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TEXTILE TRADE

Operations of the Committee for the Implementation of Textile Agreements





United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

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The Honorable Charles E. Grassley
United States Senate

The Honorable William V. Roth, Jr.
United States Senate

The Honorable William Archer
House of Representatives

The Honorable Philip M. Crane
House of Representatives

This report responds to your request that we examine the operations of the U.S. Committee for the Implementation of Textile Agreements (CITA) in its role in administering the U.S. textile program in light of the 1994 Uruguay Round Agreement on Textiles and Clothing (ATC). ATC, which took effect January 1, 1995, calls for the phaseout of quotas under the prior Arrangement Regarding International Trade in Textiles, known as the Multifiber Arrangement (MFA).

Specifically, you asked us to (1) identify CITA's authority, functions, resources, and costs under MFA and ATC; (2) determine CITA's decision-making process for imposing quotas, including the level of transparency (openness) in its process; (3) review CITA's use of data to make quota decisions; and (4) evaluate CITA's use of ATC transitional safeguards (temporary import quotas) in 1995. You also asked us to examine the European Union (EU),¹ Canadian, and Japanese use of quotas under MFA and ATC and their processes for imposing quotas. In addition, you asked us to describe the safeguard process administered by the U.S. International Trade Commission (ITC).

Background

Historically, the U.S. textile and apparel (clothing) industries, including yarn, fabric, apparel, and a variety of home furnishings and industrial products, have faced intense competition in the U.S. marketplace from countries with low labor costs. Textile and apparel imports represented 7 percent of total U.S. imports in 1994. In that same year, there was a

¹The EU consists of Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom.

\$34-billion trade deficit in textile and apparel products. (See app. I for data concerning the U.S. textile and apparel industries.)

CITA is chaired by the Department of Commerce and composed of representatives from the Departments of State, Labor, and the Treasury; and the Office of the U.S. Trade Representative (USTR). CITA was established in 1972 to supervise the implementation of all U.S. international textile agreements. (See app. II for a discussion of CITA's role.) One of CITA's main functions is to decide whether and when to impose quotas on textile and apparel products. Because these products have historically been vulnerable to low-priced imports, textile and apparel trade has not been subject to General Agreement on Tariffs and Trade (GATT)² disciplines (practices). Rather, textile trade has been primarily governed by successive multilateral agreements that set forth a separate framework of rules, including the authority to impose quotas.

From 1974 through 1994, CITA supervised the U.S. implementation of MFA, which governed worldwide textile trade and sought to provide for its sustained, orderly expansion. Among other things, under MFA, the United States entered into a number of bilateral agreements containing negotiated textile import quota levels. MFA also contained a "safeguard" provision, which allowed importing countries to impose unilateral quotas when it determined that imports were causing actual or threatened serious damage to the U.S. domestic market based on factors specified in MFA. CITA is now responsible for supervising the U.S. implementation of ATC. Along with continuing its role of implementing textile agreements, under ATC, CITA is to supervise a 10-year phaseout of textile and apparel quotas in four stages ending in 2005. ATC will have a major long-term impact on the U.S. textile and apparel industry by integrating all textile products into GATT rules and disciplines.³

During the first stage (1995-97), virtually no products currently under quota are to be integrated into GATT trade rules by any of the major importing countries. That is, the products integrated in the first stage are products that have never been under quota. The U.S. Statement of Administrative Action (SAA) accompanying the Uruguay Round implementing legislation provided that CITA would ensure that integration

²GATT contains rules and disciplines covering its members' trade practices, including nondiscriminatory treatment of trade in goods. The Final Act resulting from the Uruguay Round of GATT negotiations was signed in 1994.

³The United States had originally sought a 15-year phaseout during ATC negotiations, as well as greater openness of foreign markets to textile and apparel trade.

of the most sensitive products would be deferred until the end of the 10-year period.⁴ In fact, under the U.S. integration schedule, 89 percent of all U.S. apparel products (apparel products are considered sensitive), 47 percent of all textile products (textile products are considered less sensitive), and 67 percent of textile and apparel products combined, under quota in 1990, will not be integrated until the final stage in 2005. Importer and retailer representatives have referred to the final stage as “the cliff,” because of the potential shock to the U.S. domestic market when a majority of textile and apparel quotas will be lifted at one time.

During the 10-year transition period, the United States may impose a temporary quota on another World Trade Organization (WTO)⁵ member country under ATC only through the use of a “transitional safeguard.” This safeguard applies to products not yet integrated into GATT rules. After determining that imports of a particular product are causing “serious damage or actual threat thereof”⁶ to domestic producers, CITA issues a “call,” or a request for consultations to discuss the matter with an exporting country believed to be causing the damage.⁷ Following the consultations, CITA may impose a quota—with or without the agreement of the exporting country. (See app. III for detailed information on ATC and MFA.)

As of May 1996, CITA had 884 quotas in place on individual textile and apparel categories. These quotas covered 44 countries and 123 out of 148 CITA categories.

Results in Brief

Our review of CITA operations indicated the following:

- Under ATC and formerly under MFA, Congress and the President have delegated broad authority to CITA to make determinations about invoking

⁴During 1995, as required by SAA, CITA published in the *Federal Register* its proposed list of products to be integrated at each of the four integration stages (no other country has published its list beyond the first stage). CITA requested written comments from all interested parties and held public hearings to obtain comments on its integration plan for stages two, three, and four. CITA published the final integration plan in the *Federal Register* on May 1, 1995.

⁵The WTO was established on January 1, 1995, and is a legal and institutional foundation of the multilateral trading system, and the successor to GATT. The United States is a member of WTO.

⁶For ease of discussion, the report may refer to this safeguard standard as “serious damage” without repeating the phrase “actual or threat thereof.”

⁷CITA may impose quotas on non-WTO member countries without regard to ATC rules pursuant to the authority of section 204 of the Agricultural Act of 1956, as amended. (7 U.S.C. § 1854.) In addition, quotas on non-WTO members are not subject to the 10-year phaseout.

safeguards. Since CITA's main function, to implement textile agreements, remains the same under ATC as MFA, it does not expect any significant work load changes in the near future related to the 10-year phaseout of quotas. CITA receives about \$3.6 million annually and has a staff of 33 within the Department of Commerce.

- By majority vote, CITA can impose quotas when it determines that imports are causing serious damage to domestic industry. Through the continuous monitoring of industry data, CITA is generally proactive in identifying cases of serious damage. CITA's support staff generally obtains information from domestic producers before deciding to request consultations with an exporting country. CITA contacts U.S. importers and retailers after requesting consultations with the foreign government to impose a quota.
- In deciding whether to request consultations to impose quotas, CITA uses various U.S. government economic statistics. CITA seeks to match import data and domestic production data to establish a causal link between imports and serious damage to domestic industry. Because agencies collecting the data use different classification systems, some compatibility problems exist.
- CITA does not base its safeguard decisions on specific thresholds of import increases and domestic production declines; rather it makes decisions on a case-by-case basis. Of the 166 calls for consultations CITA issued from 1990 to 1995, we found that the most recent median yearly production decline was 6.4 percent and the comparable median import increase was 9.6 percent.⁸ The most recent median import increase was 17.6 percent.⁹ The change in the most recent import data ranged from a fall of 15 percent to an increase of 195 percent. The change in domestic production ranged from a decrease of 51 percent to an increase of 25 percent.

Through June 1996, the United States has been the only country that has imposed quotas under ATC since it went into effect in January 1995.¹⁰ CITA issued 28 calls in 1995.¹¹ Nineteen calls were on WTO member countries,

⁸Median yearly changes are for the last 2 years of data as presented in CITA's market statements (proposals supporting calls). We chose the most recent period for consistency, since the market statements almost always included data for the most recent 2 years, but in some cases they included data for up to 60 months.

⁹Import data is more current than production data because it is provided monthly while production data is provided quarterly. In our analysis, we considered both import data comparable to production data and the most recent import data, which were generally not comparable. The most recent import data were generally from 1 to 3 months prior to the issuance of the market statement, while production data can be up to 12 months old.

¹⁰In June 1996, Brazil notified the Textile Monitoring Body (TMB) that it had requested consultations to impose quotas under ATC. TMB replaces the Textiles Surveillance Body, which reviewed safeguard decisions under MFA.

¹¹From January through August 1996, CITA issued two calls.

and 9 calls were on non-WTO member countries at the time of the call.¹² The EU and Canada imposed quotas under MFA, but Japan has never imposed quotas.

The ITC process for determining injury (for all goods under GATT) due to increased imports differs significantly from CITA's in that it is based on U.S. legislation that stipulates specific procedures and time frames that must be followed. ITC is required to obtain the views of interested parties through public hearings.

CITA's Authority, Functions, Resources, and Costs

CITA has broad authority to carry out its main function of regulating textile imports on behalf of the United States through implementing textile agreements, including determining the existence of serious damage to support a safeguard action. This mandate remains the same under ATC as it was under MFA.

The U.S. Constitution vests in Congress the power to regulate commerce between the United States and foreign nations. In the case of textiles and apparel, Congress has granted to the President extraordinary discretion to regulate U.S. imports.¹³ The President, in turn, has delegated authority for implementing textile agreements to CITA.¹⁴ Neither Congress, nor the President since 1989, has provided procedural requirements to guide CITA in making its safeguard determinations.¹⁵ Moreover, CITA's decisions are conclusive and are not reviewed or approved by other executive branch officials.¹⁶ Finally, given that CITA has been allowed significant discretion to regulate textile imports, courts have held that CITA's serious damage determinations and the underlying reasoning for those determinations are not subject to judicial scrutiny.¹⁷

According to CITA officials, CITA's primary function under ATC is to "ensure that there is a gradual and orderly liberalization of trade which will allow

¹²El Salvador, Colombia, and Guatemala have subsequently become WTO members.

¹³7 U.S.C. § 1054; *American Association of Exporters & Importers v. U.S.*, 583 F. Supp. 591 (1984).

¹⁴Executive Order 11651 (May 3, 1972).

¹⁵A 1983 presidential directive suggested discretionary numerical thresholds for imposing quotas. Since 1989, CITA has not considered this directive to be policy.

¹⁶From 1975 to about 1987, a Textile Trade Policy Group provided broad policy guidance to CITA. Currently, CITA representatives may confer with higher-level officials within their respective agencies on proposed calls as necessary.

¹⁷*American Association of Exporters & Importers v. U.S.*

U.S. companies sufficient time to further modernize and prepare for greater international competition.” During the 10-year transition period, CITA can issue calls under the ATC transitional safeguard mechanism. Bilateral agreements in place with WTO members under MFA are now folded into ATC, obviating the need for CITA to renegotiate these agreements.

CITA is expected also to continue performing many other pre-ATC functions. The committee will continue to participate in negotiations (led by USTR) for bilateral quota agreements with non-WTO member countries. It also has a role in efforts aimed at preventing the illegal routing of textile and apparel imports through third countries (transshipment violations) and commenting on regulations concerning the origin of textile and apparel products.

CITA has no budget of its own, but portions of the individual budgets of the five principal agencies related to CITA functions added up to \$3.6 million in fiscal year 1995. The Department of Commerce’s Office of Textiles and Apparel (OTEXA) has a staff of 41, 33 of whom support CITA’s operations, monitoring and analyzing textile trade and production data. About 17 percent (or \$2.8 million) of OTEXA’s budget supports CITA operations.¹⁸ OTEXA’s resources and costs remained constant between fiscal years 1994 and 1995, the first year of ATC. CITA does not expect to undergo any significant reduction in its work load in the near term due specifically to the 10-year quota phaseout, according to representatives of the five CITA agencies.

Decision-making Process for Imposing Quotas

CITA is proactive in determining whether to impose a quota, relying heavily on OTEXA’s continuous monitoring and analysis of trade and economic data as a source for its information. OTEXA’s data monitoring generally provides the impetus for CITA to issue a call. Although OTEXA considers an array of data, it focuses primarily on two factors: a surge in imports and a decline in domestic production. OTEXA also examines some other economic factors listed in ATC, including domestic employment, prices, and market share. Under U.S. law, CITA does not have procedural requirements it must follow to determine whether to make a call. To date, CITA has not published guidelines or documented procedures that describe its decision-making process for imposing quotas.

¹⁸A large portion OTEXA’s budget is devoted to two research and development grants administered by OTEXA.

Once OTEXA's analysis identifies a potential case of serious damage, OTEXA may contact domestic producers to obtain additional information on the effect of imports on the domestic industry. OTEXA then prepares a proposal (also known as a "statement of serious damage or actual threat thereof" and referred to hereafter as a "market statement") for CITA to request consultations with an exporting country. The proposal serves as the basis for CITA to vote on whether to request consultations with a foreign government.

According to CITA officials, the committee currently uses majority voting to make decisions on calls.¹⁹ Generally speaking, each CITA agency considers the need for import restraints while taking into account the concerns of U.S. industry, workers, importers and retailers, consumers. However, each agency brings a unique perspective to the decision process. Commerce and Labor consider the interests of textile and apparel producers and workers, State evaluates U.S. foreign policy concerns, and the Treasury analyzes the net economic benefit to consumers, producers, and importers and retailers. (The Treasury is also concerned with the appropriateness and enforceability of CITA recommendations and directives.) Some balancing of views is provided by USTR. In theory, if CITA decided by consensus, one CITA principal would have the ability to block a request for consultation. For example, CITA principals did not reach consensus on 64, or about 30 percent, of the 204 votes taken on whether to impose a quota from 1990 through 1995, since these votes were not unanimous. CITA is not required to publish its voting records or minutes of its monthly meetings, and it does not do so.

If CITA votes in favor of issuing a call, the committee requests consultations with the exporting country through diplomatic note to impose a quota. Under ATC, once the exporting country receives the note, the two governments have 60 days to consult. No quota is put in place during the consultation period.

Once CITA contacts the exporting country to request consultations, OTEXA publishes in the Federal Register details of the request, a summary of the market statement supporting the call, and a request for written comments

¹⁹In the early 1980s, CITA made decisions on the basis of consensus, wherein one member could veto a call decision. The executive order establishing CITA provided that decisions of the Chairman are to be implemented unless a majority of the CITA members oppose the action.

from interested parties.²⁰ Before the consultations take place, CITA also notifies and generally schedules meetings with both U.S domestic producers and importers and retailers to brief them and obtain their input.²¹

For a number of years, importers and retailers have advocated the use of open, public hearings that would allow for public comment before CITA makes a decision on whether to call a foreign government. Importers and retailers currently have an opportunity to provide input after CITA requests consultations with a foreign government but not to comment before a call is made. However, according to CITA officials, if importers and retailers were notified before a call is made, imports might surge further as firms attempt to import products before a quota is applied, and domestic producers might subsequently be hurt. Although importers and retailers maintain that they would not have enough time to place an import order and thereby enhance an import surge, CITA officials have not been convinced by this argument.

U.S. importers and retailers and domestic producers also disagree about the amount of information OTEXA provides them about consultations after the call is made. Importers and retailers said they are not provided with as much information as domestic producers about upcoming consultations; on the other hand, domestic producers said that, in their view, importers and retailers receive additional information from the foreign exporting country involved in the consultations. CITA does not keep written records of its meetings or contacts with industry representatives, so the amount of information provided to domestic producers and the importer and retailing community cannot be determined. (See app. IV for further information on CITA's decision-making process.)

CITA's Data Sources

In deciding whether to impose quotas, CITA uses government statistics collected by the U.S. Customs Service, the Census Bureau, and the Bureau of Labor Statistics (BLS). These statistics are subject to the internal quality control processes of the three agencies. OTEXA officials attempt to match

²⁰In our 1983 report, *Implementation of Trade Restrictions for Textiles and Apparel* (GAO/NSIAD-84-18, Nov. 4, 1983), we recommended that a summary of CITA's justification for a call be published in the *Federal Register*. CITA has implemented this recommendation. However, in the same report we also recommended that, to the extent practical, OTEXA indicate in its proposals to CITA justifying a potential call, why other major suppliers have not been the subjects of a call. CITA has not implemented this recommendation.

²¹In the past, CITA relied on the "cleared advisors" program, a formal advisory group composed of importers, retailers, and producers who would be privy to sensitive information. However, due to budget constraints and other factors, about 2 years ago the Department of State stopped processing security clearances for this program, and the last clearances expired in 1995.

these data, including production, domestic price, and employment data, to CITA's product categories.²² However, because Customs, Census, and BLS use different methods to collect their data, some compatibility problems occur when OTEXA attempts to make this match. CITA's textile and apparel categories consist of combinations of International Harmonized Tariff Schedule (HTS)²³ codes, but not all of the previously mentioned government agencies collect the data under an HTS-based system.

While Customs collects import data using HTS, the Census Bureau collects production and domestic price data using Census' product descriptions. BLS collects employment data using Standard Industrial Classification (SIC) product codes.²⁴ We found that OTEXA can match the production data with a high degree of accuracy, but for price and employment data this matching is necessarily done with a much lesser degree of accuracy. Therefore, while import and production data were generally reliable and valid, price and employment data may only provide OTEXA with broad indications of trends in the domestic textile and apparel industries. (See app. V for more information on OTEXA's data collection.)

How CITA Uses Data to Support Calls

In the 166 market statements we examined for calls CITA issued between 1990 and 1995, we found that the committee relied primarily on data contained in OTEXA market statements for evidence of import surges and production declines, and to a lesser degree on price and employment data. CITA officials told us that they exercise considerable judgment, treat their determinations on a case-by-case basis, and apply no specific numerical threshold (such as a minimum increase in imports or a minimum decline in production) in making their decisions.

Our review of import increases and production falls in the 166 market statements indicated the following:

- CITA issued calls when production declined by a median of 6.4 percent during the most recent period for which this data were available, while comparable yearly imports of a particular category of textiles or apparel increased by a median of 9.6 percent. The most recent median import

²²CITA uses 148 product categories to track import surges. For example, one CITA category includes women's and girls' wool coats.

²³HTS is an extension of the 6-digit Harmonized Commodity and Coding System, the internationally recognized classification system for commodities.

²⁴SIC is the statistical classification standard underlying all establishment-based (plant-level) federal economic statistics classified by industry. The classification covers the entire field of economic activity and defines industries in accordance with the composition and structure of the economy.

increase was 17.6 percent. The change in the most recent import data ranged from a decrease of 15 percent to an increase of 195 percent. The change in domestic production ranged from a decrease of 51 percent to an increase of 25 percent.

- CITA did not issue calls in some cases where there were import increases and production falls. In examining annual import and production data between 1992 and 1994 for 94 CITA categories, including categories both called and not called, no calls were made in 21 instances where yearly production fell in a category by more than 5 percent and yearly imports rose in a category by 5 percent or more.
- CITA issued some calls when either domestic production fell or import increases were fairly small. For example, 26 percent of the calls occurred when the most recent year's production declines were less than 2 percent; 20 percent of the calls occurred when the most recent year's import increases were less than 2 percent. Both small production declines and small import increases occurred at the same time in less than 4 percent of the calls.
- CITA requested consultations with countries whose imports of the product in question represented a median of 2.5 percent of total U.S. imports of that commodity in the most recent 12 months for which data were available. The percent of total imports from individual countries ranged from 0.09 percent to 84 percent.

In the 166 market statements we reviewed, CITA assumed a causal link between import rises and production falls because, according to OTEXA officials, this link is extremely difficult to prove. CITA also assumed in the market statements that textile and apparel imported products falling under the same CITA product category were like and/or competitive products to those being produced by domestic manufacturers of items under that category.²⁵ However, we found that the HTS codes under some CITA categories represent varied products. Since CITA imposes quotas at the category level, all of the items under that category then become the product subject to quota. For example, in a 1995 call, CITA requested consultations with India over imports of category 435—women's and girls' wool coats—and imposed a quota. Category 435 includes suit-type jackets as well as overcoats and ski jackets. Thus, the quota was imposed not only on wool coats but also on suit-type jackets and ski jackets. (CITA later rescinded the restraint.) The producer prices of some HTS codes within CITA categories also varied, illustrating that the products may not be like and/or directly competitive. (See app. VI for more information on CITA's use of data.)

²⁵ATC does not define "like and/or directly competitive products."

Outcome of 1995 U.S. Calls

In 1995, CITA issued 28 calls. Under ATC, all safeguard decisions are to be reviewed by a newly created international Textiles Monitoring Body in Geneva, consisting of representatives from 10 countries, including the United States. TMB supervises the implementation of ATC. Among other responsibilities, TMB conducts examinations of all safeguard actions, including those involving disputes and those resulting in agreements, and makes appropriate recommendations. To date, TMB has completed its review of seven of the U.S. calls (where initially no agreement was reached with the exporting country) and found that the United States had demonstrated the threat of serious damage to domestic industry attributable to the called country in one case. In three cases, TMB found that the United States had not demonstrated serious damage to its domestic industry, and the United States subsequently rescinded the quotas; in three other cases, TMB could not reach consensus.

TMB has not published details about the reasons for its recommendations, but some individual TMB members expressed concerns to us about the nature and timing of the 1995 U.S. calls (as of May 1996, the United States was the only country that had imposed quotas under ATC). Some TMB members told us that they considered ATC a liberalizing agreement and, thus, had not expected over 20 calls early in its first year.²⁶ Although 28 calls was not unusually large compared to the number of calls made in previous years under MFA, some TMB members were concerned that the United States was treating calls under ATC as “business as usual.”

In addition, individual TMB members we interviewed questioned how the United States used data to justify its calls. For example, they questioned (1) whether in some cases import increases had been “sharp and substantial” as required under ATC, (2) why changes occurred in the direction of data levels—in one case in U.S. domestic production levels and in another case in U.S. employment levels—between the consultation period and the TMB review, (3) whether the United States had adequately considered the exporting country’s world market share of the products in question, and (4) whether reimports under the U.S. Special Access Program²⁷ could damage U.S. producers. In addition, some TMB members wanted to see more evidence that the United States had considered the extent to which the domestic producers being damaged by imports were

²⁶According to OTEXA, 6 of the 28 calls had originally been made in 1994 under MFA but were not resolved and thus were carried over into 1995 under ATC.

²⁷The Special Access Program provides for more favorable quota treatment for imports from Caribbean Basin countries of apparel products assembled from fabric cut and formed in the United States.

producing like and/or competitive products. (See app. VII for more information on 1995 calls.)

Other Countries' Processes for Imposing Import Quotas

The data Canada and the EU use to make determinations of serious damage are similar to the type of data used by CITA. However, the Canadian and EU processes for making safeguard calls differ from the U.S. safeguard process in several ways. For example, the EU's decisions to request consultations to impose quotas have been initiated by complaints from domestic producers rather than based on their own governments' monitoring efforts. While importers and retailers can lobby the EU Commission, which chairs the intergovernmental committee responsible for setting quotas, they are not notified officially when a call is being considered. The Canadian government monitors trade flows and initiates safeguard actions. If the government intends to make a call, it notifies Canadian manufacturers, retailers, and importers and allows them to comment 2 to 3 weeks before issuing the call. In addition, Canadian and EU officials stated that they are not concerned about possible import surges before a call is made, for various reasons. Japan has not invoked safeguard measures under MFA or ATC. (See app. VIII for more information on the foreign systems.)

ITC's Process for Imposing Import Quotas

Like CITA, ITC has the authority to determine whether an article is being imported into the United States in such increased quantities as to damage domestic industry, although their respective processes differ. ITC administers the GATT safeguard provision under section 201-04 of the Trade Act of 1974 as amended.²⁸ Specifically, any relief imposed through the section 201 process applies to merchandise from all countries. ITC has no consultation period with any foreign government. The act requires ITC's investigation to be triggered by a petition from an affected party and sets out specific procedures and time frames that must be followed. The act mandates that ITC hold public hearings, solicit briefs from interested parties, and issue public reports throughout the course of its investigation.

During the past few years, retail and importer trade associations have maintained that the ITC process for imposing import restraints could be a potential alternative to CITA's safeguard process. In addition, in 1995, a bill was introduced in the U.S. House to transfer CITA activities relating to ATC safeguard measures to ITC. (See app. IX for more information on the ITC safeguard process.)

²⁸19 U.S.C. §§ 2251-54.

Matters for Congressional Consideration

We believe that the material and analyses we have presented are the most comprehensive recent examination of the way that CITA operates and arrives at its decisions related to invoking ATC transitional safeguards.

On the basis of this information, Congress may decide that it is satisfied with CITA as it is, or it may want to consider changing some of CITA's operations. For example, if Congress is dissatisfied with the amount of transparency in CITA's operations, it might wish to consider such measures as requiring CITA to publish its operating procedures, the minutes of its meetings (edited to protect proprietary or other sensitive information), and voting records.

In the area of decision-making, Congress might wish to consider establishing threshold levels for import increases or production declines that would prompt consideration of imposing quotas. Or, Congress might wish to consider directing CITA to make quota decisions on the basis of consensus among its members.

In the area of oversight, Congress might wish to consider establishing a high-level interagency body to review CITA's decisions to impose quotas. This body could be similar to the Textile Trade Policy Group that existed between 1975 and 1987.

Agency Comments

In commenting on a draft of this report, CITA stated that much of the report represented a thorough and factual account of the operation of the U.S. textile program. However, CITA expressed some concern about our methodology for analyzing its use of data to support safeguard calls. CITA maintained that we did not accurately characterize how it applied data to issue a call. We evaluated CITA's specific concerns and made some modifications to the report. However, we disagree with CITA's overall comment on our assessment of CITA's use of data. We believe our methodology and analysis are sound and accurately reflect how CITA uses data in deciding to impose an import quota. CITA's comments are provided in their entirety in appendix XI, along with our point-by-point response. We did not provide CITA an opportunity to comment on the Matters for Congressional Consideration. (See app. X for information on our scope and methodology.)

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies of this report to the Secretaries of Commerce,

State, Labor, and the Treasury; and the U.S. Trade Representative; and appropriate congressional committees. We will also make copies available to others upon request.

Please contact me at (202) 512-8984 if you or your staff have any questions concerning this report. Major contributors to this report are listed in appendix XII.

A handwritten signature in black ink, reading "JayEtta Z. Hecker". The signature is fluid and cursive, with a long horizontal stroke at the end.

JayEtta Z. Hecker
Associate Director
International Relations and
Trade Issues

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Abbreviations

ATC	Agreement on Textiles and Clothing
BLS	Bureau of Labor Statistics
CBI	Caribbean Basin Initiative
CIR	Current Industrial Reports
CITA	Committee for the Implementation of Textile Agreements
DFAIT	Department of Foreign Affairs and International Trade
DSB	Dispute Settlement Body
EU	European Union
GAL	guaranteed access level
GATT	General Agreement on Tarriffs and Trade
GDP	gross domestic product
GSP	General System of Preferences
HTS	Harmonized Tariff Schedule
ITC	International Trade Commission
MFA	Multifiber Arrangement
MITI	Ministry of International Trade and Industry
MMF	manmade fiber
MOU	memorandum of understanding
NAFTA	North American Free Trade Agreement
NTC	National Textile Center
OECD	Organization for Economic Cooperation and Development
OTEXA	Office of Textiles and Apparel
R&D	research and development
SAA	Statement of Administrative Action
SIC	Standard Industrial Classification
SL	specific limit
SME	square meter equivalent
TC ²	Textile/Clothing Technology Corporation
TMB	Textiles Monitoring Body
TSB	Textiles Surveillance Body
USTR	Office of the U.S. Trade Representative
WTO	World Trade Organization

Overview of the U.S. Textile and Apparel Industries

The U.S. textile and apparel industries accounted for 0.8 percent of the U.S. gross domestic product (GDP) in 1993, making it the 10th largest manufacturing sector. Yet, with about 1.6 million workers employed in U.S. textile and apparel manufacturing industries, it was the second largest source of nondurable manufacturing employment in the United States in 1995. In the same year, the U.S. textile and apparel industry represented 1.4 percent of total employment in all sectors in the United States.

The textile industry generally consists of producers of yarn and thread, fabric, and various finished goods.¹ These goods include home furnishings, such as sheets, towels, furniture covering, and carpets; and goods used for industrial purposes, ranging from automobile upholstery to industrial bags and belts. According to the U.S. International Trade Commission (ITC),² the apparel industry consists of both vertically integrated firms (that make both the fabric and the finished products) producing various knitwear products, such as hosiery, underwear, and sweaters, and firms that principally cut and sew products from purchased materials.³ While the apparel industry is dominated by small establishments, a few segments of the industry are highly concentrated.⁴

Employment in the U.S. textile and apparel industries has been shrinking over the past two decades.⁵ At its peak in the early 1970s, the textile industry employed 1 million people, while the apparel industry employed 1.4 million. In 1995, the textile industry employed 667,000, and the apparel industry employed 930,000. According to Census Bureau statistics, the number of U.S. textile and apparel establishments declined from 31,021 in 1982 to 28,935 in 1992.

Wages in the textile and apparel industries are relatively low. Although average hourly earnings have been rising at an average rate of 2.8 percent

¹The textile industry is generally classified under the Standard Industrial Classification (SIC) 22, the category for textile mill products.

²ITC has a Textile and Apparel Branch, with a staff of five analysts, that publishes reports about the textile and apparel industry.

³The apparel industry is generally classified under SIC 23, the category for apparel and other textile products. According to ITC, firms in this category account for about 85 percent of annual U.S. apparel shipments. However, vertically integrated knitting mills that produce knitwear, such as hosiery and underwear, directly from yarn or from fabric knit in the same mill are classified under SIC 22, the category for textile mill products.

⁴According to ITC, in segments such as men's trousers and men's underwear and nightwear, the four largest firms in the United States account for roughly 60 percent of the respective industry shipments.

⁵Employment, wage, and establishment data are reported based on industry definitions of SIC 22 for textiles and SIC 23 for apparel.

in the textile industry, and by 2.5 percent in the apparel industry over the period 1988-95, wages in both industries are still relatively low when compared to the manufacturing sector as a whole. In 1995, a textile worker on average earned \$9.41 per hour, and an apparel worker \$7.64 per hour, compared to \$12.37 per hour for manufacturing workers overall.

The U.S. textile and apparel industries, and the apparel products industry in particular, have traditionally been very sensitive to import competition from lower-cost, developing country suppliers.⁶ However, the textile industry has gradually become relatively competitive and is less labor intensive than the apparel industry. According to the Congressional Budget Office, the textile industry is approximately as labor intensive as the rest of U.S. manufacturing.

According to ITC, U.S. textile and apparel industries have implemented a number of strategies in recent years to respond to growing market competition. These strategies include adopting new technologies and improving manufacturing, marketing, and distribution methods.

Table I.1 shows the top 10 import categories in 1994. Textile and apparel imports were the fourth largest import category in 1994, with a higher value than crude oil and natural gas imports that year. In contrast, textile and apparel exports, at \$11.3 billion in 1994, were 2.3 percent of all exports, the 10th largest category of exports.

⁶Generally, labor costs are considered to be a key factor in making apparel sensitive to imports from low-cost foreign suppliers. However, according to ITC, while the ratio of labor costs to value added in the apparel industry is still higher than that for the manufacturing sector as a whole, in recent years the relative importance of labor costs to the U.S. apparel industry has been diminishing.

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Table I.1: U.S. Import Categories by SIC, in 1994

Dollars in millions		
SIC-based product category	Imports for consumption	Percent of total
Transportation equipment	\$115,998	17.6
Electric and electronic equipment	94,332	14.3
Machinery, except electrical	89,705	13.6
Textiles and apparel	45,095	6.9
Crude petroleum and natural gas	44,949	6.8
Chemicals and allied products	31,697	4.8
Primary metal products	30,106	4.6
Miscellaneous manufactured commodities	26,830	4.1
Instruments and related products	24,410	3.7
Food and kindred products	17,342	2.6
All others	137,420	20.9
Total imports for consumption	\$657,884	100^a

^aPercents do not total 100 percent due to rounding.

Source: Statistical Abstract of the United States, U.S. Bureau of the Census (Washington, D.C.: Sept. 1995).

Textile Trade Patterns

Total textile imports reached 9.1 billion square meter equivalents (SME) in 1995, an increase of 2.3 percent from the prior year.⁷ Table I.2 shows the top 10 suppliers of U.S. textile imports in 1995, the most recent year that data were available.

⁷Includes Multifiber Arrangement (MFA)-covered products (cotton, wool, manmade fiber [MMF], noncotton vegetable, and silk blend products of yarn, fabric, and made-ups (various household items, such as sheets, towels, and draperies). Does not include 100-percent silk products.

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Table I.2: Suppliers of Textiles to the U.S. Market (MFA Products) 1995

Country	Millions of SME	Percent of total U.S imports
Canada	1,436	15.9
European Union (EU)	1,169	13.0
China	910	10.1
Mexico	776	8.6
Pakistan	594	6.6
Taiwan	576	6.4
India	493	5.4
South Korea	455	5.0
Thailand	420	4.6
Japan	247	2.7
All others ^a	1,983	21.9
Total	9,059	100^b

^aAll others includes at least 41 other countries.

^bPercents do not total 100 percent due to rounding.

Source: Major Shippers: Textiles and Apparel, U.S. Department of Commerce, Office of Textiles and Apparel (OTEXA), (Washington, D.C.: Feb. 1996).

The total dollar value of U.S. textile exports rose by nearly 52 percent between 1990 and 1995, approaching \$7 billion by 1995.⁸ Half of U.S. textile products were shipped to Organization for Economic Cooperation and Development (OECD) countries in 1995.⁹ Table I.3 shows the top 10 markets for U.S. textile products.

⁸Data for textile exports do not include products of raw cotton, unspun wool, and MMF fiber that have not been processed into yarns with twist.

⁹The OECD countries are Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Mexico, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States.

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Table I.3: Markets for U.S. Textile Products, 1995 (F.A.S. Value)

Dollars in millions

Country	Amount of U.S. exports	Percent of total U.S. exports
Canada	\$2,035	29.2
EU	1,209	17.4
Mexico	924	13.3
Japan	295	4.2
Hong Kong	226	3.2
Dominican Republic	188	2.7
Brazil	139	2.0
Australia	136	2.0
Saudi Arabia	125	1.8
South Korea	117	1.8
All others ^a	1,574	22.6
Total	\$6,968	100^b

Note: F.A.S. (free-alongside-ship) value is a method of export and import valuation whereby the seller's price includes charges for delivery of goods up to the port of departure. The seller handles the cost of unloading and wharfage; the buyer handles the cost of loading, ocean transportation, and insurance.

^aAll others includes 30 other countries.

^bPercents do not total 100 percent due to rounding.

Source: Export Market Report, U.S. Department of Commerce, OTEXA (Washington D.C.: Dec. 1995).

Apparel Trade Patterns

Apparel imports have risen dramatically in the last decade. According to ITC, during the last 10 years, notwithstanding quota restrictions and relatively high tariffs, U.S. apparel imports grew by 90 percent, to \$34 billion, and doubled their share of the U.S. market to more than 40 percent.¹⁰ Between 1989 and 1993, U.S. apparel imports rose by 38 percent. U.S. apparel manufacturers face growing competition from low-wage developing countries. Table I.4 shows the top 10 suppliers of apparel to the United States in 1995, all of which were developing countries. China continues to be the largest apparel supplier to the U.S. market, followed by Hong Kong. In 1995, Mexico displaced Taiwan as the third largest apparel supplier to the United States. However, combined exports of these three countries only accounted for 26 percent of total U.S.

¹⁰Industry and Trade Summary: Apparel, Publication 2853, ITC (Washington D.C.: Jan. 1995).

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apparel imports in 1995; imports originated from at least another 68 countries as well.

Table I.4: Suppliers of Apparel to the U.S. Market, 1995 (MFA Products)

Country	Millions of SME	Percent of total U.S. imports
China	862	9.3
Hong Kong	821	8.9
Mexico	774	8.4
Dominican Republic	632	6.8
Taiwan	598	6.5
Bangladesh	519	5.6
Philippines	465	5.0
South Korea	343	3.7
Honduras	329	3.6
Indonesia	310	3.4
All others ^a	3,602	38.9
Total	9,255	100^b

^aAll others includes 61 other countries.

^bPercents do not total 100 percent due to rounding.

Source: Major Shippers: Textiles and Apparel.

According to ITC, in the past 30 years approximately half of the productive capacity in the apparel industry has shifted from developed to developing countries.¹¹ This is part of a global trend for apparel producers to shift production offshore in order to lower production costs. In addition, in the past few years apparel importers have shifted their sourcing of goods to countries that do not face U.S. quotas.

From 1993 to 1995, apparel imports from Mexico and the Caribbean increased 63 percent, and in 1995 they accounted for 30 percent of total U.S. apparel imports. Several trade initiatives provide incentives to U.S. and foreign producers to assemble apparel products in these countries from U.S. fabric or fabric cut in the United States. For example, the United States provides special access arrangements to Caribbean Basin countries. In addition, there is a partial duty exemption for goods assembled abroad from U.S. components (the tariff is applied only to the value added

¹¹Industry and Trade Summary: Apparel.

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abroad), and Mexico benefits from provisions in the North American Free Trade Agreement (NAFTA), which took effect in 1994.

The United States is not the only developed country experiencing significant import penetration. Table I.5 shows the level of and change in world apparel imports by developed countries and country groups from 1990 to 1993. For example, while U.S. imports increased 32 percent from 1990 to 1993, imports to Japan increased 44 percent over that period, and imports to the EU increased 33 percent from 1990 to 1992 (the latest year for which data were available).

Table I.5: World Apparel Imports by Developed Countries and Country Groups, 1990-93

Dollars in millions					
Country/group	1990	1991	1992	1993	Percent change, 1990-93
United States	\$26,977	\$27,696	\$32,951	\$35,605	32
Canada	2,388	2,207	2,434	2,513	5
Japan	8,737	9,396	11,191	12,588	44
EU ^a	26,981	32,867	35,843	NA	33 ^b

Legend

NA = Not available.

Note: Data compiled from unpublished United Nations data for Standard International Trade Classification division 84, articles of apparel and clothing accessories (Revision 3) and published data from the General Agreement on Tariffs and Trade (GATT), International Trade 1993 - Statistics (Geneva: 1993). Includes apparel accessories made from nontextile products.

^aExcludes intra-EU trade.

^bPercent change for 1990-92.

Source: Industry and Trade Summary: Apparel.

The total dollar value of U.S. apparel exports nearly tripled from 1990 to 1995, reaching \$6.2 billion by 1995. Table I.6 shows the top 10 markets for U.S. apparel exports.¹² Over 90 percent of this increase can be attributed to increased U.S. exports to Mexico, Japan, Canada, and Caribbean Basin countries. The majority of apparel exports to Caribbean Basin countries are cut fabric goods shipped there for assembly and reimported to the United States. Current data do not allow the separation of apparel parts exported for assembly from those that are wholly consumed abroad.

¹²Data for apparel exports do not include apparel made of plastic, fur, or leather.

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Table I.6: Markets for U.S. Apparel Exports, 1995 (F.A.S. Value)

Dollars in millions		
Country	Amount of U.S. exports	Percent of total U.S. exports
Mexico	\$1,324	21.4
Japan	851	13.8
Dominican Republic	782	12.7
Canada	513	8.3
Honduras	404	6.5
Costa Rica	395	6.4
Jamaica	384	6.2
El Salvador	216	3.5
Guatemala	209	3.4
Colombia	137	2.2
All others ^a	965	15.6
Total	\$6,180	100

^aAll others includes at least 25 other countries.

Source: Export Market Report.

The Committee for the Implementation of Textile Agreements: Functions, Resources, and Costs

The Committee for the Implementation of Textile Agreements CITA¹ carries on several functions beyond overseeing the gradual integration of quotas and utilizing the Agreement on Textiles and Clothing's (ATC) transitional safeguard mechanism. As under MFA, CITA's work load includes a number of tasks related to assuring compliance with U.S. trade agreements that are not directly associated with imposing quotas. These tasks involve

- coordinating U.S. government efforts to prevent fraud and illegal routing of U.S. textile and apparel imports through third countries (transshipment violations),
- implementing penalties against violators and assuring that the U.S. Customs Service enforces these penalties, and
- reviewing and commenting on regulations concerning the origin of textile and apparel products in cooperation with the U.S. Customs Service.

CITA is also responsible for performing many functions that are not associated with ATC, including

- negotiating new, and periodically renewing old, bilateral and memorandum of understanding (MOU)² agreements, with non-World Trade Organization (WTO) member countries, such as China (according to an OTEXA official, in 1995 CITA negotiated 16 such agreements with foreign governments, including both bilateral and MOU agreements);
- implementing a program that provides, under certain circumstances, special access arrangements to Caribbean Basin countries to export apparel products to the United States; and
- overseeing the implementation of provisions within NAFTA that pertain to textile and apparel trade.

As under MFA, OTEXA provides CITA with its principal support staff; 33 of OTEXA's 41 staff work on CITA-related matters.³ OTEXA has three divisions that perform CITA-related functions—the Agreements, Industry

¹CITA representatives currently are the Deputy Assistant Secretary for Textiles, Apparel, and Consumer Goods Industries, Department of Commerce; the Acting Director, Division of International Commodities, Department of Labor; the Chief, Textile Trade Policy and Agreements Division, Department of State; Economist, Office of the Assistant Secretary for International Affairs, Department of the Treasury; and the Ambassador and Chief Textile Negotiator, Office of the U.S. Trade Representative (USTR). CITA representatives vote on all calls but may confer about proposed calls with higher-level officials within their respective agencies as necessary.

²According to an OTEXA official, an MOU may be signed within the context of an existing bilateral agreement between the United States and a foreign government when only individual textile or apparel product categories are the subject of negotiations. (MOUs can be used for a variety of purposes, including bilaterals with non-WTO members.)

³These numbers include staff as of May 1995 (includes one part-time staff person).

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Assessment, and Trade and Data Divisions. Their functions include monitoring import activity for safeguard and transshipment purposes, conducting evaluations of the general state of the U.S. textile and apparel industries, and participating in any U.S. negotiations that may affect those industries.

The fourth division is the Market Expansion division, whose work has nothing to do with CITA. This division's main objective is to promote U.S. textile and apparel exports by sponsoring domestic and international export seminars, trade shows, missions, and exhibits; and by providing counseling to companies on export issues. According to the division's Director, since the program began in 1979, about 2,570 U.S. companies have participated in export trade events that the division has sponsored. OTEXA officials report that they believe the companies' participation generated about \$3.5 billion in U.S. exports.

CITA's Resources and Costs

Table II.1 shows each CITA agency's fiscal year 1995 CITA-related costs, share of total CITA costs, and number of staff that supported CITA's operations. In fiscal year 1995, OTEXA accounted for over 79 percent of CITA's total \$3.6 million costs, at \$2.8 million.

Table II.1: CITA Personnel and Estimated Fiscal Year 1995 Budget

Dollars in thousands

Agency	Cost	Percent of total cost	Personnel
Commerce	\$2,845	79.5	33
State	319	8.9	6
USTR	309	8.6	3
Labor	78	2.2	3
Treasury	27	0.8	2
Total	\$3,578	100.0	47

Note: Cost data provided by agencies are not uniform.

Source: CITA.

Table II.2 shows that from fiscal year 1990 to fiscal year 1995, OTEXA's budget more than doubled. However, over 96 percent of the budget increase was due to increases in the two research and development (R&D) technology transfer grant programs administered by OTEXA—one to the Textile/Clothing Technology Corporation ([TC])² and another to the

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National Textile Center (NTC).⁴ In fiscal year 1995, these two grants accounted for over 75 percent of OTEXA's \$16.4 million budget. According to OTEXA, although funds for the grant programs are included in OTEXA's budget by Congress and OTEXA has a role in administering the grants, the grant funds do not cover any of OTEXA's administration costs.

Table II.2: OTEXA Budget, Fiscal Years 1990-95

Thousands of dollars

	1990	1991	1992	1993	1994	1995
Grants	\$3,315	\$3,215	\$11,096	\$10,391	\$12,163	\$12,400
Export promotion	585	818	881	800	491	578
Pay and benefits	2,256	2,435	2,472	2,201	2,881	2,844
Other costs ^a	762	605	692	1,127	825	549
Total cost	\$6,917	\$7,073	\$15,141	\$14,519	\$16,360	\$16,371

^aOther costs include all those other than payroll and other benefits (travel, equipment, etc.).

Source: OTEXA.

⁴The (TC)² is a not-for-profit consortium of 200 fiber, textile, sewn products, retail, labor, and governmental organizations dedicated to increasing the long-term competitiveness of the U.S. textile and apparel industry through demonstration projects, education, and R&D. NTC is a research consortium of four universities that work collaboratively to develop and transfer new technologies and manufacturing processes to the U.S. textile industry. The (TC)²'s R&D effort and the NTC's work are funded solely by federal grant funds.

Changes in Multilateral Textile Rules Required by ATC

The primary change in multilateral textile rules under ATC is the required integration of textile and apparel products into GATT rules in four stages over a 10-year period ending in 2005. Product integration entails the permanent removal of textile and apparel quotas maintained under ATC, with freedom to choose which products to integrate at each stage. Table III.1 shows the list of products to be integrated at each of the four stages specified in ATC, as published by the Department of Commerce.

Table III.1: Integration Schedule for Textile and Apparel Products Under Quota

	Stage 1 (Jan. 1, 1995-Dec. 31, 1997)	Stage 2 (Jan. 1, 1998-Dec. 31, 2001)	Stage 3 (Jan. 1, 2002-Dec. 31, 2004)	Stage 4 (Jan. 1, 2005)
Apparel	No textile or apparel products under quota integrated in stage 1	Babies' apparel Handkerchiefs Hosiery ^a Bras & body-supporting garments ^a Down apparel Footwear Silk apparel Other silk blend & vegetable apparel	Gloves Robes and dressing gowns Headwear and judo & karate uniforms Knit neckwear, shawls, scarves, pantyhose, & tights Neckwear Bras and body supporting garments ^a Coats & jackets ^a Shirts & blouses ^a Dresses & skirts ^a Suits, trousers, & nightwear ^a	Playsuits Diapers Woven gloves Hosiery ^a Coats & jackets ^a Dresses & skirts ^a Shirts and blouses ^a Suits ^a Sweaters Trousers & shorts ^a Nightwear ^b Underwear Other cotton ^e Other wool ^c
Fabric		Specialty fabric	Knit fabric Nonwoven fabric MMF impression fabric Glass fiber fabric Silk blend & vegetable fabric	Cotton & MMF broadwoven Pile Wool
Made-ups		Carpets Certain wadding & footwear Silk blends, vegetable, other made-ups & miscellaneous	Luggage Wool blankets Other cotton ^d Other wool ^e Other MMF ^f	Bed linen Towels, shop towels, & dishcloths Knitted table linen National flags of the United States
Yarn		No yarn products under quota integrated in stage 2	Textured filament Nontextured filament Other stable fiber yarn Silk blend and vegetable fiber	Sewing thread & yarn

(Table notes on next page)

Appendix III
Changes in Multilateral Textile Rules
Required by ATC

^aIn some cases, apparel products grouped into separate categories according to fiber content are to be integrated in different stages.

^bIncludes other cotton apparel except pantyhose and tights, scarves, knit neckwear, judo and karate uniforms, and headwear.

^cIncludes other wool and MMF apparel except pantyhose and tights, scarves, and knit neckwear.

^dIncludes all other cotton manufactures except pillow covers, knitted table linen, shop towels, and dishcloths.

^eIncludes all other wool manufactures except bed linen.

^fIncludes all other MMF furnishings and manufactures.

Source: OTEXA.

ATC also contains provisions that ensure that any quota levels imposed pursuant to MFA and in place when ATC went into effect will increase and become less restrictive with time. MFA required that bilateral agreements contain provisions to ensure the automatic increase in the quota quantities over time, that is, “quota growth.” Table III.2 provides an example of how, through a mechanism called “growth-on-growth,” the size of quotas on products not yet integrated will increase in three stages over the 10-year period.¹ Under ATC, baseline quota rates previously set under MFA bilateral agreements will increase by 16, 25, and 27 percent in stage 1 (1995-97), stage 2 (1998-2001), and stage 3 (2002-04), respectively. The growth-on-growth mechanism would result in, for example, an original 6-percent growth rate increasing to an 11-percent growth rate for the third stage. All quotas imposed under ATC transitional safeguard provisions will have growth rates of at least 6 percent per year and can last up to 3 years (with the exception of wool products, which can increase only 2 percent yearly).

¹The growth-on-growth rates only apply to quotas in place at the effective date of ATC and not to quotas subsequently imposed on products through the ATC’s transitional safeguard mechanism. The latter quotas will have growth rates of not less than 6 percent per year and last up to 3 years, but will not receive growth-on-growth treatment.

**Appendix III
Changes in Multilateral Textile Rules
Required by ATC**

**Table III.2: Examples of ATC Quota
Growth Rates, 1995-2004**

MFA growth rates ^a (percent)	ATC growth rates		
	Stage I 16% increase (1995-1997)	Stage II 25% increase (1998-2001)	Stage III 27% increase (2002-2004)
1	1.16	1.45	1.8415
2	2.32	2.90	3.6830
3	3.48	4.35	5.5245
4	4.64	5.80	7.3660
5	5.80	7.25	9.2075
6	6.96	8.70	11.0490
7	8.12	10.15	12.8905

^aOriginal growth rates under MFA that serve as baseline rates for growth-on-growth mechanism under ATC.

Source: OTEXA.

ATC also changes the rules concerning the imposition of new quotas during the 10-year period. Because its purpose is to integrate textile products into GATT, article 6 of ATC, unlike MFA, does not permit countries to negotiate and impose quotas unless the importing country finds actual or threat of serious damage to its domestic industry. Under article 4 of MFA, countries were permitted to enter into bilateral agreements limiting imports in order to eliminate “real risks of market disruption.”

Under ATC, a WTO member country may impose a quota on another WTO member country only through the use of a transitional safeguard—a temporary quota on a particular foreign supplier. The standard for applying a transitional safeguard under ATC is comparable to article 3 of MFA. Before making a direct comparison between the two standards, however, it is useful to describe the ATC standard. Article 6 of ATC provides that a safeguard action may be taken based on a determination that total imports of a particular product are being imported in such increased quantities as to cause “serious damage or actual threat thereof, to the domestic industry producing like and/or directly competitive products.” The serious damage or actual threat thereof must be “demonstrably caused by” an increase in quantities in “total imports of that product” and not by such other factors as “technological changes or changes in consumer preference.”

ATC further provides that the importing country shall examine the effect of those imports on the state of the industry as reflected in relevant

economic variables. It lists 11 variables that may be considered but states that none, either alone or combined with other factors, “can necessarily give decisive guidance.” (These factors are output, productivity, utilization of capacity, inventories, market share, exports, wages, employment, domestic prices, profits, and investment.) According to CITA, language on these factors was developed specifically because of the difficulty of establishing formulas to account for varying situations.

Once the importing country determines that imports are causing serious damage or actual threat thereof to its domestic industry, it must attribute the serious damage on a country-by-country basis. Country attribution may be made on the basis of “a sharp and substantial increase in imports” from a particular country and on the basis of “the level of imports from other sources, market share, and import and domestic prices.”

The ATC safeguard standard is very similar to the MFA standard and contains essentially the same terminology (see fig. III.1). Both safeguard provisions allow a country to request consultations to impose quotas on an exporting country’s product based on its determination of serious damage or actual threat thereof. Like MFA, ATC affords countries broad discretion in choosing among listed (similar but not identical) factors to be considered as well as the weight, if any, to be given any one factor. Neither agreement provides guidance on how the criteria are to be applied. For example, ATC and MFA do not specify a minimum increase in imports or a minimum decrease in domestic production to justify imposing a quota. The primary difference between the two safeguard standards is that ATC requires a finding that total imports of the product are causing serious damage or actual threat thereof, while no such finding was required by MFA. The MFA safeguard provision required that a country determine that imports of a particular product from a particular source were causing serious damage or actual threat thereof. Similar to language in MFA, ATC specifies that transitional safeguards are to be applied “sparingly.”

Figure III.1: Comparison of Safeguard Standards Under Article 3 of MFA and Article 6 of ATC

Safeguard Standard Under Article 3 of MFA^a

"Market Disruption"

Elements required

(1) Serious damage or threat thereof to domestic industry exists

Factors that may be considered^b

- Productivity
- Utilization of capacity
- Profits
- Investments
- Export performance
- Employment
- Market share
- Volume of disruptive and other imports
- Turnover
- Production

(2) Damage caused by imports^c

Factors to be considered

- Sharp and substantial increase or imminent increase of particular products from particular sources
- Products' prices substantially below those for similar goods in importing country

Safeguard Standard Under Article 6 of ATC "Serious Damage or Actual Threat Thereof "

Elements required

(1) Serious damage or threat thereof to domestic industry exists

Factors that may be considered^d

- Productivity
- Utilization of capacity
- Profits
- Investment
- Exports
- Employment
- Market share
- Inventories
- Wages
- Domestic prices
- Output

(2) Damage caused by increase in **total** imports of that product^c

(3) Damage is attributable to imports from a particular country

Factors to be considered^d

- Sharp and substantial increase in imports from country
- Level of imports as compared with imports from other sources
- Market share
- Import and domestic prices (at comparable stage of commercial transaction)

Appendix III
Changes in Multilateral Textile Rules
Required by ATC

^aAlthough article 3 of MFA described the safeguard standard as “market disruption,” Annex A to MFA provided that the determination of market disruption shall be based on the existence of serious damage to domestic producers or actual threat thereof.

^bMFA provided that “no one or several of these factors can necessarily give decisive guidance.”

^cSerious damage or actual threat thereof cannot be caused by other factors such as technological changes or changes in consumer preferences.

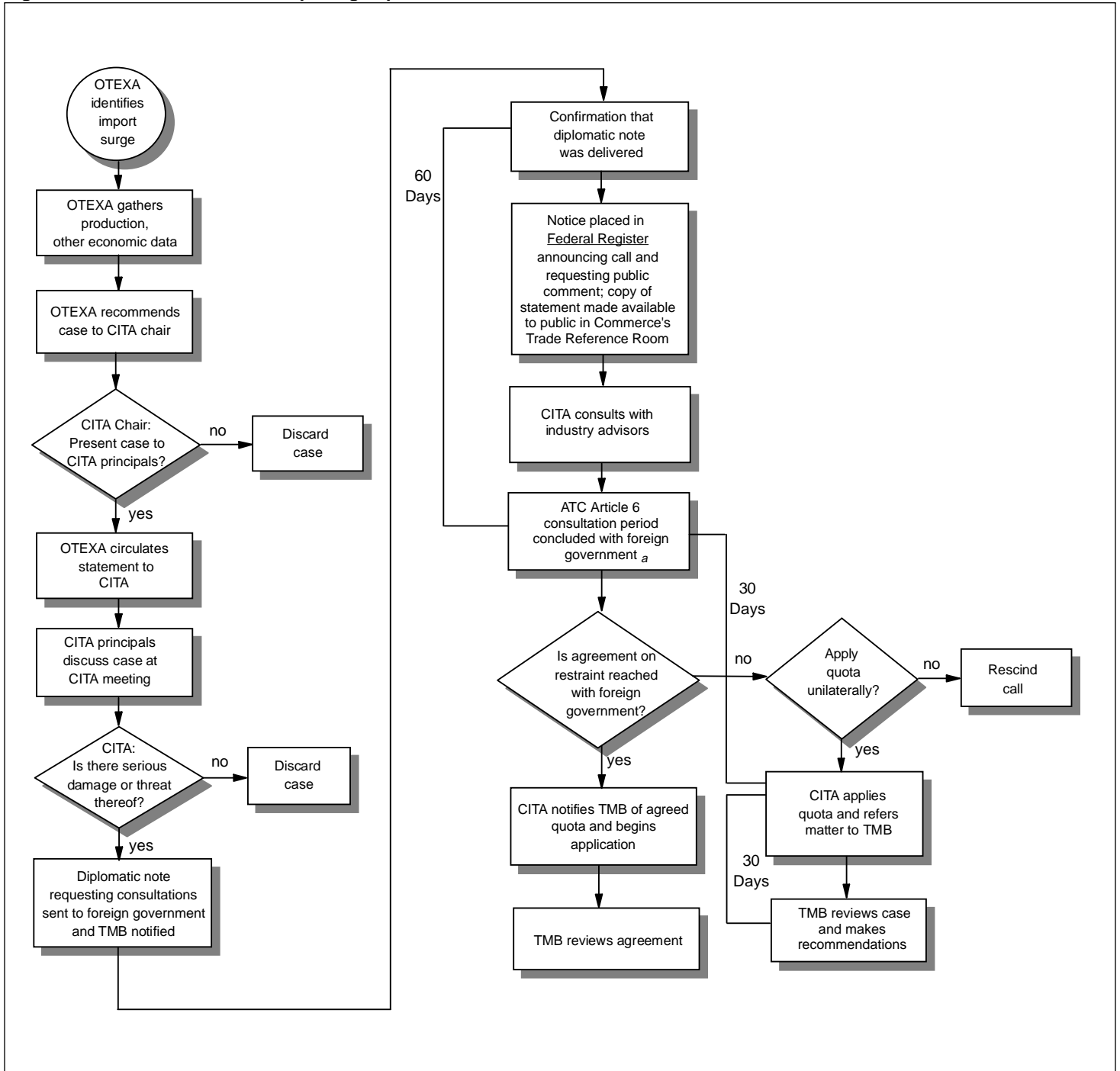
^dATC provides that none of these factors, “either alone or combined, can necessarily give decisive guidance.”

CITA's Decision-making Process to Impose Import Restraints

Through OTEXA's continuous monitoring of industry data, CITA is generally proactive in identifying cases of actual or threatened serious damage. On a weekly and monthly basis, OTEXA is responsible for monitoring U.S. import and domestic production data, which are the key indicators OTEXA uses to identify changes in data that may show that imports are causing serious damage to U.S. textile and apparel producers. In addition, OTEXA monitors other economic factors that are outlined in ATC. (See fig. IV.1 for an illustration of CITA's quota imposition process.)

**Appendix IV
CITA's Decision-making Process to Impose
Import Restraints**

Figure IV.1: CITA's Process for Imposing Import Quotas Under ATC



Appendix IV
CITA's Decision-making Process to Impose
Import Restraints

^aNon-WTO member countries are not subject to ATC requirements; therefore, quota determinations involving those countries are not notified or referred to the Textile Monitoring Body (TMB), and negotiations with them do not have specified time limits.

The first step in the process is for OTEXA to identify an import increase that could indicate a “surge” in a particular product category. OTEXA then looks at domestic production data and gathers other relevant economic information for the same category . While OTEXA usually initiates tracking of likely cases of potential damage, industry representatives also maintain contact with OTEXA staff to inform them of their industry’s economic conditions.

When OTEXA believes that the economic indicators appear to signal serious damage to domestic producers, OTEXA staff contacts industry representatives and/or their trade associations to obtain more detailed information on the current situation and confirm production figures. When a case for serious damage appears strong, OTEXA staff forwards it to Commerce’s Deputy Assistant Secretary for Textiles, Apparel, and Consumer Goods Industries, who is also the CITA Chair, to decide whether to propose a call to the other CITA principals. If the CITA Chair decides positively, then the OTEXA staff prepare a statement of serious damage or actual threat thereof. The statement, which is classified as confidential at this point, is distributed to the CITA principals about 1 week before a CITA meeting. At the meeting the principals have an opportunity to discuss the merits of and vote on the cases presented. If the principals approve the call by majority vote, the Department of State then prepares a diplomatic note. The note, sent to the foreign government, contains the statement and requests consultations. In cases involving WTO member countries, TMB is simultaneously notified. The decision to request consultations does not cause a quota to be imposed immediately on the product. After CITA receives confirmation that the diplomatic note has been delivered, the statement is declassified and made public through a Department of Commerce telephone recording announcing the call. It is also published in the Federal Register, which provides notice of the request for consultations and a summary of the statement along with a request for public comment. Commerce opens a public comment file on each call. Commerce also makes the statement available in its Trade Reference Room.

Before consultations with the foreign government begin, affected parties have an opportunity to meet with U.S. negotiators. USTR notifies industry advisors, including representatives of both the domestic producers and the

importing and retailing community that may be affected. USTR and OTEXA officials meet with industry representatives for various reasons, including advising them of the call, obtaining information about the current market situation, and seeking guidance on the appropriate quota level. In addition, industry advisors, on their own initiative and expense, may accompany the U.S. government negotiating team on consultations abroad. However, they do not participate in the actual negotiations.

ATC requires that consultations with WTO governments are to be completed within 60 days of the date on which the request was received. If agreement is reached between the countries, a quota reflecting the agreed-to level may be imposed at the end of the consultation period, and details of the agreed quota level are notified within 60 days to TMB. TMB, established to supervise the implementation of ATC, is a 10-person body made up of 5 representatives from importing countries and 5 representatives from exporting countries. TMB will review all safeguard actions under ATC and will determine whether agreements are justified and have been reached in accordance with ATC provisions. It will make all decisions on a consensus basis.

However, if the countries are unable to reach agreement within 60 days, the country proposing to take action may impose the quota within the following 30-day period. The restraint will be imposed at a level not lower than the import level during the 12-month period ending 2 months before the month the consultations were requested. TMB will examine the case, including the determination of serious damage, and make recommendations within 30 days. During this period, the two parties to the dispute will present their cases before TMB, responding to TMB members' questions and providing information that may support their case.

CITA's Data Sources

CITA officials match U.S. government import, production, domestic price, and employment data with CITA's textile and apparel categories. Our review found that CITA combines import categories and production categories to match the broader CITA categories. We also found that some compatibility problems exist between the domestic producer price and employment data CITA uses and the CITA categories. Because of the difficulty in matching price and employment data to these categories, the data CITA uses may only provide broad indications of trends in the domestic textile and apparel industry.

OTEXA Matches U.S. Government Data to CITA Categories

CITA uses textile and apparel categories that are aggregations based on Harmonized Tariff Schedule (HTS) codes. Table V.1 shows the varied number of different HTS codes that are included in one CITA category—women's and girls' wool coats. For example, 36 HTS codes, including 6102.90.9010 (overcoats), 6104.31.0000 (suit-type jackets), and 6202.91.2011 (ski-jackets), are all under one CITA category, number 435.

Table V.1: Illustration of One CITA Category's Corresponding HTS Codes

CITA category 435-women's and girls'(W/G) wool coats	
HTS code	Description
6102.10.0000	W/G overcoats, carcoats, etc., of wool/fine animal hair, knit
6102.30.1000	W/G overcoats, etc., of manmade fiber containing >= 23% weight wool/fine animal hair, knit
6102.90.9010	W/G overcoats, etc., of other textile material subject to wool restraint, knit
6104.21.0010	W/G ensembles of garments of tariff heading 6102 & 6104 of wool knit
6104.23.0010	W/G ensembles of overcoats, jackets, etc., of synthetic fiber >= 23% wool, knit
6104.29.2012	W/G ensembles of overcoats, etc., other textile material subject to wool restraint, knit
6104.31.0000	W/G suit-type jackets and blazers of wool, knit
6104.33.1000	W/G suit-type jackets of synthetic fiber containing 23% more wool, knit
6104.39.2020	W/G suit-type jackets of other textile material subject to wool restraint, knit
6117.90.9045	Parts of coats and jackets of wool, knit
6202.11.0010	Women's overcoats, carcoats & smaller coats of wool, not knit

(continued)

CITA category 435-women's and girls'(W/G) wool coats

HTS code	Description
6202.11.0020	Girls' overcoats, carcoats & smaller coats of wool, not knit
6202.13.3010	Women's overcoats and smaller coats of MMF >= 36% wool, not knit
6202.13.3020	Girls' overcoats and smaller coats of MMF >= 36% wool, not knit
6202.19.9020	W/G overcoats and smaller coats of other material subject to wool restraint, not knit
6202.91.2011	Women's anorak ski-jackets and smaller of artificial wool, not knit
6202.91.2021	Girls' anorak ski-jackets and smaller of artificial wool, not knit
6202.93.4011	Women's anorak and smaller articles of MMF >= 36% wool, not knit
6202.93.4021	Girls' anorak and smaller articles of MMF >= 36% wool, not knit
6202.99.9021	W/G anoraks and smaller articles of textile material subject to wool restraint, not knit
6204.21.0010	W/G ensembles of tariff heading 6202 & 6204 of wool, not knit
6204.23.0005	W/G ensembles of tariff heading 6202 & 6204 synthetic fiber >= 36% wool/fine animal hair, woven
6204.29.4012	W/G ensembles of tariff heading 6202 & 6204 other textile material subject to wool restraint, woven
6204.31.1010	Women's suit-type jackets of wool >= 30% silk, not knit
6204.31.1020	Girls' suit-type jackets of wool >30% silk, not knit
6204.31.2010	Women's suit-type jackets of wool not >30% silk, not knit
6204.31.2020	Girls' suit-type jackets of wool
6204.33.4010	Women's suit-type jackets of synthetic fiber >36% wool, not knit
6204.33.4020	Girls' suit-type jackets of synthetic fiber >36% wool, not knit
6204.39.2010	Women's suit-type jackets of artificial fiber >36% wool, not knit
6204.39.2020	Girls' suit-type jackets of artificial fiber >36% wool, not knit
6204.39.8020	W/G suit-type jackets of other textile material subject to wool restraint, not knit

(continued)

CITA category 435-women's and girls'(W/G) wool coats	
HTS code	Description
6211.20.5400	W/G ski-suit anorak & similar articles of wool, not knit
6211.41.0020	W/G track suits excluding trousers of wool, not knit or crocheted
6211.41.0055	W/G other jackets & jacket types, not elsewhere specified or included, of wool/fine animal hair, not knit or crocheted
6217.90.9030	Parts of coats and jackets of wool, not knit or crocheted

Source: 1995 Correlation: Textile and Apparel Categories with the Harmonized Tariff Schedule of the United States (Washington D.C: International Trade Administration, Department of Commerce).

Table V.2 shows the collection method (coding schemes) of the U.S. government agencies from which CITA obtains data, the extent to which they are compatible with CITA categories, and OTEXA's procedures to facilitate a category match. Import (quantity) data, production (quantity) data, and import price data are relatively more compatible with the CITA categories than are domestic production price and employment data.

Table V.2: Illustration of Problems in Matching Bureau of Labor Statistics and Census Data to CITA Categories

Data type	Source	Coding scheme	Extent to which data match CITA category^a	OTEXA's matching procedures
Import (quantity)	U.S. Customs/ Census Bureau	HTS	HTS codes are combined to match each CITA category.	OTEXA combines HTS codes.
Production (quantity)	Census Bureau	Census' product descriptions	Data already combined like CITA category but not identical. Data collected in fiber-specific way.	OTEXA uses judgment to complete match.
Domestic producer price	Census Bureau	Census' product descriptions	Data already combined like CITA category but not identical. Data not collected in fiber-specific way. Data not compatible to CITA categories.	OTEXA relies on own judgment and manufacturers' reports to convert Census data into CITA categories.
Import price	U.S. Customs/ Census Bureau	HTS	HTS codes must be combined to match each CITA category.	OTEXA calculates an average price of the HTS codes in each category.
Employment	Bureau of Labor Statistics (BLS)	SIC	Data collected by manufacturer's primary product. ^b Data not fiber specific. Data not compatible with CITA categories.	OTEXA applies a complex formula and its own judgment and uses manufacturers' reports to adjust for better match.

^aCITA categories are fiber specific.

^bSince data are collected by a manufacturer's primary product, reported data will not include information on lesser products produced by the manufacturer.

Because of the difficulty in matching the price and employment data to the CITA categories, CITA may only be able to obtain broad indications of trends in the domestic textile and apparel categories.

Import Data

The U.S. Customs Service collects import (quantity) data from submissions required of all importers or their brokers for all imports entering the United States. After performing a series of edit checks, Customs sends the import data to Census, which performs its own edit checks and prepares data tapes it makes available to OTEXA on a monthly basis. U.S. import data, in general, are considered to provide reasonably good estimates of imports because of the revenue-generating aspect of merchandise imports. Textile and apparel import data, in particular, are

subject to special scrutiny because of the need to ensure that import quotas are not exceeded. However, Customs officials caution that because of some importers' efforts to circumvent quotas, the textile and apparel data may not be as reliable as other import data.

The quality of textile and apparel data is assured primarily through physical inspection of import shipments and computerized data checks. Customs officials report that, normally, they inspect between 4 and 5 percent of all U.S. import shipments; in the case of textile and apparel imports, they inspect between 6 and 7 percent. If they note a particular problem with a commodity or an importing country, they can inspect 100 percent of all that commodity's or that country's imports for a specific time period. For example, from February to April 1995, Customs officials stopped all handwoven fabrics from India and inspected samples to verify the consignments. To help assure the quality of the computerized data, Customs performs a series of edit checks that rely on a set of parameters within which the import quantity and values are expected to fall. If these parameters are exceeded, the computer operator must make a manual intervention. Customs said it has very detailed checks in place in response to textile provisions contained in legislation and international agreements, including the General System of Preferences (GSP),¹ the Caribbean Basin Initiative (CBI),² and NAFTA. While Census also performs edit checks, these have been widely criticized because they rely on very broad parameters that have rarely been exceeded.

In addition to inspections and edit checks, Customs and OTEXA officials collaborate when particular issues or problems arise. For example, Customs reports working closely with OTEXA whenever a foreign nation requests a "data discrepancy analysis" because that nation's export data for a particular textile or apparel product do not agree with U.S. import data. These analyses scrutinize the data in question and attempt to resolve discrepancies. According to Customs, discrepancy analyses occur about once or twice a month. Customs also reports working closely with OTEXA when some calls are being considered and OTEXA wants to ensure that the data supporting them are reliable and accurate. In these instances, OTEXA and Customs scrutinize particular imports from particular countries and

¹GSP is a unilateral U.S. program that extends duty-free access to imported products from developing countries.

²CBI was adopted in 1982 to promote investment and expand the economies of Caribbean Basin countries through several mechanisms, including tax incentives for investment and duty-free import access to the U.S. market.

consider the data, requesting additional information from the importer of record if necessary.

Textile and apparel import data are particularly prone to a number of problems, according to Customs. Exporters in nations subject to quota can use illegal routing of textile and apparel imports through third countries (i.e., textile transshipments) to circumvent quotas. Intentional or unintentional misclassification is also a major issue for textile and apparel imports. Intentional misclassification occurs when importers falsely claim their shipments are in a category not under quota or when they deliberately mislabel the shipment's country of origin. Unintentional misclassification can occur because of the large number of codes for textile and apparel commodities. According to Customs, there are more than 4,000 HTS codes with which to classify textile and apparel imports and exports. Some importers can make honest mistakes when they classify their commodities because of their limited knowledge of these codes. Overall, Customs notes that textile and apparel import data receive more scrutiny than any other commodity's import data. They do not know if the extra scrutiny counterbalances the additional problems. However, Customs does not believe that any CITA calls have been made based on erroneous import data.

Production Data

Apparel production (quantity) data are collected on a quarterly and annual basis by the Census Bureau, as part of its Census of Manufactures, Current Industrial Reports (CIR) program. This program has compiled data on industry activity since the beginning of this century. In 1983, we reported that, while the data were considered thorough and accurate, there were problems with timeliness.³ At that time, CITA relied on annual production surveys, and the data used were between 10 and 32 months old. Since then, quarterly surveys have been implemented, and Census currently makes apparel production data available to OTEXA about 2 to 3 months after the end of each quarter.

The quarterly apparel survey covers manufacturers, government contractors, and jobbers⁴ that cut and sew apparel. It is mailed to more than 1,200 large manufacturers that account for over 90 percent of total

³See (GAO/NSIAD-84-18, Nov. 4, 1983).

⁴The apparel industry is characterized by three types of operations — manufacturers, jobbers, and contractors. The manufacturer purchases material and cuts, sews, and sells the product. The jobber is involved in the product's actual processing done under contract in an outside factory. The contractor does not own the finished product or sell the finished good.

cuttings of apparel items. In addition, approximately 3,000 small manufacturers receive an annual short form of this survey. Both surveys collect data on the quantity of production and the total value of shipments for men's, women's, children's, and infants' apparel. The data collected include garments cut in the United States and sent outside the country to be sewn. According to Census, the quarterly survey has response rates that usually exceed 90 percent and coverage rates that are usually about 95 percent. Census officials believe that coverage, which is the percent of shipments accounted for by the respondents, is the more important measure. According to Census, the quarterly and annual surveys combined have coverage rates of about 96 to 97 percent of total U.S. apparel shipments.

Census uses computerized edit checks to identify responses that vary significantly from those provided in previous surveys and telephones respondents to verify the accuracy of these responses. Census does not perform any site visits to check on responses. In addition to Census' own verification procedures, an OTEXA official is authorized to examine the production data before they are published, thus providing another level of cross-checks.

The Census Bureau collects production data at a fairly aggregated level. Before OTEXA can use these product description data, it must match the Census product descriptions to CITA's own categories, which are also fairly aggregated even though they are based on data collected at a very disaggregated level. In general, the Census product descriptions, when broken down by the type of fiber used, are very similar to the CITA categories. Nevertheless, Census' product descriptions and CITA's categories cannot be matched exactly primarily because (1) respondents to the apparel quarterly surveys do not always specify the type of fabric by fiber they used; when this occurs, OTEXA makes judgments on what proportion of fiber is to be given to the various product categories and (2) a complete concordance between Census' product descriptions and CITA categories does not exist. Typically, the product descriptions contain a few products that are not in the corresponding CITA category, while the CITA categories contain a few products that are not in the corresponding Census product description. In some cases, adjustments are made, based on an OTEXA official's industry knowledge, other data sources, and judgment.

Census also collects data on textile production through a series of annual and quarterly surveys. Because some of these surveys are annual instead

of quarterly or monthly, some textile production data are much less timely than apparel production data. It is important to note that there are a few textile and apparel categories for which Census does not collect any data, including luggage, handkerchiefs, and hosiery. OTEXA monitors these categories using industry data sources, such as the National Cotton Council's "Cotton Counts its Customers" production surveys. According to industry representatives, OTEXA has discussed the surveys and methodologies used by these representatives, and OTEXA is satisfied that their data are reliable and valid.

Price Data

Census' quarterly and annual production surveys also collect data on the net value of the products produced, or the production price. However, value data are not collected by fiber type and therefore cannot be accurately matched to CITA's fiber-specific categories. For example, the Census value data do not distinguish between the prices of clothing made of cotton, wool, MMF or other fiber types. Whenever CITA is considering issuing a call, OTEXA contacts a limited number of manufacturers based on industry recommendations and adjusts the Census value data based on the information obtained. Given the limitations of the Census data and OTEXA's data collection methods, the producer price data published in the market statements provides broad approximations of producer prices by category, rather than precise estimates.

Employment Data

BLS collects employment, payroll, and hours worked data from textile and apparel manufacturers on a monthly basis. While these data are generally considered timely, they are collected using the SIC system's categories for textile and apparel products. These categories are neither fiber specific nor directly compatible with CITA's categories. Moreover, the BLS data are collected by the primary manufacturing activity, according to the SIC categories, of the establishment surveyed. For example, an apparel manufacturer who produces three product categories is reported as producing only the one it makes in the greatest quantity, and all its employment and payroll data will be attributed to that category.

In 1995, OTEXA developed a new methodology to derive textile and apparel employment data by CITA categories. This methodology involves a number of stages and apportions the SIC employment data to CITA categories using algorithms derived from CIR production data and other data that Census supplies. After deriving employment data by CITA categories, OTEXA also considers data from the Labor Department's and the Commerce

Department's Trade Adjustment Assistance programs⁵ and consults industry representatives and manufacturers. OTEXA officials may make adjustments to the data by category, on a case-by-case basis, depending on what they learn from these sources. While this methodology utilizes the available data sources in a reasonable fashion, it cannot overcome all the problems involved in matching SIC-collected data with HTS-collected data aggregated into CITA categories. Therefore, employment data by CITA categories provide approximations of actual trends rather than precise estimates.

⁵Trade adjustment assistance, managed through the Department of Labor, is available to workers who lose their jobs or whose hours of work and wages are reduced as a result of increased imports.

Use of Data Supporting Serious Damage Determinations

CITA bases its determinations of serious damage, and its decision to request consultations to impose quotas, in part on the data and analysis presented by OTEXA in its market statements. We examined all of the market statements provided by OTEXA for calls issued over the last 6 years¹—from 1990 through 1994 under MFA, and in 1995 under ATC.²

In the market statements, OTEXA generally focused on import surges and domestic production declines and assumed a causal link between the two factors.³ OTEXA also included in the market statements the import price and the domestic producer price of the product in question. In the 1995 statements, OTEXA also provided employment data, but as noted in appendix V, there are problems relating these data to CITA categories.

The import and production data in the market statements describe changes for time periods that usually ended several months before the statement's issuance. The statements did not always present data over a standardized time period. Typically, the data go back 2 to 5 years.⁴ Because of the way the data are presented in the statements, we could only consistently examine yearly change over the most recent 2 years of data for each of the 166 statements.⁵ Recognizing that OTEXA also considered longer-term historical trends before issuing a request for consultations, we examined changes over the last 3 calendar years for the 126 market statements that contained these longer-term data.

Consistent with its authority under U.S. law, MFA, and ATC, the range in import and domestic production levels in the market statements indicated that CITA made its serious damage determinations on a case-by-case basis

¹We did not evaluate other factors not contained in the market statements, such as foreign policy concerns that may have been considered by the five CITA principals.

²Because MFA and ATC safeguard standards are similar, OTEXA analyzed virtually the same data from 1990 to 1994 under MFA as it did under ATC in 1995 to make determinations of serious damage.

³OTEXA officials told us that they had considered and thoroughly explored the possibility of using econometric analysis to evaluate the link between declines in U.S. production and rising imports. They dismissed this approach because they believe that (1) the existence of quotas on textile and apparel products over the past 30 years has distorted any correlation between domestic imports and domestic demand and (2) economic modeling is best applied to broad measures of economic activity rather than to specific products.

⁴Because OTEXA issued market statements throughout the year, they frequently presented year-to-date or year-ending data for the most recent 2 years of comparable import and production data. In addition, they would also usually present calendar year data for the last 3 years. However, in some instances, they presented 1 calendar year of data, and in others, they presented 5 calendar years of data.

⁵Much of the most recent yearly data are presented on a year-ending basis. The import data are available on a monthly basis, and the production data are available on a quarterly basis.

rather than on specific import rises or production falls. For example, in 1995, the most recent comparable yearly increases of imports reported in the market statements ranged from 4 percent to 116 percent, and production declines ranged from less than 1 percent to 24 percent. Over the full 6-year period, the most recent yearly import data ranged from a decline of 15 percent to an increase of 195 percent; the most recent comparable year production data ranged from an increase of 25 percent to a decrease of 51 percent. In the statements, CITA supported its decisions to request consultations on import surges and production declines that had occurred over differing time periods. For example, in some instances CITA emphasized changes that had occurred over the last 3 calendar years; in others, it emphasized changes that had occurred in the last 2 calendar years, and in still others it emphasized changes since the beginning of the calendar year.

CITA's Calls Between 1990 and 1995

We analyzed a total of 166⁶ market statements from 1990 through 1995 (see table VI.1). The number of calls averaged 28 per year. The 166 calls involved imports from 43 different countries and 59 different joint or combined textile and apparel categories. Thailand was the nation that received the most calls (22), followed by the United Arab Emirates (15) and India (11). The categories called the most frequently were cotton and MMF nightwear and pajamas (14); cotton and MMF men's and boy's shirts, not knit (10); and cotton and MMF underwear (8).

Table VI.1: CITA Calls, 1990-1995

Year	Number of calls	Number of categories called	Number of countries called
1990	35	23	12
1991	22	15	14
1992	43	20	22
1993	15	11	12
1994	23	18	14
1995	28	10	18

Source: GAO analysis of OTEXA market statements.

⁶We examined all the statements that OTEXA provided us for the 1990-95 time frame.

Market Statements Reflected Production Declines and Import Increases

From 1990-1995, the most recent production data showed a median⁷ yearly decline of 6.4 percent, and the comparable⁸ import data showed an increase of 9.6 percent. Furthermore, the U.S. domestic market share⁹ declined by a median of about 4 percentage points for calls issued from 1990 through 1995. As previously noted, OTEXA officials stated that they also considered longer-term historical trends, as well as more recent changes. Although the available data limited our ability to analyze these longer-term trends, we examined production declines and import increases for the 3 full calendar years prior to the call when these data were available. In the 126 market statements that contained these data, the median production decline was 17 percent and the median import increase was 12.4 percent. Import data are more current than production data because it is provided monthly, while production data is provided quarterly. In our analysis, we considered both import data comparable to production data and the most recent import data, which are generally not comparable. The most recent import data rose by 17.6 percent.¹⁰ The data in table VI.2 show the median changes over the most recent comparable years for imports, production, and domestic market share, from 1990 to 1995.

⁷In the tables that follow, we use medians as the measure of central tendency because, in each year, a few outliers slightly skewed the averages. For example, while the median yearly import increase for the last 2 years in question was 9.6 percent, the average import increase was 14.2 percent. Similarly, while the median yearly production fall was 6.4 percent, the average production fall was 9 percent. The median has the advantage of measuring central tendency without being affected by the outliers. It is the midpoint for the range when all the data points are arrayed in order, and can be interpreted thus: roughly half of the cases were greater than the median, and roughly half were less.

⁸These analyses focus on the most recent comparable yearly changes in production and import data. As import data are made available on a monthly basis and production data are made available on a quarterly basis, the market statements typically present import data that are slightly more recent than the production data. Although OTEXA officials report that they pay great attention to the most recent import data, we focus on comparable production and import data because of the need to establish a casual link between the two. Because statements are issued at different points in time during the year, we focused on the most recent yearly change data OTEXA presented in the market statements. Sometimes this was calendar year data, and sometimes this was year-ending data.

⁹U.S. domestic market share is defined as production divided by imports plus production.

¹⁰The most recent import data reflect information generally from 1 to 3 months before the market statement is issued. Production data can be up to 12 months old.

**Appendix VI
Use of Data Supporting Serious Damage
Determinations**

Table VI.2: Median Import Rises, Production Declines, and Domestic Market Share Falls for CITA Calls, 1990-95

Year	Import increases comparable to production data (percent)	Import increases using most recent import data	Declines in production (percent)	Declines in domestic market share (percent)
1990	7.3	12.9	-9.7	-2.0
1991	20.8	13.2	-19.4	-7.1
1992	5.6	19.3	-4.8	-3.2
1993	5.8	19.7	-4.0	-4.8
1994	14.5	12.8	-3.3	-5.0
1995	13.4	21.8	-6.4	-5.0
Median 1990-95	10.3	17.6	-6.4	-4.4

Note 1: Median yearly changes are for the most recent 2 years of comparable import and production data presented in the market statements.

Note 2: The decline in market share is calculated as the change in percentage points. Therefore, the declines are not directly comparable with the changes in imports or production, which are calculated as percentages of actual production.

Source: GAO analysis of OTEXA market statements.

Some Market Statements Reflected Unique Trends in Production and Import Levels

Although some calls were supported by either a small recent production decline or a small import increase, very few were supported by both a small production decline and a small import increase. Between 1990 and 1995, 45 calls were issued when the most recent year's production falls were less than 2 percent, and 32 calls were issued when the most recent year's import increases were less than 2 percent. Our review of the market statements found many instances when small production falls were accompanied by larger import increases, or vice versa. We found only 6 instances (out of 166) of calls being issued between 1990 and 1995 when production had fallen by less than 2 percent and imports had risen by less than 2 percent (see table VI.3). Of these, only one occurred in the last 3 years, and none occurred under ATC.

**Appendix VI
Use of Data Supporting Serious Damage
Determinations**

Table VI.3: Calls With Relatively Small Recent Import Increases or Production Falls, 1990-95

Year	Calls in which most recent yearly production fell by less than 2 percent	Calls in which recent yearly imports rose by less than 2 percent	Calls in which production fell by less than 2 percent and imports rose by less than 2 percent
1990	10	10	4
1991	1	4	0
1992	15	12	1
1993	4	5	1
1994	7	1	0
1995	8	0	0
Total 1990-95	45	32	6

Note: Median yearly changes over the most recent 2 years of comparable import and production data presented in the market statements.

Source: GAO analysis of OTEXA market statements.

As shown in table VI.4, in 102 of the 166 calls made by CITA during 1990-95, production declined and total category imports rose during the most recent calendar year where data existed for both variables. In 56 other calls, either production rose or imports declined (in 8 calls, data were incomplete). Most of the calls issued when production rose or imports fell during the most recent year occurred before 1993; none of these calls were issued in 1995 under ATC.

Table VI.4: CITA Calls With Various Combinations of Production and Import Data, 1990-95

1990-95 calls	Calls where production declined and imports rose	Calls where both production and imports declined	Calls where both production and imports increased	Calls where production increased and imports declined	Calls where data were incomplete
Total	102	28	24	4	8

Source: GAO analysis of OTEXA market statements.

OTEXA officials told us that, in those calls where imports had fallen in the most recent comparable year, they had risen over a shorter or a longer time period. Similarly, they told us that even if production had increased over the most recent time period, it had decreased over an alternative time period. Our data analysis confirmed these points. For example, in some cases OTEXA compared the most recent calendar year production data with that of 2, 3, or 4 years earlier. Further, OTEXA sometimes compared the

most recent year-ending or partial year production data with a comparable time period. OTEXA used similar time period comparisons in those calls where calendar year imports declined over the previous year. In a few instances, the import increase occurred after the decline in domestic production.

Regarding import data, OTEXA presented the most recent import data available. Since production data lag behind data, CITA often presented import data that were from a different time period than production data.

CITA Requested Consultations With Some Small Suppliers

From 1990 through 1995, CITA requested consultations with many countries that were small suppliers of U.S. textile and apparel imports. Over this period, half of the countries called were responsible for less than 2.5 percent of the total category imports from all sources (see table VI.5). As it was fairly common for CITA to request consultations with more than one country for a particular category, we calculated the combined percentages of world imports for all countries called per category per year and found that this had a median of 4.8 percent.

Table VI.5: Median Percent of Imports and U.S. Market Share for Countries Receiving Calls, 1990-95

Year	Country's percentage share of total U.S. imports of the category called
1990	2.4
1991	4.0
1992	1.7
1993	1.9
1994	1.8
1995	4.0
Median 1990-95	2.5

Note: Medians are based on the last 12 months of data presented in the market statements.

Source: GAO analysis of OTEXA market statements.

CITA Called Some Categories That Contained a Variety of Products at Varied Producer Prices

As described in appendix V, CITA classifies goods into 148 categories that consist of a total of 4,000 HTS codes averaging 27 HTS codes per category. Because CITA imposes quotas at the category level, any quota imposed restricts imports of the category and its corresponding HTS codes. Article 6 of ATC provides that a WTO member country may take a safeguard action on imports of products causing serious damage to its domestic industry producing like and/or competitive products. ATC, however, does not define the standard “like and/or competitive products.”

In making its determinations on damage to domestic industry, CITA assumed that the HTS codes¹¹ within the same CITA category were like and/or directly competitive products to those being produced by domestic manufacturers of items under that category. However, we found that some of the categories CITA called from 1990 to 1994 contained HTS codes that appeared to include dissimilar products based on their descriptions and the import and producer prices reported in the market statements.

Along with product descriptions, product prices also varied within CITA categories. In the 138 market statements we examined for 1990-94,¹² OTEXA reported estimated domestic producer prices and import prices at the HTS level. We found that in some market statements, (1) U.S. producer prices and import prices within the same category differed from one HTS code to another and (2) U.S. producer prices and import prices for the same HTS code varied significantly from one call to another.

For example, in July 1991, CITA issued a call to the Philippines for category 359-C/659-C—cotton and MMF fiber overalls and coveralls. The market statement indicated that approximately 73 percent of the imports in this category entered the United States under two HTS codes. Table VI.6 shows the import prices and U.S. producer prices listed in the market statement for each code. The import prices for each code were \$145.43 and \$9.47, respectively. The U.S. producer price was \$230-\$240 for one code and only \$25-\$35 for the other code.

¹¹As described earlier in appendix V, each of CITA's 148 categories consists of a number of HTS codes.

¹²Effective January 1, 1995, under ATC, OTEXA market statements compare average U.S. domestic producer price with import prices at the category level rather than the HTS level.

**Appendix VI
Use of Data Supporting Serious Damage
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**Table VI.6: Prices for Two HTS Codes
Under Category 359-C/659-C in CITA
Call to the Philippines**

HTS code	Import prices (U.S. dollars)	U.S. producer prices (U.S. dollars)
6203.42.2010	\$145.43	\$230-240
6210.10.4015	9.47	25-35

In response to our question about the variation in prices among HTS codes within this category, OTEXA officials responded in writing that the price difference reflected the fact that the items imported under these HTS codes were very different garments, with different prices. However, the officials also said that the garments were “like and/or competing garments” because they were both being used for the same purpose—“to cover and protect the under clothing and the body.” They said that this common purpose “will dictate the type and quality one purchases.”

ATC Safeguards Invoked in 1995

This appendix examines in detail the transitional safeguards invoked in 1995 under ATC, including the number of safeguards, their status, an analysis of data CITA applied to its decision to impose the safeguards, and information on the TMB's review of the safeguards. Finally, a case study on one category—nightwear and pajamas—presents an overview of a disputed safeguard action.

Calls Issued by CITA in 1995

CITA issued 28 calls in 1995, covering 10 product categories, to 11 WTO member countries and 7 non-WTO member countries. Of the 28 calls, the United States and the exporting countries reached agreement on 14 and the United States ultimately rescinded 11.¹ For the remaining calls, quotas remain without agreement on two, and consultations between the United States and the exporting country are ongoing for one case (see table VII.2).

Table VII.1 shows U.S. domestic production, import, and world import data by country for the 28 calls issued in 1995. The data shows that CITA does not apply any standard numerical thresholds in finding damage to U.S. industry and in deciding to request consultations to impose quotas. The rise in total imports for each category ranged from 3.7 percent for category 342/642 (cotton and MMF suits) to 116 percent for category 440 (woven wool shirts and blouses). Production declines ranged from 1.7 percent for category 670-L (MMF luggage) to 23.9 percent for category 444 (women's and girls' wool suits.)

In 1995, CITA requested consultations with some small suppliers. Table VII.1 also shows the country percent of world imports—countries called according to their import share of the category in question, from the entire world. Under ATC, the United States called countries with world import shares of a particular product of less than 2 percent in seven instances, and world import shares of less than 5 percent in 17 instances. For category 351/651 (nightwear), all four countries called had world import shares of less than 5 percent, as did three countries called under category 435 (women's and girls' wool coats.) The country with the highest world import market share was India, for woven wool blouses and shirts (category 440), at 54.2 percent. The data did not show any significant differences in CITA calls issued to WTO member countries as compared to nonmember countries.

¹In May 1996, the United States and Sri Lanka agreed to cancel their agreement on MMF luggage.

Appendix VII
ATC Safeguards Invoked in 1995

Table VII.1: Production, Import, and World Market Share Data From Market Statements for CITA's 1995 Calls

Category	Description	Percent change in U.S. production^a	Percent change in total U.S. imports^a	Countries called	Country percent of world imports into United States^b
342/642	Cotton & MMF skirts	-5.2%	3.7%	Guatemala*	4.0%
351/651	Cotton & MMF nightwear	-3.0	4.9	El Salvador*	2.3
				Honduras	1.4
				Jamaica	4.0
				Costa Rica	1.5
				Total	9.1
352/652	Cotton & MMF underwear	-6.4	15.0	Colombia*	1.6
				Costa Rica	14.8
				Dominican Republic	16.9
				El Salvador*	3.8
				Honduras	6.7
				Thailand	1.6
				Turkey	1.3
				Total	46.7
434	Men's and boys' wool coats	-1.9	26.7	Brazil	5.0
				India	24.2
				Macedonia*	4.4
				Total	33.6
435	Women's and girls' wool coats	-1.8	8.4	Honduras	1.2
				India	3.1
				Russia*	3.6
				Total	7.9
440	Woven wool shirts and blouses	-12.5	116	Hong Kong	3.8
				India	54.2
				Total	58.0
444	Women's and girls' wool suits	-23.9	4.0	Colombia	11.7
				Philippines	6.7
				Bulgaria*	4.6
				Total	23.0
603	Spun yarn	-10.0	26.9	Thailand	9.6
642	MMF skirts	-7.6	17.6	Nepal*	1.9

(continued)

Appendix VII
ATC Safeguards Invoked in 1995

Category	Description	Percent change in U.S. production^a	Percent change in total U.S. imports^a	Countries called	Country percent of world imports into United States^b
670-L	MMF luggage	-1.7	11.9	Philippines	8.8
				Sri Lanka	3.9
				Thailand	22.6
				Total	35.4

Note: Countries with asterisks are not WTO members.

^aProduction declines and import increases are for the most recent comparable yearly changes (presented in the market statements).

^bCountry percents of world imports are for the most recent yearly import data (presented in the market statements).

Source: GAO analysis of OTEXA market statements.

The Textiles Monitoring Body

Among other things, TMB is charged with reviewing quotas that are disputed as well as those agreed to following a call to ensure that the safeguard conforms to the terms of ATC. The 10 TMB members are broadly representative of WTO member countries; 1995 members included representatives from Brazil, Canada, the EU, Hong Kong, India, Indonesia, Japan, Norway, Pakistan, and the United States. With respect to disputed safeguard actions, TMB's examination typically results in a determination of whether serious damage or actual threat thereof, within the meaning of ATC, has been demonstrated. In one case, however, TMB issued a recommendation on the basis of interpreting other ATC provisions. TMB is required to promptly conduct examinations and make appropriate recommendations. ATC provides that member countries will endeavor to accept in full those recommendations.

TMB does not have formal rules of practice and procedure or rules of evidence. While its working procedures state that TMB reports of disputed cases shall include "a factual presentation of the issues examined" and "the common rationale" for its recommendations, the reports to date have not provided detailed reasoning supporting TMB's conclusions about the existence of serious damage or actual threat thereof. In this regard, a TMB member stated that TMB recommendations should not be viewed as precedent or definitive guidance to member countries; instead, he noted that safeguard cases are reviewed on a case-by-case basis. One TMB member emphasized the role of TMB as a facilitator of ATC implementation,

noting that TMB is not a substitute for WTO dispute settlement. WTO's Dispute Settlement Body (DSB) can consider disputes that were the subject of TMB reviews or recommendations.²

Much of TMB's review requires interpreting ATC provisions. TMB members hold differing views about the meaning of various ATC provisions. Despite the number of TMB members, their diverse cultural backgrounds, and ATC language that is often subject to interpretation, TMB makes all of its recommendations by consensus.

TMB's Review of 1995 Safeguards

During 1995, TMB completed its review of and issued reports on seven disputed U.S. safeguard actions involving five product categories. TMB found that one call was justified based on a finding that the United States had demonstrated the threat of serious damage to domestic industry attributable to the called country. For two calls, TMB found that the United States had not demonstrated serious damage or threat thereof to its domestic industry. For three calls, involving two categories, TMB stated that the United States had not demonstrated serious damage, but TMB members could not reach a consensus on whether a threat of serious damage had been demonstrated. Finally, TMB found that one call was not justified under ATC but did not address the propriety of the U.S. determination of serious damage or its attribution to the called country³ (see table VII.2).

Table VII.2: CITA's 1995 Calls

Country	Category	Description	TMB review?	TMB ruling*	Status of case
WTO members					
Honduras	351/651	Cotton & MMF nightwear and pajamas	Yes	a	Rescinded
Honduras	352/652	Cotton & MMF underwear	Yes	b	Agreement
Jamaica	351/651	Cotton & MMF nightwear & pajamas	No	NA	Agreement
Dominican Republic	352/652	Cotton & MMF underwear	No	NA	Agreement

(continued)

²Two pending DSB cases involve safeguard actions that TMB reviewed—Costa Rica, regarding categories 352/652 (cotton and MMF underwear) and India regarding category 440 (woven wool blouses and skirts).

³TMB concluded in this case that the application of a safeguard measure to Hong Kong for category 440 products was not justified under ATC because Hong Kong exports of these products were already under quota under an existing group limit.

Appendix VII
ATC Safeguards Invoked in 1995

Country	Category	Description	TMB review?	TMB ruling*	Status of case
Thailand	352/652	Cotton & MMF underwear	Yes	Rescinded before TMB ruling	Rescinded
Costa Rica	352/652	Cotton & MMF underwear	Yes	b	Restraint remains***
Turkey	352/652	Cotton & MMF underwear	Yes	Parties agreed before TMB ruling	Agreement
India	434	Men's & boys' wool coats other than suit type	Yes	a	Rescinded
India	435	Women's & girls' wool coats	Yes	b	Rescinded***
India	440	Woven wool shirts and blouses	Yes	c	Restraint remains***
Honduras	435	Women's & girls' wool coats	Yes	Parties agreed before TMB ruling	Agreement
Philippines	670-L	MMF luggage	No	NA	Rescinded
Brazil**	434	Men's & boys' wool coats other than suit type	No	NA	Rescinded call
Hong Kong	440	Woven wool shirts and blouses	Yes	TMB recommended rescission due to group limit	Rescinded
Sri Lanka**	670-L	MMF luggage	No	NA	Agreement (canceled)
Thailand	603	Spun yarn containing 85% or more by weight artificial staple fiber	No	NA	Rescinded
Thailand	670-L	MMF luggage	No	NA	Rescinded
Philippines	444	Women's & girls' wool suits	No	NA	Rescinded
Costa Rica	351/651	Cotton & MMF nightwear and pajamas	No	NA	Rescinded
Non-WTO members (at time of call)					
El Salvador	351/651	Cotton & MMF nightwear and pajamas	NA	NA	Agreement
El Salvador	352/652	Cotton & MMF underwear	NA	NA	Agreement
Colombia	352/652	Cotton & MMF underwear	NA	NA	Agreement
Macedonia	434	Men's & Boys' wool coats other than Suit type	NA	NA	Consultations continuing
Guatemala	342/642	Cotton & MMF skirts	NA	NA	Agreement

(continued)

Appendix VII
ATC Safeguards Invoked in 1995

Country	Category	Description	TMB review?	TMB ruling*	Status of case
Colombia**	444	Women's & girls' wool suits	NA	NA	Agreement
Russia**	435	Women's & Girls' wool coats	NA	NA	Agreement
Bulgaria** 4	44 W	omen's & N Girls' wool suits	A N	A A	greement
Nepal**	642	MMF skirts	NA	NA	Agreement

Legend

* = TMB must eventually review all agreements.

** = No unilateral quota imposed on country.

*** = Referred to WTO DSB.

NA = Not applicable.

^aTMB found no serious damage or threat thereof.

^bTMB found no serious damage but did not reach consensus on threat thereof.

^cTMB found no serious damage but found threat thereof.

Views of Individual TMB Members Concerning Calls

TMB members discharge their functions on an *ad personam* basis—they do not necessarily represent their respective home country views, but rather offer opinions and make recommendations as individuals. The views expressed in this section are purely the general observations of the individual TMB members given to us in interviews.

Some TMB members we interviewed indicated that they had not expected the United States to issue over 20 calls in the early part of 1995 under ATC. Although calls under MFA had actually averaged about 28 per year over the previous 5 years, the members emphasized their belief that ATC was a liberalizing agreement and was not expected to result in the same level of safeguard activity as occurred under MFA.

Some members questioned whether import increases and production declines had been sharp enough to trigger calls, although members did not support issuing specific numerical thresholds for either factor. Some of the members believed that the United States had not adequately considered the amount of a country's world market share of the category in question when making a call.

Some TMB members expressed concerns about U.S. calls involving products exported under the Special Access Program. The program

provides for more favorable quota treatment for imports from Caribbean Basin countries of apparel assembled from fabric formed and cut in the United States. Some members questioned how such “reimports” could damage U.S. domestic industry, when U.S. apparel manufacturers cut the parts, sent them offshore for assembly, and reimported them for finishing and marketing.

Case Study of One CITA Call

To better illustrate the complex process of imposing quotas, the following case study provides an account of a CITA call on category 351/651—cotton and MMF nightwear and pajamas. The case study includes (1) background on the category called, (2) CITA’s support for imposing the quota based on information presented in OTEXA’s market statement, (3) the outcome of the U.S. consultations with the exporting countries, (4) the U.S. and the exporting countries’ presentations before TMB, and (5) TMB’s final recommendations.

Following an import increase of cotton and manmade fiber nightwear and pajamas in 1994, CITA requested consultations in March 1995 with the governments of Jamaica and Honduras under ATC. CITA also requested consultations with El Salvador, which at that time was not a WTO member. Asserting that a sharp and substantial increase of total imports of category 351/651 was causing serious damage to U.S. domestic industry, CITA said that the damage could be attributed to these countries. In June 1995, CITA requested consultations with Costa Rica.⁴ In the June call, CITA provided updated data from its March statement.

The United States and Honduras were unable to reach an agreement within the 60 days required under ATC. Thus, the United States imposed a quota on Honduras, and the case was referred to TMB. After reviewing the case and hearing presentations by both the U.S. and Honduran delegations, TMB found that neither serious damage nor a threat had been demonstrated; TMB recommended that the United States rescind the quota. In September 1995, the United States did so.

The United States and Costa Rica also failed to reach agreement, and the United States imposed a quota. The United States later rescinded the restraint, before any TMB consideration on the matter.

⁴CITA reported that, although down in March, new first quarter 1995 import data showed that Costa Rican imports had risen by 129 percent during that quarter compared to the first quarter of 1994.

Concerning Jamaica and El Salvador, each of the two countries signed an MOU with the United States agreeing to establish a specific limit on imports as well as a guaranteed access level (GAL).⁵

**Background on Trade in
Category 351/651**

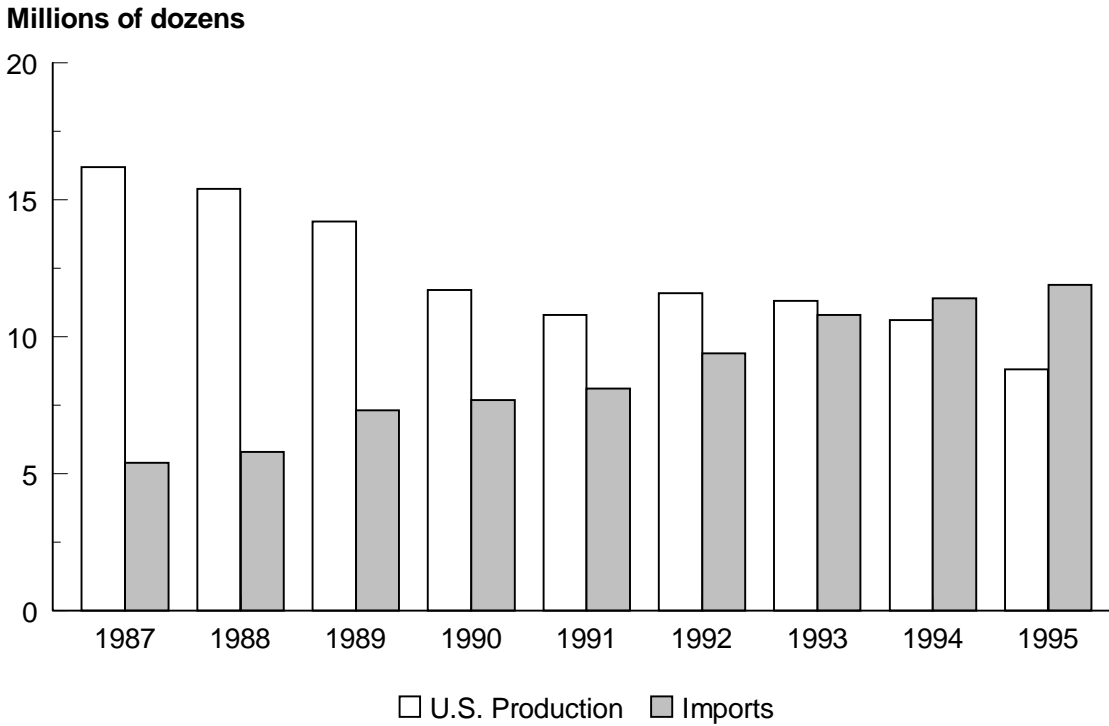
Domestic production of cotton and MMF nightwear and pajamas in CITA category 351/651 has been trending downward in recent years. As illustrated in figure VII.1, from 1987-91 U.S. domestic production fell from 16.2 million dozen to 10.8 million dozen (a 33.5-percent decrease); from 1992-95 production dropped from 11.6 million dozen to 8.8 million dozen (a 24-percent decrease).⁶ Total imports from all sources rose at an average annual rate of 11.6 percent in 1987-94, while total imports rose from 11.4 million dozen to 11.9 million dozen (a 4.5-percent increase) in 1994-95.

⁵Under the Special Access Program, Caribbean Basin countries are granted larger quotas, or GALs, if they use fabric cut and/or formed in the United States.

⁶In 1992, Census established a new benchmark for its Census of Manufacturers Survey. Therefore, domestic production data for 1992 forward is not comparable to previous years' data.

Appendix VII
ATC Safeguards Invoked in 1995

Figure VII.1: Domestic Production and Imports Under CITA Category 351/651, 1987-95



Note: Due to a new benchmark established with the 1992 Census of Manufacturers Survey, domestic production data for 1992 forward is not comparable to previous years' data. Production data for 1995 is preliminary.

Source: OTEXA quarterly production and import report.

As shown in table VII.3, since 1982 (the earliest data made available to GAO) CITA has issued calls on category 351/651 in every year except 1987 and 1988.

Appendix VII
ATC Safeguards Invoked in 1995

Table VII.3: Countries Called, Domestic Production, and Total Imports for CITA Category 351/651, 1982-95

Millions of dozens			
Year	Countries called	Domestic production	Total imports
1982	China (351 only)	22.2	2.6
1983	Haiti (351 only)	22.8	2.8
1984	Hong Kong (651 only)	21.3	3.4
1985	China (651) Taiwan (651)	19.9	4.4
1986	Hong Kong (651 only) Sri Lanka (351 only)	19.2	5.2
1987	None	16.2	5.4
1988	None	15.4	5.8
1989	Dominican Republic Bangladesh Turkey	14.2	7.3
1990	Brazil Fiji Mauritius Thailand United Arab Emirates	11.7	7.7
1991	India	10.8	8.1
1992	India	11.6	9.4
1993	Guatemala	11.3	10.8
1994	Myanmar Hungary	10.6	11.4
1995	Jamaica El Salvador Costa Rica Honduras	8.8 ^a	11.9

Note 1: Due to a new benchmark established with the 1992 Census of Manufacturers Survey, domestic production data for 1992 forward is not comparable to previous years' data. Production data for 1995 was not available at time of printing.

Note 2: Data presented in this table does not necessarily reflect data available to CITA at the time of the call.

^aProduction data for 1995 are preliminary.

Source: U.S. Imports, Production, Markets, Import Production Ratios and Domestic Market Shares for Textile and Apparel Products Categories: Quarterly Reports, U.S. Department of Commerce International Trade Administration, OTEXA (Washington D.C.: various issues).

In both its March and June 1995 market statements, CITA included a list of category 351/651 suppliers to the U.S. market. Information from the June statement is excerpted in table VII.4. The table shows the volume of total

**Appendix VII
ATC Safeguards Invoked in 1995**

imports from each supplier for 1993 and 1994. Table VII.4 shows that in 1994 over 76 percent of total imports of category 351/651 items came from countries already under a specific limit (quota). Including the 1995 calls, 85 percent of category 351/651 imports came from countries subject to quotas.

Table VII.4 also shows that some suppliers whose imports have increased have not been subject to quotas. For example, in 1994, imports from Egypt were 6.5 times its 1993 level. Yet imports from Egypt are not subject to specific limits.⁷

Table VII.4: U.S. Imports From Major Suppliers Under CITA Category 351/651, 1993-March 1995

Thousands of dozens

Limit	Country	1993	1994	Year ending 3/94	Year ending 3/95	Percent change, year ending 3/95	Percent of total imports, year ending 3/95
	World	10,832	11,406	10,984	11,507	4.76	100.00
SL	Dominican Republic	1,498	1,468	1,525	1,487	-2.51	12.92
SL	Hong Kong	1,377	1,406	1,397	1,379	-1.31	11.98
SL	China	1,210	1,052	1,151	1,096	-4.74	9.53
SL	Taiwan	868	846	935	822	-1.50	7.15
	FTAs ^a	738	726	713	764	7.15	6.64
SL	Turkey	617	725	670	755	12.76	6.56
SL	Philippines	430	538	441	596	35.15	5.18
SL	Bangladesh	481	549	472	577	22.15	5.01
	Jamaica	227	453	289	403	39.34	3.50
SL	Indonesia	453	367	417	352	-15.55	3.06
	El Salvador	119	260	132	294	123.04	2.56
SL	Sri Lanka	350	215	349	244	-30.01	2.12
SL	Pakistan	175	239	205	234	14.58	2.04
	Egypt	27	175	49	193	293.39	1.68
SL	Malaysia	181	212	200	193	-3.62	1.68
	Costa Rica	154	143	146	171	16.77	1.49
SL	S. Korea	203	173	171	167	-2.22	1.45
	Honduras	92	158	112	167	48.98	1.45
SL	Thailand	186	189	188	148	-21.12	1.29
SL	Hungary	116	144	125	145	16.07	1.26
SL	India	156	114	132	130	-1.78	1.13

(continued)

⁷Egypt's percent of total imports (import market share) is only 1.7 percent. However, this market share is higher than the import market share of several countries that are subject to a specific limit.

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Thousands of dozens

Limit	Country	1993	1994	Year ending 3/94	Year ending 3/95	Percent change, year ending 3/95	Percent of total imports, year ending 3/95
SL	United Arab Emirates	154	152	146	127	-12.90	1.11
	Fiji	98	108	95	117	23.34	1.02
	EU	69	106	71	117	64.92	1.02
SL	Guatemala	172	133	198	113	-43.06	0.98
	Colombia	129	102	124	100	-19.51	0.87
SL	Macau ^b	37	73	32	87	169.81	0.76
	Oman	58	82	68	82	20.38	0.71
	Haiti	164	39	162	50	-68.99	0.44
	Nepal	25	37	32	47	47.83	0.41
	Brazil	72	69	81	42	-48.20	0.37
	Singapore	31	36	33	40	22.67	0.35
SL	Mauritius	30	63	57	34	-40.59	0.30
SL	Myanmar	56	52	73	33	-53.95	0.29

Note: "SL" designates where a specific limit (quota) is already in place. Countries in bold were called by CITA as of June 1995. Year-ending data reflects most recent data available at the time of call for the preceding 12-month period.

^aFTAs designates the countries that have signed free trade agreements with the United States: Canada, Mexico, and Israel.

^bImports from Macau in CITA categories 351 and 851 are subject to an SL.

Source: OTEXA market statements.

CITA's Support for Its Requests for Consultations to Impose Quotas

CITA supported its request for consultations to impose quotas for category 351/651 products with data presented in two market statements.⁸ CITA provided category 351/651 data on imports, domestic production, employment, and both import price and producer price in its March and June statements. It updated all but the import price data in its June statement. Anecdotal information about loss of jobs in the industry was repeated in both statements.

The import increase from the countries called in the March statement was dramatic. Imports from Jamaica rose by nearly 30 percent in 1993 over 1992. In 1994, Jamaican imports nearly doubled. Imports from Honduras rose nearly fivefold from 1992 to 1993. Imports from El Salvador reached

⁸CITA provided a market statement in March 1995 when it first requested consultations with Honduras, Jamaica, and El Salvador. When CITA requested consultations in June 1995 with Costa Rica, it provided a second market statement, including data on Costa Rica and some updated data from the first market statement.

nearly 260,000 dozen by 1994, an increase of over sevenfold from their 1992 level.

Regarding Costa Rican imports, CITA noted in its June statement that “[a]t the time of the initial determination of serious damage imports from Costa Rica were down. Imports from Costa Rica are now surging, increasing 17 percent for the year ending March 1995 when compared with the same period a year earlier, and are up 129 percent during the first quarter of 1995 when compared with the same period in 1994.”

Both market statements supplied the same anecdotal industry information, which, OTEXA said, was collected through a survey of individual firms producing cotton and MMF nightwear. The information described the loss of jobs occurring as a result of low-priced imports and the movement of production offshore. According to the statement, “Sales of U.S.-manufactured nightwear are estimated by the industry to have dropped as much as 65-70 percent in the past two years.” Further, “Profits have been non-existent for some firms.”

In an effort to reflect the most current available data, CITA presented revised data in its June statement that differed significantly from that in its March statement.⁹ For example, data changed for its domestic production, number of establishments, number of production workers, and estimate of annual shipments.

The June revised and updated domestic production data indicated that production was not falling by as much as was indicated in March, when the most up-to-date data was listed through September 1994. In June, the full 1994 calendar year data showed domestic production levels falling by 0.4 percent over 1993. Domestic production data in the March statement indicated a 10.3 percent decline in 1993 from 1992; for the year ending September 1994, production fell by 3 percent.

The domestic industry described in the June market statement was much larger than the one described in the March statement. This is indicated by the following data revisions supplied in June:

- The number of U.S. establishments manufacturing category 351/651 products was revised from 37 to 130.

⁹Article 6.7 of ATC states that “the request for consultations shall be accompanied by specific and relevant factual information, as up-to-date as possible. . . .”

-
- The percentage of apparel workers employed in the U.S. industry changed from 1 percent in the March statement to 2 percent in the June statement.
 - The number of production workers changed from 3,527 in the March statement to 14,275 in June.
 - The estimate of annual shipments from establishments in the industry changed from \$265 million in the March statement to \$1 billion in June.

In addition, the domestic industry portrayed in the June market statement was different than that described in the March statement, as the following revisions indicate:

- The rate of decline in employment decreased in the revised statistics. The figures supplied in March indicated employment declines of 7.5 percent in 1993 and 2.2 percent in 1994. The June figures indicated employment declines of 3.8 percent in 1993 and 1.6 percent in 1994.
- Total annual wages, previously listed as \$44.7 million for 1994, were revised to \$187.4 million in the June statement. While the March statement indicated that total annual wages fell by nearly 1 percent in 1994 over 1993, the June statement indicated that total annual wages rose by just over 1 percent in 1994 compared to 1993.

Total category imports showed a slightly more moderate rate of increase. Imports rose by 5.3 percent in calendar year 1994, according to the March statement. The June statement showed that imports rose by 4.8 percent for the year ending March 1995.

Outcome of the U.S. Consultations With the Exporting Countries

As described earlier, the United States reached agreement by signing an MOU with Jamaica and El Salvador on quotas in June and July 1995, respectively. The United States did not reach agreement with Costa Rica or Honduras. Table VII.5 shows the quotas agreed to between the United States and Jamaica, and the United States and El Salvador. The table also shows the U.S. quotas, later rescinded, imposed on Honduras and Costa Rica.

Appendix VII
ATC Safeguards Invoked in 1995

Table VII.5: Quotas Resulting From Consultations on Category 351/651

Thousands of dozens					
Country called	1994 imports	Specific limit—1995	Specific limit—1996	GAL for 1995	GAL for 1996
Jamaica	453	500	375	none	1000
El Salvador	260	500 ^a	366 ^b	none	500
Costa Rica	171	171 ^c	NA	NA	NA
Honduras	158	158 ^d	NA	NA	NA

Legend

NA = Not applicable.

^aCITA raised the SL to 535,000 dozen in November 1995.

^bCITA raised the SL to 457,500 dozen in April 1996.

^cCITA rescinded its quota in November 1995.

^dCITA rescinded its quota in September 1995.

TMB Review

The U.S. safeguard action with Honduras was referred to TMB for review.¹⁰ Representatives from the United States and Honduras made presentations to TMB in July 1995.

The following excerpt from TMB's published report summarizes the reasons presented by the U.S. representative to TMB about why imports of category 351/651 products were causing actual or threatened serious damage. It also summarizes the reasons presented by the Honduran representative concerning why the United States had not presented credible evidence of damage to U.S. industry.

The U.S. delegation explained that the increase in total category 351/651 imports was causing actual or threatened serious damage to the U.S. industry for the following reasons. These reasons were supported by the data CITA had provided in its market statements.

- A decrease in domestic production, a loss in domestic market share, an increased import penetration reaching very high levels, and a decline in employment, average work hours, total annual production and workers' wages had occurred;

¹⁰The United States agreed to rescind its quota on Costa Rica before TMB issued a report.

- A significant number of facilities producing goods ascribed to category 351/651, or of workers employed in such facilities, had received trade adjustment assistance, as it was found that they were adversely affected by imports;
- Imports were entering the United States at prices below the average U.S. producer price. The inability of U.S. producers to compete with these lower prices was cited as the main reason for “declines in domestic operations.”

The Honduran delegation presented the following arguments before TMB:

- The United States had not shown that any possible serious damage was caused by a sharp and substantial rise in imports of like and/or directly competitive products at prices below those prevailing for similar goods of comparable quality in the U.S. market.
- The two U.S. market statements contained some inconsistencies, in particular with respect to U.S. producers’ prices, employment, and work hours. These called into question the validity of the U.S. determination of actual or threatened serious damage. The Honduran representative objected to using information that had not been provided when the quota had been introduced as a basis for TMB’s recommendation.
- The United States had not taken into account the importance of outward processing¹¹ trade with Honduras in this category. The representative claimed there could be no conclusion that serious damage had occurred to an industry that depended on this coproduction for up to 30 percent of its output.
- The import level agreed to in U.S. bilateral agreements with two other countries following the determination of serious damage in this category was substantially above the level of Honduran imports.

TMB Recommendation

In reviewing the U.S. safeguard measure against category 351/651 imports from Honduras, TMB found that neither serious damage, nor actual threat thereof, had been demonstrated. TMB recommended that the United States rescind the measure.

The United States rescinded the quota against Honduras on September 29, 1995.

¹¹“Outward processing” refers to programs, similar to the U.S. Special Access Program for Caribbean Basin countries, whereby textile and apparel products are cut to shape in the domestic market, then assembled abroad and brought back to the domestic market.

Safeguard Procedures in the EU, Canada, and Japan

As of June 1996, no country other than the United States had imposed safeguards under ATC.¹ Both the EU and Canada imposed quotas under MFA and have well-established processes for determining whether to make a call to a foreign country for consultations. While Japan has never invoked quotas under either MFA or ATC, the Japanese government recently published a document noting the increase in textile and apparel imports and outlining guidelines related to imposing quotas.

The EU's Textile and Apparel Industries

The EU's textile and apparel industries together employ about 2.3 million workers (about 6 percent of the EU's total manufacturing work force), down from over 3 million in 1988. In 1994, the EU exported about \$25 billion in textile and apparel goods and imported approximately \$37 billion (about a \$12-billion trade deficit).² The textile and apparel industries account for about 6 percent of EU exports.

The EU textile industry alone employed about 1.3 million workers in 1994, down from 1.7 million in 1988. In 1994, the EU imported about \$11.6 billion in textiles (approximately 7 percent of its domestic market), up from almost \$8 billion in 1988.³ Switzerland and India were the EU's main textile suppliers, each exporting approximately \$1 billion to the EU, followed closely by the United States (\$878 million), and China (\$860 million). The EU textile industry exported approximately \$14.2 billion in 1994. Its primary export markets were the United States, Poland, and Austria.

The EU apparel industry employed around 971,000 workers in 1994, a 19-percent decrease from 1988. In 1994, the EU imported about \$25 billion in apparel items, up from \$16 billion in 1990. Its primary supplier, China, exported \$3.6 billion to the EU, followed by Turkey with \$2.4 billion, and Hong Kong with \$2.2 billion. India was the EU's fourth largest supplier, exporting \$1.8 billion in apparel to the EU.

In 1994, the EU apparel industry exported approximately \$11 billion in apparel goods, up from about \$8 billion in 1990. Switzerland was its primary customer, importing \$1.5 billion. Austria and the United States each imported approximately \$1.2 billion, with Japan importing about \$1.1 billion.

¹In June 1996, Brazil notified TMB that it had requested consultations to impose quotas under ATC.

²Data for 1994 are estimates.

³"Domestic market" is defined here as EU consumption in value, excluding value added tax.

The EU also has a program similar to the U.S. Special Access Program. The outward processing trade program, or OPT, was established in 1992 and maintains separate quotas for goods made with European fabric. Tariffs are based on the value added in assembling the goods. OPT goods comprise about 4 to 5 percent of total EU imports.

The EU's Safeguard Call Process

During 1990-94, the EU made 42 calls under MFA. (Twelve of these were made in 1992 to replace previous member state restrictions with EU-wide restraints when the single EU market came into being.) All of these calls were made under the EU's "basket exit" mechanism,⁴ which was introduced into all bilateral agreements in the early 1980s. The mechanism was used to "trigger" bilateral calls under MFA. When ATC was enacted, the basket exit mechanism was abolished for WTO countries.

The EU's Chief Textile Negotiator told us that the EU is unlikely to invoke safeguards under ATC because more than 400 EU product categories are already under quota. He also noted that the EU has free trade agreements with many of its neighbors.

The EU's Chief Textile Negotiator also told us that the EU Commission believes that the criteria for imposing quotas under ATC are more rigorous than those under MFA. If, however, the EU decides to make a call under ATC, he stated that the call process itself would work the same as it did under MFA, but without the basket exit mechanism.

Because all 15 EU member countries are involved in deciding whether a safeguard call should be made, the EU process for making quota decisions is somewhat more cumbersome than that of the United States or Canada. The EU call process begins when the Textile Inter-Service Group, housed within the EU Commission,⁵ receives a complaint from a member state or industry. (The Textile Inter-Service Group comprises all the executive level departments of the EU Commission that have some interest in textiles, including those that focus on competition, employment, consumer protection, legal services, customs, and commerce.) An industry may

⁴Under the basket exit mechanism, bilateral agreements contained import penetration thresholds that could have triggered a corresponding quota. If an import penetration threshold were reached, the EU had the right to request consultations with the exporting country. According to the EU's Chief Textile Negotiator, very few basket exit cases where the threshold was reached actually resulted in the imposition of quotas. For example, in 1993-94, the EU Commission received 593 requests for basket exits from member states and producers, but implemented only 12.

⁵The European Commission is the initiator of Community policies and generally has the sole right to propose Community legislation. It is also the executive arm of the EU government, implementing or overseeing the implementation of the policies decided upon.

submit the complaint to its own government or directly to the EU Commission. In practice, however, an industry usually submits the complaint to the Commission.

The entity submitting the complaint must include in its petition detailed information on how a surge in imports has affected its industry. According to the EU's Chief Textile Negotiator, the EU Commission primarily examines whether an import increase has adversely affected domestic production and/or prices, and what, if anything, has changed regarding domestic demand. For example, the Chief Textile Negotiator told us that even if a country's exports to the EU had increased over 500 percent, the EU would not impose quotas if the Commission determined that the import increase was due to a growth in demand for a product not produced by EU manufacturers. Such a situation occurred several years ago when EU producers were slow to react to changes in European apparel fashion trends. The Chief Textile Negotiator emphasized that the relationship between imports, domestic production, demand, and prices is critical to whether a call is made—not, for example, only an increase in imports or decrease in production. He also stated that while the EU does not have any specific threshold levels, in practice, calls under MFA were not made if imports of a good from a country had risen less than 25 percent and if domestic production had fallen less than 20 percent.

Based on the information provided by the petitioner, the Textile Inter-Service Committee decides whether the complaint has sufficient merit to be passed on to member state representatives. If the Committee believes the petitioner has a reasonable case, the complaint is sent forward to the Textile Management Committee. This committee, chaired by the EU Commission, includes representatives from each of the 15 member states (one from each member's import licensing department and one from each member's trade department). Committee members review the complaint and make comments regarding its validity. The EU Commission then decides whether to recommend that quotas be imposed, taking into account the opinions of the member state representatives. The Textile Management Committee then votes on whether to impose a quota. A qualified majority⁶ in favor of the complaint is needed for the Committee to move forward on the complaint.

If a qualified majority is not reached, the EU Commission may withdraw the complaint. If the Commission believes the complaint should be

⁶A qualified majority voting system is where votes are weighted so that the larger EU member states exert a greater influence.

approved, regardless of the vote by member state officials, the case is sent to a committee that deals with trade regulations and is seated on the EU's Council of Ministers.⁷ According to the Chief Textile Negotiator, cases are rarely sent to this committee. In almost all cases under MFA, the EU Commission's recommendation was approved by consensus or a qualified majority vote of member state representatives on the Textile Management Committee.

The EU call process can be completed as quickly as 3 to 4 weeks after the complaint is sent to the Commission. However, if there is a problem with the data, the process could last several months.

While the EU has no formal advisory committees, the Chief Textile Negotiator told us that importers and retailers have been "very active" in the EU's call process. Importers and retailers are free to lobby the EU Commission, the Textile Management Committee, and individual member states. He said the importers and retailers are able to make their point "loud and clear." However, he also commented that the EU member states that have large textile and apparel industries are not as concerned with the views of importers and retailers. They are more concerned about protecting their domestic industries.

The Director of Euratex⁸ explained that while organizations such as his are not official advisors to the EU, they do informally advise the EU Commission and believe they are part of the system in an informal way. On the other hand, an official from an EU importer and retailer association stated that he does not believe importers and retailers are part of the system. He noted that while word spreads quickly in the EU that a call is pending, importers and retailers are not notified officially.

Finally, the EU's Chief Textile Negotiator commented that the EU Commission is not concerned about possible import surges before a call is made and quotas applied. He said that because of the cumbersome EU call procedures, "Everybody knows everything anyway." He said that it is counterproductive to try and keep the call a secret and that, generally, a surge has already occurred—which is why the call was made in the first place.

⁷The EU's Council of Ministers is comprised of government ministers from each of the member states, and is the main decision-making body of the CEU.

⁸Euratex is an EU association representing European textile and apparel industries.

Canada's Textile and Apparel Industries

Canada's textile and apparel industries account for 4.4 percent of its GDP for all manufacturing industries and employ about 8 percent of its manufacturing work force. In addition, \$11.8 billion of Canada's \$310 billion in manufacturing shipments (domestic shipments plus exports) can be attributed to these two industries. Canada's textile and apparel industries ran a trade deficit of about \$4.8 billion in 1994.

Two major segments constitute the Canadian textile industry: producers of primary textiles, including MMF and filaments, yarns, and broadwoven fabrics; and producers of textile products (excluding clothing) such as carpets and canvas goods. According to a 1992 Canadian government document, Canada's textile industry is highly modernized and capital intensive. In 1994, about 45,000 workers were employed in the Canadian textile industry, down from about 63,000 in 1988. In 1993, 85 percent of Canadian textile firms (945 establishments) had fewer than 100 employees.

The United States is by far Canada's most important textile trading partner. In 1994, Canada imported \$4.3 billion in textiles, up from about \$3 billion in 1990. Canada's 1994 imports constituted about 48 percent of its \$9-billion domestic textile market, with about \$2.7 billion coming from the United States. China was the next largest supplier, exporting \$233 million in textiles to Canada. In that same year, Canada exported almost \$1.9 billion in textiles (up from about \$1 billion in 1990), with the United States purchasing almost 80 percent of the exports.

According to a Canadian government document, many Canadian producers have adopted aggressive strategies to increase productivity by incorporating leading technologies at all levels of textile production. While this document notes that the Canadian textile industry is not a "major player on the world stage," it points out that the investments the industry is making, such as in state-of-the-art machinery and equipment, will help the industry compete internationally.

In 1994, about 84,000 workers were employed in the apparel industry, down from 103,000 in 1990. In 1993, about three-quarters of apparel companies had fewer than 50 employees in a total of about 1,900 establishments.

In 1994, Canada imported about \$3.3 billion in apparel, up from \$2.9 billion in 1990. Canadian imports in 1994 constituted approximately 40 percent of its \$8.4-billion domestic apparel market. Its top supplier that year was China, with \$606 million, followed closely by the United States

(\$573 million). Hong Kong was Canada's third largest supplier, exporting \$471 million. In 1994, Canada exported about \$1 billion in apparel, compared to \$322 million in 1990. In 1994, U.S. purchasers imported most of Canada's apparel exports (over \$944 million).

Canadian apparel products do not usually compete directly with low-cost imports. However, in the market segments where these products do compete, Canadian apparel manufacturers have developed marketing strategies to influence the customer's buying decisions, such as using strategic pricing. Nevertheless, according to a 1995 Canadian government document, imports are expected to increase their share of the Canadian market due to the value they offer to retailers and consumers.

Canada does not have an import program similar to the U.S. special access program. However, according to a Canadian government official, about 40 percent of all Canadian apparel imports under quota are imported by Canadian manufacturing firms. While, in general, Canadian apparel firms are not establishing offshore affiliates, they are entering into contracts with foreign suppliers to produce goods specifically for their firms.

As of May 1996, 43 countries exported products to Canada that were under quota from MFA. Thirty-one of these are WTO countries. Of the 12 remaining countries, 11 had entered into bilateral agreements with Canada, and Canada had taken unilateral action against the remaining one. All textile and apparel categories have at least one product under quota.

Canada's Safeguard Call Process

From 1990 to 1994, Canada made 29 calls under MFA. As of May 1996, Canada had made no calls under ATC. According to the Deputy Director of the Textile and Clothing Section of Canada's Department of Foreign Affairs and International Trade (DFAIT), there has been little or no interest on the part of the textile and apparel industry in initiating new safeguard calls since ATC's inception. He stated that the apparel industry has adjusted considerably to global competition over the last few years and has not pushed recently for new quotas. He also noted that the textile industry has begun producing more sophisticated goods, which have found a niche in Canadian and foreign markets. The possibility exists for calls in the future, and this official indicated that Canada maintains its right under ATC to initiate calls if necessary.

Canada's call process works as follows: Canada's DFAIT monitors trade flows and watches for sharp increases in imports of a specific product

from a particular country. All textile and apparel products are on an import control list (which includes products that are under quota and those that are not), and all importers are required to have an import permit. The permit is presented at the border, and the import data are inputted into a computer log.

The key factors in determining whether a call is made include import surges, domestic production, and market share. (These were the key factors Canada considered under MFA and will remain the salient factors in determining the extent of market disruption under ATC.) The Deputy Director we interviewed noted the difficulty in assessing how domestic employment is affected by trade flows because of the complexity in ascribing a decline in employment to imports from any one country.

Import surges are usually analyzed first. While the Canadian government does not have any formal thresholds that trigger a call, it has several general “rules of thumb” that guide its decision-making. For example, a steady upward trend in imports of a certain category at a relatively sharp rate will alert DFAIT to a possible problem. The Canadian government is also particularly sensitive to unrestrained shipments coming in at levels higher than those from countries with restraints.

DFAIT consults with Canada’s Department of Industry regarding the possibility of a call.⁹ If the government decides to make a call, DFAIT notifies manufacturers and brokers by electronic mail that a call is pending. (Brokers then, in turn, notify the importers and retailers they work with.) Interested parties are given 2 to 3 weeks to respond. According to the Deputy Director we interviewed, this 2 to 3 week window gives importers time to take care of their immediate commitments before the call is made and is short enough in duration to prevent traders from circumventing, at the last minute, an impending quota. He noted that orders are usually made months in advance and that Canadian manufacturers are not particularly concerned about surges during this time period.

Importers and retailers concerned about an impending call will usually contact DFAIT to make their position known. The official noted that in almost all cases, the importers and retailers oppose the call. He stated that

⁹With respect to textile and apparel quotas, DFAIT is primarily responsible for monitoring trade flows, implementing ATC, and negotiating bilateral restraint arrangements. DFAIT also administers quotas through the issuance of import permits. Canada’s Department of Industry is primarily responsible for advising DFAIT on whether new quotas are warranted by assessing the sensitivity of domestic production to low-cost imports.

his department has traditionally been more concerned with protecting Canadian textile and apparel producers than retailers and importers. However, because so many goods are now imported by Canadian manufacturers, producers themselves are usually cautious about advocating calls.

The Minister for International Trade, one of DFAIT's ministers, decides whether a call will be made, based in part on the views of manufacturers, importers, and retailers. (In some cases, the Canadian government decides not to proceed with a call because of a lack of concern on the part of Canadian manufacturers.) DFAIT sends written notices to interested parties announcing that a call has been made and publishes the outcome of these negotiations in a bulletin.

Japan's Textile and Apparel Industries

In 1993, the Japanese textile industry employed about 543,000 workers; its apparel industry employed approximately 580,000. (These two industries together employed about 10 percent of all workers in Japan's manufacturing sector in that same year.) In 1994, Japan exported \$5.4 billion in textile products and \$575 million in apparel products. In that same year, Japan imported about \$3 billion in textiles (for a trade surplus of more than \$2 billion) and \$17.3 billion in apparel (resulting in a trade deficit of about \$16.8 billion).

In 1995, Japan imported about \$25 billion in textile and apparel products, up from \$16 billion in 1991 (an increase of 57 percent). In that same year, Japanese imports of these products comprised about 58 percent of its domestic textile and apparel market. China was Japan's top supplier of these goods in 1995, accounting for about 51 percent of textile and apparel imports.

Japanese Safeguard Issues

Although Japan has not invoked safeguards under either MFA or ATC, a 1994 Japanese government document¹⁰ notes the increase in Japanese imports of textiles and apparel since 1987. It lays out a framework for determining when to implement textile quotas, based in part on increases in imports and their effect on domestic industry (such as on domestic production and employment).

The Ministry of International Trade and Industry (MITI) officials we interviewed briefly summarized how their safeguard process would

¹⁰Measures for Safeguarding Textiles (Consumer Goods Industries Bureau, Tokyo, Japan: Sept. 1994).

Appendix VIII
Safeguard Procedures in the EU, Canada,
and Japan

proceed if an industry requests an investigation. They explained that the Minister of International Trade and Industry may initiate an investigation within 2 months from the time industry makes a request and that the investigation should be concluded within 12 months. Interested parties are given a specific time period in which they can submit their arguments, and MITI may also gather data from these parties by sending them a questionnaire.

These officials also noted the efforts of the Japanese textile and apparel industries to restructure within a 5- to 10-year period in order to become more “consumer-oriented.” Japanese government officials explained that the industries are trying to become more responsive to changes in consumer tastes.

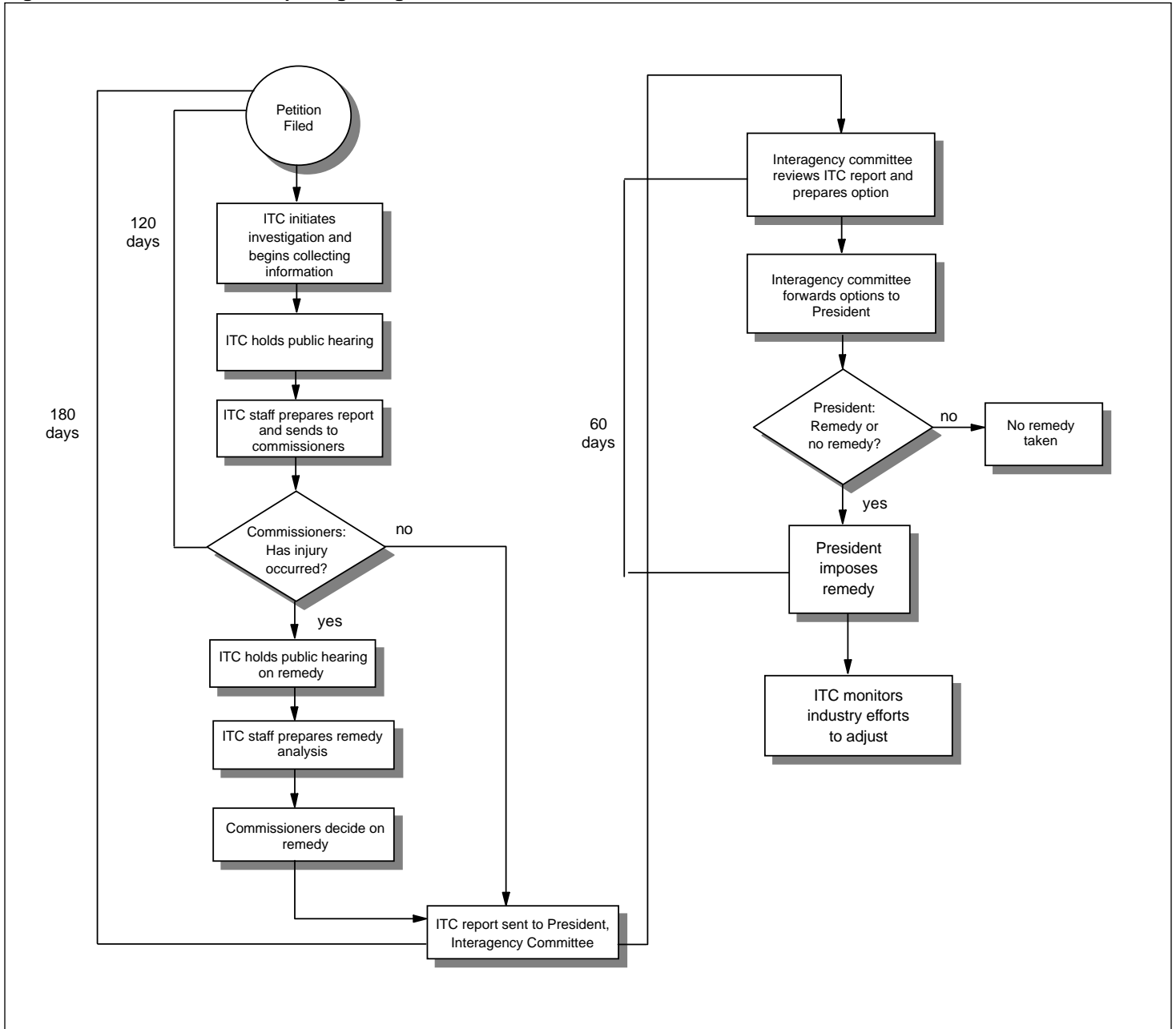
ITC's Safeguard Process

Under GATT article XIX (the so-called GATT “escape clause”), member countries are permitted to escape from international obligations and take temporary safeguard action to protect a domestic industry from actual or threatened serious injury caused by imports. The Uruguay Round Agreement on Safeguards spells out the conditions under which WTO countries may impose the temporary safeguards.

In the United States, ITC determines whether an industry is eligible for relief and, if so, recommends an appropriate action to the President. The President makes the final decision on whether to impose quotas authorized by article XIX. Under sections 201-04 of the Trade Act of 1974, as amended (19 U.S.C. §§ 2251-54), ITC conducts investigations concerning whether an article is being imported into the United States in such increased quantities as to be a substantial cause of actual or threatened serious injury to the domestic industry producing a like or directly competitive product (see fig. IX.I for an illustration of the ITC's safeguard process).

Appendix IX
ITC's Safeguard Process

Figure IX.1: ITC Process for Imposing Safeguards



In practice, ITC investigations under section 201 are usually initiated as a result of a petition by industry.¹ ITC investigations are generally conducted in two phases—(1) an injury phase, during which ITC considers issues related to injury and, if the injury determination is affirmative and (2) a remedy phase. During the injury determination phase, ITC sends out questionnaires to domestic producers that ask for data relating to sales, production, employment, and financial performance for the preceding 5-year period. The questionnaires also address such issues as whether the imported and domestically produced goods are directly competitive, what factors have precipitated changes in demand for the imported goods, and what injury has occurred to domestic producers. In addition, producers are asked about their efforts to compete with imports and the competitive adjustment measures they are likely to undertake if relief is granted.²

ITC holds a public hearing during the injury phase of a section 201 case. Pre- and post-hearing briefs are submitted. Any interested party can participate in the hearing and may submit a brief and other written statements.³ Each side is given about 1 hour to present its case, and the Commissioners usually spend 1 or 2 additional hours questioning each of the two opposing sides.

During the injury phase, ITC is also required to seek information on actions being taken, and/or planned to be taken, by firms and workers in the industry to adjust to import competition. Petitioners are encouraged to submit, at any time before the ITC injury determination, a plan to promote positive adjustment to import competition.⁴

After the injury hearing is held, questionnaire results compiled, and field work completed, ITC staff send the Commissioners a report that contains the information developed. The Commissioners are responsible for determining whether the industry is seriously injured or threatened with

¹Since 1990, only five section 201 cases have been initiated. In recent years, industry has preferred to use other statutory authorities to address import problems, such as antidumping and countervailing duty laws. Under the antidumping and countervailing duty laws, duties may be imposed to offset dumping and foreign subsidies.

²Recipients are given about 30 days to complete the ITC questionnaire. Completing the questionnaires is mandatory, and ITC may issue subpoenas to ensure that recipients complete and return them.

³To help parties argue their respective positions, ITC is authorized to release confidential business information under an administrative protective order to authorized representatives of interested parties, such as their outside counsel. Such information may not be shared with company officials.

⁴Section 201 provides that positive adjustment occurs when (1) the domestic industry is able to compete successfully with imports after actions taken terminate, or the domestic industry experiences an orderly transfer of resources to other productive pursuits; and (2) dislocated workers in the industry experience an orderly transition to productive pursuits.

serious injury. They are also required to take into account all the economic factors specified in the statute.

Generally, the Commissioners must make their injury determination no later than 120 days after ITC receives the petition or request.⁵ The Commissioners vote on injury in a public meeting. If ITC makes a negative determination, it does not recommend a remedy. If the Commissioners decide that injury has occurred, they must recommend an action to the President that would address the injury and be effective in facilitating efforts by domestic industry to make a positive adjustment. (If the Commissioners are equally divided on injury, the President has the option of accepting the determination of either group of Commissioners. In practice, the President has always accepted the negative determination.)

Before the Commissioners make their remedy recommendation, ITC holds a second hearing on the remedy measures. Parties are provided an opportunity to testify and submit briefs. ITC staff then generally furnish the Commissioners with an analysis of the various remedy options. The Commissioners have 60 days to decide on appropriate remedies and usually indicate the nature of the remedy recommendation at a public meeting. The Commissioners then send a report to the President that includes their injury determinations, any remedy recommendations, their written "views" in support of their determinations and recommendations, and a summary of the information obtained from the investigation. This report is referred to an interagency committee, chaired by USTR, which also makes a recommendation to the President. (Shortly after the report is sent to the President, ITC releases a public version of this report that contains no confidential business information.) The President has 60 days to decide whether to provide relief and, if so, in what form and amount.

The President can choose among various remedy options, including an increase or imposition of a duty, imposition of a tariff-rate quota system⁶ or quantitative restriction, implementation of one or more adjustment measures (including trade adjustment assistance), the negotiation of agreements with foreign countries, or any other action within the

⁵Exceptions occur in a number of instances. For example, if the petition alleges that critical circumstances exist, ITC must first determine, within 60 days of the petition's receipt, whether these circumstances exist, and if so, recommend an appropriate remedy to the President. The President then has 30 days to decide what remedy, if any, to impose. Critical circumstances exist when ITC determines that there is "clear evidence" that increased imports of a product are a substantial cause of actual or threatened serious injury to the domestic industry and that "delay in taking action would cause damage to that industry that would be difficult to repair."

⁶A tariff-rate quota system applies one tariff to imports up to a particular amount and a different, higher tariff rate to imports in excess of that amount.

President's power. In determining what action is appropriate, the President must consider a number of factors, including the adjustment plans of the firms and/or industry, the probable effect of the remedy measures on adjustment, and other factors related to U.S. national economic and security interests. Relief measures are subject to a number of limitations. For example, the President may impose relief for an initial period of no more than 4 years and may extend the measure one or more times. However, the overall period of relief may not exceed 8 years. (Safeguard action under ATC may be imposed for a maximum of 3 years.)

If the President imposes safeguards, ITC is required to monitor developments in the industry, including efforts by the domestic industry to adjust during the time that the remedies are in effect. The President may reduce, modify, or terminate the safeguard if either (1) the domestic industry requests it on the basis that it has made a positive adjustment or (2) the President determines that changed circumstances warrant a change in the measure. Before extending a safeguard, and upon request of the President or a petition on behalf of the industry concerned, ITC is required to conduct an investigation to determine whether (1) relief measures continue to be necessary to prevent or remedy serious injury and (2) there is evidence that the industry is making a positive adjustment to import competition. ITC must hold a public hearing in the course of its investigation and send a report to the President 60 days before the measure is due to expire. After the measure ends, ITC is required to evaluate how well it has facilitated adjustment by the domestic industry and submit a report to the President and Congress within 180 days.

When ITC submits a report containing an affirmative injury determination and remedy recommendation, the President often determines either to take no action or to impose a different or less restrictive measure than that recommended by the ITC Commissioners. From 1975 to 1995, ITC conducted 64 section 201 investigations. In 34 of these cases (including 5 tie votes), ITC Commissioners decided injury had occurred. In only 13 of the 34 cases did the President decide to provide relief, and in many of these cases relief measures imposed were less onerous than those recommended by ITC.⁷ In six additional cases, the President directed that the Secretaries of Commerce and Labor give expeditious consideration to petitions filed for trade adjustment assistance. According to ITC officials,

⁷If the President takes action that is different from that recommended by ITC or declines to take any action, Congress may, by a joint resolution adopted within 90 legislative days, direct the President to impose the relief recommended by ITC. According to ITC officials, Congress has never adopted such a resolution.

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this reflects the latitude the President has in considering all economic and political concerns when making a decision on possible remedies.

Scope and Methodology

To identify and describe CITA's authority, functions, resources, and costs under MFA and ATC, we reviewed pertinent CITA agency and other government documents, including (1) the executive order establishing CITA's authority in textile trade matters; (2) U.S. legislation to implement ATC; and (3) budget data provided to us by officials of USTR and the Departments of Commerce, Labor, State, and the Treasury. We also interviewed officials of all the CITA agencies, including all CITA principals. In addition, we interviewed and obtained documentation from officials of the U.S. Customs Service concerning CITA's coordination of certain functions with Customs.

We also reviewed and compared the MFA and ATC agreements. We sent a letter to CITA requesting information about CITA's implementation of ATC, and we reviewed documentation CITA provided in response. In addition, we reviewed CITA's plans to implement ATC quota liberalization mechanisms. Finally, we obtained and reviewed (1) testimonial statements concerning CITA's integration plans; (2) public comments to Federal Register notices; and (3) reports on ATC implementation and other documentation from representative associations of domestic textile and apparel producers, importers, and retailers.

To understand CITA's decision-making process for imposing quotas and the framework for the transitional safeguard mechanism, we relied primarily on interviews with Commerce officials and reviewed ATC provisions. However, we also sought the perspectives of officials from the other four CITA agencies and representatives of the U.S. private sector, including various textile and apparel trade associations. Specifically, we interviewed six representatives of the domestic textile and apparel producers' community and eight representatives of importer and retailer groups, whose representatives also discussed issues related to the transparency of CITA's decision-making process. In addition, we reviewed congressional testimony from 1994 to 1996 related to textile and apparel issues.

We studied how CITA uses textile and apparel import data, production data, price data, and employment data by reviewing expert studies of these data and previous reports on these data. In addition, we interviewed officials of Customs, Census, and OTEXA.

To study how CITA uses these data to support its decisions to issue calls, we studied market statements CITA issued, which contain CITA's reasons for issuing the call and the data used to justify the call. We requested market statements from CITA going back to 1980, and CITA supplied us with

statements issued between January 1, 1990, and December 31, 1995. We computerized all the data contained in those statements and studied trends and patterns for the period in question.

To better illustrate the complex process of invoking safeguards, we conducted a case study of one call on one CITA category using market statements and TMB's publicly available reports.

We interviewed CITA officials, including CITA principals, to understand the extent to which CITA invoked the transitional safeguard mechanism in 1995 and to learn about the outcome of these calls. We also met with several countries' representatives to TMB to obtain their perspective on the U.S. calls and TMB's review of these calls. Specifically, we met with the Chair of TMB and seven TMB representatives. We also reviewed official TMB reports on 1995 TMB proceedings.

To determine the EU, Canadian, and Japanese use of quotas under MFA and ATC and describe their safeguard procedures, we interviewed officials from these three governments in Geneva, Brussels, and Tokyo and reviewed available government documents. We also conducted phone interviews with Canadian government officials in Ottawa and representatives of the Canadian textile, apparel, and importer/retailers trade associations in Ottawa and Toronto. In addition, we met with representatives from the EU's textile and apparel trade association and an importer/retailer trade group in Brussels.

To understand ITC's process for imposing safeguard measures, we interviewed ITC officials, reviewed ITC documents regarding the disposition of section 201 cases since 1975, and reviewed the U.S. trade statute regarding safeguard procedures.

We did our work from May 1995 through May 1996 in Washington D.C.; Brussels, Belgium; Geneva, Switzerland; and Tokyo, Japan, in accordance with generally accepted government auditing standards.

Comments From the Department of Commerce

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

JUL 29 1996



UNITED STATES DEPARTMENT OF COMMERCE
The Under Secretary for International Trade
Washington, D. C. 20230

Ms. JayEtta Hecker
Director, International Trade, Finance,
and Competitiveness
United States General Accounting Office
Washington, D.C. 20548

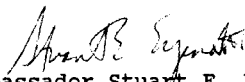
Dear Ms. Hecker:

Thank you for the opportunity to comment on your draft study of the operations of the Committee for the Implementation of Textile Agreements (CITA) and other aspects of administration of the U.S. textile program. Writing on behalf of the Department of Commerce and the other member agencies of CITA (the Office of the U.S. Trade Representative and the Departments of State, Labor, and Treasury), I believe that much of the draft report represents a thorough and factual account of the operation of the U.S. textile program. However, there are numerous inaccuracies which may detract from its usefulness to the Congress. I have enclosed CITA's general substantive comments on the draft as well as specific comments relating to particular paragraphs and sections. These comments highlight CITA's particular concerns with respect to GAO's methodology and provide other suggestions for improving the accuracy of the GAO report.

The members of the Committee wish to recognize the work of the members of the GAO staff, who over a relatively short period of time were able to reach a good understanding of the complexities involved in the Committee's work. I also wish to convey my personal thanks to you and your staff for being sensitive to, and incorporating many of, the suggestions which my staff and other CITA members have made previously to you during your research.

The U.S. has scrupulously observed its obligations under the WTO Agreement on Textiles and Clothing (ATC). Moreover, the Administration is committed to maintaining a bipartisan trade policy which ensures that the U.S. effectively exercises its rights under the ATC. The U.S. textile program has been an important component of U.S. trade law which has helped to preserve a key sector of the U.S. manufacturing base. We have welcomed this opportunity to work with GAO to assist the Administration and Congress in maintaining an effective textile trade policy.

Very truly yours,


Ambassador Stuart E. Eizenstat



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COMMENTS ON GAO DRAFT REPORT ON TEXTILE TRADE

GENERAL COMMENTS

Description of impact of imports: GAO has commendably recounted the scope and importance of the U.S. textile and apparel industries as well as the impact of imports on U.S. domestic production. As noted by GAO in its background to the report, the import sensitivity of these industries is precisely the reason why these industries have been historically subject to special trading rules.

ITC Procedures: We recognize that it was necessary for the GAO, in order to be responsive to the requestors of the study, to provide a detailed analysis of ITC procedures. We simply note that the procedural differences between the ITC and CITA are basic and are rooted in the separate status accorded textiles in our international arrangements, both in the MFA (and predecessor arrangements) and the ATC. With the support and agreement of other countries, textiles have historically been separated out as a specific derogation from GATT rules, and that separation is continued in the ATC throughout the ten-year transition. MFA/ATC safeguard rules were specifically negotiated to allow greater flexibility in taking action on textile and apparel products than in the case of those rules applying to other product groups under Article XIX of the GATT and the WTO Agreement on Safeguards. (Section 201 of the Trade Act governs these safeguard measures.)

It is also worthy of note that actions which the United States may take under Section 201 must be imposed on an MFN basis and that the United States must provide compensation to countries which may be affected by Sec. 201 restraints. These features are not true of textile safeguard actions. These distinctions have been a conscious feature of U.S. trade policy since the early 1960's, and will remain until the termination of the ATC transition period on January 1, 2005.

Methodology and Use of Data: As described more fully in the specific comments below, we are concerned that GAO draws its statistical analysis from only part of the data available in CITA's market statements. In particular, GAO's analysis does not include the most recent import data available to CITA at the time of a call -- data that are obviously key in CITA's deliberations.

As we had previously indicated to GAO, we believe that one must be cautious in using medians as an interpretive device in evaluating CITA decision making. Furthermore, the data used by GAO in establishing medians is post facto information which does not reflect information available to CITA at the relevant decision-making points. CITA has not, for example, within the time frame represented by the study, recommended a safeguard action in any instance in which imports were down or production up.

See comment 1.

See comment 2.

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See comment 2.

With regard to data, the report notes that in some instances CITA revised data applying to particular categories or in respect to particular safeguard actions. These changes reflected revisions published by the Census bureau and thereby incorporated by CITA. Also, in some cases, new data sources became available which represented significant improvements in accuracy over those sources available at earlier points in CITA's decision making process.

See comment 3.

Small Suppliers: The GAO report is very helpful in pointing out, in essence, that CITA does act to ensure that the cumulative effect of numbers of relatively small suppliers does not act to defeat the overall effect and purpose of the program. These measures also act to forestall "country hopping" for the purposes of circumvention.

See comment 4.

Integration Schedule: GAO should note that the U.S. integration schedule is fully consistent with the requirements of the ATC. The U.S. integration schedule was never challenged at the TMB. Furthermore, the EU and Canada have taken the same approach in that their first stage of integration did not integrate products under quota.

See comment 5.

Comments by TMB members: We do have some concerns over selective quotation in the report of particular TMB members on particular issues. Certainly, as GAO points out in an appendix to the report, individual TMB members are going to have their own particular perspectives on U.S. actions. Some may share U.S. views on particular issues and some may not. We also note that the TMB operates by consensus and that the individual opinions of the TMB members as expressed in the GAO report are not reflected in any of the reports or recommendations of the TMB. Moreover, since U.S. policy is set by the U.S. Government, we caution against relying too heavily on the views of individual TMB members in characterizing U.S. policy.

SPECIFIC COMMENTARY ON TEXT

Now on p.2.

Page 1, footnote 2 - We believe the fact that CITA is a five-member inter-agency Committee should be moved into the main body of the report instead of being mentioned in a footnote.

See comment 6.
Now on pp. 2 and 3.

Page 3, line 8; page 5, line 3; and page 13, line 1 - More correctly, the United States (not CITA) takes various actions such as entering into agreements, imposing quotas, and requesting consultations.

Now on p. 2.

Page 3, line 9 - The MFA allowed "importing countries" to impose unilateral quotas.

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Page 3, footnote 4 - Calls on non-WTO countries are made pursuant to the authority of Sec. 204 of the Agricultural Act of 1956.

Now on p. 3.

Page 4, line 13 - For completeness, GAO should add "47 percent of textile products."

Now on p. 2.

Page 4, line 15 - While the notion of a "cliff" or drop-off at the end of the 10 year period has been suggested from time-to-time by the importing/retailing community, and others with an interest in expedited quota liberalization, we are not aware of the use of such terminology by the domestic industry. The reference, of course, ignores entirely the liberalization throughout the ten-year period represented by the accelerated quota growth provisions of the ATC.

See comment 7.

Now on p. 3.

Page 5, line 8 and thereafter - To be consistent with the language of the ATC, the terminology "serious damage or actual threat thereof" is more accurate.

Now on p. 3.

Page 6, line 7, and pages 10 and 43 - The report should make clear that CITA is a committee, with representation from five different agencies, and does not receive a line-item in any single appropriations bill. Because of staff and budget cuts, resources of the Department of Commerce's Office of Textiles and Apparel (OTEXA) which are devoted significantly (but not entirely) to CITA activities in FY 1996 are 29 (out of 37) people and about \$2.65 million. OTEXA not only supports CITA but implements the textile provisions of our Free Trade Agreements, undertakes export expansion activities, administers funding for grants, implements the Special Access Program for the Caribbean, develops information and follows up on problems of market access, supports Section 301 actions, and performs a variety of other functions.

See comment 8.

Now on pp. 4, 6, and 28.

Page 6, line 17, pages 10, 12, and 13 - Technically, USTR, not CITA, contacts importers and retailers, and representatives of the domestic industry for their views regarding negotiations. While USTR's Chief Textile Negotiator leads the negotiations and represents the United States at the WTO, USTR brings in the other CITA agencies on all major decisions.

See comment 9.

Now on pp. 4, 6, and 27.

Pages 7, line 7, page 17, and Appendix 6 - See general commentary on methodology with regard to medians.

See comment 2.

Now on pp. 4 and 9.

Page 8, line 3: In 1995, 20 calls were made under the ATC, and 8 calls were made on non-WTO countries under Section 204 authority.

Now on p. 4.

Page 8, line 6 and page 23 - See general commentary regarding the ITC.

See comment 1.

Now on pp. 5 and 13.

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See comment 10.
Now on p. 5.

Page 9, line 9 - The phrase "CITA's decisions are conclusive and are not approved by other executive branch officials" should be modified by "unless referred to higher level officials by one or more CITA principals." This distinction is meaningful enough not to be left to a footnote.

Now on pp. 5 and 6.

Page 10, lines 1-13 - CITA's primary function is the implementation of textile agreements, including (but not limited to) the ATC. A better statement of CITA's primary function under the ATC is "to ensure that there is a gradual and orderly liberalization of trade which will allow U.S. companies sufficient time to further modernize and prepare for greater international competition." This language reflects CITA activity in supervising ATC provisions on accelerated quota growth, product integration, safeguards, transshipment, and market access.

See comment 11.
Now on p. 6.

Page 11, line 6 and page 22 - As outlined in the Executive Order creating CITA, the CITA chair decides what cases to bring before CITA. CITA then votes on those cases.

See comment 12.
Now on p. 6.

Page 11, line 14 - The report should add at the end of the sentence "but, rather, the procedural and substantive requirements that CITA follows in determining whether to make a call are supplied by the ATC."

Now on p. 7.

Page 12, line 2 - We now describe our "market statements" as "statements of serious damage or actual threat thereof" in keeping with the terminology now contained in the ATC.

Now on p. 7.

Page 12, line 10 - The report incorrectly describes the CITA agencies' policy viewpoints in the call process. For example, Treasury's positions are based on an analysis of the "net" economic benefit that incorporates costs and benefits to consumers, producers, and retailers as well as other relevant factors. In addition, in its oversight role to U.S. Customs, Treasury is concerned with the appropriateness and enforceability of CITA recommendations and directives. Rather than "representing" a particular interest, each CITA agency considers the need for import restraints while taking into account the concerns of U.S. industry, workers, importers and retailers, consumers; other economic factors; and foreign policy considerations.

See comment 13.
Now on p. 7.

Page 12 (footnote 15) - The first sentence of the footnote is incorrect. CITA has always made call decisions based on majority vote. The second sentence of the footnote is accurate.

Now on p. 7.

Page 13, line 4 - The report should make clear that the 60 day period is required only under rules applying to ATC countries.

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See comment 14.
Now on p. 10.

Page 17, subparagraph. 2 - This paragraph demonstrates that production and imports are not the only variables which CITA examines when determining the appropriateness of a safeguard action. There are many reasons that CITA may choose not to make a call regardless of what the production and import data show. To explain these non-calls, a number of other variables can be identified, such as the seasonal variations in the production schedule of the goods; information from the industry that firms are not being damaged by imports; an expectation that the data will improve in the near future; or a temporary disruption to production such as a storm, fire, or transportation strike, etc. In some cases, there may have been formal or informal consultations with a country in progress, in which callable categories were being discussed.

See comment 14.
Now on p. 10.

Pages 18, para. 1 and Appendix VI - GAO misrepresents the CITA call-making process by stating that CITA issued some calls when either domestic production fell or import increases were fairly small. GAO reached this conclusion by focusing on only part of the data which was available in all of the market statements while ignoring other data. GAO, arbitrarily, looked only at the most recent 12 months for which both imports and production represent the same 12 month time period. Since production data always lags behind import data, CITA always had import data more recent than the 12 month data at which GAO looked. Yet GAO ignores the more recent data, which is always key in CITA's decision-making process. GAO also ignores other factors, such as latest partial year production and import data, historical import and production data, and domestic market share. CITA also looks at many other variables in addition to production and imports when making a determination of serious damage or actual threat thereof. In fact, Annex A of the MFA and Article 6 of the ATC enumerate at least a dozen economic variables (including output, productivity, capacity utilization, inventories, market share, exports, wages, employment, domestic prices, profits and investment) that should be considered, none of which, either alone or combined with other factors, necessarily give decisive guidance.

See comment 15.

To better understand this concern, we cite the following example of a call which appears in Table, VI.4, Appendix VI, as one where imports had not increased during the most recent 12-month period: Looking at the data CITA actually considered at the time shows that world imports had increased 31 percent historically (over three years) and were up 15 percent for the latest 12 month period at the time of the call. Domestic production had declined 8 percent historically. The imports from the country called were up nearly 400 percent. The share of the domestic market held by domestic manufacturers was 49 percent. These variables were well

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within the parameters which indicate market disruption or serious damage or actual threat thereof, yet are not considered in the analytical approach taken by GAO. In fact, CITA has made no call decisions solely on the basis of the limited criteria which GAO has examined.

See comment 3.
Now on pp. 10, 58, and
60.
See comment 16.

Pages 18, line 9, pages 85 and 91 - See general commentary on small suppliers.

Page 18, line 17, and page 74 - It should be apparent that, except in very unusual cases, increased imports displace domestic production of similar products either in whole or in part.

See comment 17.
Now on pp. 10 and 59.

Pages 19, line 1 and page 87 - As noted in the GAO report, there are currently 148 categories of textile and apparel products used in administration of the textile program. The issue of the appropriate level of categorization of imports has a long history and has been thoroughly explored. Both under the MFA and the ATC, there has been strong opposition to over-categorization, which has the effect of multiplying substantially the numbers of quotas in place. Excessive categorization tends to increase the restrictiveness of quotas (since there is lesser ability to shift from one product group to another within quota) as well as to increase the burden of administration. As a practical matter, it is not possible for CITA to reduce product definitions in particular categories to their narrowest elements. The Committee must reach a balance in being as specific as possible while maintaining a reasonable capability to administer the program.

See comment 18.
Now on pp. 11 and 64.

Page 20, line 5 and page 95, line 10 - The section covering the outcome of 1995 calls is oversimplified and inadequately describes the results of the disputes that were referred to the TMB. It is incorrect to refer to TMB decisions as agreeing or not agreeing with the U.S. position. The TMB reports findings and provides recommendations.

See comment 5.
Now on pp. 11 and 66.

Page 20, lines 11-20; page 21, lines 1-16; and page 99 - See general comments on selective quotation of TMB Members.

Page 23 - One should also note that a bill was introduced last year which would abolish the ITC and transfer its functions to the Department of Commerce. Supporters of ITC elimination have cited among other things the size of the ITC's budget in contrast to the number of votes actually taken.

Now on p. 19.

Page 27 (Abbreviations) - The report should make following corrections:

HTS - Harmonized Tariff Schedule
TMB - Textile Monitoring Body
TSB - Textile Surveillance Body

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Now on p. 22.	Pages 29 and 30 - According to BLS, the correct employment data for 1994 is 676,000 textile workers and 974,000 apparel workers. Also, 1995 data (which are now available) show 667,000 textile workers and 930,000 apparel workers.
Now on pp. 22 and 23.	Based on BLS data, the Labor Department has calculated a 3.4 percent rise in average wage rates for textiles and a 2.8 percent rise in average wage rates for apparel. Furthermore, wages in textiles rose steadily from \$7.38 to \$9.13 in 1988-94, and those for apparel rose steadily from \$6.12 to \$7.34 in 1988-94. Workers in all manufacturing on average earned \$12.07 per hour in 1994. Figures for 1995 show average earnings for textiles at \$9.41 per hour, apparel at \$7.64 per hour, and all manufacturing at \$12.37 per hour.
See comment 19.	Page 30, footnote 6 - Commerce's International Trade Administration does not "estimate" wage data for the textile and apparel industries. Wage data used are regularly published by the Bureau of Labor Statistics. Percentage changes in wage levels are not estimated but are calculated from actual data.
Now on p. 24.	Page 33, line 1 - The reference should be to "square meter equivalents" rather than "meter equivalents."
Now on p. 24.	Page 33, line 3 - The reference to Table I.2 shows 1993 as the most recent year that data were available. 1995 is the most recent calendar year for which data are available, and monthly data is available for 1996. Also, footnote 9 to the table should be corrected to omit the word "apparel" from the list of products included.
Now on p. 27.	Page 38, para. 1 - The partial duty exemption referred to (under the 807 tariff provision) is not exclusive to textile and apparel trade. Also, all qualifying products from all countries are eligible; the program is not limited to CBI countries. U.S. special access arrangements apply to Caribbean countries using fabric formed and cut in the United States.
Now on p. 28.	Page 38, line 14 - NAFTA provides both quota and duty benefits substantially more liberal than those provided to Caribbean countries.
Now on p. 28.	Page 39, line 6 (last para.) - Replace "piece goods" with "cut fabric pieces," since piece goods are finished products.
See comment 20. Now on p. 30.	Page 42, line 15 - The report should also mention the U.S.-Israel FTA.
Now on p. 30.	Page 42, footnote - This footnote should be dropped since an MOU can be used for a variety of purposes, such as circumvention language and full bilateral agreements with non-WTO members.

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Now on p. 31.

Page 44, line 8 - The reference to Table II.2 should be corrected to read "...two research and development (R&D) technology transfer grant funds administered by OTEXA--..."

See comment 4.
Now on p. 33.

Page 47, Table III.1 - See general comments regarding integration. Specifically, the U.S. acted fully in conformance with its rights and obligations under the ATC.

Now on p. 34.

Page 49, line 16 - Under Article 6 of the ATC, the minimum quota growth rate for wool products is 2 percent.

Now on p. 35.

Page 50, line 3 - New quotas may also be imposed under Article 5 as a remedy for transshipment.

Now on p. 35.

Page 51, line 3 - The standard for applying a transition safeguard action under the ATC is comparable only to the Article 3 MFA safeguard standard.

Now on p. 35.

Page 51, line 6 - Should say "total" imports.

See comment 21.
Now on p. 37.

Page 55 (box) - To follow the order of ATC Article 6, step #2 should be listed as step #1. Under Art. 6.2, the first step in examining whether the requirements of Article 6 are met is to examine whether there is an increase in total imports. Under Article 6.3, the next step is to examine the relevant economic variables such as the eleven listed.

Now on p. 41.

Page 57 - Boxes 3 and 4 in the second column are redundant. Both refer to consultations with foreign government.

Now on pp. 50-51.

Pages 69-71 - There are a number of erroneous references to "Customs" in this section on Production Data that should be changed to "Census."

Now on p. 53.

Page 74, lines 9-11 - In all of the statements of serious damage or actual threat thereof, OTEXA also included the import price and domestic producer price of the product in question. In all WTO statements OTEXA also provided employment data.

See comment 22.
Now on p. 53.

Page 74, footnote 2 - We suggest the report replace footnote 2 with the following: "While the factors in the ATC mirror those of the MFA, OTEXA has collected and analyzed substantially more data and performed more analysis in assessing serious damage or actual threat thereof under the ATC."

See comment 16.
Now on p. 53.

Page 74, footnote 3 - It would be more correct to say in subitem (2) that "because CITA decisions on safeguards are based on data at the import category level, much of the data required for an econometric study are not available at this level of disaggregation."

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Pages 75, 76, and 85 - Time periods chosen for presentation of data differ for a number of reasons, including: changes to the survey benchmarks and other comparability issues; use of non-government data in some cases where government data is not available; and the need to emphasize shorter time frames in some cases where judgments are being made about the existence of possible threat of serious damage caused by a sudden surge in imports.

See comment 23.

Appendix VI, Table VI.4 - GAO presents data implying that CITA made 28 calls since 1990 in cases where domestic production had risen. It is still not made sufficiently clear, in our view, that these data were not the data before CITA at the time of the call. Refer to our comments regarding page 18, paragraph 1.

Now on p. 58.

Page 85, line 3 - The statement that "OTEXA sometimes used more recent statistics" is incorrect. OTEXA always uses the most recent import statistics available, which are published every month by the Census Bureau.

See comment 24.
Now on p. 59.

Page 87, lines 15-19 - We earlier provided extensive commentary and examples to GAO explaining the differences in prices within categories, which GAO has chosen not to include in the report. Also, see comments regarding page 19, line 1 on over-categorization.

Now on pp. 61 and 65.

Pages 90 and 97 - As a result of consultations held in Colombo, Sri Lanka on May 30-31, the United States and Sri Lanka agreed to cancel the agreement on Man-Made Fiber Luggage (Category 670-L). CITA terminated the current quota on July 1, 1996 by sending the appropriate directive to Customs and published this directive in the Federal Register.

Now on p. 61.

Page 91, line 17 - The reference to Category 440 should say "shirts" not "skirts."

See comment 25.
Now on p. 62.

Page 92, Table VII.1 - The chart does not show the two most important import variables CITA considers when determining an individual country's contribution to serious damage, i.e. the increase in the individual country's imports and the category import increases most recently available at the time the calls were being considered.

Now on p. 66.

Page 94 and 98 - Again, see general comments regarding selective interpretations by individual TMB members. While the GAO says that the TMB does not "speak as one body," we note that all TMB decisions are made by consensus.

Now on p. 67.

Page 101, line 13 - To be accurate the text should be changed from "before any TMB report" to "before any TMB consideration."

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Now on p. 68.

Page 102, footnote 5 - The footnote is not correct. Census did not change the way it collected data. Census used the same data collection methods throughout the period but the data itself was changed because of the sample change beginning with the 1992 Census of Manufactures. The lack of comparability results because of different data, not different procedures. Production data prior to 1992 cannot be made comparable to the later data because it was not collected from the same sample of manufacturers.

See comment 26.
Now on p. 69.

Page 103, Figure VII.1 - While the report explains in a footnote that data from 1992 forward is not comparable to previous years' data, it includes a chart which leads the viewer to this conclusion. We suggest you put an asterisk by the 1992 in the chart referring to your note in order to highlight this issue for the reader. Furthermore, it should be noted (once again) that because production data lags behind import data, CITA did not always have the production data listed in the chart at the time of the call.

Now on p. 70.

Page 104, Table VII.3 - GAO should make clear, once again, that CITA did not have final domestic production data at the time it made these calls. The production figures in this chart are drawn from revised Census data and not from the information that CITA had available to it at the time of each call. Furthermore, the time period covered in Table VII.3 contains two production survey benchmarks, one in 1989 and one in 1992. Therefore, the production data given is not comparable from year to year. This should at least be footnoted.

See comment 27.
Now on p. 69.

Page 105 - CITA acknowledges the accuracy of the second paragraph on page 105 and of footnote 6 on the same page. However, the percentage change and percent share of total imports are relevant but by themselves are not sufficient in order for CITA to issue a call. CITA held negotiations with Egypt in June of 1995 on a variety of issues and made a reasonable proposal for a limit on this category. The talks did not produce an agreement on any of the issues. Since that time, overall market conditions have not warranted safeguard actions on this category and no calls have been made since a call on Costa Rica in June 1995 -- a call that was rescinded in September 1995 based on CITA's review of the market at that time.

Now on p. 73.

Page 109, Footnote 8: GAO can cite to ATC Art. 6.7 as the source for the statement that the ATC requires information "as up-to-date as possible."

See comment 28.
Now on pp. 61-76.

Appendix VII, Pages 90-113 - Regarding Appendix VII, our key concern is with the "Case Study" which details the changes made to the data between that which appeared in the March statement

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and that which was provided at the TMB proceeding in July. Although we have given GAO extensive information regarding the process by which data is collected and developed for CITA's deliberations, and the reasons that revisions to the data are necessary, there is no explanation in this section of the report to account for the changes that GAO observed. We believe that a more detailed explanation describing the production data collection process and the need for periodic revisions would be very useful in helping the reader understand the dynamics of the data which substantiate and support CITA calls. We believe that revisions to data to make them as accurate as possible are a hallmark of responsible government. Accordingly, CITA has revised data as appropriate.

The following are GAO's comments on the Department of Commerce's letter dated July 29, 1996.

GAO Comments

1. We note in our report the many procedural and statutory differences between section 201 safeguard actions administered by ITC and CITA's administration of the U.S. textile program under ATC (see p. 5 and app. IX). With regard to MFN (most-favored-nation treatment), we note that the 201 process "applies to merchandise from all countries," that is, on a most-favored-nation basis. Throughout our report we repeatedly highlight the flexibility granted to CITA in safeguarding U.S. textile and apparel products.

2. We disagree with CITA's comment that we did not analyze the most recent import data, given that we refer to these data several times in our report. On page 4, we note that the most recent median import increase was 17.6 percent, a point we develop in footnote 9 and repeat on page 10. On page 55, we also explain that import data is more current than production data, and subsequently present the most recent import data, year by year, in table VI.2.

The median represents the best descriptive statistic for the data elements we considered (see fn. 7, p. 55, for a more technical explanation of this point), and we used medians to summarize the output of CITA's deliberations, variable by variable, for each of the 6 years we considered. In order to provide more information regarding these statistics, we also present the ranges around some medians (for example, on pp. 4 and 54) and breakdowns on the number of import and production calls that fell below particular thresholds (on pp. 10 and 56-57). Finally, we note that the data we used to establish our medians were contained in CITA's market statements, to which we believe the CITA principals had access at the time of their deliberations.

While CITA states that it never recommended a safeguard action when imports were down or U.S. production was up, our review of CITA's 166 market statements for calls CITA made during 1990-95 found 56 cases where imports were down or production was up in the most recent calendar year listed in the statement. (See p. 57.)

3. We draw no conclusions about the cumulative effects of small suppliers. We note that when suppliers are aggregated by product category and by

year, median imports represent 4.8 percent of all that category's imports into the United States. (See p. 58.)

We found no evidence to support CITA's conclusion that this median of 4.8 percent demonstrates that their actions forestall "country hopping." Even when suppliers are aggregated by category by year, the total imports from the countries called are still small. For example, about 25 percent of the categories called affected suppliers whose combined imports were less than 2 percent of U.S. imports of that category.

4. We state on page 33 that ATC allows the "freedom to choose which products to integrate at each stage." We do not imply in our report that the U.S. integration schedule was inconsistent with ATC. Finally, while we agree that the EU and Canada generally only included those products not under quota in the first stage of integration, Canada did include one item that had been under quota.

5. We believe our discussion of TMB member views on pages. 63-64 and 66-67 is appropriately qualified.

6. Regarding the comment pertaining to page 7, we recognize that ultimately the United States, through USTR, consults with foreign governments. However, it is CITA's responsibility to decide whether consultations should be requested.

7. See our discussion of the liberalizing effects of ATC, on page 34.

8. We state on page 2 that CITA is a committee with representation from five different agencies and on page 6 that CITA has no budget of its own. We reported fiscal year 1995 data because we wanted to examine fiscal year data for a full year for all CITA agencies, and the costs of several agencies are not known until the end of the fiscal year. Our discussion in appendix II describes CITA's responsibilities for implementing textile agreements and OTEXA's role as CITA's principal support staff. This discussion also includes information on OTEXA's non-CITA related responsibilities (see pp. 30-32).

9. We believe our description of CITA functions on pages 4, 7, and 8 are accurate. The distinct role that USTR and other CITA member agencies have in facilitating CITA's decision-making process for imposing quotas is explained in appendix IV.

10. There is no formal review mechanism with authority to overturn CITA decisions. In addition, our interviews with CITA officials indicate that consultation with higher-level officials occurs infrequently.

11. See our description of the call process in appendix IV.

12. ATC does not contain procedural requirements detailing how individual countries make these determinations. We believe we have adequately described the substantive requirements of ATC in appendix III.

13. Our 1983 report found that CITA made decisions on the basis of consensus; this point was not refuted by CITA officials at the time. More recently, a former CITA Chairman told us that prior to 1983, CITA operated on a consensus basis.

14. We believe that our analysis is an accurate characterization of CITA's use of data to make safeguard decisions. (See comment 2.) Our review of all 166 market statements found that CITA bases its recommendations for safeguards almost exclusively on changes in imports and production. While other factors were sometimes mentioned, the basis for the calls always rested with changes in imports and production (see pp. 6 and 53). Even in 1995, after more data were included in the market statements, this remained the case. We note the importance of import and production data on pages 6 and 53 of our report.

We focused on comparable import and production data precisely because of the need to demonstrate that import surges harm U.S. industry. While CITA states it "should be apparent" that increased imports displace domestic production, its own data show this is not always the case. For example, import and production data for all CITA categories show many instances where imports and production both rose or fell for the same category during the same time periods.

Our main point regarding calls with fairly small changes in production and imports is that although some calls were supported by either a small recent production decline or a small import increase, very few were supported by both a small production decline and a small import increase (see p. 56). This point remains true no matter what time periods we considered, including the most recent import data that CITA states is "key" in its decision-making process.

In our analysis of CITA's data use, we considered all data elements that CITA cites. For example, we present data on domestic market share for 1990-95 (see p. 56). Although we considered partial year data, we concentrated on the year-ending data to avoid distortions that might result from products imported on a seasonal basis. We could not consider data on productivity, capacity utilization, inventories, profits, and investment because CITA provided these data in its market statements only on an ad hoc basis. Moreover, the data was based on anecdotal information. Finally, we did not analyze CITA's data on domestic prices, employment, and wages because of the data's serious limitations at the category level. We explain these limitations in appendix V.

15. We cannot respond to this comment without more specific information. (Also see comment 2.)

16. We point out on page 10 that CITA assumes that imports and domestically produced goods within a given CITA category are substitutes. As noted in footnote 3 of appendix VI, OTEXA officials told us that they had not empirically examined the relationship between imports and domestic production. It is standard practice in economic analysis to examine the degree to which the products under study are substitutable for one another.

17. We did not recommend increasing the number of CITA categories. We point out that in some cases, a consequence of reducing over 4,000 HTS codes into 148 CITA categories is that some categories may contain products that do not appear to be like products. This has a direct bearing on the issue of whether or not changes in imports cause changes in domestic production. If the imports in question have different characteristics than domestically produced goods, the goods would be unlikely to compete with each other in the same market, weakening the assumption that changes in all imports in a CITA category cause changes in domestic production.

18. We believe our characterization of TMB rulings is accurate.

19. Footnote deleted.

20. As indicated on page 30, our discussion is not intended to include an exhaustive list of CITA's functions related to non-ATC work.

21. Our graphic is not intended to imply that these are steps, but as noted, are elements required for imposing safeguards under ATC.

22. We believe our footnote adequately describes OTEXA's analysis under MFA and ATC. As we note in comment 2, we based our analysis on the information provided in the market statements. CITA did not provide us with any additional data or analysis to supplement the market statements.

23. Our determination that 28 calls were made when production had risen in the most recent year (indicated in table VI.4) is based on data in market statements produced and available to CITA at the time CITA issued the calls. (See also comment 2.)

24. On page 59, we present one example from CITA's commentary (out of three examples provided by CITA) on the differences in prices within categories. All three examples presented similar scenarios. We determined that the example we chose provided the best illustration of the issue in question.

25. Table VII.1 presents data that CITA examines in order to support the two necessary conditions under ATC for a call: (1) total category imports are rising at a sharp and substantial rate and (2) domestic industry is being injured as a result. In addition to determining that a call is warranted under ATC, the importing country determines that individual countries are responsible for the increase in total category imports. To make such a determination, we believe the more relevant variable is country imports as a percentage of total category imports because it serves as a base-line. For example, a 20-percent increase in in country imports from a base-line of 2 percent is less significant than a 20-percent increase in country imports from a base-line of 10 percent.

26. See table note, page 70.

27. We were not given access to documents explaining why calls were not made. We note that imports from Egypt had risen and that Egypt was a larger supplier than some countries that were subject to quotas, yet Egypt was not called.

28. See page 73 for a discussion of CITA's use of revised data.

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