Mr. Chairman and members of the Committee. My name is Robert McLendon. I own and operate a diversified farming operation in Leary, Georgia. I am a past President of the National Cotton Council of America and Southern/Southeastern, representing Cotton Growers and ginners. I am pleased to be here today to discuss the Central America Free Trade Agreement.

Since the very early stages of the Central America negotiations, the National Cotton Council has been involved in the process with respect both to cotton fiber and cotton textiles. After over a year of evaluation and discussion within the industry and with the Administration, the National Cotton Council voted to support this agreement and urges its adoption.

For simplicity today, I will refer to the Dominican Republic - Central American Free Trade Agreement as CAFTA.

The U.S. cotton industry cannot view CAFTA in isolation. It is a part of an important effort to enhance the competitiveness of cotton fiber and cotton textiles and apparel produced in the Western Hemisphere. It is also part of a continuing evolution that began with the North American Free Trade Agreement, was partially extended into the Caribbean by Caribbean Basin trade initiatives, and will now be fully incorporated into trading patterns by the acceptance of this agreement.

It is critically important to the U.S. textile industry that there be a sustainable, effective Western Hemisphere platform for the efficient transformation of cotton fiber into apparel products. While China is a valuable trading partner for U.S. cotton, China is also a competitive earthquake for textile and apparel production throughout the world. Trade restrictions and safeguard actions are important, but only short-term responses to the competitive inequality that exists today. The only long-term answer lies in improving our competitiveness. Enactment of this agreement improves our ability to do that.

In short, if the production of cotton textiles is to continue in any significant amount in the United States, we must nourish cut-and-sew operations near our shores. A CAFTA nourishes those operations by giving them duty-free access to our market. It nourishes our yarn and cloth operations by tying that duty preference to the use of textiles made in the free trade zone.

I know this is a controversial agreement. I was deeply involved in industry discussions over another controversial agreement - the North American Free Trade Agreement. All over Georgia and the Southeast, cut-and-sew apparel operations were in opposition to that agreement - and many of those operations have gone out of business since NAFTA passed. However, the Council knew at that time that U.S. cut-and-sew operations were facing a new wave of competition from China and other producers - with or without NAFTA. It evaluated NAFTA within that international context and concluded that NAFTA was the only way the U.S. cotton industry could hope to meet this new competition. It also concluded, correctly, that fewer U.S. jobs would be lost with NAFTA than without it. NAFTA has been very beneficial to U.S. cotton. The decision of the Council to support that agreement has proven to be the correct one.

Likewise, the Council is convinced that CAFTA is another critical component in building a solid, Western Hemisphere manufacturing base for textiles and apparel.

COTTON FIBER CONSIDERATIONS

Failure to enact CAFTA would jeopardize a market that currently imports 200 thousand bales of U.S. cotton fiber and 2.5 million bales of cotton textile products produced by the U.S. textile industry. The agreement provides for the immediate elimination of bound tariff rates among the Central American participants, ensuring the continued access of US raw cotton fiber to CAFTA markets.

All CAFTA countries import cotton from the U.S., with only Costa Rica applying a small one percent duty. However, the WTO permits the imposition of duties as high as 60%. The agreement immediately eliminates all bound import duties on US cotton while phasing out U.S. tariff rate quotas over a 15-year period.

This Administration has taken a consistent approach to the opening of the U.S. cotton fiber market under free trade agreements. Imports of cotton fiber into the United States are currently subject to a tariff rate quota that typically goes unfilled. Under CAFTA, import restrictions and duties on cotton fiber will be phased out completely over the longest time-frame provided in the agreement.

The CAFTA countries only produce approximately 20 thousand bales per year, so increased imports of raw fiber to the US are not a concern. This limited domestic production and a 90 percent import market share by U.S. cotton fiber suggests that any growth in mill use in CAFTA countries will translate into additional imports of U.S. cotton fiber.

We support the approach on cotton fiber in this Agreement.

TEXTILE AND APPAREL PROVISIONS AND IMPACT

Textile and apparel provisions of CAFTA have been more controversial and were difficult to negotiate. Cotton is essentially an industrial raw material from which textiles and food products are produced. The U.S. cotton industry cannot evaluate a free trade agreement without considering its textile and apparel components. In today's world cotton market, textile and apparel trade is the most significant factor affecting price and demand.

Despite the shift in the demand base of US cotton from domestic use to exports, the US textile industry remains the number one customer for the U.S. cotton industry, consuming more than 6 million bales annually.

Of the 6.3 million bales of cotton currently consumed by U.S. textile mills, only about one-fourth is "dirt-to-shirt," meaning the cotton is grown in the U.S., spun into yarn here, made into fabric here, and finally made into consumer products in the U.S. The remaining three-fourths is dependent on cut-and-sew operations outside the U.S. -- primarily in Central America and Mexico -- and this dependence will continue to grow.

In 2004, the U.S. textile industry exported the equivalent of 2.5 million bales of cotton textile products to CAFTA countries. This is up from 1.6 million bale equivalents in 2001.

Conversely, in calendar year 2004 the U.S. imported 3.4 million bales of cotton textile products from CAFTA countries, with the almost 80% being made of U.S.-produced cotton fiber. We already have a healthy trade of cotton and cotton textile products - a trade that needs to be enhanced by enactment of CAFTA or we fear it will be eroded by outside competition.

The CAFTA builds upon the "one-way" trade preferences included in the Caribbean Basin Trade Partnership Act by extending duty-free access to the U.S. market beyond the scheduled 2008 expiration date of the earlier Act, fully opens the CAFTA market to duty free entry of US products, and removes restrictive quotas on knit apparel that could qualify for duty-free treatment under that Act and, by doing so, encourages additional investment and use of U.S.-produced yarn. The agreement will remove certain Central American import duties that are as high as 18% on some textile products.

As an agricultural raw product, our evaluation of the downstream aspects of a free trade agreement hinges on the applicable rule of origin. With the conclusion of NAFTA, the cotton industry has generally supported what is referred to as a "yarn-forward" rule of origin, meaning that everything in an apparel garment, including the yarn, must have been produced in the free trade zone in order to benefit from the agreement. Each agreement contains exceptions to this rule, some more restrictive, some less restrictive.

CAFTA continues the use of a "yarn-forward" rule, and we support this approach. There are some exceptions to the rule that have proven controversial. For example, the agreement contains an exemption from the basic rule of origin for 100 million square meter equivalents of cotton and manmade fiber apparel from Nicaragua. It also provides for an exemption for a certain quantity of apparel products that contain components produced in Mexico. While the U.S. has a free trade agreement with Mexico, the CAFTA is not equivalent to a regional agreement and does not include Mexico as one of the participants.

Both of these exceptions, along with an exception for pocketing and linings and allowances for single transformation in the case of boxer shorts, nightwear and bras , undermine some of the benefits of this free trade agreement, particularly with respect to U.S. producers of products that compete directly with products that have been granted the exemption. But even with these exceptions, this agreement contains fewer exceptions to the basic rule of origin that most other free trade agreements we have in place.

CAFTA also contains stricter Customs enforcement provisions that NAFTA. These enforcement provisions allow U.S. Customs to send "jump teams" to Central America to conduct surprise onsite visits to help counter transshipments and allows Customs to deny entry to suspect goods. CAFTA also includes a special textile safeguard provision, allowing the U.S.

to re-impose tariffs on apparel products if there is injury due to import surges.
The Administration has indicated it will take the concerns of the textile industry into consideration during implementation of the agreement and will work with the industry to ensure the agreement enhances the overall competitiveness of the U.S. textile industry.

Mr. Chairman, after carefully weighing all of these issues, the National Cotton Council concluded that overall this agreement will be helpful to the U.S. cotton industry. We also believe, Mr. Chairman, that failure to enact this agreement will harm our long-term competitiveness.

The Council is joined in this endorsement by the National Council for Textile Organizations, the American Fiber Manufacturers Association, the American Textile Machinery Association, the Carpet and Rug Institute, and INDA, the primary association representing the nonwoven fabrics industry.

CONCLUSION

In conclusion, I would like to put this agreement into a long-term context. I have told you today that the maintenance of a viable trading platform in the Western Hemisphere is critical to the survival of the U.S. cotton textile industry. Such a platform provides the best means of competing with textile products sourced from Asia, primarily China.

However, many of these high volume cotton textile products cut-and-sewn in CAFTA countries using yarns and fabrics sourced from the U.S. will be cost competitive with the same products sourced from Asia only if:

* The products from CAFTA countries enter the U.S. duty free; and

* The products from Asia continue to pay duties at the current rate

CAFTA is a critical part of our strategy to retain a competitive U.S. cotton and cotton textile industrial complex.
This strategy could be undermined, however, by ill-advised, excessive reductions in textile duties in the context of the Doha negotiations. For U.S. cotton, the benefits of CAFTA are linked to other trade decisions that are yet to be made.