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# Customs and Border Protection Textile Update

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# The Textile Industry

	CY 04	CY 05	CY 06	CY 07	CY 08	%CHG CY 07-08
Importers	64.0K	68.9K	70.4K	69.3K	68.3K	-1%
Lines	7.5M	8.3M	9.0M	9.7M	10.2M	5%
Value	\$93.4B	\$100.3B	\$104.2B	106.9B	\$105.2B	-2%
Duty	\$9.1B	\$10B	\$10.6B	\$11.2B	\$11.1B	-1%

CY08	Industry Total	All Imports	% Overall
Importers	68.3K	327.0K	21%
Lines	10.2M	103.8M	10%
Value	\$105.2B	\$2.2T	5%
Duty	\$11.1B	\$26.2B	42%

# Textile/Apparel Supplier Countries by Value

- China 35.4%
- Vietnam 5.9%
- India 5.4%
- Mexico 5.3%
- Indonesia 4.6%
- Bangladesh 3.9%
- Pakistan 3.3%
- Honduras 2.8%
- Cambodia 2.6%
- Italy 2.1%



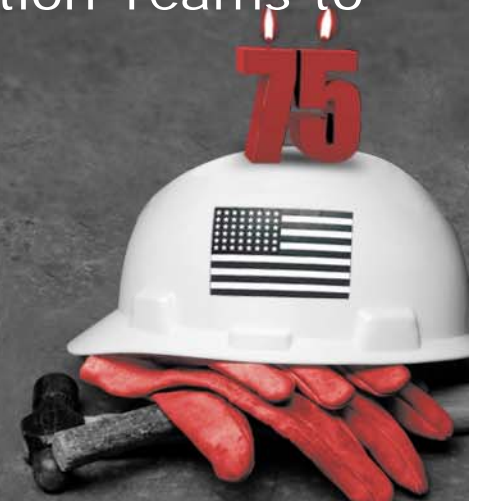
# Apparel Supplier Countries by Value

- China 32.4%
- Vietnam 7.4%
- Indonesia 5.7%
- Mexico 5.6%
- Bangladesh 4.9%
- India 4.3%
- Honduras 3.6%
- Cambodia 3.3%
- Thailand 2.3%
- El Salvador 2.1%



# Enforcement Challenges Post 2008

- Quotas Eliminated/Enforcement Shifted to:
  - FTA Trade Preference Claims
    - Work with mills to confirm validity of production
    - Work with foreign counterparts to exchange and reconcile trade data/production capacity
  - Validate Transaction Value
    - First sale
    - Right to make entry
  - Continue to Use Textile Production Verification Teams to Validate Compliance



# CY 07 Trade Preference Usage

CY07 TRADE AGREEMENT TOTALS		
Trade Agreement	Total Value	% of Total Value
NAFTA-MX	\$6.3 B	30%
CAFTA	\$5.7 B	27%
NAFTA-CA	\$3.0 B	14%
QIZ	\$1.7 B	8%
AGOA	\$1.3 B	6%
ATPDEA	\$1.2 B	6%
CBTPA	\$988 M	5%
ILFTA	\$417 M	2%
JOFTA	\$218 M	1%
BHFTA	\$118 M	1%
SGFTA	\$105 M	0.5%
AUFTA	\$43 M	0.2%
MAFTA	\$42 M	0.2%
CLFTA	\$22 M	0.1%
CBERA	\$4 M	0.02%
Total:	\$21.1 B	100%



# CY 08 Trade Preference Usage

CY08 TRADE AGREEMENT TOTALS		
Trade Agreement	Total Value	% of TotVal
CAFTA	\$6.3 B	32%
NAFTA-MX	\$5.7 B	29%
NAFTA-CA	\$2.4 B	12%
QIZ	\$1.5 B	8%
AGOA	\$1.1 B	6%
ATPDEA	\$1.1 B	6%
CBTPA	\$546.6 M	3%
ILFTA	\$424.2 M	2%
JOFTA	\$213.1 M	1%
BHFTA	\$149.6 M	1%
SGFTA	\$82.3 M	0.4%
HAITI HOPE	\$74.4 M	0.4%
MAFTA	\$44.8 M	0.2%
AUFTA	\$42.3 M	0.2%
CLFTA	\$9.2 M	0.05%
CBERA	\$4.9 M	0.02%
Total:	\$19.7 B	100%



# Textile Enforcement/FTAs

- CY 2008 Trade Preference Activity for Textile Products
  - \$21B in Value, Down 7%
  - Trade Agreement Accounts for 19% of the Total Textile Trade
  - Consistent 35-37% rate of non-compliance
  - Duty Exposure \$1 Billion



# Trade Preference Results

<u>Trade Agreements Results</u>			
Total Factories Visited	102	124	235
%Discrepancies*	45%	33%	27%
	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>
Total Countries Visited	9	10	7
Total Factories Visited	163	162	98
%Discrepancies*	40%	41%	43%
* Includes Insufficient Documents			



# Trade Preference Results

LINES VERIFIED					
FY04	FY05	FY06	FY07*	FY08	Total
1,573	3,227	3,977	4,818	5,001	18,596
LINE VALUE					
FY04	FY05	FY06	FY07*	FY08	Total
\$41.0 M	\$98.8 M	\$121.4 M	\$139.0 M	\$148.5 M	\$548.7 M
RECOVERED REVENUE					
FY04	FY05	FY06	FY07*	FY08	Total
\$2.7 M	\$2.2 M	\$5.7 M	\$5.1 M	\$5.3 M	\$21.1 M



# Trade Preference Results FY 08

FY08 Tasking Full Verifications (#08-0902)										
TA Program	P*	Y	N	Total Reviews	Req'd Reviews	Completed Reviews	% Not Compliant	Revenue Refunded	Revenue Recovered	Net Revenue
CAFTA	30	533	417	980	313	950	44%	\$5	\$1,661,430	\$1,661,425
AGOA	14	126	45	185	108	171	26%	\$107,796	\$738,311	\$630,515
QIZ	4	54	132	190	96	186	71%	\$0	\$412,526	\$412,526
ATPDEA	24	245	195	464	130	440	44%	\$22,983	\$383,587	\$360,604
NAFTA	51	293	152	496	597	445	34%	\$9,368	\$221,954	\$212,586
ILFTA	6	53	37	96	41	90	41%	\$0	\$122,145	\$122,145
MAFTA	2	14	48	64	30	62	77%	\$0	\$106,452	\$106,452
CLFTA	1	8	14	23	26	22	64%	\$0	\$41,016	\$41,016
SGFTA	0	43	21	64	85	64	33%	\$0	\$32,531	\$32,531
AUFTA	0	12	68	80	47	80	85%	\$4,435	\$26,252	\$21,817
JOFTA	1	16	13	30	25	29	45%	\$0	\$20,191	\$20,191
CBTPA	0	17	3	20	65	20	15%	\$0	\$15,020	\$15,020
BHFTA	0	4	0	4	0	4	0%	\$0	\$0	\$0
HT HOPE	0	16	0	16	3	16	0%	\$34,980	\$0	(\$34,980)
<b>Totals</b>	<b>133</b>	<b>1434</b>	<b>1145</b>	<b>2712</b>	<b>1566</b>	<b>2579</b>	<b>44%</b>	<b>\$179,567</b>	<b>\$3,781,415</b>	<b>\$3,601,848</b>

\*P = Pending, Y = SPI Compliant, N = SPI Discrepant

Sorted by Net Revenue



# Textile Enforcement

- Textile Production Verification FY 08 (Origin Fraud)
  - Visited 15 countries/economies
    - 473 factories visited
    - 103 closed
    - 11 involved in illegal transshipment
    - 22 refused admission
    - 123 high risk for transshipment
    - 210 low risk for transshipment
    - 55% non compliance rate



# Textile Enforcement

- Textile Production Verification Team FY 08 (Preference Claims)
  - Visited 7 countries
    - 98 factories visited
    - 56 compliant
    - 42 couldn't support preference claims
    - 43% non-compliance rate



# Verifying Trade Preference Claims

- Will not require the detention of merchandise
- Could require an examination since a sample may be needed
- Affidavit from the producer of the yarn or fabric is required stating that this factory produced the yarn or fabric.
- CBP may contact the mill to determine the veracity of the affidavit



# Verifying Trade Preference Claims

- Blanket affidavits should be used with caution. Most of the fraudulent affidavits are those that were blankets
- Affidavits must have contact information, including address and phone number.
- Must be prepared by the actual yarn and fabric producer



## Other Enforcement Efforts

- 19 USC 1484 – importer of record must have ownership of goods
- Right to make entry
- Having a friend of a friend use your name and address to make entry does not cut it
- How can the negotiated price on the invoice be valid if the party identified their did not engage in the transaction?



# Special Enforcement Initiatives

- 18 U.S.C. 1001
  - ...whoever...falsifies, conceals, or covers up by any trick, scheme, or device a material fact
  - Makes any materially false, fictitious, or fraudulent statement or representation
  - Makes or uses any false document
  - Shall be fined under this title, imprisoned not more than 5 years
- 18 U.S.C. 1002
  - Ditto for making available false documentation



# Textiles and Foreign Trade Zones

- FTZ operations affecting textile and textile products have been prevented due to the existence of the U.S. textile quota regime
- Customs Regulations prevented the manufacture or other manipulation in FTZs of textiles and textile products that could be subject to quotas
- But, quotas were eliminated in 2005



## Existing Law

- U.S. Customs regulations (19 C.F.R. 146.63(d) prevent use of FTZs to “frustrate or circumvent quota or visa or export license requirements.”
- The provision specifically provides that textile products admitted into an FTZ, regardless of whether they have privileged or nonprivileged foreign status, which would have been subject to quota or visa or export license requirements in their condition at the time of importation (if entered for consumption rather than admitted to a zone), may not be subsequently entered for consumption if, during the time the merchandise is in the zone, “there has been a change by manipulation, manufacture, or other means: (1) In the country of origin of the merchandise as defined by 102.21 or 102.22 of this chapter, as applicable; (2) To exempt from quota or visa or export license requirements other than a change brought about by statute, treaty, executive order or Presidential proclamation, or (3) From one textile category to another textile category. ”



## Foreign-Trade Zone Implications of New Textile and Apparel Trade Regime

- Textile policy is implemented by Office of Textiles and Apparel in Import Administration
- Under quotas, OTEXA opposed processing of textiles and apparel in FTZs



## Textiles and Apparel Trade: Strategic Context

- Quotas on \$51 billion of U.S. textile and apparel imports expired on January 1, 2005
  - Represented almost 90% of total U.S. imports of apparel (some quotas on imports from China, Vietnam still remain)
- Over 700 U.S. bilateral quotas on specific textile and apparel were categories eliminated
- Competitive pressures intensified rapidly as imports became uninhibited by quotas



## Background: WTO Textiles and Apparel Regime

- 1955 – 1962 – Informal Textile VRAs (Japan)
- 1962-1974 – GATT Long-term Cotton Textile Arrangement
- 1974-1995 – GATT Multi-Fiber Arrangement (MFA)
  - Bilateral quotas on specific textile and apparel categories
  - Constraints on major suppliers lead to diversification of sourcing to smaller LDCs, e.g. Caribbean, Africa, ASEAN
  - US Quotas -- CITA
- 1995-2005 -- Uruguay Round WTO Agreement on Textiles and Clothing (ATC).
  - Transition to normal WTO rules and disciplines
  - Supervised by Textiles Monitoring Body (TMB)
  - Quotas phased out on January 1, 2005



## Foreign-Trade Zone Implications of New Textile and Apparel Trade Regime

- With expiration of Agreement on Textiles and Clothing:
  - Quotas and visas no longer apply
  - Imports of textiles and apparel are subject to other actual and potential trade restrictions
    - Tariffs
    - Antidumping
    - Countervailing duties
    - Global safeguards
    - China-specific safeguards



# Elimination of Quotas Equal Opportunities for FTZs

- FTZs will have more opportunities to engage in manufacturing operations affecting textiles and textile products
- Approval of these processes should be easier



# How Does Elimination of Quotas Impact Existing Law?

- Customs
- Foreign Trade Zones Board



## Customs and Textile FTZs

- Longstanding Customs regulation prohibits the use of FTZs for manufacture of textile products potentially subject to quota.
- Quotas no longer exist on textile and apparel goods, with expiration of China apparel agreement and the underlying China apparel safeguard).
- Should the Customs FTZ textile regulation be repealed? Does it matter?
- What about new quotas on textile products via the special China general product safeguard?



## Actions Taken by Board Regarding Textiles since Expiration of Quotas

- In January 2009, just after China quotas expired, Board approved first-ever textiles FTZ.
- Two furniture manufacturers in Mississippi obtained approval to use FTZs to import certain upholstery fabric duty free.
- The grant lasts 5 years, is subject to quantitative limits, and is subject to additional monitoring.



# The Politics and Policy of Textiles in Zones

- Textile industry is, of course, politically sensitive.
- Industry not used to “national economic interest” test. More accustomed to the “short supply” test.
- In Mississippi furniture case, though, preponderance of political pressure was pro-approval of the FTZ.
- FTZs can preserve U.S. textile jobs.



## Benefits for Textile & Apparel Companies in establishing FTZ operation

- Yarn and fabrics tariffs are the U.S.' peak tariffs, as high as 25%.
- **Duty Exemption:** No duties on re-exports.
- **Inverted Tariff:** Finished products may be entered for consumption at duty rate applicable to condition when leaves the zone.
- **Logistical Benefits:** Access to streamlined customs procedures.
- **Other Benefits:** Goods held for export exempt from state and local inventory taxes. FTZ status may yield other state and local benefits.



# Conclusion

Thank you!

Questions?

