

# AMTAC

American Manufacturing Trade Action Coalition

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**Testimony of Vince Foody  
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Member, American Manufacturing Trade Action Coalition  
United States – Republic of Korea Free Trade Agreement USITC Hearing  
April 20, 2006**

Mr. Chairman and Members of the Commission:

Thank you for the opportunity to testify at this important hearing. My name is Vince Foody, and I am the Director of Marketing for the Specialty Industrial Business of Milliken & Company, located in Spartanburg, SC. Milliken is one of the largest privately held textile and chemical manufacturers in the world and widely acknowledged as an international leader in research technology, innovation, and customer service.

In addition, Roger Milliken, Chairman of Milliken & Company, serves as a Co-Chairman of the American Manufacturing Trade Action Coalition (AMTAC). AMTAC is a trade association founded by domestic manufacturers who are committed to manufacturing here in the United States. Our objective is to seek the establishment of trade policy and other measures designed to stabilize the U.S. industrial base and thus preserve and create American manufacturing jobs. AMTAC represents a wide range of industrial sectors including, tool and die, chemical, furniture, mold makers, metal products, packaging products, corrugated containers, lumber and luggage producers. Additionally, a significant component of AMTAC's membership consists of producers from the yarn, fabric, dyeing and finishing, and apparel sectors.

As an initial point, AMTAC would like to reiterate our long-standing concerns with the rampant proliferation of FTAs with countries that can serve as major exporters to the U.S. market, yet present limited market opportunity for finished U.S. manufactured goods. As such, an FTA with South Korea would replicate the flawed trade policy model of the NAFTA, CAFTA, Singapore, Chile and Morocco trade agreements. This model involves the granting of free access to the U.S. market for producers that use depressed wages, low labor standards, and poor environmental standards to undercut U.S. domestic manufacturers. In return, U.S. domestic manufacturers gain access to markets that are a fraction of the value of the U.S. market. South Korean consumers, for example, only represent 8.4 percent of the U.S. economy and have restricted ability to purchase finished goods made in countries that pay high wages and have strong environmental, labor, safety, and health standards.

Moreover, South Korea's history of utilizing unfair trading practices as an egregious violator of U.S. antidumping law raises serious concerns. Currently, there are 24 antidumping and countervailing duty orders in place against U.S. imports from Korea. In fact, South Korea has been pressing for the weakening of global anti-dumping rules through the World Trade Organization in both the Uruguay and Doha Rounds.<sup>1</sup> South Korea's record of selling products at below fair market value and unlawfully subsidizing their industries is a serious problem and clearly another reason to proceed with caution in negotiating this free trade agreement.

On a related matter, negotiating an FTA with South Korea will be especially sensitive in relation to the ability of U.S. Customs to monitor and enforce the agreement. Given South Korea's close proximity to China where production costs are much lower, China will have an enormous incentive to take advantage of South Korea's zero duty access to the U.S. market through illegal transshipment and false documentation. U.S. customs is currently stretched thin with critical counter-terrorism efforts, and it is nonsensical to keep adding these free trade agreements that simply cannot be properly enforced.

Finally, we are particularly concerned about the U.S. – South Korea FTA as it relates to textiles and apparel. South Korea is a major exporter of textile and apparel products to the U.S. as our 6<sup>th</sup> largest supplier of textiles and apparel by volume for the year-ending February 2006. In textiles alone, where South Korea is particularly competitive, they are currently the United States' 5<sup>th</sup> largest supplier. Total U.S. textile and apparel imports from South Korea were valued at over \$1.9 billion dollars in 2005, nearly 12 times the value of our exports to South Korea.<sup>2</sup>

Noting South Korea's ability to negatively impact the U.S. market, we strongly believe that the U.S. should insist on a very tight rule-of-origin for textiles and apparel. Specifically, we would oppose any origin rule other than a strict yarn forward arrangement. AMTAC firmly believes that any free trade agreement should benefit only the countries party to the agreement. Allowing our free trade agreements to provide a backdoor to the U.S. market for non-signatory countries is unacceptable. As a result we would strongly oppose the inclusion of the following provisions in the U.S. – South Korea FTA:

#### Single Transformation

We oppose any "single transformation" exception to the yarn forward rule of origin in that it would allow non-U.S. or non-South Korean components to be used to assemble or finish an unlimited amount of products in South Korea for export to the U.S. duty free. Due to their proximity to China, it is a virtual certainty that Chinese yarns and fabrics

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<sup>1</sup> See CRS Report on U.S.-South Korea Economic Relations dated July 1, 2004, pg 16. Available at: <http://fpc.state.gov/documents/organization/34347.pdf>

<sup>2</sup> Figures reported by the U.S. Department of Commerce Office of Textiles and Apparel (OTEXA). U.S. imports from South Korea were \$1,909,119,000 in 2005, while U.S. exports to South Korea were \$165,229,000.

will comprise the overwhelming majority of component parts for products allowed to enjoy a single transformation rule.

#### Tariff Preference Levels (TPLs)

TPLs, allowing for a specific amount of trade to receive duty free treatment without having to use U.S. or regional yarns and fabrics, would amount to another significant loophole in any South Korea FTA. The establishment of a TPL would mean the forfeiture of potential U.S. yarn and fabric sales to the benefit of non-signatories, such as China.

Moreover, TPLs are unnecessary because “short supply” provisions in the agreement would allow South Korea to use third-country yarns and fabrics if those goods are no longer produced in the U.S. or South Korea.

#### Cumulation

Cumulation is essentially a TPL by another name and thus an exception to the rule of origin. There is no need to incorporate benefits for countries that are not a party to this agreement, even if they happen to have free-trade agreements with the U.S. and South Korea. This provision would provide yet additional incentives to use non-U.S. yarns and fabrics, accelerating the loss of U.S. jobs and domestic manufacturing investment.

#### Short-Supply

AMTAC does not oppose the inclusion of a reasonable “short-supply” process such as the system adopted under the CAFTA. Moreover, we argue that a valid short supply mechanism obviates the need for the various aforementioned loopholes. At the same time, AMTAC strongly objects to any predetermined short supply list that contains items that have not been approved through a formal short supply review such as NAFTA or CBTPA. We strongly advise that the U.S. government only include items on an initial short supply list that already enjoy short supply status under an existing preferential arrangement. In fact, we object to the adoption of the CAFTA short supply list since it contains items that were not subject to a short supply review and are being produced in the U.S.

#### Retroactivity

We oppose any retroactive duty relief for imports from South Korea of products that do not use U.S. yarn and fabric. Providing retroactive duty relief for U.S. importers on products made from South Korean components creates a major incentive for importers to immediately begin purchasing garments in South Korea that do not contain U.S. yarns and fabrics.

## Loopholes for Industrial Fabrics

AMTAC's industrial fabric manufacturers, of which Milliken is one, are particularly concerned about the South Korean FTA. South Korea has an extremely sophisticated industrial fabrics sector and may very well be looking for concessions in this area. These fabrics are contained mainly in Chapter 59 of the U.S. tariff schedule and, more specifically, in Category 229, Special Purpose Fabrics. South Korea is currently the 2<sup>nd</sup> largest supplier of the U.S. import market for Category 229, with a nearly 20% share of the market for the twelve-month period ending March 2006. Furthermore, South Korea is making strides to overtake Canada to become the number one supplier, as U.S. imports from South Korea surged ahead of Canada for the year-to-date March 2006 period.<sup>3</sup> This is likely a result of Category 229 being included in the U.S.-China Textile Bilateral Agreement. Consequently, it is also critical that the South Korean FTA not allow China a backdoor entrance to the U.S. market by extending any special loopholes for industrial fabrics.

In conclusion, while South Korea has substantial capability to produce finished goods for export, they have limited ability to consume finished goods manufactured in the U.S. Unless the strongest possible origin rules are adopted under this agreement, it is clear that an FTA with South Korea will replicate the flawed policy model that has led to millions of job losses, crippled key manufacturing sectors such as the U.S. textile industry, and badly damaged the U.S. economy.

Thank you again for this opportunity to testify today and for your consideration of my views.

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<sup>3</sup> Preliminary Year-to-Date and Year-Ending March data from OTEXA.