receives substantial protection from imports under present law. Eighty percent of apparel imports are subject to quota restrictions. Duties average 22.3 percent and a market disruption mechanism exists to prevent uncontrolled import growth from new supplier nations.

The American consumers should be offered the best apparel products at the best price. A program of flexible sourcing enables an apparel company to shop the world to find the best value. Further protection will prevent apparel companies from doing this.

More desirable alternatives are available to improve the international competitiveness of our industry and preserve domestic jobs:

- Apparel companies first must commit sufficient resources to insure that their organizations are operating at a high level of efficiency.

- Second, adoption of the President's tax proposals will remove a significant competitve advantage enjoyed by many foreign apparel producers.

- Third, the upcoming MFA negotiations offer an excellent opportunity to address specific problem areas relating to apparel imports within the framework of our international trade agreements.

- Finally, we believe that reduction of the federal budget deficit and the over-inflated U.S. dollar are far more likely to improve our industry's long term economic health than are further curbs on imports.

My name is Peter Phillipes. I am Associate General Counsel of Levi Strauss & Co. I am accompanied by Mr. Richard Burns, Director of Domestic and Offshore Contracting and Mr. James Kilgore, Customs Manager.

I am appearing before you today in opposition to S. 680, The Textile and Apparel Trade Enforcement Act of 1985. Levi Strauss & Co. believes that this proposal will not improve the apparel industry's long-term economic health, may encourage harmful retaliation by our trading partners and will prevent apparel companies from operating in the American consumer's best interests.

Levi Strauss & Co. is the world's largest manufacturer of branded apparel. The Company has produced high quality garments in the United States for more than 130 years.

We are the largest employer of apparel workers in the United States, with 26,000 workers in over 60 domestic facilities. Each year these workers produce more than 150 million garments for sale primarily in the U.S. We employ an additional 11,000 workers in other operations

around the world. They produce approximately 35 million garments for sale primarily outside the U.S.

We produce apparel in more than 40 countries and market our products in 30 countries around the world. However, more than 90 percent of the products we sell domestically are "Made in the U.S.A." and are likely to be made here for the foreseeable future. The remainder are sourced offshore.

Our product mix includes not only our famous jeans, but also mens, womens and childrens jackets, slacks, shirts and sweaters. We also have a role in the designer apparel business with lines created by Perry Ellis, Alexander Julian and Andrew Fezza. Our annual sales volume is in excess of $2.5 billion. $2 billion of this is sold in the U.S.

An international approach to our business is nothing new. The original fabric used in miners overalls in the 1850's was serge de Nimes (denim), a strong cotton cloth loomed in France. The then new fabric was sewn in the U.S. to produce the first Levi's® blue jeans. Today, for the domestic market, we rely on American denim and other U.S. made fabric, such as corduroy,

to produce our jeans. To make the best jeans, we look worldwide, but we have found that when it comes to denim and corduroy, domestic textile mills continue to be both competitive and quality conscious.

To remain creative and a leader in our industry, we search the world for new products and new fabrics, for we are more than a jeans company. Levi Strauss & Co. produces a wide variety of apparel for all age groups and life styles. Many of the fabrics we use for these non-jeans products are from U.S. mills, but some are not; often because domestic mills decline to produce the short runs of more specialized fabrics that are required for fashion garments. Most of the non-jeans products we sell in the U.S. are sewn here as well, but some are not. We believe, that to be successful in one of the most competitive industries in the world, we must be free to explore new raw material and product sources both here and abroad. In this way we insure that our customers are offered products which are innovative, of high quality and represent the best possible value.

Our opposition to S. 680 is based upon our belief that:

1) The apparel industry receives substantial protection from imports under present law;

2) Further protection will prevent apparel companies from providing consumers with the best available product at the best price;

- and -

3) More desirable alternatives are available to improve the international competitiveness of our industry.

Present Controls are Adequate

The American apparel industry has operated under a heavy blanket of protectionism for many years. As the Administration noted in a recent letter to the Congress, 80 percent of all imports from low cost suppliers already are under quota and duties average 22.3 percent.

In the case of mens cotton trousers, a category with which we are very familiar, 78.4 percent of U.S. imports are under quota. Trousers made from synthetic and blended fibers are protected at an even higher level.

Similar figures can be found in other segments of the apparel industry. For example, 80 percent of imports of mens woven cotton shirts are under quota. So are 73.3 percent of womens cotton blouses and 96.1 percent of mens synthetic knit shirts. There hardly seems a need to further restrict imports in these categories.

There also exists a market disruption mechanism under present law by which the Administration can prevent uncontrolled growth from new supplier nations. Under that mechanism, more than 300 quotas have been established since 1981.

S. 680 would significantly rollback current import levels and severely limit expansion by imposing very low growth levels on most developing countries. Virtually no growth levels would be available to our more established apparel trading partners. In addition, the bill would place our neighbors in the Caribbean Basin at a particular disadvantage. Since apparel imports from the Caribbean are comparatively low, the special 15 percent annual growth rate for 1985, with 6 percent thereafter would do little to encourage further production in this region.

The licensing system under the bill would force every importer of every product from every country including Canada and the EEC to obtain an import permit before any apparel product could be landed. For the U.S., such a system would be unprecedented and would cause substantial disruptions in the flow of imported products for both large and small companies. Even the Secretary of Commerce, in whose department the massive new bureaucracy would reside, has unequivocally registered his opposition.

We believe the government already is administering a program to control import levels, under the provisions of the MFA, which can provide an adequate level of protection for domestic apparel producers. Further controls are unnecessary.

<u>The Needs of the Consumer</u>

Like food and shelter, apparel is one of the basic needs of the American consumer. A significant portion of family income is devoted to apparel purchases, both for reasons of necessity and to express individuality. Consumers worldwide, and the American consumer in particular, have become increasingly demanding with

regard to their apparel purchases. They expect and deserve value -- the best product at the best price. As a marketing oriented company, Levi Strauss & Co. has attempted to respond to the needs of its customers by producing a broad range of products efficiently and economically. In most cases, for us, this has resulted in production near or in the market where the goods are sold; but in selected cases, the consumers' needs have been better served through foreign sourcing.

A good contrast is provided by Levi's jeans and woven shirts. In the case of basic jeans, we have determined that our domestic production costs on average are nearly $3.00 per unit below that at which we could bring in a comparable product from one of our own facilities in the Far East and $3.50 below the price at which we could obtain it from a Far Eastern contractor.

Woven shirts provide a different result. By producing these garments principally through contractors in the Far East, we have been able to reduce our production cost by over $3.00 per unit. In each case the results translate into considerable savings for the retail consumer.

Perhaps Levi Strauss & Co.'s approach can best be described as one of flexibility. To the extent we can remain flexible and effectively shop the world for the best value, the consumer's interest in the best product for the best price can be protected. And, of course, if we fail to manage our business in this manner we quickly will find our customers moving to other apparel suppliers.

We believe S. 680 will prevent apparel companies from operating in the consumer's best interest. It will impose an inequitable quota system, which unrealistically restricts sourcing options. Even production under Tariff Item 807, which was intended to encourage U.S. producers to utilize U.S. fabric in offshore operations, would be affected adversely. Many of these operations are in the Caribbean Basin. Furthermore, the massive new licensing bureaucracy within the Department of Commerce can only aggravate the problems created by the existing methods of quota allocation.

Other Options Are Available

More effective solutions can be found elsewhere without damaging international trading relationships. We believe our industry thrives on competition. It is an industry where entry is easy, employment is substantial and domestic producers number in the tens of thousands. One solution lies in more efficient internal operation. For example, over the past five years Levi Strauss & Co. has streamlined its domestic operations and invested hundreds of millions of dollars in new production technology to become more efficient, and thus more competitive. These investments have increased our efficiency in an amount equal to one new plant per year. We faced problems not created by imports, but rather by changes in market demand. We responded both at the production and at the marketing ends of our business. Today we are a stronger domestic producer than we were when this investment process began.

A second potential solution is offered by the Administration's tax reform proposals. As noted in our industry's testimony before the Ways & Means Committee on June 27, the apparel industry currently pays what we believe to be the highest effective tax rate of

any major U.S. manufacturing industry. It averages 39 percent. Many companies, like Levi Strauss & Co., pay an even higher rate.

Contrast this with the rates paid by manufacturers in the major apparel exporting countries. For example, the effective tax rate in Taiwan is 25 percent. In Korea it is 21 percent and in Hong Kong only 14 percent. This rate disparity translates to a wholesale price difference of 6 to 8 percent. Reduction of the domestic corporate tax rate from 46 to 33 percent under the terms of the President's proposal would go a long way toward eliminating this competitive advantage for imports.

The upcoming MFA negotiations offer an excellent opportunity to address specific problem areas relating to apparel imports within the framework of our international trade agreements. For the short-term we believe that extension of the MFA in a format similar to the one under which it now operates, but with a commitment by signatory nations to strictly and consistently adhere to its principles and terms, will provide sufficient control to insure the stability of apparel markets as we move toward a more realistic system of world trade.

Additional Reasons Why S. 680 Should Not Be Adopted

There are other arguments, as well, which indicate to us that the proposals encompassed in S. 680 will not solve the apparel industry's problems:

1) We have no doubt, nor does the Administration, that the bill's major provisions would force the U.S. to violate its commitments under the Multi Fiber Agreement and the GATT, thus exposing the U.S. to retaliation.

2) We agree with the U.S. Trade Representative that the present trade imbalance is more the result of the over-inflated U.S. dollar and the huge budget deficit than any failure to place further curbs on imports.

3) If the U.S. establishes unrealistic limits upon imports from developing countries, these nations are likely to dump products into the EEC, which in turn will be forced to adopt new limits on imports, thus setting off a chain reaction of protectionism.

4) For many imported products, such as full fashioned wool and acrylic sweaters, embroidered blouses, and garments made from silk there is not sufficient domestic capacity to meet market demand.

We share the Congress' concern and that of the American Apparel Manufacturers Association that the domestic apparel industry remain viable and competitive in world markets and that domestic jobs be preserved. We differ, however, both with the bill's proponents and some members of our own industry as to the most desirable and effective solutions to the problem.

History has shown that restricting competition has never proven itself to be a long-term solution to temporary disruptions caused by competitive pressures. One need only look back to the Smoot-Hawley tariff of the 1930's to learn that severe protectionism inevitably leads to retaliation, reduced exports and ultimately a slump in domestic production and unemployment.

We doubt neither the sincerity nor the concern of those supporting this legislation. However, we believe there are better ways to preserve and protect the economic health of the American apparel industry. None of these

requires sacrificing the interests of the American apparel consumer or the obligations of the United States under international trade agreements.

Mr. Chairman, we trust you and the members of this subcommittee will thoroughly examine the alternatives and we hope your conclusion, like ours, will be that this legislation is neither necessary nor desirable.

Senator DANFORTH. A number of people have mentioned problems with the legislation, but I am wondering if some of the estimates as to the adverse effects haven't been overstated as well. After all, while this is a signficant rollback from today's import figures of apparel and textiles, it really is a recasting of the multifiber arrangement, with a 6-percent compounded growth of imports from 1980. So, it is a rollback to what growth would have been had it been on a 6-percent incline since 1980.

Is that so shocking to you, so surprising, that instead of 100 percent increase since 1980 we would have only a 6-percent compounded growth?

Mr. HAYS. The problem, Mr. Chairman, is that what you will end up with is a 20-percent change from the current conditions that were operating in the market.

Senator DANFORTH. But I mean in other words, isn't this a blip right now? Haven't we been undergoing a very strange—for whatever reason; I don't know, I think the committee is going to have to find out more about why this has happened—but there has been a very definite change in the course of textiles and apparels over a very short period of time.

Mr. GLUCKSON. Senator Danforth, if I may, when you started the country rules of origin legislation, when we started other legislations, each time hoping to patch some element of tear in the framework, we found that we encouraged people to move to other countries, to offshore, to developing places.

As entrepreneurs and businessmen, we were taught that it was the right thing to do to look to save your business and also to produce the garment at the least expensive price. As a result, I am sure when Senator Moynihan was working on the MFA, nobody thought there would be non-MFA fibers. Non-MFA fibers only account for an 8-percent growth, but that is a tremendous blip. You couldn't sell cotton sweaters in this country until about 3 years ago. The import answer, because cotton was under quota, was ramie, cotton-ramie blends, ramie-acrylic blends, which gave the same hand. So, what you had was the entrepreneurial insights to move into vacuums, and there were tremendous vacuums which were created. In the last few years, as more countries came onstream, I think you had this blip.

And the other thing that helped, of course, was the increase in our economy, which made it even more attractive to sell here, and we were the world's marketplace.

Senator DANFORTH. But my guess is that there would be a lot of people—well, 53 people in the Senate are cosponsors of the bill—there would be a lot of people in the Senate who would like to fix a blip, but they would not like to create a precedent for all kinds of protectionist legislation. My guess is it is for that reason that a lot of people would rather accomplish this through the MFA than through some special legislation.

Is it your view, Mr. Gluckson, that the MFA just doesn't work, that it is so riddled with loopholes? I mean that is what the previous panel believe.

Mr. GLUCKSON. No; I say there are rips, and there are tears, and there are breakthroughs. And it is any kind of interpretation you want to put on it.

Senator DANFORTH. Can we sew it up and patch it up and darn it up?

Mr. GLUCKSON. And weave it. Very good.

Well, you made a very good comment before which I really enjoyed: We don't know how to negotiate. We as businessmen do know how to negotiate, but unfortunately I don't think our government knows how to negotiate. We have given away a great deal, and it would be my thought, and I really thought the intent of this bill when it first got started, to strengthen our hand in Geneva. I think it has become a runaway bill. I am definitely against the bill. I am not against toughening up our negotiating policy, and let it be known overseas.

Senator DANFORTH. Right. Well, wouldn't some rollback be less draconian than it would appear? If all you use is 1984 figures, then, my gosh——

Mr. GLUCKSON. They are going to use 1980 figures. They want to roll back 4 years.

Senator DANFORTH. But what I am saying is that, in the attacks that are made on the bill by the administration and others, they say, 'Well, this is going to be a rollback of 30 percent,' or whatever it is. And it appears to be extremely draconian. And then they have some countries that are rolled back 90 percent, 70 percent, whatever. It really appears to be very tough legislation; but when viewed from the standpoint of a major blip that has occurred in imports, it doesn't seem to be that far out, does it?

Mr. GLUCKSON. Well, the point, Senator Danforth, is that in 1980, China had no quota. So, if you are cutting them back now, you are cutting them back by 56 percent of what they send out. If you do the same thing with Bangladesh, you are running into the problem, or Brazil. It was interesting before, but Hong Kong gets hurt the least. Hong Kong gets hurt something like 11 percent, because they have owned this quota for so very long.

My problem is, it is not a fair bill. And I agreed with the Senator from Hawaii tremendously. This is shot right at the Japanese, the Koreans, the Taiwanese. And gentlemen, we are going to have a tough time to do something in the Far East if this bill ever goes through.

Senator DANFORTH. Well, there is absolutely no doubt it has some political problems, you know? I mean, the PRC, the effect on the People's Republic of China; Brazil, which has this tremendous debt problem. There is no doubt that it would have a tremendous effect on that. On the other hand, I think there is a great concern. Everybody has textile plants in a State, and there is a great concern for an industry which has fallen on hard times, and a desire to do something to provide some relief.

Mr. MOUNGER. Mr. Chairman, if I might offer, there are instances of American innovation and creativity that are happening today. I think you are seeing a slimmed down, in-fighting-weight American textile industry that has made some great strides over the past 5 years.

Change is inevitable in the American competitive society. A man by the name of Mr. Gore came up with an idea called Goretex, and the world is literally beating a path to his doorstep, with American creativity.

I just returned from a conference in St. Paul, MN where the 3-M Co. came up with an idea called thinsulate, which is an American product that we buy. And that is an example of American innovation and creativity.

One of the reasons this whole thing happened with the imports was because we had an industry that had not changed, an industry that needed changing, and an industry today that I believe is changing to the positive.

Senator DANFORTH. Senator Moynihan.

Senator MOYNIHAN. Mr. Chairman, our panelists have been very patient. They have been here since 2:30, and I don't want to keep them here much longer.

I do want to thank Mr. Phillipes. I want to thank you especially. You have to come away from an afternoon or an evening like this with something special, and I now know where the word denim comes from—serge denime.

Mr. PHILLIPES. Serge denime, exactly.

Senator MOYNIHAN. And the idea that all of those goldminers are walking around in fancy French clothes. Think about it. [Laughter.]

Mr. PHILLIPES. And we have gone the other way. We are now doing it domestically.

Senator MOYNIHAN. That's right.

I would say to Mr. Gluckson—and all of this testimony has been very helpful and very thoughtful—you have a point here when you asked about the licensing procedure, if we are going to do this we have to pay very close attention to what that would mean.

More fundamentally, I want to note we are not bad negotiators. We are pretty good negotiators. It was American negotiators who thought up this system of world trade in the midst of the 1930's, and it brought enormous benefits to everybody and all of us here. And the trade system that we have today is vastly larger—vastly larger—than anything anyone ever would believe. And it was conceived by American negotiators, through reciprocal trade agreements under Cordell Hull, and then the GATT, and so forth.

And with textiles—from the first we have basically been dealing with the problem of wage scales. I mean, the American technology that Mr. Mounger speaks of very wonderfully, and I am sure Mr. Gluckson is a good example of it, it is American design and very much American technology that is moving around the world at whatever the speed of a 707 is. It is just that 19-cent-an-hour labor that is a problem. It is a condition that technology has brought to us. Nineteen cent an hour labor in China didn't make any difference when the only thing you could get to the United States was under sail.

Now 6 percent compounded over 4 years would make for a growth in 4 years of about 26 percent. You know, we are not talking about anything small. There are very few countries who would put up with what we are doing, as a matter of social policy.

May I just make that point, sir, that between 1969 and 1975 we lost 500,000 jobs south of 59th Street in Manhattan. Now, there just isn't any other major country in the world that would allow that. About a third of those jobs were in the garment industry. And they are gone. Now they aren't going to come back. But to continue as

we have with this 100-percent increase in 4 years, has this committee concerned. Finally, not one of you hasn't made important points. I want to thank you for them and say I shall read with great care the question of how you assess the impact on employment in your industries and the related industries.

Now one question: In terms of the price of apparel, which is what people end up buying, don't imported goods rise to the level of American prices? Do imported goods keep the prices down here much?

Mr. PHILLIPES. I might start the response. In our case we have moved only one significant portion of our production offshore, and that was our shirt business, because we found we could not compete effectively domestically. When we moved it offshore, we did so that we could maintain the same price when we brought it into the United States. So, at least at our end, whether we make a shirt in the United States or we make it overseas, we apply the same markup to it, and we pass it on to the next person in the chain of distribution that way. There is no greater profit in it for us by making it overseas; we are just able to compete in the marketplace. If we made that same product here today, we would be out of that business.

Senator MOYNIHAN. You couldn't sell it. I see.

Mr. HAYS. I think I am the only retailer here, so I will have to speak for the retailers. When you talk about goods that are purchased overseas and domestically, frankly, within the May Co. the markup that we apply to either of those goods is very similar. There are substantial differences in the costs incorporated in the cost of the goods purchased in the United States versus the cost of the goods purchased overseas. And you have got to put all the costs in to be comparable; and when you do, you have got about the same kind of markup. And there is no significant difference in those.

For instance, if you were to buy a shirt from Levi Strauss, or let's talk about jeans here, there would be an advertising allowance that would be included as a part of the cost of the goods. There would be a discount that would be included in the cost of those goods. If we bought those same denim trousers overseas, we would not get an advertising allowance, and we would have to put it into the cost of the goods ourselves; we would not get a discount, normally; and we would have several additional costs that we wouldn't have in terms of goods shipped from their warehouses to our stores.

So when you lay the goods down with the appropriate comparative costs, there is no significant difference in markets.

Senator MOYNIHAN. Thank you very much. It is a good thing I am not in the retail business; I didn't quite follow you all on that.

Senator BRADLEY. If it's your time, why doesn't he go over it again?

Mr. HAYS. You didn't follow me?

I think there is one other thing. One of the things that Senator Hollings said early in the testimony today is that the average cost of apparel goods has gone up half the the Consumer Price Index. Well, I'll tell you, if it only went up half the Consumer Price Index, the retailers participated in keeping that cost down just like the manufacturers did. I mean, they are not putting any more prices

in. Within your fair state you have a guy who is no longer in business but who started the whole discounting concept, Korvettes. If you look at the apparel business today, one of the most aggressive things that is happening to apparel prices in the United States is companies like Marshalls and T.J. Max that have forced department stores to change drastically their approaches to the pricing of goods. You just look in the newspaper and look at how many times there are women's goods that are sold at 30-percent off, that is caused by some other guy coming in and saying, "I can deliver those goods at a lower gross margin than you can." If you don't react to that, you are going to lose your customers.

Senator MOYNIHAN. I understand that. Thank you very much, sir.

Mr. GLUCKSON. May I respond, Mr. Chairman?

Senator DANFORTH. Yes.

Mr. GLUCKSON. Senator Moynihan, I think the difference is between gross markup and the bottom line. I think what Tom was saying, and I for one know, is that if you include your buyers' trips overseas, the risk factor, the insurance, and everything else, by the time the garment comes in the markup is not any greater, if you come down to the bottom line with all expense factors in.

The other thing, selling these major stores and chains, they are competitive. I think that is the biggest thing that has kept prices down. And if you make a mistake or you are overbought, immediately the price goes down. So you have no guarantee that this automatic high markup when you brought goods in from overseas exists.

At the end of the season, after you have taken your inventory, you know how much money you have made or you haven't made. You really don't know it beforehand. It is a calculated decision like any other businessman would make.

Senator DANFORTH. Senator Bradley?

Senator BRADLEY. Thank you, Mr. Chairman.

You made the point about the industry and the major breakthroughs that it has made. And I think it was Mr. Mounger who made the point that this could not have been envisioned 10 years ago, 5 years ago, 3 years ago. To what extent do you attribute the competition from abroad as stimulating that kind of innovation?

Mr. MOUNGER. I think without the competition from abroad that we would not have seen some of the innovative things that are happening in the industry today. I think the American textile industry is going to survive until 1995, and it is going to survive indefinitely.

The people that appeared on the panel before you from the textile industry are good people, able people, excellent people, and they are going to realize their American dreams and be around for a long time, but it is going to be with a different textile company than they had 25 years ago. They are now ready for the competition. And we are a lot better, totally, as a country and as an apparel industry, because of the competition that we have had from overseas.

Senator BRADLEY. All right.

Well, you have sat here as long as we have in the course of this day, and I think that the driving issues for us is the question of the loss of jobs. And if one believes, like you, that American inventive-

ness and innovation will carry the industry through to yet another kind of industry, in the sense of maybe a different kind of structure, different products, but it will always exist, the question then is what happens to the people who have the jobs now? To what extent have you given that any thought?

Always in this committee we hear from the group that wants its side of the bread buttered. Now, you are retailers, you are not textile manufacturers or apparel people. So you don't have to face that, but I wonder if you have thought about it?

Mr. MOUNGER. Sir, I do. If I could answer just very quickly, we had two factors in Washington State, in Wenatche and Spokane, WA, and I took my general manager there 3 years ago, and I said, "Mark, how would you like to be an entrepreneur and buy these two factories from us for $1? And we are going to put you into business, and we are going to be your primary contractor, because we don't want the people, the sewers who work here, to lose their jobs." And today he has a company called All-Seasons Apparel, and he is actually employing more people than we did, and he contracts for people like Levi Strauss and Pacific Trail and Jantzen, and a lot of other people, making goods in the United States.

In Utah I took one of our factories and sold it to Pike Manufacturing at a very discounted value, because they are not only a manufacturer but they are a retailer. And so we try to be innovative so we would not lose American jobs in this situation.

Mr. PHILLIPES. We went through a bit of slimming down last year, not because of problems with imports but because we had more capacity than we could use, given the market situation the way it is. We are in a very mature market for many of our products. When we closed the plants, and we closed them both domestically and overseas, it wasn't just a U.S. operation, we made every attempt to either place the people, sell the plants to people who would pick up our employees, or engage in retraining. And so far, of about 3,800 U.S. employees that were involved, about two-thirds of those have been picked up through one of those operations, and we are still working on the remainder.

Senator BRADLEY. I want to get to Mr. Gluckson, but since you are speaking, Mr. Phillipes, I noticed in your testimony that you said tax reform would help the domestic industry. How is that?

Mr. PHILLIPES. We believe that very strongly. If the basic rate for our industry was lowered significantly, and a 33-percent level is certainly a significant reduction for us, that gives us much more benefit than any of the special advantages that appear in the present Tax Code. And since out industry is labor intensive and we can't take advantage of many of the special provisions, a general lowering of the rate will make us enormously more competitive. It will do much more than the trade bill for us.

Senator BRADLEY. Mr. Gluckson, did you want to make a comment?

Mr. GLUCKSON. Yes, I did. One of the major eastern firms—the gentleman isn't here today, but it is Art Ortenberg, who is president of Liz Clairborne, who I believe has some warehouses in your area, and the like and is certainly in New York—has flown down to Wake Forrest, North Carolina, North Carolina State, and South

Carolina, met with the various deans in their industrial schools, and is working out new plans and programs in training.

I think the one thing that I come away with—everyone knows there is a problem. It is not a simplistic problem. I sat here for 5 hours only absorbed in the dilemmas you are in. I wondered why I ever wanted to be a Congressman. It is ridiculous what you gentlemen go through.

Senator BRADLEY. You don't want to be a Congressman. [Laughter.]

Mr. GLUCKSON. It is easier being a Congressman.

Senator BRADLEY. Are you from New Jersey, Mr. Gluckson?

Mr. GLUCKSON. No, I am from New York, and upstate New York.

But the other thing, seriously, Senator Bradley, there are no men that I know who are not altruistic to the point that they really are concerned. And that is one of the reasons we are here.

Senator BRADLEY. Not to belabor the point, and I have heard the buzzer, but you have heard a couple of Senators here today, and you have heard the previous panel assert that if this bill passes it will have no impact on prices whatsoever, and the retailing industry is essentially ripping off the American public with high profit margins.

Now, you are in a political context, not in a retail seminar. What is your answer to that charge?

Mr. HAYS. Well, first of all, the retail industry—and there are studies put out every year—makes about 5.8 percent before tax in the general merchandise stores. They make about 4 percent before tax in the specialty stores. I think those numbers are not dissimilar to the textile industry, and they are less than much of the manufacturing industry. So it is not a business where you make a tremendously high profit, and we are not ripping off the customers.

The other piece of it is, it is pretty damned—and I made the point about Marshall's and T.J. Max. You would say, "Gee, could they get at every department of the United States?" You damn betcha they could. And in fact, what has happened, you are seeing a significant change in the way department stores promote because of this discounted operation.

I'll give you another one. There is an operation out on the west coast called the Price Club. It is a wholesale club. They run a retail business that has margins of about 15 percent. They are not selling basically apparel merchandise; they are selling food and hard goods. Those stores, at 15 percent margin, do $60–$70 million. The profitability out of a $60- or $70-million operation that has a 15-percent gross margin is very good, and they play hob with the competitive prices. There are more people out there who want to start a shop, who want to sell cheaper than you can run across. And we do not have business that we can just say, you know, "We'll rip off the people," because you start ripping them off, and they will go somewhere else because they have plenty of alternatives. We are in a very competitive business. And we don't ask for somebody to come and protect us, as such.

Senator DANFORTH. Senator Mitchell?

Senator MITCHELL. In pro basketball, points scored after the buzzer do not count. [Laughter.]

Senator BRADLEY. In preparation for this question [laughter] but that doesn't answer the question. I heard the rationale that you have expenses when you go abroad—you have travel, you have insurance, and so forth. Then you have markup. And the markup, if it is the same, why wouldn't you want to buy here? What is the advantage?

Mr. HAYS. Well, as a matter of course, we do want to buy here. I mean, we buy better than 70 percent of our goods here.

I will just give you an example. Let me take the May Co., OK? You know a little bit about it, because we have got some stores where you used to be from, all right?

Senator DANFORTH. He has forgotten; he has forgotten his roots, Mr. Hays. [Laughter.]

Mr. HAYS. OK. I'm sorry, Senator. You certainly know plenty about it.

Senator BRADLEY. I have taken enough abuse in this hearing.

Senator DANFORTH. He used to be a humble Midwesterner, but not anymore.

Mr. HAYS. We have an inventory investment of something about $1,200 million. And to buy goods—if we were to buy all of those goods, let's say, let's take the far-out example—all of those goods overseas, we would have to commit for those goods—let's see, this is July—we would be committing for—what, Sim?—6 to 9 months out, or 9 to 12, depending on the kind of goods that you have got. And the risks that we would have in that, the product development costs that we would have in that, would be staggering. We cannot run our business that way.

One of the great advantages of a very strong apparel market group here, manufacturers and a very strong textile industry, is that they take a lot of the risks. They do know the customer in the United States very well.

And we are not—we are not—interested in becoming an industry that buys 100 percent of its goods overseas. What we are interested in doing is having the freedom to make the choices, when in fact that is the innovation the customer wants, that is the price the customer wants. That is what we are after. And that is what our objection to the bill is.

Senator DANFORTH. Senator Mitchell?

Senator MITCHELL. Well, Mr. Hays, I have spent many years in the courtroom, both trying cases and as a judge, and I have heard a lot of conflicting evidence in my day; but I must say I haven't heard testimony as sharply conflicting on a subject as between you and the previous panel on precisely the subject you are discussing. And with all due respect, I don't think you answered Senator Bradley's question, because he asked you about the comparative advantage, and you responded with gross margins and figures that related to overall operations of retail organizations in this country, as opposed to comparative advantages.

I thought I understand you and Mr. Gluckson say earlier that when you factor in expenses of a salesman going to the Far East and transportation, that there was no financial difference.

Mr. HAYS. There is very little financial difference.

Senator MITCHELL. Then why do you do it?

Mr. HAYS. Because there are products there that the customer is asking for that we cannot get in this country, or that the manufacturers will not produce.

Senator MITCHELL. Would you gentlemen identify specifically, in writing, the products that you are talking about, that you can get that you can't get in the United States, or that can't be made here?

Mr. HAYS. We will gather information and submit it to you formally.

[The information follows:]

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July 16, 1985

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BY HAND

Ms. Betty Scott-Boom
Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Ms. Scott-Boom:

During yesterday's hearing on S. 680, the Textile and Apparel Trade Enforcement Act of 1985, Senator Danforth accepted the request of Mr. Thomas A. Hays (testifying on behalf of the Retail Industry Trade Action Coalition) that a certain economic study be included in the record. Accordingly, enclosed for submission in the record is the "Analysis of the Impact of the Textile and Apparel Trade Enforcement Act of 1985" conducted by the International Business and Economic Research Corporation (IBERC).

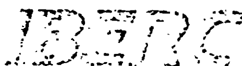
Please do call me if you have any questions.

Sincerely yours,

Frank R. Samolis

FRS:ca
Enclosure

cc: Leonard Santos



INTERNATIONAL BUSINESS AND ECONOMIC RESEARCH CORPORATION
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June 28, 1985

EXECUTIVE SUMMARY

ANALYSIS OF THE COST OF THE TEXTILE AND APPAREL TRADE ENFORCEMENT ACT OF 1985

1. The Textile and Apparel Trade Enforcement Act of 1985 would further restrict imports of textile and apparel products by rolling back current import levels from 12 major foreign suppliers and reducing future growth possibilities for all remaining suppliers. These new limitations would be over and above already existing tariffs and quotas that are estimated to cost the American consumer some $23 billion annually.

2. The additional restrictions being proposed would cut trade dramatically. Overall, apparel imports from countries targeted by the legislation (all but Canada and the EC) would be reduced by 20 percent. Similarly, total textile imports would fall by 36 percent. Several countries would be particularly hard hit. Imports from China, for example, would be reduced by 57 percent from 1984 levels; Indonesia by 85 percent; Brazil by 66 percent. Moreover, while the legislation does not roll back imports from the many smaller suppliers serving the U.S. market, it effectively eliminates any meaningful growth opportunities for them in the future.

3. The costs of these restrictions to the American consumer are significant. It will cost apparel consumers an extra $2.4 billion annually and textile consumers, $1.0 billion annually.

In the first five years, the total cost to the apparel consumer would be an estimated $11 billion in 1984 dollars, and to the textile consumer, $4 billion.

4. Apparel import prices would increase on average by 16 percent at wholesale. Textile import prices would increase an average of 33 percent. These gains reflect both quota-induced price increases and product upgrading as foreign producers concentrate on the export of higher unit-value goods. Lower-income consumers would pay the heaviest penalty as product upgrading reduced or eliminated the availability of less expensive merchandise.

5. Weighted average apparel prices (domestic and imported) will rise by a minimum of 3 percent; textile prices will increase by 3 percent. These estimates understate what may actually happen because they do not take into account the domestic price response to rising import price levels.

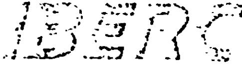
6. The additional import restraints on apparel would support only 36 thousand jobs in the domestic apparel manufacturing industry, at a cost of $66 thousand per job. Moreover, the quota-induced decline in overall domestic apparel consumption would mean the elimination of some 58 thousand jobs in the retail industry. In the apparel sector, therefore, more jobs would be lost in the retail sector than would be supported in the apparel sector.

7. The legislation would support 35 thousand jobs in the domestic textile manufacturing industry, at a cost of $27 thousand per job. The quota-induced decline in overall textile consumption eliminates almost 4 thousand jobs in the retail industry.

8. A state-by-state analysis of the distribution of employment benefits and costs shows that at least 36 states would experience net job losses if the legislation were enacted. Although, as one would expect, labor in three southern states (North Carolina, South Carolina and Georgia) would be the prime beneficiaries of additional quotas, labor in numerous midwestern and northeastern states, as well as California, would be prime losers from additional quotas.

9. The U.S. government would incur significant costs, a factor totally ignored by supporters of the legislation. The government will lose nearly $800 million dollars annually through reduced tariff revenues. The proposed licensing provisions would be extraordinarily expensive to implement and administer and would further raise costs to the consumer because of the disruption to import and retail operations. Increased costs would feed inflation, widen the budget deficit, and perhaps ultimately put upward pressure on interest rates.

10. Competitive U.S. exporters would face the risk of retaliation by textile and apparel exporters.



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June 1985

ANALYSIS OF THE IMPACT ON THE TEXTILE AND APPAREL TRADE ENFORCEMENT ACT OF 1985

By
Laura Megna Baughman and Thomas Emrich

I. Introduction

The Textile and Apparel Trade Enforcement Act of 1985 (S.680 and H.R. 1562) would place additional limitations on the importation of textile and apparel products. The present system of import protection would be intensified by substantially reducting existing trade or future growth prospects for all textile trading partners except Canada and the European Community (EC), by broadening the scope of products that are subject to restraint, and by implementing a new import licensing scheme.

This analysis focuses primarily on the first of these changes and measures the costs and benefits associated with the reductions in existing trade and/or future growth required by the legislation. It is confined by data limitations to cotton, wool and man-made fiber textile and apparel products, the products currently subject to restraint under the Multifiber Arrangement (MFA).

Section II considers the impact of the proposed legislation on current and future import levels. Section III evaluates the probable impact of the legislation on American consumers and workers. Section IV provides estimates of costs to the U.S. Treasury. Finally, Section V suggests other costs to the U.S. economy.

II. Impact on Textile and Apparel Trade

The legislation would require changes in existing textile and apparel trade levels and future rates of import growth for individual exporting countries.[1/] In addition, import restraints would be extended to include silk, ramie and linen, products which are not covered by the MFA. The analysis here is necessarily confined by data limitations to cotton, wool and man-made fiber products. Historically these have been the only products subject to restraint.

In establishing new restraint and growth levels, the legislation divides foreign suppliers into three groups: major exporting countries, represented initially by the 12 largest textile suppliers to the United States in 1984 (excluding Mexico); exporting countries, covering all other developing country

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1/ A summary of the operative provisions of the legislation is provided in Appendix A.

suppliers plus Mexico; and unrestricted countries, encompassing Canada and the EC.

The legislation would reduce aggregate apparel imports from all restrained countries by 20 percent, and textile imports 36 percent.[2/] (See Table 1.) These figures do not consider trade from the EC and Canada, which would not be subject to restraints.

Apparel imports from major exporting countries, which collectively accounted for over 80 percent of total U.S. apparel imports in 1984, would be cut back 26 percent. Textile imports from major exporting countries, which accounted for 60 percent of all textile imports, would be cut by 48 percent.

The reduction in trade required of a number of major exporters would be particularly severe. Imports from China, for example, would be reduced by 57 percent from 1984 levels; Indonesia by 85 percent; Brazil by 66 percent. (See Table 2.)

On a product basis, the legislation's impact on trade levels is very uneven. Certain categories of textile and apparel products would be hit much harder than others. For example, imports of men's and boys' manmade fiber trousers from the 12 major exporting countries would be reduced by 50 percent under the proposed legislation, women's cotton dresses by 34 percent, and

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2/ The methodology employed in determining the legislation's impact on future trade levels is described in Appendix B.

TABLE 1

AVERAGE PERCENT CUTBACKS IN APPAREL AND TEXTILE TRADE
BY MAJOR EXPORT GROUP

	Apparel	Textiles
Major Exporting Countries[a]	-26	-48
Exporting Countries,[b] excluding Mexico	+ 7	+11
Mexico [c]	+10	+14
Trade Weighted Average	-20	-36

a/ Brazil, China, Hong Kong, India, Indonesia, Japan, Korea, Pakistan, Philippines, Singapore, Taiwan, Thailand.

b/ Based on a sample of eleven countries: Colombia, Dominican Republic, Israel, Sri Lanka, Lesotho, Spain, Bangladesh, Egypt, Haiti, Malaysia, and Peru.

c/ Although the Act classified Mexico in the "exporting country" category, its contribution to the trade weighted average cutback has been calculated separately so that the size and composition of Mexico's trade relative to the other smaller suppliers in the category would not bias the results disproportionately.

SOURCE: International Business and Economic Research Corporation.

TABLE 2

REDUCTIONS IN TRADE REQUIRED FROM MAJOR EXPORTERS

Country	Reduction In Trade Percent
Indonesia	-85%
Brazil	-66
China	-57
Thailand	-55
Taiwan	-47
Pakistan	-36
Korea	-33
Japan	-18
Philippines	-14
Hong Kong	-12
India	-11
Singapore	- 9

SOURCE: International Business and Economic Research Corporation.

men's and boys' cotton knit shirts by 36 percent. The change in aggregate trade levels from the 12 major exporters on a product-by-product basis is shown in Appendix B, Tables B-2 and B-3.

The legislation would not reduce current import levels from the many smaller suppliers serving the U.S. market. It would, however, reduce future growth potential. For countries that have a small export base, restrictions on future growth eliminate the opportunity, or incentive, to develop an economically viable industry. Most small exporters will be barred from ever achieving this goal. Had the proposed legislation been enacted in 1983, for example, imports from Bangladesh in 1984 would have been only 3 percent greater than their 1983 volume -- and 78 percent smaller than their actual 1984 level.

III. Impact on Consumers

The costs to the U.S. consumer arising from the proposed legislation and the distribution of those costs among different segments of society have been estimated. The model and data upon which the costs are based are described in Appendix C. The results are summarized in Table 4.

The legislation would increase domestic manufacturing production and employment, but the net effects for the U.S. economy would be negative after taking in to account decreases in

TABLE 3

REDUCTIONS IN TRADE IN SELECTED PRODUCTS
FROM MAJOR EXPORTING COUNTRIES
(Millions of Square Yard Equivalents and Percent)

TQ Category	Product Description	Quantity Reduction	Percent Reduction
Apparel Products:			
639	Knit shirts and blouses, WG&I	43.045	17.5%
647	Trousers, etc., M&B	46.745	50.0
648	Trousers, etc., WG&I	50.717	36.2
652	Underwear	68.288	65.6
359	Other cotton apparel	100.067	52.5
659	Other MMF apparel	175.116	40.9
Textile Products:			
313	Sheeting	109.466	31.2
314	Poplin & broadcloth	54.508	78.4
315	Printcloth	215.356	65.5
320	Woven fabrics, n.e.s.	188.862	63.2
612	Continuous non-cellulosic woven fabrics	98.932	35.4
613	Spun non-cellulosic, woven fabric	94.615	72.7
669	Other man-made manufactures	96.710	58.3
670	Flat goods, handbags & luggage	354.101	97.0
369	Other cotton manufactures	204.686	52.4

SOURCE: International Business and Economic Research Corporation.

TABLE 4

SUMMARY OF THE COSTS OF ADDITIONAL PROTECTION

CONSUMER COSTS

Immediate Effects	Apparel	Textiles
1. Total Annual Cost (millions)	$2,386	$ 950
Quota Rent	2,121	741
Deadweight Loss	265	209
2. Net Employment Effect (millions)	-$24	+$171
Manufacturing Benefit	+106	+178
Retail Cost	-130	- 8
3. Net Cost (1 less 2)	$ 2,410	$ 779
Cost/Benefit Ratio	$23:1	$5:1
Net Jobs Supported	-21,790	31,695
Manufacturing Jobs Supported	36,141	35,272
Retail Jobs Lost	-57,931	-3,577
Cost to Consumer per Job Supported ($)	$66,019	$26,934
Future Effects (millions 1984 $)		
Consumer Costs, over 5 years	$11,047	$ 4,398
Net Cost to Economy, over 5 Years	$11,071	$ 4,227
GOVERNMENT COSTS		
Foregone Tariff Revenue (millions)	$ 629	$ 166
Import Licensing Program	Not Available	

SOURCE: International Business and Economic Research Corporation.

consumer welfare, declines in retail employment, and higher inflation in the textile and apparel industries. The costs borne by the rest of the economy would exceed the benefits received by the domestic textile and apparel industries.

Apparel. The legislation would reduce imports of apparel from restrained countries immediately by 20 percent. As a result, the wholesale price of imported apparel from restricted countries would increase 16 percent. Weighted average apparel prices in the U.S. market (domestic and imported) would increase at least 3 percent. This estimate understates what would actually happen, because data limitations prevent the analysis from considering the extent of any domestic apparel price rise in response to rising import price levels.

The legislation would decrease consumer welfare by imposing higher prices on a smaller selection of goods. The total annual cost to the consumer of additional apparel quotas would amount to $2.4 billion annually. The direct impact on apparel manufacturing

employment would be 36,141 jobs supported.[3/] The cost to the consumer per job supported would be $66,019, or roughly six and a half times the average annual salary of an apparel manufacturing employee. Consumers would pay $23 for every $1 of benefit received by labor.

While the quotas would benefit manufacturing labor, they would impose a disproportionate cost on the retail industry labor force. The quotas would result in a net reduction in the amount of apparel demanded by U.S. consumers, and apparel retail sales would decline by at least 3 percent. As a result, retail employment would decline by approximately 58 thousand workers.[4/]

Adjusting the total consumer cost estimate for both the value of increased employment in domestic manufacturing and decreased

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3/ These estimates consider direct employment effects only. Indirect or secondary effects were not estimated. An increase in domestic manufacturing employment will generate additional employment in upstream and supplier industries. Similarly, changes in import volume effect employment levels in import-related activities.

Moreover, changes in relative price and consumption patterns in textiles and apparel will impact on the economy generally. Finally, changes in import volume will impact on U.S. export industries either directly through retaliatory measures by foreign suppliers in response to additional U.S. restraints or more indirectly from the inability to purchase as much from the U.S. because of declining foreign exchange.

4/ The decline in retail employment exceeds the gain in apparel manufacturing employment largely because of the very different output-to-labor relationships of the manufacturing and retail sectors.

employment in retailing leaves the final net annual cost to the U.S. consumer at $2.4 billion.

Over the first 5 years of the quota, the net cost to the U.S. consumer of additional apparel quotas totals $11 billion in 1984 dollars.

Textiles. The legislation would reduce imports of textiles immediately by 36 percent. As a result, the price of imported textiles subject to restriction would rise 33 percent, and the average wholesale domestic price of textiles by at least 3 percent.

The total annual cost to the consumer of additional textile quotas would be roughly $1.0 billion. The direct employment impact would total 35 thousand jobs. Subtracting the benefits to U.S. textile manufacturing workers, the net total cost to the U.S. consumer would become $771 million, or $5 of cost for every dollar of benefit. The cost per textile job supported would be $26,934, double the average annual salary of the average textile worker.

As in the case of apparel, the increase in textile prices would cause a decline in domestic consumption of textile products and a concomitant decline in related retail employment. The analysis indicates that retail employment would fall by almost 4,000 jobs, at a cost to retail workers of $8 million.

Over the first 5 years of the quota, the total cost to society of additional quotas on textiles amounts to over $4 billion in 1984 dollars.

Regional employment impacts. Most of the jobs supported in the textile and apparel manufacturing sector would occur in the South, particularly North and South Carolina and Georgia. The retail job losses, however would be distributed throughout the country. At least 36 states would suffer net job losses -- every state in the Midwest, Mountains, West and Southwest regions would experience more retail job losses than textile and apparel manufacturing gains. For many states with net job gains, including New York, Pennsylvania, New Jersey and Massachusetts, the surplus would be marginal at best.

Lower-Income Consumers. The adverse impact of quotas on lower-income consumers has long been recognized by both academicians and by industry specialists. The impact is particularly harsh when quotas limit amounts of basic, less expensive imports and domestic substitutes of similar quality and price are not readily available.

Morkre points out another effect on low-income consumers: the quota would alter the mix of imports against low-priced

articles and in favor of high-priced items.[5/] This results he explains, when each quota category encompasses a variety of substitute products that vary in price (e.g., cotton jeans). If low-income consumers are the principal buyers of inexpensive products, the quotas impose a relatively greater adverse effect on these consumers.

IV. Additional Costs Borne by the U.S. Government

As a result of the legislation, the U.S. government will incur costs in several areas. Because the quota will reduce imports, the government will suffer a loss in tariff revenue. If apparel imports from restrained suppliers are reduced by 20 percent by the legislation, the tariff revenue lost by the government would total $629 million. Similarly, the foregone tariff revenue resulting from additional textile tariffs is estimated to be $166 million, for a total loss to the government of $795 million.

The import licensing provisions will impose additional costs on the U.S. government. They will require the creation of a whole

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5/ "The application of a quota introduces a quota price that is the same for all items in the quota category. This raises the price of all items by the same absolute amount, which means the relative price of inexpensive items increases." Morris E. Morkre, Import Quotas on Textiles: The Welfare Effects of United States Restrictions on Hong Kong, Bureau of Economics Staff Report to the Federal Trade Commission, Aug. 1984, p. 21.

new bureaucracy, either in its own right or within an already-existing agency, to set up the licensing program, auction or otherwise distribute the licences, monitor the system, and police it for violations of any type. The precise cost cannot be calculated because the exact scope and purposes of the licensing system are undefined in the proposed legislation. The magnitude of the problem is apparent, however from testimony by Walter Lenahan, the Commerce Department's Deputy Assistant Secretary for Textiles and Apparel before the Subcommittee on Commerce, Consumer, and Monetary Affairs of the House Government Operations Committee, (March 6, 1985). Mr. Lenahan stated that import entries of textiles and apparel amount to 250,000 per month, or 3 million per year -- equal to half of all entries into the United States each year. Superimposing a licensing system on this process would force a significant increase in staff, computer capabilities and administration.

V. Other Costs

The estimated costs to the consumer represent "static" costs that would arise from the implementation of the proposed legislation. While significant, especially to particular segments of society, the more important costs of the legislation are those whose value cannot be estimated, but can be predicted. These include the further isolation of both the U.S. textile and apparel

industries from outside (international) stimulus to technological change, the reduction in overall growth in demand due to inflation, and the distinct possibility of foreign retaliation and its repercussions on the growth of U.S. industries for which export markets are important.

Appendix A

SUMMARY OF THE PROVISIONS OF THE TEXTILE AND APPAREL TRADE ENFORCEMENT ACT OF 1985

The Textile and Apparel Trade Enforcement Act of 1985 restricts imports from two categories of exporters (exempting Canada and the European Community altogether). A country is classified in one or the other depending on its relative share of total U.S. imports. The first category, so-called "major exporting countries," is composed of countries whose exports to the United States account for 1.25 percent or more of total U.S. textile and apparel imports. In 1984, countries falling into this category were: Brazil, China, Hong Kong, India, Indonesia, Japan, Korea, Pakistan, Philippines, Singapore, Taiwan and Thailand.

The second category is composed of "exporting countries," those countries whose exports represent less than 1.25 percent of total U.S. apparel and textile imports. This category essentially includes all countries not in the first category. Mexico is automatically given "exporting country" status.

In the first year the Act is implemented, imports from major exporting countries would, on a product category basis, be limited to 1 percent growth from the level that would have occurred in 1984 if imports had grown by 6 percent a year from 1981-84, or, if the exporter had an agreement with the United States limiting growth to less than 6 percent, the country's 1984 level of imports. (1984 is assumed by proponents to be the base year,

with 1985 the first year of implementation). Thereafter, imports from those countries could grow by 1 percent per year.

Imports from category II countries in the first year of the new quotas would be permitted to increase on a product category basis no more than 15 percent above their 1984 levels, except in categories defined as import sensitive. Import sensitive categories are those in which imports equal 40 percent or more of U.S. production. Growth in imports of these categories would be restricted to 1 percent above 1984 levels, and could increase 1 percent annually thereafter.

The Act also contains provisions which would require the Commerce Department to issue regulations governing the entry of textile and apparel imports, and also to establish an import licensing system, in which _all_ importers of textiles and apparel would be charged a fee for import licenses.

An annotated text of the major provisions of the Act follows:

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Textile and Apparel Trade Enforcement Act of 1985"...

SEC. 4. DEFINITIONS.

For purposes of this Act--

(1) The term "textiles and textile products" includes, but is not limited to, all man-made fibers, tops, yarns, piece goods, made-up articles, garments, and other textile manufactured products (which derive their chief characteristics from their textile components) made in whole or in part from any natural or man-made fiber, or blend thereof,...

(3) The term "import sensitive category" means a category (other than a category applicable to textiles and textile products that are a product of a country in the Caribbean region) for which the ratio of imports to domestic production, as reported in the Department of Commerce publication "U.S. Production, Imports and Import/Production Ratios for Cotton, Wool and Man-Made Fiber Textiles and Apparel", equals or exceeds 40.0 for the preceding calendar year;

(4) The term "Country" means a foreign country (other than Canada and the Member States of the European Economic Community as constituted on January 1, 1985), a foreign territory, or an insular possession of the United States;

(5) The term "major exporting country" means a country (other than a country in the Caribbean region) from which the United States imported an annual aggregate quantity of textiles and textile products under all categories that equalled or exceeded 1.25 percent of all textiles and textile products under all categories imported into the United States from all countries and from Canada and the Member States of the European Economic Community during calendar year 1984;

(6) The term "country in the Caribbean region" means the United Mexican States and a country eligible for designation as a beneficiary country under section 212 of the Caribbean Basin Economic Recovery Act (19 U.S.C. 2702);...

(8) The term "exporting country" means a country other than a major exporting country;...

SEC. 5. LIMITS ON TEXTILE AND APPAREL IMPORTS

(a) Calendar Year 1985.--Notwithstanding any other provision of law, the aggregate quantity of textile and textile products classified under each category that is entered during calendar year 1985 shall not exceed--

(1) in the case of textiles and textile products that are a product of a major exporting country, the lesser of an amount equal to 101 percent (A) of the aggregate quantity of

such products from such country classified under such category that would have entered during calendar year 1984 if the aggregate quantity of such products from such country classified under such category entered during calendar year 1980 had increased by six percent annually during calendar years 1981, 1982, 1983 and 1984, or (B) if the United States has an agreement with such country providing for an annual growth rate for such category of less than six percent, of the aggregate quantity of such products from such country classified under such category that entered during calendar year 1984;

(2) in the case of textiles and textile products that are a product of an exporting country, an amount equal to the aggregate quantity of such products from such country classified under such category that entered during calendar year 1984, plus an amount equal to (A) fifteen percent of such quantity, in the case of a category that is not an import sensitive category, or (B) one percent, in the case of a category that is an import sensitive category.

For purposes of this section, if during any calendar year after 1984 the United States imports from a country, other than a country in the Caribbean region, that is not a major exporting country an aggregate quantity of textiles and textile products under all categories that equals or exceeds 1.25 percent of all textiles and textile products under all categories imported into the United States from all countries and from Canada and the Member States of the European Economic Community during such calendar year, then such country shall be considered to be a major exporting country for all succeeding calendar years.

(b) Growth Adjustment.--For calendar years after 1985, the aggregate quantity of textiles and textile products classified under each category that may be entered during each such calendar year shall--

(1) in the case of such products that are a product of a major exporting country, be increased by an amount equal to one percent of the aggregate quantity that could be entered under such category during the preceding calendar year; and

(2) in the case of such products that are a product of an exporting country, be increased by an amount equal to--

(A) in the case of a category (other than an import sensitive category) not covering a wool product, six percent of the aggregate quantity that could be entered under that category during the preceding calendar year, and

(B) in the case of an import sensitive category and a category covering a wool product, one percent of the aggregate quantity that could be entered under that category during the preceding calendar year.

(c) Minimum Quantities.--If, under subsection (a) or (b), the aggregate quantity of textiles and textile products from a country that may be entered during a calendar year under a category is--

(1) less than 1,000,000 square yard equivalents, in the case of a category covering yarn, fabric, made-ups, and miscellaneous products, other than wool products;

(2) less than 700,000 square yard equivalents, in the case of a category covering apparel, other than wool products apparel; or

(3) less than 100,000 square year equivalents, in the case of a category covering wool products,

then, notwithstanding subsection (a) or (b), the aggregate quantity of textiles and textile products that may be entered from such country under such category during the calendar year shall be 1,000,000, 700,000, or 100,000 square yard equivalents, respectively. The amount prescribed in the preceding sentence shall be accorded growth subject to the provisions of subsection (b) beginning the first calendar year after the aggregate quantity of imports from such country under such category equals the minimum quantity prescribed under this subsection.

(d) Enforcement.--The Secretary of Commerce shall prescribe such regulations governing the entry, or withdrawal from warehouse, for consumption of textiles and textile products as may be necessary to carry out this Act.

SEC. 6. IMPORT LICENSING.

In order to ensure the equitable and efficient administration of section 5 of this Act, the Secretary of Commerce shall, within six months after the date of enactment of this Act, establish and administer an import licensing system under which an importer of any textiles and textile products from any country and from Canada and the Member States of the European Economic Community, will be required to present an import permit as a condition of entry. The Secretary shall charge a fee for import licenses in such amount as may be necessary to cover the cost of administration of the system. ...

Appendix B

SUMMARY OF THE METHODOLOGY FOR, AND RESULTS OF, APPLYING THE PROVISIONS OF THE LEGISLATION TO 1984 TEXTILE AND APPAREL TRADE

I. Introduction

This appendix describes the methods used to apply the provisions of the Textile and Apparel Trade Enforcement Act of 1985 to 1984 textile and apparel trade in the first year that the new restrictions are implemented. It then presents the results for major exporting countries and for specific textile and apparel product categories.

II. The Methodology

A category by category analysis was conducted of the proposed restraint levels for each country deemed a "major exporting country" under the provisions of the legislation, as well as for eleven of the smaller exporting countries and Mexico. This analysis provided for each of these countries in each product category: (1) actual 1984 trade, (2) trade that would have occurred in 1984 if 1980 trade had grown by 6 percent per year from 1981 to 1984, (3) the minimum 1984 trade upon which one percent growth would be

applied to determine the first-year restraint level, (4) 1984 trade plus allowable growth (1 percent or, for minor exporters, 15 percent in certain categories), (5) 1985 restraint levels that would result if the bill's "minimum quantity" limit provisions were in force. Square yard equivalent data were employed.

For major exporting countries, the estimated cutback was based on item 3; for other exporting countries, growth was based on item 4. In categories where there was no trade in 1984, the restraint was set to zero. It was assumed that countries would completely fill quota limits in all individual product categories where any trade was recorded in 1984. To the extent that countries do not increase trade to the maximum amount permitted in every instance, the calculated reductions in trade would be larger than shown (or the gains would be smaller).

The total estimated cutback in imports from major exporting countries of textile and apparel is the sum of each country's separate cutback. In the case of exporting countries, eleven individual countries were chosen as a proxy for these countries in the aggregate. Mexico, because of its size relative to other exporting countries, was evaluated separately.

After separately calculating the percent cutbacks for both apparel and textile products for each group, a net trade-weighted change in trade was computed for all three groups: major exporting countries; exporting countries; and Mexico. This yielded the percent reductions in imports shown in Table 1 and in

Appendix C, Table C-1. These percentages were then applied to 1984 trade in pounds to derive the total volume of imports after the new restraints.

III. Impact by Country and Product Category

The results are summarized in Table 1. The detailed results for major exporting countries are shown in Table B-1. The impact on textile and apparel trade by individual product category is shown in Tables B-2 and B-3.

TABLE 8-1

IMPACT OF THE PROPOSED LEGISLATION
ON TRADE FROM MAJOR EXPORTERS
(Millions of Square Yard Equivalents & Percent)

Country	Textiles: New Restraint	Textiles: Actual 84 Trade	Textiles: Change Quantity	Textiles: Change Percent	Apparel: New Restraint	Apparel: Actual 84 Trade	Apparel: Change Quantity	Apparel: Change Percent	Total: New Restraint	Total: Actual 84 Trade	Total: Change Quantity	Total: Change Percent
Brazil	36.3	162.3	-126.1	-78%	30.4	32.7	- 2.2	- 7%	66.7	195.0	-128.3	-66%
China	221.2	545.5	-324.4	-59	205.9	445.3	-239.4	-54	427.0	990.8	-563.8	-57
Hong Kong	221.0	234.1	-23.1	-10	715.1	814.8	-99.7	-12	926.1	1048.9	-122.8	-12
India	121.7	122.0	- 0.3	*	103.4	131.1	-27.7	-21	225.2	253.1	-27.9	-11
Indonesia	14.4	139.5	-125.1	-90	26.0	128.4	-102.3	-80	40.4	267.8	-227.4	-85
Japan	486.1	599.8	-113.7	-19	120.3	137.9	-17.6	-13	606.4	737.7	-131.3	-18
Korea	202.0	480.3	-278.3	-58	576.2	686.5	-110.3	-16	778.2	1166.8	-388.6	-33
Pakistan	158.5	241.5	-83.0	-34	37.2	63.2	-26.0	-41	195.7	304.7	-109.0	-36
Philippines	21.0	7.5	+13.5	+179	188.0	234.4	-46.4	-20	209.0	241.9	-32.9	-14
Singapore	48.6	12.1	+36.4	+300	103.8	127.8	-24.1	-19	152.3	140.0	+12.0	+ 9
Taiwan	143.7	647.1	-503.4	-78	694.4	935.5	-241.1	-26	838.1	1582.7	-744.5	-47
Thailand	39.4	105.7	-66.3	-63	56.9	106.3	-49.5	-47	96.2	212.0	-115.8	-55
Total	1,713.9	3,297.4	-1,593.8	-48	2,857.6	3,843.9	-986.3	-26	4,561.3	7,141.4	-2,580.3	-36

*Less than 0.50 percent.

SOURCE: International Business and Economic Research Corporation.

Table B-2

Projected Change in Textile Imports from Twelve Major Exporting Countries, By Product Category (Quantities in Millions of Square Yard Equivalents)

Product Category	Product Description	Actual 1984 Trade	New Restraint Level	Quantity Gain/ Cutback	Percent Gain/ Cutback
300	Carded Yarn	34.901	10.773	-24.128	-69.13%
301	Combed Yarn	39.965	8.000	-31.965	-79.98%
310	Gingham	17.247	11.641	-5.606	-32.50%
311	Velveteen	0.524	4.489	3.965	756.68%
312	Corduroy	3.906	4.000	0.094	2.41%
313	Sheeting	345.801	237.351	-108.450	-31.36%
314	Poplin & Broadcloth	69.568	15.060	-54.508	-78.35%
315	Printcloth	328.958	113.602	-215.356	-65.47%
316	Shirting	3.435	6.000	2.565	74.67%
317	Twill & Sateen	140.250	119.539	-20.711	-14.77%
318	Yarn-dyed, n.e.s.	18.125	15.548	-2.577	-14.22%
319	Duck	82.238	75.785	-6.453	-7.85%
320	Woven Fabrics, n.e.s.	298.801	109.939	-188.862	-63.21%
360	Pillowcases	4.717	11.214	6.497	137.73%
361	Sheets	19.126	9.000	-10.126	-52.94%
362	Bedspreads & Quilts	4.911	12.791	7.880	160.46%
363	Terry & Other Pile Towels	41.521	31.035	-10.486	-25.26%
369	Other Cotton Manufactures	390.443	185.757	-204.686	-52.42%
400	Tops & Yarn	7.982	0.989	-6.993	-87.60%
410	Woolen & Worsted	16.053	9.382	-6.671	-41.56%
411	Tapestry & Upholstery	0.190	0.500	0.310	163.16%
425	Knit	0.092	0.200	0.108	117.39%
429	Other Fabrics, n.e.s.	0.000	0.000	0.000	0.00%
464	Blankets	0.010	0.400	0.390	3783.50%
465	Floor Coverings	4.473	2.914	-1.559	-34.86%
469	Other Wool Manufactures	0.180	0.630	0.450	249.65%

Table B-2 (cont'd)

Projected Change in Textile Imports from Twelve Major Exporting Countries,
By Product Category
(Quantities in Millions of Square Yard Equivalents)

Product Category	Product Description	Actual 1984 Trade	New Restraint Level	Quantity Gain/ Cutback	Percent Gain/ Cutback
600	Textured	39.338	16.085	-23.253	-59.11%
601	Continuous Cellulosic	5.602	8.303	2.701	48.22%
602	Continuous Noncellulosic	136.755	108.212	-28.543	-20.87%
603	Noncontinuous Cellulosic	1.054	1.522	0.468	44.45%
604	Noncontinuous Noncellulosic	40.907	34.594	-6.313	-15.43%
605	Other Yarns	27.688	16.361	-11.327	-40.91%
610	Continuous Cellulosic, Woven	10.078	19.077	8.999	89.29%
611	Spun Cellulosic, Woven	18.689	14.579	-4.110	-21.99%
612	Continuous Noncellulosic, Woven	279.670	180.738	-98.932	-35.37%
613	Spun Noncellulosic, Woven	130.197	35.582	-94.615	-72.67%
614	Woven Fabrics, n.e.s.	73.867	33.243	-40.624	-55.00%
625	Knit	10.486	21.083	10.597	101.06%
626	Pile & Tufted	1.127	6.000	4.873	432.39%
627	Specialty	50.883	95.574	44.691	87.83%
665	Floor Coverings	4.399	8.196	3.797	86.31%
666	Other Furnishings	62.560	29.045	-33.515	-53.57%
669	Other Manmade Manufactures	165.830	69.120	-96.710	-58.32%
670	Flat Goods, Handbags & Luggage	365.101	11.000	-354.101	-96.99%
	Total	3297.648	1704.854	-1592.794	-48.30%

Source: International Business and Economic Research Corporation

Table B-3

Projected Change in Apparel Imports from Twelve Major Exporting Countries
By Product Category
(Quantities in Millions of Square Yard Equivalents)

Product Category	Product Description	Actual 1984 Trade	New Restraint Level	Quantity Gain/ Cutback	Percent Gain/ Cutback
330	Handkerchiefs	4.857	8.568	3.711	76.41%
331	Gloves	46.307	37.127	-9.180	-19.83%
332	Hosiery	2.183	4.200	2.017	92.40%
333	Suit-type Coats, M&B	4.702	8.459	3.757	79.90%
334	Coats, Non-suit, M&B	31.955	23.392	-8.563	-26.80%
335	Coats, WG&I	65.806	56.637	-9.169	-13.93%
336	Dresses	47.310	31.335	-15.975	-33.77%
337	Playsuits	61.210	43.732	-17.478	-28.55%
338	Knit Shirts, M&B	62.583	40.324	-22.259	-35.57%
339	Knit Shirts & Blouses, WG&I	55.084	47.158	-7.926	-14.39%
340	Shirts, Not Knit, M&B	158.897	131.691	-27.206	-17.12%
341	Blouses, Not Knit, WG&I	110.904	95.550	-15.354	-13.84%
342	Skirts	32.331	20.635	-11.696	-36.18%
345	Sweaters	30.417	22.223	-8.194	-26.94%
347	Trousers, etc., M&B	74.178	66.577	-7.601	-10.25%
348	Trousers, etc., WG&I	175.656	148.418	-27.238	-15.51%
349	Brassieres, etc.	0.656	4.900	4.244	646.95%
350	Dressing Gowns	20.695	11.625	-9.070	-43.83%
351	Nightwear	95.819	69.953	-25.866	-26.99%
352	Underwear	62.894	31.027	-31.867	-50.67%
353	Down-filled Coats, M&B	0.595	3.500	2.905	488.24%
354	Down-filled Coats, WG&I	0.495	4.200	3.705	748.48%
359	Other Apparel	190.794	90.727	-100.067	-52.45%

Table B-3 (cont'd)

Projected Change in Apparel Imports from Twelve Major Exporting Countries
By Product Category
(Quantities in Millions of Square Yard Equivalents)

Product Category	Product Description	Actual 1984 Trade	New Restraint Level	Quantity Gain/ Cutback	Percent Gain/ Cutback
431	Gloves	0.755	0.602	-0.153	-20.26%
432	Hosiery	0.136	0.500	0.364	267.65%
433	Suit-type Coats, M&B	1.904	1.156	-0.748	-39.27%
434	Coats, Non-suit, M&B	2.079	1.512	-0.567	-27.30%
435	Coats, WG&I	8.008	5.189	-2.819	-35.20%
436	Dresses	5.653	4.523	-1.130	-19.99%
438	Knit Shirts, M&B	12.823	12.064	-0.759	-5.92%
440	Shirts, Not Knit, M&B	5.647	6.374	0.727	12.88%
442	Skirts	3.570	1.990	-1.580	-44.26%
443	Suits, M&B	2.847	2.446	-0.401	-14.07%
444	Suits, WG&I	3.477	1.287	-2.190	-62.98%
445	Sweaters, M&B	8.750	7.486	-1.264	-14.45%
446	Sweaters, WG&I	14.676	14.988	0.312	2.13%
447	Trousers, etc., M&B	2.921	2.281	-0.640	-21.90%
448	Trousers, etc., WG&I	2.150	1.860	-0.290	-13.50%
459	Other Apparel	5.587	4.782	-0.805	-14.41%

Table B-3 (cont'd)

Projected Change in Apparel Imports from Twelve Major Exporting Countries,
By Product Category
(Quantities in Millions of Square Yard Equivalents)

Product Category	Product Description	Actual 1984 Trade	New Restraint Level	Quantity Gain/ Cutback	Percent Gain/ Cutback
630	Handkerchiefs	1.195	4.200	3.005	251.46%
631	Gloves	32.047	18.813	-13.234	-41.30%
632	Hosiery	14.666	6.607	-8.059	-54.95%
633	Suit-type Coats, M&B	6.706	7.181	0.475	7.09%
634	Coats, Non-suit, M&B	121.684	88.052	-33.632	-27.64%
635	Coats, WG&I	133.537	95.537	-38.000	-28.46%
636	Dresses	81.337	51.872	-29.465	-36.23%
637	Playsuits	22.737	19.720	-3.017	-13.27%
638	Knit Shirts, M&B	141.859	108.268	-33.591	-23.68%
639	Knit Shirts & Blouses, WG&I	245.964	202.919	-43.045	-17.50%
640	Shirts, Not Knit, M&B	302.606	274.323	-28.283	-9.35%
641	Blouses, Not Knit, WG&I	73.306	51.473	-21.833	-29.78%
642	Skirts	19.174	11.398	-7.776	-40.56%
643	Suits, M&B	8.745	8.129	-0.616	-7.05%
644	Suits, WG&I	18.214	10.207	-8.007	-43.96%
645	Sweaters, M&B	73.902	70.118	-3.784	-5.12%
646	Sweaters, WG&I	285.227	279.157	-6.070	-2.13%
647	Trousers, etc., M&B	93.507	46.762	-46.745	-49.99%
648	Trousers, etc., WG&I	139.982	89.265	-50.717	-36.23%
649	Brassieres, etc.	26.197	23.648	-2.549	-9.73%
650	Dressing Gowns	10.541	9.043	-1.498	-14.21%
651	Nightwear	31.258	12.928	-18.330	-58.64%
652	Underwear	104.052	35.764	-68.288	-65.63%
653	Down-filled Coats, M&B	6.046	4.200	-1.846	-30.53%
654	Down-filled Coats, WG&I	4.268	4.200	-0.068	-1.59%
659	Other Apparel	427.904	252.788	-175.116	-40.92%
	Total	3843.972	2857.567	-986.405	-25.66%

Source: International Business and Economic Research Corporation

Appendix C

THE MODEL AND EMPIRICAL RESULTS

This appendix describes the theoretical model used to calculate the impact of the Textile and Apparel Trade Enforcement Act of 1985 on the textile and apparel imports it would restrict. It provides estimates of the legislation's annual cost to consumers, the costs and benefits to U.S. workers, the cost to the U.S. government and the impact on prices. In addition, estimates are provided of the costs of the bill over the first 5 years of its term.

Section I outlines the model and presents the empirical results of the costs to consumers. Section II discusses the impact of the legislation on employment, and Section III, on prices. Section IV estimates the loss to the U.S. government of tariff revenues which would result from the legislation and discusses the costs associated with an import licensing system. Finally, Section V focuses on the longer-run impact of the bill, particularly over the first 5 years of its operation.

I. Costs to Consumers

A partial equilibrium model was used to estimate the total cost to consumers of additional quotas on apparel and on

textiles,[1/] [2/] and the distribution of those costs among the government, foreign suppliers, and society in general. It was assumed that domestic imported apparel and textiles are each imperfect substitutes for domestic apparel and textiles, and the domestic and import supply curves of each product category are infinitely elastic (i.e., horizontal).[3/] An infinitely

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1/ "Textiles" encompasses fabrics, yarns, and madeup and miscellaneous textile products other than finished apparel.

2/ The Textile and Apparel Trade Enforcement Act of 1985 divides imports into three categories: 1) Canada and the EC; 2) major exporting countries; and 3) all other. The latter two groups are the categories which would face higher quotas under this legislation. This analysis focuses on the impact of the legislation on restricted imports only. It is assumed that imports from unrestricted countries are sufficiently differentiated from those of restricted countries that additional quotas on the latter will not substantially change the overall demand for the former. Import and apparent consumption data are therefore net of imports from the EC and Canada. The estimates of the impact on prices, for example, therefore apply to prices of imports from restricted countries only.

3/ The literature on estimates of the costs of protection to consumers of textiles and apparel is extensive. Most of the authors of these studies postulated differentiated product models with flat domestic supply curves for apparel and textiles. See, for example: Morris E. Morkre and David G. Tarr, _Effects of Restrictions on United States Imports: Five Case Studies and Theory_, Federal Trade Commission, Bureau of Economics, June 1980; Randolph C. Martin and Joseph Pelzman, "The Regional Welfare Effects of Tariff Reductions on Textile Products," _Journal of Regional Science_, Vol. 23, No. 3, 1983, pp. 323-336; Morris E. Morkre, _Import Quotas on Textiles: The Welfare Effects of United States Restrictions on Hong Kong_, Federal Trade Commission, Bureau of Economics, August 1984; Joseph Pelzman and Charles E. Bradberry, "The Welfare Effects of Reduced U.S. Tariff Restrictions on Imported Textile Products," _Applied Economics_, Vol. 12, 1980, pp. 455-465; Joseph Pelzman and Randolph C. Martin, "Direct Employment Effects of Increased Imports: A Case Study of the Textile Industry," _Southern Economic Journal_, Vol. 48, 1981, pp. 412-426.

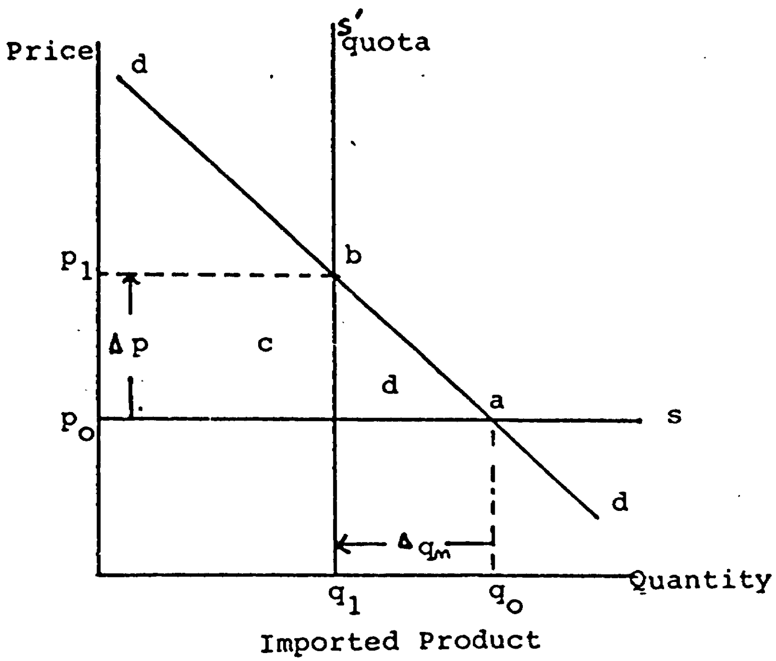
elastic supply curve means that no individual producer can affect the price the consumer pays for imports or for domestic production, particularly over the relevant range of import quantities under consideration.

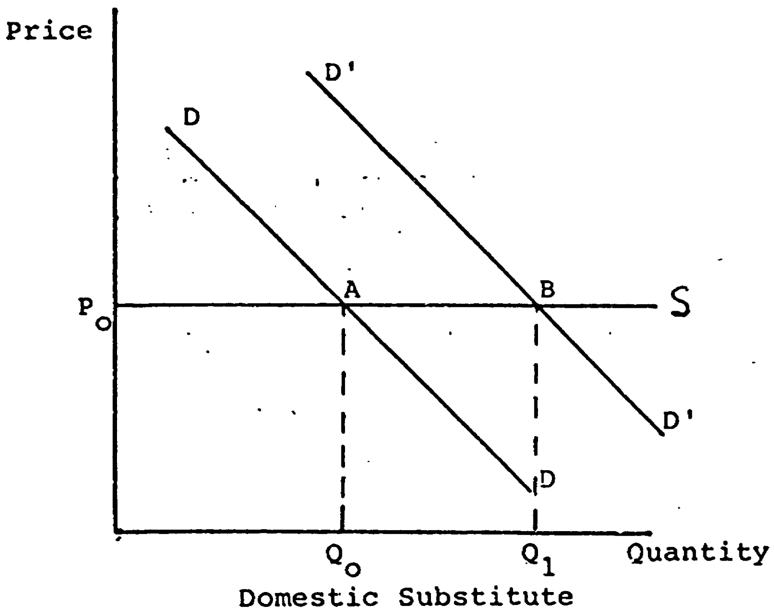
The traditional analysis of the welfare effects of a quota are shown in Figure C-1. The diagram at the top depicts the U.S. market for imports, with dd the demand curve for imports and p_0s the supply curve. The import supply curve is assumed to be infinitely elastic (flat) at the prevailing price 4/, signifying that no foreign supplier is large enough to singly affect the prevailing market price. Equilibrium is at point a, where q_o is the volume of imports supplied in the U.S. market at p_o Price in the base year.

(Footnote 3 continued)
Within the relevant range, a completely elastic domestic supply curve is realistic. Both industries are more labor-intensive than the average for manufacturing. According to data in the 1984 Statistical Abstract of the United States (pp. 768-769), value added per employee for all manufacturing in 1981 was $41,330; for textile mill products, $24,794, and for apparel and other textile products, $20,596. Thus, because the industries are relatively labor-intensive, barriers to entry are fairly easy, relative to the manufacturing average, for new textile or apparel firms, especially in the long run (after 2-3 years, e.g.). For apparel producers, especially, capital barriers are virtually nonexistent. For textile producers, a case can be made that, in the short run, enough excess capacity exists in the industry that an increase in immediate demand could be filled easily by existing capacity. Over the long run, there is no reason why new suppliers cannot avail themselves of existing technology and resources and move into production fairly quickly.

4/ In this case, the prevailing price is not the world price due to already existing quotas and tariffs in United States.

FIGURE C-1





The diagram at the bottom of Figure C-1 represents the U.S. market for the domestic substitute. DD is the domestic demand curve, and P_oS the supply curve. At the domestic price of P_o, U.S. producers are willing to supply only Q_o units, and equilibrium is at point A.

The Textile and Apparel Trade Enforcement Act of 1985 would impose additional quotas on textile and apparel imports. In the import product diagram in Figure C-1, the quota is represented by the vertical line at q_1, the new, reduced, volume of imports permitted by the legislation in the first year. As imports are reduced, import prices rise to p_1. The new import supply curve is p_1bs'. A new equilibrium position is established at b. The decrease in imports available shifts the domestic demand curve of the substitute good to D'D'. This shift reflects the substitution by consumers of the competing domestic good for the now more expensive import. The extent of the shift from DD to D'D' depends on the degree of substitutability between the two goods. The new domestic substitute equilibrium position occurs at point B. The quantity of imports has decreased from q_o to q_1 and domestic output has increased from Q_o to Q_1.

The cost to the economy of a quota results from the reduction it causes in consumer surplus. Consumer surplus is the excess of what consumers would have been willing to pay for a product over what they actually paid (the market price). When the price of a product increases due to, for example, a quota, consumer surplus

is reduced. The reduction in consumer surplus is a loss in real income to consumers because the price of a product has increased.

In a differentiated product model, the reduction in consumer surplus has two elements. One is called quota rent, and the second, consumer deadweight loss. The former is represented by rectangle "c" in Figure C-1, the latter by triangle "d". The total cost to consumers of the new quotas on imports is the sum of areas "c" and "d". It is the excess of what consumers had to pay for imports at the quota-induced increased price, over what they would have paid in the absence of the quota.

Quota Rent. Quota rent may be a transfer of real income from consumers to foreign suppliers (who now receive a higher price selling in the U.S. market), or a transfer from consumers to the government. The transfer of real income goes directly to foreign suppliers if import licences are distributed to them without cost. But if the government auctions off import licences to domestic importers, the transfer is to the government, which earns revenues equal to the area of "c". If the government distributes the quota rents to U.S. textile and apparel importers at no cost, the quota rent remains in the United States.[5]

5/ In certain situations quota rents could accrue separately to domestic and foreign interests at the same time. This would occur, for example, when licenses are distributed to historical importers of record in the United States, even as foreign suppliers establish their own restrictive export licensing schemes, especially schemes emphasizing the export of higher unit value goods. In this case the consumer could pay twice for the restraints.

It should be emphasized that even if the quota rent remains in the United States, the total cost of the quotas to U.S. consumers will not diminish. The quotas will always reduce consumer surplus, directing some portion of it either abroad, to the government, or to U.S. importers. Not every American is a beneficiary. Too often, discussion of the costs of a quota is diverted to net costs, and soon forgotten is the fact that the total cost to the average consumer has not been reduced.

The formula to measure quota transfer is:

$$QR = \Delta p(q_1)$$

where Δp = the change in price

q_1 = the volume of imports permitted under the quota.

Δp is calculated by:

$$\Delta p = p_o (\Delta q_m / q_o)/n$$

where

p_o = the initial price of imports

Δq_m = the cutback in imports (in volume)

q_o = the initial level of imports

n = the import elasticity of demand

Using the data provided in Table C-1, the immediate increase in the price of apparel imports resulting from the quotas is:

$$\Delta p = (\$10.94)(-.20)/(-1.24) = \$1.76$$

For textiles:

$$\Delta p = (\$3.10)(-.36)/(-1.10) = \$1.01$$

Table C-1

U.S. Apparel Data

A. Trade Data

Total 1984 imports (including finished apparel) (q_o), (millions of pounds) 1/	1,506
Total 1984 imports (millions of dollars) 2/	$16,469
Unit value of imports, 1984 (p_o)	$ 10.94
Elasticity of import demand (n) 3/	-1.24
Imports after quota (q_1), (millions of pounds) 4/	1,205
Percent cutback in q_o 4/	-20%
Domestic apparel consumption, 1984 (millions of pounds) 5/	5,802
Domestic apparel production, 1984 (millions of pounds) 5/	4,423

B. Employment Data 6/

Manufacturing employment (SIC 23), 1984 (in 000s)	1,202
Retail employment, 1984 (in 000s)	2,001

U.S. Textile Data

A. Trade Data

Total 1984 imports (excluding finished apparel) (q_o), (millions of pounds) 1/	1,147
Total 1984 imports (millions of dollars) 2/	$ 3,552
Unit value of imports, 1984 (p_o)	$ 3.10
Elasticity of import demand (n) 3/	-1.10
Imports after quota (q_1), (millions of pounds) 4/	734
Percent cutback in q_o 4/	-36%
Domestic textile production, 1984 (millions of pounds) 5/	7,109
Domestic textile consumption, 1984 (millions of pounds) 5/	3,959

B. Employment Data 6/

Manufacturing employment (SIC 22), 1984 (in 000s)	753
Retail employment, 1984 (in 000s)	177

Footnotes to Table C-1

1. Net of the European Community and Canada, since they are excluded from the legislation. Estimated from Textile Organon, various issues.

2. Net of the European Community and Canada. From the U.S. Department of Commerce, Bureau of Labor Statistics, Highlights of U.S. Export and Import Trade, FT 990, Dec. 1984. The customs value of imports was increased by the 1984 trade weighted tariff rates calculated by the U.S. International Trade Commission as follows:

   Apparel 23.0%
   Textiles 13.05%

   Then the estimated value of insurance, freight and handling costs were added to get the total market value of imports.

3. For apparel, the elasticity is from Joe A. Stone, "Price Elasticities of Demand for Imports and Exports: Industry Estimates for the U.S., the E.E.C. and Japan," The Review of Economics and Statistics, Vol. 61, No. 2, May 1979, p. 308.

   For textiles, the elasticity is from Margaret Buckler and Clopper Almon, "Imports and Exports in an Input-Output Model", American Statistical Association, Proceedings of the Business and Economic Statistics Section, 1972, pp. 175-84.

4. See Appendix B.

5. Net of imports from Canada and EC. Derived from Textile Organon and U.S. Department of Agriculture, Cotton and Wool Outlook and Situation Report, April, 1985.

6. Department of Labor, Bureau of Labor Statistics, Employment and Earnings, March 1985. The number of employees in the "Department Stores" category that is apparel-related or textile-related was calculated on the basis of apparel and textile sales shares by type of store from Jay Scher, Department and Specialty Store Merchandising and Operating Results, Financial Executives Division, National Retail Merchants Association, p. xviii.

Therefore, for apparel, the value of the quota rent is:

QR = \$1.76 (1,205)
= \$2,121 million

For textiles,

QR = \$1.01 (734)
= \$741 million

Consumer Deadweight Loss. Deadweight loss is a measure of the cost to society of inefficiencies resulting from the need for consumers to purchase less satisfactory substitute products than they otherwise would have bought if the import were available at its former price. It is a cost incurred every year the quota is in place (it is an annual *flow*). While quota rent represents a "reshuffling" of one part of the total cost to the consumer of a quota from one group to another, deadweight loss is so-called because it accrues to no one. It is represented in Figure C-1 by area "d".

The consumption deadweight loss formula is:[6/]

$$DWL = 0.5\ (\Delta q_m)(\Delta p)$$

where $\Delta q_m = q_o - q_1$

6/ Substituting the appropriate definitions for Δq_m and Δp into the formula and simplifying, we get:

$$DWL = 0.5[p_o(q_o - q_1)^2/(nq_o)]$$

The simplified version of this formula shown in the text is straight substitution of the appropriate values for Δq_m and Δp calculated for the quota transfer. The results obtained with either formula are exactly the same.

For apparel,

DWL = 0.5 (301)($1.76)
= $265 million

For textiles,

DWL = 0.5 (413)($1.01)
= $209 million

Total Cost to the Consumer. The total cost to the consumer of additional quotas on apparel and textile products is the sum of the quota rent and deadweight loss. These costs are summarized in Table C-2. For apparel, the total cost to consumers amounts to $2,386 million. For textile products, the total cost to consumers is $950 million.[7/] Each of these costs also represents the welfare cost to society (employment benefits are discussed later) if all of the quota rent goes to foreign suppliers.

Note on Elasticities. Two import demand elasticities for apparel appear in the economic literature, -1.24 from Stone and -3.77 from Buckler and Almon. For textiles, import demand elasticities range from -2.43 (Cline), -1.10 (Buckler and Almon),

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7/ The cost of apparel quotas should not be added to the cost of textile quotas, because in reality changes in the textile sector will result in changes in the apparel sector (and vice versa). For example, a quota on textiles will ultimately increase the cost of U.S.-made apparel, which shifts outward the demand curve for imported apparel and changes the cost estimate reported for apparel. Such intersectoral impacts are not considered here.

and -0.73 (Stone).[8/]

In the shorter run, which is considered here, the import demand elasticity will be more inelastic than in the longer run. In the longer run, consumers and firms have the time they need to fully adjust to changes in price and demand so the domestic demand changes will be larger in the longer run than in the shorter run. Therefore, the most appropriate apparel elasticity for the purposes of this study is that of Stone. For textiles, the middle range estimate of Buckler and Almon was chosen. Had the more inelastic estimate of Stone been selected, the estimates for the costs of the legislation would be significantly higher than those presented here. To the extent that the more inelastic estimate is appropriate for the shorter run in textiles, the estimates presented here of the costs of the bill are understated.

II. Employment Effects

A. Apparel Manufacturing Employment

A methodology derived by Morkre[9/] was used to calculate

8/ See Table C-1 for citations for Stone and Buckler and Almon; William R. Cline, Noboru Kawanabe, T.O.M. Kronsjo and Thomas Williams, Trade Negotiations in the Tokyo Round: A Quantitative Assessment (Washington, D.C.: The Brookings Institution, 1978), p.58.

9/ Morris E. Morkre, Import Quotas on Textiles: The Welfare Effects of United States Restrictions on Hong Kong, Bureau of Economics Staff Report to the Federal Trade Commission, Aug. 1984, Appendix H.

Table C-2

TOTAL COST TO CONSUMERS OF THE PROPOSED LEGISLATION
(Millions)

Apparel

Quota Rent	$2,121
Deadweight Loss	265
Total Cost	$2,386

Textiles

Quota Rent	$ 741
Deadweight Loss	209
Total Cost	$ 950

the impact on manufacturing apparel employment.[10] According to that methodology, the change in U.S. apparel output is given by:

$$dQ/Q = e_c(dp/p) - e_d(dP/P)$$

where dQ/Q = the percent change in domestic output

e_c = the cross elasticity of demand

dp/p = the percent change in import price

e_d = the domestic elasticity of demand

dP/P = the percent change in the domestic price

But given a horizontal domestic supply curve, dP/P will equal zero, so that the last half of the formula disappears.

Now,

$$e_c = (M/C)(\sigma - e_d)$$

where M/C = total apparel imports' share (in value) of domestic

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10/ The discussion of employment effects focuses on direct impacts. Only secondary employment effects in upstream and supplier industries are not considered here. These effects would be felt on both sides.

On the domestic side, for example, employment in related supplier industries could be expected to benefit from the increase in demand for domestic textiles and apparel.

On the importing side, reductions in textile and apparel imports would result in layoffs in such service sectors as warehousing, shipping, brokering. Additional employment would be lost if U.S. exports decline as a result of foreign retaliation to increased textile and apparel protection, or more indirectly as a result of the inability to purchase as much from the U.S. because of declining foreign exchange.

consumption[11]

σ = elasticity of substitution between foreign apparel and the domestic substitute

Using Morkre's value for σ of 1.41,[12] and Houthakker's estimate of e_d, .282 [13],

$$e_c = (\$10,883/\$65,168)(1.41 - .282) = 0.188$$

Substituting into equation (1), we have:

$$dQ/Q = (0.188)(\$1.76/\$10.94) = 0.03$$

Therefore, domestic apparel production increases by 3 percent, or 133 million pounds.

In 1984, the domestic output to manufacturing labor coefficient for apparel was 3,680 pounds.[14] Applying this coefficient to the increase in domestic apparel production gives manufacturing employment estimates of:

(133,000/3.680) = 36,141 jobs

Dividing the total cost to consumers of additional quotas by

11/ The values of apparel imports and apparent consumption were averaged for 1982-84. From U.S. Department of Commerce, International Trade Administration, 1985 U.S. Industrial Outlook, pg. 45-3.

12/ Ibid, p. 66.

13/ H.S. Houthakker, "New Evidence on Demand Elasticities," Econometrica, Vol. 33, No. 2, April 1965, p. 280.

14/ (4,423/1.202) = 3,680 pounds per worker.

manufacturing employment supported[15/] gives costs per job of $66,019 in the first year of the quota.

The value of the benefit to apparel workers is computed by multiplying the number of supported jobs by: the average hourly wage for apparel manufacturing workers ($5.53), the average hours worked per week (36.4), and the average number of weeks of apparel unemployment per year (14.5).[16/] Thus, the employment benefit resulting from the additional apparel quotas is:

(36,141)($5.53)(36.4)(14.5) = $106 million

Subtracting benefits to apparel workers from the total cost to the consumer yields *net* costs of:

$2,386 million - $106 million = $2,280 million

The cost/benefit ratio[17/] for apparel is

15/ The correct terminology for textiles and apparel is "employment supported," or "employment saved," rather than "employment created." Because these industries are not operating at full capacity, an increase in demand generates work for underemployed labor already on the payroll, forestalling layoffs. If the industry were operating at capacity, an increase in demand would require the hiring of additional workers, and employment would be "created."

16/ From U.S. Department of Labor, Bureau of Labor Statistics, *Employment and Earnings*, March 1985, pp. 96-97, and unpublished BLS data. The period of unemployment is the correct period over which to calculate the benefit to labor. The quota benefits are only those wages that would have been lost during an average period of unemployment, not during a full year.

17/ The cost/benefit ratios calculated in this study measure the amount the consumer pays for every dollar of benefit to manufacturing employees. Traditional cost/benefit ratios measure the cost to the *economy* per dollar of benefit to the *economy*. To calculate this sort of ratio, one would need to know the costs and

Table C-3

MANUFACTURING EMPLOYMENT IMPACT

Apparel	
Number of jobs supported	36,141
Cost per job	$66,019
Value of employment benefit	$106 million

Textiles	
Number of jobs supported	35,272
Cost per job	$26,934
Value of employment benefit	$179 million

$2,386/million/$106 million = $23,

or $23 of cost to the consumer for every dollar of benefit to labor.

In addition, improvements in labor productivity over time should be recognized. It has been estimated that productivity in apparel improves at a rate of 3.9 percent a year.18/ This means that, for each year of the apparel quotas, it will take 3.9 percent less labor to produce the 133 million pounds of additional domestic apparel output generated by the quota. The number of new jobs created by the quota will be reduced each year due to productivity improvements.

Assuming the increases in domestic apparel production is the same for each of the next 5 years, the effects on employment taking productivity improvements into account are shown in Table C-4. Productivity advancement itself will result in layoffs in both textiles and apparel. The employment created by the quota is therefore only temporary: 5,000 of the 36,000 apparel jobs created -- 14 percent -- will be lost by the fifth year of the quota.

(Footnote 17 continued)
benefits to the economy of already -- existing quotas, and compare those costs to the increment of the new quotas, a procedure beyond the scope of this exercise.

18/ Jesse Helms, News Release, "Statement by Sen. Jesse Helms, March 19, 1985: Fair Trade in Textiles/Apparel Act," p.2.

TABLE C-4

IMPACT OF PRODUCTIVITY IMPROVEMENT ON EMPLOYMENT CREATED BY THE LEGISLATION, 5 YEARS

Year	Output-Labor Coefficient (lbs. per worker)	Employment Impact (# of jobs)
I. Apparel		
1	3,680	36,141
2	3,824	34,780
3	3,973	33,476
4	4,128	32,219
5	4,289	31,010
II. Textiles		
1	9,441	35,272
2	9,838	33,848
3	10,251	32,485
4	10,681	31,769
5	11,130	29,919

B. Textile Manufacturing Employment

Because the necessary values for the elasticity of substitution and domestic elasticity of demand for textiles are not available, a methodology derived by Pelzman and Martin is employed to estimate the impact of a change in imports on domestic production.[19] This methodology calculates the effect of a change in the quantity of imports (rather than the price of imports) on domestic production.

To determine the change in output, Pelzman and Martin employ two equations:

$$dM/M = (q_1 - q_o)/q_o$$

$$dQ/Q = b(dM/M)$$

where

dM/M = the percent change in imports resulting from the quota

dQ/Q = the percent change in domestic production

b = the long-run import elasticity of output

Pelzman and Martin estimate the value of b for textiles as -0.26. In general, long-run elasticities will be larger than short-run elasticities.[20] Other studies that have

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19/ Joseph Pelzman and Randolph C. Martin, "Direct Employment Effects of Increased Imports: A Case Study of the Textile Industry," Southern Economic Journal, Vol. 48, 1981, pp. 412-426. The equations have been modified to apply to the addition of a quota (rather than the reduction of a tariff).

20/ Houthakker and Taylor show that, in the case where inventory adjustments are present, the long-run demand elasticity can be less than the short-run elasticity, even though on balance

estimated the costs of tariffs or quotas used short-run elasticities that were much smaller than long-run elasticities. For example, the Council on Wage and Price Stability used a short-run elasticity of demand for apparel that was exactly half of the value of the long-run elasticity.21/ The larger elasticities of import demand listed earlier in this Appendix (p.8) were each at least double the import demand elasticities appropriate for short-run analysis. Therefore, the Pelzman and Martin long-run elasticity can be estimated, for the purposes of this study, as a short-run elasticity by halving it. The value for b becomes -0.13.

The change in domestic textile output is:

$$dQ/Q = (-0.13)(-0.36) = 0.0468$$

Therefore, as a result of a 36 percent reduction in textile imports (413 million pounds), domestic textile production would increase almost 5 percent, or by 333 million pounds.22/

(Footnote 20 continued)
the "habit formation" phenomenon generally dominates the "inventory adjustment" phenomenon, so that the long-run elasticities exceed the short-run elasticities. See H.S. Houthakker and Lester D. Taylor, in Consumer Demand in the United States, 1929-70: Analyses and Projections (Harvard University Press, 1970).

21/ Council on Wage and Price Stability, Textiles/Apparel: A Study of the Textile and Apparel Industries (Washington, D.C.: July, 1978).

22/ Alternatively, the employment impact of additional quotas could have been measured by employing the (unrealistic) assumption that domestic production increases by the full amount of the decline in imports. This assumption is unrealistic because, in

In 1984, the domestic output to manufacturing labor coefficient for textiles was 9,441 pounds (7,109 million pounds/753 thousand workers). Applying this coefficient to the increase in domestic textile production gives manufacturing employment estimates of:

333 million/9.441 = 35,272 jobs

The cost to the consumer per job supported is $26,934.

The value of these benefits to textile workers is computed the same way as that for apparel workers:

(35,272)($6.46)(39.9)(19.7) = $179 million.

The cost/benefit ratio for textiles is

$950 million/$179 million = $5.31,

or $5 of cost for every dollar of benefit.

It is estimated that textile productivity improves at a rate

(Footnote 22 continued)
reality, the increase in prices, as well as the inability of domestic producers to supply, pound for pound, many imported products which are substantially different from domestic substitutes, will result in a net <u>decline</u> in the volume of textiles demanded. A "one-for-one" assumption yields employment estimates of 43,745, an <u>overstatement</u> of the number of jobs that would be created in textile manufacturing. The <u>net</u> employment benefit (manufacturing jobs created less retail jobs lost) would also be overstated because the companion assumption that there is no net decline in textile consumption precludes an estimate of the number of jobs that would be lost in the textile retail sector. All that can be said with any certainty is that, in the unlikely case that <u>all</u> of the decline in imports is made up by domestic production, <u>at the very most</u>, 43,745 jobs would be supported. The estimate reported in the text therefore more closely approximates the actual number of jobs that would be supported by this legislation.

of 4.2 percent a year.[23/] The productivity-induced reductions in the number of jobs supported are shown in Table C-3. Only 30,000 of the 35,000 textile jobs supported by the Act will remain after 5 years, a reduction due to productivity improvements of 15 percent.

Subtracting the total cost to the consumer from the benefits to textile workers yields total net costs of $771 million. Again, this net cost understates the true cost because the one-for-one assumption means that the textile employment benefits are higher than they would be in reality.

C. Impact on Apparel Retail Employment

Additional quotas on apparel would result in major job losses in the retail sector. This is because reduced imports would not be fully replaced by increased sales of the domestic substitutes. Faced with higher average domestic prices, consumers would purchase smaller total quantities from both imported and domestic sources.

To calculate the impact of the quotas on apparel retail employment, we first calculate the net decline in retail sales (consumption). This will be the sum of the decline in imports and the increase in domestic production (in millions of pounds):

23/ Helms, op. cit., p.2.

Apparel

Decline in imports	- 301
Increase in domestic output	+ 133
Net decline in consumption	- 168

Because both import and domestic supply curves are infinitely elastic (i.e., price effects are held constant), a percent change in the volume of imports or in the volume of domestic production will be the same as a percent change in value of imports or of production. Thus, a 2.9 percent decline in the volume of consumption is equivalent to a 2.9 percent decline in the value of consumption (retail sales).

The ratio of apparel consumption to apparel retail employment in 1984 was (5,802/2.001), or 2,900 pounds per employee. A net decline in apparel consumption of 168 million pounds results in apparel retail employment declines of 57,931. The cost of this unemployment to the retail workers who lose their jobs is equal to their foregone earnings in 1984 dollars. This cost is equal to,:[24/]

(57,931)($5.15)(28.1)(15.5) = $130 million.

Subtracting the benefits to apparel manufacturing workers, net of the costs of apparel retail unemployment, from the total cost to consumers calculated above results in the following net cost to consumers of apparel quotas:

24/ Employment and Earnings, op. cit., p. 100-101, and unpublished BLS data.

Table C-5

RETAIL EMPLOYMENT IMPACT

Apparel	
Number of jobs lost	57,931
Value of unemployment	$130 million

Textiles	
Number of jobs lost	3,577
Value of unemployment	$8 million

51-752 O—85——13

Total cost to consumer	$2,386 million
Manufacturing employment benefit	- 106 million
Retail unemployment cost	+ 130 million
Net cost to consumer	$2,410 million

The cost of unemployment in the apparel retail sector, $130 million exceeds the benefit to apparel manufacturing workers, $106 million. More workers lose jobs in the apparel retail sector (57,931) than gain jobs in the apparel manufacturing sector (36,141).

D. Impact on Textile Retail Employment

Additional quotas on textiles would also result in job losses in the retail sector. Using the same procedure that was employed to estimate apparel retail job losses, the decline in textile consumption (in millions of pounds) is:

Decline in imports	413
Increase in domestic output	333
Net decline in consumption	80

The ratio of textile consumption to textile retail employment in 1984 was (3,959/.177), or 22,367 pounds per employee. A net decline in textile consumption of 80 million pounds results in textile retail employment declines of 3,577. The cost of this unemployment to the retail workers who lose their jobs is equal to their foregone earnings:

(3,577)($5.15)(28.1)(15.5) = $8 million

Subtracting the benefits to textile manufacturing workers, net of the costs to textile retail unemployment, from the total

cost to the consumer calculated above results in the following net cost to consumers of textile quotas:

Total cost to consumer	$950 million
Manufacturing employment benefit	-179 million
Retail unemployment cost	+ 8 million
Net cost to consumer	$779 million

E. Regional Distribution of Employment Effects

While the imposition of quotas can be expected to support jobs in the manufacturing sector and cost jobs in the retail sector, the job gains and losses will not be distributed evenly throughout the country. The imposition of new quotas on textile and apparel imports will have significant distributional effects at the state level. Some states will experience a net gain; most will experience net losses.

To distribute the employment impact of the proposed legislation by state, it was necessary to make some simplifying assumptions, and the results therefore should most appropriately be used for the analysis of relative rather than actual burdens. First, it was assumed that the employment effect of additional quotas for an individual state is proportional to the size of textile and apparel manufacturing or retail employment in that state. Second, it was assumed that the proportion of retail employment related to textiles and apparel was the same for each state as for the national as a whole.

Table C-6 shows the distribution by state of the 35,272 textile and 36,141 apparel manufacturing jobs supported. As would

Table C-6

ESTIMATED DISTRIBUTION OF JOBS SUPPORTED BY THE LEGISLATION IN TEXTILE AND APPAREL MANUFACTURING, BY REGION AND STATE
(Number of jobs)

Region/State	Jobs	Region/State	Jobs
South	41,129	Midwest	4,029
Alabama	3,495	Illinois	572
Delaware	62	Indiana	408
Florida	1,135	Iowa	126
Georgia	7,194	Kansas	108
Kentucky	1,069	Michigan	635
Maryland	462	Minnesota	196
Mississippi	1,434	Missouri	988
North Carolina	13,090	Nebraska	69
South Carolina	6,787	Ohio	517
Tennessee	3,271	Wisconsin	410
Virginia	3,013		
West Virginia	117		
Northeast	17,251		
Connecticut	623	Mountains	621
Maine	477	Arizona	150
Massachusetts	2,059	Colorado	115
New Hampshire	278	New Mexico	106
New Jersey	2,251	Utah	250
New York	5,862		
Pennsylvania	5,022		
Rhode Island	628		
Vermont	51		
Southwest	3,142	West	4,290
Arkansas	484	California	3,937
Louisiana	283	Hawaii	112
Oklahoma	277	Oregon	164
Texas	2,098	Washington	189

SOURCE: International Business Economic and Research Corporation, derived from unpublished BLS data.

Table C-7

ESTIMATED DISTRIBUTION OF RETAIL JOBS LOST AS A RESULT OF THE LEGISLATION, BY REGION AND STATE
(Number of Jobs)

Region/State	Jobs	Region/State	Jobs
South	14,126	Midwest	15,555
Alabama	816	Illinois	3,039
Delaware	195	Indiana	1,449
District of Colombia	200	Iowa	743
Florida	3,321	Kansas	647
Georgia	1,576	Michigan	2,160
Kentucky	818	Minnesota	1,292
Maryland	1,316	Missouri	1,315
Mississippi	509	Nebraska	429
North Carolina	1,576	North Dakota	177
South Carolina	786	Ohio	2,790
Tennessee	1,138	South Dakota	181
Virginia	1,495	Wisconsin	1,333
West Virginia	380		
Northeast	12,126	Mountains	3,454
Connecticut	N.A.	Arizona	859
Maine	308	Colorado	983
Massachusetts	1,909	Idaho	228
New Hampshire	325	Montana	222
New Jersey	2,078	Nevada	268
New York	4,153	New Mexico	360
Pennsylvania	2,949	Utah	400
Rhode Island	261	Wyoming	134
Vermont	143		
Southwest	6,861	West	9,356
Arkansas	499	Alaska	136
Louisiana	1,078	California	7,033
Oklahoma	827	Hawaii	345
Texas	4,457	Oregon	709
		Washington	1,133

SOURCE: International Business Economic and Research Corporation, derived from unpublished BLS data.

southern states -- particularly North and South Carolina and Georgia -- would be the biggest gainers. As much as 75 percent of the textile manufacturing jobs supported would be in the South.

Table C-7 gives the distribution of textile and apparel retail job losses. The results show that the Midwest region would experience the largest losses. The five states that would suffer the greater retail job losses would be California, Texas, New York, Illinois and Pennsylvania.

While some southern states would experience net employment gains, at least 36 other states would suffer net job losses. Indeed, every state in the Midwest, Mountains, West and Southwest regions would experience more retail job losses than textile and apparel manufacturing gains. Moreover, the net job gains in a number of states (e.g. New York, New Jersey, Pennsylvania and Massachusetts) would be marginal at best.

III. Price Effects

The prices of imported apparel and textiles subject to additional quotas will increase. Those increases were calculated earlier to be, for apparel, 16 percent, and for textiles, 33 percent. The weighted average wholesale price increases are computed as follows:

$$dP_r = \frac{(dp/p)q_1 + (dP/P)Q_1}{q_1 + Q_1}$$

For apparel, we get:

$$dP_r = \frac{(.16)1205 + (0)(4,556)}{1,205 + 4,556} = 0.033$$

For textiles, the results are:

$$dP_r = \frac{(.33)(734) + 0\ (7,522)}{734 + 7,522} = 0.029$$

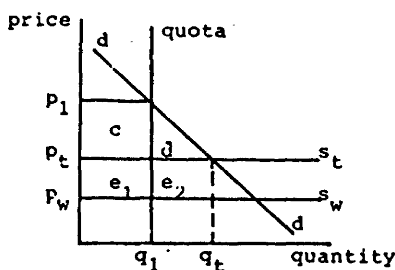
Thus, the average wholesale price of apparel products can be expected to increase at least 3 percent. The average wholesale price of textile products will also increase at least 3 percent. In reality, actual price increases will be even higher than calculated here because the increased price of textile imports used as inputs in the domestic apparel industry will work to increase domestic apparel prices, also.

These domestic price increases are understated for another, more fundamental reason. Data constraints necessitated the use of a model which postulates a flat domestic supply curve, i.e., domestic prices do not increase as a result of an increase in demand for the domestic good. If the data were available (e.g., cross elasticities), the more realistic demand for the model (differentiated products model with a rising domestic supply curve) could have been employed and the results would clearly show larger domestic price increases than those calculated above. (Use of a perfect substitutes model for apparel, for example, yields price increases in the domestic apparel market of 16 percent.) Therefore, the average price increases calculated above are the minimum that prices would increase.

IV. Costs to the U.S. Government

There is an additional loss arising from the decreases in tariff revenue the government would have received from imports now foregone due to the quota restrictions. Ignoring for the moment the effect of already-existing MFA quotas, the tariff revenue the government would have received in the absence of the quota is shown by areas "e_1" and "e_2" in Figure C-2.

Figure C-2



Prior to the imposition of the quota, the domestic price of imports was at p_t, the sum of the world price, p_w, plus the tariff. The tariff revenue received by the government was equal to the sum of e_1, and e_2.

However, cutting imports back to q_1 eliminates tariff revenue equal to e_2. The value of foregone tariff revenue (again, ignoring the effect of already-existing MFA quotas) can be calculated by multiplying the value of the cutback in imports (*ex* tariff) by the average tariff rate (the difference between P_t

and P_w). (It should be noted that, because of the existence of MFA quotas, the resulting estimate of lost tariff revenue will be somewhat overstated. This is because p_t is inflated by the cost of these quotas.)

The formula to estimate the change in government tariff revenue, ΔGR, is:

$$\Delta GR = (q_o)(\Delta q_m/q_o)(t)$$

where q_o = total f.o.b. imports in 1984

$\Delta q_m/q_o$ = the percent change in imports

t = the average 1984 tariff rate

Thus, for apparel:

$$\Delta GR = (\$13,676.6 \text{ million})(-0.20)(0.23) = -\$629 \text{ million}$$

For textiles:

$$\Delta GR = (\$3,532.4 \text{ million})(-0.36)(0.1305) = -\$166 \text{ million}$$

The total cost to the government in foregone tariff revenue is therefore $795 million.

V. Future Impact of the Proposed Legislation

The future impact of the legislation on consumers is measured by computing the present discounted value of the welfare loss to

society in the first year of the quota for a number of years into the future.[25/]

Thus far, the analysis has been static. Computing the present discounted value allows us to assume that the economy as a whole and the consumption of items directly competitive with imports grow at some real rate, "g". The estimated deadweight loss for consumption in year "i" can then be written:[26/]

$$DWL_i = 0.5(\Delta p)(\Delta q_m)(1+g)^i$$

where "g" is the proportional annual growth rate of imports. The present value of the DWL in year "i" is:

$$PVDWL_i = \frac{0.5(\Delta p)(\Delta q_m)(1+g)^i}{(1+r)^i}$$

$$= 0.5(\Delta p)(\Delta q_m)(1+d)^{-i}$$

where "d" is the discount factor, and equal to the rate of social capitalization ("r") minus "g". Morkre and Tarr set "r" equal to 7 percent and "g" equal to 3 percent; "d" becomes 4 percent.[27/]

25/ An alternative procedure would be to calculate the long-run annual costs by inserting long-run elasticities into the previous formulas for quota rent and deadweight loss. This would yield annual total cost to the consumer in the "long run." The year in which the long run begins is unspecified, depending on how long it takes the apparel and textile market to fully adjust to the decline in imports. Incorporating a long-run elasticity of -3.77 (Buckler and Almon) for apparel into the appropriate formulas yields long-run annual costs of $786 million (in 1984 dollars); a long-run textile elasticity of -2.43 (Cline) gives total annual consumer costs of $432 million.

26/ See, Stephen P. Magee, "The Welfare Effects of Restrictions on U.S. Trade," Brookings Papers on Economic Activity, Vol. 3, 1972, pp. 684-686. His methodological discussion has been modified to fit the differentiated products model used here.

27/ Morkre and Tarr, *op. cit.*, p. 157.

The present values of the total costs to consumers, net of the present discounted value of employment benefits are estimated for 5 years and shown in Table C-9. The employment impacts, both positive and negative, apply to the first year of the quota only. The employment benefit as well as the cost is short-lived -- it lasts only as long as the average period of unemployment. Therefore, after year 1 the employment impact is zero. The cost to the consumer, net of the benefits to U.S. workers, over a five-year period is $11 billion for apparel and $4 billion for textiles.

Over this period, the total cost to the consumer of apparel quotas is over 100 times as large as the benefit to apparel manufacturing workers. Similarly, the total cost to consumers of textile quotas is 25 times as large as the benefits to labor.

Table C-9

SUMMARY OF PRESENT VALUE OF COST EFFECTS OF INCREASING IMPORT QUOTAS ON APPAREL AND TEXTILES
(Millions 1984 dollars)

A. Apparel

Year	(1) Total Cost	(2) Cost of Employment Changes Manuf.	(3) Cost of Employment Changes Retail	(1)-(2)+(3) Net Welfare Loss
1	$2,386	$106	$130	$2,410
2	2,294	0	0	2,294
3	2,206	0	0	2,206
4	2,121	0	0	2,121
5	2,040	0	0	2,040
Total 5 years	$11,047	$106	$130	$11,071

B. Textiles

Year	(1) Total Cost	(2) Cost of Employment Changes Manuf.	(3) Cost of Employment Changes Retail	(1)-(2)+(3) Net Welfare Loss
1	$ 950	$179	$ 8	$ 779
2	913	0	0	913
3	878	0	0	878
4	845	0	0	845
5	812	0	0	812
Total 5 years	$4,398	$179	$ 8	$4,227

Senator MITCHELL. I really must say, Mr. Hays, that it defies credibility to suggest that products purchased where they are manufactured at 16 cents an hour do not offer any price advantage to the purchaser as opposed to those manufactured in this country where wages are much higher.

Mr. MOUNGER. Mr. Mitchell, we were a domestic manufacturer exclusively for 30 years. I started in this business when I was 12 years old. I have been in the cutting room, the sewing room, every facet of the business. I also went to law school and passed the bar and decided I was much more comfortable in the cutting room and the sewing room.

Senator MITCHELL. It was probably a wise decision. [Laughter.]

Mr. MOUNGER. Many of my colleagues in the legal profession have told me that, sir.

We go overseas to buy commitments on October 1, almost 12 months in advance. We have to buy sizes 8, 10, 12, 14, 16, 18, and 20 in children's clothing, and we also have to buy four colors in each one of those. We have to take a dart and decide how many 8's in color purple they are going to buy, how many size 18's in red they are going to buy, and how many size 20's in white they are going to buy. It is just a guessing game.

When we are in the domestic business, we go with sales in hand, and we produce to those orders that we already have. There is a huge markdown factor in buying from overseas that really impacts the real markup that you have.

Yes, your initial markup, if you sold 100 percent of the goods that you ordered originally from overseas, is higher than what you would do domestically. But empirically, the facts are that it just doesn't work that way.

Senator MITCHELL. Well, Senator Heinz asked the previous panel to submit in writing as much evidence on that point as possible. I would urge you to do the same, because that is an important question, and I for one would like to have as much supportive data. Most of the statements made of necessity have been conclusory in nature; they have merely been assertions. And it is very difficult for us to evaluate them.

Mr. Hays, in one of your statements at page 5 you cite as a reason to oppose this bill a "decrease in selection available to customers." And you spend quite a bit of time in your written statement on that subject.

As I understand, the bill only proposes to roll back import levels from the major exporting nations to the level they enjoyed in 1984. Are you suggesting that American consumers did not have much choice in 1984?

Mr. HAYS. It is 1980, right? I believe, if I understand the legislation correctly, it rolls it back to 1980.

Senator MITCHELL. Yes. Did Americans not have much choice in 1980?

Mr. HAYS. They had choices, but the fashion industry has changed dramatically in 4 years. Products are available today that were not available.

Senator MITCHELL. Nobody would prohibit individual products, of course. You are not suggesting that?

Mr. HAYS. Pardon?

Senator MITCHELL. Nothing in this legislation would prohibit individual products. You are not suggesting that?

Mr. HAYS. No.

Mr. GLUCKSON. Mr. Mitchell, before Senator Bradley leaves, as an ex-basketball player, if he looked at the shoes that the kids wear on the basketball courts today and looked at what they wore 4 years ago, or what your State of Maine produces today and what they did 4 years ago, it is entirely different.

Senator MITCHELL. Well, nobody is suggesting that this bill limits the production of products individually so that someone could only produce and sell exactly what was produced and sold 4 years ago.

Mr. GLUCKSON. No, they will produce and sell that which fits in because of the lack of quota availability. In other words, as you got in more expensive cars than you did last time when we put cars on quota, the Japanese traded up their cars. They are going to do the same thing with their clothing. You are going to have less choice of assortment. They will not make inexpensive clothes; they will not make inexpensive shoes.

Senator DANFORTH. Gentlemen, I want to note that this hearing now has gone on for 5 hours and 7 minutes, and four Senators are still present, and I think that really speaks to the intense interest on the subject matter.

I want to thank each one of you, especially on our last panel, for this tremendous forebearance you have had in sitting here so long. Thank you very much.

Senator MOYNIHAN. Mr. Chairman, you have not been without your own forebearance, and we thank you.

[Whereupon, at 7:37 p.m., the hearing was concluded.]

[The prepared statements of Messrs. Blaz, Petroff, Hu, Campbell, Kase, and Grunfeld and other communications submitted for the record follow:]

STATEMENT OF CONGRESSMAN BEN BLAZ, GUAM

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

I SPEAK TODAY IN OPPOSITION TO THE INCLUSION OF GUAM AND THE OTHER INSULAR POSSESSIONS IN S. 680 AS "COUNTRIES". THIS BILL PLACES THE U.S. TERRITORIES IN THE SAME CATEGORY AS FOREIGN TERRITORIES AND FOREIGN COUNTRIES FOR THE PURPOSE OF IMPOSING STRICT IMPORT QUOTAS ON TEXTILES. THUS, GUAM IS SEEN BY THE AUTHORS OF THIS BILL TO HAVE MORE IN COMMON WITH INDIA OR TAIWAN THAN WITH THE REST OF THE AMERICAN REPUBLIC. WE ON GUAM ARE AMERICANS. WE ARE LOYAL ADHERENTS TO THE CAUSE OF DEMOCRACY AND FREE ENTERPRISE. WE HAVE DIED IN THEIR DEFENSE. YET, THIS BILL TELLS US OUR FAITH IS MISPLACED. WE ASK NO MORE OF OUR FEDERAL GOVERNMENT THAN TO BE TREATED AS OTHER AMERICANS AND AFFORDED THE OPPORTUNITY TO DEVELOP OUR PRIVATE ECONOMY. YET, THIS BILL REPRESENTS ONE MORE INSTANCE OF THE ECONOMIC EXCLUSION OF GUAM FROM THE REST OF THE AMERICAN FAMILY. SLOWLY BUT SURELY I FEAR THE CORDS WHICH BIND GUAM TO THE HEART OF AMERICA ARE BEING LOOSENED AND SEVERED.

THE IMMEDIATE EFFECT OF THIS BILL WILL BE TO SLAP SEVERE IMPORT QUOTAS ON GUAM AND THE OTHER TERRITORIES. THESE QUOTAS ESTABLISH CEILINGS WHICH ARE FAR BELOW THE NUMBER OF TEXTILE PRODUCTS CURRENTLY BEING PRODUCED AND SHIPPED FROM GUAM. UNDER S. 680, SIGALLO PAC, THE SOLE TEXTILE CONCERN ON GUAM, WOULD BE LIMITED TO THE YEARLY EXPORT OF ONLY 6,720 DOZEN SWEATERS. AT PRESENT, SIGALLO PAC SHIPS 140,000 DOZEN SWEATERS ANNUALLY. FACED WITH SUCH A RESTRICTIVE QUOTA, SIGALLO PAC WILL CLOSE ITS

DOORS AND LAY OFF ITS 400 EMPLOYEES. THE SECONDARY AND MORE DRASTIC EFFECT OF THIS BILL WILL BE TO SOUR POTENTIAL INVESTORS ON THE PROSPECTS OF FURTHER INVESTMENT IN GUAM. CAPITAL INVESTMENT IS THE SEED FROM WHICH ALL PRIVATE ENTERPRISE GROWS. GUAM CANNOT DEVELOP A PRIVATE INDUSTRY WITHOUT IT. THE ONLY ALTERNATIVE IS TO PAY FOR THE RISING MATERIAL NEEDS OF GUAM OUT OF THE FEDERAL TREASURY. IN AN ERA OF RISING FEDERAL DEBT, TAXPAYERS IN YOUR DISTRICT AS WELL AS OTHERS CAN ILL-AFFORD TO SHOULDER THIS HEAVY BURDEN.

THIS PATTERN SHOULD NOT BE ALLOWED TO DEVELOP. THE SENATE LONG AGO RECOGNIZED THE UNIQUE AND PECULIAR PROBLEMS OF THE TERRITORIES IN ATTEMPTING TO COMPETE WITH LOW-WAGE, UNREGULATED FOREIGN INDUSTRY. GENERAL HEADNOTE 3(A) TO THE TARIFF SCHEDULES OF THE UNITED STATES HAS BEEN RECOGNIZED AS AN EXPRESSION OF CONGRESSIONAL CONCERN FOR THE WELL-BEING OF PRIVATE ENTERPRISE IN THE TERRITORIES. S. 680 REVOKES THIS POLICY AND TREATS THE TERRITORIES AS IF THEY WERE FOREIGN COUNTRIES FOR TRADE PURPOSES. IN FACT, THIS BILL WILL SUBJECT GUAM AND THE OTHER TERRITORIES TO WORSE TREATMENT THAN IS ACCORDED CANADA, THE EUROPEAN ECONOMIC COMMUNITY AND THE COUNTRIES IN THE CARIBBEAN BASIN INITIATIVE. THE FLAG TERRITORIES WILL BE THRUST ONCE AGAIN INTO THE IMPOSSIBLE POSITION OF COMPETING WITH FOREIGN COUNTRIES FOR THE AMERICAN IMPORT MARKET WHILE BEING SUBJECT TO FEDERAL WAGE, SAFETY AND POLLUTION STANDARDS. THE CONGRESSIONAL PURPOSE AND INTENT EMBODIED IN HEADNOTE 3(A) WILL HAVE BEEN FRUSTRATED. PRIVATE INDUSTRY IN THE TERRITORIES WILL SUFFER.

THIS PROCESS IS ALREADY UNDERWAY. MOST RECENTLY, THE HOUSE VOTED ON JUNE 27, 1985 TO PROHIBIT AMERICAN CAR DEALERS ON GUAM FROM SELLING 1,200 CARS PER YEAR TO AMERICAN SERVICEMEN. GUAM'S AMERICAN PRIVATE CAR DEALERSHIPS, AMERICAN INSURANCE COMPANIES AND AMERICAN SHIPPING COMPANIES WILL SUFFER. JOBS, INCOME AND TAX REVENUE WILL BE LOST. JUST PRIOR TO THIS THE FEDERAL AVIATION ADMINISTRATION GROUNDED ONE OF THE PRIMARY AIRLINES SERVING OUR TERRITORY FOR FAILURE TO COMPLY WITH NOISE REGULATIONS. SOUTH PACIFIC ISLAND AIRWAYS SUBSEQUENTLY FILED FOR BANKRUPTCY. SINCE THEN, MAIL SERVICE HAS BEEN DELAYED FOR AS MUCH AS TWO WEEKS. NEEDLESS TO SAY, AIRLINE COMPETITION AND PASSENGER SERVICE HAVE DECLINED TO THE DETRIMENT OF OUR ECONOMY.

NOT SO LONG AGO A DEVELOPING WATCH INDUSTRY ON GUAM AND IN THE OTHER FLAG TERRITORIES WAS STIFLED IN ITS INFANCY BY ADMINISTRATIVELY IMPOSED IMPORT QUOTAS. OUR ONLY OIL REFINERY WAS FORCED TO CLOSE IN 1983 BECAUSE OF FEDERAL REGULATIONS WHICH RENDERED IT UNABLE TO COMPETE WITH CHEAPER FOREIGN REFINERIES.

NOW, THE FLEDGLING TEXTILE INDUSTRY ON GUAM, BUILT IN RELIANCE ON HEADNOTE 3(A), IS THREATENED NOT ONLY BY THIS BILL, BUT ALSO BY THE U.S. CUSTOMS SERVICES' NEW COUNTRY OF ORIGIN RULES. THESE RULES WILL SUBJECT PRODUCTS OF U.S. POSSESSIONS TO PROHIBITIVE IMPORT DUTIES IN CONTRAVENTION OF THE EXPRESS POLICY OF HEADNOTE 3(A). THE INEVITABLE RESULT WILL BE FURTHER DEPENDENCE ON FEDERAL SUBSIDIES TO SUPPORT GUAM'S ECONOMY AND INCREASING DISENCHANTMENT AMONG GUAMANIANS WITH WASHINGTON'S INSENSITIVE TRADE POLICY.

THERE IS ALREADY A SMALL BUT GROWING COMMUNITY OF YOUNG, EDUCATED GUAMANIANS WHO CHALLENGE THE NOTION THAT POLITICAL UNION WITH THE UNITED STATES IS DESIRABLE. THIS BILL WILL SUPPLY THAT VOCAL GROUP WITH FURTHER FUEL FOR THEIR FIRE.

IN THE NEAR FUTURE I WILL INTORDUCE LEGISLATION TO PROPOSE A NEW POLITICAL STATUS, THAT OF A COMMONWEALTH, FOR THE TERRITORY. A NEW POLITICAL ORDER WILL BE SOUGHT WITH THE UNITED STATES BASED ON THE PREMISE OF MUTUAL RESPECT AND EQUALITY. WE ARE LAYING THE FOUNDATION OF THAT RELATIONSHIP TODAY. UNFORTUNATELY, S. 680 CLEARLY INDICATES THAT THE UNITED STATES INTENDS TO TREAT GUAM IN THE FUTURE AS A FOREIGN COUNTRY.

THIS CHANGE IN THE COURSE OF FEDERAL-TERRITORIAL RELATIONS WILL HOLD ENORMOUS SIGNIFICANCE FOR THE STRATEGIC PRESENCE OF THE UNITED STATES IN THE PACIFIC REGION. S.680 IS NOT A PRUDENT FIRST STEP IN FURTHERING THE FUTURE POLITICAL RELATIONSHIP BETWEEN GUAM AND THE FEDERAL GOVERNMENT. I URGE YOU, THEREFORE, TO TREAT GUAM WITH THE RESPECT IT DESERVES AS A LOYAL AND STRATEGIC TERRITORY. GUAM AND THE OTHER FLAG TERRITORIES SHOULD BE REMOVED FROM THE DEFINITION OF A "COUNTRY" IN THIS BILL.

STATEMENT
ON THE
TEXTILE AND APPAREL ENFORCEMENT ACT OF 1985
S. 680
before the
Senate Finance Committee
by the
American Chamber of Commerce in Indonesia
July 15, 1985
Senate Dirksen Office Building, Room 215
Washington, D.C.

On behalf of the American Chamber of Commerce in Indonesia, which represents over 90 U.S. firms now conducting business in that country, I appreciate this opportunity to express opposition to the Textile and Apparel Enforcement Act of 1985 (S. 680)

The proposed legislation undermines U.S. commitments under the General Agreement on Tariffs and Trade (GATT). By subjecting only certain countries to import restrictions, the Bill clearly violates the most favored nations principle, a pillar of U.S. trade policy for decades. The legislation would also undercut several bilateral textile agreements already signed under the Multi-Fiber Arrangement. The Bill is completely contrary to open market principles which we believe should guide our trade policy.

In the case of Indonesia, such a measure would be an ill-timed and misguided way to regulate textile trade.

A recent bilateral agreement reached during the week of June 24-29 between negotiators of the U.S. Trade Representative and the Indonesian Government on textile trade deals with the quotas to be applied to Indonesian exports of textiles and apparel to the United States. These negotiations were attended by observers from the Man-Made Fiber Producers Association, the

American Textile Manufacturers Institute, the Amalgamated Clothing and Textile Workers Union, and the International Ladies Garment Workers Union. Comprehensive and reasonable agreement was reached to cover all categories of imports. U.S. and Indonesian observers attending these meetings considered the agreement a necessary base upon which both industries can satisfactorily work for the next three years. The provisions of S. 680 would undercut this understanding, replacing a carefully negotiated compromise with sweeping, across-the-board, restrictions.

The proposed legislation is discriminatory, antithetical to our international commitments, and, in the case of Indonesia, unnecessary and counterproductive. We respectfully urge you to oppose such potentially damaging legislation.

Nick P. Petroff
First Vice Chairman
American Chamber of Commerce in Indonesia

Before The

SUBCOMMITTEE ON TRADE OF THE COMMITTEE ON FINANCE

UNITED STATES SENATE

STATEMENT OF THE TAIWAN TEXTILE FEDERATION IN OPPOSITION TO S. 680 AND THE PROPOSED "TEXTILE AND APPAREL TRADE ENFORCEMENT ACT OF 1985"

July 10, 1985

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STATEMENT OF THE TAIWAN TEXTILE FEDERATION IN OPPOSITION TO S. 680

This statement opposes the enactment of S. 680 and is submitted on behalf of the Taiwan Textile Federation, 22 Ai Kuo East Road, Taipei, Taiwan. The statement was prepared by Tsu-Wang Hu, who is duly registered under the Foreign Agent Registration Act, Registration No. 3083 (United Friends, Inc.), and by Myron Solter, Special Legal Counsel, Foreign Agent Registration No. 1970. The Taiwan Textile Federation (hereinafter referred to as "TTF") embraces within its membership all the trade associations in Taiwan engaged in the manufacture of textile and apparel products. All imports of textiles and apparel into the United States from Taiwan are produced by members of the organizations constituting the TTF.

The TTF wishes to thank the Trade Subcommittee of the Committee on Finance for this opportunity to present its views and hopes that the members will consider carefully the facts described below.

I. SUMMARY

Twenty-eight years ago, with the voluntary restraint agreement on cotton textiles with Japan, the United States embarked on a course of action by which it has come, progressively, to protect its textile and apparel industries from import competition to an extent never enjoyed by any other industry in the modern history of the United States. The culmination of that

policy is the present multilateral Multifiber Agreement (MFA) and 34 bilateral agreements, under which more than 80 percent of U. S. textile imports are severely restricted.

Despite the unprecedented and unequalled import protection it enjoys, the U. S. industry now asserts that the present quota system does not afford enough protection and asks, in the form of S. 680, for legislative quotas and other changes that would be far more restrictive.

We suggest that the enactment of S. 680 would do very substantial damage to the interests of the United States.

This bill would cause a rollback of textile and apparel exports from Taiwan to the U. S. of some 38 percent with a loss of export earnings of some one billion dollars. Such a rollback would require a cutback of textile production in Taiwan of around ten percent and the loss of some 45,000 jobs.

On a world scale, the rollback of U. S. textile imports would probably be about 40 percent representing a loss of exports by the supplying countries on the order of seven billion dollars, which ultimately would mean a loss of many billions of dollars in annual U. S. exports, primarily in agricultural and high-technology products.

Faced with such a loss, the textile exporting countries would have no choice but to look to their remedies under international law. The passage and signing into law of S. 680 would unilaterally abrogate the MFA and all of the bilateral agreements. It would also violate Articles XI and XIII of the General Agreement on Tariffs and Trade (GATT). There would be ample legal basis for massive demands for compensation and/or

trade retaliation.

The situation of the domestic textile industry does not justify the extreme protection contemplated by S. 680. The industry is already sheltered by import duties on textile products averaging 22.3 percent. Import penetration by imported textiles and apparel as a percent of total consumption was only 23 percent in 1983, and it seems doubtful that penetration could have exceeded 38 percent in 1984. The industry's claim that imports cost American workers one million job opportunities is manifestly inflated.

The principal cause of the surge in imports over the past three years has been the strength of the U. S. dollar against other currencies. The expedient of imposing more onerous textile quotas would not aid in solving the problem of the overvalued dollar and would in fact be counter-productive.

The present MFA system is already quite restrictive and the successful efforts of the executive branch over the past three years to control the import surge have made it even more restrictive. More than 300 new quotas were instituted. New guidelines for market-disruption determinations were promulgated. More restrictive country-of-origin regulations were issued. Customs fraud task forces were instituted. More than 1,500 new statistical breakouts for apparel were introduced. Finally, the recent downturn in textile imports establish the success of the existing system in controlling the import surge.

Moreover, the rigidities inherent in the S. 680 formula and in the U. S. import licensing provision would produce very un-

desirable consequences.

Finally, in keeping with the letter and the spirit of the United States' international obligations, the objective of U. S. actions must be expansion of trade in textiles, not curtailment.

II. THE ROLLBACK CONTEMPLATED BY S. 680 WOULD IMPACT VERY SEVERELY ON TAIWAN

The rollback formula contained in S. 680 would cut back the level of imports from Taiwan by 38 percent, would cause the loss of about one billion dollars in export earnings, and would cause the loss of about 45,000 jobs in the Taiwan textile industry.

Under the S. 680 formula, actual imports during 1980 would be compounded for four years representating 1981 through 1984 at the lower of the six percent annual growth rate provided by the Multifiber Arrangement (MFA) or the actual growth rates provided by bilateral agreements. Under the bilateral between Taiwan and the United States, the specific limits incorporate an average annual growth rate of 0.75 percent for cotton, wool, and manmade fiber articles combined. U. S. imports of cotton, wool, and manmade fiber articles from Taiwan in 1980 totalled 756.711 million square yard equivalents (SYE) (not including manmade fiber flat goods under category 670, which data are not available), and "E" group plus non-MFA articles were 181.584 million SYE. Aggregating these totals and compounding over four years at 0.75 and six percent, respectively, produces a total of 1,008.919 million SYE, which, multiplied by 1.01 pursuant to the S. 680 formula, establishes a total limit for all textile and

apparel products from Taiwan of 1,019.008 million SYE applicable in 1985.

Table No. 1 sets out the actual totals of all textile products from both all sources and from Taiwan.

Table No. 1. United States Imports Of All Textiles And Apparel From All Sources And From Taiwan, 1982-1984. (millions of SYE)

	1982	1983	1984
World	6104.365	7726.004	10159.778
Taiwan	1076.704	1420.714	1615.540

Source: Major Shippers Report, Office of Textiles and Apparel, International Trade Administration, U. S. Department of Commerce

Comparison of the S. 680 formula quota with actual imports from Taiwan in 1984 shows that the implementation of this legislation would rollback Taiwan's aggregate level by some 596.532 million SYE -- 38 percent!

The economic impact on Taiwan of such a loss would be most serious. Taiwan's textile and apparel exports to the United States in 1984 were valued at 2.520 billion U. S. dollars. Taiwan's total textile and apparel production reached a value of about 10.5 billion dollars. A 38-percent cutback would thus represent a loss of some 932 million dollars in export earnings, or nearly three percent of Taiwan's total export earnings for that year and nearly 10 percent of Taiwan's total textile production value. (Data supplied by TTF)

Job loss would also be quite serious. Some 462,104 workers were employed in the textile and apparel sectors in 1984. The

resulting cutback of some 10 percent of overall textile and apparel production would thus eliminate about 45,000 jobs in Taiwan's textile industry. (Data from TTF)

The magnitude of these adverse economic effects on Taiwan can only be described as major and the social implications as most serious.

III. THE DEVASTATING IMPACT ON TAIWAN WOULD BE REPLICATED IN THE OTHER MAJOR TEXTILE SUPPLYING COUNTRIES

Taiwan is the single most important supplier of textile and apparel products to the United States, accounting for nearly 16 percent of total imports in 1984, and is followed closely by Korea, Hong Kong, Peoples Republic of China, Japan, Italy, Pakistan, Canada, West Germany, Mexico, Indonesia, India, the Philippines, Thailand, Brazil, Singapore, United Kingdom, Sri Lanka, France, Malaysia, Spain, and 26 other countries. Since the bulk of imports enters under the terms of bilateral agreements the most important of which have growth rates similar to those applicable to Taiwan, the impact on Taiwan can readily be extrapolated to the other textile exporting countries -- with the cutback worldwide probably being on the order of 40 percent.

We estimate the value of total U. S. textile and apparel imports during 1984 at about 18 billion dollars. A 40 percent rollback would thus eliminate more than seven billion dollars in dollar exchange earnings by these countries. Even in the complex real world of multilateral trade and payments, that is seven billion dollars in annual U. S. exports that ultimately and inevitably will not occur. Many of the textile exporting

nations are also significant importers of grain and other agricultural products supplied by the United States. Many are purchasers of high-technology U. S. exports. If forced to make cutbacks in imports from the U. S., it seems probable that the cutbacks will be made primarly in the agricultural and high-tech product areas.

IV. S. 680 WOULD DO GREAT VIOLENCE TO INTERNATIONAL OBLIGATIONS OF THE UNITED STATES AND THE AFFECTED COUNTRIES WOULD UNDOUBTEDLY ENFORCE THEIR REMEDIES UNDER INTERNATIONAL LAW

In view of the large amount of economic damage that implementation of S. 680 would cause to the textile exporting nations, it is certain that virtually all of these countries would be compelled to look to their remedies under international law and would demand compensation, or retaliate, pursuant to those remedies. It is vital, therefore, to assess accurately the potential harm to United States trade and other interests that would result from this legislation.

The United States is presently party to 34 bilateral agreements restricting textile imports, some pursuant to the MFA, some pursuant to Section 204 of the Agricultural Act of 1956. All or most of these (depending on termination dates as of the effective date of the legislation) would be abrogated if this bill should become law. The bilateral agreement between Taiwan and the United States does not terminate until December 31, 1987, and would clearly be abrogated.

The MFA would be violated so rudely as to be deemed to be abrogated. At the heart of the MFA is Article 3, Paragraph 1:

> "Unless they are justified under the provisions of the GATT . . . no new restrictions on trade in textile products shall be introduced by participating countries. . . ."

None of the justifications under GATT exists -- S. 680 would constitute a prohibited new restriction.

Moreover, Article 12, Paragraph 1, of the MFA limits restrictions under its authority to cotton, wool, and manmade fiber products. Section 4(1) of S. 680 would extend legislative quotas to products of other natural fibers, which contravenes both the cited provision of the MFA and Article XI, Paragraph 1, of the GATT, as well, which latter reads in pertinent part:

> "No prohibitions or restrictions other than duties, taxes or other charges, whether made effective through quotas, import or export licences or other measures, shall be instituted or maintained by any contracting party on the importation of any product of the territory of any other contracting party . . . ."

If fact, since S. 680 represents a sweeping renunciation by the United States of its long-standing policy of multilateral cooperation in resolving textile trade problems, commencing with the Cotton Short Term Agreement in 1961, quotas under S. 680 would be in direct contravention of GATT Article XI and would not be sheltered from compensation demands and/or retaliation.

Finally, the disparate treatment accorded "major exporting countries" and "exporting countries" would be a flagrant violation of Article XIII of the GATT prohibiting discrimination in the administration of quantitative restrictions.

S. 680 would therefore abrogate all the textile bilaterals, would eviscerate the MFA and be tantamount to an abrogation of

that agreement, and would very seriously violate United States' obligations under the GATT, all of which would provide the legal basis for massive compensation demands and/or retaliation.

V. THE SITUATION OF THE DOMESTIC INDUSTRY DOES NOT WARRANT INCURRING SUCH MASSIVE DAMAGE TO UNITED STATES INTERESTS

Before inviting such unpleasant consequences, it would be wise to examine carefully the economic situation of the United States textile industry in the light of the very special protection it has enjoyed for the past 24 years and weigh whether the harsh restrictions of S. 680 would in truth be justified.

First, it must always be kept in mind that, in addition to the existing quotas, the textile and apparel industries enjoy the protection of an average import duty of 22.3 percent. In contrast, all other industry is protected by an import duty averaging less than 5 percent.

The bill recites as a finding in justification for the proposed quotas that the imports' share of total apparent consumption of apparel in 1984 reached 50 pecent. This figure seems excessive; the International Trade Commission estimated market penetration of total textile imports (apparel plus textile mill products by quantity) for 1984 at 23 percent (The Multifiber Arrangement, supra, p 8), and for 1983 apparel alone at only 33 percent (Id. 34); 1983 textiles penetration was only 6.4 percent (Id. 25). Since apparel imports in 1984 increased

only 21.3 percent over 1983, it seems unlikely that penetration has actually reached 50 percent.

It is also proposed that the Congress find that the current level of imports represents the loss to United States workers of over one million job opportunities. That notion assumes that each imported textile article directly displaces an equivalent amount of domestic production. This faulty assumption ignores cross price elasticities as between the imported article and the equivalent higher-priced domestic article. With few exceptions, textile imports from Taiwan are lower priced, generally lower quality merchandise distributed through "low-end" channels and are purchased predominantly by lower income consumers. It is error to assume that consumers with limited disposable income would purchase the same quantity of higher priced domestic products if cheaper imports were excluded from the U. S. market by quotas.

It is argued by the U. S. industry, and stated as a congressional finding in S. 680, that the domination of the U. S. import trade by producers in the major exporting countries limits participation by other exporting countries. Quite the contrary, the fact is that the various quota systems applied to U. S. textile imports over the past 24 years have tended to stimulate and accelerate the growth of new, uncontrolled imports from new supplier countries -- the "island-hopping" or "country-hopping" phenomonen -- which, in turn, has tended to push up import levels at a faster rate than might otherwise have occurred.

The single most important factor in inducing the increases in textile imports over the past three years -- a recitation that is missing from S. 680's findings -- has been the over-valued U. S. dollar. This factor has made imports even more cheaper and the U. S. industry's exports even more expensive. That can be no doubt that had the dollar not risen to such high levels against other currencies, textile import levels would have been lower. What is therefore being proposed in S. 680 is to attempt to solve by very restrictive import quotas a problem which has its roots in budgetary deficit, interest rates, and other seemingly intractable national economic problems. In the S. 680 context, it is most important to keep in mind that import quotas cannot solve problems generated by deeply rooted phenomena such as the strong dollar -- they can only exacerbate that problem by stimulating inflationary pressures.

VI. THE DOMESTIC TEXTILE INDUSTRY IS ADEQUATELY PROTECTED BY THE MFA SYSTEM -- NEW, UNILATERAL RESTRICTIONS ARE NOT NECESSARY

Underlying S. 680 is the proposition that the MFA and the bilaterals have failed adequately to protect the textile and apparel industries -- together with the attendant proposition that the executive branch of the U. S. government has failed to perform what the industry perceives to be its duty to the industry. Thus, due to the inadequacy of the MFA system and the failings of the executive, direct intervention by the Congress is called for.

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In our view, the overall interests of the United States do not require additional protection for the U. S. textile industry. But we recognize realistically that protecing this industry has in fact become firmly embedded in U. S. trade policy and that the industry's contention of inadequate protection has to be evaluated against that background. When so evaluated, it is very evident that the MFA and the bilaterals provide a high degree of protection and that the executive branch has been vigorous in enforcing and tightening that protection.

Table No. 2 shows the movement of controlled versus uncontrolled imports of textiles and apparel during 1982-1984.

Table No. 2. United States Textile And Apparel Imports, Distribution Between Controlled And Uncontrolled Imports, 1982-1984. (millions of SYE)

	1982	1983	1984
Quantity:			
Controlled	4376.473	5334.284	6247.360
Uncontrolled	1727.892	2391.723	3911.916
Percent of Total:			
Controlled	71.7	69.0	61.5
Uncontrolled	28.3	31.0	38.5
Percent change:			
Controlled	--	21.9	17.1
Uncontrolled	--	38.4	63.6

Source: Major Shippers Report, supra.

From the foregoing, it is evident that uncontrolled imports

increased more rapidly that controlled imports over the last three years and accelerated during 1984. At first glance, these data seem to lend support to the industry's contention that the MFA and the executive branch are not protecting the industry. However, when specific actions of the last three years are considered, together with the fact that imports in 1985 are declining, one should be persuaded that the restraint system has effectively halted the 1982-1984 surge in uncontrolled imports.

Specifically, the executive branch has taken the following actions:

It made 277 consultation calls over the period 1981-1984, distributed as follows:

Year	No. of Calls
1981	18
1982	38
1983	112
1984	109

As a consequence of these consultation calls, 276 new quotas were instituted during this period, 241 of which were specific limits. At the present time, the number of new quotas since 1981 is estimated to be in excess of 300.

Three of these new quotas applied to Taiwan, which is already under rather comprehensive restraints: luggage at 150 million SYE, handbags at 76 million SYE, and flat goods at 4.4 million SYE.

In 1983, the President issued new and tougher guidelines for market-disruption determinations, which have been a significant factor in establishing the high number of new quotas that were instituted during this period.

In May, 1984, the President promulgated Executive Order No. 12475, which directed the Customs Service to revise its country-of-origin rules. The new Customs regulations were issued promptly in August, 1984, and severely limit the ability of exporting countries to export partly finished goods to a third country with unused or no quotas thereby gaining the third country's origin designation.

The Customs Service further acted to curtail possible quota evasions by creating special task forces, under "Operation Tripwire", which resulted in 1984 in the seizure of some $30 million in fraudulently entered goods.

Further, during the period 1983-1984, over 1,500 new statistical annotations for apparel were added to the Tariff Schedules of the United States, mostly breaking items out of previous "basket" categories, to aid in making market-disruption determinations.

The Commerce Department vigorously investigated a number of countervailing-duty petitions filed by the domestic textile and apparel industries during this period, and issued affirmative preliminary or final determinations in nine instances.

Consequently, it cannot be said that the executive branch has ignored or has failed to perform its policy obligations to protect the domestic industry.

Moreover, strong evidence that the existing system has indeed coped well with the import surge is found in the most recent import data:

Table No. 3. U. S. Imports Of All Textile Products
April, 1984-1985, and January-April, 1984-1985
(millions of SYE)

	April			Jan-Apr		
	1984	1985	% Chg.	1984	1985	% Chg.
Total	846.4	767.5	-9.3	3481.9	3326.8	-4.5
Yarns	111.5	98.3	-11.8	459.1	402.2	-12.4
Fabrics	226.5	183.1	-19.1	890.0	747.3	-16.0
Apparel	367.8	348.9	-5.1	1606.8	1609.9	+0.2
Made-up & Misc.	140.7	137.3	-2.4	526.1	567.4	+7.9

Source: Bureau of Census.

These most recent data clearly show an accelerating downturn in imports. It means that the U. S. government's efforts to increase restraint levels under the existing system as a means of controlling the import surge induced by the strong dollar is succeeding. It means, in final anaylsis, that the domestic textile industry is already well protected and that legislated quotas are quite unnecessary.

VII. THE RIGIDITY AND IMPORT LICENSING SYSTEM IMPOSED BY S. 680 ARE VERY UNDESIRABLE

Textile markets, particularly those in apparel, are characterized by rapid shifts in product design, color, blend, and other characteristics. The rigidities imposed by S. 680 would have the effect of making the restraints far more damaging than just the numerical limits imposed. No provision is made for swing or shift among categories. The one percent annual growth rate imposed on major exporters is both too low and is uniform for all categories. No provision is made for carryovers

and carryforwards. These flexibility devices have evolved over the 24 years of U. S. textile quotas as a practical means of balancing the flexibility required by the market place with the inflexibility inherent in quotas. S. 680 would disregard that economic reality.

S. 680 also makes another major departure from past practice in textile quotas: it would institute an import licensing system administered by the U. S. government. This feature effectively transfers control of the overall direction of foreign countries' textile exports to the United States from the hands of the governments concerned to the United States and, in a practical sense, to the U. S. importers.

We suggest that there is no justification for such a departure from past practice. The present visa system is working sufficiently well. Taiwan was instrumental in evolving that system and was the first to initiate visa verification, which is now done daily by satelite. Transferring control from the exporting governments to, de facto, the American importers can only amplify the damage and mischief which S. 680 is designed to cause.

VIII. THE UNITED STATES SHOULD ADHERE TO THE LETTER AND SPIRIT OF ITS SOLEMNLY UNDERTAKEN INTERNATIONAL OBLIGATIONS

Quantitative restraints on U. S. importations of textiles and extraordinary protection for the U. S. industry began in 1957 -- 28 years ago -- with the cotton voluntary restraint

agreement with Japan. The quantum of protection grew through the short-term and long-term cotton arrangements of 1961 and 1962, evolving ultimately into the first MFA effective in 1974. It should be recalled that the United States solemnly promised that the objective of all these restrictions was, in the terms of Article 1 of the MFA,

> "to achieve the expansion of trade, the reduction of barriers to such trade and the progressive liberalization of world trade in textile products, while at the same time ensuring the orderly and equitable development of this trade and avoidance of disruptive effects in individual markets and on individual lines of production on both importing and exporting countries."

S. 680 would greatly impair the objectives of the MFA system.

Is it not appropriate to ask -- when will it end? After 28 years we should be seeing increasing light at the end of this textile-restriction tunnel. Instead, it appears that we are about to be thrust into complete darkness.

For the foregoing reasons, we express the earnest hope that S. 680 will not be enacted.

Respectfully submitted,

TAIWAN TEXTILE FEDERATION

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GREENVILLE, SC
SPARTANBURG, SC
UNION, SC

July 15, 1985

Honorable John C. Danforth
Chairman
Subcommittee on International Trade
Senate Finance Committee
Washington, D.C. 20510

Attention: Mary Melrose

Dear Mr. Chairman:

I would greatly appreciate your arranging to have the attached testimony submitted for the record in connection with the subcommittee hearing today on S. 680/H.R. 1562, the Textile and Apparel Trade Enforcement Act.

Many thanks for your assistance with this matter.

With kindest regards,

Carroll A. Campbell, Jr.
Member of Congress

CACJr/nm
Enclosure

TESTIMONY OF HON. CARROLL A. CAMPBELL, JR.
IN SUPPORT OF S. 680/H.R. 1562
THE TEXTILE AND APPAREL TRADE ENFORCEMENT ACT

July 15, 1985

Mr. Chairman and members of the subcommittee, thank you for giving me the opportunity to submit testimony in support of S. 680/ H.R. 1562, the Textile and Apparel Trade Enforcement Act.

Mr. Chairman, I am sure I do not have to convince the members of the Sucommittee on International Trade of how important the textile apparel industry is to its 2 million employees, to the economy of this nation, and to the national defense of America.

Nor, I hope, do I have to convince you that the textile/apparel/fiber industry is in deep trouble because of imports. Indeed its very viability is threatened. In spite of several important steps this Administration has taken to tighten up enforcement of the Textile Import Program, the fact is that the problem is greater than the solutions that have been offered.

You are aware, I am sure, of the efforts this industry has made to modernize, spending a billion or more dollars a year on modernization for the last decade, increasing production by a third since 1971, and doing all of that while raising prices at only half the rate of all manufactured products.

You have seen the studies showing that the consumer pays virtually the same price for comparable imported and domestic goods, and the ones which demonstrate that the role the dollar plays is a significant factor in only a small portion of the textile trade imbalance.

You are well aware that, free trade rhetoric aside, our trading partners routinely provide direct or indirect subsidies for their textile industry while they seek out every avenue to bar our goods from their markets.

The question I want to pose to you today is: Does Congress have a responsibility to take steps to solve the problem?

I believe the answer is yes.

You know, for many years, the main activity of the Congress was handling trade matters -- tariffs and duties being a major source of revenue for the government. Through the years, of course, that has all changed and we have delegated a major share of trade responsibility to the Executive Branch. That's all well and good as long as they are doing the job downtown. When the Executive Branch falters, however, and State Department bureaucrats worry more about foreign relations and foreign jobs than they do about the livelihoods of Americans, as has happened in the textile/apparel import area, it is the legitimate duty of Congress to step in.

That's what we should do now. We should not wait until 1990 when, according to some projections, fully 80% of our apparel needs will be filled by imports. We should not wait until we have lost another million jobs. We should not wait until our domestic textile/apparel/fiber industry is dead.

We should move now to pass S. 680/H.R. 1562. This industry and this nation deserve no less.

Coming as I do from such a heavy textile area, I am sure it comes as no surprise that S. 680/H.R. 1562 is such a priority for me. Parochial interests aside, however, I am convinced that passage of this bill is essential for the good of the country.

The textile/apparel/fiber industry plays a major role in this nation's economy. It provides some 2 million jobs directly, and many more indirectly. Many of these people are women, minorities and unskilled individuals who have no real alternative to textile employment or the welfare roles. We are talking about one in every ten American manufacturing jobs -- more than steel and automobiles combined -- in facilities spread across 48 of the 50 states. The textile industry alone accounts for $45 billion of our GNP -- more than basic metals, more than automobiles or petroleum refining or aerospace. Is is also a generally accepted fact that, with the exception of steel and perhaps automobiles, textiles are our most important national security industry.

And the industry is in trouble. Employment is shrinking, the number of firms has decreased, rates of return are low. Still, imports continue to flood our shores, consuming an ever greater share of our market. Data Resources, Inc., has forecast the further loss of almost one million textile and apparel jobs by 1990, with import market share increasing from about 50% now to 80%.

For years, the industry and concerned members of Congress have been working with the Executive Branch in an effort to bring some kind of rational control over import growth, and several important steps have been taken. As I have said, however, the problem is greater than the solutions that have been offered.

Our key international agreement, the Multifiber Arrangement, which is supposed to provide a framework for orderly trade in textiles and apparel has failed miserably, at least for America. Instituted in 1974, the MFA was intended to promote the economic development of lesser developed countries via the orderly growth of textile trade, while also limiting market disruption or the threat thereof in developed countries. Instead, we have seen consistent increases in imports culminating with a huge 60% surge over the last two years.

This is not an industry which sat on its laurels with the same 50-year-old equipment and let imports take over. It's an industry that fought back, spending more than a billion dollars a year on modernization over the last 10 years. Since 1971, production per worker hour has increased by a third and prices for textile mill products have risen at only half the rate of all manufactured products. We are talking about the most modern, productive textile industry in the world.

What all of this says to me is that the myth of free trade is just that: a myth. The litany of free trade no longer holds water, for U.S. trade policies based on that goal have left American industry in a shambles in the international marketplace and have resulted in the wholesale exportation of basic industry and American jobs.

I will grant that much of our staggering trade deficit -- $123 billion in 1984 and climbing even higher this year -- is due to the strength of the dollar and our budget deficit, but I submit that this is not the case with the textile trade deficit. While imports from Canada and Western Europe appear to be dollar related (and, hence, are excluded from the scope of S. 680/H.R. 1562), practically all imports of apparel and many imports of textiles and textile products have been largely unaffected by the dollar. This is because many important tex-

tile and apparel suppliers have their currency tied to the U.S. dollar and exchange rates have no impact, or are operating under managed currencies, such as the Peoples Republic of China.

Likewise, the argument that we must accept these job losses as the price for lower consumer prices for clothing is spurious. Recent Market Research Corporation data based on a survey of actual retail prices shows that domestic mens and boys' apparel is priced at approximately $6.68, while the similar import price is $6.63, only a 5¢ difference. In the case of womens and girls' apparel, the domestic price is actually 7¢ below the import price. The erroneousness of the price argument is brought forcably home when one looks at the many catalogs offering apparel "made in the US or imported" for the same price. In fact, retail prices are continuing at a high level, despite the strong dollar which should have resulted in lower costs for consumers as imports capture an ever greater share of our market. Experience has also shown that importing nations tend to raise prices when American competition is eliminated. Moreover, estimates of the costs of protection invariably leave out the contribution the industry makes to the Gross National Project, the balance of payments, tax revenues, reduced unemployment costs, and the intrinsic value of maintaining a basic industry.

The Textile and Apparel Trade Enforcement Act would roll back imports from the Big Five and other major exporters, while insuring that the truly developing countries have a growing share of our market. At the same time, it would give the American industry and its workers the confidence that our industry will be around into the 21st Century.

First, the measure would cover all fibers, thereby correcting a major defect in current procedure which has allowed millions of square

yards of goods to enter the United States outside the limits of the MPA. The measure would set 1985 quotas at the levels where they would have been had the MPA worked as it was intended. It would then allow growth rates of one percent a year for the major exporting nations and of six percent a year for the smaller exporters. This approach fully complies with the MPA objective to allow fair and orderly growth in textile trade, while insuring truly developing nations a share of the textile market. To facilitate enforcement, the bill also mandates the establishment of a U.S. licensing program for textile and apparel imports. Western Europe and Canada, because they play by basically the same rules that the U.S. does, are exempt from these provisions, and Mexico and our Carribean neighbors are accorded special treatment.

The United States must come to grips with the reality of the world trade situation. We must deal with tho reality that many if not most other nations provide direct or indirect subsidies for their basic industries. We must deal with the reality that other countries seek to bar our imports. We must recognize that there is no free trade with controlled economies such as the Peoples Republic of China. In short, as a nation, we must seek a fair and equitable trade policy.

Free trade is an admirable goal, Mr. Chairman, but it is not served by the United States abandoning its largest manufacturing work-force to imports from countries which in many cases subsidize their own industries and otherwise bend or break international trade laws. The Textile and Apparel Trade Enforcement Act will insure fair textile trade consistent with our international obligations, and it deserves support.

Summary Testimony
Roger Kase
President of Retail, Esprit
on behalf of
The American Free Trade Association, (AFTA)
a Coalition of West Coast Importers, Exporters and Retailers

Subcommittee on International Trade
Committee on Finance
U.S. Senate
S.680

July 15, 1985

1. Passage of S.680 will not preserve American jobs; it merely transfers jobs from the targeted 12 countries, mostly in the Pacific Basin, to other countries, primarily in the EEC.

2. S.680 is discriminatory in that it targets 12 specific countries by reason of 1983-1984 import increases, yet omits limitations on the EEC countries and Canada which accounted for much higher import increases.

3. The Import Licensing/Quota Auctioning provisions of S.680 will permit monopolization of import quotas by a few large companies; the small business entrepeneurs who have given this business its competitive edge and innovation cannot hope to compete.

4. This body needs to make careful consideration after a full and fair hearing on the issues prior to taking any action on this bill.

5. Many of the statistics offered by S.680's proponents are misleading. The 36% increase by Singapore in 1983, for example, did not violate MFA's 6% limit; Singapore had never previously come close to its allowable imports.

Before the Subcommittee on International Trade
Committee on Finance
U.S. Senate

July 15, 1985

My name is Roger Kase. I am one of the six members of ESPRIT'S general management team, and serve as President of the Retail Division of ESPRIT. I appear today on behalf of both ESPRIT and the American Free Trade Association (AFTA), an association of independent import-export companies and retailers in the West Coast.

I am prepared to answer any questions you or the Subcommittee may have, Mr. Chairman, with respect to how H.R. 1562 will affect our businesses and U.S. consumer prices, and, in addition, how textile and apparel operations are actually run in the major exporting countries such as China, Taiwan, Hong Kong, and Korea.

My own experience for the past 13 years has been in the management of the production and merchandising of textiles and wearing apparel on five continents, including the 12 major exporting countries which are the target of H.R. 1562. In each of these countries, I have supervised work in sourcing, contracting, garment costing and manufacturing. A good deal of my work has been in Hong Kong, supervising the development of

two factories and 80 subcontractors making sweaters, shirts and pants.

ESPRIT is a California company that was started in a loft in San Francisco 16 years ago by Doug and Susie Tompkins, then in their 20's. Today ESPRIT has 1500 employees in the United States.

ESPRIT's business is entirely in moderate-priced fashion clothing for the average American family. Our gross sales last year were $220 million of which $60 million was in children's wear and $160 million in women's wear. We market through over 2,000 retailers in all 50 states, including every major department store in the United States.

At the outset, I want to stress that we at ESPRIT recognize that, like the textile lobby, we are a special interest group in that 95% of the apparel we sell thoughout the United States is manufactured abroad.

There is a basic reason for this. We cannot obtain the same quality goods in the United States at competitive prices. Garments we produce abroad would cost at least 20% more to produce in the United States. We do not believe that American consumer wants to pay 20% more for ESPRIT apparel.

The irony of H.R. 1562 is that, while it is proposed as a measure to save jobs, the jobs it will save are not American. Since the bill does not restrict imports from Canada and the EEC, it would merely encourage the transfer of jobs

from the 12 major exporting countries - most of them developing nations in the Pacific Basin - to competitive, unrestricted producers - i.e. the developed nations of the EEC. Similarly, the bill's preferential treatment of the Caribbean Basin would encourage a minor movement of jobs into that region. Neither transfer would increase or protect American jobs.

There are many arguments against H.R. 1562, but most of them have been made far more astutely by other witnesses. We would therefore like to limit our testimony to four points which we think are crucial.

1. The Impact of H.R. 1562 on Consumer Prices

If H.R. 1562 is passed, we predict that clothing prices of various items will jump 20% - 50%. According to the Reagan Administration, consumers will pay $14 billion more next year for apparel. We know that children's clothing and some other basic items will be in limited supply. Let me explain why.

By imposing severely reduced textile and apparel quotas on some nations but not on others, H.R. 1562 will globally restrict and redirect the manufacture of apparel for the world's biggest market - the United States.

By the way, recent United States Customs regulations (April 4, 1985) should eliminate questionable manipulations of quota in that they charge quota consumption to the country in which the last substantial transformation of the garment took place, regardless of the nominal exporting nation.

I have attached as Exhibit A ESPRIT's cost record for a typical poly/cotton tee shirt imported from Hong Kong. It shows that this basic item costs $5.03. Our wholesale price is $10.00 and suggested retail is $20.00. Our domestic sourcing department has costed this tee shirt at $6.10 for U.S. production. This would result in a retail price of $24.00 which is 25% higher than the same shirt produced in Hong Kong.

Please note also that while the Hong Kong manufacturer's price ("FOB/PC") is $2.92, ESPRIT's average cost landed in San Francisco is $5.03. The difference includes $1.32 in quota and tariff charges (26% of our total cost) to protect domestic industry.

In another example, a linen skirt is priced today at $36.00. If quotas limited the availability of this style from our source in Hong Kong, it would sell for $47.00 (30% more) since linen is not produced in the United States and would be imported from Italy at higher cost.

In the case of a Shetland sweater, we could not move production to the United States since the machines necessary to manufacture this kind of "fully-fashioned" knitting do not exist in this country Quota rollbacks for the major exporting nations would again force us to import from the EEC, where recent offers are 50% higher than our current prices.

I have outlined the fundamental price increases which would result from H.R. 1562 in today's market. But there is more.

By removing the competition of low-cost imports, this bill would allow domestic manufacturing prices, and therefore, consumer prices, to rise much higher. Furthermore, by limiting the total availability of certain products (e.g. silk, linen, raime, embroidery) which are not produced at all in the United States, H.R. 1562 would inevitably drive up prices on the remaining supply. There is nothing like competition to protect the consumer!

Finally, the imposition of quotas has always driven production from less expensive to more expensive goods. We have seen this recently with Japanese automobile exports to the United States where supplies of inexpensive models disappeared and expensive options came packaged with every deal.

Since textile and apparel quotas limit imports by the number of yards or units imported, exporters will shift their production to those items which generate the most sales per unit, such as women's fashion. Production of basic garments, sleepwear and childrens' clothing - all of which are relatively low priced - would be left to the United States, where consumers would pay the price for restricted supply and tremendously greater costs.

For all these reasons we predict that apparel prices may increase an average of 33 1/3%!

2. The Discriminatory Nature of H.R. 1562

While we and the West Coast retail industry oppose H.R. 1562 for the same reasons that were so powerfully stated

recently by four Cabinet Secretaries and the Acting Special Trade Representatives in their letter to Congress dated June 19, 1985, we think there is one argument the Administration has not fully addressed.

The bill clearly discriminates against the Pacific Basin countries.

In their recent letter to Secretary Baker in his capacity as Chairman Pro Tem of the Economic Policy Council over 100 congressional proponents of H.R. 1562 stated that the bill would:

> "mandate actions very similar to those taken unilaterally by the European Economic Community (EEC) several years ago."

The congressmen do not say, however, that H.R. 1562, by omitting the EEC, Canada, Mexico and Caribbean countries from the bill's restrictions, fails to cover the major source of import increases.

Note the following comparison of the increases in imports in 1984 by the five largest Pacific Basin countries as against the five largest EEC or other countries which H.R. 1562 blithely accepts.

"Big Five" Pacific Basin Target Countries		"Big Five" EEC ron-H.R. 1562	
Taiwan	12-1/2% increase	Canada	85% increase
Korea	12%	Italy	82-1/2%
Hong Kong	8%	Germany	74%
China	23%	U.K.	55%
Japan	10%	Mexico	46%
AVG(Weighted)	11-1/2% increase	AVG (WEIGHTED)	42% increase

Over one-half of the import increases during 1983 and 1984 came from the EEC or countries other than those which H.R. 1562 seeks to restrict.

Putting these figures into square yard equivalents (SYEs), while the "Big Five" Pacific Basin countries' imports increased by 592 million SYEs in 1984, an 11% increase, EEC 1984 imports increased 624 million SYEs, from 878 million to 1.502 billion, an increase of 58%. And it punishes the wrong competitors to U.S. domestic production - the Pacific Basin — rather than the EEC.

3. The Enormous Impact of the Quota Auctioning Concept on Small Business.

The United States apparel business is a classic example of what is best in the American free-enterprise economy. Literally anyone with ingenuity, daring and creativity can enter the business as did ESPRIT's founders 16 years ago.

No experience is needed. No heavy capital investment is required. There are literally tens of thousands of small American companies competing for consumer taste and consumer satisfaction.

If imports are rolled back and importers required to both obtain specific licenses and bid for quotas a year in advance, two results are inevitable and immediate.

First, no entry-level business can cope with the governmental and legal complexities involved. Second, no small business can successfully compete for the reduced quotas. It is inevitable that only the largest U.S. companies will be able to successfully compete.

The result is the forced limitation of business to the very largest companies and the accompanying removal from competition of the very best of our young entrepreneurs who have hitherto competed with only their daring, innovation and hard work. This alone will contribute to price increases.

I am sure Mr. Chairman, that many sponsors of this bill are proven champions of small business. I trust they would agree that the forced reduction of the number of small businesses who can successfully compete in the apparel field is clearly bad for American jobs, business and ultimately the consumer.

4. The Need for Carefull Analysis Before Taking Precipitous Action.

We have seen one great congressional venture in protectionism in the 20th Century, the disastrous Smoot Hawley At of 1930. The economic and the political effects of Smoot Hawley were devastating. In two years, U.S. exports dropped 73% from their previous four year average; agricultural exports dropped by 67%. Unemployment reached the staggering figure of 20%! Senior conservative Republicans, Finance Committee Chairman Smoot of Utah and Republican Ways and Means Committee Chairman Hawley, as well as the President who signed the bill into law, were turned out of office two years later.

We have had an instructive example of the results of protectionism in one now-defunct sector of the apparel business. The once-thriving U.S. embroidery and lace industries first received protection in 1930 by a duty rate which was double that on finished garments. The industry was so well protected that it passed out of existence in the 1950s. (Starting in 1980, the Department of Commerce has initiated a seven-year roll back to tariff rates on non-ornamented garments. Embroidery and lace have passed out of fashion, so this particular governmental protectionist action has become out-of-date.

There are some basic arguments for the bill which should be rebutted.

A. The "Scare" Rhetoric.

The enormous momentum this bill has built up in the past several months is admittedly in response to its proponents argument that without strong action, the U.S. domestic apparel industry may be litterally wiped out.

In their letter to Secretary Baker of June 28, the Congressional proponents put it bluntly:

> "Before long we will not have a domestic industry . . ."

This argument rests primarily on the statistics for 1983 and the first half of 1984.

During that eighteen month period both domestic manufacturing and imports rose sharply. In 1983, domestic production was up 15.2%; imports 25%. Total apparel imports reached 22% of total ;U.S. consumption by year end 1984.

Had this growth continued, domestic producers might be in deep trouble in the future. But it did not. Two things happened in mid-1984.

First, retailers, contemplating continuing growth, over bought and became seriously overstocked. Christmas 1984 was not up to expectations.

Second, the domestic industry reacted immediately to cut production. The import business requires four to six months advance commitment of purchase orders; imports also dropped substantially after a four to six month delay.

In the fourth quarter of 1984, the rate of increase in imports dropped from roughly 42% to 5%.

By the end of the first quarter of 1985, imports were actually decreasing by a rate of 3%, a trend which by April 30, a month later, reached a 9% rate. Even with a substantial increase in May, the first five months of 1985 were still slightly less than the first five months of 1984.

The May surge in imports reflects buying for next fall. Last year, no equivalent May surge occurred because the first four months of 1984 had been so strong that fall buying was pushed back to June and July. This is typical of this volatile industry; no two years are alike. Statistical comparisons are valuable only when made for three or four year periods. We suggest therefore, that this Subcommittee withhold any conclusions on ultimate comparisons until at least November, given the shorter lead time for domestic orders.

Presumably the Administration's actions in imposing new quotas (over 300 by the end of 1984), and in imposing country-of-origin restrictions as well, played a part in this reversal from increase to decrease in textile and apparel imports. The point is that by the spring of 1985, a number of Congressmen were led to endorse H.R. 1562 when the import increase triggering their concerns had already reversed!

B. The 6% Annual Import Increase Limit Imposed by MFA

We have heard from several members of Congress that they decided to co-sponsor H.R. 1562 in the belief that the

recent growth of imports has exceeded the rate authorized under the MFA. I would like to point out that, contrary to many misrepresentations, the MFA establishes a 6% minimum annual growth of exports from developing nations, with specific limits negotiated country by country.

For example, Singapore had a 36% increase in textile exports in 1983, from 103 million SYEs to 140 million SYEs. Their allowable exports under MFA, however, were 314 million SYEs. Singapore had not been exporting their total MFA-permitting goods; their increase was in compliance with MFA.

The so-called "sharp increase" in Pacific Basin imports in the 1983-84 period stemmed in large part from the fact that these nations were previously well below their quota in many areas. In Hong Kong, for example, the only exports which met quotas historically were woolen goods, cotton jackets and sweaters, and occasionally women's pants. What now appear as impressive import increases are in silks, linen and ramie, fabrics which are not covered by the MFA and which are not produced in the United States.

C. The Japanese "Enemy".

We appreciate that there is currently a deep feeling here against Japanese competition, but it should be noted that Japanese imports are not a major factor in the apparel import picture; Japanese imports constitute only 7% of total textile and apparel imports; Japanese apparel constitutes only 1-1/2%

of U.S. domestic consumption. This bill should not be supported under the mistaken assumption that it is a way to punish Japanese export excesses.

Conclusion

In conclusion, I am sure the authors and co-sponsors of this legislation did not intend to:

- increase consumer prices to ruinously high levels;
- eliminate over 60,000 retail jobs;
- stifle retail competition;
- drive small businesses into bankruptcy;
- discriminate against Third World countries;
- generate retaliation against U.S. exporters.

Unfortunately, that is what the result of the Textile and Apparel Trade Enforcement Act of 1985 will be.

We have indications from our customers that as the American people learn about the effects of this legislation they will ask you, their elected representatives, to reject it. I hope that as you learn what it truly will produce you will share their view.

Thank you.

DIVISION - 9 SEASON - 7 MGR CODE - 008
STYLE - 9160 PLACKET PULLOVER
KNIT - NOT ORNAMENTED LOW DUTY
QUOTA CAT 639 - SYNTHETIC KNIT TOPS

HONG KONG			HONG KONG
NNW/DZ		4.08 LBS	
NNW/PC		0.034 LBS	
GROSS/PC		0.442 LBS	
YDGE/PC		. . . .	
NOTES			
DATE			04/10/85
FOREIGN CURRENCY			
FOB PRICE			22.52
EXCHANGE			0.129870
US CURRENCY			
FOB/PC		$	2.92
QUOTA CAT. 639		$	0.30
DUTY - L 32.50% +	0.17/LB	$	1.02
AIR FREIGHT @ 1.59		$	0.70
SEA FREIGHT @ 0.29		$	0.12
AGENT COM. 8.50%		$	0.24
MISC. 1.00%		$	0.02
AIR LANDED		$	5.20
SEA LANDED		$	4.62
30.00% SEA/AIR AVG		$	5.0260
SELLING PRICE (MARK UP =	1.70	$	8.54
	1.90	$	9.54
	2.05	$	10.30

WRITTEN STATEMENT OF MARTIN TRUST
PRESIDENT OF MAST INDUSTRIES, INC.
ON BEHALF OF
THE LIMITED, INC.

BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL TRADE
SENATE COMMITTEE ON FINANCE

JULY 15, 1985

Counsel: Harold M. Grunfeld, Esq.
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Mr. Chairman and members of the Subcommittee on International Trade, my name is Martin Trust. I am President of Mast Industries, Inc., which in 1978 merged with The Limited, Inc. I submit this statement on behalf of The Limited, the country's largest women's apparel specialty retailer with almost 2,500 stores and several mail order businesses in the United States. We employ approximately 17,000 people and sell about 100 million garments a year. The Limited appreciates this opportunity to present its views in opposition to S. 680, also known as the Textile and Apparel Trade Enforcement Act of 1985.

The Limited would like to begin by making clear to this Committee that as citizens we indeed share the natural concern you and all your Congressional colleagues must feel for the preservation of a strong American economic base and employment for American workers. The question, of course, is whether the proposed bill is likely to achieve those objectives. Upon careful examination of S. 680, we must conclude that the bill not only fails to achieve these objectives, but seriously threatens to impose further harm on an already troubled U.S. retail industry.

The domestic textile and apparel industries have singled out import competition as the perpetrator of their suffering. It is indeed easy to point an accusing finger and to ignore the obvious problems of an all too strong dollar as well as weak, non-imaginative U.S. industry management. It is also quite tempting

to want to wave a magic wand and provide a "quick fix" to the domestic industry via a protectionist measure transparently masquerading as a <u>trade enforcement</u> measure. Unfortunately, the realities are that there exist no quick and simple solutions to this problem. In fact, the proposed bill would only add to the staggering amount of protection currently afforded to the textile and apparel industries: An independent study by Washington University in St. Louis reveals that present protectionist measures cost the American consumer $23 billion a year, $19 billion of that amount from tariffs, and $4 billion from import restraints under the Multifiber Arrangement (MFA).

We think it important to dispel the simplistic notion that an American textile and apparel industry collectively is suffering at the hands of U.S. importers. When one considers the <u>individual</u> problems of the textile industry and apparel industry in light of consumer supply and demand, a more balanced perspective comes to light. Hence, in order to achieve a proper analysis of issues, we must clearly distinguish between the textile and apparel industries.

In its role as supplier to The Limited and other retailers, Mast must weigh its choices between purchases made in the United States and those made abroad. In fact, about 25 percent of our product is sourced in the United States, and our domestic production is growing at least as fast as our imports. We have always been dedicated to buying product in the most appropriate market, and we continue to purchase from those segments of the U.S. textile and apparel industries (fabrics, hosiery, jeans, pants and shirts, to name a few) which strive to be both efficient and competitive. We are substantial users of domestic textiles, which are then

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converted into apparel products in U.S. factories as well as in offshore factories. As American textile producers have become more responsive to our needs, business with them has been growing. The same will be true with regard to the American apparel producers--as they become more responsive and efficient--their business will also improve.

Responsiveness is no trifling matter, since our business views the world in terms of what the American consumer wants--not what we as manufacturers would prefer to make nor what our legislators would prescribe. Consumers are today more discriminating than ever. They recognize and want high-quality, fashionable garments at reasonable prices. At times, fashion will dictate highly constructed garments which would not be appropriate to make in the U.S. The reason for this is that garments of complex construction are labor-intensive, with high U.S. labor costs creating a disadvantage for the domestic apparel industry and low labor costs creating a natural advantage for foreign producers. The U.S. apparel industry, on the other hand, is able to exploit its own natural advantage in connection with less complicated garments: Because of its proximity to the domestic market, it can communicate more quickly with customers, respond to their needs with faster deliveries than is possible from overseas markets, and compete price-effectively.

It follows then that the domestic textile industry should be exceptionally competitive in the world market in that it is capital-intensive, which makes it a natural industry for the U.S. Hence, if the United States wishes to place its resources where it will do the most good, we believe the domestic textile industry

would be worth nurturing for long-term viability. We could accomplish this by simply amending Item 807.00 of the Tariff Schedules of the United States. Item 807.00 provides that articles assembled abroad in whole or in part of U.S. fabricated components are dutiable upon reimportation based upon the full value of the article less the cost or value of the U.S. components. To qualify under Item 807.00, textiles have to be cut in the U.S. before they are exported for assembly abroad. If you broaden Item 807.00 by eliminating the U.S. cutting requirement (which, incidentally, is not a labor intensive operation), then very competitive American textile products, such as corduroys, denims, velveteens and polyesters, could be shipped abroad and reimported in apparel form, with duty paid only on the added value. Clearly the domestic industry would be best served by free trade measures such as this, rather than less desirable protectionist legislation which would rankle the international community. This would be a spur to the domestic textile industry, which is presently troubled more by the strong U.S. dollar, rather than by low wage rates overseas.

Proponents of S. 680 have claimed that the comparative advantage of lower overseas labor costs has resulted in larger profit margins for the retailers, who allegedly are not passing cost savings on to American consumers. This simply is not true. It is the previously mentioned tariffs and import restraints under the MFA which sharply reduce such profit margins. One has only to pick up the July 5th Wall Street Journal to learn that retailers suffered a bad second quarter, and that three of the last four quarters have been dismal. So much for the allegation of huge retailers' profits.

In any event, the domestic textile and domestic apparel industries are unable to produce every textile and apparel product demanded by American consumers. Foreign manufacturers fill a need, be it price, quality, or fashion. American consumers want, and deserve, a choice. If the Congress goes ahead and further restricts the market through more drastic quota reductions, then the prices on those affected imported products will rise higher than some consumers are able to pay. This is certainly not in the best interest of the American consumer or other workers who benefit from international trade.

Notwithstanding the troubled U.S. retail industry and current protectionist measures, S. 680 would impose new stringent quotas and cutbacks through a global quota system, creating an arbitrary dichotomy between "major" exporting countries and smaller exporting countries. A major exporting country is defined as a country capturing 1.25 percent or more of U.S. imports in 1984, which amounts to just one-quarter of one percent of the U.S. market. Major exporting countries will only be allowed one percent per year growth on a base significantly reduced from their 1984 levels of trade. Not surprisingly, many so-called "major" exporting countries will see their trade plummet, as well as future growth curtailed. Textile and apparel exports from Brazil, for example, would be reduced by more than 58 percent, while similar exports from Indonesia would be reduced by 72 percent. Such reductions do not occur within a vacuum: When one considers the heavy debt obligations owed to the U.S. by some of the major exporting countries, the curtailment of their textile and apparel exports has an indirect,

adverse impact on the U.S. economy.

While the global quota legislation has unpleasant consequences for exporting countries with more developed economies, the legislation threatens further economic hardship for poverty-stricken countries like Bangladesh, Sri Lanka, and India. The textile and apparel industries are a natural industrial opportunity--indeed in most cases the first industrial opportunity--for developing countries. To crush the opportunity to develop their natural base with harsh restrictive legislation will inevitably depress the economic ability and will of those countries to trade with us in agricultural and those industrial products which are <u>our</u> natural base.

The smaller exporting countries, those capturing less than 1.25 percent of U.S. imports, ostensibly are given better treatment than major exporting countries. The legislation would allow them a 15 percent growth rate in 1985 and a 6 percent growth rate thereafter on some products. With the exception of articles from Caribbean countries and Mexico, however, all "import sensitive" articles would be restricted to the same 1 percent yearly growth rate as other exporting countries. Inasmuch as import sensitive categories account for 40 percent of textile and apparel imports, and 60 percent of apparel imports alone, smaller exporting countries will only receive a 1 percent growth rate for many of their exports. Given the small base that they presently have, and the introduction of new quotas

on products not previously controlled, the "better treatment" accorded to the smaller exporting countries becomes illusory upon closer inspection.

Another defect in the legislation is its flagrant disregard of international agreements, painstakingly negotiated over many years. Passage of S. 680 would be tantamount to an announcement by the United States to the world community that it is henceforth abrogating the Multifiber Arrangement, other bilateral textile agreements, and the GATT. The Reagan Administration realizes that it cannot unilaterally reduce quota levels at this late date without contravening these agreements. The Administration, through its Cabinet-level Economic Policy Council, has castigated the proposed legislation, citing, among other things, the bill's violation of our international obligations.

This complete disregard of our international commitments will not be without significant repercussions. The proposed bill sadly seems to invite retaliation from abroad. We know through past experience that countries such as China will respond with agricultural embargoes. In the not too distant past, the U.S. expressed its desire to expand its trade relationship with China. Legislation that would unilaterally cut back textile and apparel imports from China by as much as 56 percent would be a major setback to this relationship; and given the bad feelings engendered by the promulgation of the recent Customs country of origin rules, the legislation would be viewed by the Chinese as "adding insult to injury". In addition to agricultural embargoes, an impact will be felt on a broad range of individually competitive industries, including high-tech electronics. Many

of the developing countries targeted by this bill represent major opportunities for U.S. export growth-opportunities that could be lost through foreign retaliatory measures.

Foreign retaliation means more than lost U.S. export opportunities: It also translates into a loss of American jobs. Many U.S. jobs depend upon international commerce, such as those associated with shipping, warehousing, retailing, wholesaling, manufacturing, banking and telecommunications. In short, the notion that protection saves jobs is a fallacious one.

Protecting market share by a stringent quota system is, rather, an expensive method to maintain jobs. The Federal Trade Commission has estimated that textile jobs protected by quota arrangements cost the U.S. economy roughly $35,000 for each job protected. Adjustment assistance and retraining programs for displaced workers seem less expensive, and a more permanent solution.

And who pays the price for the subsidization of these textile jobs and for the stringent quotas? The U.S. consumer, naturally. As previously mentioned, it is an unfortunate fact of life that such costs are passed on to the consumer. In a nutshell, quotas mean higher prices for U.S. consumers. And unreasonably restrictive quotas mean even higher prices. Recent experience with the Japanese automobile quota system proved this economic truism.

In addition to bearing the cost of subsidizing textile jobs and of stringent quotas, the American consumer is walloped again by S. 680's creation of an import licensing system. Aside from the inevitable consumer costs, a licensing system would create

a bureaucratic nightmare for importers and an administrative nightmare for Customs import specialists at the ports. The taxpayers, too, would have to pay for additional manpower at the Department of Commerce, the agency in charge of administering the licensing system.

It is the consumer, again, who suffers at one of the most ill-conceived provisions of S. 680--the provision which would include non-MFA fibers such as silk, ramie, and linen, within the quota scheme. A reduction to imports of these materials would only harm American consumers since silk, linen and ramie have never been domestically produced in large quantities. Imports of these products have never harmed U.S. manufacturers. Hence this provision should be dropped immediately.

The Limited's concern is that, notwithstanding the American consumer's desire for choice, United States trade policy is drifting into the hands of extremists. As the world's largest and still the most efficient and productive country, we clearly stand to reap the largest benefit from a broad and fair free trade system, and will lose the most from unrestrained protectionism.

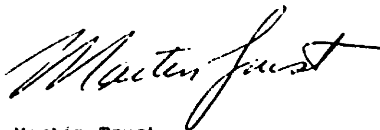
Admittedly, many Americans believe that other countries are taking advantage of us. These feelings make it harder for those who want maximum liberalism in trade arrangements to defend their position against narrow protectionist interests. Ironically, certain countries perceived as least cooperative in liberalized trade, such as the European Economic Community, are exempted from

coverage. On the other hand, the ones who will be hurt are precisely those developing countries like China, and those small emerging entrepreneurial economies like Hong Kong and Singapore, who have worked most diligently to achieve a fair, mutually beneficial, and expanding trade base.

With respect, The Limited believes that what really is needed is a trade policy that will fight with patience for the responsible high ground: A policy that will work with equal vigor for continuing trade liberalization to the benefit of all countries--but most clearly the United States--and the tough elimination of unfair discrimination against U.S. exports. Such a policy renders unnecessary legislation reminiscent of Smoot-Hawley and its mutually destructive trade wars. Within our desired trade policy, there is plenty of room to provide targeted support for those segments of American industry, including textiles, which, while currently troubled, can look to survive profitably into the 21st Century. Every state in the Union would benefit from such a responsible trade policy. It is manifestly clear that the Textile and Apparel Trade Enforcement Act of 1985 has none of the characteristics of such a policy.

Thank you.

Respectfully submitted,



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SUMMARY

1. S. 680 is a costly protectionist measure transparently masquerading as a trade enforcement measure. It not only threatens to impose further harm on an already troubled U.S. retail industry, but seriously threatens the deficit-plagued U.S. economy and debt-ridden economies of foreign nations trying to develop.

2. In singling out import competition as the perpetrator of their suffering, the domestic textile and apparel industries have glossed over the obvious problems of an all too strong dollar as well as weak, non-imaginative U.S. industry management. When one considers the individual problems of the domestic textile and apparel industries, in light of consumer supply and demand, a more balanced perspective comes to light. In order to achieve a proper analysis of issues, we must clearly distinguish between the textile and apparel industries.

3. A free-trade measure, such as an expansion of Item 807.00 of the Tariff Schedules of the United States, is a far more suitable way of assisting the domestic textile industry than the protectionist legislation, which certainly will have adverse consequences within the international trade community.

4. Inasmuch as the domestic apparel industry is unable to produce every apparel product demanded by American consumers, foreign manufacturers fill an important need, be it price, quality, or fashion. S. 680's new stringent quotas and cutbacks will cause imported goods to rise in price. This is not in the American public's interest.

5. S. 680's curtailment of foreign apparel exports has an adverse impact on the U.S. economy, given the heavy debt obligations owed to the U.S. by targeted foreign countries, and the ensuing inability of foreign countries to purchase U.S. exports of certain industrial and

agricultural products. The flagrant disregard of our international agreements will invite foreign retaliation, and result in the loss of American jobs.

6. The American consumer currently shoulders the burden of subsidizing U.S. textile jobs and stringent MFA quotas. The Federal Trade Commission has estimated that textile jobs protected by quota arrangements cost the U.S. economy roughly $35,000 for each job protected. S. 680 unfairly would add to this burden with new quotas and cutbacks, an export licensing system, and extended coverage to non-MFA fibers.

7. What is needed is a responsible trade policy that will work with equal vigor for continuing trade liberalization to the benefit of all countries--but most clearly the United States--and the tough elimination of unfair discrimination against U.S. exports. It is manifestly clear that the Textile and Apparel Trade Enforcement Act of 1985 has none of the characteristics of such a policy.

WILLIAM S. COHEN
MAINE

United States Senate
WASHINGTON, DC 20510

Statement of Senator William S. Cohen
July 15, 1985
Before the Committee on Finance
Subcommittee on International Trade

Mr. Chairman, and members of the Committee, I come before you today in support of S. 680, the Textile and Apparel Trade Enforcement Act of 1985. As the title of this legislation implies, it is designed to require effective enforcement of existing U.S. laws and international agreements relating to the trade of textiles and apparel.

In my opinion, this legislation would not be necessary if the agencies responsible for the monitoring and enforcement of laws already on the books were properly carrying out their duties. In spite of some indications from the Administration to the contrary, it has become clear that our U.S. trade officials either cannot or will not enforce existing laws, thus necessitating this remedial legislation.

Since 1973, international trade in textile and apparel products has been guided by Multi-Fiber Arrangements (MFA), which allow for negotiated country-by-country quotas among the major textile producing nations. Since its inception, the MFA has evolved into a framework for negotiating bilateral restraint agreements. The current MFA expires next summer and must be renegotiated by the various signatories.

A basic premise of the MFA allows each signator to provide for the orderly and non-disruptive growth of imports of textile and apparel products. I emphasize the word orderly, because the effect of imports upon the U.S. textile and apparel sector since 1980 has been anything but orderly. For example, since 1980, imports of textile and apparel products have grown at an annual rate of 19 per cent--far greater than the orderly marketing objectives of the MFA, and far in excess of the 1 per cent annual average growth rate of the U.S. market demand during that same period. In the past six years, imports have more than doubled, reaching a level of 50 per cent of our market in 1984.

One important aspect of the MFA is the right of each signator to "call" for consultations on limits for additional categories if export surges threaten the country with market disruption. The number of "calls" made by the United States this year is expected to reach a record level. Given the fact that U.S. imports of textile and apparel products have grown enormously in recent years, while, at the same time, the domestic industry has experienced such a dramatic decline, it has become apparent that the current trading framework is simply not working.

As a result of this explosion of foreign textile and apparel products into the U.S. market, the U.S. trade deficit in this category alone has grown to $16 billion last year, or 13 per cent of our worldwide merchandise trade deficit. Because of the dramatic increase in imports of textile, fiber and apparel products, the American textile sector is experiencing intolerable market disruption, numerous plant closings, over 300,000 jobs lost in the past four years, and significantly reduced production. It is time to call a halt to this situation before even further damage is inflicted upon our textile and apparel industry.

In my own state of Maine, the textile, apparel and wool industries rank with footwear, another industry beleaguered by imports, among the largest employers. There are approximately 15,000 people directly employed by these industries whose jobs are in jeopardy if reasonable limits on imports are not imposed.

Since my distinguished colleague from South Carolina has already detailed the provisions of this legislation, I will not repeat them. Let us simply serve notice to our trading partners that we will not continue to be the world's only free trader in this increasingly hostile world trading environment. Nor will we continue to serve as the dumping ground for the excess production of our trading partners.

In closing, I submit that we must commit ourselves to the development and implementation of rational controls over our economic borders which will provide our domestic industries a fair opportunity to compete. I see this legislation as consistent with this goal, and I urge my colleagues to join in supporting the measure.

TESTIMONY BY CONGRESSMAN ED JENKINS (D-GA.) ON BEHALF OF H.R. 1562/S. 680 THE TEXTILE AND APPAREL TRADE ENFORCEMENT ACT OF 1985

Mr. Chairman, thank you for allowing me the opportunity to present my testimony on behalf of many of my colleagues concerning the problems facing the U.S. fiber, textile and apparel complex today. We in the Congressional Textile Caucus have introduced legislation, H.R. 1562, the Textile and Apparel Trade Enforcement Act of 1985, which is designed to address these trade problems more comprehensively than any other legislative or administrative initiative at this time. This Act has gained bi-partisan support from 290 co-sponors in the House to date, and among these, eighteen states of the union stand solidly in support of our legislation.

We believe the reason this legislation has gained support from every sector of this nation is because the recent decline in numbers of U.S. textile and apparel operations due to cheap imports has begun to affect other sectors of our economy. Certainly, the Southeast and Northeast and California are the most heavily concentrated textile and apparel areas of our nation, but according to a recent econometric analysis by Data Resources, Inc. (DRI), the failure to pass our legislation would result in unemployment for not only 947,000 Americans in the textile and apparel industries, but 943,000 others, in other industries because of the ripple effect. Failure to pass H.R. 1562, the study further contends, would increase the federal budget deficit by $24 billion lower consumer disposable income by $19 billion and lower the GNP by $40 billion.

Mr. Chairman, I am speaking today not only on behalf of a clear majority of my colleagues from both sides of the aisle in the House who have pledged support for our legislation, I am speaking on behalf of 300,000 Americans

who have lost their jobs since 1980 because of imports. In my own state of Georgia the Georgia Department of Labor has expressed enough concern over the import problem in the textile and apparel industry to set up a special task force in anticipation of the damage to employment in the state.

Before I digress into exactly what the Textile and Apparel Trade Enforcement Act does, I would like to emphasize to this panel the exceptional competitive spirit and productivity of our domestic fiber, textile and apparel complex. We are referring to an industry which has increased its productivity by 4.5% annually since 1984, compared to 2% annually for all U.S. manufacturing. The U.S. fiber/textile/apparel industry employs approximately 2 million workers in 7,200 plants and produces 12 billion pounds of product annually, compared to the Peoples Republic of China's track record of 4.3 million workers in 12,000 plants producing the same poundage of textile product annually. Does the Peoples Republic of China deserve to get ahead on the basis of productivity?

In terms of competitiveness, the U.S. textile industry spends close to $2 billion annually modernizing plants and specializing product lines in order to remain as efficient as possible. Prices of American fiber, textile and apparel products, on the other hand, have risen only half as fast as all manufacturing products, with a 90% increase since 1971, versus a 183% increase for all other U.S. manufacturing.

Since 1980, the objectives of orderly market growth set forth in the Multi-Fiber Arrangement have not been achieved. From 1981 to 1984, imports of textile and apparel have grown at an annual rate of 19%. Our bill doesn't set out to do anything more than the MFA was intended to do.

Specifically, our bill puts limits on imports from major exporting countries which reflect import growth since 1980 at growth rates contemplated by the 1981 extension of the MFA. The Textile and Apparel Trade Enforcement Act would cover all textiles, apparel, textile products and man-made fibers. The act applies to all exporting countries with the exception of Canada and the European Economic Community.

In 1985, imports from the major exporting countries, capturing more than 1.25% of the U.S. market would be limited to levels if the MFA had been effectively enforced during 1980-1984. In each future year, the growth rate of imports from the major exporting countries would be limited to 1%.

In 1985, the smaller countries capturing less than 1.25% of U.S. imports, plus Mexico, would be 115% of 1984 levels except for import sensitive categories; that is, categories for which imports equal 40% or more of domestic production, in which 1985 import levels would be 101% of 1984 levels. After 1985, annual quota growth would be 6% for each category except 1% for import sensitive categories. When imports from a smaller exporting country -- except countries in the Caribbean region -- reach 1.25% of U.S. imports, quota growth in all categories would be 1%.

In categories in which a country has no or few exports, the country would be allowed to ship to certain minimum levels. Annual growth would then be 1% for major exporting countries or 6% for smaller exporting countries, unless the category is highly import sensitive, in which case growth would be 1%.

Our bill also contains an import licensing system whereby the Secretary of Commerce would establish regulations to govern the entry of imports to conform with this act. The Secretary is also required to establish this licensing system within 6 months of enactment.

Mr. Chairman, the ultimate intent of H.R. 1562 is to translate into law the objective of the Multifiber Arrangement, which is to bring order to world textile and apparel trade. Clearly, a situation where imports are gaining ground at record percentages annually with some areas reaching a 50% saturation level of our marketshare, while the domestic textile and apparel industry has remained relatively flat, is not an orderly one. The European Community witnessed a similar occurrence in their market a few years ago, and it implemented the objective of the Multifiber Arrangement to rectify the problem with due haste. I cannot help but wonder why in a parallel situation, our own government has blatantly turned its back on American workers. The EEC unilaterally cut back trade from major suppliers, set up low growth rates and a global approach on imports, and they are now absorbing a fourth the imports that the U.S. absorbs. I further wonder why the EEC's actions were condoned with hardly a batted eye and in fact led to the modifications of the MFA through a protocol of understanding that specifically permits the kinds of actions taken by the EEC, in light of our own government's reluctance to invoke similar actions.

It is completely unrealistic for our government to close its eyes to the unjust trade practices practiced by at least 75% of our trading partners, when the U.S. is clearly losing its marketshare to their ruses. This year the merchandise trade deficit is expected to top $140 billion, another staggering record. We treat state-controlled economies as if they

were free market economies as ourselves, and there is no comparison. Offending nations that set up barriers to our exports and unfairly subsidize their exports to us get away with hardly a slap on the wrist.

Let me take a minute to mention some specific trade barriers faced by U.S. textile and apparel exporters. The Phillipines places a total ban on textiles, used clothing, remnants, wearing apparel except for textiles for use in the manufacture of apparel items for re-export only. India levies an excise tax and countervailing duty on almost all textile products. It requires import licenses on practically all products. Thailand imposes a business tax, special import fee, municipal surtax and import licenses, to name a few. Brazil requires that goods receive an import permit and commercial invoice. Some duty rates are up to 250% cost insurance freight (c.i.f.). The country places an industrialized product tax, a merchandise circulation tax, an airport and port improvement tax. Korea assesses a value added tax and a special consumption tax on textile and apparel goods. Since 1967, Korea has had an import plan based on a restricted list of items whose license must be approved by the appropriate ministry or trade association. Certain items are specifically banned.

These are a few of the "protectionist" measures offered by other countries for their own textile and apparel industries.

Our industry can compete with other nations when the scales are evenly balanced. However, the scales are heavily weighted in favor of our foreign trading partners. We seek a balance in world trade. H.R. 1562 sets that balance.

It is completely unrealistic for our nation, made into a world power through the industrial revolution, to assume that it can allow its industrial base to erode pathetically, and rely upon a service base to retain its status as a world power. We cannot survive by taking in everyone's wash!

In addition, textiles are recognized as highly essential to our nation's defense effort. The ability to respond in a mobilization situation and the advancing technology needed for high performance textile products rely upon a viable domestic industry.

Mr. Chairman, I wish I had the time here to discuss several arguments presented against our bill by the Administration a few weeks ago in a weak attempt to discredit it, because we find all its arguments shallow in the face of reason. A point by point rebuttal is attached to this testimony for inclusion in the record, but I will concentrate on a few arguments that are especially in vogue.

We would like to set the record straight on the Administration's contention that the American consumer will bear the brunt of passage of H.R. 1562 into law. The Administration has stated that consumers will pay $14 billion annually in "hidden" costs due to import restraints advocated in H.R. 1562. We are unable to decipher the source for this figure, but Mr. Chairman, we firmly contend that these so-called "hidden" costs to consumers, whatever that figure might be, are almost solely the result of tremendous markups of 200 to 300% and upward of imported goods at retail level. Many of these imported goods actually sell at higher costs than their domestically-produced counterparts, while others are comparably priced to their domestically-produced counterparts within a few cents. Such price-gouging techniques have benefitted few, at the

expense of hundreds of thousands of textile and apparel workers' jobs. Certainly the exploited workforces in the Third World textile and apparel nations have not made off with the profits.

Further, we wish to stress to this Subcommittee that in the absence of domestic sources of textiles and apparel, all Americans will pay higher prices through their noses for foreign goods. With uncontrolled import growth remaining a trend in the textile and apparel market, we could in all likelihood anticipate numerous repeats of the situation where the last velveteen producer in the country was forced to close his doors last October. Within hours of this development the foreign producers raised their price on this fabric by $1.00 per yard. I would be interested in hearing how the complete absence of a domestic textile and apparel industry will benefit the consumers in the long run.

Another concern the Administration has registered in regard to our legislation is fear of retaliation against our agricultural markets by other nations. I must inject a personal observation here to remark that in light of our staggering trade deficits with these very nations, I cannot imagine what else is left to fear except fear itself! It's pretty obvious to many of my colleagues and myself that the recent trend in world trade has been to shunt the U.S. aside in the world demand for corn, wheat, cigarettes and tobacco, as a result of increased foreign production capabilities as well as the overvalued dollar. The Peoples' Republic of China, for instance, is quickly positioning itself to become self-sufficient in wheat by the decade's end. This nation has already achieved a similar goal for cotton and in fact has become such a formidable exporter of cotton that China's inroads into the U.S. cotton textile market could well destroy that industry segment within a brief four years.

In conclusion, Mr. Chairman, I would add that we as a nation are enmeshed in a trade policy that is highly out of sync with the times. I would urge this Subcommittee to act upon H.R. 1562 favorably.

Answers to the Administration's Fact Sheet on Implications of the Textile Quota Bill

In opposing H.R. 1562 and S.680, the Administration has made reference to a number of things it has done to help the U.S. fiber, textile and apparel complex.

These actions have been ineffective and clearly insufficient. Indeed, they are the reason this legislation has been introduced.

Administration's Actions to Help the U.S. Industry

O The Administration claims that it has acted consistently and forcefully to protect firms and workers from disruptive imports. The facts show otherwise. The agreement negotiated in 1983 with China provided an annual growth in quotas of 10.1 percent. Agreements negotiated in 1982 with Hong Kong, Korea and Taiwan were supposed to control shipments to one to two percent annually, but since 1982 imports from these three countries increased 40 percent. Other major suppliers were permitted tremendous increases in their shipments to the U.S. For example, Indonesia has increased 213 percent just since 1983; India has increased 54 percent; the Philippines 32 percent; and Brazil 51 percent. The result has been over 300,000 U.S. jobs lost in the textile/apparel industry since 1980.

O The Administration claims that in order to permit the industry to compete with foreign producers they have negotiated or imposed more than 300 quotas. It is correct that 300 new quotas have been imposed and should be helpful in curbing future import growth. However, there are two problems associated with these actions. First of all, the Administration has in many cases delayed for months putting on quotas until imports have risen to tremendously high levels, thus ensuring an import level which is very disruptive. Second, there are currently over 100 candidates for quotas which meet the market disruption criteria set out in the December 16, 1983 announcement on which the Administration has failed to act. These quota candidates represent about 500 million square yards of imports.

O The Administration claims that the new textile rules of origin will have a major impact on the program. The Administration is correct in saying that these new rules of origin will make legal quota evasion more difficult, but this will have little or no impact on the overall import problem. These new rules will curb quota evasion where a country has manufacturing done in another country but uses its own quotas. The new rules will transfer production back to the original country with the impact on trade being minimal. The rules are basically designed to prevent practices aimed at circumventing quotas.

O The Administration claims that it strengthened the Multi-fiber Arrangement (MFA) in 1981 and then tightened up bilateral agreements with Hong Kong, Korea and Taiwan in 1982. This is only a small part of the story. The MFA was tightened in 1981 only after very strong pressure was brought to bear on the White House by members of Congress and the domestic industry.

After renewal of the Multi-fiber Arrangement the United States did use some MFA provisions to negotiate tighter bilateral agreements with Hong Kong, Korea and Taiwan. However, in order to get tighter limits on certain products the Administration negotiated away the country limits with these countries. Failure to continue these country limits has led to an increase today of imports from Hong Kong, Korea and Taiwan of about 500 million square yards. The absence of country limits and slowness by the Administration to react to import growth in uncontrolled categories led to increases in imports from these three countries of 40 percent since 1981.

O The Administration claims that 80 percent of all imports from developing country suppliers are now under quota. The Department of Commerce _Major Shippers Report_ for April indicates that approximately 73 percent is under quota. This is _down_ from 81 percent in 1982. It is important to realize that even with 81 percent under quota in 1982, imports since 1982 from the low cost countries increased by over 3 billion square yards, or 59 percent.

O The Administration claims that additional tariff protection is provided by relatively high tariff levels on textiles and apparel. Textile and apparel tariffs are relatively higher than those on other products because of the import sensitivity which they have. These tariffs were not cut as much as others during multilateral negotiating rounds because, upon advice of the International Trade Commission, the industry was found to be severely import impacted. The current high rates reflect the judgment of the International Trade Commission (ITC) when imports were less than half of what they are today. After the increased import penetration of the last four years the ITC would today almost certainly recommend few or no tariff cuts. Finally, because of the overvalued dollar, these tariffs afford only a fraction of the protection they did when the ITC gave its advice.

Many other countries' trade barriers are far greater obstacles to trade than are U.S. tariffs. Import licensing requirements, value-added taxes and tariff rates of 100 percent or more are found in many of the major countries supplying textiles and apparel to the U.S.

U.S. Market Conditions

0 The Administration claims that imports are being reduced so far this year. The 4.4 percent decline cited must be compared with a major decline in domestic shipments and production. The real value of apparel industry shipments is down 7.6 percent from a year ago while textile shipments have fallen 10.9 percent. It is important to note that the textile and apparel trade deficit so far in 1985 has been 9.4 percent higher than last year. Last year's deficit was a record $16 billion and was 13 percent of the record U.S. trade deficit.

The current pattern of imports represents a continuing increase in market penetration and a continuation of market disruption in spite of the modest import decline. It is also of interest that the import decline was centered in yarn and fabric. Through April, apparel imports were up from last year. The decline in imports is related to high inventories in the pipeline and to a sluggish domestic market. Recent analyses indicate that in the first quarter 1985 consumer offtake of apparel, at retail, was slightly below last year's first quarter.

0 The Administration claims that real textile shipments rose 8.3 percent during the Administration's first four years. They did not. They rose a mere 1.9 percent, and apparel industry shipments rose only 2.7 percent in real terms, not the 6.4 percent claimed. Indeed, for the 12 months ended April, 1985, combined domestic textile and apparel shipments were virtually unchanged from 1980 levels in real terms, as shown on the attached graph. Over this same period, imports increased by 100 percent from 5 billion square yards to 10 billion.

Effect on Consumers

0 The Administration's claim that consumers would pay higher prices with passage of this legislation, costing them some $14 billion a year, is theoretical and completely at odds with the results of econometric analysis by Data Resources, Inc (DRI). It is not known how the $14 billion estimate was made, but it is known that the U.S. has lost one million job opportunities because of the current import level which equates to a $40 billion loss in gross national product.

The DRI analysis goes on to show that if the bill does not pass, the growth in imports, in wiping out most of the domestic apparel chain of production by 1990, will:

- 0 Create unemployment for 1,890,000 Americans, 947,000 in the textile and apparel industries and another 943,000 in other industries because of the ripple effect.
- 0 Increase the federal budget deficit by $24 billion.
- 0 Lower consumer disposable income by $19 billion.
- 0 Lower GNP by $40 billion.
- 0 Have a minimal effect on price levels.

In short, the cost to the consumer is in NOT passing the legislation rather than in enacting it.

0 The Administration claims that foreign textile suppliers would reap additional windfall profits of about $2 billion because of quotas. However, no explanation is given as to how this estimate is made.

0 It is not likely that prices of textiles and apparel will rise as predicted by the Administration if this bill is enacted. History shows the rate of price increases in domestic textiles and apparel has always been less than U.S. inflation generally - even when textile and apparel imports were at levels far lower than they are. This is because of the intense domestic competition that has always existed among U.S. textile and apparel producers. Apparel production capabilities can expand as easily inside the U.S. as they have outside the U.S. The U.S. textile industry is currently operating at 77 percent of capacity.

0 Low income families include many apparel and textile workers earning $5.00 to $6.00 per hour. 947,000 of these workers will lose their jobs by 1990 unless the legislation is enacted.

0 The assumption that apparel imports are lower priced derives from the fact that they are produced more cheaply overseas. Research shows that there is very little difference in retail prices of imported vs. domestic apparel. The huge markup placed on imports by retailers are the reason consumers are not now benefiting from imported apparel and textiles.

Marginal Effect on Production and Employment

0 The Administration's claim that passage of the bill will have a minimal impact on domestic production obviously relates to 1984 levels. What the legislation does is to increase domestic output by 100 percent from where it would otherwise be in 1990 if import growth continues on its present course. Without the bill, textile and apparel employment in the short space of five years will drop by more than half from current levels.

0 The gains in production and employment are not small and unemployment of 1.9 million Americans is a very high price to pay for failing to pass the bill.

Retaliation Against U.S. Exports

0 The Administration is concerned about retaliation against U.S. exports, specifically corn, wheat, aircraft, cigarettes and tobacco. In reality, the U.S. is already being shunted aside in world demand for agricultural products, particularly cotton and wheat as a result of growth in foreign production capability and the overvalued dollar.

The China Situation

There have been phenomenal increases in production of most major agricultural products over the last several years and this has greatly reduced China's need for imports including grain.

According to the USDA, "This drop in agricultural imports was largely the result of decreased demand due to several years of high domestic production and excess stocks." It is expected that China will continue to increase its internal production and should be self-sufficient in wheat by the end of the decade, as it is now in cotton.

China-Production and Imports of Key Agricultural Commodities
(MM Metric Tons - Except Cotton)

	'80/'81	'83/'84	% Change
Wheat			
Production	55.20	81.40	47%
Imports	13.80	10.00	-28%
Soybeans			
Production	7.94	9.30	17%
Imports	0.54	0.00	-100%
Coarse Grains			
Production	81.00	85.00	5%
Imports	0.99	0.50	-50%
Cotton (MM Bales)			
Production	12.40	21.30	72%
Imports	3.60	0.20	-94%

As countries become newly industrialized, they seek to move into higher technology production, primarily for export. Many other countries are producing goods using export or production subsidies. U.S. competition in agricultural products as well as in aircraft reflects these developments.

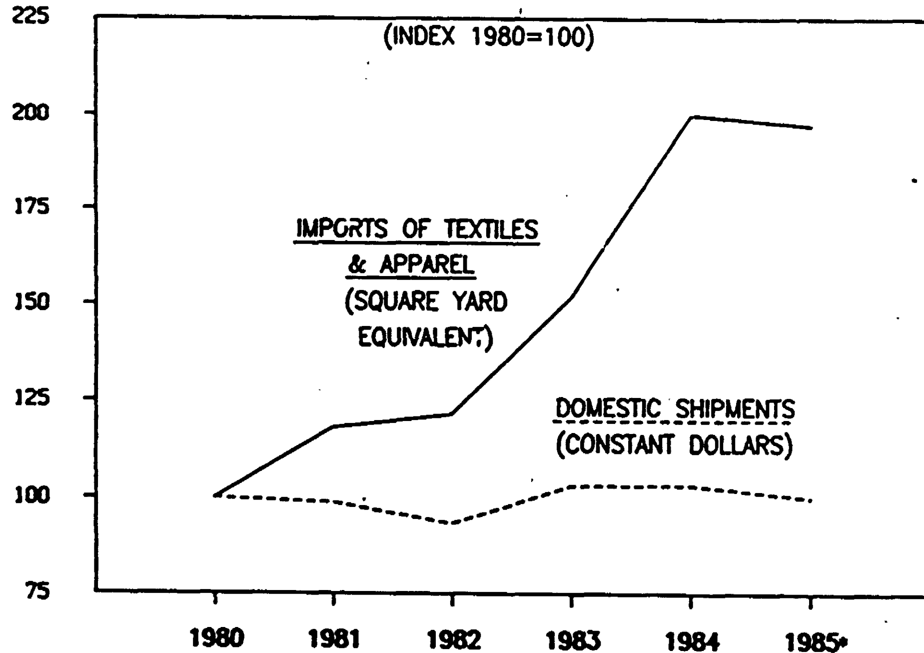
Violation of 34 U.S. Bilateral Agreements in the MFA and U.S. Obligation Under the Multi-fiber Arrangement (MFA)

O The Textile and Apparel Trade Enforcement Act of 1985 is fully consistent with the objectives of the Multifiber Arrangement (MFA) which are to prevent market disruption and provide for growth of developing country exports. The act concludes that there is wide spread disruption in the U.S. market because of the failure to enforce adequately the provisions of the MFA.

This bill would mandate actions similar to those taken in 1977 by the European Community (EC). The EC cut back trade from major suppliers, imposed very low growth rates and established a global concept to control key imports. When the EC took those actions no one retaliated, nor were any claims made that the EC acted inconsistently with the Multifiber Arrangement. In fact, the Multifiber Arrangement's protocol of understanding was formulated to permit the actions taken by the EC. A similar approach could be taken by the Administration.

O All of the bilateral agreements need not be abrogated. There are provisions in each for an orderly termination. The Administration could also consult with each country and explain the actions mandated in the bill. The MFA expires in July, 1986 and if the U.S. decides not to participate in a renewal, MFA issues will become moot. However, in 22 of the bilateral agreement countries, the bill provides for an increase in trade of 15 percent in 1985 and a 6 percent annual growth there after (except for certain sensitive categories). Also, there is a precedent for re-negotiating agreements before they expire, as in 1979 and 1980 with Hong Kong, Korea and Taiwan.

IMPORTS HAVE DOUBLED SINCE 1980 WHILE DOMESTIC SHIPMENTS LANGUISH



* 12 months ended April.

STATEMENT OF FROILAN C. TENORIO RESIDENT REPRESENATIVE TO THE UNITED STATES FOR THE NORTHERN MARIANA ISLANDS

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

THANK YOU FOR THE OPPORTUNITY TO MAKE THESE COMMENTS IN OPPOSITION TO THE APPLICATION OF CERTAIN PROVISIONS OF S.680, THE "TEXTILE AND APPAREL TRADE ENFORCEMENT ACT OF 1985", TO THE COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS (CNMI). WHILE THE BILL HAS GREAT VALUE TO THE MAINLAND TEXTILE AND APPAREL INDUSTRY, AND I SEE THE NEED FOR LEGISLATION TO PROMOTE DOMESTIC PRODUCTION, IT WOULD REVERSE ESTABLISHED TERRITORIAL TRADE POLICY AND WOULD, IF MADE APPLICABLE TO THE COMMONWEALTH, HAVE A PROFOUNDLY-DESTRUCTIVE IMPACT UPON OUR CORNER OF THE AMERICAN ECONOMY.

SECTION 4(4) OF THE BILL DEFINES THE TERM "COUNTRY" TO INCLUDE "AN INSULAR POSSESSION OF THE UNITED STATES." WHILE THE CNMI IS NOT CURRENTLY SUCH A POSSESSION, WE ARE IN THE PROCESS OF BECOMING THE NEWEST MEMBER OF THE AMERICAN POLITICAL FAMILY PURSUANT TO THE "COVENANT TO ESTABLISH A COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS IN POLITICAL UNION WITH THE UNITED STATES OF AMERICA", PUB. L. 94-241. ACCORDING TO THE PROVISIONS OF THAT AGREEMENT, WE ARE HEIRS TO THE BIPARTISAN CONGRESSIONAL POLICY OF FOSTERING THE ECONOMIC DEVELOPMENT OF THE TERRITORIES THROUGH THE PROVISIONS OF GENERAL HEADNOTE 3(a) OF THE TARIFF SCHEDULES. WERE THE PROVISIONS OF THIS BILL MADE APPLICABLE TO THE COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS, ACCESS TO THE AMERICAN MARKETPLACE FOR OUR TEXTILE AND GARMENT PRODUCTS WOULD BE VIRTUALLY ELIMINATED.

UNTIL RECENTLY, THE UNITED STATES HAD ACTIVELY PROMOTED THE DEVELOPMENT OF A GARMENT MANUFACTURING INDUSTRY IN THE CNMI, ALONG WITH OTHER INDUSTRIES TAKING ADVANTAGE OF THE HEADNOTE 3(a) POLICY. TEXTILE PRODUCTS OF THE COMMONWEALTH WERE LAWFULLY LABELED AS SUCH AND PROUDLY IDENTIFIED AS "MADE IN THE USA". AS LONG AS IT COULD BE DOCUMENTED THAT THE PRODUCTS DERIVED NO MORE THAN 50 PERCENT OF THEIR VALUE FROM FOREIGN MATERIALS, THEY ENTERED THE MAINLAND MARKET DUTY-FREE AND WITHOUT QUOTA. BUT THE U.S. CUSTOMS SERVICE HAS RECENTLY ACTED TO OVERRIDE THIS CONGRESSIONALLY-ESTABLISHED POLICY. LAST YEAR'S INTERIM "COUNTRY OF ORIGIN" REGULATIONS PROVIDED THAT THE PRODUCTS OF OUR INDUSTRY ARE NO LONGER CONSIDERED TO BE AMERICAN PRODUCTS EVEN WHEN THEY DERIVE MORE THAN HALF OF THEIR VALUE IN THE COMMONWEALTH.

S.680 WOULD HAVE AN EVEN MORE DEVASTATING IMPACT ON OUR INDUSTRY IF MADE APPLICABLE TO THE COMMONWEALTH. ALL OF THE PRODUCTS OF AN INSULAR POSSESSION WOULD BE TREATED AS FOREIGN, REGARDLESS OF THEIR LOCAL VALUE CONTENT; AND ALL WOULD BE SUBJECT TO STRICT QUOTA. THE PRACTICAL EFFECT OF THESE QUOTA PROVISIONS, IF MADE APPLICABLE TO THE CNMI, WOULD BE TO ELIMINATE THE FLEDGLING GARMENT INDUSTRY IN OUR ISLANDS.

SECTION 5 OF THE BILL ESTABLISHES QUOTAS CALCULATED ON A BASE YEAR OF 1984. THIS INDUSTRY IS SO NEW IN THE NORTHERN MARIANA ISLANDS THAT ANY QUOTA BASED UPON THE 1984 STATISTICS WOULD BE SO LOW AS TO APPROACH ZERO. THOSE COMPANIES THAT

INVESTED IN THE NORTHERN MARIANAS WOULD BE FORCED TO CUT THEIR LOSSES AND GO OUT OF BUSINESS. SECTION 5 WOULD ALSO HAVE THE EFFECT OF DRASTICALLY REDUCING THE CURRENT QUOTA ESTABLISHED BY THE U.S. CUSTOMS SERVICE FOR COMMONWEALTH PRODUCTION IN 1985. THE CURRENT LEVEL HAS BEEN ESTABLISHED AT A VERY MODEST 70,000 DOZEN. SECTION 5 WOULD PERMIT ONLY 47,000 DOZEN, A REDUCTION OF 33%.

IF MADE APPLICABLE TO THE COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS, S.680 WOULD HAVE AN EXTREMELY-ADVERSE IMPACT UPON OUR SMALL DEVELOPING ECONOMY. ITS PROVISIONS WOULD RESULT IN TREATMENT OF MARIANAS' APPAREL PRODUCTS AS FOREIGN PRODUCTS, RATHER THAN AMERICAN PRODUCTS. ASIDE FROM THE NEGATIVE EFFECT THIS WOULD HAVE ON THE TRADE BALANCE, THE PSYCHOLOGICAL EFFECT ON THE PEOPLE OF THE NORTHERN MARIANA ISLANDS AND PROSPECTIVE INVESTORS IN THE COMMONWEALTH WOULD BE MOST UNFORTUNATE.

WHEN OUR PEOPLE VOTED IN 1975 BY A MAJORITY OF NEARLY 80% TO JOIN THE UNITED STATES, WE WERE PROMISED U.S. CITIZENSHIP AND MEMBERSHIP IN THE "AMERICAN ECONOMIC COMMUNITY". THUS FAR, CITIZENSHIP HAS NOT BEEN CONFERRED, AND S.680 WOULD REVERSE MORE THAN 50 YEARS OF TERRITORIAL TRADE POLICY TO EXCLUDE US FROM THE AMERICAN ECONOMY.

IT IS ESPECIALLY SAD TO NOTE THAT S.680 WOULD DISFAVOR THE U.S. TERRITORIES AND INSULAR POSSESSIONS AS COMPARED TO SUCH FULLY-DEVELOPED NATIONS AS CANADA AND THE MEMBER NATIONS OF THE EUROPEAN ECONOMIC COMMUNITY AS WELL AS THE COUNTRIES OF THE CARIBBEAN BASIN INITIATIVE.

FOR ALL OF THESE REASONS, I JOIN WITH THE REPRESENTATIVES OF THE OTHER U.S. TERRITORIES IN REQUESTING THE SUBCOMMITTEE TO EXCLUDE THE INSULAR POSSESSIONS GENERALLY FROM THE PURVIEW OF S.680. TO INCLUDE THE COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS IN THE QUOTA PROVISIONS OF THIS BILL WOULD BE TO EXCLUDE US FROM THE FULL AND FAIR PARTICIPATION IN THE ECONOMIC LIFE OF THE UNITED STATES.

Written Statement for Submission to the
Finance Committee's Subcommittee on International Trade

Regarding the Hearing on S.680
The Textile and Apparel Trade Enforcement Act of 1985
July 15, 1985

As the owner and President of a U.S. textile company which produces fabric both in Asia and in the United States, I have been deeply involved with both domestic and foreign textile goods over the past 25 years. My company makes fabrics of high quality of which approximately 75% of the $40 million annual sales volume is represented by imported fabric. I have concluded that S.680 is a terrible piece of legislation for the American consumer, importers and the U.S. textile industry.

I am an active member of the American Association of Exporters and Importers, which organization is vehemently opposed to S.680. I am also a member of the Board of Directors of the Textile Distributors Association, Inc. with which organization's support of this bill I strongly disagree.

My opposition to S.680 is based on two premises which are summarized as follows:

(1) The problems of the U.S. Textile Industry are not caused by imports, and thus will not be solved by S.680. The problems are caused by basic fundamentals

within the U.S. Textile Industry and within the U.S. economy. These fundamentals remain unaided by S.680. In fact, they are made worse.

(2) While not solving the problems of domestic textile and apparel manufacturers, nor helping that industry over the longer-term, the bill will be enormously detrimental to numerous other entities as well, including domestic importers and U.S. consumers. There is also the very real possibility of providing the impetus for a trade war in which the U.S. economy will be hurt as exports in areas such as agriculture and aircraft are endangered.

I would like now to elaborate on the above two premises. First, that the U.S. Textile Industry problems are not due to imports. It is clear that domestic textile producers already enjoy enormous competitive advantages over their foreign counterparts. The domestic textile industry is already one of the most protected industries in the U.S. in terms of tariff and quota protection. More than 650 quotas from 31 countries have been established. Per the Reagan administration, the average textile and apparel tariff equals 22.3% versus an averagae tariff of less than 5% for all other industries. With tariffs already more than 400% higher than average, it makes sense that there must be other reasons imports continue to be a viable alternative

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to domestic production. Higher and higher tariffs have not been the answer in the past and there is no reason to believe they will, somehow, be the answer in the future.

Competitively it is also true that U.S. producers have the advantage of using readily available raw materials. Foreign competitors need to import their cotton and those synthetic materials necessary for polyester production, unlike domestic producers who have these raw materials in their own country. Domestic producers also have the obvious advantage of physically being located in the U.S.

With all of these competitive advantages why do U.S. textile manufacturers contin e to clamor for more and more protection and why do so many of we U.S. fabric companies continue to do a major portion of our business with foreign producers? It is not because we like being involved with the complications of dealing with incredibly restrictive quotas and expensive tariffs. It is not because we like being involved in the many hassles which arise due to the necessity of warehousing goods both off-shore and on. It is not because we prefer the complications of telexing suppliers and dealimg with time differences over the use of a simple local telephone call. It is not because we enjoy taking the additional risks involved in all foreign trade dealings. It is not because we wish to increase the number of our employees by hiring the additional personnel

necessary to handle these tariff, quota, shipping, warehousing, financial and communication problems. It is because U.S. producers have consistently remained inflexible, unimaginative and insensitive to the needs of the fashion industry.

What exactly are these needs which are not being met? Basically they stem from the fact that U.S. industry has had and continues to have a "mass market" approach, characterized by giant runs of commodity goods. U.S. manufacturers are not responsive to consumers nor to converters. They do not want to be bothered with smaller, more flexible production of specialized fabric. U.S. manufacturers have consistently refused to provide the service which the fashion industry requires. Tougher quotas and higher tariffs will not change this fact. Rather higher duties and more limiting quotas will perpetuate the complacency, lack of quality consciousness and competitiveness which characterizes the U.S. textile industry today.

My experience has been mainly in importing high quality and expensive fabric, much of which is 100% cotton. I have enclosed 3 samples of our fabric with this statement. (See Attachments.) This type of fabric is not available in the U.S. at any price. I have discussed my needs with many of the largest and highest quality domestic textile producers. They do not have the interest nor the ability to supply these goods. They are not interested in developing the flexibility to fill

the needs of my company which are the needs of the fashion industry in general. This mass merchandising mentality will not be changed by S.680. S.680 will not force U.S. producers to be more flexible nor will it pursuade them to offer good and varied quality in smaller runs. It will, instead make U.S. manufacturers even less responsive than they are at present, leading to a further decline in the domestic textile industry.

Extensive quotas and tariffs which average 400% higher than in other industries have not been the answer. Is it logical to assume then that even tighter quotas and tariffs at 500% to 600% the national average will make the difference? I believe the answer is clearly, no.

S.680 is a simplistic measure to attempt to achieve "trade balance". The real need is to deal with the underlying imbalance as it is related to an over-valued dollar, and to the unresponsiveness of the domestic textile industry. More fundamental solutions include: a reduction in the U.S. budget deficit and an improvement in U.S. productivity. The textile and apparel importers should not be used as a scapegoat for the underlying basic problems in the U.S. economy.

The second premise I introduced at the beginning of this statement is that far from solving problems, S.680 is instead a dangerous piece of legislation which upon passage may set in

motion a chain of events highly detrimental to the U.S. and the world.

First and foremost will be the nightmare of implementing the proposed licensing scheme. This will ultimately discriminate against retailers and importers who do not have the resources to employ the large administrative staff necessary to comply with the additional regulatory complications. Many of these retailers and importers will be forced to close, sacrificing jobs in one area to supposedly save jobs in another.

Secondly, and of much greater importance, this licensing system, which would force every importer of every product from every country to obtain an import permit before any apparel product could be landed, is unprecedented and would likely lead to rampant protectionism throughout the world, triggering massive retaliation abroad. This is evidenced already by the letter of which you are well aware, recently received by Clayton Yeutter from Chinese Ambassador Han Xu. In this letter the Ambassador spoke of retaliation against U.S. exports to China in areas which included: aircraft; locomotives; computers; wheat; chemicals; scientific instruments; et.al.

The blatant violation of the Multi-Fiber Arrangement and U.S. Bilateral Textile Agreements represented in S.680 further justify retaliation by our trading partners. These retaliatory

measures will thus cause further job losses as trade barriers gradually slow exports. This bill purports to save one industry at the expense of numerous other industries. This bill will cost the American economy billions of dollars which would be better spent in assisting the current domestic textile industry in modernizing its technology to enable it to better serve its customers. By reducing competition and shielding U.S. producers from the demands of the market, far from helping the U.S. textile industry, the short-term solutions offered by S.680 will prove dangerous over the longer-term to the industry it is designed to protect.

The nature of the U.S. economy is changing from a manufacturing-based economy to a service oriented one. This is the economic reality of America today. The poor economic situation of the U.S. textile/apparel industry is a reflection of this reality. This is well illustrated by the textile machinery industry which over the past 20 years has disappeared as an American industry. Measures such as S.680 could not have helped this reversal in a non-labor intensive industry where the U.S. should be competitive. It will not help in the far more labor intensive textile and apparel industries.

Finally, I believe it is clear that it is the American consumer who is ultimately betrayed by this legislation. S.680 will

inevitably lead to fewer choices and higher prices in the apparel sector.

To summarize, I believe this bill is bad trade policy, and worse economics. It will not solve the deeply-rooted problems of an industry which has turned a deaf ear to the needs of its customers.

I thank you for your attention.

Respectfully submitted,

Martin Tandler

• TELEPHONE (503) 238-5000 • TELEX 360672

Jantzen

July 12, 1985

Senator Bob Packwood
Chariman, Committee on Finance
United States Senate
Washington, D.C. 20510

Re: Senate Bill S. 680
The Textile/Apparel Trade Act

Dear Senator Packwood:

We appreciate your kind invitation to send a prepared statement for the record of the scheduled hearing on the above bill before the International Trade subcommittee. Please consider this letter as our statement.

Our interest in this legislation is clear-cut. We believe much of the nation's remaining apparel manufacturing capacity will not survive unless imports are limited. Already half the women's apparel sold here is made in foreign plants. The impact on men's apparel has been less but the gap is closing. Last year, apparel and textile imports overall were 32% higher than the prior year.

The fate of the domestic footwear industry provides an illustration of what can happen in the apparel industry. Over 70% of the footwear sold here now is imported. If that is permitted to happen to apparel, the status of over a million persons will change from tax payers to unemployment and welfare drawers. (For comparison, a million jobs is what the highly acclaimed service industry says it created over the last four years.)

The loss of payroll from a million apparel jobs would have a multi-billion dollar effect on the nation's economy -- to say nothing of the "ripple effect" this loss would have on other payrolls, or the increased burden on government and the taxpayers, or the resulting increase in our unfavorable balance of trade, or the human tragedy unemployment always brings with it.

• FACTORIES AND SALES OFFICES THROUGHOUT THE WORLD

Since the early 1970's, textile and apparel imports have taken an increasing share of the domestic market. This trend has been accelerating and since 1980, imports have grown at an average rate of 19% per year. The results have been widespread layoffs, closed plants, and lost jobs for hundreds of thousands over the last dozen years. Uncontrolled imports are causing a loss of jobs our country can ill afford.

This state of affairs has evolved through no fault of our industry or our employees. U.S. apparel and textile plants are as modern and efficient as any in the world. Our workers are as productive and our quality is better.

American workers cannot compete with the pitifully low wages paid in other countries. And, obviously, this country does not intend that they should as witness minimum wage and social benefit programs that very rightfully exist.

There is nothing our industry can do to become more competitive which is not already being done. But so long as foreign plants pay their labor a small fraction of the modest wage scales paid in U.S. apparel plants, domestic production will continue to lose ground to imports. We are a labor intensive industry. No automation or technology can change that or make up for the difference in our labor costs. This fact alone makes it inevitable that domestic apparel production will continue to lose market share to the imports unless Congress acts to institute a fair trade policy.

Those who oppose this legislation say it violates "international obligations," that it is "dangerously protective," and will invite retaliation. We know of no international obligations which would be violated. If "protective" is a bad word, we submit that "indifference" to the plight of the domestic apparel factory workers and "abandoning" them are far worse words.

As to "retaliation," the intention of this legislation is to stem the growth of apparel imports; not to eliminate them. We have never known a sane businessman to retaliate against his best and most profitable customer. We cannot believe governments could be so shortsighted.

Senator Bob Packwood
July 12, 1985
Page Three

These same opponents say this legislation will be inflationary. If they mean it will result in higher prices, they are wrong. Importers already charge prices as high as the public will accept simply lengthening their own margins. This means that elimination of domestic production through an import flood would not necessarily result in lower apparel prices.

There also are those who look at statistics for a few months out of the last 10 years and grandly proclaim that apparel import growth is "under control." We don't believe in magic. The basic cost/price problem continues to exist and will continue to exist for the forseeable future. Apparel imports will not come "under control" until Congress enacts legislation to place them under control.

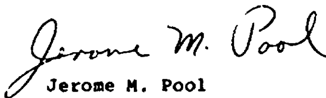
Even _if_ all the arguments of our opponents were true, we still would urge enactment of the bill on the ground that this nation cannot afford to sacrifice its domestic apparel production capability and the jobs of a million of its people.

Recently AT&T announced plans to close a Louisiana plant making telephones. They say they can't compete with the low wages paid by their overseas competitors. AT&T will move the plant to Singapore.

Jantzen also has a plant in Louisianc and others in Oregon, Washington, North Carolina, and South Carolina where we produce most of our Jantzen brand apparel. If Congress chooses, we can make our products offshore as well as anyone and better than most. However, this is not what _we_ choose and we cannot believe it would be in the best interest of the nation. Without American workers, American markets will eventually not exist and then who will the service industries service?

Particularly on behalf of our factory employees, we urge your favorable consideration of Senate Bill 680. The inevitable alternative will be continued shrinking of the domestic apparel industry and at an increasing pace.

Respectfully Submitted,



Jerome M. Pool
President

JMP:nmn

STATEMENT OF

LUGGAGE AND LEATHER GOODS MANUFACTURERS OF AMERICA, INC.

Herbert Schlesinger, President
Robert K. Ermatinger, Executive Vice President

Before the
Subcommittee on International Trade
Committee on Finance
United States Senate

On S. 680
Textile and Trade Enforcement Act of 1985

July 15, 1985

INTRODUCTION

This statement is submitted by the Luggage and Leather Goods Manufacturers of America, Inc. (LLGMA), the trade association representing domestic manufacturers of luggage, business cases, and personal leather goods. Our members manufacture these items from textile materials of man-made fiber (mostly nylon) and cotton, and from leather, vinyl or plastic. These textile products manufactured by our industries are covered by the Multifiber Arrangement (MFA).

The LLGMA supports S. 680, the Textile and Apparel Trade Enforcement Act of 1985. Our support arises from the burgeoning import volume of man-made fiber textile luggage and flat goods, and the frustration we have shared with the other textile and apparel sectors over inadequate administration of the Multifiber Arrangement by the Executive Branch. The growth in imports of textile luggage and flat goods, as is the case with other textile products, has been unacceptably high. The reductions in import levels proposed in S. 680 are the only solution to the problem of unrelenting import growth of textiles and apparel.

However, while the LLGMA and its members support S. 680, we are seeking a minor amendment to the bill insofar as it affects textile luggage and flat goods which are currently subject to specific limits under bilateral agreements. The amendment, limited only to these two products, would substitute for the quota formula in the bill for major exporting countries (which uses 1980 as the base year) the actual quota levels in effect as of the date of enactment of the legislation. All other provisions of S. 680 would apply. At the present time only man-made fiber luggage from Taiwan and Korea and man-made fiber flat goods from Taiwan would be subject to the amendment.

This amendment is necessary because of the unique circumstances of the luggage and personal leather goods industries relative to the rest of the textile/apparel sector. Our products were added to those covered by the MFA only on January 1, 1982. Before that time, there were simply insufficient volumes of man-made fiber luggage and flat goods to warrant attention under the MFA. The tremendous growth in imports of man-made fiber luggage and flat goods occurred in 1983 and 1984. Therefore, application of the formula in S. 680, which uses 1980 as a base for major exporting countries, would result in massive cutbacks of imports of man-made fiber luggage and flat goods from Taiwan and Korea. It would use as a base a year in which imports of man-made fiber luggage and flat goods were not considered covered by the MFA. We estimate that imports of

man-made fiber luggage from Taiwan would be cut back by 60 percent and imports of the same product from Korea by 75 percent if the formula in the legislation is applied. We cannot be unmindful of the impact this would have on those of our members who began to import before any restraints were imposed on Taiwan or Korea, or, indeed, before any restraints were thought possible under the MFA. It is our understanding that no other textile or apparel segment or product would be faced with such a massive reduction in import levels by applying the quota formula using 1980 as a base insofar as major exporting countries are concerned.

IMPORT GROWTH IN TEXTILE LUGGAGE AND FLAT GOODS

Imports of textile luggage and flat goods, like imports of other textile products have experienced an astounding growth in recent years. Overall, textile and apparel imports grew by 32 percent in 1984, following a 25 percent increase in 1983. Imports of textile luggage by comparison, jumped by almost 50 percent between 1983 and 1984 alone.

Luggage

U.S. imports of textile luggage have experienced a meteoric rise in just the last few years, with luggage of man-made fibers accounting for the vast majority of textile luggage imports. In dollar terms, imports in 1984 were almost five times the level that existed in 1980.

Imports of man-made fiber luggage grew from an estimated 63 million pounds in 1982 to 140.5 million pounds in 1984,

an increase of 123 percent in just two years. Imports of man-made fiber luggage in 1984 represented about 281 million square yard equivalents, according to Department of Commerce data. Taiwan and Korea combined accounted for about 90 percent of the man-made fiber textile luggage imported into the United States in 1984.

During this period of incredible import growth, U.S. market demand grew to some extent, but imports captured all of the market growth and more. Available data indicate that domestic production of man-made fiber luggage (as measured by man-made fiber materials consumed in the production of luggage) fell by about 10 percent between 1981 and 1983. It is estimated that imports have captured as much as 80 percent of the market for textile luggage.

The U.S. luggage industry competes not only with imports of textile luggage but with imports of luggage of other materials as well. Notably, imports of textile luggage have largely been in addition to, rather than in place of, imports of luggage of other materials which have also increased significantly. In 1984, textile luggage imports accounted for 60 percent of the dollar value of all luggage imports.

Overall, import penetration for luggage of all materials is currently estimated to be about 55 percent.

Flat Goods

U.S. imports of textile flat goods, while not as large as imports of luggage, have followed a similar pattern of

large growth. In dollar terms, imports in 1984 were more than double the level that existed in 1980.

In terms of pounds, imports of man-made fiber textile flat goods grew from an estimated 4.2 million pounds in 1982 to 6.7 million pounds in 1984, an increase of 60 percent. Taiwan alone accounts for about 55 percent of the textile flat goods imported into the United States.

The U.S. market for textile flat goods, and specifically for nylon wallets, was developed by U.S. manufacturers entering the market with an innovative product. The product was rapidly copied by suppliers from the Far East, particularly Taiwan. Thus, the import growth came largely at the expense of domestic production. The result has been virtually a complete loss of U.S. market share to imports.

As in luggage, the growth in imports of textile flat goods has largely been on top of imports of flat goods of other materials, which have also grown significantly. In 1984, textile flat goods imports accounted for 27 percent of the dollar value of all flat goods imports.

Overall, import penetration in the market for flat goods of all materials is currently estimated to be about 35 percent.

IMPORT RESTRAINTS ON MAN-MADE FIBER TEXTILE LUGGAGE AND FLAT GOODS

The LLGMA has sought a solution to the growing import problem affecting its members' textile products through the

Multifiber Arrangement. Like other domestic textile and apparel organizations we have experienced first hand the ineffectiveness of the implementation of U.S. participation in the MFA.

After much effort, in 1984, the LLGMA, working with other member organizations of the AFTAC coalition, succeeded in getting man-made fiber textile luggage from Taiwan and Korea and man-made fiber flat goods from Taiwan under restraint. The import levels originally imposed represented the normal restraint formula used by the Administration -- import levels based on the first twelve of the last fourteen months prior to the month in which the call is made. As is often the case when a new product is brought under restraint for the first time, there was considerable disruption in the market during 1984. However, as domestic manufacturers were able to expand production, and the 1985 import restraint levels were agreed upon, market uncertainty was replaced by certainty as to the level of imports in 1985. As appropriate, the level of man-made fiber textile luggage imports under the bilateral agreements in 1985 represent a substantial reduction in imports from 1984 levels.

Nevertheless, the LLGMA, like other segments of the textile and apparel industry, has its own series of "horror" stories regarding administration of the MFA.

We have been frustrated with the tardiness of the "calls" made by the Administration. The "calls" on man-made

fiber luggage and flat goods were delayed time and time again, during which period imports continued to grow dramatically.

There currently exists a loophole in the quota on man-made fiber luggage from Korea which is undermining the existing restraint. Imports of braided man-made fiber luggage from Korea are not restrained, while imports of the same products without braid are restrained. Action was taken with Taiwan to close this loophole with regard to imports from that country, but braided luggage from Korea remains uncontrolled and imports are rising. Allowing this gaping loophole to continue makes a sham of the existing restraint.

We are also currently concerned about the Administration's failure to include the People's Republic of China among the "calls" made to date. With imports of man-made fiber luggage from Taiwan and Korea already under restraint, imports from the PRC, not surprisingly, have grown quickly. Imports from the PRC increased more than ten-fold in the first five months of 1985 compared to the same period in 1984. The PRC is now the third largest supplier of man-made fiber luggage to the U.S. market, accounting for 12 percent of imports (in terms of pounds) in the first five months of this year. For the quota program to be effective, "calls" must be made in a timely fashion. Further, rapidly growing third country suppliers (i.e., PRC

in this case) must be controlled if the existing restraints (i.e., on Taiwan and Korea in this case) are to be effective.

We just recently found out about a most disturbing action taken by the Administration with respect to the existing restraint on imports of man-made fiber luggage from Korea. The action relates to the handling of a substantial volume of overshipments from Korea.

In 1984, the U.S. negotiated a quota agreement with Korea that provided very generous terms; 34 million pounds were allowed to enter in 1984 against a quota for the ten months March-December 1984 of 25.6 million pounds and the initial call level of 18.4 million pounds. Nevertheless, Korea proceeded to overship even this generous 1984 quota by almost 1.7 million pounds. These imports were exported from Korea during 1984, but did not enter the U.S. market until this year.

Rather than punishing the Koreans for this flagrant violation of the agreement, U.S. negotiators made a secret agreement with them, which included two additional concessions on the part of the United States. First, the U.S. decided to allow the Koreans "swing" of 3.5 percent from other unfilled quotas, which allowed forgiveness of about 900,000 pounds. Inclusion of any swing had been specifically rejected in the original agreement because of the high level of the agreed upon quota. Second, the U.S. decided to

spread the remaining 800,000 pounds of overshipments over three years (one-third in each of 1985, 1986, and 1987), thereby further undermining the quota for 1985 by allowing more than 500,000 pounds to enter the market uncounted against the quota limits.

This series of actions was taken without any consultations with the industry and, indeed without consulting any of the members of the domestic industries involved. Nor was any of this information released publicly until last month, despite the fact that this matter apparently dates back to December 1984.

These are prime examples of why the Executive Branch is under fire from the U.S. textile and apparel industry for its administration of the textile import program and its inability to control imports.

CONCLUSION

The LLGMA wishes to reiterate its strong support of the Textile and Trade Enforcement Act of 1985. The U.S. textile and apparel industry needs a comprehensive program to rollback absurdly high import levels. Our proposed amendment is not to exempt textile luggage and flat goods from the provisions of the bill, but merely to take into consideration the unique circumstances of these products in determining a base year for the quotas.

We urge the Subcommittee to give its fullest support to S. 680, but at the same time, to accept the modification proposed by the LLGMA.

ISSUE ALERT

Number 1
May 22, 1985

"THE TEXTILE AND APPAREL TRADE ENFORCEMENT ACT OF 1985:" PULLING THE WOOL OVER THE CONSUMER'S EYES

by

Roy E. Cordato
and
Sheldon L. Richman

SUMMARY

For the past 50 years the choices of American consumers have been restricted as the result of tariffs and quotas placed on foreign made textile products. These import restrictions have cost consumers hundreds of millions of dollars annually--hitting the nations poor particularly hard--while encouraging the inefficient use of valuable resources in both the domestic textile industry and the economy as a whole. In spite of this, Congress is currently considering "The Textile Trade and Enforcement Act of 1985," which proposes to impose even greater restrictions on textile imports. This will raise the price of these goods still further, resulting in a transfer of wealth from the general interests of the American consumers to the narrow interests of the domestic textile industry. Along with this there will be a reduction in overall economic efficiency.

Two bills before Congress would further restrict the importation of textile products. These bills, H.R. 1562 and S. 680--the House and Senate versions of what has been titled "The Textile and Apparel Trade Enforcement Act of 1985"--would extend textile quotas

to a wider range of products and roll back imports from the 20 largest textile-producing countries to 1983 levels. In addition, they would set up a special import licensing system and limit the growth of imports to 1 percent on products that are determined to directly compete with American products (so called "import sensitive" products) and 6 percent on other products that do not.

In modern times, the textile and apparel interests started asking for "temporary" relief from import competition in the 1930s. In 1935 Japan succeeded in selling a significant amount of textiles here despite an average 46-percent tariff on cotton goods and 60-percent tariff on wool and woolen goods. The result was a so called "voluntary" quota agreement between the Japanese and the Roosevelt administration. When Japan's textile industry rebuilt itself after World War II, these restrictions were again put into place. By this time the General Agreement on Tariffs and Trade (GATT) had started limiting tariffs, so non-tariff barriers were used to hold down imports. In the 1950s and 1960s, when Hong Kong increased its textile and apparel exports the United States succeeded in getting textiles exempted from the GATT tariff ceilings.[1]

Consumers Pay

World trade in textile products is currently regulated by what is called the Multi-Fiber Arrangement (MFA). The MFA was instituted in 1974 and as of 1984 involved separate agreements with over 30 textile producing countries.[2] Textile products from the countries bound by the MFA typically have accounted for 70 to nearly 85 percent of total textile imports into this country.[3] The agreement limits the importation of a wide range of goods made from cotton, wool, and man-made fibers. The primary effect and implicit intent of these agreements has been to raise the price of these goods to American consumers. Recently the Federal Trade Commission released a study on the effects of import quotas on nine major categories of textile products--including coats, shirts, blouses and trousers--from Hong Kong. It was estimated that as a result of only these restrictions the American consumer pays over $218 million more per year on textile products.[4] The total impact of the MFA program on consumer prices would have to be several times that amount since Hong Kong, over the last 5 years, has

typically only accounted for about 20% of textile imports to the U.S.[5] Nevertheless, the supporters of the proposed legislation, who include both liberals and conservatives, are at least implicitly arguing that the price American consumers are paying is not high enough.

Many of the products subject to control clearly fall under the category of basic living necessities. These include all types of clothing for men, women, and children, and bedding products such as sheets, pillowcases, bed spreads and blankets. And for those who think that making your own clothes is a way around the MFA inspired high prices, the basic materials for home production such as yarn, thread and fabric are also subject to the import restraints.[6]

The FTC points out that in addition to directly raising the price of imports the quotas reduce the quantity of imports consumed by American citizens. This in itself, it is argued, has a significant effect on the wellbeing of American consumers and adds an additional $90 million to the social costs of the import restrictions. This places the total cost, just in terms of the imported textile products from Hong Kong at over $300 million.[7] Again, this would have to be substantially less than the total cost due to the MFA program in general. It should also be pointed out that these restrictions do not only effect the price of imported textile products, they increase the price of domestically produced goods. There are two reasons for this. First, by limiting imports the government forces consumers to shift part of their demand to domestically produced products. The increase in demand for those products put upward pressure on their prices. Secondly, the limited competition allows the domestic firms to be less efficient and competitive than they otherwise would be. This means that they are slower to institute efficiency enhancing--cost cutting measures that would ultimately be reflected in greater output and lower prices.

Because everyone purchases textile products as part of the basic necessities, these higher prices can be viewed as similar to a broad based tax on consumers--revenues from which are immediately transferred to the narrow interests of the domestic textile industry. And even more unfortunate is that these higher prices are analogous to a very regressive tax since the poor spend a much higher than average

percentage of their income on necessities such as clothing. In addition, these quotas tend to be regressive in another respect. The FTC study has found that since the quotas apply only to quantity and not quality, they encourage, at least in the case of imports from Hong Kong, the export of higher quality-higher priced products.[8] The FTC concludes that "quotas are expected to be more severe for low-income consumers who discover that basic, low quality imports disappear after the quota is imposed."[9] It is ironic that the supporters of the legislation include such "champions" of the underprivileged as Sen. Edward Kennedy, and U.S. Reps. Charles Rangel and Claude Pepper. Their position shows sympathy for the special interests that will benefit from the measure, with no recognition of the broad based adverse effects the measure will heap on American consumers.

The supporters lament the fact that "from 1981 through 1984 imports of textiles and textile products into the United States have grown at an annual rate of 19 per centum;"[10] and that "import growth of apparel products has substantially outstripped the growth of the domestic market. . . reaching a level of 50 per centum in 1984."[11] They indignantly claim that the result of this has been a $1 billion loss to domestic producers.[12] What they fail to point out is that all of this is ultimately the result of free choices made by American consumers, and that the special interest's loss is the general interest's gain. Consumers made these choices because they decided that the imports were cheaper and/or of higher quality than the American made products. Implicit in the arguments in favor of increased protectionism is a determination to punish the American consumers for not buying such basic necessities as coats, gloves, pants and shirts from producers whom they feel are manufacturing less satisfactory products.

<u>What About American Jobs?</u>

Apparently the most persuasive argument for increased protectionism in the textile industry is that it would save American jobs currently being lost to foreign textile producers. It is true that past protectionism in textiles has saved some jobs.[13] But the costs of saving these jobs both in terms of higher consumer prices and jobs lost in other industries is rarely recognized. The FTC estimates that

every job saved in the U.S. textile industry by the quotas on the Hong Kong goods it studied cost American consumers $34,500 a year.[14] But the jobs pay only $7,600 to $10,700 annually.[15] As the FTC study points out, if the quotas were abolished "the U.S. could provide each newly unemployed textile or clothing worker with special unemployment compensation equal to his lost wages and still have net benefits to U.S. consumers over $290 million in the first year."[16]

High prices are only the most obvious cost of import limits. Thousands of American jobs depend on American consumers buying imported textile products. These include workers in the retail, shipping, warehousing, banking and telecommunications industries. To the extent that imports are further restricted, the demand for workers in these industries will decline.

Another potential cost is the loss in terms of American jobs through retaliation against our exports by the affected foreign countries. For example, in 1983 the U.S. imposed import restrictions on Chinese textile products. It has been argued that this contributed to China's decision, at the time, to switch their purchases of grain to non-U.S. suppliers. The cost of this decision to U.S. farmers has been estimated at nearly $500 million in grain sales.[17] To avoid such losses the American farmers and workers who depend on agricultural exports should express their opposition to these new textile restrictions.

"The Textile and Apparel Trade Enforcement Act of 1985" is ill-conceived and rubs against every grain of free enterprise. The American economy became the envy of the world because it left freedom of choice in the hands of consumers. This prompted entrepreneuers to seek ways to satisfy consumers, and in the process they built the most advanced economy in history. But cause and effect cannot be reversed. It is only by leaving consumers free to buy from whomever they wish that we can have a thriving, growing economy.

6

BACKNOTES

1. For more detailed discussions of the history of textile import restrictions see R. Buford Brandis, "Textile Import Quotas: A Short History" (Washington, D.C.: American Textile Manufacturers Institute, May 1979) and James T. Bennett and Thomas J. DiLorenzo "Import Problems and Public Policies: The U.S. Textile Industry." Heritage Foundation Backgrounder, No. 192, June 22, 1982, pp. 34-37.

2. U.S. Imports of Textile and Apparel Products Under the Multifiber Arrangement, January-June 1984. USITC Publication 1635, January 1985, p. A-1.

3. Ibid., A-5

4. Morris E. Morkre, Import Quotas on Textiles: The Welfare Effects of United States Restrictions on Hong Kong, (Washington, D.C.: Federal Trade Commission, August, 1984) p. 28.

5. USITC, pp. A21-A22.

6. Ibid, pp. A8-A15.

7. FTC, p. 28.

8. Ibid., p. 19.

9. Ibid., p. 21.

10. Language of S.680, p. 3.

11. Ibid.

12. Ibid., p. 5.

13. FTC., p. 27.

14. Ibid.

15. Ibid., p. 29

16. Ibid.

17. The Cost of Protectionism: Textile and Apparel Import Quotas (Washington, D.C.: National Retail Merchants Association)

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About Citizens for a Sound Economy

Citizens for a Sound Economy is a newly formed public interest advocacy group dedicated to returning economic decision making to citizens. With an active membership of 100,000 individuals, CSE promotes policy and educational initiatives in the areas of international trade, privatization of government services, Social Security, and tax reform.

CSE seeks to unite consumers and business people behind efforts to increase consumer choice and reduce government interference in people's economic affairs. It is a spokesman before Congress, the media, and the public for those who share its views.

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Statement submitted by David J. Steinberg, President, U.S. Council for an Open World Economy, to the Senate Finance subcommittee on international trade in a hearing on S.680, the Textile and Apparel Trade Enforcement Act of 1985. July 15, 1985

(The U.S. Council for an Open World Economy is a private, non-profit organization engaged in research and public education on the merits and problems of developing an open international economic system in the overall national interest. The Council does not act on behalf of any "special interest".)

Once again Congress is concerning itself with the problems of the U.S. textile and apparel industries. Once again, as so often over a long span of years, the focus is not on the real problems and needs of this major sector of our economy, but on how to tighten import restrictions on these products. Characteristic of its response to the problems of other U.S. industries seriously buffeted by foreign competition, Congress is failing to address the troubles of the textile and apparel industries in terms of a coherent industrial-adjustment strategy as the framework for whatever government assistance may be warranted. The bill that is the subject of this hearing (S.680, the Textile and Apparel Trade Enforcement Act of 1985) is only the latest example of poorly crafted Congressional efforts to help the domestic textile and apparel industries. In addition to its other faults (including apparent violation of the General Agreement on Tariffs and Trade), such legislation would be another example of a <u>textile trade</u> policy without a coherent <u>textile</u> policy and absent, in turn, the total national interest as the ultimate standard.

The Executive Branch itself has not performed well in this matter. Notwithstanding approximately 30 years of textile import restrictions, it has never sought to make a textile trade policy only one component of a balanced textile adjustment strategy. Nor is any such strategy in the making, not even an incisive reassessment of the real problems of these industries, the better to determine what if any government assistance, possibly including some measure of temporary import control, may be warranted in the overall public interest. The letter dated June 19, 1985 to every member of Congress from five Cabinet officers most concerned with this policy area -- a letter opposing S. 680 in the Senate and the corresponding bill (H.R. 1562) in the House of Representatives -- is the latest indication of the inadequacy of Administration attention to the problems of these industries and to the forms of assistance (if needed at all) best calculated to help these industries in the context of the total national interest.

The letter rightly opposes these bills as inflationary, as inviting foreign retaliation, and as especially injurious to low-income consumers. Affirming that the Administration "remains deeply concerned about the conditions facing the domestic textile and apparel industry and its workers," the signatory officials (the Secretary of State, the Secretary of the Treasury, the Secretary of Commerce, the Secretary of Labor and the Acting U.S. Trade Representative) say they "do not believe that the proposed legislation is necessary to maintain a strong, viable domestic textile and apparel industry." However, nowhere in Administration performance or declared intentions is there any commitment to addressing coherently, comprehensively and constructively the real problems and needs of this industrial sector, looking toward the viability of a strong U.S. textile-and-apparel industry, without import controls, in an increasingly competitive world. The letter's touted devotion to "the free-market principles which have made our economy the envy of the world" has not been translated into determination to phase out existing textile-and-apparel import controls within the framework of a coherent textile-and-apparel redevelopment strategy. In fact, the letter implicitly seems to support ad infinitum the Multifiber Arrangement which is the centerpiece of U.S. import restrictions on textiles and apparel. The letter calls existing trade restraints on these products a necessary departure from a long-run "free trade" policy. But neither the letter nor Administration policy conveys any interest in making these controls only a temporary aberration to be terminated as quickly as possible.

Government involvement in an adjustment strategy -- accompanying firm, explicit commitments that should be elicited from management and labor -- should include reassessment of all statutes and regulations materially affecting the industry's ability to adjust to new and rapidly changing international economic realities, to determine if there are any inexcusable inequities that need correcting. The government's involvement via trade control or any other form of assistance should be systematically reviewed by Congress to make sure that government aid (tantamount to subsidies) is adequately and properly attuned to achieving a well-designed objective and does not last longer than is necessary for the best interests of the industry and the nation as a whole.

Thus, to restrict or not to restrict imports -- and, if restriction, then how much -- is not the sum and substance of our Council's attention to the textile and apparel industries. Nor should it be the sum and substance of the government's attention to the problems of these industrial sectors. We are concerned with how best to address the problems and needs of these industries (and the people and communities that depend on them) within the framework of the needs and aspirations of the American economy as a whole. We note with regret that these dimensions of the textile-and-apparel issue are neglected no less by other advocates of freer world trade (including the Administration itself) than by those who defend textile-and-apparel import restrictions and seek to make them even more restrictive.

Before the

SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS
UNITED STATES SENATE

STATEMENT OF

AMERICAN INTERNATIONAL KNITTERS
AND COMMONWEALTH GARMENT MANUFACTURING

CONCERNING S.680,
TEXTILE AND APPAREL TRADE ENFORCEMENT,
and a hearing conducted by the
Subcommittee on July 15, 1985

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July 29, 1985

This statement is submitted or behalf of American International Knitters Corp. ("AIK"), and Commonwealth Garment Manufacturing ("CGM"), in response to the Committee's invitation for comments (Committee on Finance, Release No. 85-037, June 5, 1985) on S.680 , the Textile and Apparel Trade and Enforcement Bill, introduced by Senator Thurmond on March 19, 1985. AIK and CGM are producers of apparel in U.S. Commonwealth of the Northern Mariana Islands (CNMI). These manufacturers believe that the bill as proposed unfairly treats the insular possessions of the United States as though they were foreign producers of textile goods. Such treatment would severely restrict CNMI's economic growth, derogate from the United States undertakings in the Convenant establishing the Commonwealth, and repudiate the intent of General Headnote 3(a). Therefore, AIK and CGM urge the Subcommittee to amend S.680, Section 4(4), to exclude the term "or an insular possession of the United States" from the definition of "country" for purposes of enforcing textile import restrictions under the proposal. In taking this position, AIK and

CGM support fully the testimony of Congressman Ben Blaz of Guam, in hearings of the Subcommittee on Trade of the House Committee on Ways and Means on July 15, 1985, and in his prepared statement submitted to the Senate Committee on Finance the same date. The status of Guam and the other insular possessions and the Northern Marianas are similar and should be examined together by the Committee.

I. Headnote 3(a) of the TSUS provides for preferential treatment of products of Insular Possessions

Guam and the Commonwealth of the Northern Marianas Islands are defined by the General Headnotes of the Tariff Schedules of the United States (TSUS) to be "insular possessions" for tariff purposes, rather than being within "the Customs Territory of the United States". As such, the products imported into the customs terrority from these possessions are entitled to duty free treatment under General Headnote 3(a), as long as they do not contain "foreign" materials, i.e., materials not originating in the possessions or the United States, which constitute more than 70 percent (50 percent for textiles) of the value of the goods when they enter the Customs territory. Headnote 3(a)(i) states as follows:

> Products of Insular Possessions (i) Except as provided in Headnote 6 of Schedule 7, part 2, subpart E, and except as provided in headnote 3 of Schedule 7, part 7, subpart A, articles imported from insular possessions of the United States are subject to the rates of duty set forth in column numbered 1 of the Schedules, except that all such articles the growth or product of any such possession, or manufactured or produced in any such possession from materials the growth, product, or manufacture of any such possessiosn or of the customs territory of the United States, or both, which do not contain foreign materials to the value of more than 70 percent of their total value (or more than 50% of their total value with respect to articles described in Section 213(b) of the Caribbean Basin Economic Recovery Act), coming to the customs territory of the United States directly from any such possession, and all articles previously imported into the customs territory of the United States with payment of all applicable duties and taxes imposed upon or by reason of importation which were shipped from the United States, without remission, refund or drawback of such duties or taxes, directly to the possession from which they are being returned by direct shipment, are exempt from duty.

Headnote 3(a)(ii) provides that no article imported from an insular posssession shall receive treatment less favorable than that accorded eligible articles imported from GSP beneficiary countries.

This special treatment accorded products of the insular possessions, of course, predates by many years the duty free treatment now given to products of beneficiary developing countries under the Generalized System of Preferences. The history of Headnote 3(a) indicates that the insular possessions, and specifically, the Northern Marianas, have been treated as more than simply foreign countries, and should not now be relegated to the status of "foreign"

suppliers, simply because their production facilities are not located on the mainland of the United States.

A. The United States has engaged in a special relationship with the Marianas to foster economic growth

Following the Second World War, the Marianas were established as a Trust Territory by the United Nations, with the United States as administering authority. The trust territories were each assigned an administering authority which was directed "to foster the development of such political institutions as are suited to the trust territory and ... promote the development of the inhabitants of the trust territory toward self-government or independence". United States Trusteeship Agreement, Art. 6(1). Most importantly, the administering authority was to "promote the economic advancement and self-sufficiency of the inhabitants, and to this end, shall regulate the use of natural resources; encourage the development of fisheries, agriculture, and industries; protect the inhabitants against the loss of their lands and resources; and improve the means of transportation and communication." Id., Art. 6(2) This area, the Trust Territory of the Pacific Islands, consisted of the Carolines, the Marshall Islands, and the Northern Marianas.

While the other members of the Trust Territory sought status as independent nation states, (through a Compact of Free Association of the Marshall Islands and Micronesia) the Northern Marianas chose instead to enter a close, permanent economic tie with the United

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States. This arrangement was negotiated from 1963 to 1975, culminating in the "Covenant to establish a Commonwealth of the Northern Mariana Islands and Political Union with the United States." The Covenant was overwhelmingly approved by the people of the Marianas in plebiscite in 1975 and approved by Joint Resolution of Congress in 1976, Pub. L. No. 94-241, 94th Cong. 2d sess. (1976). The Joint Resolution reaffirms the United States obligation to "promote the development of the peoples of the trust territory toward self-government or independence as may be appropriate to the particular circumstances of the trust territory and its people...: Id., Preamble, 2nd Para.

This covenant represents a special relationship between the United States and the U.S. Commonwealth of the Northern Mariana Islands, which has not been chosen by the other districts in the Trust Territory. The Marianas are bound by the Covenant to a permanent political relationship with the United States, including U.S. citizenship for the inhabitants of the islands. The Covenant established the Commonwealth "in political union with and under the sovreignty of the United States of America." Covenant, Section 101. United States income taxes are collected, and the U.S. government has "complete responsibility and authority with respect to foreign affairs and defense ..." Id, Section 104. All U.S. laws which apply to Guam also apply to the Commonwealth of the Northern Marianas including those related to federal services, financial assistance,

banking, coastwise trade, and conditions of employment, including wages and hours of employees. Id, Section 501(a).

The principal economic development component of this relationship is the special treatment of U.S.-Marianas trade under the Covenant. Although the CNMI is explicity excluded from the customs territory of the United States, imports from the Islands are to be granted the same favorable treatment as imports from Guam. The CNMI is granted the authority to impose duties on articles imported into the Commonwealth, except for articles imported from the customs territory of the United States. In addition to this limitation on duty treatment of articles from the United States, the Covenant recognizes the need for developmental assistance in the promise that "the United States will seek to obtain from foreign countries favorable treatment for exports from the Northern Mariana Islands, and will encourage other countries to consider the Northern Mariana Islands a developing territory." Section 603(d) (emphasis added).

Thus, this combination of undertakings in the Commonwealth Covenant highlight the fact that the United States has determined to treat the Northern Marianas as other than a foreign country; the CNMI is an economic and political entity under the sovereignty of the United States , which the United States, as expressed through the Congress, has historically treated both as a developing area and a closely bound political entity. In approving the Covenant, the U.S. Congress distinguished clearly between the CNMI and foreign

countries, and the Covenant permits no tariffs or restrictions on U.S. products imported into the CNMI. Ironically, S.680 seeks to restrict imports of apparel from a territory closely related to the United States which is not permitted to restrict U.S. trade in the same manner.

B. Headnote 3(a) treatment of imports and its developmental goals would be impaired by the designation of the CNMI as a Foreign Country

In addition to the stated objectives of the 1976 Covenant, the Northern Marianas have been accorded special trade treatment under Headnote 3(a) during the post-war period. Under Section 301 of the Tariff Act of 1930, imports from Guam were given duty free treatment and imports from the Virgin Islands were dutiable only if they contained foreign materials equal to more than 50 percent of their value. Section 401 of the Customs Simplification Act of 1954 modified section 301 of the Tariff Act of 1930, so as to treat all insular possessions of the United States in a like manner. Section 401 of the 1954 Act provided specifically that:

> "There shall be levied, collected, and paid upon all articles coming into the United States from any of its insular possessions, except Puerto Rico, the rates of duty which are required to be levied, collected, and paid upon like articles imported from foreign countries; except that all articles the growth or product of any such possession, or manufactured or produced in any such possession from materials the growth, product, or manufacture of any such possession or of the United States, or of both, which do

> not contain foreign materials to the value of more than 50 per centum of their total value, coming into the United States directly from any such possession, and all articles previously imported into the United States with payment of all applicable duties and taxes imposed upon or by reason of importation which are shipped from the United States, without remission, refund, or drawback of such duties or taxes, directly to the possession from which it is being returned by direct shipment, shall be admitted free of duty upon compliance with such regulations as to proof of origin as may be prescribed by the Secretary of the Treasury. In determining whether an article produced or manufactured in any such insular possession contains foreign materials to the value of more than 50 per centum, no material shall be considered foreign, which, at the time such article is entered, or withdrawn from warehouse, in the United States for consumption, may be imported into the United States from a foreign country, other than Cuba, or the Philippine Republic, free of duty."

Pub. L. No. 768, 68 Stat. 1139, Section 401, amending Part I of Title III of the Tariff Act of 1930 (1954). It was reported that this proposal "...would result in equal treatment for all insular possessions of the United States, except Puerto Rico, which is within the customs territory of the United States." S. Rep. No. 2326, to accompany H.R. 10009, 3 U.S. Code Cong. and Ad. News 3905 (1954).

The Tariff Classification Act of 1962, implementing much of the current version of the Tariff Schedules of the United States, adopted the concept of the amended section 301 and incorporated it as Headnote 3(a) of the General Headnotes to the Tariff Schedules. Headnote 3(a), set forth above, has undergone certain additional changes since the

1962 Act, but none of the amendments has affected the eligibility of products from insular possessions to receive duty free treatment.

The intent of Congress that insular possessions be treated differently and more favorably than foreign countries was reaffirmed in the enactment of the Generalized System of Preferences (GSP) in 1975. The Trade Act of 1974 defined "country" for purposes of receiving the duty free benefits accorded under GSP, to include the Trust Territory of the Pacific Islands. 19 USC § 2462(a)(3); Pub. L. No. 93-618, Section 502(a)(3)(1975). This resulted in the amendment of Headnote 3(a)(iii) to note that GSP eligible articles from insular possessions "shall receive duty treatment no less favorable than the treatment afforded such articles imported from a beneficiary developing country under title V of ...[the Trade] Act [of 1974]." The reason for the change was explained by the Committee on Ways and Means:

> The term "country" is specifically defined to include the insular possessions of the United States to insure that they may be designated as beneficiaries. Designation as a beneficiary is not intended to impair any benefits that these possessions are receiving by reason of headnote 3(a) to the Tariff Schedules of the United States. Your committee strongly believes that the products of U.S. insular possessions should under no circumstances be treated less advantageously than those of foreign countries. To the extent that such products would be entitled to better treatment under headnote 3(a) than under this title, they should receive treatment under 3(a).
>
> Indeed, in determining eligibility of an article under this title, the President should

> take into account the extent to which duty-free treatment of such articles from the insular possessions are presently contributing to the economic well-being and development of the insular possessions, and the extent to which such trade would be adversely affected if such articles were to be made eligible for generalized tariff preferences.

H. Rep. No. 93-571, 93d Cong., 1st Sess. 85 (1973) (emphasis added). Obviously, Congress considered the insular possessions to be more than simply developing foreign countries. The insular possessions are developing areas under a special economic mandate and sovereignty of the United States, and although not within the customs territory of the United States, should continue to be treated in a manner more favorable than GSP beneficiaries and other foreign countries.

II. The treatment of the insular possessions as a "foreign country" would undermine the economic development of the CNMI

As proposed, S. 680 would limit imports from the Commonwealth of the Northern Mariana Islands to 1% growth during 1985, since permissible import growth from countries which are not major exporting countries will be held to 1 percent for textile and apparel products in "import sensitive" categories. This limitation on CNMI imports would have a damaging impact on the Commonwealth's ability to develop industry and encourage employment. AIK and CGM are major manufacturing concerns in the CNMI. Because the Islands are at a fairly early stage in the development of their garment manufacturing

industries, it is unfair and counterproductive to limit import levels by reference to 1984 export volumes, essentially freezing the industry at its current levels. Of course, this argument might be made by any smaller supplying country which would be adversely affected as a result of the quota provisions in S.680. However, as outlined above, CNMI is not merely another country, and should not be treated as such, in light of the long-standing U.S. goal of encouraging its development even more vigourously than that of GSP beneficiaries, and in light of the application of many other U.S. laws in the Commonwealth of the Northern Marianas.

Ironically, under S.680, the CNMI, a U.S. possession whose inhabitants are American citizens, is treated less favorably than Canada and the member states of the European Communities. These foreign states are specifically excluded from the definition of the term "country" and "major exporting country", while the CNMI, with its present close political and economic bond to the United States, and history of preferential treatment under the U.S. tariff laws, is cast in the role of a foreign supplier. This discriminatory treatment appears to be proposed for no other reason than that the CNMI's apparel industry is not located on the U.S. mainland.

Imports of cotton, wool, and man-made fiber sweaters from the CNMI are already subject to import limitations, if certified to have been assembled in the Marianas from components produced in foreign countries or foreign territories. 50 Fed. Reg. 8650 (Mar. 4, 1985). This limitation is part of the recently revised country of origin

rules for textiles and apparel, promulgated by the U.S. Customs Service for purposes of enforcing quota restrictions against textile supplying countries. The additional broad restrictions proposed in S. 680 would extend well beyond the impact of these origin rules, and would seek to establish limits even on apparel manufactured entirely in the CNMI.

III. Conclusion

The United States has a close historical political and economic relationship with the United States Commonwealth of the Northern Mariana Islands. The inclusion of insular possessions in the definition of countries under S. 680 would represent a departure from the developmental goals of this relationship, and would be inconsistent with the enforcement of United States laws and U.S. jurisdiction within the Marianas. Such treatment would also nullify and impair the intended effect of Headnote 3(a) treatment of goods imported from the CNMI. The likely result will be an adverse impact on internal development of the CNMI, and on the Commonwealth's ability to attract capital for further development.

Consequently, AIK and CGM urge the Subcommittee to delete the words "or an insular possession of the United States" from the definition of "country" in Section 4(4) of S.680, and to clarify in its report to the House that the bill is not intended to treat imports

from insular possessions in a manner less favorable than provided for under Headnote 3(a).

Respectfully submitted,

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July 29, 1985

WRITTEN STATEMENT

BY

THE TEXTILE AND CLOTHING INDUSTRIES

IN

FINLAND, NORWAY AND SWEDEN

FOR THE HEARING ON MONDAY, JULY 15, 1985

ON S. 680

TEXTILE AND APPAREL TRADE ENFORCEMENT ACT OF 1985

within

the Subcommittee on International Trade,
Committee on Finance, United States Senate.

On behalf of the Textile and Clothing Industries of the three Nordic countries of Finland, Norway and Sweden, we wish to register our great concern and opposition to S. 680 (H.R. 1562) to the extent that the proposed legislation would mean restrictions on Textiles and Clothing originating in our countries and exported to the United States and that such restrictions would imply a clear discrimination of our industries in relation to those of other Western industrialized countries explicitly excluded in the Act.

1. Recognition of the Problem

We recognize in full the magnitude of problems of market disruption in the United States. A continuous and massive surge of imports from low-wage countries has been proved to cause or threaten to cause serious injury to the American Textile and Apparel Industries. We are, however, convinced that any fair and justified trade policy action to normalize the situation in this field must not be directed against exports from the Nordic countries and, in particular, not on a discriminatory basis, as proposed.

Not even under the exceptional circumstances referred to in the Act could our industries accept being placed in the same category as State trading countries, East Asian countries or other developing countries rather than alongside the other industrialized countries of Western Europe and Canada.

We do not read the proposed Act as being intended to hurt imports from the Nordic countries - but most probably it will, if enacted. On the contrary it should be recognized that the Nordic Textile and Apparel Industries are very much in the same situation as their American counterpart.

2. The Nordic Textile and Clothing Industries

2 a. Their development. As in many other industrialized countries the Textile and Clothing Industries of Finland, Norway and Sweden have already undergone a continuous and painful process of adjustment. In periods this transformation has been a very difficult one. Operating in small industrialized market economies (with 4,8 Million Finns, 4,1 Million Norwegians and 8,3 Million Swedes) these Nordic industries have been challenged by ever increasing imports, high production costs and rapidly changing market conditions.

It must be emphasized, that the adaption to changing market situations has been made possible by increasing exports. As our markets are completely free for competition from all industrialized countries, reciprocal free access to the markets of all other industrialized countries should not be denied.

In terms of employees and domestic market shares the Textile and Clothing Industries of these countries now represent not more than the viable nucleus left of an earlier manyfold bigger Textile and Clothing Industry. Each individual firm has had to find its own market concept. Those having relied on large scale low-cost production of standard goods are out of business since long.

The number of employees in these industries in the three countries total about 92.000. This is an extremely low figure by international standards. Nevertheless it still represents major and indispensable job opportunities, especially in those regions where these industries are concentrated.

2 b. High costs. The remaining Nordic Textile and Clothing Industries are operating with internationally high costs of

production, also in relation to other industrialized countries in Europe and the United States. This cost handicap is a consequence of relatively higher wages and wage-related taxes, also of a high cost of capital and many other factors such as strict environment protection laws, job security regulations etc. For practically all of their supply of raw material these industries are dependent on supply from abroad - as for cotton primarily from the United States (cf below).

2 c. High technology. A well advanced technology constitutes a means of competition as well as of survival for these industries. High production costs and an extremely tough import competition have since long constituted an absolute incentive to improve productivity. To-day the most modern production equipment in spinning, weaving, sewing and other processing operations can be found in Finland, Norway and Sweden.

The aim has also been to produce such technically advanced products that meet the high standards of demand from the end-users.

2 d. Their products. The Nordic industries still represent fairly well diversified capacities and production can be found in most product areas. In each, however, specialization has been imperative.

Their consumer products are indeed characterized by high fashion and Scandinavian or Nordic design. Fabric and apparel designers of the three countries also enjoy a high reputation internationally. - High quality is also an earmark for all their production and in particular for their exports. - This orientation of production calls for an active product development, which is given high priority in the firms.

In short: in the three Nordic countries the production of cheap standard products has been gradually cut down in favour of individual high quality items for particular markets. Especially in exports to the United States only the best and high-profiled firms and products will normally have the chance of entering that advanced market.

3. Import problems and trade policy aspects

3 a. Parallell import problems. As in the United States the Textile and Clothing Industries in Finland, Norway and Sweden have met with situations of market disruption resulting from a substantial increase of imports from a growing number of foreign low-cost suppliers, notably in the Far East. Furthermore they have reluctantly seen trade diverted to ever new disruptive import sources, import surges from countries already covered by bilateral restraint agreements and numerous cases of circumvention, fraud or when their products have been copied.

Their respective governments have recognized this import problem and a number of bilateral MFA restraint agreements are now in force. Being far from satisfied with the efficiency of those arrangements, the Textile and Clothing Industries of Finland, Norway and Sweden still share the same basic problems and interests as their American colleagues in this field - often even more accentuated.

3 b. Scope for free trade. A basic concept for the Nordic industries is that they will have to concentrate on developing competitiveness mainly vis-a-vis other industrialized market economies. Thus, there are no textile or apparel import restrictions in Finland, Norway and Sweden in relation to such countries, including the United States. It is strongly felt that international competition between industrialized countries must be based on fair and equal terms and a policy of reciprocity.

It should also be recalled that the principle of free trade between industrialized countries with comparable wage-costs, especially between the U.S.A., Japan and Western Europe already in 1976 was included in a Joint Resolution of the Apparel Associations of the United States, Japan and the Association of European Clothing Industries (A.E.I.H.), to which the three Nordic associations are members. The text is reproduced in
./. Annex hereto.

3 c. The Nordic Case - the Nordic Clause. Even before the birth of the first Multifibre Agreement the Nordic countries were relatively more exposed to imports from low-cost countries and they registered world records in import penetration rates into their markets. An international recognition of this unique and sensitive position was manifested by the inclusion of the so-called Nordic Clause in the basic objectives of the M.F.A. (Article 1, ex paragraph 2):

> "In the case of those countries having small markets, an exceptionally high level of imports and a correspondingly low level of domestic production, account should be taken of the avoidance of damage to those countries´ minimum viable production of textiles."

This was a joint Finnish-Norwegian-Swedish initiative backed up also by other industrialized countries. It was a prerequisite for the three countries and their Textile and Clothing Industries to accept the M.F.A. in the first place. In the subsequent Protocols of Extension the validity of the Nordic clause has been explicitly reconfirmed.

In Sweden´s case it was officially declared already from the outset that the clause "also covers a situation where a country

finds it necessary for reasons of economic emergency planning to maintain a certain minimum viable production capacity."
- In other words, national security aspects are involved. The Textile and Clothing Industries of Finland, Norway and Sweden are all an essential part of their respective countries' emergency planning schemes.

3 d. Import penetration. It may be recalled that the proposed "Textile and Apparel Trade Enforcement Act of 1985" refers to the level of import penetration of the American clothing market. We may add here, that high import penetration rates for textiles and clothing are also registered in our countries. For instance in Sweden imports cover as much as 85 % of the total supply of clothing to the Swedish market.

4. Bilateral trade in Textiles and Apparel

4 a. Free trade to-day. There are to-day no quantitative restrictions either way in trade in textiles and apparel between the U.S.A. and Finland, Norway or Sweden. The proposed Act would be a new element in those relations.

4 b. A moderate Nordic export increase. The total exports of all textiles and apparel from Finland, Norway and Sweden to the United States amounted to 3.488 tons in 1984. This represented a growth of 5,8 % from 1983 or an average of 5,3 % annually since 1980.

4 c. A small fraction. According to latest available OECD statistics imports of yarns, fabrics and apparel (SITC 65 + 84) into the U.S.A. from the three Nordic countries amounted to 22,6 Million dollars in 1983. This represented less than 0,2 % of the corresponding total import value to the U.S.A.

4 d. U.S. Trade Surplus. In 1984, as in many previous years, the United States have enjoyed a positive trade balance in Textiles and Apparel with the three Nordic countries. This was also the case separately with each of them. Furthermore there was a U.S. trade surplus even when regarding clothing and other textiles separately.

The following table refers to the Nordic/U.S. bilateral trade in textiles and apparel of textile materials (CCC chapters 50-62) in 1984:

	Million U.S. dollars		
	Exports to U.S.	Imports from U.S.	U.S. trade surplus
Finland	10,0	14,3	4,4
Norway	4,1	10,2	6,1
Sweden	13,8	41,1	27,3
Nordic Total	27,9	65,6	37,8
- thereof:			
- - clothing	9,7	14,5	4,9
- - other textiles	18,2	51,0	32,8

(Source: National Trade Statistics; due to roundings a total may not exactly equal the sum of its parts.)

On the basis of the facts presented above, it must be quite clear that the Nordic countries in no way can be held responsible for the textile and apparel trade deficit of the United States.

4 e. U.S. Cotton used. More than two thirds of all cotton used in the Nordic Textile Industries are bought from the United States.

In 1984 the Textile Industries of Finland, Norway and Sweden

imported a total of 11.823 tons of U.S. cotton at a value of 20,4 Million dollars. This was 20,4 % more in volume and 40 % more in value compared with the 1983 figures.

However small the Nordic Textile Industries may be in global terms, there should also be American interests from the supplying end to contribute to the viability of these industries.

5. CONCLUSION

While fully recognizing and appreciating the problems facing the American Textile and Apparel Industries and their need for trade policy measures to neutralize an increase of disruptive imports and to normalize market conditions, we can see no justification in including exports from Finland, Norway and Sweden into any such import control scheme. Least of all can we accept nor see any valid reason for a discriminatory treatment of these three countries in relation to other industrialized market economies in the West as outlined in the proposed Act.

The Nordic Textile and Apparel Industries are facing high production costs and import penetration rates compared with the United States, with which they also have a clear trade deficit in these areas. Their products are individual specialities of high quality and high fashion or in the upper price ranges. Their exports to the United States form a minute part of the corresponding U.S. imports.

It is our firm conviction that the proposed limitations on Nordic Textiles and Apparel to the United States would serve nobody's interest and by no means contribute to the maintenance of a strong, viable U.S. domestic industry.

The three Nordic countries, so often acting as a block of common

interests, on the industrial as well as governmental levels, must therefor be totally excluded from the possible application of the Textile and Apparel Trade Enforcement Act of 1985, if enacted, or from any other arrangement of a similar character that might be introduced in its place.

Helsinki, Oslo and Stockholm, July 15, 1985

THE FINNISH, NORWEGIAN AND SWEDISH TEXTILE
AND CLOTHING MANUFACTURERS' ASSOCIATIONS

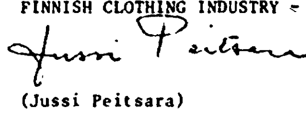
9 a.

FINLAND

For THE ASSOCIATION OF FINNISH TEXTILE INDUSTRIES:

(Kai Snellman)

For THE CENTRAL ASSOCIATION OF THE FINNISH CLOTHING INDUSTRY - VATEVA:



(Jussi Peitsara)

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9 b.

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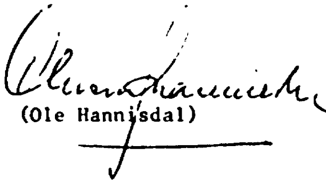

(Ole Hannisdal)

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9 c.

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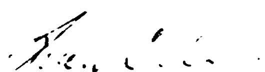

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(Sven Cele)

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ANNEX

Joint Resolution of the Apparel Associations of the United States, Japan and the AEIH, Based on the "Williamsburg Resolution" and the Subsequent Exchange of Correspondence between AEIH and AAMA

WHEREAS, the apparel industries of Japan, the United States and Western Europe are major contributors to their economies, and

WHEREAS, there are over 29,000 apparel-producing establishments in Japan, over 22,000 in the United States and over 23,000 in Western Europe, and

WHEREAS, there are over 300,000 apparel workers in Japan, over 1.1 million in the United States, and over 1.3 million in Western Europe, the majority of whom in every single country are women, and

WHEREAS, these industries play a major part in insuring full employment, particularly of women in the above mentioned three blocs, and

WHEREAS, the apparel produced by these industries in the three blocs is of high quality and offered to the consumer at lowest possible price, and

WHEREAS, the pressure of new apparel exporting nations is the cause of an increasingly unbalanced apparel trade and is a serious threat to the economic future of these industries, and consequently to social welfare and employment in the industrialized countries, and

WHEREAS, the apparel associations who are parties to this Resolution wish to signify their intend to implement this Resolution only through discussions with their respective governments

The Geneva Multifiber Agreement on apparel and textile world trade certainly provided on the short-term some palliatives to trade distortions between the industrialized countries (U.S.A., Japan, Western Europe, etc.) and the so-called developing countries

However, the unorderly multiplication of bilateral agreements, and its immediate consequence, the accumultion of quotas by a few countries have directly resulted in giving exporters a major share of the markets, thus closing the gates to development to the true developing countries which have yet no reference as exporters. Further, this system has proved unable to prevent diversion of trade

It is therefore of the utmost importance that we should make a new step forward and try to create a new balance of trade such as would satisfy the legitimate interests both of the industrialized and of the less wealthy countries of the world, which have a vital need for expansion

The apparel associations of the U.S.A., of Japan and of the AEIH member countries declare that such a balance should be based on two principles

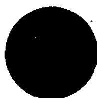
(1) Trade between industrialized countries with comparable wage-costs, especially between the U.S.A., Japan and Western Europe, should be based on free trade, which is an important factor of economic and social progress, even though safeguards are necessary in some situations

(2) The industrialized countries bind themselves to warrant a growing access to their markets, based on the total apparel consumption level on their respective home markets to the Third-World countries as a whole. The apportionment amongst exporting countries should permit the necessary economic and social self-limitation in the less wealthy countries

With that aim, the Apparel Associations of the U.S.A., Japan and of Western Europe (AEIH) bind themselves to defend the two principles mentioned above with their respective Governments and have them take any necessary steps in view of their application. They bind themselves to negotiate with one another a basic agreement for recommendation to their respective Governments concerning the application of these two principles

They shall study the institutional means to carry out their action and broaden their cooperation in the future.

– June 1976
Stockholm, Sweden



bread for the world
a christian citizens movement in the usa

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STATEMENT OF BREAD FOR THE WORLD

BEFORE

THE INTERNATIONAL TRADE SUB-COMMITTEE

OF THE

SENATE FINANCE COMMITTEE

ON

THE TEXTILE AND APPAREL TRADE ENFORCEMENT ACT OF 1985

Prepared by
Dominic Kwang Ntube
Policy Analyst
Monday, July 15, 1985
2.30 p.m.

802 rhode island avenue n.e. washington, d.c. 20018 (202) 269-0200

Mr. Chairman and Members of the Senate Subcommittee on International Trade of the Senate Finance Committee, we appreciate this opportunity to be able to express our view on the Textile and Apparel Trade Enforcement Act of 1985 (S. 680 and H.R. 1562). We are particularly concerned about its effect on (a) low income producers, exporters and consumers of textile and related commodities in the United States and on (b) the poorest textile exporting developing countries and their poor people in Africa, Asia and Latin America.

My name is Dominic Kwang Ntube. I am a policy analyst on trade and finance issues with Bread for the World. I am also a Bread for the World resource person on African Affairs.

Bread for the World is a nationwide grassroots, anti-hunger Christian movement with a membership of over 48,000. The movement recognizes that the hungry, whether found in the slums of Cairo in Egypt, in the cities of the U.S. or in a textile factory in Dhaka, Bangladesh have a shortage of lobbying advocates on U.S. government policies affecting them. We therefore seek to help fill this gap, and lobby on issues affecting those with little or no opportunity to be heard but who bear consequences of policies formulated by others.

Mr. Chairman, Bread for the World recognizes the importance of international trade for alleviating poverty and hunger. Trade provides a chance to break the cycle of poverty, hunger and economic injustice by providing jobs for workers, enhancing competition, and providing foreign exchange for international transactions. We believe that trade is one of the most common manifestations of the economic inter-

dependence of the South (developing countries) and the North (industrialized countries). Thus, Bread for the World members have worked on international trade issues, including the Caribbean Basin Initiative (CBI). Our members also strongly supported the renewal of the reformed Generalized System of Preferences (GSP) which passed Congress, October 4, 1984. We particularly support its "land for food" provision that requires that appropriate U.S. agencies work with GSP beneficiary countries to ensure that increased agricultural exports do not come at the expense of production of food for local consumption.

Bread for the World is becoming increasingly concerned with the growing protectionism in developed countries (DCs), like the United States, against exports from poor developing countries (LDCs). For the past few years, the administration, despite its preference for free international trade, has implemented new import barriers in four major industries: autos, textiles and apparel, sugar and steel. The general tightening in 1981 of the Multi-Fibre Arrangement (MFA) controlling trade in textiles and apparel, and new protection in sugar, have affected developing countries' export prospects at a time when their need is acute for foreign exchange to make payments on heavy external debts. We are thus particularly concerned with the Textile and Apparel Trade Enforcement Act of 1985.

Mr. Chairman, our understanding of the content of this Trade Act is that quotas would be established for all textile imports on a category by category basis. These quotas would be applicable to all countries except Canada and EC members. The bill defines two categories of exporters: "major exporting countries" are defined as those whose exports to the U.S. account for 1.25% or more of total U.S. textile and apparel imports while "exporting countries" are defined as those whose

exports represent less than 1.25% of total U.S. textile and apparel imports. (See Appendix I) We understand that major exporting countries would, on a product category basis, be limited to 1% growth from the level that would have occurred in 1984 if imports had grown by 6% a year from 1981-84, or, if the exporters had an agreement with the U.S. limiting growth to less than 6%, the country's 1984 level of imports. Imports from thereon could grow by 1% annually. On the other hand, "exporting countries" in the first year of the new quotas would be permitted to increase on a product category basis no more than 15% annually above their 1984 levels, except in categories defined as "import sensitive". Import sensitive goods are defined as those imports which equal 40% or more of U.S. production. Growth in imports of these categories would be restricted to 1% above 1984 levels, and could increase thereafter by 1% annually. The legislation also contains provisions which would require the Commerce Department to issue regulations governing the entry of textile and apparel imports, and also to establish an import licensing system wherein all importers of textile and apparel would have to pay a fee for import licenses.

Mr. Chairman, the Trade Act provides little or no allowable growth for any of the exporting countries. Overall, apparel imports from countries targeted by the legislation (category I and II) would be reduced by 20%, while textile imports would fall by 30%. Some of the major exporting countries will experience sharp cuts well over 50%. According to research on the subject by experts already made available to the Chairman during the hearings, there would be an 85% cut back of shipment from Indonesia, 66% from Brazil, 57% from China and 47% from Taiwan. (Appendix II) Further, while the trade law does not roll back imports from smaller suppliers of textiles and apparels such as Bangladesh, Haiti and Lesotho, the quota effectively eliminates "any

meaningful growth opportunities from them in the future." The International Business and Economic Research Corporation (IBERC) a Washington, D.C. based research organization which has conducted a study on the Trade Act confirms this fact. The study also indicates that if the proposed legislation had been enacted in 1983, Bangladesh textile and apparel exports to the United States in 1984 would have been only 3% greater than their 1983 volume and 78% smaller than their actual level of 1984. Bangladesh is highly dependent on the U.S. market as over 75% of that country's textile and apparel exports are sold to the U.S.

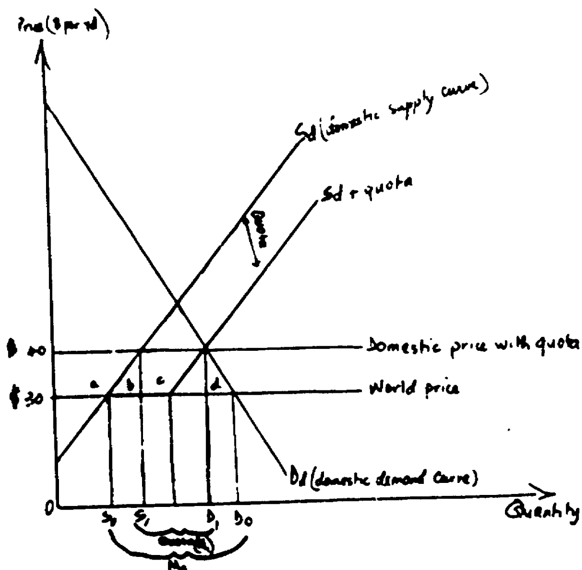
According to a June 25 article in the New York Times, five U.S. cabinet officials have warned that this textile quota bill that now commands cosponsorship of a majority in both houses of Congress would impose a "very high cost" on consumers, violate international obligations, invite retaliation and provide the domestic industry with "unprecedented" protection. A letter to members of Congress signed by Treasury Secretary James A. Baker 3rd, who is also chairman of the President's Economic Policy Council, Secretary of State George P. Shultz, Commerce Secretary Malcolm Baldrige, Labor Secretary William Brock and Acting United States Trade Representative Michael B. Smith, estimates that the legislation would cost consumers $2 billion annually, and those who would be hardest hit are low-income families. According to the Labor Department's latest available statistics in <u>Interview Survey 1980/81</u> - Bulletin No. 22-25, a household with income of $5000 in 1980/81 spent $636 annually on apparel, footwear and services including shoe repairs and dry cleaning. A 3% increase in the price of textile and apparel due to a quota indicates that such a family, after an adjustment made for inflation, will now spend an extra $27, bringing the total to $636 + $27 = $663 annually. Such an increase will affect the budget of mainly the 21.2 million people in about 7 million households (1984) already in the low-income bracket receiving food

Hearings Trade Act, p. 5

stamps to supplement their poor living conditions. These people would have to pay more for clothing and home furnishings - products that make up a major portion of the family budget.

Mr. Chairman, the IDERC study cited earlier, has estimated total cost of increasing import quota on textile and apparel. It has also projected the distribution of those costs among the governments, employment, impact on prices and the cost associated with the import licensing system. (See Appendix III) The study indicates that apparel import prices would increase on average by 16% at wholesale price, while textile prices would increase on average 33%. Further, weighted average apparel prices (domestic and imported) will rise by a minimum of 3% while textile prices will increase by 3%. The study used the partial equilibrium model of analysis to derive the cost of the quota to consumers. The cost quantified by the study can be illustrated graphically, Figure I. On a simple demand and supply graph, the welfare effect of a quota on cloth is apparent. The quota in Figure I is determined by the difference between the world price and the domestic price with the quota. The quota is assumed to induce domestic

Figure I: The Effect of a quota on Clothes:



- Hearings, Trade Act p.6

producers to raise their production at home at marginal costs rising up to $40 per yard of cloth when they could have been bought abroad for $30 per yard. At the world price of $30 consumers would buy S_0 a yard of cloth from domestic suppliers and would import M_0 a yard of cloth a year. Therefore, they would buy $D_0 = S_0 + M_0$ yards of cloth in all. However, with a quota, the domestic price increases by $10, i.e. $40-$30 = $10. Consumers lose area (*b*). The price markup on the allowed imports area (*c*), is an internal redistribution from consumers to whoever commands the licenses. The net loss is areas (*b*) and (*d*)

Mr. Chairman, an import quota frequently creates a domestic monopoly and inefficient allocation of import licenses. In such a situation, the domestic firm knows that no matter how high it raises its price, competing imports cannot exceed the quota. So a quota gives the dominant domestic firm a better chance of facing an inelastic demand curve (Figure I). The curve indicates that consumers remain relatively unresponsive to price changes. Such a monopoly-created quota leads thus to higher prices, lower output, and greater national losses.

Mr. Chairman, the impact of the trade bill on employment opportunities in retailing, importing, exporting, farming, shipping, banking and manufacturing have already been discussed in other testimony. Much has also been said about the impact of the quota bill on U.S. consumers. However, Bread for the World members are especially concerned about the impact of the quota bill on low income America. We are also concerned about its impact on particularly textile and apparel exporting developing countries. At this point, one may ask the following questions: who bears the burden of the impact of the legislation in developing countries (LDCs)? Is such a piece of legislation related to hungry people in LDCs?

Hearings, Trade Act p.7

Mr. Chairman, the World Bank's 1984 World Development Report estimates that by the year 2000 there will be some 600 million people living in "absolute poverty.' Former World Bank President Robert McNamara defines absolute poverty as "a condition of life so characterized by malnutrition, illiteracy, disease, high infant mortality, and low life expectancy as to be beneath any reasonable definition of human decency." Mr. McNamara's prophecy is true today. In fact midway through the United Nation's 3rd Development Decade, a vast majority of 2.5 billion people located mainly in developing countries, have witnessed a sharp decline in their living standards. A billion of these people are facing a decline in per capita food production, consumption is declining below acceptable nutritional standards, while at the same time LDCs are facing significant international debt payment difficulties to the point of insolvency. The wrenching effect of these difficulties in terms of human cost is difficult to capture in words. World view recently focused on Ethiopia and other parts of Africa and the world was provided with a grim picture of the acute human tragedy caused by hunger. While poverty is worst in most African countries, conditions are not much better in Bangladesh, Indonesia, Haiti, Brazil and the Philippines, all of which are textile and apparel producing and exporting countries that would be affected by the quota trade bill. The question that immediately comes into one's mind is why so many of the world's people are poor and hungry.

Mr. Chairman, one answer which has emerged in recent years is that a major culprit is structural inequities in the international economic system. Structural inequities, such as the current pattern of trade relations, effectively prevent the conquest of hunger, poverty, inflation and unemployment and result in a continuous widening gap between the rich and poor.

This answer is increasingly the consensus position of poor

Hearings Trade Act, p. 8

developing countries leaders. Convinced of the inequity of the present order, they have, as you know, since 1964 called for a "New International Economic Order (NIEO). They contend that LDC purchasing power is declining steadily, due to the low and fluctuating prices of the raw materials they export and the increases in the cost of industrial technology, oil, and other items they import. They cite their countries' small and declining share in world manufacturing and trade, and point with bitterness to tariffs, quotas and other trade barriers which bar their nations' products from ready access to industrialized country markets. They also stress that they are dependent on growing export industries to pay off their escalating debts to the developed world. They claim that they are unequal participants in global political and economic decision-making institutions, such as the UN Security Council, the World Bank and the International Monetary Fund (IMF).

Bread for the World members appreciate the concerns expressed by the poor LDCs and believe that trade is one main solution to the frustration of these countries. Bread for the World therefore thinks trade is important for LDCs for three main reasons: (i) exports pay for imports of food and of machinery and other items necessary to increase productivity. These imports can be paid for only with money earned by exporting goods such as textile and apparel; (ii) LDCs access to outside markets allows these countries to take advantage of economies of scale, and (iii) export earnings are much larger and more dependable than "foreign aid" and other outside assistance - providing more jobs, increased skills and consolidate the independence of these poor countries. Allowing developing countries' exports, therefore, is a far better solution than asking Congress for a moritarium on the $200 billion (1984) owed by these countries to U.S. private and official institutions.

Hearings, Trade Act, p.9

Mr. Chairman, Bread for the World regards trade therefore as a hunger issue and a main way to break the cycle of poverty and starvation in the LDCs. Most of these countries continue to face wrenching IMF austerity measures. The impact of such measures are shifted to low income people at the periphery of the state and international system. Take for example, Brazil - a country that would be affected by the law. Its debt burden was $79.6 billion in 1983. In 1985 it is projected to be $100 billion with a debt service ratio of 43% in 1982 (See Appendix IV). Families see their children starve each day. In fact, about 1,000 children starve in Brazil every day. And the logic is that you must pay the debt and to pay this debt you must work more, eat less, in order to export the resources, soybeans, meat, textile and apparel, etc. Gains from exports go not only to pay the debt but also pay interest on the principal. In 1983 all Latin America countries were paying $30 billion to the industrialized countries on interest alone. This is a transfer of capital from a people that most need the capital. With Brazil's huge debt burden of $100 billion one can imagine the devastating effect of a 66% cut on textiles and apparel imports from that country to the U.S. It would not only mean a sharp cut in production and foreign exchange of one of Brazil's main exports but also implies that the country would be unable to reschedule its debt and honor interest payments on principal. There would also be a down-turn on all the indicators of poverty and development in that country. (See Appendix V) Infant mortality would be on the rise, and so would life expectancy, literacy, caloric intake, poor education, hunger and starvation, abject poverty and political instability that would threaten the very foundation of democracy the world over. Other countries such as Indonesia with a per capita income of $580, Pakistan with a per capita income of $380 and a debt burden in 1983 of $23 billion (Appendix VI), and Bangladesh which would experience a sharp cut of 56% in exports of textile and apparel with a per capita income of only $130 in 1983 dropping from $140

in 1982 (Appendix V), face the same acute teething problems as Brazil. All of these countries and others would experience serious setbacks in their economic development with the imposition of import quotas on the main industry that provides these poor countries with their primary source of foreign exchange which is crucial for international transactions and payment of their debt.

Mr. Chairman, before I conclude, let me refer to the work of Prof. William R. Cline of the Johns Hopkins University School of Advanced International Studies (SAIS) and also of the Institute for International Economics. In Trade Policy in the 1980s, which Prof. Cline edited, a number of issues have been outlined on the textile and apparel industry relevant to the present discussion. Whether in the U.S. or textile exporting LDCs, according to the book, the workers in this industry are predominantly women. In the U.S. specifically, such women are usually over 50 years old. They are also those with no more than elementary school education and in the U.S. they are predominantly minorities. In the apparel manufacturing industries, they reside in predominantly urban, inner-city areas or single-industry rural towns. These workers cannot easily shift to other employment. Textile labor both in the U.S. and developing countries is immobile. They cannot pick up and move easily to new jobs. Thus the unemployed workers most often becomes workers without a job for an inedifinite period. For LDCs relying only on one export commodity, a quota brings additional hardship as the country can not easily diversify its exports and markets. In these countries, the Prof. Cline's analysis indicates that quotas on textiles spell disaster for many families. A market monopoly created by the quota, as indicated earlier leads to higher prices of textile and apparel. The beneficiaries of such higher prices in the form of 'economic rents' or profits will eventually be large textile and

apparel corporations in the U.S. From this analysis of this industry and the impact of a quota on textiles, one may further ask what would happen to the farmers and herdsmen who supply cotton, flax and wool in LDCs? How about the small factories that harvest silk from caterpillar cocoons and whose livelihood depend on working in these factories in LDCs? What would be the fate of interior designers, garment manufacturers, upholstered furniture manufacturers, industrial producers in the U.S.? What about those making such products as conveyor belts and filter cloths, retail merchandisers in the U.S. of textile fibers, fabrics and finished goods? What would become of the 21.2 million Americans and the nearly one billion people starving in developing countries if such a proportionately large portion of their family budget on clothing - $636 (1980/81) is increased by $27 in 1985? And what would be the fate of the governments of these poor countries hard pressed with huge debt burdens?

Mr. Chairman, whatever the case, tariffs and quotas almost always lower world well-being. They lower the well-being of each nation and as a general rule, whatever a quota or tariff can do for a nation, something else can do it better. Bread for the World is therefore opposed to the legislation in its current form. Bread for the World members believe that continuous imposition of tariffs and quotas on imports from developing countries does not benefit the U.S. economy as a whole and is detrimental to U.S. relations with the affected nations. The remedy lies somewhere else and includes tackling the problems of the over-valued dollar, U.S. deficit spending and flawed monetary policy. Bread for the World continues to advocate expansion of the Trade Adjustment Assistance (TAA) to enable U.S. workers and businesses hurt by foreign trade competition adjust to long-term shifts in the global economy. This, coupled with a sounder, full-employment economic policy, rather than increasing protectionism is what is needed if we are to protect our workers without hurting our low income consumers and people in developing countries. This bill serves only to treat the symptoms of U.S. problems, and not the root cause. Thank you very much Mr. Chairman.

APPENDIX I:

A) Major Exporting Countries:

Indonesia

Brazil

China

Thailand

Pakistan

S. Korea

Japan

Philippines

Hong Kong

India

Singapore

Taiwan

B) Exporting Countries:

Colombia

Dominican Republic

Israel

Lesotho

Sri Lanka

Spain

Bangladesh

Egypt

Haiti

Malaysia

Peru

Appendix II

IMPACT OF THE PROPOSED LEGISLATION
ON TRADE FROM MAJOR EXPORTERS
(Millions of Square Yard Equivalents & Percent)

Country	Textiles				Apparel				Total			
	New Restraint	Actual 84 Trade	Change		New Restraint	Actual 84 Trade	Change		New Restraint	Actual 84 Trade	Change	
			Quantity	Percent			Quantity	Percent			Quantity	Percent
Brazil	36.3	162.3	-126.1	-78%	30.4	32.7	- 2.2	- 7%	66.7	195.0	-128.3	-66%
China	221.2	545.5	-324.4	-59	205.9	445.3	-239.4	-54	427.0	990.8	-563.8	-57
Hong Kong	221.0	234.1	-23.1	-10	715.1	814.8	-99.7	-12	926.1	1048.9	-122.8	-12
India	121.7	122.0	- 0.3	*	103.4	131.1	-27.7	-21	225.2	253.1	-27.9	-11
Indonesia	14.4	139.5	-125.1	-90	26.0	128.4	-102.3	-80	40.4	267.8	-227.4	-85
Japan	486.1	599.8	-113.7	-19	120.3	137.9	-17.6	-13	606.4	737.7	-131.3	-18
Korea	202.0	480.3	-278.3	-58	576.2	686.5	-110.3	-16	778.2	1166.8	-388.6	-33
Pakistan	158.5	241.5	-83.0	-34	37.2	63.2	-26.0	-41	195.7	304.7	-109.0	-36
Philippines	21.0	7.5	+13.5	+179	188.0	234.4	-46.4	-20	209.0	241.9	-32.9	-14
Singapore	48.6	12.1	+36.4	+300	103.8	127.8	-24.1	-19	152.3	140.0	+12.0	+ 9
Taiwan	143.7	647.1	-503.4	-78	694.4	935.5	-241.1	-26	838.1	1582.7	-744.5	-47
Thailand	39.4	105.7	-66.3	-63	56.9	106.3	-49.5	-47	96.2	212.0	-115.8	-55
Total	1,713.9	3,297.4	-1,591.8	-48	2,857.6	3,843.9	-986.3	-26	4,561.3	7,141.4	-2,580.3	-36

*Less than 0.50 percent.

SOURCE: International Business and Economic Research Corporation.

Appendix III

SUMMARY OF PRESENT VALUE OF COST EFFECTS OF INCREASING IMPORT QUOTAS ON APPAREL AND TEXTILES
(Millions 1984 dollars)

A. Apparel

	(1)	(2)	(3)	(1)-(2)+(3)
		Cost of Employment Changes		Net Welfare
Year	Total Cost	Manuf.	Retail	Loss
1	$2,386	$106	$130	$2,410
2	2,294	0	0	2,294
3	2,206	0	0	2,206
4	2,121	0	0	2,121
5	2,040	0	0	2,040
Total 5 years	$11,047	$106	$130	$11,071

B. Textiles

	(1)	(2)	(3)	(1)-(2)+(3)
		Cost of Employment Changes		Net Welfare
Year	Total Cost	Manuf.	Retail	Loss
1	$ 950	$179	$ 8	$ 779
2	913	0	0	913
3	878	0	0	878
4	845	0	0	845
5	812	0	0	812
Total 5 years	$4,398	$179	$ 8	$4,227

Source: International Business and Economic Research Corporation.

Appendix IV - "Major Exporting Countries

	%Reduction in trade (a)	Textiles and clothing % of merch. exports 1981 (b)	GNP per cap. $U.S. (c) 1982	1983	Total Debt 1983 $U.S. millions (d)	Debt Service Ratio (f) (total debt service to exports of goods and services) 1982	1983
Indonesia	-85%	1%	580	560	21,768.8(e)	10.6	12.8
Brazil	-66%	4%	2,240	1,890	79,580.1	43	28.7
China	-57%	2%	310	290	--	--	--
Thailand	-55%	10%	790	810	9,731.1	9	11.3
Pakistan	-36%	41%	380	390	23,071.1	16.4	21.9
S. Korea	-33%	30%	1,910	2,010	--	13.1	12.3
Japan	-18%	4%	10,080	10,100	13,659.4	--	--
Philippines	-14%	7%	820	760	223.7(e)	13.1	15.4
Hong Kong	-12%	42%	5,340	6,000	21,429.2	--	--
India	-11%	23%	260	260	1,243.6(e)	--	14(1985) (g)
Singapore	-9%	4%	5,910	6,660		.8	1.3
Taiwan	-47%	--	2,540	--	---	--	---

(a) Source: International Business and Economic Research Corporation
(b) Source: 1984 World Bank Development Report
(c) Source: 1985 World Population Data Sheet of the Population Reference Bureau Inc.
(d) and (f) Source: World Debt Tables, The World Bank
(e) Excludes: private nonguaranteed external debt, and transactions with the IMF with the exception of Trust Fund loans
(g) Source: Quarterly Economic Review vol. 1, 1984

Appendix - V

Major Exporting Countries

	GNP per capita 1983 $U.S.(a)	Infant Mortality Rate per 1000 (b)	Life Expectancy Rate at birth(b)
Indonesia	560	102	53
Brazil	1,890	73	64
China	290	67	67
Thailand	810	51	63
Pakistan	390	121	50
S. Korea	2,010	32	67
Japan	10,100	7	77
Philippines	760	51	64
Hong Kong	6,000	10	75
India	260	94	55
Singapore	6,660	11	72

(a) Source: 1985, 1984 World Population Data Sheets, The Population Reference Bureau
(b) Source: 1984 World Bank Development Report

Appendix VI

Exporting Countries

	Textiles and Clothing % of Merch. Exports 1981 (a)	GNP per cap. $U.S.(b) 1981	1983	Total Debt 1983 $U.S. millions(c)	Debt Service Ratio (total debt service to exports of goods and services) 1982	1983 (c)	Life expectancy at birth (a)	Infant Mortality Rate per 1000 (a)
Colombia	8%	1,460	1,410	8,147.1	17.6	21.3	64	54
Dominican Republic	--	1,330	1,380	2,403.2	22.7	--	62	65
Israel	6%	5,090	5,360	15,148.8	21.0	19.6	74	16
Lesotho	--	510	470	145.2	2.5	2.5	53	94
Sri Lanka	16%	320	330	2,207.0	10.2	11.9	69	32
Spain	6%	5,430	4,800	----	---	---	74	10
Bangladesh	56%	140	130	4,184.5(d)	10.9	14.7	48	133
Egypt	7%	690	700	15,530.8(d)	26.0	34.0	57	104
Haiti	--	300	320	433.5(d)	5.7	5.3	54	110
Malaysia	3%	1,860	1,870	10,665.2(d)	5.6	5.8	67	29
Peru	8%	1,310	1,040	7,931.5(d)	36.4	19.6	58	83

(a) Source: 1984 World Bank Development Report
(b) Source: 1985 World Population Data Sheet of the Population Reference Bureau Inc.
(c) Source: World Debt Tables, The World Bank
(d) Excludes: private nonguaranteed external debt and transactions with the IMF with the exception of Trust Fund loans

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STATEMENT OF THE HEADWEAR INSTITUTE OF AMERICA

IN SUPPORT OF

S. 680,

TEXTILE AND APPAREL TRADE ENFORCEMENT ACT OF 1985

July 15, 1985

EXECUTIVE SUMMARY

S. 680 IS THE ONLY VEHICLE TO IMPROVE THE INEFFECTIVE ADMINISTRATION AND ENFORCEMENT OF THE MULTI-FIBER ARRANGEMENT (MFA)

- The domestic headwear industry has attempted to work within the MFA to obtain proper relief from market-disrupting, and in some cases illegal, imports of headwear, but has been extremely dissatisfied with the results obtained under the Multi-Fiber Arrangement (MFA), as it is currently being enforced. For this reason, the Headwear Institute of America (HIA) is supporting the passage of the Textile and Apparel Trade Enforcement Act of 1985.

- The industry's frustration with the current system is best exemplified by one particular problem relating to imports of man-made fiber headwear. In early 1984, the U.S. Customs Service discovered that fraudulent imports of man-made fiber headwear from Taiwan and Korea were entering the United States with understated visa weights, thus circumventing the existing quota levels.

- Customs halted this practice, but prior to its discovery such understating occurred in earlier years, resulting in substantial overshipments beyond legal quotas in these periods as well.

- Beginning in March 1984, the domestic headwear industry urged the Committee for the Implementation of Textile Agreements (CITA) to quantify the volume of overshipments of man-made fiber headwear from Korea and Taiwan which occurred in earlier years due to understating and to deduct this quantity from current quota levels. Such compensation for fraudulent shipments is clearly required under the terms of our bilateral agreements, which were negotiated under the MFA.

- In May 1985, more than a year after the initial discovery of this problem, the U.S. Government concluded final negotiations with the Taiwanese which resulted in the decision to allocate the total overshipments of 750,000 pounds. However, this seemingly reasonable response was gutted of any real impact when the U.S. Government allowed these illegal, fraudulent overshipments to be allocated to the Taiwan quota in equal amounts of 250,000 pounds over the next three years. The domestic headwear industry was outraged by this decision by the U.S. Government to stretch the "penalty" for Taiwan's overshipments over so many years, which is virtually meaningless for the Taiwanese and amounts to no penalty at all.

- The U.S. action has in effect rewarded fraud and undermined both the effectiveness of the bilateral agreements and the perceived need on the part of foreign governments and industries to feel obliged to live up to the letter or spirit of those agreements.

- To date, no action whatsoever has yet been taken by the U.S. Government with respect to Korea, which was just as guilty as Taiwan of understating visa weights on man-made fiber headwear.

S. 680 IS THE ONLY VEHICLE TO IMPROVE THE INEFFECTIVE ADMINISTRATION AND ENFORCEMENT OF THE MULTI-FIBER ARRANGEMENT (MFA)

The Multi-Fiber Arrangement and the bilateral agreements that the United States have negotiated under the MFA have been a miserable failure. They have failed to achieve their stated purpose -- the prevention of market disruption in the United States. The central reason for this failure has been the ineffective administration of the bilateral agreements, including the constant failure of the United States to avail itself of the actions plainly allowed for in the MFA and the bilateral agreements. For these reasons, the Headwear Institute of America (HIA), a trade association representing domestic manufacturers of headwear, is supporting the passage of the Textile and Apparel Trade Enforcement Act of 1985.

The specific means through which this failure has occurred are well-known:

1) The United States continually permits rapid surges in imports before any action is taken. Any restraints put into effect are based upon import levels after such surges.

2) The United States allows flexibility in bilateral agreements that permit massive increases in imports above nominal restraint levels.

3) Quota limits that are not filled in a given year are nevertheless allowed to grow constantly, thereby permitting huge surges.

4) Despite commendable efforts by the Customs Service, fraudulent practices are rampant, which make a mockery of the bilateral agreements. Fraudulent actions include transshipments, false country of origin markings, false declaration to Customs of fiber content and other false declarations about the import shipments, smuggling of controlled products with shipments of uncontrolled products, false export visas, and many others.

5) The United States continually negotiates agreements favorable to foreign countries despite heavy import penetration by all countries combined and intense cumulative market disruption.

These and other factors have combined to eliminate the effectiveness of the bilateral agreements that the United States spends much time and effort negotiating. In addition, the growing problem of fiber blends containing fibers other than cotton, wool, or man-made fibers, which technically remove products from the coverage of the MFA, have contributed greatly to the ineffectiveness of the MFA.

The problems are not abstract. They are directly reflected in the growth of imports of textiles and apparel of 25 percent from 1982 to 1983 and the 32 percent growth from 1983 to 1984. They are directly reflected in the hundreds of thousands of U.S. jobs lost during this time. They are reflected in the cumulative impact of hundreds of horror stories that can be told by the domestic industry.

The case of man-made fiber headwear is one such horror story. In fact, the experience of the domestic headwear industry with surging headwear and massive fraud perpetrated by foreign suppliers provides a microcosm, in all aspects, of the failure of the MFA, as it is currently being administered and enforced. This horror story has occurred despite the best efforts of the domestic industry to work within the MFA to attain relief from market-disrupting, illegal imports.

The headwear story focuses on fraudulent shipments of man-made fiber headwear entering the United States from Taiwan and Korea. The weak, ineffectual response by the U.S. Government in the end rewarded the fraud that took place and gave one more signal to foreign producers that they could flaunt the MFA bilateral agreements with impunity.

In early 1984, the U.S. Customs Service discovered that man-made fiber headwear imports from Taiwan and Korea were entering the United States with understated visa weights. Such headwear entering from Taiwan and Korea is subject to specific quota restraints, which are expressed in pounds. Therefore, by understating the actual weight of the headwear being shipped to the United States, the Taiwanese and the Koreans were able to enter hundreds of thousands more dozens of headwear than was properly allowed under the quotas, thereby circumventing the quotas.

Following the discovery of this problem in early 1984, due to the diligent work of the U.S. Customs Service, man-made fiber headwear shipments from Taiwan and Korea with suspected understated visa weights were held up and not allowed to enter the United States until a proper visa weight was obtained from the foreign suppliers. Although proper charges to quotas have reportedly been made since the time of the initial discovery of the understated visa weights, evidence indicates that the practice may be continuing.

Domestic headwear producers were concerned about the damage caused by this fraudulent practice in earlier years, which had resulted in the shipment of substantial quantities of imports of man-made fiber headwear from Taiwan and Korea well above the allowed quota levels in these earlier years. Not only did the domestic industry feel that overshipments were occurring based on the quantity of imports flooding the market, but other independent evidence made clear that this fraud had been occurring for some time.

First, the poundage quotas were completely or almost completely filled by Taiwan and Korea in prior years. Second, publicly available information on the unit weights of imports from Taiwan and Korea show understating in these earlier years, as calculated from official U.S. import statistics. For example, the attached Tables 1 and 2 provide data on the unit weight (in pounds per dozen) for imports of man-made fiber headwear entering under TSUSA item 703.0500 from Taiwan and Korea into the Seattle and Los Angeles Customs Districts for full year 1982 and 1983 and monthly for the period October 1983-December 1984. The pounds per dozen ratios for 1982 and 1983 and early 1984 are well below the April-October 1984 ratios, by which time the problem had been discovered and proper weights were being charged. However, the lower ratios for imports from both Taiwan and Korea into the Los Angeles Customs District in November and December 1984 indicate that the understating practice may actually be starting again.

The trends described above are illustrated graphically in Charts 1 through 4; these charts show the ratios of pounds per dozen for imports of TSUSA item 703.0500 from Taiwan and Korea into the Los Angeles and Seattle Customs Districts for 1982 through 1984, based on half-year periods. These charts clearly show the dramatic increases in the pounds per dozen ratios in 1984 compared to the ratios evident in 1982 and 1983, following the discovery of the visa weight understating problem in February of 1984.

From March 1984 on, the Headwear Institute of America strongly and continually urged the Committee for the Implementation of Textile Agreements (CITA), which is the responsible government agency,[1/] to quantify the volume of overshipments which occurred in earlier years due to understating and to deduct this quantity of illegal man-made fiber headwear imports from the current year's quota levels for Taiwan and Korea. Such a quota adjustment for fraudulent imports was not only called for under the terms of our bilateral agreements with Korea and Taiwan, but was the minimum action that should have been taken to maintain the integrity of the agreements and to discourage further fraud. A detailed chronology of the efforts by the domestic industry to obtain painfully slow U.S. Government response

1/ The Committee for the Implementation of Textile Agreements is an interagency body comprised of representatives from the Commerce Department, the Office of the United States Trade Representative, the State Department, the Labor Department, and the Treasury Department.

to resolve this problem, from early 1984 to the present, is provided in Appendix A.

It was not until a year and a half after the initial discovery by the U.S. Customs Service and constant urging by the domestic industry that CITA finally acted to resolve the problem with respect to Taiwan. To the utter dismay of the domestic industry, the ultimate result was a weak and ineffectual response by the U.S. Government.

During mid-April, 1985, consultations were held between the U.S. Government and the Taiwanese at which the clear evidence of visa weight understating was presented. CITA reported in the Federal Register of May 9 that the U.S. Government had decided to charge the calculated overshipments of 750,000 pounds to the current quota level for Taiwan, an action which the domestic industry had been recommending since the problem first became known. CITA also indicated that this decision would hold pending the results of further negotiations which were scheduled for May 20.

In early June, the domestic industry was shocked to learn from sources in Taiwan that at the May 20 negotiations, CITA had backed off its original decision to charge the 750,000 pounds of overshipped headwear to the current year, and instead caved into the Taiwanese request to charge the illegal shipments in equal amounts of only 250,000 pounds in each of the next three years -- 1985,

1986, and 1987. This reversal of the originally announced decision to charge all 750,000 pounds to the 1985 restraint level virtually gutted the remedy originally decided upon (after the delay of over one year) and amounted to virtually no penalty at all.

The domestic industry was told by U.S. Government officials that one reason for the decision to spread the calculated quota reduction over three years was that the Taiwanese had already allocated all of their 1985 quota and that the full charge of all illegal shipments to the 1985 quota would have therefore caused problems and inconvenience to the Taiwanese. The domestic industry fails to accept that this inconvenience, no matter how great, has any relevance at all to a proper response to the years of systematic, fraudulent headwear shipments by the Taiwanese. The domestic industry, which was hurt by these illegal, fraudulent imports, was outraged by the final resolution of the problem with respect to Taiwan, particularly since the industry spent more than one year and an enormous amount of time and effort with the Executive Branch and on Capital Hill to have this matter looked into and resolved under the procedures available under the MFA.

To add insult to injury, it must be emphasized that no action whatsoever has ever been taken by the U.S. Government with respect to Korea, which was just as guilty as Taiwan of understating visa weights on man-made fiber headwear. The

pounds per dozen ratios cited in Tables 1 and 2 clearly indicate similar trends in these ratios for Taiwan and Korea, due to the similar pattern of understating in 1982, 1983, and early 1984, followed by corrected weights beginning in April 1984 once the problem had been discovered by the U.S. Customs Service.

More direct evidence is contained in a June 1984 telex from a major Korean headwear producer and exporter, which explicitly describes the quota shortages of approximately 35 percent then being faced by the Koreans due to the enforcement of proper visa weights by the U.S. Customs Service. (See Appendix B.) The domestic industry has repeatedly provided the U.S. Government with copies of this telex on several occasions, but to date, no action has been taken to adjust the Korean quotas for illegal overshipment of man-made fiber headwear in earlier years.

The outrage does not stop here. The events described above have not been occurring in a vacuum. While the domestic industry was waiting for the resolution of the problem of understated visa weights on man-made fiber headwear from Taiwan and Korea, these two countries were busy implementing additional ways of circumventing the man-made fiber headwear quotas.

For example, industry sources learned that in mid-1982, a new man-made fiber headwear operation was established in the Philippines; reportedly, all of the fabric and other raw

materials are made available from Taiwan and are then assembled in the Philippines. The attached Table 3 shows that between 1979 and 1981, imports of these man-made fiber caps from the Philippines were actually declining. In 1982, following the set-up of the new headwear operation supplied by the Taiwanese, imports from the Philippines rose by over 500 percent from the 1981 level and have risen in every year since that time.

Imports of man-made fiber headwear from the Philippines are currently covered under a quota for a very large "basket" category of products. Therefore, this operation in the Philippines, which is supplied with materials from Taiwan, essentially allows the Taiwanese to circumvent the quota on U.S. imports of man-made fiber headwear from Taiwan and ship additional thousands of dozens of caps to the United States. The domestic industry has requested that a separate quota be established on man-made fiber headwear from the Philippines in order to control this surge, and to prevent the Taiwanese from circumventing the quota on their shipments, but no results have been forthcoming.

Another means utilized by Taiwan and Korea to circumvent the restraints on man-made fiber headwear has been to change the fiber blend of the fabric in order to change the import classification from man-made fiber headwear to cotton headwear, which is not currently covered by quotas. This surge is shown by the data provided in the attached Table 4.

Imports of cotton headwear from Taiwan rose steadily from only 5,154 dozens in 1981 to 1,218,404 dozens in 1984, and showed a 105 percent increase in the first quarter of 1985, compared to the same period in 1984. Imports of cotton headwear from Korea show similar trends, rising from 649,369 dozens in 1981 to 1,223,470 dozens in 1984, with a 101 percent increase in the first quarter of 1985. A large portion of these headwear imports allegedly of cotton is the same type of headwear formerly classified as man-made fiber headwear. The domestically-produced man-made fiber headwear is of the same type (primarily baseball/promotional caps) and competes directly in the marketplace with these "cotton" imports. Thus, the fiber distinction in this instance is irrelevant. Therefore, this surge in cotton headwear imports has been very harmful to domestic producers.

The domestic industry has repeatedly requested calls on these imports of cotton headwear, but CITA has insisted that, despite the incredible import surges, no domestic market disruption can be shown, so no action has been taken. The domestic industry does not understand how a lack of market disruption can be argued, given the magnitude of the import increases; total cotton headwear imports rose by 229 percent between 1981 and 1984 and these imports have had a dramatic impact on the market place. In the past year almost 20 domestic headwear plants located throughout the United States have ceased operations, largely due to competition from surging, low-priced imports, (See Appendix C

for list of plant closings.) In a recent study by the U.S. International Trade Commission, it was reported that imported baseball caps consistently undersold similar domestically-produced caps at the wholesale level by margins which rose steadily from 32 percent in 1982 to 49 percent in 1984.[1/] The ITC also reported that the import penetration ratio for cotton and man-made fiber headwear rose from 57 percent in 1981 to 65 percent in 1983, followed by an increase to 71 percent in the period January-September 1984.[2/]

To make matters worse, the domestic industry has recently learned that much of the cotton headwear which has been entering from Korea and Taiwan is actually man-made fiber headwear which is being misclassified. The industry has confirmed with U.S. Customs officials at the Los Angeles, Seattle, and New York Customs Districts that they have all discovered some instances of such misclassification. The industry has requested that these ports make a full investigation of the extent of this misclassification. If, as the domestic industry believes, this misclassification was rampant in earlier years prior to its discovery by the U.S. Customs Service in early 1985, then, like the understating of visa weights, this is another way in which the Taiwanese and the Koreans have managed to illegally ship

1/ Certain Headwear Statistical Report, Report to the United States Trade Representative on Investigation No. 332-190, USITC Publication 1697, May 1985, at page 12.

2/ Certain Headwear Statistical Report, Report to the United States Trade Representative on Investigation No. 332-190, USITC Publication 1697, May 1985, at page 13.

man-made fiber headwear into the United States at levels well above those allowed by the mutually agreed-upon quotas determined by the bilateral agreements negotiated under the MFA.

The disruption to the domestic industry caused by these various practices of the Taiwanese and Korean headwear manufacturers has been compounded by the emergence of the People's Republic of China (PRC) as a major supplier of headwear to the U.S. market in recent years. The attached Table 5 shows the dramatic increase in imports of both cotton and man-made fiber headwear from the PRC in recent years. In 1984, the PRC was the largest supplier of cotton headwear to the United States; furthermore, in 1984 and in the first quarter of 1985, the PRC was the fastest growing supplier of man-made fiber headwear to the United States. The rapid emergence of a new market player of this size has further intensified the market disruption already being caused by surging low-priced imports from Taiwan, Korea, and other suppliers.

Thus, the experience of the domestic headwear industry encapsulates all of the many reasons which have prompted the introduction of S. 680 and the massive support which it has gathered. In trying to obtain redress for grievances through the channels offered by the MFA, the domestic headwear industry has been extremely frustrated by the slow and generally ineffectual responses of the U.S. government.

This problem is exemplified by the problem of understated visa weights on man-made fiber headwear from Korea and Taiwan, where delay between discovery of the problem and action by the U.S. Government was unconscionably long and the final result has been a weak "penalty" which effectively rewards the Taiwanese exporters responsible for fraudulent, illegal headwear shipments. Furthermore, no action has yet been taken by the U.S. Government to adjust the quota on man-made fiber headwear imports from Korea for illegal shipments from that country. The domestic industry has also been victimized by diversions of shipments through other countries and by shifts to other products, as Taiwan and Korea have attempted to end-run the quotas on man-made fiber headwear. The industry has also been hurt by fraudulent fiber misclassifications.

Therefore, due to the ineffectiveness of the MFA in providing relief for the import problems confronted by the domestic headwear industry, such as those cited in this statement, the HIA is strongly supporting the passage of the Textile and Apparel Trade Enforcement Act of 1985. This legislation offers the only viable means of correcting the weak and ineffective administration and enforcement of the MFA. The passage of S. 680 is necessary to achieve the goals for which the MFA was designed.

Table 1

U.S. IMPORTS FOR CONSUMPTION OF HEADWEAR FROM TAIWAN AND KOREA UNDER TSUSA ITEM 703.0500 INTO THE LOS ANGELES CUSTOMS DISTRICT, FULL YEAR 1982 AND 1983 AND MONTHLY, OCTOBER 1983-DECEMBER 1984

	Taiwan			Korea		
	Dozens	Pounds	Pounds Per Dozen	Dozens	Pounds	Pounds Per Dozen
Full Year 1982	1,092,103	1,195,453	1.09	233,849	329,073	1.41
Full Year 1983	892,986	1,149,070	1.29	240,404	318,827	1.33
October 1983	71,171	98,560	1.38	27,225	37,377	1.37
November 1983	73,894	96,256	1.30	13,584	16,947	1.25
December 1983	56,193	75,322	1.34	20,569	26,914	1.31
January 1984	116,653	180,113	1.54	16,458	26,403	1.60
February 1984	60,202	85,654	1.42	7,242	9,771	1.35
March 1984	38,849	48,767	1.26	20,503	33,692	1.64
April 1984	84,568	139,296	1.65	23,892	42,179	1.77
May 1984	93,665	156,403	1.67	35,992	63,370	1.76
June 1984	53,315	88,938	1.67	24,960	44,741	1.79
July 1984	49,590	80,293	1.62	19,596	32,788	1.67
August 1984	28,541	44,452	1.56	13,008	24,984	1.92
September 1984	29,335	51,843	1.77	5,760	10,821	1.88
October 1984	7,442	12,277	1.65	4,068	7,729	1.90
November 1984	8,220	12,536	1.53	1,788	2,420	1.35
December 1984	5,858	7,522	1.28	15,840	21,439	1.35

	All Other Countries		
	Dozens	Pounds	Pounds Per Dozen
Full Year 1982	72,252	119,013	1.65
Full Year 1983	60,598	110,502	1.82
October 1983	7,259	12,982	1.79
November 1983	2,160	2,295	1.06
December 1983	0	0	—
January 1984	2,460	2,835	1.15
February 1984	9,487	16,883	1.78
March 1984	7,400	12,573	1.70
April 1984	7,092	12,029	1.70
May 1984	0	0	—
June 1984	11,844	19,637	1.66
July 1984	11,391	18,281	1.60
August 1984	7,763	12,410	1.60
September 1984	19,454	33,476	1.72
October 1984	25,176	45,834	1.82
November 1984	2,712	4,068	1.50
December 1984	3,335	4,784	1.43

Source: U.S. Department of Commerce data.

Table 2

U.S. IMPORTS FOR CONSUMPTION OF HEADWEAR FROM TAIWAN AND KOREA UNDER TSUSA ITEM 703.0500 INTO THE SEATTLE CUSTOMS DISTRICT, FULL YEAR 1982 AND 1983 AND MONTHLY, OCTOBER 1983-DECEMBER 1984

	Taiwan			Korea		
	Dozens	Pounds	Pounds Per Dozen	Dozens	Pounds	Pounds Per Dozen
Full Year 1982	238,677	267,702	1.12	509,104	705,312	1.39
Full Year 1983	225,846	247,381	1.10	455,540	586,400	1.29
October 1983	17,514	20,165	1.15	28,644	36,220	1.27
November 1983	22,029	24,757	1.12	57,937	77,263	1.33
December 1983	25,208	26,312	1.04	21,490	29,209	1.36
January 1984	25,302	36,902	1.46	29,722	45,124	1.52
February 1984	216	240	1.11	30,100	40,684	1.35
March 1984	7,839	8,299	1.06	27,280	37,474	1.37
April 1984	10,383	17,562	1.69	62,207	108,480	1.74
May 1984	26,376	41,795	1.58	53,568	96,244	1.80
June 1984	11,033	17,428	1.58	51,592	94,905	1.84
July 1984	17,463	27,687	1.59	65,402	120,069	1.84
August 1984	29,354	45,493	1.55	47,724	87,915	1.84
September 1984	7,241	10,159	1.40	44,488	81,088	1.82
October 1984	0	0	—	25,828	45,190	1.75
November 1984	6,036	10,134	1.68	39,386	63,552	1.61
December 1984	764	1,146	1.50	25,548	47,015	1.84

	All Other Countries		
	Dozens	Pounds	Pounds Per Dozen
Full Year 1982	5,316	12,227	2.30
Full Year 1983	545	947	1.74
October 1983	0	0	—
November 1983	124	298	2.40
December 1983	0	0	—
January 1984	408	612	1.50
February 1984	0	0	--
March 1984	0	0	—
April 1984	0	0	—
May 1984	0	0	—
June 1984	0	0	—
July 1984	2,639	4,858	1.84
August 1984	144	231	1.60
September 1984	2,000	3,000	1.50
October 1984	3,459	4,456	1.29
November 1984	570	855	1.50
December 1984	0	0	—

Source: U.S. Department of Commerce data.

Chart 1

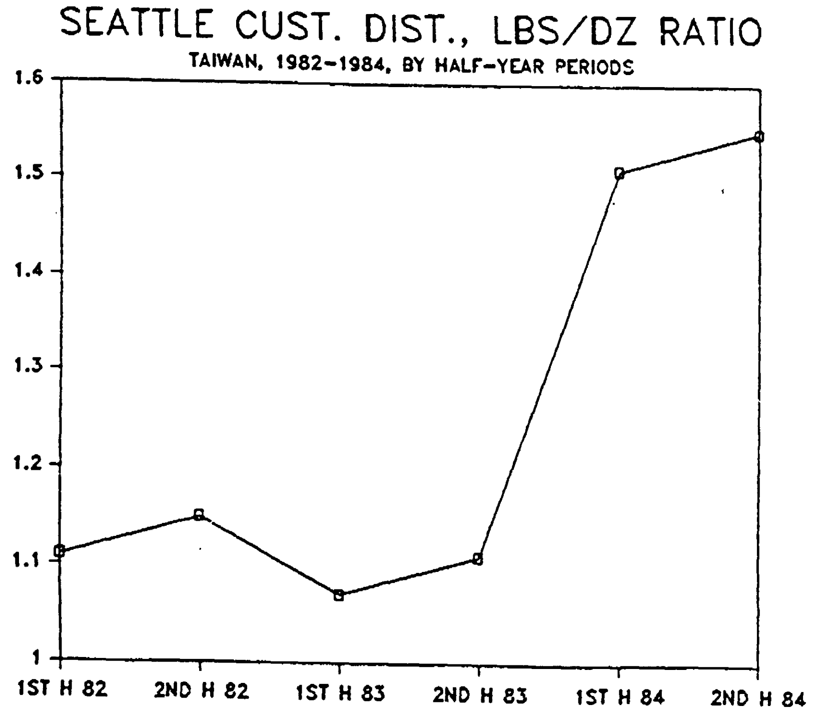


Chart 2

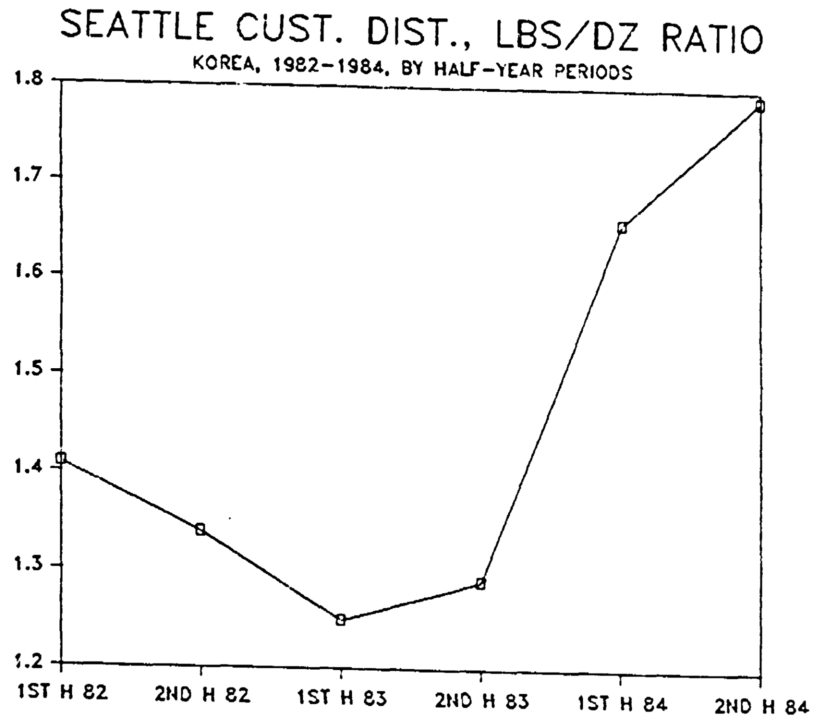


Chart 3

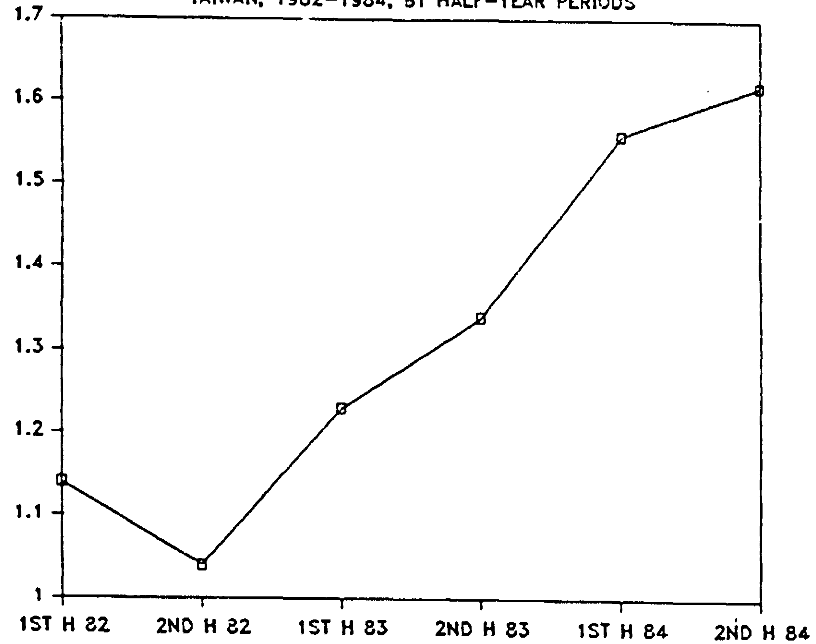


Chart 4

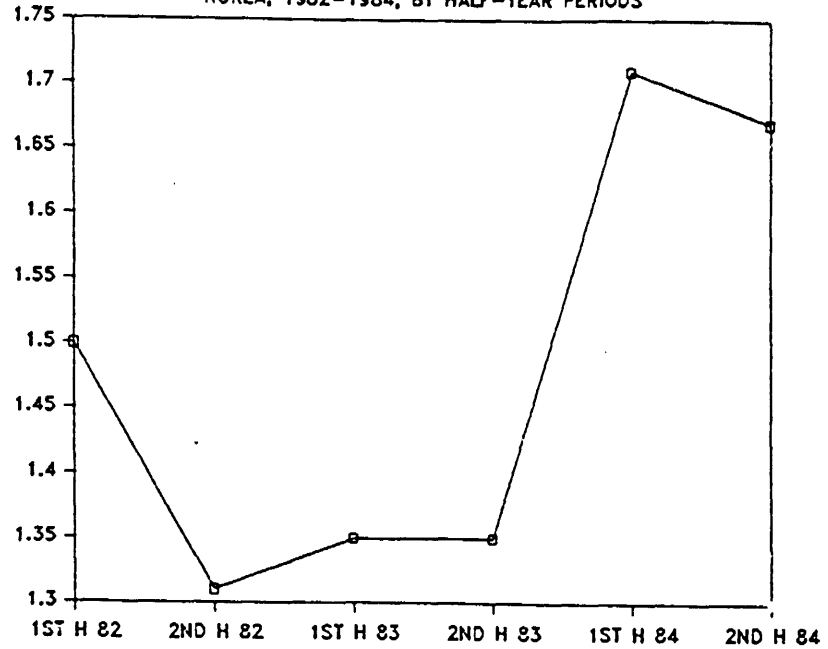


Table 3

U.S. GENERAL IMPORTS OF MAN-MADE FIBER HEADWEAR, KNIT OR WOVEN, IN PART OF BRAID, 1/ FROM THE PHILIPPINES, ANNUALLY 1979-1984 AND FIRST QUARTER 1984 AND 1985

(in thousands of dozens)

1979	55
1980	51
1981	29
1982	180
1983	312
1984	565
Jan.-Mar. 1984	93
Jan.-Mar. 1985	207

1/ 1979-1984: TSUSA item 703.0500; 1985: TSUSA items 703.0510, 703.0520, 703.0530, 703.0540, 703.0550, and 703.0560.

Source: U.S. Department of Commerce data.

Table 4

U.S. GENERAL IMPORTS FROM TAIWAN, KOREA, AND THE PRC OF COTTON HEADWEAR, 1/ ANNUALLY 1981-1984 AND FIRST QUARTER 1984 AND 1985

(in dozens)

	Taiwan	Korea	PRC	Hong Kong	Other Countries	Total
1981	5,154	649,369	348,966	271,380	77,185	1,352,054
1982	44,426	993,385	517,110	326,993	54,387	1,936,301
1983	576,826	961,033	766,701	454,528	137,717	2,896,805
1984	1,218,404	1,223,470	1,397,338	515,384	92,289	4,446,885
Jan.-Mar. 1984	227,239	276,807	390,273	181,376	33,444	1,109,139
Jan.-Mar. 1985	465,065	556,325	488,243	202,252	15,381	1,727,266

1/ TSUSA items 702.0600 and 702.1200.

Source: U.S. Department of Commerce data.

APPENDIX A

CHRONOLOGY OF EVENTS REGARDING UNDERSTATEMENT OF VISA WEIGHTS FOR U.S. IMPORTS OF MAN-MADE FIBER HEADWEAR FROM TAIWAN AND KOREA

February 1984 -- Domestic headwear industry representatives informed Economic Consulting Services Inc. (ECS) that several shipments of man-made fiber headwear from Taiwan, which are subject to specific quota restraints, were being held up in the U.S. Customs Office in Seattle due to significant understatement of the visa weight. Since the quotas are stated in pounds, such understating would allow headwear to be shipped in quantities above the legal limits; therefore, this problem posed an urgent concern for the domestic headwear industry.

February 1984 -- ECS contacted Ms. Lois Fields of the Seattle Customs Office, who confirmed that a problem with understated visa weights had recently become apparent with respect to man-made fiber headwear entering the Seattle Customs District from Taiwan. Ms. Fields indicated that the Seattle Customs Office, which was the first to spot this problem, sent notification to all of the other Customs Offices concerning the appearance of this problem, according to standard Customs procedures.

February 1984 -- Following the conversation with Mrs. Fields in Seattle, ECS contacted Mr. Herman Davis of the New York Customs Office because industry sources indicated that this port was another area where this problem was occurring. Mr. Davis confirmed that he had received notification of the problem from the Seattle Customs Office and that his office

had discovered shipments of man-made fiber headwear from Taiwan with understated visa weights in recent weeks. Both Mr. Davis and Ms. Fields indicated that they would continue to hold up any shipments having understated visa weights. March 2, 1984 -- The Headwear Institute of America (HIA) sent letters to Ambassador Richard Imus, Chief Textile Negotiator of the Office of the United States Trade Representative and to Mr. Walter C. Lenahan, Deputy Assistant Secretary, Office of Textiles and Apparel, U.S. Department of Commerce, informing them of the problem of understatement of visa weights. These letters detailed the contacts to date that had been made with Customs personnel and expressed the concern that the understated visa weights were allowing the circumvention of existing quotas on man-made fiber headwear. Also, the fears were expressed that the full extent of the problem had not yet been realized and that the discovery of the problem in early 1984 brought into question the count of imports from Taiwan charged against the restraint levels in 1982 and 1983. At this time, HIA also reiterated its concern regarding surging imports of cotton headwear, which represents to a large extent diversion to avoid the man-made fiber headwear quotas. In conclusion, a request was made that an investigation be initiated to determine the extent of understating of visa weights in 1982 and 1983 and that the 1984 quota levels be reduced by the amount of excess shipments found. A request for calls on cotton headwear was also reiterated.

March 28, 1984 -- ECS made a follow-up call to Ms. Lois Fields of the Seattle Customs Office. Ms. Fields indicated that the Customs policy of basing visa weights on the total weight of the imported merchandise, rather than just the weight of the textile materials included, was longstanding and was not the result of any recent ruling or policy change. Furthermore, she stated that understated visa weights had become a problem with man-made fiber headwear entering from both Taiwan and Korea.

March 28, 1984 -- ECS contacted Ms. Holly Marshall of the Los Angeles Customs Office and learned that man-made fiber headwear from Taiwan and Korea entering through the Los Angeles Customs District also had understated visa weights. Ms. Marshall indicated that, at that time, virtually all of this man-made fiber headwear entering Los Angeles from Taiwan was being held up due to the problem of understated visa weights. Ms. Marshall also indicated that their concerted efforts to catch this problem began on March 9, following notification of the problem from the Seattle Customs Office.

April-May 1984 -- ECS, on behalf of HIA, maintained telephone contact with Department of Commerce personnel to monitor progress toward resolution of the problem concerning understated visa weights. Although the practice had been detected and halted due to the diligent work of the U.S. Customs Service, the primary concern of the domestic

industry at the time was that some action be taken to rectify the overshipping of man-made fiber headwear covered by quotas which undoubtedly occurred in earlier years, particularly 1982 and 1983. No action had yet been taken.

June 19, 1984 -- ECS wrote to Commerce personnel at the Office of Textiles and Apparel, U.S. Department of Commerce, who were at that time attempting to quantify the overshipments of headwear from Taiwan and Korea which had occurred in 1982 and 1983 as a result of visa weight understatement. This letter included a copy of a June 1, 1984 telex from Young An, the major Korean cap producer, detailing the quota shortages it was experiencing as a result of the U.S. Customs Service's enforcement of proper visa weights on man-made fiber headwear. Figures on pounds per dozen ratios were also included, based on official Department of Commerce trade data, for imports under TSUSA item 703.0500 from Taiwan and Korea into the Seattle and Los Angeles Customs Districts. These data clearly showed that, in 1983, shipments of man-made fiber headwear from Taiwan and Korea into these two Customs Districts had visa weights understated from 22 percent to 35 percent. HIA urged that those percentages be applied to actual imports from Taiwan and Korea in 1983, and that the resulting absolute quantities be deducted from the 1984 quota levels in order to compensate for overshipments in 1983 as a result of the understated visa weights.

<u>July 1984</u> -- The industry learned that Commerce had completed its internal study of visa weight understatement since 1982, but that no decision as to what action should be taken had been reached.

<u>August 1984</u> -- The industry was told by government officials that, as of yet, no adequate proof of visa weight understating in earlier years had been obtained.

<u>August 16, 1984</u> -- The domestic industry began to contact members of CITA and Congressional representatives urging action to resolve the visa weight understatement problem.

<u>September-October 1984</u> -- Responses to letters were received from CITA members, indicating that they were aware of the visa weight understatement problem and were working on a resolution. All of the responses indicated that with respect to current shipments, proper weights were now being charged. However, the industry's main concern was compensation for overshipments in earlier year. Letters from Ambassador Richard Imus at USTR indicated that he had received on August 20, 1984 the Commerce Department's initial analysis of man-made fiber headwear imports. However, USTR requested additional information which it felt was necessary to obtain prior to the start of any formal consultations. In a letter of October 31, 1984, Commerce indicated that it was still working with the U.S. Customs Service to determine the volume of shipments received in 1982 and 1983 which were not correctly charged to agreement levels.

<u>November 26, 1984</u> -- ECS had further telephone conversations with Commerce and Customs officials in Washington, who indicated that their investigation was proceeding.

<u>Early January 1985</u> -- ECS was assured by Commerce officials that conclusion of their investigation was imminent and that work was proceeding rapidly.

<u>February 8, 1985</u> -- ECS learned from Commerce officials that their investigation was not yet complete.

<u>February 25, 1985</u> -- ECS learned from Commerce officials that their investigation of the understating problem had been completed and that it would soon be the subject of internal discussions.

<u>February 28, 1985</u> -- Domestic industry representatives met with their Congressmen and Senators to make known their concerns regarding the understating problem and to ask their representatives to contact CITA members regarding the problem.

<u>March 1, 1985</u> -- Domestic industry representatives met with officials of the Department of Commerce and the Office of the United States Trade Representative to express their concerns regarding the problem of understated visa weights on man-made fiber headwear from both Taiwan and Korea. The U.S. Government officials assured the industry representatives that their study of the understating problem, based on documents supplied by the U.S. Customs Service, was complete and that the matter would soon be discussed by CITA.

March 5, 1985 -- The domestic industry learned that CITA members met and that apparently all members were satisfied by the evidence of understated visa weights compiled by the Customs Service and the Department of Commerce.

Mid-March - early April -- Numerous Congressmen and Senators wrote to CITA members expressing their concern with the understating problem and the urgent need to charge the full amount of the understating against the current year's quota.

April 16-22, 1985 -- Consultations were held in Washington, D.C. with the Taiwanese, at which the understating problem was discussed.

May 9, 1985 -- The results of the April consultations were published in the Federal Register. No mutually satisfactory conclusion was reached, so the U.S. Government unilaterally decided to charge 750,064 pounds to the 1985 restraint limit, pending any different solution which could be reached in further consultations scheduled for May 20, 1985.

May 31, 1985 -- The industry was told by USTR officials that a mutually satisfactory agreement had been reached on the understating issue at the May 20 negotiations. Furthermore, the industry was told that the outcome was the same as that announced in the May 9 Federal Register notice.

June 10, 1985 -- The domestic industry learned from sources in Taiwan that CITA had decided to allow the 750,000 pounds of overshipped headwear to be charged in three equal amounts of 250,000 pounds each over the next three years, rather

than charging the whole amount to the 1985 quota, as CITA originally decided.

Present -- The domestic headwear industry, following the incredibly long delay between the identification of the problem and its resolution, is outraged at the end results of the negotiations with the Taiwanese. A penalty for overshipments allocated over three years is virtually painless for the Taiwanese, who have apparently never even contested the fact that they were engaged in fraudulent shipments. Furthermore, with respect to Korea, to date the U.S. Government has taken no action to compensate for the overshipment beyond legally allowed quota levels which occurred due to understated visa weights, even though the problem is just as serious as it was with Taiwan.

APPENDIX B

Western Union

6/1/84 ITT

266 ATTN ESSS....

AS YOU KNOW WELL, RECENT VISA WEIGHT SHORTAGE PROBLEMS OF TAIWAN HEADWEAR CAUSED U.S. CUSTOMS OFFICE CLAIMING VISA WEIGHT SHD BE THE TOTAL WEIGHT DEFINITELY CONTAINING ACCESSORY WEIGHT.
THIS U.S. CUSTOMS POLICY DRIVING   CONFRONTING QUOTA SHORTAGE SITUATION BY APPROXIMATELY 35 PERCENT, ALSO UNABLE SHIP POLYESTER GOODS ON OR AFTER EARLY JULY, THIS YEAR, VIEW OUR POLYESTER QUOTA BEING EXHAUSTED COMPLETELY BY END JUNE.

IN THIS CASE, OUR ALL CUSTOMERS BUSINESS BEING HURT CONSIDERABLY.
WHEREFORE   BEEN DEVELOPING NEW FABRIC MATERIAL, NAMELY C.V.C. JERSEY SINCE SEPTEMBER, LAST YEAR, ALSO SUCCEEDED FORTUNATELY.
CONSEQUENTLY   ABLE SUPPLY C.V.C. JERSEY CAP IN PLACE OF POLYESTER JERSEY GOODS FROM AROUND MID JULY, AND THIS MATERIAL SAMPLE GOODS BEING SENT WITHIN NEXT WEEK.

OF COURSE, WILL SUPPLY THIS GOODS BASIS SAME PRICES AS POLYESTER GOODS, EVEN THOUGH THIS FABRIC COST HIGHER BY APPROX 40 PERCENT THAN THE POLYESTER MATERIAL, WHICH LOSS BEING ABSORBED BY   .

MEANTIME PLS NOTE THE APPEARANCE OF C.V.C. JERSEY IS ALMOST SAME AS POLYESTER MATERIAL, ALSO THEIR SPECIAL TEXTURE WILL GUARANTEE THE SUPERIOR QUALITY THAN POLYESTER, WITH PLAYING SAME ROLL AS POLYESTER GOODS IN PURSUING OF PRINTING, SUBLIMATION, AND OTHER PURPOSES.

IN THIS CONNECTION,   SURE THIS C.V.C. JERSEY GOODS BRING ABOUT CONSIDERABLE BETTER SELLING IN YOUR MARKET THAN CURRENT POLYESTER ONES.

PLS ADV SOONEST POSSIBLE UPON RECEIPT OUR SAMPLE GOODS.

REGARDS
REPLY VIA ITT

BEST AVAILABLE COPY

APPENDIX C

DOMESTIC HEADWEAR INDUSTRY PLANT CLOSINGS IN PAST YEAR

Company	Location
Hats and Caps	
Vendome Headwear Inc.	New York
Sheiner & Blum Cap Corp.	New York
Henschel Manufacturing Co.	Illinois
International Hat Co. (4 plants)	Missouri
Langenberg Hat Co. (2 plants)	Missouri
Caps Only	
Kroll Cap Corp.	New York
Imperial Caps, Inc.	Colorado
Pioneer Hat Co. (3 plants)	Missouri
Swingster	Kansas
J. A. Miller Cap Co.	Minnesota
Malrov-United Hat and Cap Co.	Minnesota

INVICTA GROUP INDUSTRIES PTY. LTD.

REGISTERED & HEAD OFFICE

PJN/JSP

3rd July, 1985.

Ms. Betty Scott-Boom,
Committee on Finance,
Room SD-219,
Dirksen Senate Office Building,
WASHINGTON D.C. 20510. U.S.A.

Dear Madam,

RE: HEARING ON S.680, TEXTILE & APPAREL TRADE ENFORCEMENT ACT OF 1985
BILL NO. H.R.1562

We wish to make a written statement concerning the above bill as due to the distance involved an oral presentation will not be made. We are an Australian company manufacturing wool carpets and exporting these to the United States of America. We have been in the American market place since 1979 and all our local personnel are citizens of the United States.

We object most strongly to the bias in the Bill on the following grounds:-

Page 2, Line 7-9 Disruption if any in the carpet industry has come from the cheap imports from Belgium and Holland both members of the E.E.C. Imports from these sources has quadrupled over the last two years.

Page 2, Line 10 Due to the interest in wool carpets several American carpet mills have added or increased staff - jobs have actually increased. Examples of these are Horizon Carpets, Shaw Industries, Karastan and Stratton Industries.

Page 3, Line 16 Wool carpets in 1979 represented 1% of the total U.S. market for floorcoverings - today that share of the market is 2.1%.

/2..........

SYDNEY CARPET OFFICE 86A Ad... Street Auburn North N.S.W. 2144 (02) 648 5900 Telex AA21...
BRISBANE CARPET OFFICE 90 Boundary Street Spring Hill Brisbane 4000 (07) 83... 40... Telex AA43088 VICQLD

cont.,

Growth rate is not 19% per annum as indicated but more in the order of 6.8% per annum.

Page 5, Line 5-7 Australia is a minority exporter of textile products to the U.S., particularly in floorcoverings and should be accorded special consideration similar to that shared by the European Economic Community or Canada.

Page 6, Line 16-19 Raw wool is a world product and as such its price is determined by the supply and demand on the open market. Imports of woollen products would not affect the price of raw wool - in actual fact increased demand world wide for woollen products would effectively increase the demand for raw wool and consequently <u>increase</u> the price of this material.

Page 7, Line 3-5 The domestic market for woollen carpets has increased in the United States from 1% in 1979 to 2½% in 1985. U.S. companies have actually increased their production of woollen carpets over the last three years. Any disruption which may have occured was due to larger imports from E.E.C. companies.

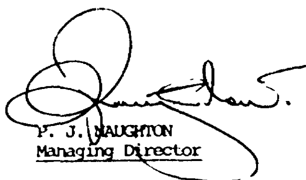
Page 7, Line 15-25 The Wool Bureau has publicly announced a amount of US$40 million will be given to U.S. based manufacturers over a period of 5 years commencing 1984 to assist in the transfer of equipment to wool carpet manufacturing. This was announced in the trade magazine "Floorcoverings Weekly" in early 1984. Australian wool carpets do not compete in the lower end of the market place. The main competition for U.S. based manufacturers comes from Belgium, Holland and Denmark, who are at present flooding the U.S. market with cheap priced woollen mixture berbers.

/3..........

Page 11, Definitions To include woollen carpets in the same category as textile apparel is to broad a classification. Most apparel of wool coming into the U.S. market comes from Hong Kong, Taiwan, Japan and Korea. Australia supplies a minority of woollen goods into the U.S. market and carpets should be included in the category of floorcoverings - not apparel.

We are deeply concerned at the implications of Bill H.R.1562 concerning our products and the effect it will have on our employees in the U.S., as well as the livelihood of our agents in each State. We seek an amendment to the bill to exclude woollen carpets from the bill on the grounds that we are not disrupting the carpet industry in the United States.

Yours faithfully,
INVICTA GROUP INDUSTRIES PTY. LTD.



P. J. NAUGHTON
Managing Director

The Senate

FOURTH NORTHERN MARIANAS COMMONWEALTH LEGISLATURE
OFFICE OF THE SENATE REPUBLICAN COALITION

P.O. Box 1909
Saipan, Mariana Islands 96950

Senator Olympio T. Borja
Chairman, Senate Republican Coalition

WRITTEN STATEMENT FOR THE

RECORD IN THE SUB-COMMITTEE

ON INTERNATIONAL TRADE HEARING

ON S. 680, TEXTILE AND APPAREL TRADE

AND ENFORCEMENT ACT OF 1985

ROOM SD-219

DIRKSEN SENATE OFFICE BLDG.

WASHINGTON, D.C. 20510

HEARING DATE: JULY 15, 1985

The Senate

FOURTH NORTHERN MARIANAS COMMONWEALTH LEGISLATURE
OFFICE OF THE SENATE REPUBLICAN COALITION
P.O. Box 1909
Saipan, Mariana Islands 96950

Senator Olympio T. Borja
Chairman, Senate Republican Coalition

July 2, 1985

Senator Bob Packwood
Chairman
Senate Committee on Finance

MR. CHAIRMAN:

THANK YOU FOR THIS OPPORTUNITY TO COMMENT ON S. 680 FROM MY PERSPECTIVE IN THE NORTHERN MARIANA ISLANDS, ONE OF THE INSULAR POSSESSIONS OF THE UNITED STATES DEFINED IN THIS BILL AS A "FOREIGN COUNTRY".

I REPRESENT MY ELECTORATE IN OPPOSING THE INCLUSION OF THE INSULAR POSSESSIONS IN S. 680, AND I HEREBY REQUEST THE SUB-COMMITTEE CHAIR TO SERIOUSLY CONSIDER OMITTING ALL INSULAR POSSESSIONS FROM THE BILL.

THE PEOPLE OF THE COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS WHOM I REPRESENT ARE PARTICULARLY OPPOSED TO THE "FOREIGN COUNTRY" DEFINITION BECAUSE THE COVENANT AGREEMENT BETWEEN THE CNMI AND THE U.S., AS WELL AS THE HEADNOTE 3(a) INTENTION, CLEARLY PROVIDES FOR THE OPPORTUNITY TO STRIVE FOR ECONOMIC SELF-SUFFICIENCY THROUGH DUTY-FREE AND QUOTA-FREE MANUFACTURING OF GOODS IN THE CNMI FOR DISTRIBUTION IN THE U.S. AS WRITTEN, THE BILL STRIPS THE CNMI AND THE OTHER INSULAR POSSESSIONS OF THAT OPPORTUNITY. IF OUR ISLANDS ARE DENIED THE ADVANTAGES OF THE COVENANT AGREEMENT AND THE HEADNOTE 3(a) PROVISION THROUGH THE PASSAGE OF S. 680 AS WRITTEN, THEN THE CNMI IS PLACED ON A VERY DIFFICULT ECONOMIC POSITION WHICH ONLY COMPLICATES OUR UNIQUE GEOGRAPHIC POSITION IN RELATIONSHIP TO THE CONTINENTAL U.S.

Sen. Bob Packwood
July 2, 1985
Page two

WE HAVE BEEN VERY PATIENT WITH THE OBVIOUS HESITANCY OF THE U.S. TO ACT WITH DETERMINATION IN TERMS OF ECONOMIC DEVELOPMENT IN THE INSULAR POSSESSIONS, HOWEVER I BELIEVE THAT IT IS NOW TIME FOR OUR VOICES TO BE LISTENED TO.

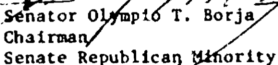
WE DESIRE TO BECOME SELF-SUFFICIENT AND TO BECOME AND ACTIVE AND VITAL PARTNER WITH THE U.S., NOT TO REMAIN A WARD OF AMERICA, BUT WE CAN DO LITTLE IF WE ARE SHACKLED BY ECONOMIC CONSTRAINTS AND PENALIZED BECAUSE WE ARE LOCATED AT THE AMERICAN DEFENSE PERIMETER. A LOCATION, BY THE WAY, WHICH HAS MADE US SO ATTRACTIVE AND VITAL TO AMERICA DURING THE PAST 41 YEARS.

S. 680 IS AN ECONOMIC SHACKLE AND A PENALTY IF THE CNMI, AND THE OTHER INSULAR POSSESSIONS, REMAIN A PART OF THE BILL.

I RESPECTFULLY SUGGEST THAT THE SUB COMMITTEE ON INTERNATIONAL TRADE REVIEW THE BILL CAREFULLY AND CONSIDER THE OMISSION OF THE INSULAR POSSESSIONS ALTOGETHER. THE CNMI IS NOT A "FOREIGN COUNTRY", AND THE PEOPLE HERE DO NOT WANT TO LOSE THE OPPORTUNITIES AFFORDED UNDER HEADNOTE 3(a).

THANK YOU.

Hafa Adai,



Senator Olympio T. Borja
Chairman
Senate Republican Minority

cc: Washington Rep. Ben Blaz
Governor Pete P. Tenorio
Marianas Washington Rep. Froilan Tenorio
Attorney General Rex Kosack
Cong. Ben Fitial, Chairman Federal Law Commission

North Carolina Department of Commerce
430 North Salisbury Street • Raleigh, North Carolina 27611

James G. Martin, Governor   Howard H. Haworth, Secretary

July 15, 1985

**STATEMENT
BY
JAMES G. MARTIN
GOVERNOR OF NORTH CAROLINA
TO
TRADE SUBCOMMITTEE OF
SENATE FINANCE COMMITTEE
SENATE BILL 680**

As Governor of North Carolina I am very concerned about the job losses in the textile and apparel industries not only in the State of North Carolina but for the entire nation. North Carolina is the leading apparel and textile state in the nation. Approximately 300,000 of our citizens work directly in the 2,000 textile and apparel firms of our state. These are dedicated and hard working tax paying citizens who are producing quality U. S. made products. These industries are severely impacted and these individuals' economic livelihood is being totally disrupted because of unfair competition which is beyond their control. As those textile and apparel jobs leave our state and nation for overseas markets they disrupt the personal lives and the economic well-being of our society.

Some 21,042 fewer textile and apparel jobs existed in April, 1985, as compared to April, 1984. For example, the 21,042 job losses within the last year will cut the textile and apparel payrolls by more than $254 million in North Carolina alone. Moreover, the withdrawal of these pay checks from our economy will mean job losses in other sectors as well. The dry cleaners, the gasoline stations, the grocers, and hundreds of other businesses large and small that serve our textile and apparel families will also feel the loss.

In the end, we cannot hope to estimate the total economic losses that are occuring daily to the import-related cutbacks in our apparel and textile industries. Nor can we accurately assess the tremendous emotional pain and anguish that is now being and will in the future continue to be felt by those unable to meet the daily needs of their families.

An Equal Opportunity / Affirmative Action Employer

Statement of Governor James G. Martin, cont'd.
July [illegible], 1985
Page Two

As a former member of Congress, I fully understand that this subject of international trade is a very complicated one. However we must give our textile and apparel industry an opportunity to regain their competitive footing and remain one of our essential [illegible] industries. We must act to limit the magnitude of the costs our society incurs from unbounded imports. The Textile and Apparel Enforcement Act of 1985 is desperately needed to help sustain these two basic and vital industries.

Respectfully Submitted,

Jim Martin

James G. Martin

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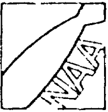

NECKWEAR ASSOCIATION OF AMERICA, INC
151 LEXINGTON AVENUE NEW YORK, N.Y 10016 SUITE 2F 212/683-8454

STATEMENT OF THE

NECKWEAR ASSOCIATION OF AMERICA, INC.

to the

SUBCOMMITTEE ON INTERNATIONAL TRADE
COMMITTEE ON FINANCE
UNITED STATES SENATE

on

S. 680

THE TEXTILE AND APPAREL TRADE ENFORCEMENT ACT OF 1985

July 15, 1985

SUMMARY STATEMENT OF

NECKWEAR ASSOCIATION OF AMERICA, INC.

While the textile/apparel industry as a whole has some protection, as imperfect as it may be, under the Multifiber Arrangement, the neckwear industry has virtually no protection from imports. More than half of the neckties imported are of materials not covered by the MFA, such as silk. And much of the remaining imports of wool or man-made fiber are from countries with which the United States does not have bilateral agreements, generally developed countries such as Italy. Further, while the average tariff rate last year on clothing imports was in excess of 21 percent, the average duty on necktie imports was just 12 percent.

In 1980, imports had about 4 percent of our market. By 1984, imported neckties had captured almost 20 percent of our market. While overall textile/apparel imports increased by 32 percent in 1984, neckwear imports increased by 64 percent over the same period.

Necktie imports from Italy present a particular problem. Italy is the largest supplier of neckties to the U.S. market accounting for 61 percent of total necktie imports. Imports from Italy accounted for a major portion of the growth in necktie imports between 1983 and 1984, and imports from Italy rose by 68.3 percent during this period.

With specific regard to the MFA, we seek coverage under the Agreement for products that compete directly with those of cotton, wool and man-made fiber, namely silk, other vegetable fibers, and blends not covered by the MFA, as textile products of non-MFA materials compete directly with cotton, wool or man-made fiber products. Moreover, for the first time we are seeing more and more imports from the developing countries. Unless action can be taken, when appropriate, against rapidly increasing imports, the intent of the MFA is easily undermined.

Unless the operation of the MFA can be vastly improved, we would certainly be in favor of scrapping the MFA for quota legislation. But such coverage must extend to all textile products and include developed as well as developing countries. In this latter regard, S.680, the Textile and Apparel Trade Enforcement Act of 1985, as currently written, does not provide a solution to our industry's import problem. We would hope that if the Committee takes action on this bill, that it would make this important change, otherwise S.680 would benefit our industry very little.

STATEMENT OF

NECKWEAR ASSOCIATION OF AMERICA, INC.

Before the
Subcommittee on International Trade
Committee on Finance
United States Senate
On S.680

July 15, 1985

The Neckwear Association of America is the trade association for domestic manufacturers of neckwear. Our businesses are concentrated in New York, which accounts for more than one-third of industry employment, and in Louisiana, New Jersey, Missouri, Pennsylvania, Texas, Michigan, Massachusetts, North Carolina and California.

Although the neckwear industry is an integral member of the textile/apparel sector and shares many of its characteristics, neckwear is distinguished from most of the textile and apparel sector by its lack of protection from imports. While the textile/apparel industry as a whole has some protection, as imperfect as it may be, under the Multifiber Arrangement, the neckwear industry has virtually no protection from imports. Only a few of our products are of cotton, wool, or man-made fiber, the products covered by the MFA. More than half of the neckties imported are of materials not covered by the MFA, such as silk. And much of the remaining imports of wool or man-made fiber are from countries with which the United States does not have bilateral agreements, generally developed countries such as Italy. Further, while the average tariff rate last year on

clothing imports was in excess of 21 percent, the average duty on necktie imports was just 12 percent.

This has left the necktie industry particularly vulnerable to imports. Producing neckties requires much the same skills and material requirements as does the production of other sewn products. Production start-up costs are minimal. Any country with an established apparel industry can quickly become a producer and exporter of neckties.

Conditions in our industry are rapidlv deteriorating as imports increase at an alarming rate. In 1980, imports had about 4 percent of our market. By 1984, imported neckties had captured almost 20 percent of our market (See Table 1). While overall textile/apparel imports increased by 32 percent in 1984, neckwear imports increased by 64 percent over the same period.

The tremendous growth in imports has caused a substantial loss in market share held by U.S. producers. In 1984 we had projected a healthy growth in domestic consumption of neckties. We had expected domestic production to share in at least some of that growth. But, earlier predictions that domestic necktie shipments would grow by 15 percent in 1984 (compared to import growth of 64 percent) were far too optimistic due to a very soft fall and Christmas selling period. Domestic industry sales remained static or declined slightly in 1984 compared to 1983 levels while, on the other hand, imports jumped by 64 percent. Imports as a percent of

domestic shipments approached 24 percent in 1984 (see Table 2), or about double the 15 percent import-to-domestic shipment ratio in 1983.

Necktie imports from Italy present a particular problem. Italy is by far the largest supplier of neckties to the U.S. market (accounting for 61 percent of total necktie imports); imports from Italy grew from 204,000 dozen in 1981 to 565,000 dozen in 1983 and then jumped to 951,000 dozen in 1984. Imports from Italy accounted for a major portion of the growth in necktie imports between 1983 and 1984, and imports from Italy rose by 68.3 percent during this period. More than half of the necktie imports from Italy consisted of silk neckties. Many of these silk neckties from Italy are being wholesaled in the United States for as little as $3.50 per tie. The consumer, however, is not benefitting from these rock bottom prices, since the stores are generally retailing these ties as "specials" at $12.50 - $15 apiece. Few domestically-produced ties of any fabrication can compete with that price.

The neckwear industry has available to it few options to fight the import problem. Some have suggested that the industry file an "escape clause" petition to get relief from imports by demonstrating that the industry has been seriously injured by increasing imports. There are some very valid reasons why we are reluctant to pursue this route. It would take eight months between the time we would

file such a case and a final decision were to be reached, during which time imports, even at current rates, would be swamping our market. It simply takes too long to get needed action in the face of rapidly increasing imports. Further, recent decisions by the International Trade Commission and the President, where five of the last six escape clause cases resulted in no relief to the petitioning industry, leave us concerned about what results would be reached in the case of neckwear.

The neckwear industry is trying another route to help our industry stay competitive with imports. Pending before the House Ways and Means Committee is a bill, H.R. 209, to return the duties on necktie imports to the levels in effect as of January 1, 1981, for a period of five years. This Committee gave some consideration to this measure in the last Congress. Our industry strongly supports enactment of this temporary legislation. We believe that this temporary respite from the tremendous import growth will prevent imports from overwhelming domestic necktie producers. Because the import surge coincided with the tariff cuts, a return to higher tariff levels will alleviate the pressure of ever-increasing imports.

We would certainly like to see this legislation pass, but the neckwear industry is also looking further into the future. We have been asking ourselves what else can be done. We think that a logical step would be to seek

coverage under the MFA for products that compete directly with those of cotton, wool and man-made fiber, namely silk other vegetable fibers, and blends not covered by the MFA. All neckwear should logically be covered under the international textile agreement. Clearly, textile products of non-MFA materials compete directly with cotton, wool or man-made fiber products. A cheap silk necktie often sells at a price comparable to a domestically-produced polyester necktie.

Beyond this suggestion that neckwear should be covered more completely under the MFA, we would also note that the neckwear industry has a stake in seeing that the MFA is effective. While there have been no "calls" relating to wool or man-made fiber neckties under the current bilateral agreements, for the first time we are seeing more and more imports from the developing countries. Unless action can be taken, when appropriate, against rapidly increasing imports, the intent of the MFA is easily undermined. Indeed, we asked the Committee for the Implementation of Textile Agreements (CITA) in November 1984 to take action against imports of man-made fiber neckties from Korea. Monthly our industry is seeing imports from Korea growing larger and larger, but to date no call has been made.

Unless the operation of the MFA can be vastly improved, we would certainly be in favor of scrapping the MFA for quota legislation. But the quota coverage must extend to

all textile products, especially silk, and it must include developed as well as developing countries. In this latter regard, S.680, the Textile and Apparel Trade Enforcement Act of 1985, as currently written, does not provide a solution to our industry's import problem because it excludes the European Communities, and therefore Italy, from quota coverage. We would hope that if the Committee takes action on this bill, that it would make this important change, otherwise S.680 would benefit our industry very little.

Table 1

THE U.S. MARKET FOR NECKTIES, 1980-1984

(in thousand dozen)

	Domestic Shipments 1/	Imports	Exports	Apparent Domestic Consumption	Imports as a Percent of Apparent Domestic Consumption
1980	6,200	268	90	6,378	4.2
1981	5,900	373	121	6,152	6.1
1982	5,700	562	171	6,091	9.2
1983	6,500	948	155	7,293	13.0
1984 (E)	6,500	1,555	190	7,865	19.8

(E) -- Estimated.

1/ Estimated by the Neckwear Association of America, Inc., based on a survey of its members.

Source: Neckwear Association of America, Inc. and U.S. Department of Commerce data.

Table 2

THE RATIO OF U.S. IMPORTS TO U.S. SHIPMENTS OF NECKTIES (IN TERMS OF DOZENS), 1980-1984

(percent)

Year	Percent
1980	4.3
1981	6.3
1982	9.9
1983	14.6
1984 (E)	23.9

-- Estimated.

ource: See Table 1.

National Association of Hosiery Manufacturers

447 S SHARON AMITY RD • CHARLOTTE, NORTH CAROLINA 28211 • TELEPHONE (704) 365-0913

July 18, 1985

The Honorable John C. Danforth
Committee on Finance
Room SD-219
Dirksen Senate Office Building
Washington, DC 20510

Subject: Submission of Written Comments on the Textile/Apparel Trade Enforcement Act of 1985 (S 680)

Hearing: Senate Committee on Finance, Subcommittee on International Trade, Monday, July 15, 1985

Dear Mr. Chairman:

The National Association of Hosiery Manufacturers (NAHM) is a trade association representing the interests of those companies in the United States that produce hosiery products. Our members account for approximately 85% of all the hosiery manufactured in the United States. We are very pleased to have the opportunity to submit written comments expressing our support for S 680.

For the last two consecutive years, the hosiery industry has experienced a growth rate in imports of over 60% in units per year, and this tremendous growth rate continues into 1985. Up until approximately two years ago, the hosiery industry was a net exporter, making a small contribution towards a positive balance of trade for our nation. We witnessed the reversal of this situation in a matter of months to where we are now in a deficit condition. Imports of hosiery products are growing so rapidly that almost each ensuing month sets a new record regarding imports.

The Honorable John C. Danforth
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Our domestic production and shipments stagnated in 1984, and in the first months of 1985 started a significant decline.

Because of this rapidly deteriorating situation, the NAHM Board of Directors adopted a clear-cut position on S 680 at its last meeting. That position is as follows:

NAHM POSITION STATEMENT
ON
THE TEXTILE/APPAREL TRADE ENFORCEMENT ACT OF 1985

"The Multi-Fiber Arrangement (MFA), as amended in 1981, and adopted by the United States Government, was intended to be an international agreement designed to "assist in avoiding disruptive effects in individual markets and on individual lines of production in both importing and exporting countries" involved in textile trade. To date, the Multi-Fiber Arrangement has not been enforced to its fullest extent. NAHM believes that the current Administration has failed to take full advantage of the laws and rules regarding international trade, so as to improve the condition of its domestic textile and apparel industries, including hosiery, despite repeated requests for such assistance by NAHM and other American textile and apparel groups. Inequities and injustices remain within the existing international trade system which harm this country's hosiery manufacturing industry.

"The Textile/Apparel Trade Enforcement Act of 1985 (HR 1562 and S 680) was introduced on March 19, 1985, in an effort to achieve the intended benefits of the MFA, had it been fully en-

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forced by the U. S. Government since 1981. The Act would force the implementation of these benefits, and would promote the economic recovery of the U. S. textile and apparel industries, and their employees. Further, the Act would help prevent further disruption of the U. S. textiles and textile products markets by providing for orderly and non-disruptive growth of imports of textiles and apparel items. It would also create an all-important licensing system for U. S. imports.

"Therefore, without prejudice to additional comments about the proposed renewal of the Multi-Fiber Arrangement, the NAHM believes that the Textile/Apparel Trade Enforcement Act of 1985 should be implemented, and the Association supports its expeditious passage by Congress."

Adopted: April 25, 1985

By: NAHM Board of Directors

We appreciate this opportunity to submit written comments to the Subcommittee. We strongly urge your positive consideration of S 680, and its expeditious implementation. If we can provide any additional information or data regarding the hosiery industry, please do not hesitate to contact me.

Regards,

Sid Smith
President and
Chief Executive Officer

SS/sms

STATE OF NEW YORK
DEPARTMENT OF LABOR
STATE OFFICE BUILDING CAMPUS
ALBANY, N.Y. 12240

LILLIAN ROBERTS

July 18, 1985

The Finance Committee
United States Senate
219 Dirksen Building
Washington, D.C. 20510

Attention: Ms. Betty Scott Boone

Re: Textile and Apparel Trade Enforcement Act

Gentlemen:

The apparel industry is one of New York State's primary manufacturing industries. It has in past years been an important source of jobs in the New York City area. The decline of the industry prompted New York State to study actions to stem the trend. 1981 legislation set up the Commissioner of Labor's Garment Industry Advisory Committee to inform me about common industry problems and to assist in formulating solutions. The Garment Industry Advisory Committee has asked me to call to your attention the impact of the Textile and Apparel Trade Enforcement Act of 1985 on the prospects of New York State's garment workers and the State's economy.

In 1983 apparel imports increased 15% and in 1984 they increased to 21%, causing serious impairment to the industry throughout the United States. Today, at least one of every two garments on store racks is an import. Here in New York State, thousands of factories have been forced to go out of business during the past five years. In domino fashion, 35,000 workers, mostly minorities and women, have lost their source of employment. Many end up recipients of unemployment and welfare benefits from the State, which has already suffered the loss of corporate and individual income tax revenues from the closed down factories. Concomitantly, the burden of making up these lost revenues is shifted to the working taxpayer.

There is a fallacy that consumers benefit from the reduced costs of cheaper imports. This is not so! The additional savings are pocketed by both the importers and the retailer who realize higher profits for themselves and their stockholders.

The Finance Committee -2- July 18, 1985
United States Senate
Att: Ms. Betty Scott Boone

The Garment Industry Advisory Committee has unanimously endorsed passage of the Textile and Apparel Trade Enforcement Act of 1985. I concur that the bill's enactment would be a boon to apparel workers and to New York State employment overall. I ask that you make this expression a part of the record as you consider the provisions of the Textile and Apparel Trade Enforcement Act of 1985 (S. 680; H.R. 1562.)

Sincerely,

Lillian Roberts
Commissioner of Labor

Statement of

National Knitwear and Sportswear Association

before the

Subcommittee on Trade

Committee on Finance

United States Senate
July 15, 1985

On S. 680, the Textile Trade Enforcement Act of 1985

This statement is filed on behalf of the National Knitwear and Sportswear Association (NKSA), a national association representing more than 450 knitwear and sportswear manufacturing and design firms plus more than two hundred supplier company members including producers of yarns, fibers, machinery and other materials and services related to production of knitwear and sportswear. NKSA's membership is diversified, and includes producers of sweaters, knit shirts and blouses, headwear, coordinated knit and woven sportswear, swimsuits, and various accessory products. They are located throughout the United States.

The story of knitwear imports has been reported frequently to the Congress. It continues, with each year adding still more chapters, and heightening the problem. Last year saw still another unfortunate record broken. More than 1,250,000,000 knitted garments were imported into this country. Recent figures indicate again that the brief lull in imports during the first four months of this year

was just that, a brief lull. The surge resumed in May as pipelines cleared of the massive force-feeding of 1984 and retailers again pressed their import programs.

Major knitted products such as sweaters and knitted shirts and blouses remain among the most heavily impacted products in the entire apparel spectrum. Twenty million dozen sweaters and more than forty-seven million dozen knitted shirts and blouses were imported in that one year. The ratios of imports to domestic production, based on available preliminary census bureau data for 1984 were 62.3% for knitted shirts and blouses and 177.8% for sweaters. Headwear imports increased by 21% last year and accounted for a growing share of the domestic market. These examples are just that, highlights of a worsening situation illustrated in the attached charts.

These trends cannot be reversed by technology alone. Our industry has absorbed the latest in computerized electronic knitting equipment. Congress, by passage of duty suspension legislation, has helped the industry acquire these essential machines from foreign sources without payment of duties. (It is unfortunate, and a separate story in itself, that these machines are no longer made in the United States.)

Our industry is technically sophisticated and constantly searching out new developments. A steady stream of international trade exhibitions featuring the latest equipment and all well attended by industry managers and owners testifies to the strength of the

industry's commitment to technological currency. But none of these recent advances has been able to offset the allure of extroadinarily cheap and plentiful labor in this labor intensive area of manufacture.

As has been pointed out in testimony before this Committee and other committees of the Congress, China and other countries which account for the greatest portion of our imports and our import problem pay wages ranging from 10 cents to under $1.00 per hour. Knit apparel products, like others of our total industry, while made with the latest available technology remain highly labor intensive. Technology alone cannot overcome that gap at the present time. Style and fashion can move only so fast.

American workers can work with the best, but not for the least. Better and more effective protection is essential if this industrial sector and these jobs are to be preserved. American knitwear accounts for some 400,000 manufacturing jobs from fibers through yarns into apparel.

As recent surveys have shown, these workers make a tremendous contribution to local, state, regional and the national economy. Two plants in Manchester, New Hampshire and one in Whitefield, N.H. were surveyed recently by our Association. Some one thousand workers are involved in those factories. The numbers are impressive, and should be seen as indicators of what is involved nationwide. The payroll of these factories in 1984 was $12.6 million dollars; the total expenditures by the plants, excluding payroll and fringe benifits,

amounted to $22.6 million dollars; the total household incomes of the people involved--including working spouses--was $20.9 million dollars. The impact of the economic activities on local businesses from auto dealerships to gas stations, from food stores to restaurants was considerable. Congress must think hard about these issues, even as the Administration seems to ignore them in its misguided and distorted attack on S.680.

Many parts of the country are adversely affected whenever a plant is closed. And plants are closing. Each such event involves a loss spread across many people, not just those at the plant.

Congress must deal with the threat to these jobs now through prompt passage of S. 680.

Make no mistake, the American knitwear industry is seriously threatened with each year's erosion of market share, loss of companies and further import penetration. Plants continue to close, in Ohio, in Pennsylvania, and in New England, this year has seen important closings directly related to the import surge. That, unfortunately, is the routine part of this matter. There is more.

New Meaning to "Oversight"

Testimony presented to the Congress earlier this year by representatives of the USTR and the Department of Commerce (Amb. Imus and Dep. Asst. Secy Lenahan), failed to touch on the major development

in the knitwear import market of the past year: the massive surge into the United States of garments produced with blends of fibers calculated precisely so as to exclude the resulting product from covereage under the MFA. These are the ramie-cotton blends, the linen-ramie-cotton blends, the silk-acrylic blends, and so on. While this surge has begun with knitwear, trade information indicates that it will expand rapidly into other constructions. The existing quota program is beimg defeated.

Some ten million dozen garments of these various non-MFA blends were imported in 1984 alone, an increase of 171% over 1983 and fully 383% over the level of 1982. Indeed, some speaking for the retail community have sought to brush the matter aside with the simple but untrue assertion that these products are not produced in the U.S. Both of those important government witnesses' prepared statements ignored this problem. But, it has become too big to be ignored.

These imports of so-called "Non-MFA" products, are growing at a truly formidable rate, and they are concentrated heavily in knitwear, most especially in sweaters. In 1982, imports of these non-MFA sweaters amounted to 530 thousand dozen garments, while in 1983 they were 1.2 million dozen. In 1984, however, they soared to 4.5 million dozen, or an amount equal to more than one third of total sweater imports subject to possible MFA control, or more than twenty-five percent of total sweater imports. Put another way, the MFA does not even reach one quarter of the sweaters being imported.

(And I include here those imported from developed countries against which controls are not typically sought because of their general labor cost and pricing comparability with American-made goods.)

Furthermore, these garments of linen-ramie-cotton blends, those of silk-acrylic blends, and similar constructions compete directly with all cotton and all acrylic or silk garments which are produced in the United States, and which are identical in use and construction with those blended to avoid the quota system established under the MFA. The ramie-cotton sweaters were blended to avoid the quotas on cotton sweaters. They are virtually indistinguishable from all- cotton garments, (indeed, laboratory analysis is required to identify the difference in many cases), sell in the same markets, and thus are directly competitive with the domestically made product. Such imports cause lost sales by domestic cotton growers, yarn spinners and sweater knitters. Dyeing and finishing work is lost. The total effect of these imports is no different from that caused by imports covered by the MFA, and subject to its restraint and anti-market disruption provisions.

But these are not. They come in outside formal quotas. And these non-MFA sweaters are coming almost totally from the major low-wage,low -cost producers whose MFA-covered sweaters and other knitted garments already under import control -- China, Hong Kong, Korea and Taiwan.

In 1984, these four alone accounted for imports of 4.4 million dozen sweaters which fell outside of MFA based controls, or 98% of the total of these non-quota garment imports. Indeed, the volume of these non-MFA sweater imports from the big four foreign suppliers is the equivalent of another giant supplier in the market.

These blended garments were in addition to the massive numbers of MFA type fiber blend garments shipped by those countries and, like those MFA type garments, compete directly with those produced in the U.S. Beyond all doubt, these garments were prepared to respond to the consumer demand for cotton goods. They were not the creatures of a consumer demand for ramie. Indeed, who in the U.S consumer market had ever heard of ramie? Rather than buy all-cotton garments domestically, importers and retail interests sought to continue to exploit the U.S. consumer interest in natural fibers by devising new means to evade existing restraints on cotton garment imports via these ingenious fiber blends and the cheap foreign goods available ex-quota. Their quota avoiding purpose and approach were made clear in their own contemporaneous and widely quoted statements from the trade press.

> "To avoid getting caught in the Hong Kong quota trap, U.S. Company/ is making its holiday and spring sweaters out of a 55/45 ramie/cotton blend."

BEST AVAILABLE COPY

"This season our new yarn is 53% linen, 47% cotton, which is also quota free to your country." (Letter from Swagman (Int'l) Ltd.-a H.K. based company,to Stanly Knitting Mills, Aug. 1983.)

"Structured goods include everything from cotton sweaters blended with linen to avoid restrictive quotas on cotton textiles to...."

"The quota problem in the Orient was our biggest reason for getting into linen,"....I think most people doing business in Hong Kong or Japan are switching to linen. It makes sense."

"The fact that (linen) is a low duty, non-quota fabric made it hard to resist now. Any importer that has any knowledge about doing business in the Far East should be taking advantage of linen." (DNR 9/6/83)

In the words one importer-marketer, "We're going to be ramied to death." He was too close to being right. Four and one half million dozen sweaters alone into the market cannot be ignored under any circumstances. When these garments neatly circumvent an established policy designed to protect domestic workers and firms, to save domestic jobs and economic opportunities, then something is amiss.

When government officials charged with development and enforcement of the textile import program appear before the Congress and fail even to mention the issue in their prepared statements, then something still greater is wrong.

This omission is all the more surprising since the government, speaking through Ambassador Imus had brought the development of this problem formally to the attention of the parties to the MFA at the major review session held in Geneva last October. For Ambassador Imus and Deputy Assistant Secretary Lenahan to comment on the textile import program and its implementation, much less to comment on overall conditions in the domestic industry, without so much as a passing mention of these burgeoning imports of non-MFA garments is, to put it charitably, an "oversight" surely worthy of an "oversight" hearing.

Members of this Committee should be made aware of the situation and why the trade is not covered under the MFA. The situation involved is just one of many that would be remedied by the enactment of S. 680.

The legislative foundation for the MFA is Section 204 of the Agriculture Act of 1956, as amended, which provides in relevant part as follows:

"The President may...negotiate with representatives of foreign governments ...to obtain agreements limiting the...importation into the United States of any agricultural commodity or product manufactured therefrom or textiles or textile products...and...issue regulations governing the entry ...of any such product, textiles, or textile product....In addition, if a multilateral agreement has been ...concluded...among countries accounting for a significant part of world trade in the articles with respect to which the agreement was concluded, the President may also issue...regulations governing the entry...of the same articles which are the products of countries not parties to the agreement...." (Complete text in Appendix II)

Thus is the President authorized to negotiate and implement bilateral agreements to limit imports into the United States of various products, including "...textiles and textile products...." Section 204 refers to all agricultural commodities, and specifies no limitation on the type of textile or textile roducts which may be subject to agreements negotiated thereunder. Thus, it would clearly authorize the President to negotiate agreements on ramie/cotton sweaters, for example, or on silk shirts, or silk/acrylic sweaters, and to carry them out via the customary implementation procedures including, if he so chose, import controls.

But if that is so, one might ask, what is the problem?

Under present circumstances, the MFA does not apply to those particular products by virtue of its Article 12 definition of "textiles". This definition is couched in fiber composition terms which require that the articles covered be of chief value cotton, wool or synthetic fiber, or a combination which is in chief value of those fibers, or which is more than 50 percent by weight (17 percent wool) of those fibers, or which is in chief weight of those fibers.(Article 12 text attached as Appendix II).

Thus, even though the President is authorized under his Section 204 authority, to negotiate bilateral or even multilateral agreements on, for example, ramie/cotton sweaters which are outside the MFA, he lacks specific authority to bring the products under control in the event such negotiations are not successful.

Why is this so?

For products within the reach of the MFA definition of "textiles", he can negotiate bilaterals, or impose controls unilaterally under the MFA. If the exporting country is a non-participant in the MFA, he relies on the second sentence of section 204(Underscored above) to impose unilateral controls on non-participants, an action specifically provided for and even encouraged by the MFA itself, whose participants sought to avoid being disadvantaged by uncontrolled trade from non-participants.

But that portion of section 204 which reaches non-participants is tied to the existence of a multilateral international agreement. It works to enforce such an agreement, but not in the absence of one.

To establish controls on those products which are not formally defined as textiles for the purposes of the MFA, the President can only negotiate, and negotiate, and negotiate. He has no leverage to bring such negotiations to a conclusion. He lacks sanctioning authority.

He has no Article 3 of the MFA (its unilateral control feature) which provides the defense mechanism to protect the market from disruption when the disrupting MFA country refuses to negotiate, or refuses to settle on terms deemed reasonable by the President. And more crucially, because of the peculiar structure of the second portion of section 204, he has no authority to move against countries not reaching agreement on these products, whether or not the countries are MFA members.

In sum, the President can

-- enforce bilaterals on any textile products;

-- enforce controls on MFA type products against countries, whether or not they are MFA members.

But the President cannot enforce controls on non-MFA products unilaterally in the absence of a negotiated agreement.

With the President apparently lacking clear and direct authority to apply controls to imports of these products in the absence of specific agreement with the foreign governments concerned, the incentive to reach such agreement among exporting countries now happily flouting quotas on MFA covered products is quite limited.

In the present circumstance, where virtually all of the ramie/cotton, silk acrylic and similar non-MFA blend trade is coming from countries which are participants in the MFA, and indeed which have bilateral agreements with the United States on MFA covered products, the only way in which agreements can be reached is through the making of further concessions by the U.S.

Flouting pays! The quota evaders would have to be paid off in order to agree to limit further growth of this trade, trade not covered under the present series of agreements.

But the U.S. industry simply cannot afford such a round of negotiations. Additional leverage is essential to permit the President to control this trade, to treat these products as though they had been covered from the outset. Only in this way can we avoid rewarding the evaders with major new footholds in the market, by

counting these goods as part of the base for subsequent agreements, and only in this way can we avoid establishing a gigantic loophole in the system as a new foreign right to a piece of the American market.

Perhaps this is why the Administration-cleared statements before this Committee on the situation in the industry and the operation of the Textile Import Program "overlooked" this issue.

S. 680, by including the present non-MFA products under its definitions, would solve the problem raised by the current structural deficiency in section 204 and would eliminate concern about the loophole in the definitional structure of the MFA which is being so grandly exploited. These reasons alone compel support for this important measure.

The NKSA fully supports the call for urgent action on the entire textile and apparel import question as presented by witnesses for the industry and labor groups in open hearings.

Fundamental remedies are needed to prevent total evisceration of the domestic fiber-textile-apparel complex. This statement has focused on only part of the problem, the total avoidance of the MFA system by the use of fiber blending techniques to duplicate covered products while remaining outside the reach of provisions developed over time to prevent disruption of the market.

Structural weakness in present statutory authority is part of the problem, but more fundamental, perhaps, is the demonstrated capacity of those with authority to avoid the issues entirely. The recent letter to members of both Houses of the Congress by five members of the President's Cabinet substantially distorts the situation in this field. It largely ignores the domestic impact of the failure to more effectively control imports, overstates the impact of S. 680 and virtually invites foreign governments to abrogate agreements and retaliate against the United States in response to S. 680. But none of those actions need be a forgone conclusion. We urge the members of this Committee to probe those arguments seriously and to avoid the cry to panic. The conditions facing our industry are the most serious in our history. They must be directly addressed.

We thank the Committee for this opportunity to submit comments for the public record and the Committee's consideration.

[signature]
EXEC. DIR.
NKSA

SIEGEL, MANDELL & DAVIDSON, P.C.
COUNSELORS AT LAW
ONE WHITEHALL STREET
NEW YORK, N.Y. 10004

July 24, 1985

Committee on Finance-Room SD-219
Dirksen Senate Office Building
Washington, D.C. 20510

Attention: Ms. Betty Scott-Boom

Re: Textile and Apparel Trade
<u>Enforcement Act of 1985, S. 680</u>

Dear Ms. Scott-Boom:

Enclosed please find five (5) copies of our written statement on S. 680, the "Textile and Apparel Trade Enforcement Act of 1985", submitted on behalf of the following clients: Adorence Company, Inc., Marisa Christina Holdings, Inc., Ellen Tracy, Inc. and U.S. Shoe Corporation.

We are attorneys specializing in international trade and Customs law with a particular emphasis on trade in textiles and wearing apparel. As the Textile and Apparel Trade Enforcement Act of 1985 would significantly affect trade in this area, we submit that this bill has a potentially major impact upon many of our clients.

In summary, our comments are in opposition to passage of the bill for reasons including, but not limited to, the following:

1. The bill is in abrogation of our bilateral textile agreements as well as the Multi-Fiber Arrangement ("MFA"). Such an abrogation may have serious consequences as to credibility of the Executive branch to enter into trade (and other) agreements which have been authorized by Congress.

2. Quota "rollbacks" would do severe harm to third world countries (e.g., Pakistan, India, Thailand, Singapore, Indonesia, etc.), which nations can ill afford reductions in their textile exports. Of special mention should be the People's Republic of China as our computations reveal that rollbacks against that country would be among the most severe.

3. The proposal to set quotas against textile products and apparel of linen, ramie and silk bears no realistic relationship to domestic production of these items (which is practically nil).

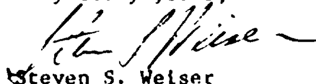
4. There is a substantial danger that this protectionist measure, if enacted, could be the trigger for a round of protectionist counter-measures among our trading partners.

5. The proposal for an import licensing system invites the establishment of an almost unlimited non-tariff barrier as there is no restriction in the delegation of authority to the Secretary of Commerce to promulgate regulations nor are there any parameters as to what shape the import licensing system is to have.

6. There are several technical problems in the bill which would make it almost impossible to effectuate (e.g., given the formulas for computing textile imports from "major exporting countries", imports of silk, ramie and linen would be incalculable if there are no textile agreements covering those fibers and, further, there are no data on these fibers going back to 1980).

We appreciate this opportunity to submit our written statement before the Subcommittee on International Trade, and, we trust that this Subcommittee will carefully address the information before it.

Very truly yours,



Steven S. Weiser

SSW/jb
encl.

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SIEGEL, MANDELL & DAVIDSON, P.C.
COUNSELORS AT LAW
ONE WHITEHALL STREET
NEW YORK, N.Y. 10004

[illegible]

STATEMENT OF SIEGEL, MANDELL & DAVIDSON, P.C.,
REPRESENTING ADORENCE COMPANY, INC., MARISA CHRISTINA
HOLDINGS, INC., ELLEN TRACY, INC. AND U.S. SHOE CORPORATION

SUBMISSION TO THE
SUBCOMMITTEE ON INTERNATIONAL TRADE
OF THE
SENATE FINANCE COMMITTEE

HEARINGS OF JULY 15, 1985 ON S. 680
THE TEXTILE AND APPAREL TRADE ENFORCEMENT
ACT OF 1985

In connection with the hearing held on July 15, 1985, we are pleased to submit this statement made in opposition to S. 680, also known as "The Textile and Apparel Trade Enforcement Act of 1985" on behalf of the following clients: Adorence Company, Inc., Marisa Christina Holdings, Inc., Ellen Tracy, Inc. and U.S. Shoe Corporation.

We are constrained to state that we regard this proposed piece of legislation to be an extremely ill-advised, however tempting, foray into protectionism vis-a-vis textile imports. The primary aims of the proposed bill, S. 680, are to "globalize" textile quotas and to establish an import licensing system. As we will discuss, both of these objectives are, for multi-faceted reasons, potentially injurious to the United States in economic and political spheres and, in the final analysis, inimical to our national interest.

"Globalization" - Discriminatory and Antithetical to U.S. Trade and Foreign Policy Goals

The first area which we will focus on is the so-called "globalization" of textile import quotas which Section 5 of S. 680 seeks to effect. Summarily, the globalization of textile quotas mandates the complete disintegration of our system of bilateral textile agreements, which system has been extant for approximately the past 15 years. Replacing it would be a creature of statute, based not on the consensus of the United States and its trading partners, but rather solely upon the unilateral action of our government. Irrespective of considerations which would dictate otherwise, individual nations would be treated indiscriminately (with certain exceptions for the EEC, Canada and the Caribbean region) based upon a quantitative comparison of their total imports into the United States as compared with the world-wide figure.

Thus, countries whose exports to the United States equal or exceed 1.25 percent of total United States textile/apparel imports would be termed "major exporting countries" while countries whose exports to the United States represent less than 1.25 percent thereof would be deemed "exporting countries". Overall, quota levels in 1985 would be sharply reduced for "major exporting countries" (estimates range between 25 to 45 percent) and growth would be limited to one percent per annum in every quota category irrespective of the "import sensitivity" of a particular product.

It is not debatable that this bill would act as a unilateral abrogation of the Arrangement Regarding International Trade in Textiles, commonly known as the Multi-Fiber Arrangement ("MFA") as well as all United States bilateral textile agreements. The United States currently has over thirty bilateral agreements establishing quantitative restrictions on imports of textiles and textile products. These agreements were generally entered into under the framework provided by the MFA which was, in turn, negotiated under the auspices of the General Agreement on Tariffs and Trade (GATT). Article 3, Section 1 of the MFA provides that no new restrictions on trade in textile products shall be introduced by participating countries nor should existing restrictions be intensified unless the same were justified

under the provisions of the GATT or the MFA. The restrictions in S. 680 drastically reduce imports and clearly depart from the remedial procedures available under Articles 3 and 8 of the MFA which allow signatory countries to enforce their rights under the MFA and avoid circumvention thereof.

Congress has heretofore seen fit to delegate its Constitutional power to the President to negotiate and implement trade agreements, not only in the textiles area but for all other product sectors as well. This delegation has led to the development of goodwill between the United States and its trading partners and, most importantly, to a high degree of reliability that the United States will honor its international trade commitments. The proposed legislation, if enacted, will violate our international obligations and severely undermine the integrity of the Executive branch to negotiate and maintain trade agreements. While we do not challenge the power of Congress to abrogate such Executive agreements, we seriously question the wisdom in so doing, particularly in the present case where the MFA will expire in July, 1986 and negotiations for renewal are scheduled to begin forthwith in Geneva. What certainty and reliability can there be in international relations if succeeding administrations (or Congresses) permit the negation of agreements reached among foreign countries and prior administrations? Congressional abrogation of all of our

textile agreements runs the grave risk of initiating a 1930's-style trade war. Widespread retaliation by our trading partners against United States goods is the logical outcome of this legislation with agricultural exports being a major target.

Another objection to globalization is the de minimis criterion used to define a "major exporting country". As previously discussed, with certain exceptions, a major exporting country is defined as a country whose exports to the United States equal or exceed 1.25 percent of the total U.S. textile/apparel imports. The designation of a 1.25 percent factor to determine a major exporting country is well below what is reasonable as many third world nations, relatively tiny in size, most of which are underdeveloped and striving to have stable economies, will be discriminated against under S. 680 (e.g., Thailand, Singapore, the Philippines and Pakistan).

One of the most objectionable aspects of this legislation involves the application of quota "rollbacks", i.e., decreases in previously negotiated quota levels for particular quota categories. These rollbacks would inflict severe harm to these same third world countries which nations can ill afford reductions in their textile exports. Of particular concern is the adverse effect upon the People's Republic of China as our computations reveal that rollbacks against China would be among the most drastic.

Our relationship with China is viewed by many learned observers to be our most vital in the third world. China represents a vast potential reservoir for United States exports. The economic, political, and strategic benefits which the United States can reap through access to the Chinese marketplace are enormous. However, S. 680 assists to block this access by placing an insurmountable obstacle in the paths of United States businessmen seeking to nurture trading relationships. Over five years ago we opened the "trade door" to the People's Republic of China by treating her as a "most favored nation" under our tariff laws. S. 680 will close rather than open export opportunities for U.S. manufacturers and farmers and worsen the U.S.-China relationship in the process.

When one ponders that China and India together (the latter would also be considered a "major exporting country" under the bill) hold in excess of one-third of the world population within their borders and represent a relatively untapped marketplace, one may shudder at this attempt to severely restrict those countries' most important exports, textiles and textile products. Does our government really believe that these and other countries will idly stand by in the face of the abrogation of our freely negotiated agreements?

Through the years, developing countries have been increasingly reliant upon the production of textiles in order to obtain the foreign currency they need to spur their economies. There is an economic evolution that occurs in most countries (the United States is an example), whereby the agricultural industry is the forerunner of all industries with textiles next in succession. After textiles, there is a progression into higher technological operations. This progression is typified by Japan which twenty years ago was the world's leading textile and apparel manufacturer and today has moved into more advanced areas. Hong Kong, Korea and Taiwan have now moved into the forefront of textile manufacturing allowing them to become prospering and stable economies. Currently, a new group of countries which, in addition to China and India, includes Indonesia, Thailand, Pakistan, Bangladesh and Malasyia, is struggling to prosper and become stable economically through current dependence upon textile production. We are hard-pressed to understand the rationale used by the drafters of S. 680 which treats these developing countries in a harsher manner than the EEC, Canada or the Caribbean Basin nations. It would appear that such a distinction makes S. 680 a discriminatory piece of legislation The enactment of S. 680 would injure these countries and sends them a clear message of the United States' indifference to their economic plights. Ironically, our trade deficit will in all likelihood, get worse as these and other developing countries will have less revenue to purchase U.S. goods.

Consequently, this bill represents not only poor trade policy but illogical foreign policy that strikes at areas of the world in which the United States has a vital interest to assist in fashioning economic stability. Trade is our most effective peaceful tool against Soviet incursions and aspirations. Our trade policy should reflect our national interest and help to strengthen and not weaken our position in the turbulent third world. A nurturing relationship between the United States and the third world demands a closer economic nexus - S. 680 is inconsistent with this objective.

Non-MFA and Wool Fibers - Anomalous Results

Another major area of concern involves the inclusion of non-MFA fibers (*i.e.*, silk, linen, ramie) within the globalization scheme contemplated by S. 680. Products of these fibers are beyond the ambit of any of our current bilateral agreements. To the best of our knowledge, these fibers are not domestically produced in significant commercial quantities. We are not familiar with any large-scale breeding farms in the United States where silk worms are reproduced for silk production nor do we believe that linen and ramie are meaningful domestic crops. Therefore, we are somewhat confused as to exactly which United States industry requires protection from foreign textiles made of these fibers.

Moreover, these relatively very expensive non-MFA fibers possess qualities which are not comparable to cotton, wool, or man-made fibers. Silk is a very fine, lustrous and resilient fiber which is esthetically enhancing. Linen and ramie are also very fine, long staple, smooth and glossy fibers noted for their resiliency. The characteristics embodied in these fibers are very distinct from any fibers produced domestically and, therefore, imports of non-MFA textile products pose no threat to U.S. industries involved in the manufacturing of non-MFA products.

Furthermore, it is important to note that under Article 12, Section 1 of the MFA (and under all of the bilateral textile agreements negotiated thereunder) the United States has agreed to quantitive restrictions with respect to only the following:

> . . . . tops, yarns, piece goods, made-up articles, garments and other textile manufactured products (being products which derive their chief characteristics from their textile components) of cotton, wool, man-made fibers or blends thereof, in which any or all of those fibers in combination represent either the chief value of the fibers of 50 percent or more by weight (or 17 percent or more by weight of wool) of the product.

Thus, S. 680 would again be in direct contravention of the MFA and the bilaterals thereby breaching the terms of both. In

effect, S. 680 violates the MFA and bilateral textile agreements not only through globalization of quotas but also by unilaterally increasing product coverage without the consent of other signatories.

Morever, there are several technical problems in the bill which make it impossible to effectuate when applied to non-MFA fibers. Because there are no textile agreements covering these fibers and, consequently, no data going back to 1980, the formulas for computing textile imports from "major exporting countries" are useless. The unreasonableness of S. 680 is further seen by applying its "import sensitive" criteria to these fibers. Pursuant to Section 4 of the bill, an "import sensitive category" is a category in which the imports are 40% or more of domestic production for the preceding year and, therefore, mandatorily subject to a 1% annual growth rate. All non-MFA merchandise will be "import sensitive" by definition as domestic production is virtually nil. Therefore, an absurd situation would result in that non-MFA products would be categorized as "import sensitive" because of the lack of domestic production rather than the presence of same.

We believe that this is a basic flaw in the bill which is applicable to not only non-MFA products but also to products which, for whatever reason, are not substantially produced domestically.

The term "wool products" as defined in S. 680 represents yet another problem area. The definition encompasses those articles containing over 17 percent by weight of wool thereby representing a significant departure from current law. Under the Tariff Schedules of the United States (TSUS), an article 80% acrylic and 20% wool would currently be classified for tariff and quota purposes as an article of man-made fibers. Accordingly, pursuant to S. 680 this article would be subject to wool quota limited to a 1 percent annual growth rate. This anomalous result would also be obtained under the Harmonized System which is proposed to go into effect January 1, 1987.

Import Licensing System - Ambiguous, Costly and Dangerous

The second primary focus of this bill is the initiation and implementation of an import licensing system in Section 6. Such a system would require an importer to obtain a license from the United States government to import specific textile products thereby creating a dual burden on importers who already must comply with the export license or visa systems of many exporting countries.

A most disturbing feature of S. 680 is that it provides no guidelines or parameters for the Department of Commerce to follow in order to implement an import licensing system. Instead, S. 680 delegates unlimited authority to the Secretary

of Commerce to promulgate regulations without any clue as to what shape the system is to have. Consequently, a significant potential for a monumental non-tariff barrier exists in view of this unrestricted delegation of power. Without a clear statement of Congressional purpose and direction, it is submitted that this measure is dangerously vague and ambiguous.

Although at this juncture we can only speculate, an import licensing system can take one of only a limited number of forms. One possible version of the system would consist of a scheme whereby the importer would apply to the appropriate agency of the United States government (e.g., Department of Commerce) for a license to import particular merchandise and allocation would be made on a historical basis according to the importer's previous import performance. This type of system would favor large-scale importers whose past performance record would entitle them to a greater license allocation thereby disadvantaging smaller businessmen and discouraging new market entrants. Consequently, a small number of large importers would control a disproportionate percentage of the textile licenses severely curtailing competition and driving prices of imports upward.

However, the historical basis of allocation is, by itself, inadequate as a method of distributing licenses, as it is based on performance levels and for many developing countries, which

either never produced or commenced production in new product categories, performance data is non-existent. Therefore, development of an ancillary measure to distribute licenses would be necessary to address these instances.

Another possible version of the import licensing system would be an auction system whereby licenses are sold by the government to the highest bidder. In fact, this is precisely the type of system recommended to the President by a majority of the International Trade Commission in a recent footwear escape clause case (Nonrubber Footwear, Report to the President on Investigation No. TA-201-55, USITC Publication 1717, July 1985). Once again, larger and wealthier importers would benefit because of their ability to pay higher prices for licenses. Not only would an inequitable allocation of licenses be the likely outcome of the implementation of such an auction scheme, but the high price for these licenses would necessarily lead to higher prices charged for merchandise at the wholesale and retail level.

Regardless of the scheme (historical or auction system), the requirement that an importer obtain an import license presents many other problems and questions. For instance, how far in advance of shipment must the license be purchased? Lead times are very important to wearing apparel importers and assurance of getting the goods into the country is essential.

Furthermore, once the license is purchased, can it be cancelled, refunded, or transferred if no longer needed or is it forfeited? The textile industry is a very fashion-conscious business and if licenses are purchased too far in advance, they may not be needed for the particular merchandise at a later date. In addition, one can envision a scenario where an importer's foreign supplier obtains the necessary quota allocation to export merchandise but the importer is unable to obtain the necessary licenses to import the same goods. Thus, the importer would be caught in a "Catch-22" situation whereby goods have been paid for and exported from the manufacturing country but cannot be imported into the United States.

Under a scenario where importers are allowed to transfer licenses, a system similar to the Hong Kong export quota system might prevail whereby licenses are bought and sold much like a commodity future or stock. Contingent on market conditions of supply and demand, import licenses would have a value independent of the value of the wearing apparel itself and it is conceivable that the cost of procuring the import license might surpass the cost of manufacture of the article itself. In fact, this is precisely what happened in Hong Kong in 1984 when quota prices for wool sweaters became so astronomical that manufacturers which held quota found it more profitable to sell the quota than to use the quota by producing garments. Nor was that a unique case; it has happened many times in the past.

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One can clearly perceive the dual administrative and financial burden that would be inflicted upon importers under the guise of an import licensing system. Importers would pay for quota at the exporting end and then be forced to pay a fee to procure an import license for the privilege of bringing the textile goods into the United States. However, it is painfully clear that the American consumer will ultimately bear the additional costs that such a system would entail by being forced to pay higher prices for textile goods at the retail level. Moreover, if a secondary market develops for the trading or resale of import licenses, retail prices for soft goods would spiral still higher.

Protectionism - A Level Playing Field?

The cost of protecting our domestic textile industry has now reached proportions which are economically injurious to not only American importers but also to the American consumer. In a 1984 Federal Trade Commission study entitled "Import Quotas on Textiles: The Welfare Effects of United States Restrictions on Hong Kong", it was concluded that the cost to the American economy of maintaining quotas on only thirteen wearing apparel quota categories from Hong Kong for 1980 equalled $308 million. The study went on to state that, as an employment factor, some 8,891 jobs in the textile industry were created by

maintaining these quotas. Thus, the cost of these quotas could be computed as roughly $34,500 per worker annually. If we can interpolate by including all product categories from all countries, the total drain on the American economy and, hence, the consumer, is staggering. In effect, we are subsidizing employment at a rate which is many times the earnings of the textile worker - and we are doing this year after year. S. 680 can only serve to exacerbate this situation further.

The proposed legislation would act in a multi-faceted manner to increase prices for textile and apparel imports. The rollback of quotas which S. 680 seeks to impose would decrease the availability of quota which, in effect, would increase the prices for quota. Moreover, the reduction in quota would encourage exporting countries to produce higher quality and higher priced merchandise in order to reap higher profits. This would naturally affect the availability of children's clothing as well as that of low priced imports which our lower income population are dependent upon.

Another way in which S. 680 will cause prices to increase is that sourcing will move from the developing countries of the Far East to the EEC, Canada, the Caribbean and South America where wages are much higher. Furthermore, as previously mentioned, the import licensing scheme will also cause prices to increase by forcing importers to incur an additional cost in order to import goods.

The domestic textile industry is already one of the most highly protected industries in the United States, and is the beneficiary of a wide array of special measures designed to curtail textile imports. Textile importers have been forced to face a heavy barrage of tariff and non-tariff barriers including the following:

Extensive Quota System: The Customs Service, in conjunction with the Commerce Department, administers a vast quota and visa system in order to ensure compliance with the MFA, unilateral restraints and our bilateral agreements. The Committee for the Implementation of Textile Agreements ("CITA") is responsible for monitoring approximately 650 distinct quota categories covering 34 countries. In recent years there has been a drastic increase in consultation calls leading to the imposition of restraints in previously uncontrolled quota categories. In fact, the Reagan Administration has instituted over 300 new quota restraints since 1981. The basis for these calls has been simplified by a "presumption" of market disruption which was established by the Administration at the end of 1983.

Furthermore, it is important to note that the quota system represents much more than just a quantitative restriction on imported goods. The quota system is inherently plagued with

additional non-tariff barriers which impede the American importer. For instance, a significant non-tariff barrier exists in the fact that there is no written administrative procedure within the Customs Service or the Commerce Department whereby an importer can obtain a ruling on quota category determinations. This is quite distressing in view of the comprehensive system of quota categorization. For example, a ladies' 12 gauge knit pullover made of 100% acrylic might be categorized as either a shirt under Category 639 or as a sweater under Category 646. Actual discrepancies as to categorization exist and have serious ramifications as different categories from a particular country have different quantitative limitations and different visa requirements. If garments are not visaed under what is allegedly the "appropriate" quota category, they will not be permitted entry into the United States.

Although the Customs Service has administrative procedures with respect to the issuance of binding rulings as to tariff classification, it has absolutely no formal procedure for quota categorization; rather decisions are made on an ad hoc basis. Consequently, an importer cannot safely plan in advance and be certain that he is obtaining the correct quota category for his merchandise. The average wearing apparel importer usually has three or four seasons of merchandise, with anywhere from one to two hundred styles per season. Thus, the absence of appropriate

procedures acts as a severe non-tariff barrier, transcending mere quantitative restraints, which leaves importers behind a curtain of uncertainty.

High Tariffs: Textile articles are assessed with extremely high tariffs, averaging 22.3%, compared to all other goods which together have an average tariff of approximately 5%.

New Country of Origin Regulations: Effective April 4, 1985, the Customs Service implemented a new set of regulations which were allegedly designed to prevent circumvention of the MFA and our bilateral agreements. Under this guise, the regulations have drastically altered traditional country of origin rules and have created an administrative burden and additional cost for importers who must comply with extensive documentation requirements. The regulations redefine "Country of Origin" thereby altering the manner in which quota is charged in situations where multi-country manufacturing of textiles and textile products occurs.

Exemptions from Trade Liberalizing Agreements: The domestic textile industry has received special treatment under the General System of Preferences (GSP) and Caribbean Basin Initiative (CBI) by having almost all textiles excluded from the list of articles eligible for duty-free treatment.

Phased Entry System: As of January 1, 1985, when an annual limit goes into effect on a textile category which is currently under embargo, the Customs Service may act to limit entry into the United States for consumption, or withdrawal from warehouse, of goods which were exported during the previous restraint period. The flow of goods into the United States may be limited to a rate of not more than 20% of the new annual limit during each of the first five months of the new restraint period. This system was initiated in order to prevent market disruption when a category reopens. However, it has served to hinder the efforts of importers to import their products in a timely fashion. In most instances, these embargoed goods have been fully paid for prior to shipment from the exporting country. The phased entry system may force these goods to stay embargoed long after the category has reopened. The warehouse costs are often substantial and by the time the merchandise is allowed to enter, it is often outdated due to its highly fashionable and trendy nature. Thus, another roadblock has been effectively placed in the paths of textile importers.

Conclusion

In summary, we submit that the proposed legislation is a protectionist bill whereby the goals of free and fair trade are

thwarted. Because this bill is clearly inconsistent with our international obligations, is inflationary, and burdens rather than promotes our own exports (as it virtually guarantees to trigger a bombardment of retaliatory measures against U.S. imports), we voice our strong opposition to it.

We trust that this Subcommittee will carefully address the information before it and conclude that it is not in the national interest to impose the extreme measures that S. 680 attempts to exert on the American public and our trading partners.

We wish to extend our appreciation to the Chairman and the members for the opportunity to state our position on S. 680 and we would welcome the opportunity to be heard further on this bill at future hearings of the Subcommittee.

Respectfully submitted,

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Dated: July 24, 1985

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STATEMENT

OF

PETER BANDAL
CHAIRMAN

ON BEHALF

OF THE

AMERICAN ASSOCIATION

OF

EXPORTERS AND IMPORTERS

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

COMMITTEE ON FINANCE

UNITED STATES SENATE

ON

S.680, TEXTILE AND APPAREL TRADE ENFORCEMENT ACT OF 1985

July 15, 1985

American Association of
Exporters *and*
Importers *11 West 42nd Street, New York, N.Y. 10036 (212) 944-2230*

The American Association of Exporters and Importers (AAEI) has over 1000 member companies involved in every aspect of international trade. The multitude of products manufactured, distributed and sold by AAEI member companies range from chemicals, electronics, textiles and apparel, machinery, footwear and food to automobiles, wines and specialty items. In addition, many support elements of the international trade community -- customs brokers, freight forwarders, banks, attorneys and insurance firms -- are active members of AAEI.

AAEI and our Textile and Apparel Group (TAG) cannot overstate our opposition to S.680, the Textile and Apparel Trade Enforcement Act. None of the U.S. importers and retailers who comprise AAEI-TAG will escape the consequences of this legislation, which can cripple and possibly extinguish their businesses. They can best relate what the specifics of S.680 are, and specifically demonstrate why this is such an unsound piece of legislation. AAEI chooses to address how this bill will effect world trade, on behalf of the over 1000 company-members of the Association.

AAEI could not agree more with the Administration's position, stated in a recent letter to Congress, that "the proposed legislation [S.680] is inconsistent with the international Multifiber Arrangement (MFA) negotiated under the GATT to govern trade in textiles and apparel, and thus would result in the abrogation of the 34 bilateral textile and apparel agreements we have negotiated with our trading partners." S.680 would unilaterally impose import quotas without the negotiations required under the MFA, completely trampling the MFA's fundamental principle.

The "one-sidedness" of this bill is a primary concern for AAEI. The Association consistently has fought protectionism and has supported the resolution of trade difficulties through multilateral negotiations throughout the 64 years of its existence. The passage of this bill would signal the world that

the U.S. has turned its back on its international obligations and the multilateral process. The United States is the world leader in trade. It can ill-afford to set the dangerous example of unilaterally abrogating its international, binding commitments.

The bill, if passed, would also violate the Most-Favored Nation (MFN) "equal treatment," clause of the GATT. S.680 mandates stricter quotas from countries depending on their level of exports and also notably excludes Canada, the countries of the European Economic Community, Mexico and the Caribbean countries, from any restraints. However, the EEC and Canada would still be subject to the proposed import licensing requirement. Such unfair, discriminatory treatment blatanty disregards the GATT and can only severely undermine the U.S. call for a new multilateral trade round. Further, the bill unilaterally places restrictions on linen, silk and ramie, items not covered by the MFA and for which there is little U.S. competition. AAEI is certain that the U.S. would not tolerate other countries passing a domestic law that unilaterally would add or delete terms to a legal commitment and abrogate a treaty with the U.S. How can we expect the other countries of the world, developing or developed, to open their markets wider, or to liberalize trade in services when passage of S.680 would literally close the U.S. market to textiles and apparel and grant further unnecessary protection to an industry that has already enjoyed thirty years of protection?

AAEI is an association of exporters as well as of importers. As stated above, this bill must be viewed in a larger context. Passage of S.680 would not only affect textile and apparel importers but other industries as well. Our exporting members are also extremely concerned about the negative effects of this bill. As should be obvious, some of our major export markets, or potential export markets, will be adversely affected by S.680. The bill will stifle the development of many developing countries by draining them of important foreign exchange currency, and threaten debtor countries, some of whose debts are held by

U.S. banks, with insolvency. Without such necessary currency their ability to develop, as well as their potential as a market for U.S. products, will be curtailed. And we cannot ignore the fact that conscious, direct retaliation by affected countries would undoubtedly occur against products other than textile and apparel.

The sponsors of this bill say that its purpose is to enforce the MFA. However, restrictions on imports of textile and apparel are being enforced more than adequately. The domestic textile industry already has had decades of protection. Since the last renewal of the MFA in 1981 there have been more than 300 unilateral "consultation calls" resulting in more than 300 quotas at low levels. Last year, the Administration had the U.S. Customs service promulgate new country-of-origin rules for textiles and textile products. These enormously disruptive rules changed over 80 years of legitimate business practice and attempted to do so in the space of one month. That is another example of a protectionist move in the guise of an "enforcement" mechanism.

The Textile and Apparel Trade Enforcement Act is an ill-conceived, unsound, unnecessary piece of legislation. The unnecessary protection afforded by this bill to the domestic textile industry comes at too high a cost to other U.S. industries. At AAEI we have noted an ominous trend. Measures taken to protect an industry are often used as precedent to apply protection to other industries. For example, the "rules of origin" mentioned above will be used, U.S. Customs has stated, to determine country of origin for products other than textiles, as the question arises.

And when not used as precedent, the "ripple" effect of protectionist actions can be overwhelming. For example, the import licensing scheme proposed by the bill would effect every AAEI member and every member of the trade community. AAEI has long monitored and worked with, when possible, the U.S. Customs Service.

A majority of AAEI members are importers who deal with Customs on a daily basis and are closely involved with its operations. The bill requires a license for each entry of each imported textile and apparel product. There are over 3 million entries per year of textile and apparel imports, many of which would require more than one import license. This licensing provision would create an adminstrative nightmare and would ultimately discriminate against smaller importers and retailers of textiles and apparel. Any benefits to the importer gained from adding additional Customs inspectors or making the Customs automated system more efficient would be wiped out by the costs of and the delays caused by such a scheme. The licensing scheme unequivocably would effect importers of other products as well. The resources and time spent to ensure adherence to the textile licensing rules would certainly detract from Customs' ability to discharge its other responsibilities. AAEI has testified recently before Congress that Customs' resources already are strained to the absolute limit. The added burden of the licensing scheme would be the "last straw," resulting in a total disruption of the normal flow of commerce into and out of the U.S.

In sum, this bill cannot be looked at as solely decimating trade in textiles and apparel. The cumulative negative impact on shippers, brokers, forwarders and others is just the tip of the iceberg. Passage of S.680 undoubtedly will open the floodgates to trade legislation just as bad and ill-conceived, to protect other industries who have not had the benefit of three decades of protection. The U.S. should take steps to help industries modernize to regain their competitive edge through positive, trade enhancing, not trade restricting actions. Passage of S.680 would take a giant step backwards, abrogating our international commitments and igniting a trade war that no one would be able to stop.

International trade benefits everyone. We must remember that a wall serves not only to protect, but also to confine.

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July 24, 1985

BEFORE THE SUBCOMMITTEE ON INTERNATIONAL TRADE,
COMMITTEE ON FINANCE
UNITED STATES SENATE

Statement in Regard to S.680, Textile and Apparel Trade Enforcement Act of 1985

Summary

On behalf of our client, Sigallo-Pac Ltd. of Guam, pursuant to Press Release no. 85-037 of the Subcommittee on International Trade, this statement is submitted in regard to S.680. In summary, we urge that an appropriate amendment be adopted to exempt insular possessions from the definition of "country" contained in §4(4) of the bill, coupled with adoption of an amendment to ensure that authority to impose import restraints pursuant to 7 U.S.C. 1854 by the Committee for the Implementation of Textile Agreements (CITA) on shipments of wearing apparel produced or assembled in an insular possession, be left untouched. Otherwise, adoption of the bill in its present form would quickly strangle Sigallo-Pac and force cessation of its operations.

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The Historical Perspective: The "Insular Possession" Preference

The legislative purpose underlying General Headnote 3(a) of the Tariff Schedules of the United States (see Appendix) and which is intended to promote the growth of manufacturing industry in the insular possessions, dates back almost to the turn of the century. The Act of March 8, 1902 (32 Stat. 54) granted a 25% duty advantage to articles the growth or product of the Philippines (then a possession of the United States). This provision in turn gave rise to §5 of the Tariff Act of 1909, allowing duty-free treatment for articles the growth or product of, or manufactured in the Philippines which did not contain foreign materials to the value of more than 20%. Section 5 was reenacted in the Tariff Acts of 1913 and 1922, and was carried forward into §301 of the Tariff Act of 1930, which in turn became §301a of the Tariff of 1930 (19 U.S.C. 1301a) as added by the Customs Simplification Act of 1954. This last provision granted duty-free treatment to articles grown or produced in insular possessions, not containing foreign materials exceeding 50%, and in turn became the model for present General Headnote 3(a).

Unfortunately, this beneficial policy has come under severe attack by those who would throw up a wall of protectionism in favor of the domestic mainland wearing apparel industry, without regard to the drastic economic problems thereby created in our insular possessions, and the consequent inescapable weakening of their ties to the mainland. On the administrative front, the new "rules of origin" for textile products published in final form in T.D. 85-38, 19 Cust. Bull. 12, of March 20, 1985 (page 1), implicitly overrule a judicial decision and numerous Customs rulings defining the "country-of-origin" as the country or territory where the item was completed (substantially transformed), and would, once completely implemented, drastically interdict shipments of wearing apparel to the mainland.[1]

The Crippling Effect of S. 680 on Sigallo-Pac's Shipments from Guam

S.680, like T.D. 85-38, would also seriously jeopardize the wearing apparel industry in Guam, but by utilizing different weaponry. It would, in the process of "globalizing"

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1. H.R. 2225, currently pending before the Subcommittee on Trade, House Committee on Ways and Means would provide a limited exception to T.D. 85-38 with regard to wearing apparel assembled in an insular possession by joining together otherwise completed knit-to-shape component parts of foreign origin.

quotas, lump wearing apparel produced or assembled in an insular possession with all such products shipped from foreign countries [§4(4)]. The bill would impact upon Sigallo-Pac's operations as follows:

Currently, sweaters assembled in Guam by Sigallo-Pac are classified under Item 379.76, TSUS, as "other men's or boys' wearing apparel, not ornamented: of wool: knit: valued over $5 per pound: other", category 445. By CITA notice published in the Federal Register for March 4, 1985, at page 8649 (copy attached), 160,000 dozen cotton, wool, and man-made fiber sweaters in categories 345, 445, 446, 645, and 646 assembled in Guam but determined to be "products of foreign countries or foreign territories", are allowed entry without visa or license. This is described as "an interim arrangement which is subject to change pending further review, including necessary changes which may result from the issuance of final Customs Regulations on country of origin determinations".

The quota restraint provisions in S.680 distinguish among three classes of countries·

(1) Major exporting countries: Those countries whose exports to the United States equal or exceed 1.25% of total U.S. textile/apparel imports. Under the bill, twelve nations would (currently) be classified as

"major exporting countries" subject to severe treatment in terms of quota rollbacks and restrictive annual growth in various textile categories. These countries are Brazil, China, Hong Kong, India, Indonesia, Japan, Korea, Pakistan, Philippines, Singapore, Taiwan, and Thailand.

(2) Exporting countries: Those countries whose exports to the U.S. represent less than 1.25% of the total U.S. textile/apparel imports. Mexico and all other countries eligible under the Caribbean Basin Economic Recovery will be exempted from classification as "major exporting countries".

(3) Exempted countries: Canada and the countries of the European Economic Community (EEC) are totally exempt from the import restraint provisions of this bill.

Because Guam's shipments to the United States represent less than 1.25% of the total U.S. textile/apparel imports, it would be classified as an "exporting country" under the bill. Quota levels for "exporting countries", except for "import sensitive categories", will be limited in 1985 to an amount equal to 115 percent of the 1984 import level for that category while growth in subsequent years will be limited to 6 % (except for wool product categories). An "import sensitive category" is a category (other than a category relating to textile products produced in Caribbean region countries which include Mexico) in which the ratio of imports is 40% or more of

domestic production for the preceding year. Based on this test, categories 345, 445, and 645 which constitute the primary exports from Guam are "import sensitive". The applicable formula used in computing 1985 quota levels for import sensitive categories takes 1984 as a base year and allows for only 1% annual growth.[2]

With regard to category 445, imports from Guam in 1984 are either non-existent or inconsequential and, therefore, the formula which utilizes 1984 statistics as a base year would be inapplicable. In such cases, the bill provides for a "minimum quantity" formula pursuant to §5(c). Under this provision, a minimum quantity of 100,000 square yards equivalent (in the case of a category covering wool products) would be allowed entry, or using the coversion formula of 14.88 square yards equivalent per dozen, 6720 dozen. Thus, Sigallo-Pac, presently the sole textile manufacturer on Guam, would be faced with a yearly quota representing under 5% of its present annual quantity of 140,000 dozen produced and shipped to the mainland. This minute level would surely spell the end to the company's operation.

2 Wool product categories are treated the same as import sensitive categories for growth purposes.

To be sure, §5(d) of the bill allows the Secretary of Commerce to prescribe regulations governing the entry, etc. of textiles and textile products as may be necessary to carry out the legislation. However, the validity of the existing CITA exemption under 7 U.S.C. 1854 would be severely undermined by enactment of S.680 into law in that, within the four corners of the bill, there is the overriding specification of quota treatment for wearing apparel produced or assembled in Guam. Therefore, under the proposed bill it is uncertain whether administrative quota limits would be set for Guam. In any event, regardless of the residual authority of the Administration to continue the present exemption in the event of enactment of S.680, there is certainly no incentive whatsoever in the bill to do so. If anything, enactment of the bill would be perceived as a strong signal to terminate the exemption.

The Economic Consequences in Guam of Sigallo-Pac's Demise

Sigallo-Pac was established in 1981. From its inception, the company has consulted with Customs Service Headquarters and its operations have been governed and guided by rulings obtained at each step of the way from the Customs Service,establishing the factory's output as entitled to

duty-free treatment under General Headnote 3(a)[3]. The initial years of operation were characterized by heavy investment in plant and equipment, accompanied by substantial outlays to train local residents in the exacting requirements for the manufacture of finely-crafted sweaters selling near the top of the line. Because of these heavy start-up expenditures, it is only recently that Sigallo-Pac started to show a profit. The company presently employs approximately 300 United States U.S. minimum wages. Presently, Sigallo-Pac is the largest single manufacturing operation, and the largest private employer, on the island of Guam. It has a modern air-conditioned plant which has been described by the United States Department of Interior as a model factory which is precisely the type of company which the Administration wants to encourage. Should it cease operations, the economic ramifications would be widespread. The company's annual payroll, in excess of $2,000,000, would be lost; those workers thrown into idleness would be hard-pressed to find other jobs; and doubtless Guam's present unemployment rate of 7.9% would thereby increase.

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[3] See Customs rulings 067217, 071303 and 071359.

Viewed from another perspective, should Sigallo-Pac be forced out of business, the chances of Guam attracting replacement private investment capital would be nil. In addition, Guam's requirements for continuing monetary assistance from Washington would doubtless increase.

Proposed Amendments

Our primary position is that considerations of elementary fairness to the young and struggling textile industry in Guam, coupled with an appreciation of the special status historically afforded to our insular possessions, require a modification of the definition of "country" under §4(4). It is important to note that the EEC and Canada are generally exempted from the quota restraint provisions of the bill. To treat a U.S. insular possession in a harsher and more restrictive fashion than these foreign countries is anomalous to say the least, and most disturbing. Therefore, it is urged that §4(4) be modified by deleting the words "or an insular possession of the United States". A counterpart provision should be inserted elsewhere in the bill stating in substance as follows:

"Nothing contained in this bill shall be construed to limit the authority vested in the President under 7 U.S.C. 1854 to proclaim or impose special quantitative restrictions, or exemptions therefrom, on articles of wearing apparel assembled in an insular possession of the United States".

This language will ensure continuation of the necessary administrative flexibility to extend such quota treatment to products of this class as is necessary or appropriate to balance the interests of the Guamanian textile industry with those of the domestic mainland industry producing like or competing products.

As an alternative, and only if the Subcommittee finds our proposed amendment to §4(4) unacceptable, §5(d) of the bill, pertaining to enforcement, should be amended to include the same specific legislative recognition and approval (as set forth above) of the authority presently vested in the President and his delegees under 7 U.S.C. 1854 to implement quota restrictions, or exemptions therefrom, on shipments of wearing apparel from the insular possessions.

Respectfully submitted,

SIEGEL, MANDELL & DAVIDSON, P.C.
Attorneys for Sigallo-Pac Ltd.

Of Counsel:

Harvey A. Isaacs, Esq.,
Norman C. Schwartz, Esq.

cc: Congressmen Ben Blaz, Bill Frenzel

APPENDIX

General Headnote 3(a), Tariff Schedules of the United States.

(a) Products of Insular Possessions. (i) Except as provided in headnote 6 of subpart E of part 2 of schedule 7, and except as provided in headnote 3 of subpart A of part 7 of schedule 7, articles imported from insular possessions of the United States which are outside the customs territory of the United States are subject to the rates of duty set forth in column numbered 1 of the schedules, except that all such articles the growth or product of any such possession, or manufactured or produced in any such possession from materials the growth, product, or manufacture of any such possession or of the customs territory of the United States, or of both, which do not contain foreign materials to the value of more than 70 percent of their total value (or more than 50 percent of their total value with respect to articles described in section 213(b) of the Caribbean Basin Economic Recovery Act), coming to the customs territory of the United States directly from any such possession, and all articles previously imported into the customs territory of the United States with payment of all applicable duties and taxes imposed upon or by reason of importation which were shipped from the United States, without remission, refund, or drawback of such duties or taxes, directly to the posession from which they are being returned by direct shipment, are exempt from duty.

(ii) In determining whether an article produced or manufactured in any such insular possession contains foreign materials to the value more than 70 percent, no material shall be considered foreign which either -

(A) at the time such article is entered, or

(B) at the time such material is imported into the insular possession,

may be imported into the customs territory from a foreign country, other than Cuba or the Philippine Republic, and entered free of duty; except that no article containing material to which (B) of this subdivision applies shall be exempt from duty under subdivision (i) unless adequate documentation is supplied to show that the material has been incorporated into such article during the 18-month period after the date on which such material is imported into the insular possession.

(iii) Subject to the limitations imposed under section 503(b) and 504(c) of the Trade Act of 1974 articles designated eligible articles under section 503 of such Act which are imported from an insular possession of the United States shall receive duty treatment no less favorable than the treatment afforded such articles imported from a beneficiary developing country under title V of such Act.

(iv) Subject to the provisions in section 213 of the Caribbean Basin Economic Recovery Act, articles which are imported from insular possessions of the United States shall receive duty treatment no less favorable than the treatment afforded such articles when they are imported from a beneficiary country under such Act.

linearity) of ± 0 05 degrees and a reproducibility of 0 03 degrees over a 25 degree range of rotation The National Bureau of Standards advises in its memorandum dated January 7 1985 that (1) the capability of the foreign instrument described above is pertinent to the applicant's intended purpose and (2) it knows of no domestic instrument or apparatus of equivalent scientific value to the foreign instrument for the applicant's intended use

We know of no other instrument or apparatus of equivalent scientific value to the foreign instrument which is being manufactured in the United States

(Catalog of Federal Domestic Assistance Program No 11 105 Importation of Duty Free Educational and Scientific Materials)

Frank W Creel

Acting Director Statutory Import Programs Staff

[FR Doc 85-5152 Filed 3-1-85 8 45 am]

BILLING CODE 3510-DS-M

Decision on Application for Duty-Free Entry of Scientific Instrument; University of Wisconsin-Madison

This decision is made pursuant to Section 6(c) of the Educational Scientific and Cultural Materials Importation Act of 1966 (Pub L 89-651 80 Stat 897, 15 CFR Part 301) Related records can be viewed between 8 30 AM and 5 00 PM in Room 1523 U S Department of Commerce, 14th and Constitution Avenue, NW, Washington, DC

Docket No 84-322 Applicant University of Wisconsin Madison, Madison WI 53706 Instrument Infrared Interferometer System, Model BBDA 2 01-1 Manufacturer Bomem, Inc, Canada Intended use See notice at 49 FR 42775

Comments None received

Decision Approved No instrument of equivalent scientific value to the foreign instrument, for such purposes as it is intended to be used, is being manufactured in the United States

Reasons The foreign instrument provides high resolution interferometric measurements of temperature and humidity from a geostationary-altitude platform The National Bureau of Standards advises in its memorandum dated December 5, 1984 that (1) the capability of the foreign instrument described above is pertinent to the applicant's intended purpose and (2) it knows of no domestic instrument or apparatus of equivalent scientific value to the foreign instrument for the applicant's intended use

We know of no other instrument or apparatus of equivalent scientific value to the foreign instrument which is being manufactured in the United States

(Catalog of Federal Domestic Assistance Program No 11 105 Importation of Duty Free Educational and Scientific Materials)

Frank W Creel

Acting Director Statutory Import Programs Staff

[FR Doc 85-5153 Filed 3-1-85 8 45 am]

BILLING CODE 3510-DS-M

COMMITTEE FOR THE IMPLEMENTATION OF TEXTILE AGREEMENTS

Import Limit and Certification Requirements for Certain Cotton, Wool, and Man-Made Fiber Sweaters Assembled in Guam From Imported Parts

February 27 1985

The Chairman of the Committee for the Implementation of Textile Agreements (CITA) under the authority contained in E O 11651 of March 3 1972 as amended has issued the directive published below to the Commissioner of Customs to be effective on April 15 1985 For further information contact Claire McDermott, International Trade Specialist (202) 377-4212

Background

Effective on April 15, 1985, cotton, wool and man-made fiber sweaters in Categories 345, 445, 446, 645 and 646, which are determined by the U S Customs Service to be products of foreign countries or foreign territories and exported from the U.S insular possession of Guam and are certified to have been assembled in Guam, may be entered into the United States for consumption, or withdrawn from warehouse for consumption, in an amount not to exceed 160 000 dozen. This limited exception will be effective for sweaters exported from Guam during the period which began on November 1, 1984 and extends through October 31, 1985

A certification will be required and will be issued by the authorities in Guam prior to exportation as verification of assembly in Guam A facsimile of the certification stamp is published as an enclosure to the letter to the Commissioner of Customs which follows this notice

For those sweaters properly certified, no export visa or license will be required from the country of origin of the merchandise, and imports entered under this procedure will not be charged to limits established for exports from the country of origin Exports of sweaters in Categories 345 445 446 645 and 646 which are not accompanied by a certification and those in excess of 160 000 dozen will require the appropriate visa or export license from the country of origin and will be subject to any other applicable restriction

This is an interim arrangement which is subject to change pending further review including necessary changes which may result from the issuance of final Customs regulations on country of origin determinations

A description of the textile categories in terms of T S U S A numbers was published in the Federal Register on December 13 1982 (47 FR 55709) as amended on April 7, 1983 (48 FR 15175) May 3 1983 (48 FR 19924) December 14 1983 (48 FR 55607) December 30 1983 (48 FR 57584) April 4 1984 (49 FR 13397), June 28, 1984 (49 FR 26622), July 16, 1984 (49 FR 28754), November 9, 1984 (49 FR 44782) and in Statistical Headnote 5, Schedule 3 of the TARIFF SCHEDULES OF THE UNITED STATES ANNOTATED (1985)

To facilitate transition to the new procedure, importers entering or withdrawing goods from warehouse for consumption in the United States before April 15, 1985, which have been exported on and after November 1, 1984 can obtain waivers from the certification requirement by addressing a request to Office of Textiles and Apparel, International Agreements and Monitoring Division, Room 3110, U S Department of Commerce, 14th and Constitution Avenue NW., Washington, D C 20230, Attention Waivers

The following information should be included

Port of Entry (indicating whether seaport or airport)
Name and Address of Importer
Name and Telephone Number of Customs Broker
Description of Merchandise
Category and TSUSA Number
Quantity (Units as set out in TSUSA)
Entry Number or Bill of Lading Number
Name of Carrier
Date of Export
Exporter

Any waiver will be subject to the Office of Textiles and Apparel receiving confirmation from proper authorities in Guam. Information included in any request for a waiver is subject to Section 1001 of Title 181 of the U S Code, which provides penalties for making false

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statements to any department of the United States Government

Walter C Lenahan,

Chairman Committee for the Implementation of Textile Agreements

February 27 1985

Committee for the Implementation of Textile Agreements

Commissioner of Customs

Department of the Treasury Washington DC

Dear Mr Commissioner Under the terms of section 204 of the Agricultural Act of 1956 as amended (7 U S C 1854) and in accordance with the provisions of Executive Order 11651 of March 3 1972 as amended effective on April 15 1985 you are directed to permit entry or withdrawal from warehouse for consumption in the United States of 180 000 dozen of cotton wool and man made fiber textile products in Categories 345 445 446 645 and 646 the product of any foreign country or foreign territory as determined under Customs Regulation Part 12 Section 12 130 and which have been certified as assembled in Guam and exported to the United States during the twelve month period which began on November 1, 1984 and extends through October 31 1985 You are directed not to require any otherwise applicable export visa or license and not the charge against any otherwise applicable import restriction sweaters subject to this provision A certification will be issued by the authorities in Guam prior to exportation as verification of assembly in Guam A facsimile of the certification stamp is enclosed

Imports of cotton, wool and man made fiber textile products in Categories 345, 445 446, 645 and 646 assembled on Guam, but not of Guam origin which are not accompanied by a certification and those in excess of 180 000 dozen which have been exported during the twelve month period which began on November 1 1984 and extends through October 31 1985 will require the appropriate visa or export license from the country of origin and will be charged to any applicable quota

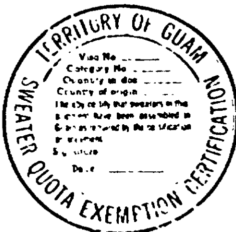
A description of the textile categories in terms of T S U S A numbers was published in the Federal Register on December 13 1982 (47 FR 55709), as amended on April 7, 1983 (48 FR 15175) May, 1983 (48 FR 19924), December 14, 1983 (48 FR 55607), December 30, 1983 (48 FR 57584), April 4, 1984 (49 FR 13397), June 28, 1984 (49 FR 26622), July 18, 1984 (49 FR 28754), November 9, 1984 (49 FR 44782), and in Statistical Headnote 5, Schedule 3 of the TARIFF SCHEDULES OF THE UNITED STATES ANNOTATED (1985)

The Committee for the Implementation of Textile Agreements has determined that this action falls within the foreign affairs exception to the rulemaking provisions of 5 U.S.C. 553

Sincerely

Walter C Lenahan

Chairman Committee for the Implementation of Textile Agreements



[FR Doc. 85-5155 Filed 3-1-85 8:45 am]

BILLING CODE 3510-DR-M

Import Limit and Certification Requirements for Certain Cotton, Wool, and Man-Made Fiber Sweaters Assembled in the Commonwealth of the Northern Marianas Islands (CNMI) From Imported Parts

February 27, 1985

The Chairman of the Committee for the Implementation of Textile Agreements (CITA), under the authority contained in E.O. 11651 of March 3, 1972, as amended, has issued the directive published below to the Commissioner of Customs to be effective on April 15, 1985 For further information contact Claire McDermott, International Trade Specialist, (202) 377-4212

Background

Effective on April 15, 1985, cotton, wool and man-made fiber sweaters in Categories 345, 445, 446, 645 and 646, which are determined by the U S Customs Service to be products of foreign countries or foreign territories and exported from the Commonwealth of the Northern Marianas Islands (CNMI) and are certified to have been assembled in the CNMI, may be entered into the United States for consumption, or withdrawn from warehouse for consumption, in an amount not to exceed 70,000 dozen. This limited exception will be effective for sweaters exported from the CNMI during the period which began on November 1, 1984 and extends through October 31, 1985

A certification will be required and will be issued by the authorities in the CNMI prior to exportation as verification of assembly in the CNMI A facsimile of the certification stamp will be published in the Federal Register as soon as it is received from DNMI authorities

For those sweaters properly certified, no export visa or license will be required from the country of origin of the merchandise, and imports entered under this procedure will not be charged to limits established for exports from the country of origin Exports of sweaters in Categories 345, 445, 446, 645 and 646, which are not accompanied by a certification and those in excess of 70 000 dozen, will require the appropriate visa or export license from the country of origin and will be subject to any other applicable restriction

This is an interim arrangement which is subject to change pending further review, including necessary changes which may result from the issuance of final Customs regulations on country of origin determination.

A description of the textile categories in terms of T.S.U.S.A. numbers was published in the Federal Register on December 13, 1982 (47 FR 55709), as amended on April 7, 1983 (48 FR 15175), May 3, 1983 (48 FR 19924), December 14, 1983 (48 FR 55607), December 30, 1983 (48 FR 57584), April 4, 1984 (49 FR 13397), June 28, 1984 (49 FR 26622), July 16, 1984 (49 FR 28754), November 9, 1984 (49 FR 44782), and in Statistical Headnote 5, Schedule 3 of the TARIFF SCHEDULES OF THE UNITED STATES ANNOTATED (1985)

To facilitate transition to the new procedure, importers entering or withdrawing goods from warehouse for consumption in the United States before April 15, 1985, which have been exported on and after November 1, 1984, can obtain waivers from the certification requirements by addressing a request to Office of Textiles and Apparel, International Agreements and Monitoring Division, Room 3110, U.S. Department of Commerce, 14th and Constitution Avenue NW., Washington, D.C. 20230, Attention: Waivers

The following information should be included.

Port of Entry (indicating whether seaport or airport)
Name and Address of Importer
Name and Telephone Number of Customs Broker
Description of Merchandise
Category and TSUSA Number
Quantity (Units as set out in TSUSA)

Thomas A. Seale
Executive Director
The American Chamber of
Commerce in Thailand
P.O. Box 11-1095
Bangkok, Thailand

August 1985

STATEMENT
ON THE
TEXTILE AND APPAREL ENFORCEMENT ACT OF 1985
H.R. 1562, S. 680
by the
American Chamber of Commerce in Thailand

The American Chamber of Commerce in Thailand, which represents over 375 U.S. firms presently conducting business in Thailand, continues to stand firmly against American protectionist legislation typefied by, among others, H.R. 1562, S. 680. AMCHAM Thailand opposes this legislation because of the fundamental, long-term damage which protectionism will inflict on the multilateral trading system, upon which we all depend. In addition to being unsound law, this measure is contrary to the principles agreed upon under the GATT, violates our international commitments and patently discriminates against Asian countries such as Thailand. The proposed legislation should not be supported as it is not in the best interest of either the United States or Thailand. It is unnecessary, and would only serve to invite retaliation against U.S. exports to Asian markets. Asia is our largest overseas market.

Tom Seale
Executive Director

STATEMENT OF

JOSEPH FORTINO, JR.

SENIOR VICE PRESIDENT OPERATIONS

KENNER PRODUCTS

ON S680 TEXTILE AND APPAREL TRADE
ENFORCEMENT ACT OF 1985

Subcommittee on International Trade

Committee on Finance

U.S. Senate

Mr. Chairman, I am Joseph Fortino Jr., senior vice president of operations for Kenner Products.

Kenner Products is grateful for this opportunity to present its views to the Senate Finance Committee.

We feel the inclusion of toys in S. 680 is an oversight. The House and Senate sponsors of this legislation agree with us. So do representatives of the domestic textile industry. We hope that the committee also will agree that it is inappropriate to cover toys in this legislation and will delete these products from any bill that is reported out of committee.

The bill as presently drafted would extend textile quotas to stuffed toys that are imported from our primary sources. This imposition of quota would result in dramatically higher prices for stuffed toys to the U.S. consumer but would result in no benefit whatsoever to the U.S. textile industry.

Congress is focusing on trade legislation this year because domestic manufacturers are concerned that imports eliminate American jobs. That problem, however, does not exist in the stuffed toy industry because most stuffed toys have been manufactured outside of the United States for many years. Virtually all U.S. toy companies source their stuffed toys overseas because of the highly labor-intensive nature of the production process. Only a few companies that specialize in large stuffed toys or in special collectors items still produce these items in the United States. These companies would not be adversely affected by deleting toys from the Bill.

On the other hand, domestic jobs would be lost if stuffed toys are not excluded from this legislation. Kenner employs 2000 hourly and salaried workers in its facilities in Cincinnati. Most of these jobs depend upon the availability of low-cost foreign imports. Kenner's engineering, design, marketing,

quality control, financial, and administrative staffs are all based in Cincinnati, and a substantial number of the hourly workers unpack toys shipped in bulk from overseas and repack them in smaller containers to be sent to retail stores. If S. 680 is not amended, many of these jobs would be lost. Our competitors also would be forced to reduce their work forces.

Certain support industries also depend on the availability of low-cost imported toys. Jobs in domestic transportation, corrugated cardboard, printing, machinery, etc. would also be lost if low-cost imported toys were not available.

The Care Bears manufactured by Kenner are a case in point. Care Bears are manufactured in Korea and Taiwan. If. S. 680 is enacted without change, it will be virtually impossible for Kenner to continue manufacturing this popular product in the Orient. We could manufacture Care Bears at other locations, but production costs -- and consumer costs -- would escalate dramatically, thereby putting Care Bears out of the economic reach of most American parents. We would eventually be forced to discontinue the entire line.

Congress has long recognized that stuffed toys are manufactured overseas. Stuffed dolls imported into this country are presently exempted from customs duties. This exemption was established two years ago in legislation sponsored by Rep. Frank J. Guarini (D-NJ).

At the time the Guarini bill was enacted, the Congress recognized that imposing customs duties on stuffed toys could only add to the cost the U.S. consumer had to pay for toys without producing any countervailing benefit for the U.S. textile industry.

S. 680 as presently written would reverse this policy. It would impose a quota system on stuffed toys that would place price controls in the hands of the overseas companies that control quotas. Quotas -- not product -- would be bought and sold, and this process would lead to increased manufacturing costs and increased consumer costs.

Kenner hopes the Senate will continue to recognize that stuffed toys are not import sensitive by deleting stuffed toys from S. 680.

We thank you for your assistance in this important matter.