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Joan Claybrook, President

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Contact: Eliza Brinkmeyer (202) 454-5108
Chris Slevin (202) 454-5140

After Tough Talk on CAFTA, Reps. Inglis and Barrett Sell Out South Carolina Manufacturers and Workers for Unenforceable “Textile Deal,” Opening Door to More Chinese Imports

Public Citizen Launches CAFTA Damage Report to Track Outcome of Misguided CAFTA Votes

WASHINGTON, D.C. – Turning their backs on the struggling textile and apparel industry and workers in South Carolina’s 3rd and 4th Districts, Reps. Bob Inglis (R-S.C.) and J. Gresham Barrett (R-S.C.) reversed their previous opposition to the Central America Free Trade Agreement (CAFTA), an expansion of the North American Free Trade Agreement (NAFTA), to become the deciding last votes in CAFTA’s 217-215 passage July 28, after receiving vague promises by Republican congressional leaders to help protect the U.S. textile and apparel industry from Chinese competition. Inglis has previously stated that he would oppose CAFTA unless it was amended to eliminate three provisions he identified as disastrous for South Carolina, while Barrett had made similar demands related to the agreement. Past demands of this type to amend signed trade agreements have resulted in changes *before the Congressional vote*, such as the removal from the U.S.-Singapore Free Trade Agreement of the so-called Integrated Sourcing Initiative, which was seen as a threat to U.S. manufacturing.

However, Inglis and Barrett flip-flopped and voted for CAFTA without obtaining amendments they had demanded, which would reverse new rules of origin on pocketing, and close major CAFTA loopholes created by a large tariff preference level for Nicaraguan goods and new CAFTA cumulation rules. Inglis said he decided to vote for CAFTA on the basis of a Bush administration promise that it would attempt to amend CAFTA *after* it took effect, while press accounts report that Barrett was also drawn to the Inglis promises.¹ *Post hoc* amendments to change CAFTA require consensus of all CAFTA signatory countries, which is improbable given that such a change is against their economic interests and that the CAFTA countries’ only “commitment” to consider such changes comes from trade officials (not the presidents who signed the treaty), and comes in the form of unofficial letters and verbal commitments outside the legal scope of the treaty. Thus the United States has no recourse against other countries for their failure to follow up on these side commitments, which has been the pattern in past last minute trade deals. Inglis was aware of this and knew that even if the *post hoc* changes to CAFTA’s text were agreed to, the changes needed to avoid CAFTA ravages to South Carolina, which are not supported by many key members of Congress, could be implemented only by yet another congressional vote.

“Even in cynical Washington political circles, no one can understand how Inglis and Barrett would elect to irreversibly destroy their voters’ trust by betraying the clear will of their constituents, and the obvious threat CAFTA poses to them, by doing what the Republican leadership asks of them,” said Lori Wallach, director of Public Citizen’s Global Trade Watch. “When you see a member of Congress flip-flop on a vote then try to use as cover a ‘deal’ like this one that is designed to be broken, you wonder if the Congressman is either so naïve that he should not be in office or that he knows better but is so weak he has been beaten by GOP leadership into betraying his constituents.”

To track the outcome of the unprincipled deal-making and “yes” votes on CAFTA by Inglis and Barrett, Public Citizen is launching a new initiative – the CAFTA Damage Report, which will be updated regularly at www.tradewatch.org. The report will track the fallout from Inglis’ and Barrett’s flip-flop in terms of the negative

impact of CAFTA on South Carolina's textile and apparel industry and working families and will monitor damage CAFTA is expected to do to U.S. national security, as the deal will likely disrupt the fragile economies and social order in Central America and the Dominican Republic. The CAFTA Damage Report also will track the foreseeable failure of the Inglis/ Barrett "deal" to materialize and the political repercussions for Inglis and Barrett at home following their CAFTA vote.

Under the existing Caribbean Basin Initiative (CBI), which now sets trade rules with the CAFTA countries but which CAFTA will replace, textile and apparel products can only enter the United States duty-free if they are produced using U.S. or CBI nation inputs. Inglis and Barrett's neighboring districts – which encompasses the cities of Greenville, Spartanburg and Union in Inglis' 4th district and Aiken, Anderson, and Greenwood in Barrett's 3rd district – includes manufacturers of pocketing materials, for which CBI's rules requiring U.S. inputs created a market in Central America. However, CAFTA's "rules of origin" will eliminate this important market for products from South Carolina's 3rd and 4th district, because CAFTA explicitly excludes pocketing and invisible linings from having to meet even CAFTA's relaxed rules of origin. CAFTA eliminates CBI's requirement that to get duty-free treatment, goods must be made of yarn spun from U.S. or Central American fiber, opening the door to duty-free imports made from fiber and yarn from non-CAFTA countries, such as China. However, the greatest damage CAFTA poses for South Carolina's 3rd and 4th districts is *a further rollback of the CBI rules that exclude pocketing and linings from having to even meet this relaxed rule of origin*. Additionally, CAFTA waives the relaxed "yard-forward" rule of origin 100 million square meters equivalent (SME) of Nicaraguan goods for 10 years under a special tariff preference level.

Because seven pocketing facilities have recently closed in South Carolina, Inglis originally stated that he would vote against CAFTA unless it was amended to protect workers from Chinese competition.² Inglis demanded substantive changes, rejecting the Bush administration's promise to merely "seek an amendment" to the trade agreement. Inglis was very clear on this point, proclaiming: "I've been very careful to plant the goal post and not move it."³ According to *Inside U.S. Trade*, Inglis promised to vote against CAFTA unless the five Central American countries and the Dominican Republic made a "binding commitment ... that they will not use three provisions in the DR-CAFTA to incorporate inputs from China into apparel that will enter the U.S. duty-free under the deal."⁴

Barrett for his part signed a letter to President Bush in 2003, before CAFTA was signed, demanding that CAFTA "not include exceptions, such as tariff preference levels (TPLs)" because TPLs would contribute to increased textile job losses in the United States and also "allow China and other free-rider foreign suppliers to benefit from agreements designed to promote trade and investment between signatory countries at the expense of U.S. and regional manufacturers."⁵ As recently as May 17th, Rep. Barrett continued to state his opposition to CAFTA.⁶

In the end, however, Inglis and Barrett bowed to Republican Party pressure and hung their constituents out to dry. On July 25, Inglis declared his support for a "new" CAFTA,⁷ despite the fact that he had failed to secure a "binding commitment" on any of the three CAFTA provisions that he himself identified as posing serious problems for his state. Barrett also got no binding commitment on his TPL concerns, and claimed that CAFTA's loopholed had been closed.⁸

What makes the Inglis/ Barrett flip-flop so incredible is the fact that Inglis is very aware of the devastation that these trade agreements bring to the workers and families of South Carolina, while Barrett has expressed concern that the U.S. textile industry continue to thrive. In 1993, Inglis voted against NAFTA due to fears he had about the direction of the U.S. economy and the future of South Carolina's textile and apparel industry.⁹ These fears proved well founded: between 1994 and 2004, South Carolina lost 76,800 manufacturing jobs, or 22 percent of the jobs in the manufacturing sector.¹⁰ Much of this loss can be attributed to NAFTA, which forces workers in South Carolina to compete against low-wage workers in Mexico. Nevertheless, Inglis decided to vote for CAFTA, a trade agreement virtually identical to NAFTA, because, in his words, the "world has changed" since his NAFTA vote more than 10 years ago.¹¹ The evidence shows that in South Carolina, much has changed under NAFTA, and not for the better. Yet even with full knowledge of NAFTA's legacy, Inglis ignored his constituents and failed to

demand real protection for South Carolina's workers when push came to shove, and supported the expansion of NAFTA to six additional countries – countries with large competing textile and apparel industries.

Barrett for his part has stated that support of the U.S. textile industry is a central goal of his Washington tenure. In a 2004 press release, Barrett said, "The manufacturing and textile base has always been the backbone of our economy and we must ensure that continues. I am well aware it was the manufacturing and textile base that helped build the middle class in this country. When I go back to DC I will continue to work with other members of Congress, the Administration and industry leaders to ensure manufacturing and textile businesses not only survive, but thrive."¹² In voting for CAFTA, which will eliminate many of the orders that the U.S. textile industry enjoys through the CBI, Barrett is failing to fulfill his pledge.

The CAFTA Damage Report will systematically track deals made for CAFTA votes, as well as the economic damage caused by CAFTA. If history is any guide, there is little hope that the promises made by the Bush administration in exchange for Inglis' and Barrett's CAFTA vote will bear fruit: Public Citizen has tracked nearly 100 such deals-for-trade-votes, and more than 80 percent have been broken or reversed.

"South Carolina's textile and apparel industry has been devastated by NAFTA," said Todd Tucker, research director at Public Citizen's Global Trade Watch. According to the nonpartisan Economic Policy Institute, South Carolina has lost 14,634 jobs as a direct result of NAFTA.¹³ "Rep. Inglis was expected to express his dissatisfaction with the NAFTA trade model by opposing CAFTA, while Rep. Barrett has missed a golden opportunity to make good on his promises to support U.S. jobs. His unprincipled flip-flop on CAFTA for a few unenforceable administration promises is at odds with the concerns of his constituents and the welfare of his state."

In switching their votes, Inglis and Barrett are relying on a Bush administration promise to seek a *post hoc* amendment to CAFTA's textile rule of origin provisions. The Bush administration has promised to seek amendments to CAFTA, if it goes into effect, to put back into place the current rules on U.S. pockets and linings. Inglis' trade vote was also bought by a promise to postpone CAFTA's so-called "cumulation" rules, which allow Mexico and Canada to benefit from CAFTA preferences, and a promise by Nicaragua's government not to use a CAFTA loophole it obtained in a way that undercuts current sales of U.S. textile and apparel inputs there.¹⁴ But Inglis is taking a huge political risk by accepting these commitments at face value, for the following reasons:

- **The pocketing and lining deal is designed to be evaded; it is not in the CAFTA text or congressional implementing legislation and it requires the unanimous consent of all CAFTA signatory countries, and then any change so agreed upon would require congressional approval.** The only commitment he obtained in exchange for changing his vote on CAFTA is *to try to use CAFTA's amendment procedures if CAFTA is passed and implemented so as to try to seek agreement post-facto for six other countries to give new concessions to the United States.*¹⁵ First, the only commitment that the Bush administration was able to obtain on this issue from the other CAFTA countries is a recent letter – signed by trade officials, not the countries' presidents. The side letter is not legally binding as part of CAFTA. Thus, if even one CAFTA nation refuses to make these amendments after CAFTA goes into effect, the "deal" is undone, as consensus is required for amendments. With elections upcoming in several of the countries, it is unclear if the officials who signed, or even the same political parties, will still be in office when talks start. Second, the CAFTA nations will not easily agree to new rules of origin that they view as against their interest. Further, it remains unclear what new concessions will be demanded from the United States in exchange for pocketing and lining rules of origin changes, and whether such new concessions will be acceptable to other U.S. interests.¹⁶ Third, there is no legal recourse if the countries change their mind once CAFTA is in place, because Inglis' "deal" is not part of CAFTA. In fact, if the United States attempted to unilaterally impose the pockets and lining "change," the other CAFTA countries could take the United States to a CAFTA trade tribunal for violating the agreement's rules, which allow pocketing and linings to come from China and other third countries. The "commitment" Inglis claims to have from the Nicaraguan government not to use CAFTA's tariff preference levels rules to replace U.S. inputs with Chinese inputs is even more unenforceable, given that it also would require the voluntary compliance by that country's private sector garment companies. Meanwhile, Mexico would have to agree to new customs inspections – that it has to date refused – to implement the fix to CAFTA's "cumulation" rules that Inglis says is so vital. Press reports indicate the Bush administration has still not started formal talks on the

matter, nor have Central American or Mexican industry or government representatives formally agreed to the changes.¹⁷ Finally, any changes to the trade agreement's rules of origin must be approved by Congress, yet several key members of Congress controlling the committees that must OK such a bill do not support the deal. The amendments would not be subject to Fast Track trade authority.

- **The promised deal, even if kept, will not solve the long-term problems of the U.S. textile and apparel industry, a large portion of which opposed CAFTA.** Even if, by some miracle, the amendments to CAFTA were implemented, they would not solve the broader loss in U.S. textile and apparel market share caused by CAFTA's rules of origin, which erode existing CBI incentives to use U.S. textile inputs – a primary reason that the majority of U.S. textile manufacturers opposed CAFTA. Moreover, CAFTA does nothing to stop the trend of production relocation from Central America to China after the phasing-out of the global textile and apparel quota system, because U.S. tariffs on Central American imports are *already* at zero, and even though Chinese goods face tariffs and greater transport costs, they are still cheaper than the competing Central American goods due to China's lower input and wage costs.¹⁸ Indeed, candid industry spokespeople admit as much. CAFTA “may not give enough financial incentives to stop the production erosion in Central America. If I can get something five to six days quicker out of Central America versus Asia, but the cost benefit analysis is not there, why would I go [to Central America]? There is no difference then,”¹⁹ said Peter McGrath, chairman of J.C. Penney Purchasing Corporation, a leading U.S. importer of textile and apparel products. Elimination of the global textile and apparel quotas once required under the World Trade Organization (WTO) means that U.S. retailers no longer have to pay the premium on Central American goods because they can source unlimited amounts from China – a reality unaffected by CAFTA. Yet, by loosening existing rules of origin requiring U.S. inputs, CAFTA would reduce the demand for U.S. textile exports to Central America for what limited share of the garment market those countries will retain.²⁰
- **The Bush administration's poor track record on textile and apparel enforcement undermines faith in its ability to come through on pocket lining or new enforcement promises.** During the Fast Track 2002 debate, for example, the Bush administration won over support from then-Rep. Richard Burr (R-N.C.), and Reps. Robin Hayes (R-N.C.) and Sue Myrick (R-N.C.), by pledging to spend \$9.5 million on up to 72 new enforcement agents to implement textile trade rules of origin and other laws. Funds were authorized in the implementing legislation, and eventually appropriated, although only after considerable additional effort by the industry and increasingly exposed members of Congress. Notwithstanding the promise to hire these agents in fiscal years 2004 and 2005, three years later there is no evidence that these agents, who were meant to focus on textile transshipment, and whose positions were even funded over the past few years, were ever hired.²¹ This broken deal points out a dangerous reality: Even if a member is able to overcome an administration's intention to break the funding part of a deal and obtain the needed appropriation through different routes, in the end, an administration can prevent the fulfillment of a promise by simply not taking action. Meanwhile, despite talking tough on textile and apparel import surges from China, the Bush administration is still formally declining U.S. textile and apparel industry petitions and congressional demands to initiate a case concerning currency manipulation – a reluctance that bodes ill for U.S. textile and apparel industry hopes to solve its problems with current WTO arrangements related to trade with China.²²

Background: Public Citizen's Global Trade Watch has studied over 90 deals taken by members of Congress for trade votes during the period 1992-2004, and found that over 80 percent of promises on such deals were not kept or were reversed by subsequent events. We divided these deals into pure pork barrel promises, of which 70 percent were broken; and ameliorative policy fix promises, of which 90 percent were broken. For our full report, “Trade Wars – Revenge of the Myth: Deals for Trade Votes Gone Bad,” please visit <http://www.citizen.org/documents/tradewars.pdf>

¹ “Bush Officials Win Hayes, Aderholt Votes with Assurances on Textiles,” *Inside U.S. Trade*, July 29, 2005; “Bush Secures CAFTA Vote in Final Hours with Renewed Textile Pledges,” *Inside U.S. Trade*, July 29, 2005.

² “Textile Group Support for CAFTA Shows No Immediate Vote Surge,” *Inside U.S. Trade*, May 13, 2005.

³ Jeffrey Sparshott, “House CAFTA vote a close call: Advocates, opponents try to sway the few undecided,” *Washington Times*, July 5, 2005.

⁴ “White House Submits CAFTA Implementing Bill, June Floor Vote Possible,” *Inside U.S. Trade*, June 24, 2005.

⁵ Letter signed by Rep. Gresham Barrett (R-S.C.) and other Members of Congress to President Bush, dated Sept. 17, 2003.

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- ⁶ “Palmetto delegation divided on treaty: State is target for forces on both sides of CAFTA issue,” *Columbia State (SC)*, May 17, 2005.
- ⁷ Rep. Bob Inglis (R-S.C.), “Inglis: new CAFTA will shut the door on China and open Western Hemisphere trade the competes,” Congressional Press Release, July 25, 2005.
- ⁸ Rep. Gresham Barrett (R-S.C.), “Barrett Protects Textile Jobs: Ensures CAFTA Loopholes are Closed,” Congressional Press Release, July 27, 2005.
- ⁹ “Inglis Apparently to Vote Against NAFTA,” *Columbia State* (Columbia, South Carolina), Nov. 13, 1993.
- ¹⁰ Bureau of Labor Statistics, Current Employment Statistics Survey, All Employees, Manufacturing Super Sector.
- ¹¹ “South Carolina congressman changes mind, pushes for CAFTA,” *Herald-Journal* (Spartanburg, South Carolina), July 26, 2005.
- ¹² Rep. Gresham Barrett (R-S.C.), “Barrett Participates in Trade Forum; ‘The manufacturing and textile base has always been the backbone of our economy,’” Congressional Press Release, Jan. 16, 2004.
- ¹³ Robert E. Scott and David Ratner, “NAFTA’s Cautionary Tale: Recent History Suggests CAFTA could lead to further U.S. job displacement,” Economic Policy Institute Issue Brief, July 2005.
- ¹⁴ Sen. Richard Burr (R-N.C.), “Burr Votes in Support of CAFTA; cites new side agreements for textile and apparel benefits for agriculture; calls for increased enforcement of trade agreements,” Congressional Press Release, June 30, 2005.
- ¹⁵ Letter from U.S. Trade Representative Rob Portman to Sen. Elizabeth Dole (R-N.C.), May 4, 2005.
- ¹⁶ “Textile Group Support For CAFTA Shows No Immediate Vote Surge,” *Inside U.S. Trade*, May 13, 2005.
- ¹⁷ “Central American Textile Industry Has Yet to Accept Key Textile Change,” *Inside U.S. Trade*, June 17, 2005.
- ¹⁸ Frederick H. Abernathy, Anthony Volpe, and David Weil, “The Apparel and Textile Industries after 2005: Prospects and Choices,” Harvard Center for Textile and Apparel Research Briefing Paper, Oct. 2004.
- ¹⁹ Kristi Ellis, “Change in the Wind at AAFA’s Meeting,” *Women’s Wear Daily*, March 1, 2005.
- ²⁰ “White House Submits CAFTA Implementing Bill, June Floor Vote Possible,” *Inside U.S. Trade*, June 24, 2005.
- ²¹ “Members Threaten CAFTA Opposition over lack of textile agents at CBP,” *Inside U.S. Trade’s Inside China Trade*, March 18, 2005; Letter from Secretary of Homeland Security Michael Chertoff to Rep. Robin Hayes (R-NC), May 3, 2005.
- ²² Edmund L. Andrews, “Beijing Brushes Off U.S. Warning on Currency,” *New York Times*, May 18, 2005.