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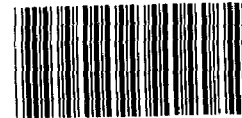
Before the Subcommittee on Commerce, Consumer, and  
Monetary Affairs, Committee on Government Operations,  
House of Representatives

For Release on Delivery  
Expected at  
9:30 a.m., EDT  
Tuesday,  
May 4, 1993

NAFTA

Issues Related to  
Textile/Apparel and Auto and  
Auto Parts Industries

Statement of Allan I. Mendelowitz, Director  
International Trade, Finance, and Competitiveness Issues  
General Government Division



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OSD 140/149165

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NAFTA: ISSUES RELATED TO TEXTILE/APPAREL  
AND AUTO AND AUTO PARTS INDUSTRIES

SUMMARY OF STATEMENT BY ALLAN I. MENDELOWITZ, DIRECTOR  
INTERNATIONAL TRADE, FINANCE, AND COMPETITIVENESS ISSUES  
GENERAL GOVERNMENT DIVISION

There is considerable controversy over the potential impact of NAFTA on employment and trade overall, and in specific industries. The U.S. International Trade Commission predicts that NAFTA will positively impact U.S. textile and automotive industries but will have the opposite effect on U.S. apparel. The industry sector advisory committees representing these industries were generally satisfied with NAFTA provisions but the labor policy advisory committee believes NAFTA does not promote U.S. economic interests.

NAFTA's rules of origin are intended to (1) define those goods entitled to preferential tariff treatment and (2) prevent Mexico from becoming an export platform for products from non-NAFTA countries. Goods wholly produced in the United States, Mexico, or Canada will qualify. Most goods that contain some nonregional materials will qualify if those materials are sufficiently processed in North America so that the ultimate article undergoes a specified change in tariff classification. Some goods must also include a specified percentage of North American content. Special rules apply to textiles and apparel products and to automobiles and auto parts.

NAFTA has special safeguard provisions that apply to imports of textile and apparel products. For example, during a 10-year transition period, a country may temporarily increase the duty if import surges of a product have caused or threaten to cause "serious damage."

Customs will be responsible for enforcing NAFTA rules of origin. An exporter or producer must sign a certificate of origin for a good if an importer is to claim preferential treatment under NAFTA. Customs will be able to audit selected producers' and importers' records to verify that their products meet NAFTA's requirements and it has the authority to penalize violators of country-of-origin rules. NAFTA will allow customs officers access to textile and apparel manufacturing plants in the three countries. This provision was included to help protect against transshipment of non-NAFTA textiles and apparel into the United States. While GAO has been concerned about Customs' readiness to manage enforcement activities required for NAFTA, Customs has initiated several efforts to develop a trade enforcement strategy. Customs officials told us that they do not anticipate any unusual or new enforcement problems as a result of NAFTA. A U.S. industry advisory committee on NAFTA customs matters reported that Customs will be able to enforce all of NAFTA's provisions within the bounds of due process of law. However, it made several recommendations to improve Customs administration and enforcement of NAFTA provisions.



Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to testify on the potential impact of the North American Free Trade Agreement (NAFTA) on the textile/apparel and auto and auto parts industries. I will also address certain issues concerning Customs' administration and enforcement of NAFTA provisions that are important to these industries. I would like to note that this testimony is based on work that is part of our overall assessment of NAFTA major issues. That assessment is still underway, and therefore this testimony reflects our current state of knowledge which is subject to change.

## INTRODUCTION

### Textile and Apparel Industry

The textile industry primarily produces yarns, fabrics, home furnishings, carpets, and industrial and commercial textile products such as bags, belting, and cordage. The apparel industry produces clothing and accessories such as headwear and gloves. The U.S. textile mill industry is ranked among the most productive and efficient textile producers in the world. Substantial investment has been made in modern textile equipment and new technology in the past decade, resulting in a number of highly automated mills and a decrease in employment. The U.S. apparel industry consists of a few large firms and many small and medium-size firms. As a whole, the apparel industry has realized little growth in productivity over the past decade, and has experienced declining employment and falling domestic market share.

The Arrangement Regarding International Trade in Textiles, known as the Multifiber Arrangement (MFA), has governed much of world trade in textiles and apparel since 1974. The MFA allows signatories to place quantitative limits, or quotas, on imports of textiles and apparel.<sup>1</sup> Quotas can be established through the negotiation of bilateral agreements or, in the absence of mutually agreeable limits, imposed unilaterally, with certain qualifications, by the importing country.

In 1992 the United States maintained quantitative restraints under the auspices of MFA covering about 67 percent of U.S. textile and apparel imports. Under NAFTA, U.S. quotas on various textile and apparel imports from Mexico will either terminate immediately or be phased out in three stages over a 10-year period. On the other hand, trade between the United States and Canada has never been restricted by MFA quotas. NAFTA will supersede the provisions of MFA as they apply to the United States, Canada, and Mexico.

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<sup>1</sup>However, quotas may not be placed on products made with pure silk.

## Automotive Industry

Automotive products are the largest component of bilateral trade in manufactured goods between the United States and Canada as well as between the United States and Mexico. U.S. exports of automotive products to Canada, consisting primarily of auto parts, amounted to \$22.7 billion in 1991. U.S. exports of automotive products to Mexico, also consisting mostly of auto parts, amounted to \$5.7 billion in 1991. Most trade in automotive goods between Canada and the United States is conducted on a duty-free basis under the terms of the 1965 U.S.-Canada Automotive Products Trade Agreement (auto pact) or the U.S.-Canada Free Trade Agreement (CFTA). Mexico's domestic automotive industry has been highly protected by the government from foreign competition since 1962. However, under the maquiladora program<sup>2</sup>, Mexico has become more competitive in automotive parts assembly for export.

## NAFTA'S EXPECTED IMPACT ON THE U.S. TEXTILE, APPAREL, AND AUTOMOTIVE INDUSTRIES

There is considerable controversy over the potential impact of NAFTA on employment and trade overall, and in specific industries. For example, the U.S. International Trade Commission (ITC) recently concluded that NAFTA is likely to have a minor positive impact on the U.S. textile industry in the short and long term but a minor negative impact on the U.S. apparel industry.<sup>3</sup> The ITC also predicts that automotive trade will increase while U.S. employment in the automotive sector is not expected to change significantly in the long run. The industry sector advisory committees representing the textile and apparel, and automotive sectors reported they are generally satisfied with NAFTA provisions and expect the agreement to provide benefits. However, the labor policy advisory committee reported that NAFTA, as drafted, does not promote the economic interests of the United States.

## Textile Industry

According to the recent ITC report, the impact of NAFTA on overall U.S. textile trade will likely be minor, largely because of Mexico's small share of that trade. Nevertheless, the report

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<sup>2</sup>Mexico's maquiladora program allows Mexican and foreign investors to establish manufacturing plants in selected areas of Mexico to produce for export. The manufacturing plants, called "maquiladoras," produce finished or semifinished goods that are exported primarily to the United States. Foreign investors may own 100 percent of such plants.

<sup>3</sup>Potential Impact on the U.S. Economy and Selected Industries of the North American Free-Trade Agreement, U.S. International Trade Commission, Publication 2596 (Washington, D.C.: Jan. 1993).

concludes that two-way U.S. textile trade with Mexico--building on a relatively small base--will likely grow considerably under NAFTA in both the short and long term. U.S. exports of textile mill products to Mexico likely will be spurred by duty reductions and the expected increase in Mexican demand for textile inputs for production of apparel and made-up textiles.<sup>4</sup> U.S. imports of Mexican textile goods should increase due primarily to the removal of U.S. tariffs and quotas. For both the short and long term, ITC projects that NAFTA will likely have a minor positive impact on production and employment in the U.S. textile industry due to the NAFTA-induced growth in Mexican demand for inputs in apparel production for export.

### Apparel Industry

The ITC projects that the impact of NAFTA on overall U.S. apparel trade will likely be minor, largely because of Mexico's small share of that trade. As with U.S. textile trade, U.S. apparel trade with Mexico-- building on a relatively small base-- will likely grow considerably under NAFTA in both the short and long term, according to the ITC report.

According to the ITC, unlike the textile sector, the expected changes in U.S. apparel trade under NAFTA will likely have a minor negative impact on production and employment in the U.S. apparel industry in both the short and long term. The U.S. industry will likely continue to decline because of greater import competition under NAFTA, according to the ITC report, and most of the expected decline in output and employment will likely occur among smaller apparel firms, especially contractors, which tend to be highly labor-intensive. The ITC report concluded that the expected declines for the apparel industry are likely to be larger than the anticipated increases in the textile industry.

### Automotive Industry

According to the ITC, in the short run, NAFTA will likely lead to a minor increase in U.S.- Mexico trade in automobiles and auto parts. U.S. imports of auto parts from Mexico are not likely to increase, but U.S. exports of auto parts to Mexico may grow. In the long run, two-way trade in auto parts is expected to grow considerably, and the ITC predicts a modest increase in U.S. auto parts production. However, with respect to automobile production, ITC concludes that NAFTA is likely to result in a minor reduction in U.S. production and employment. On the other hand, the U.S. industry sector advisory committee representing the automotive sector reports that the agreement overall will result in expanded

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<sup>4</sup>Made-up textiles include consumer goods such as towels, tablecloths, and bedsheets.

export opportunities for U.S. manufacturers with some slight employment benefits.

However, we note that, over the past decade, a large number of labor-intensive jobs in the auto parts industry has moved to Mexico under the auspices of Mexico's maquiladora program. In 1980, only 7,500 maquiladora workers were employed in the transportation equipment sector. However, by 1991, 112,000 maquiladora workers produced transportation equipment for export almost exclusively to the United States.<sup>5</sup> This substantial increase in employment in Mexico forms the basis for concerns that NAFTA will lead to further job flight to Mexico from the U.S. automotive sector. Countering this concern, a recent U.S. Trade Representative (USTR) report concluded that NAFTA would do little to encourage or discourage automotive job relocation for several reasons. These included the following: (1) labor costs are a decreasing component of automotive manufacturing costs; (2) Mexico has higher infrastructure costs than the United States; and (3) Mexico's supplier base is weak. Furthermore, a good deal of the low-skilled, labor-intensive work suited to maquiladora plants is believed to have already moved away from the United States.

#### RULES OF ORIGIN FOR THE TEXTILE, APPAREL AND AUTOMOTIVE INDUSTRIES

##### NAFTA's Approach to Rules of Origin

Most countries establish standards to determine the country of origin, or "legal nationality," of imported goods. These rules serve multiple purposes, such as (1) allowing the assessment of customs duties on the basis of country of origin, (2) ensuring that origin marks are correct, (3) assisting in the analysis of trade and capital flows, and (4) applying country-specific trade measures.

NAFTA's rules of origin define those goods entitled to preferential tariff treatment. Goods wholly produced in the United States, Mexico, or Canada will qualify.<sup>6</sup> The rules of origin also enable goods that contain some nonregional materials to qualify. The following are examples:

- Goods containing imported components from outside the region will qualify if the nonregional materials are sufficiently processed in North America so that the ultimate article undergoes a specified change in tariff classification--i.e., a different product is created.

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<sup>5</sup>North American Free Trade Agreement: U.S.-Mexican Trade and Investment Data (GAO/GGD-92-131, Sept. 25, 1992).

<sup>6</sup>"Wholly produced" means that the goods are produced in the NAFTA region and made up entirely of NAFTA components.



- Some goods must include a specified percentage of North American content in addition to meeting the tariff classification requirement.
- Goods that fail to meet a specific rule of origin will qualify under a "de minimis" provision if the value of non-NAFTA materials comprises no more than a specified percentage (usually 7 percent) of the price or total cost of the good.

During Congressional consideration in 1991 of extension of the authority for fast-track approval of international trade agreements, including NAFTA, the USTR promised stricter rules of origin for certain industries, such as textiles, apparel, autos, and auto parts, in order to prevent Mexico from becoming an "export platform" for products from non-NAFTA countries. In response to this commitment, NAFTA includes special rules of origin for these sectors.

#### NAFTA's Textile and Apparel Rules of Origin

In order to understand the textile and apparel sectors' rules of origin, it is necessary to understand the manufacturing process. Manufacturing of most finished textile and apparel products is generally considered to be a three-step process. First, fiber is spun into yarn. Then, yarn is used to make fabric. In the final stage, fabric is cut and sewn into end products such as apparel.

The basic rule of origin for textile and apparel products is "yarn forward." This rule means that most made-up textile and apparel products must be manufactured in North America from fabric (1) formed in the free trade area and (2) made with North American yarn, in order to qualify as a NAFTA-originating product. In other words, most made-up textile and apparel goods that contain imported fiber inputs will still be eligible for NAFTA's preferential tariff treatment.

The agreement provides four exceptions to the basic yarn forward rule of origin:

- "Fiber forward" rule of origin: NAFTA requires that the cotton and manmade fiber (MMF) in certain textile and apparel products must be made in North America in order for the goods to receive preferential duty treatment.<sup>7</sup> This rule is stricter than the yarn forward rule of origin because it requires that the final product and every input,

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<sup>7</sup>These products include cotton and MMF knit fabric, MMF non-woven and specialty fabrics, spun cotton and MMF yarns, and MMF carpeting, MMF made-ups, and MMF sweaters (the last product applies only for trade between the United States and Mexico).

including fiber, be made in North America with NAFTA-originating components.

- "Substantial transformation" rule of origin: NAFTA also sets forth a list of fabrics deemed to be in short supply that can be used to make apparel products that will be eligible under a substantial transformation rule of origin.<sup>8</sup> According to the U.S. lead negotiator, this rule will allow apparel producers to use fabrics not made in North America, such as silk and linen, or in short supply, such as certain shirting fabrics, and still receive NAFTA benefits.
- Tariff preference level (TPL): As in CFTA, NAFTA permits preferential tariff treatment for certain goods traded among the NAFTA countries that are made in North America but do not satisfy NAFTA's rules of origin. NAFTA sets agreed annual quantitative amounts, known as TPLs for these products.<sup>9</sup> As in CFTA, imports in excess of TPLs will be charged duty at the most favored nation (MFN) rate.
- "De minimis" provision: NAFTA, unlike CFTA, generally allows any textile or apparel good to be considered North American if non-NAFTA materials constitute no more than 7 percent of the weight of the component that imparts the "essential character" of the good.

#### NAFTA'S Rules of Origin for Autos and Auto Parts

NAFTA's rules of origin specify that in order to qualify for preferential tariff treatment, cars, light trucks, transmissions, and engines will eventually have to contain 62.5-percent North American content based on a net cost formula. This content requirement is significantly higher than CFTA's 50-percent local content requirement. Other parts and vehicles will have to meet a 60-percent rule on North American content. Under NAFTA, the minimum North American content rule will start out at 50 percent, and the higher levels will be phased in over a period of 8 years.

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<sup>8</sup>A "substantial transformation" rule confers origin when manufacturing substantially transforms a product so as to produce a "new and different article of commerce" with a name, character, or use distinct from that of its components.

<sup>9</sup>CFTA uses the term tariff rate quota (TRQ) rather than TPL. According to a U.S. negotiator, NAFTA uses the term TPL instead of TRQ because the latter (1) misled people into thinking CFTA limited the importation of textile and apparel goods to a certain threshold and (2) was used for other sectors covered by NAFTA.

In determining the origin of automotive goods, only that portion of their value originating in NAFTA countries will count towards meeting the North American content rule. For this reason, the value of automotive parts and components from outside the NAFTA region will be traced through the production chain.<sup>10</sup> The value of non-NAFTA materials included in NAFTA-qualifying parts and components will be excluded from the allotment of costs counted towards meeting the NAFTA content-value requirement. The domestic content calculation method under NAFTA rules will help prevent countries from being host to "pass-through" operations using insufficient North American content and benefiting from NAFTA preferential tariff treatment.<sup>11</sup>

The automotive content provision also solves a problem with CFTA, known as "roll-up." CFTA has been criticized for being too vague and allowing for misinterpretation and inconsistencies in calculations of content. The most publicized case involved Honda's Ontario plant, which claimed to have 75 percent U.S. or Canadian content. Honda and the Customs Service differed in their interpretation of the methodology used in calculating content. The Customs Service ruled in 1992 that Honda Civics assembled in Ontario from January 1, 1989 to March 30, 1990, did not contain 50 percent U.S. or Canadian content, and thus were subject to duties and penalties.

#### NAFTA'S SAFEGUARD PROVISIONS FOR TEXTILES AND APPAREL

NAFTA has special safeguard provisions that apply to imports of textile and apparel products. Unlike CFTA, the three NAFTA signatories agreed to establish special rules under which any of the three governments may take action to provide temporary relief against disruptive increases, or surges, in textile and apparel imports from another NAFTA country during a 10-year transition period. Specifically, NAFTA contains two bilateral safeguard measures. The first provision applies to goods that satisfy NAFTA's rule of origin (as well as TPL trade between the United States and Canada). It allows the duty for a particular product to be temporarily increased to MFN rates if imports are determined to have caused or threaten to cause "serious damage" to the domestic industry. This safeguard action is limited to 3 years, and may only be used once for a particular product, subject to specific requirements.

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<sup>10</sup>NAFTA requires use of a net cost method to calculate regional value-content. Net cost is defined as total cost of the good less costs of royalties, sales promotion, and packing and shipping. There also are limits on allowable interest costs.

<sup>11</sup>"Pass-through" operations involve a foreign country's use of one country in a trade bloc as a means of gaining preferential trade treatment from other countries in the bloc.

The second safeguard provision applies to textile and apparel goods made in North America that do not satisfy NAFTA's strict rules of origin. If, after consultations, the parties do not agree on a level of export restraint, the agreement permits the threatened or damaged party to apply a quota against disruptive imports for up to 3½ years without any compensation being paid. The use of this quantitative safeguard may not be applied to U.S.- Canadian textile and apparel trade.

According to a USTR official, NAFTA's transitional safeguard provisions for textiles and apparel are distinct from the agreement's general bilateral safeguard mechanism in three ways. First, a NAFTA government may act to grant relief to a domestic industry if textile and apparel imports from another NAFTA country result in "serious damage, or actual threat thereof," to domestic producers. This is a lower threshold than the "substantial cause of serious injury, or threat thereof," standard of the normal NAFTA safeguard provision. Second, the safeguard provisions for the textiles and apparel sectors permit the use of quantitative restrictions (except for U.S.- Canada trade). Third, NAFTA does not require compensation for the (re)imposition of quotas on textile and apparel trade between the United States and Mexico, and Canada and Mexico.

#### NAFTA ENFORCEMENT ISSUES

The U.S. Customs Service (Customs) is responsible for protecting United States borders from imports that do not comply with hundreds of trade laws and regulations. Actions to reduce trade barriers present challenges to Customs' trade enforcement activities. For example, with NAFTA, Customs will probably have to face more instances where importers falsely claim their goods are from Mexico or Canada in order to enter the goods duty free.

#### Customs' Enforcement of NAFTA Rules of Origin

Customs will be responsible for enforcing NAFTA provisions intended to ensure that only goods satisfying NAFTA's rules of origin receive preferential tariff treatment. In support of this responsibility, Customs has the authority to penalize violators of country-of-origin rules.

Before NAFTA enters into force, the three countries are to develop a common certificate of origin to certify that a good being exported from the territory of one NAFTA country to another NAFTA country qualifies as originating in North America. The exporter or producer will be required to complete and sign a certificate of origin for any exportation of a good for which an importer may claim preferential tariff treatment under NAFTA. An importer that wants a product to benefit from the reduced tariffs available under NAFTA must make a written declaration based on a valid certificate of origin stating that the good qualifies as an originating good.

Customs officials said that the certificate of origin, along with a requirement that exporters or producers provide records of their invoices, should help Customs identify whether a product qualifies for preferential tariff treatment under NAFTA.

Exporters or producers that sign a certificate of origin must maintain records supporting the certificate of origin for at least 5 years from the date he or she signed the certificate. An importer must keep supporting records for at least 5 years from the date he imported a good under preferential tariff treatment.

Customs officials say that Customs will be able to audit selected producers' and importers' records to verify that their products meet NAFTA's requirements for preferential tariff treatment. The threat of a potential Customs audit can be an effective source of enforcement, these officials say.

NAFTA provides detailed procedures for a country's customs service to conduct an investigation in a partner country to verify the origin of textile and apparel goods. Verification can be undertaken through (1) written questionnaires addressed to an exporter or producer, (2) visits to the premises of an exporter or producer to review records and observe facilities, and (3) any other procedures agreeable to the countries involved. Customs officers are to verify that such goods actually are produced in the foreign country which a producer or exporter claims, and not imported from a third country.

NAFTA directs each country to maintain measures imposing criminal, civil, or administrative penalties for violations of its laws and regulations relating to NAFTA's customs procedures. In the United States, Customs assesses civil monetary penalties for violations such as misclassification, knowingly falsifying the country of origin, and other fraudulent acts. Customs may take seizure actions when merchandise is illegal or not admissible, and Customs may also seize merchandise which has been repeatedly misclassified.

#### Measures to Prevent Transshipment

Transshipment refers to the act of sending an exported product through an intermediate country before routing it to the country intended to be its final destination. Transshipment can be an enforcement problem for Customs if, during the shipping process, the product's country of origin marking is illegally changed to (1) circumvent U.S. quota restrictions or antidumping and countervailing duty orders and/or (2) take advantage of lower U.S. duty rates on products from the intermediate country.

NAFTA will allow customs officers access to textile and apparel manufacturing plants in the three countries. This provision was included to help protect against transshipment of non-NAFTA textiles and apparel into the United States. For example, the

United States can use special enforcement efforts, such as jump teams, directed against quota fraud or violations of the rules of origin. U.S. jump teams are Customs officers that conduct announced visits to foreign countries and examine the production capabilities and production records of suspect textile/apparel factories. The jump teams work in cooperation with the foreign customs service. According to Customs officials, NAFTA jump teams' investigations of transshipment are intended to proceed more rapidly, and with shorter advance notice, than Customs' traditional method of conducting audits to verify the origin of a product.

According to Customs officials, other measures planned to prevent transshipment include the following:

- Customs is to continue current efforts to detect transshipment of sensitive products, particularly textile and apparel products, by analyzing trade data and trends. In addition, the Commerce Department monitors textile and apparel trade to identify transshipment.
- Customs is to coordinate enforcement with Mexican and Canadian customs services. Preventing transshipment requires the cooperation of customs services in all three countries; closer coordination with Mexico's customs agency has been initiated.
- Customs is placing an emphasis on allocating funding and resources to the southern U.S. border. For example, Customs recently placed additional staff, including 30 import specialists, along the southern border.

Customs Trade Enforcement Activities Have Been Impaired by Management Problems

We have been concerned about Customs' readiness to manage enforcement activities required for NAFTA. In 1992, we reported that Customs was not focusing sufficient attention on ensuring that the nation's trade laws are effectively and efficiently enforced.<sup>12</sup> Consequently, it could not adequately ensure that it was meeting its responsibilities to combat unfair foreign trade practices or protect the public from unsafe goods. Specifically, we found that Customs (1) was not effectively preventing the entry of cargo that violates trade laws and (2) lacked the information needed to assess its effectiveness in investigating and penalizing violators of trade laws. Through analysis of Customs data, we determined that Customs did not detect about 84 percent of the estimated trade law

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<sup>12</sup>Customs Service: Trade Enforcement Activities Impaired by Management Problems (GAO/GGD-92-123, Sept. 24, 1992).

violations in imported cargo in fiscal year 1991. Moreover, Customs had experienced declines in the percentage of estimated cargo violations detected since calendar year 1988. A Customs task force reviewing our findings has concluded that Customs presently does not have a basis for establishing the level of compliance with U.S. trade laws.

Customs has initiated several efforts to develop a trade enforcement strategy and make extensive revisions to its automated systems for selecting imports for examination. Its trade enforcement objective is to ensure a high level of voluntary compliance by the trade community. Customs officials told us that it now has a general trade enforcement strategy in place for 1993 and that, through its selectivity redesign effort, it will be in a position to establish importer compliance with the trade laws.

Customs officials told us that they do not anticipate any unusual or new enforcement problems as a result of NAFTA. Trade agreements are the first priority in the Customs trade enforcement strategy, and when NAFTA is implemented this strategy will be applied to the enforcement of NAFTA, according to Customs.

#### Industry Representatives' Views

A committee of U.S. industry representatives who advised the government on NAFTA customs matters supported implementation of NAFTA and stated that the agreement's provisions to administer rules of origin significantly protect North American producers. In addition, they say that the Customs services of the three countries will be able to enforce all of NAFTA's provisions within the bounds of due process of law.

The committee did, however, make several recommendations to improve Customs administration and enforcement of NAFTA provisions:

- NAFTA's working groups on customs matters should work expeditiously to harmonize automation procedures to allow the electronic filing of certificates of origin.
- Customs should increase the level of technical assistance to Mexican Customs authorities to train their officials administering the new customs provisions.
- NAFTA implementing regulations should provide for Customs to preapprove the process a company uses to certify rules of origin. The agreement does not specifically provide for preapproval.

-- Congress should make additional funding available to Customs to meet the new responsibilities and challenges that will arise from the conclusion of the agreement.

A committee of representatives from the U.S. textile industry stated that NAFTA meets their recommendation that the Customs Service be provided with necessary authority to enforce the agreement so that U.S. laws and regulations would apply to violators. However, they recommended that the implementing legislation show clear Congressional intent to provide adequate funding for customs enforcement, and that the Administration include in its budget requests the necessary funding for effective NAFTA customs enforcement.

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Mr. Chairman and Members of the Subcommittee, this concludes my prepared statement. I will be pleased to respond to any questions you may have.

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