AMERICAN TEXTILE
MANUFACTURERS INSTITUTE

The Andean Preference Trade Act

Senate Finance Committee

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Mr. Chairman, members of the committee:

My name is Carlos Moore. I am Executive Vice President of the American Textile Manufacturers Institute (ATMI), which is the national trade association for the U.S. textile industry. The textile industry today is one of the largest manufacturing sectors in the United States. We produce yarns, fabrics and home furnishings. Customers for our yarns and fabrics include garment makers and producers of a wide array of textile products for industrial, automotive, medical and other uses. It employs nearly half a million workers, has an annual payroll of $15 billion and annual shipments of close to $80 billion. The industry exports over $10 billion a year. About 75 percent of U.S. textile production takes place in eight Southeastern states, though the broad textile sector, including fiber production, is represented in nearly all fifty states. Notwithstanding these statistics, the industry is in a major crisis with production, employment, sales and profits all down substantially.

ATMI welcomes this opportunity to discuss expansion of the Andean Trade Preference Act (ATPA) to include textiles and apparel. Before getting to specifics regarding the proposed legislation, I think it is important to explain why the industry is going through such a difficult time and how an expanded ATPA could impact the industry and its workers.

This crisis is not the result of natural comparative advantages or superior innate competitiveness by our Asian or other competitors. Through 1997, even as quotas were being phased out and US textile tariffs were being lowered, the US textile industry steadily increased its shipments and dramatically increased its exports. The problem instead is rooted in a flood of artificially low-priced Asian imports caused by devalued Asian currencies.

This is not a problem that textiles faces alone - - the National Association of Manufacturers has declared the over-valued dollar to be the number one threat to US manufacturers, a view echoed by the American Farm Bureau and the AFL-CIO. However, the crisis for U.S. textiles is especially severe as its primary competition is from Asia, where currencies have fallen much more sharply than elsewhere – often intentionally under policies of competitive devaluations by Asian governments.

1. Prior to Asian currency collapse, U.S. textile industry healthy and growing

Over the last two decades, the U.S. textile industry has proven itself a global competitor. Faced with ever increasing imports, lower tariffs and quota phase-outs, the industry has spent billions of dollars in new plants and equipment, garnered record increases in productivity, produced innovative new products and dramatically expanded its export base. Textile plants in the United States today are characterized by computerized looms that consume a mile of yarn *a minute* and by yarn spinning plants which are essentially completely automated and run 24 hours a day, seven days a week.

- **Record mill shipments & strong profits through 1997**

From 1992 through 1997, textile mill shipments hit new records every year, culminating in a still-record $83.9 billion in 1997. As the industry emerged from the downturn of the early 1990s, textile corporate profits hit a record $2.1 billion in 1992. Although profits fluctuated over the next six years, they came close to matching the 1992 figure in 1998, the year before the effects of the Asian currency devaluations took full hold.

Other indicators for the U.S. textile industry underscore the gains achieved in the pre-Asian crisis 1990s. Mill fiber consumption, the measure of the industry's raw material usage, climbed from 13.3 billion pounds in 1990 to a still-record 16.9 billion in 1997, a gain of nearly 30 percent. Meanwhile, the production of broadwoven fabrics rose from 15.3 billion square yards in 1990 to a record 17.0 billion in 1997, an increase of more than 11 percent. Spun and textured filament yarn production jumped from 9.3 billion pounds in 1990 to 11.9 billion in 1997, another near-30-percent rise.

- **Over the past decade, industry productivity increased 165%**

Recognizing the need to remain at the cutting edge of technology and become globally competitive in world markets, the industry invested more than $2 billion annually in new plants and state of the art equipment from 1987 onward, reaching a peak of almost $3 billion in capital investment in 1994. In 1999, the most recent year available, industry capital expenditures were close to three billion dollars.

This emphasis on increased productivity yielded impressive results. In 1987, the average loom produced 12.9 square yards every hour that it ran. By 1997, the average loom produced 34 square yards every hour, an increase of almost 165 percent. A study by the National Cotton Council notes that over the last twenty years, productivity gains in the U.S. textile industry have been surpassed only by the U.S. electronics and computers industries. The American textile industry is consistently ranked as one of most efficient and productive textile industries in the world.

In terms of worker productivity, the gains have been large as well. A decade ago, the industry shipped $39.40 worth of product for every hour an employee worked. Last year, the comparable figure was $54.20, adjusted for inflation, a productivity gain of 38 percent.

- **Industry exports have increased by 300% since 1985**

As apparel making in the U.S. relocated offshore during the past 10-15 years, the U.S. textile industry has had to become more export focused. Textile exports have risen dramatically over the past fifteen years, increasing by over 300%, from $2.5 billion in 1985 to $10.5 billion last year. If exports of cut pieces of apparel made of U.S. fabric for assembly in Mexico and the CBI are included, the textile export figure rises to more than $16 billion last year or more than 20% of total U.S. textile shipments. Export growth last year was 11%, an increase of $1.7 billion.

The export growth figures span the textile spectrum, from yarns, apparel fabrics, industrial textiles to home furnishings products. While facing substantial trade barriers around the world, the U.S. textile industry has developed markets where it can gain access. However, most of our exports are to our NAFTA partners (51%), the Caribbean Basin (27%) and Europe (8%).

2. Sharp Asian Currency Devaluations Cause U.S. Textile Crisis

As we have stated, during the past four years, the U.S. textile industry, particularly the sectors that produce yarns and fabrics for apparel, have been hit with a wave of Asian textiles and apparel that entered the country at artificially low prices.

Precipitated by the currency devaluations in the Far East and a strong U.S. dollar, overall, Asian textile and apparel imports benefited from a 40% decline in export prices and exerted downward pressure on domestic textile prices and squeezed margins at U.S. textile mills.

Asian Currencies Drop 40% Over Last Four Years[1]	
1/96	**$1.00**
6/96	**$.97**
1/97	**$.95**
6/97	**$.93**
1/98	**$.76**
6/98	**$.69**
1/99	**$.71**
6/99	**$.70**
1/00	**$.72**
6/00	**$.70**
1/01	**$.64**
6/01	**$.60**

Making the situation even worse, while prices for domestically produced yarn and fabric were falling, the domestic market for these products was shrinking as the U.S. economic growth slowed in 2001.

As Asian textile and apparel imports captured more of the U.S. market and pushed domestic textile prices down, shipments by U.S. textile mills fell. Down nearly two percent in 2000, industry shipments have declined for three consecutive years so far. Not since the 1950's have industry shipments fallen for three years in a row. During the third quarter of 2000, as margins shrank because of falling prices for imports, the textile industry registered its largest quarterly loss in at least twenty years.

The third-quarter loss was the first quarterly loss in almost five years, and, combined with another loss in the fourth quarter, resulted in an overall industry loss of over $350 million for full-year 2000. It was the first annual loss for the textile industry in the more than 50 years that these data have been collected**.**

[1] Source: Oanda Inc. Index is made of the top ten Asian textile exporters to the United States: Pakistan, Thailand, India, South Korea, Taiwan, Indonesia, Philippines, Japan, Sri Lanka and Hong Kong (listed by volume). Note that China is excluded because China uses export tax rebates to devalue its currency and sector specific figures for those rebates are not available. However, China reported last year that its use of rebates was at record levels and had increased by 94% over the previous year.

- **Ten Percent of Textile Workforce Loses Their Jobs in Last Twelve Months**

As the industry crisis deepened in the latter half of 2000, textile job losses accelerated rapidly. For year-ending May 2001, industry employment was down 56,000 workers, or ten percent of the entire textile workforce. Losses have been spread across all textile sectors, including yarn spinning, weaving and knitting and home furnishings. In the month of May 2001, 9,000 U.S. textile workers lost their jobs as more than a dozen textile mills closed their doors. This year already more than 50 textile mills have been closed and four textile companies have gone out of business.

> **Keep in mind that since 1997, only one major competitive factor impacting the U.S. textile industry has changed – the devaluations of most Asian currencies. And that change has resulted in the major injury to U.S. companies and workers described above.**

3. Impact of Extending Andean Preferences to Textiles and Apparel

ATMI has serious concerns about including textiles and apparel in renewed Andean preference legislation. On the face of it and because of the U.S. textile industry's need for market opportunities, one might expect the industry to support such an expansion of the Andean preference program.

However, there are a number of reasons for our concern:

- First, many important rules and regulations governing the trade preference legislation enacted last year for the Caribbean Basin and Sub-Saharan Africa are still unresolved. The extent to which the U.S. textile industry will benefit from that legislation depends upon how those issues get resolved. Those same issues are present in the Andean pact legislation and they are linked to how the CBI and Sub-Sahara issues are dealt with.

  Foremost among those unresolved issues are whether fabrics will be dyed and finished in the U.S. only and whether yarns will be textured in the U.S. only – positions which ATMI strongly supports.

- Second, relatively little business activity has yet developed under the CBI and Sub-Saharan statute and it is premature to rush into a similar arrangement with other countries. Time should be allowed for trade and production to expand and for U.S. textile producers and Caribbean and African garment makers to develop business relationships. Also, obstacles such as financing of transactions and investment need to be worked out. A rush to expand can lead to delays and disappointments.

- Third, the pending Andean bill creates a new "mix" of benefits for the Andean countries that does not exist in the CBI and Sub-Saharan statutes. Moreover, Andean countries and others have been seeking even further departures from the provisions in the CBI/Sub-Sahara law. These efforts, if adopted, will be very damaging to the U.S. textile industry and its workers and is unfair and inequitable to the countries of the Caribbean and Sub-Saharan Africa. For example, S. 525 would permit duty-free and quota-free entry for apparel assembled in the Andean region from parts knit-to-shape in the U.S. from yarns from any source. The yarns could be from Pakistan, China or anywhere, with the result that countries not party to the arrangement would benefit at the expense of U.S. yarn producers. This is not permitted in CBI and Sub-Sahara statutes.

- Finally, if the provisions of S. 525 go beyond CBI/Sub-Sahara and , for example, were to include the use of Andean fibers, yarns and fabrics, the U.S. textile industry would experience more damage on top of an already crisis situation. In addition, our NAFTA partners and the beneficiaries under the CBI and Sub-Sahara statutes would be at a disadvantage. Andean countries would be granted full access to the U.S. market as though they were partners in a free trade agreement, yet they would have made no concessions of their own. If they were to be granted this extraordinary benefit, it seems clear that their interest in joining into the Free Trade of the Americas Agreement would be greatly diminished. They would have gotten full duty-free and quota-free access to the U.S. market for textiles and apparel immediately and without making any similar concessions on their part. It would be a free ride that could only add to the crisis our industry is experiencing.

Conclusion – The Risks Are Real and Outweigh Potential Benefits

In light of all of the above concerns, and particularly in light of intense lobbying by others to further weaken the Graham bill to the detriment of our members, ATMI is opposed to expanding the ATPA to include textiles. Given the textile crisis at hand, ATMI has no choice but to oppose any trade bill that may well add new burdens to the ones the industry is already facing.

In closing, Mr. Chairman, ATMI is not opposed to fair and equitable trade agreements which establish mutually beneficial trading arrangements and thus create a true economic partnership been U.S. textile companies and our customers in other regions. That is why we supported NAFTA and the Caribbean provisions of last year's trade bill and why we oppose S. 525, the Andean Trade Preference Expansion Act.

Thank you.