

April 22, 2004

The Honorable Robert B. Zoellick
U.S. Trade Representative
600 17th Street, NW
Washington, DC 20508

Dear Ambassador Zoellick:

Pursuant to Section 2104 (e) of the Trade Act of 2002 and Section 135 (e) of the Trade Act of 1974, as amended, I am pleased to transmit the report of the Industry Sector Advisory Committee on Wholesaling and Retailing for Trade Policy Matters (ISAC 17) on the U.S. Dominican Republic Free Trade Agreement, reflecting consensus advisory opinions on the proposed Agreement.

Sincerely,

Frank Kelly
Chair
ISAC 17

The U.S.-Dominican Republic Free Trade Agreement (CAFTA)

Report of the
Industry Sector Advisory Committee on Wholesaling and Retailing for Trade Policy Matters
(ISAC 17)

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Industry Sector Advisory Committee on Wholesaling and Retailing for Trade Policy Matters (ISAC 17)

Advisory Committee Report to the President, the Congress and the United States Trade Representative on the U.S.-Dominican Republic Free Trade Agreement

Pursuant to Section 2104 (e) of the Trade Act of 2002 and Section 135 (e) of the Trade Act of 1974, as amended, the Industry Sector Advisory Committee on Wholesaling and Retailing for Trade Policy Matters (ISAC 17) submits the following report on the substance of the U.S.-Dominican Republic Free Trade Agreement.

V. Advisory Committee Opinion on Agreement

The members of ISAC 17 have supported previous FTAs, but have raised questions whether the agreements negotiated to date meet the test of commercial viability with respect to textile and apparel trade. Subject to the issues and concerns discussed below and in the previous comments by ISAC 17 on the U.S.-Central American FTA (CAFTA), it is the committee's consensus that the Dominican Republic FTA, which is incorporated into the CAFTA will, on balance, promote the economic interests of the United States, largely achieve the applicable overall and principle negotiating objectives, and provide for general equity and reciprocity within the distribution services.

ISAC 17 refers to its comments on the CAFTA covering issues involving dealer protection regimes under distribution services, textile and apparel rules of origin, market access for footwear, and duty drawback and incorporates them as part of these comments. With respect to textile and apparel rules of origin, the committee wishes to amplify its views on the three substantive additions in the agreement with the Dominican Republic.

1. Co-production Arrangements

A side letter with the Dominican Republic commits the United States to work with its Congress to amend the Caribbean Basin Trade Partnership Act (CBTPA) to allow co-production arrangements with other Caribbean Basin countries to continue.

ISAC 17 is of the view that it is important to continue such co-production relationships, including between the Dominican Republic and Haiti, for two reasons. First, it is crucial that co-production relationships developed as a result of the Caribbean Basin Initiative and the Caribbean Basin Trade Partnership Act be allowed to continue so that the negotiation of FTAs

with some CBTPA countries does not place other CBTPA countries in a more disadvantageous position.

Second, the continuation of such co-production arrangements is essential in order to help build a viable textile and apparel production capacity in the region that can continue to thrive after the end of textile and apparel quotas in 2005.

In light of the side letter with the Dominican Republic, ISAC 17 believes that the inclusion of language to effect such a change in the CAFTA implementing legislation would be necessary and appropriate to implement the CAFTA and the agreement with the Dominican Republic. As such, ISAC urges that the Administration support inclusion of such a provision in the implementing legislation.

2. Cumulation

A provision in the agreement allows the Dominican Republic to benefit from the CAFTA cumulation provision for a period of five years. After that point, the provision expires and the Dominican Republic must have completed FTA negotiations with other NAFTA countries in order to continue to benefit from cumulation.

Although the committee believes the CAFTA cumulation provision is overly and unnecessarily limited, ISAC 17 supports allowing the Dominican Republic to benefit from cumulation under CAFTA in a manner that encourages that country to negotiate FTAs with Canada and Mexico. If this provision had not been included in the agreement, the Dominican Republic would have been placed a more difficult position to compete and develop its apparel industry vis-à-vis the other CAFTA countries.

3. Wool

The agreement with the Dominican Republic also doubles the cumulation sublimit for wool apparel by 1 million square meter equivalents (SMEs), which is set aside for products from the Dominican Republic. These products are also subject to a yarn-forward rule of origin. ISAC 17 believes this sublimit is so restricted to be of little commercial interest to U.S. retailers and importers.

With the problems noted in our prior comments on the CAFTA, the agreement with the Dominican Republic offers little additional flexibility offered on cumulation, and no tariff preference levels. As this committee noted in its comments on CAFTA, it is uncertain, whether this agreement contains sufficient incentives to build a strong apparel sector serviced by regional textile production. If those incentives prove to be insufficient, trade will ultimately shift away from the region to Asia. This result will have an obvious adverse impact, not only on the economies of the region, but also on U.S. exports of various inputs – fiber, yarn, and fabric – used in apparel production.

In discussing these issues, ISAC 17 has consistently raised concerns about the textile and apparel rules of origin, both in its comments on other FTAs and in briefings from Administration

officials. USTR has largely ignored the advice and views this committee on this matter and has chosen to not to modify its negotiating position beyond the restrictive yarn-forward rule of origin, with only limited additional flexibility in some agreements. This committee has argued that this stance results in FTAs that offer no real incentives for increasing trade and investment in the textile and apparel sectors. If USTR believes ISAC 17's assessment regarding the commercial deficiencies of the textile and apparel rules of origin is incorrect, it is the view of this committee that USTR should explain its reasoning, which it has so far failed to do. Alternatively, if USTR's negotiating position has been decided primarily on the basis of political considerations, the committee would appreciate a fuller explanation of the factors, both pro and con, that went into USTR's decision. In advising the Administration on this and other FTAs, this committee's time would not be well spent continuing to harp on these issues, if doing so ends up merely being an exercise in futility.

Sincerely,

Francis X. Kelly
Chair