



March 24, 2006

Gloria Blue
Executive Secretary
Trade Policy Staff Committee
Office of the United States Trade Representative
600 17th Street, N.W.
Washington, DC 20508
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RE: FR Notice 6820-6821 (February 9, 2006) – Request for Comments and Notice of Public Hearing Concerning Proposed Free Trade Agreement with Republic of Korea

Thank you for providing us this opportunity to submit this statement in support of the Free Trade Agreement (FTA) the United States is preparing to negotiate with Korea.

As you know, the American Apparel & Footwear Association (AAFA) is the national trade association representing the apparel and footwear industries, and their suppliers. Our members produce and market sewn products throughout the United States and the world, including the potential FTA partner that is the subject of this hearing. In short, our members make almost everywhere and sell almost everywhere.

We support the negotiation of this FTA because we believe it will have a positive impact on our industry and on the United States. As we move into a full FTA partnership with Korea, we can:

- create markets for U.S. inputs and finished products, since U.S. exports and U.S. branded products will now qualify for duty free status in the sizeable Korean market.
- foster alternative sourcing opportunities for U.S. clothing and footwear companies eager to develop new partnerships and cultivate new supplier relationships;
- simplify and clarify customs requirements and make it easier for existing levels of trade to occur; and
- promote business certainty and investment predictability through a permanent trade relationship.

At the same time, this agreement poses minimal risk of injury to the United States. Import penetration in these industries is considerable, reflecting the economic reality that most apparel and footwear is no longer produced in the United States. For footwear, we are now at 98.5 percent import penetration. For apparel, we are at about 92.0 percent import penetration.

Production that is still based in the United States tends to follow niche domestic or export markets, respond to specific government procurement incentives (such as the Berry Amendment), or exist to serve certain quick response requirements of the U.S. market. An FTA with Korea would not likely displace this U.S. based production and might even offer that production new export opportunities. Instead, this FTA would help Korea remain competitive on its existing trade flows – particularly in textiles and apparel in light of the recent elimination of worldwide quotas – or increase trade with Korea by diverting trade flows from other countries without FTAs with the United States.

Moreover, Korea does not represent a significant source of apparel or footwear, when measured against total worldwide imports. During 2005, U.S. footwear, textile and apparel companies imported about \$2.4 billion worth of product from Korea, the 13th largest supplier of those products to the United States. U.S. imports from Korea represent only 2.1 percent of total U.S. imports of these products.

Meanwhile, Korea is one of the world's top 20 markets for apparel, textiles and footwear, importing over \$6 billion worth in 2005.

If negotiated properly, an FTA will continue to anchor the trade that already enjoys duty free status, while creating enough incentives to stimulate new trade and investment linkages. The more flexible and simple the rule of origin is with respect to the FTA, the more likely we will see existing production and investment stay, and new production and investment created. Under this scenario, we can easily envision imports from Korea and exports to Korea continuing to grow, both in absolute levels and in terms of market share. Among other things, this will lead to continued demand for U.S. inputs, which will positively affect U.S. companies and their U.S. workers.

But the benefits to the United States and Korea that are outlined above are severely diminished if this agreement is implemented in a manner that is too restrictive or complicated. The economic incentives offered by duty free access to the U.S. market are very powerful. But if the cost of achieving that duty free status – through burdensome compliance, costly customs procedures, and expensive input requirements – exceeds the margin of the duties saved, the incentive quickly evaporates. We would encourage the negotiation of an FTA with simple and flexible rules of origin, commonsense customs procedures that reflect and facilitate predictable business operations, and market access provisions that commence with a duty free environment.

With regard to textiles and apparel, we do not view the model that the United States negotiated in a number of recent agreements – such as Chile, Singapore, Australia, Colombia, and Peru – as being viable enough to encourage trade and investment in this industry. We would strongly discourage this approach in this FTA and in future agreements. With regard to footwear, as we outline in more detail below, we see the rule of origin negotiated in the U.S./Central America-Dominican Republic Free Trade Agreement (CAFTA) as a key precedent for this FTA and for all future agreements.

As you know, Korea and the United States are both important players in the highly integrated and interconnected global apparel, textile and footwear markets. While Korea is a major manufacturer and exporter of yarns, fabrics and footwear inputs as well as finished apparel and footwear, it is also a major importer of all of these products. Likewise, while the United States is a major manufacturer of high quality yarns, fabric and other textiles, it is also a major importer of those products as well as the finished apparel and footwear that those products help make. Korea both sells these products to and buys these products from not only the United States, but also many of the same countries that the United States sells to and buys from – whether they are neighbors in the region or across the ocean.

Therefore, we strongly believe this FTA should incorporate critical “cumulation” provisions so that it may be integrated easily with other FTAs that the United States and Korea have negotiated (or are planning to negotiate). The benefit to the United States of this and other FTAs is magnified if the FTAs are negotiated such that they may be linked together, rather than as stand alone ventures.

Moreover, other provisions that permit the use of non-originating inputs in other circumstances, such as in short supply, are also critical. This is important to ensure that U.S. and regional inputs do not lose sales opportunities because they are combined with those that are not found in commercial quantities in the United States.

Further, the agreement should apply a cut and sew rule for certain items that are not produced in the United States, nor for which fabrics are produced in the United States or Korea. Many of the same products that should receive a cut and sew rule already receive such treatment in the U.S./Central America-Dominican Republic Free Trade Agreement (CAFTA-DR) or were excluded from coverage in the recently completed U.S./China Bilateral Textile Agreement.

Finally, the FTA should also recognize that there are many products that are no longer produced in the United States. Our association has advocated inclusion of liberal rules of origin and immediate duty-free access for the footwear and clothing that is no longer produced in the United States. With footwear in particular, we have worked with other U.S. footwear associations to advocate a simple substantial transformation style origin rule coupled with immediate and reciprocal duty free treatment for all but 17 specific HTS lines. A substantially similar formula is already contained in the preferential rules for footwear for the Caribbean Basin and the Andean region and is contained in CAFTA. As with the cumulation concepts, such provisions help generate additional economic activity under the FTA and ensure that the FTAs do not grow stale or too rigid as the economy changes.

We support the continued right of U.S. companies to avail themselves of duty drawback and duty deferral programs, as enshrined in the existing preference programs as well as our agreements with Central America and Australia.

On government procurement, we urge transparent and predictable measures as well as the continued application of the Berry Amendment, which requires the U.S. military to source textiles, clothing and footwear from the United States.

We trust that this agreement will pay particular attention to the vigorous enforcement and continuing needs for widespread observance of intellectual property rights (IPR) in Korea, particularly since this issue has been raised in the context of counterfeit brands for both apparel and footwear over the past few years.

We support an FTA that contains labor provisions consistent with the requirements of Trade Promotion Authority (TPA). Our members strive to ensure that their products are produced under legal, ethical and humane conditions and want to ensure that our trading partners share these values. As an association, we have endorsed the Worldwide Responsible Apparel Production (WRAP) program – an independent factory based monitoring and certification program. On this point, we would encourage the dialogue created by the FTA negotiations to serve as an opportunity to more fully engage the Korean government on the need for peaceful and democratic change in Burma.

Finally, we note that, even when an FTA is concluded and approved by Congress, the benefits often do not take effect in a meaningful way until after the regulatory process is complete. As the United States undertakes multiple FTAs, we encourage approaches that will permit the post-approval regulatory process to proceed quickly and in a predictable fashion so that companies are not forced to place trade and investment decisions on hold because of an uncertain regulatory regime. Delays in issuing customs regulations and unclear guidance documents should be avoided at all costs.

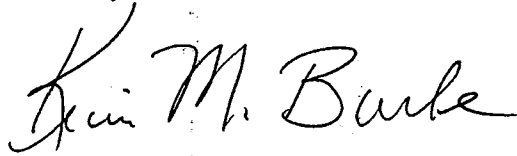
Conclusion

AAFA has long held the view that flexible and simple rules of origin will make any FTA more successful and the proposed FTA with Korea is no exception. If apparel and footwear companies have more options as they source their inputs in a particular FTA, they can manufacture a product that can be competitive in the U.S. market and enjoy new opportunities for U.S.-made and U.S.-branded products in other markets. At the same time, the more restrictive and cumbersome the rule of origin is, the more difficult it is to produce an article under the specific terms of the FTA. Although an article may technically qualify for duty free access in the U.S. market, the costs associated with restricted input choices, high customs compliance and verification procedures and incomplete and confusing rule-making can outweigh the duty advantages associated with a particular preference program or FTA.

In a post-quota world, the marginal benefit of any particular preference program will become even smaller since the quota costs formerly imposed on many non-preference partners will diminish. As a result, it will become increasingly important for the costs associated with using any preference program or FTA to diminish as well if we want those programs to remain competitive for textiles and apparel. While there is no similar action forcing event for footwear, the heavy concentration of this industry in China and need for diversification – U.S. imports from China account for almost 85 percent of all footwear sold in the United States – makes a flexible and pragmatic FTA for footwear equally desirable.

In conclusion, we reiterate our very strong support for this FTA and our hope that it will be swiftly negotiated and implemented in a commercially meaningful manner so that the benefits noted above can be quickly realized.

Sincerely,

A handwritten signature in cursive script that reads "Kevin M. Burke". The signature is written in black ink and is positioned above the printed name and title.

Kevin M. Burke
President & CEO