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THE NATIONAL COTTON COUNCIL OF AMERICA SUPPORTS THE NORTH AMERICAN FREE TRADE AGREEMENT

U.S. Cotton Supports NAFTA

The U.S. cotton industry, comprised of producers, warehousemen, ginners, merchants, cooperatives, cottonseed oil producers, and textile manufacturers, is on record in support of NAFTA. The U.S. cotton industry believes that–

- √ ***NAFTA will*** increase demand and exports of U.S. raw cotton, increasing farm income for cotton producers;
- √ ***NAFTA will*** increase demand for cottonseed and its products, helping the U.S. oilseed industry; and
- √ ***NAFTA will*** expand sales and demand for U.S. yarn and textiles produced from U.S. cotton.

The recent decline in Mexican cotton production and huge increase in U.S. cotton exports to Mexico has made the U.S. the primary supplier of cotton to Mexico, establishing a solid base for growth as economic expansion stimulates greater demand in Mexico.

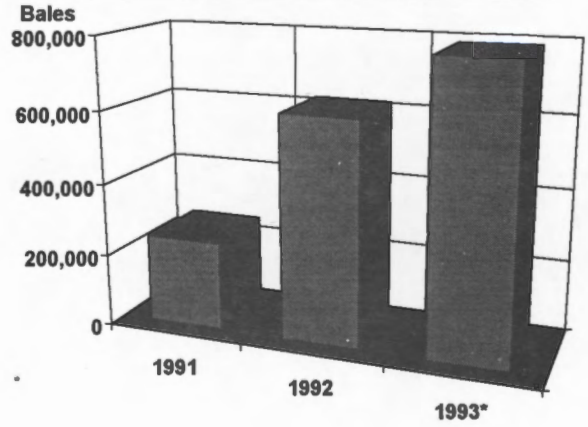
The expanding NAFTA market will discourage the movement of apparel manufacturing to Asia. Greater productivity and efficiency by U.S. workers, producers, processors and manufacturers should offset any advantage that may be achieved through lower labor costs in Mexico. For example, the Chairman of Springs Industries, a major U.S. textile manufacturer, anticipates adding more than 900 jobs in the U.S. to meet increased textile demand as a result of NAFTA.

The U.S. cotton, cottonseed oil, yarn, and textile producer can compete and win with those industries in Mexico, provided there is continued support in Congress and the Administration for an effective cotton program.

Expected Increase in Cotton Demand

If Mexican per capita cotton consumption (currently 5 lbs. per year) reaches world average (8.4 lbs. per year) in 10 years, domestic cotton consumption in Mexico would be about 2 million bales per year–compared with current consumption of 775,000 bales per year. The U.S. consumes 32 lbs. of cotton per capita. The U.S. cotton industry believes this increase is likely and is confident it can remain the primary supplier of cotton for this increased demand.

U.S. Cotton Exports to Mexico



*estimated

The U.S. cotton industry is determined to be a major supplier to the growing Mexican market. NAFTA gives the U.S. cotton industry the best opportunity for supplying apparel and other end use manufacturing industries with U.S.-produced cotton and its products.

NAFTA WILL BE GOOD FOR U.S. COTTON!

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BACKGROUND ON NAFTA PROVISIONS AFFECTING COTTON

NAFTA PROVISIONS

Tariffs on cotton, cottonseed, cottonseed oil and textile imports into each country will be phased out over various periods of time, with all tariffs reaching 0 within 10 years. This will open the Mexican market even more to U.S. exports. Favorable tariff treatment for textiles is available only with respect to "NAFTA origin" textiles.

NAFTA calls for the current cotton quota with Mexico of 18,100 bales to be replaced with a tariff rate quota under which about 46,000 bales would be allowed entry into the US duty free during the first year of the agreement. Any imports of raw cotton above that amount would face a tariff of 26% ad valorem, or around 16.5 cents per pound. The 46,000 bale tariff rate quota would be increased at a rate of 3% per year, and the tariff would be phased out over 10 years. By the 10th year of this agreement, there will no longer be any quota or tariff in place to restrict raw cotton trade between the U.S. and Mexico.

All quotas on imports of "NAFTA origin" textile products from Mexico and vice versa will be ended immediately upon ratification of the agreement. Quotas on other textile imports from each country will be phased out.

With a few exceptions, textile products will be considered to be of "NAFTA origin" if the yarn from which the product was produced was spun in the NAFTA zone. Certain cotton knit fabrics and all cotton yarn must meet a fiber-forward rule of origin.

COTTON INDUSTRY INVOLVEMENT

The cotton industry has been involved in the NAFTA negotiations on two fronts--agriculture and textiles. The final agreement does not contain all of the provisions we supported. The National Cotton Council has consistently expressed concern about NAFTA's rule of origin for textiles. Our members uniformly agree that the cotton industry would be better served if NAFTA included a fiber-forward rule of origin instead of the yarn-forward rule that was adopted. Further, the NCC voiced its opposition to the tariffication of section 22 import quotas with Mexico. Despite our opposition, these quotas will be converted into tariff rate quotas in the final agreement. We are, however, supportive of the 16 cent initial tariff level which will be applied.

While the final agreement was not all the cotton industry wanted and some are concerned about its potential risks, the NCC, in supporting this agreement, determined that NAFTA would be an economic plus for the cotton industry. The NCC is supportive of efforts by the Administration and Congress to reduce any negative effects of NAFTA on U.S. jobs.

When the NCC leadership viewed NAFTA as a whole, it determined that the agreement, on balance, would be positive for the U.S. cotton industry.

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NAFTA Cotton and Cotton Products Border Provisions

Treatment of cotton and cotton products under NAFTA

Product	Current Mexican tariff	Mexican tariff under NAFTA	Current U.S. tariff	U.S. tariff under NAFTA
cottonseed	duty free	no change	7%	immediately eliminated
cottonseed meal	15%	10 year phaseout	5%	immediately eliminated
cottonseed oil, crude	10%	10 year phaseout	6.6 cents per kg	5 year phaseout
cottonseed oil, refined	20%	10 year phaseout	6.6 cents per kg	5 year phaseout
linters	10%	10 year phaseout	none (subject to quota)	26%*
cotton lint (< 29mm)	duty free	no change	none (subject to quota)	26%*
cotton lint (> 29mm)	10%	10 year phaseout	none (subject to quota)	26%*

*first year; to be phased out; see chart below concerning upland cotton

Tariff Rate Quota for Mexico--Upland Cotton		
Year	**Quota Level (480 lb. bales)**	**Tariff applicable to upland imports over quota level (cents per lb.)**
Year 1	46,000	16.00
Year 2	47,380	14.40
Year 3	48,801	12.80
Year 4	50,265	11.20
Year 5	51,773	9.60
Year 6	53,327	8.00
Year 7	54,426	6.40
Year 8	56,571	4.80
Year 9	58,271	3.20
Year 10	60,020	1.60
Year 11	Unlimited	0.00

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BACKGROUND
RULE OF ORIGIN FOR TEXTILE PRODUCTS

The primary feature of the NAFTA textile agreement is the elimination of textile quotas and a phasing out of tariffs on all NAFTA-produced textile products. Quota elimination will happen immediately upon implementation of the agreement with respect to NAFTA-zone produced textile products and over a 10 year period with respect to other textiles imported from Mexico.

Tariffs will be phased out either immediately, over a 6 year period, or over a 10 year period, depending upon the import sensitivity of the textile product. The favorable NAFTA tariff treatment will be accorded to NAFTA-zone produced textile products, to be determined using a "yarn-forward" rule of origin for most products.

With respect to cotton, an article will be considered produced in the NAFTA zone if–

- in the case of cotton yarn and cotton knit fabrics, the **fiber** was produced in the NAFTA zone;
- in the case of most cotton woven fabrics, apparel, mill-finished products, and most cotton/man-made blends, the **yarn** was produced in the NAFTA zone; and
- in the case of cotton luggage, handbags, flat goods, coated, laminated, or impregnated fabrics, the **fabric** was woven in the NAFTA zone. [See Attached Table on Rule of Origin]

There are a few cotton textile articles which will be subject to a "single substantial transformation" rule. These are mainly articles which are in short supply in the NAFTA zone. There are also certain quantity-specific exemptions called tariff-rate quotas that will be allowed each country according to an agreed upon schedule.

The NAFTA rule of origin is not as restrictive as the fiber-forward rule advocated by NCC. However, the yarn-forward rule that was negotiated is much more restrictive than the rule of origin that existed under the original Canada/U.S. Free Trade Agreement.

Is the rule of origin enforceable? Enforceability of any agreement with such complex rules of origin will necessarily be a problem. However, NAFTA contains provisions that allow U.S. Customs Service officials to make on-site inspections of Mexican exporters believed to be violating the agreement. The rules of origin are to be reviewed within 5 years, for the purpose of tightening or loosening them. Such a determination should primarily depend upon the availability of a particular fabric within the zone.

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NAFTA RULES OF ORIGIN FOR TEXTILES

Item in Box must be produced in the NAFTA ZONE ...

...if item to be imported is to receive favorable tariff treatment

Components of Imported Item			Item to be Imported	Tariff Classification
Staple Fiber			Yarn	5106-5110 Wool Yarn
Staple Fiber			Yarn	5204-5207, Cotton Yarn
Staple Fiber			Yarn	5508-5511 Man-made staple yarn
Staple Fiber	Yarn		Fabric	5111-5113, Woven Wool Fabric
Staple Fiber	Yarn		Fabric	5208-5212, Woven Cotton Fabric
Staple Fiber	Yarn		Fabric	5512-5516, Woven MMF Fabric
Cotton, Wool MMF Staple	Yarn		NonWoven	Chap. 56, Wadding, Felt & Nonwovens
Staple Fiber	Yarn		Carpets	Chap. 57, Carpet & oth. tex. floor cover.
Cotton, Wool MMF Staple	Yarn		Fabric	Chap. 58, Special Woven Fabrics
Staple Fiber	Yarn		Fabric	Chap. 59, Coated Fabrics
Cotton Wool MMF Staple	Yarn		Fabric	Chap. 60, Knit Fabric
Staple Fiber	Yarn	Fabric	Apparel	Chap. 61, Knit Apparel
Staple Fiber	Yarn	Fabric	Apparel	Chap. 62, Woven Apparel
Cotton, Wool MMF Staple	Yarn	Fabric	Misc. Made-Ups	Chap. 63 Other Made-ups

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POTENTIAL EFFECTS OF NAFTA ON THE US TEXTILE INDUSTRY

A significant majority of the U.S. textile industry is strongly in favor of NAFTA, believing it will benefit them in several ways:

1. The U.S. textile industry is in a good position to supply the growing "NAFTA market" with yarns and fabrics. Mexican consumers' buying power should strengthen and demand there should increase. Further, the productivity and efficiency of U.S. textile operations offsets concerns about lower wages in Mexico. For example, the Chairman of Springs Industries told the Senate Committee on Commerce, Science and Transportation that he anticipates adding more than 900 jobs in the U.S. to meet increased demand as a result of NAFTA.

2. If U.S. apparel manufacturing expands in Mexico (as it almost certainly will), the U.S. textile industry is the most likely supplier.

3. In the absence of a NAFTA, many experts predict a continued decline in apparel manufacturing and textile production in the US, with these industries likely shifting to Asia. The NAFTA may slow or end this trend by providing an alternative location for this manufacturing capacity, namely Mexico, and by providing increased demand for textile and apparel products. U.S. textiles will be more competitive in the Mexican market than the Asian market. Without NAFTA, the U.S. market could increasingly be served by Asian countries that maintain significant barriers to U.S. exports and source a significant percentage of their raw cotton from countries other than the U.S.

4. It is likely that Hong Kong and other Asian-based companies will invest more heavily in manufacturing concerns in Mexico as a way to maintain entre into the US market, free of trade disputes between the US and China. Asian ownership notwithstanding, these apparel companies would most likely find U.S.-produced yarns and fabrics to be highly competitive.

5. NAFTA could help U.S. textiles by offsetting losses expected if the GATT negotiations governing textiles are concluded in their current form.

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THE NAFTA DEBATE

The North American Free Trade Agreement was formally concluded in December 1992 by President Bush and the governments of Mexico and Canada. After his election, President Clinton negotiated side agreements with Canada and Mexico to augment portions of the original agreement thought insufficient. The side agreements were completed in August 1993 and deal with issues concerning the environment, labor, and import surges.

The NAFTA is not a self-executing treaty. Therefore, legislation implementing its provisions must be passed by Congress. That legislation is being developed in negotiations between the Administration and Congress. The target deadline for a vote on NAFTA legislation in the House of Representatives is November 17, 1993, with a Senate vote expected shortly thereafter.

The Board of Directors of the National Cotton Council adopted the following resolution supporting the North American Free Trade Agreement at their Board of Directors meeting held on September 22, 1993, in Scottsdale, Arizona:

> *The National Cotton Council urges the implementation of the North American Free Trade Agreement, as that trade agreement would accord the U.S. cotton, textile and apparel industries the best opportunities, by virtue of location, trading rules or other factors, for supplying apparel and other end use manufacturing industries, wherever located, with U.S.-produced raw cotton, cottonseed and its products, and U.S.-produced textiles.*

NCC President, Neely Mallory stated that "when the Board viewed the NAFTA as a whole, it determined that the agreement, on balance, met the requirements of the NCC resolutions, namely, that the agreement gives the U.S. cotton industry the best opportunity for supplying apparel and other end use manufacturing industries with U.S.-produced cotton and its products." The cotton industry has consistently expressed concern about NAFTA's rule of origin for textiles and the final NAFTA met with opposition from some cotton producers who were concerned about its potential risks.

Mallory said the Board's primary concern was whether NAFTA would be good for U.S. cotton. "Additionally, we hope that going on record in support of NAFTA will enable the cotton industry to influence the implementation of the agreement as well as future issues that might arise, including expanding NAFTA to cover other countries," Mallory stated.

The vote on passage is expected to be extremely close. The primary opponents of NAFTA include labor, many environmental interests, Ross Perot and some agricultural sectors, primarily fruits, vegetables, sugar and peanuts. Supporters of NAFTA include business and a broad-based agricultural coalition including cotton, oilseeds, dairy, beef, and feed grains. There are others who support the agreement primarily on foreign policy grounds, namely, that the agreement will be beneficial to Mexico, both economically and politically, and should be approved.

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