REQUEST FOR TEXTILE AND APPAREL SAFEGUARD ACTIONS ON IMPORTS FROM CHINA

COTTON AND MAN-MADE FIBER UNDERWEAR (CATEGORIES 352/652) IMPORTED FROM

THE PEOPLE'S REPUBLIC OF CHINA

filed October 15, 2004

Authority for Action: Section 204 of the Agriculture Act of 1956, as amended, and §11.242 of the Report of the Working Party on the Accession of China to the World Trade Organization.

Subject of Petition: Imports of cotton and man-made fiber underwear from China, classified as Categories 352 and 652 by the U.S. Textile and Apparel Category System.

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A. INTRODUCTION

This Petition is filed requesting action under the authority of § 204 of the Agriculture Act of 1956, as amended, and § 11.242 of the Report of the Working Party on the Accession of China to the World Trade Organization with respect to imports of cotton and man-made fiber underwear (classified in the U.S. Textile and Apparel Category System as Categories 352 and 652, the "subject products") of Chinese origin. The Committee for the Implementation of Textile Agreements (CITA) is hereby requested to take all appropriate steps in order to avoid market disruption in 2005 with respect to imports from China of such products. Petitioners submit that such market disruption can only be avoided by the timely imposition of limitations on imports of the subject products from China according to the provisions of Section 11.242 of the Report of the Working Party and the guidelines issued by the Committee for the Implementation of Textile Agreements (68 F.R. 27788 (May 21, 2003).

Upon the lifting of quotas on January 1, 2005, the U.S. market will experience an increase in imports of the subject products from all sources. These increasing imports threaten the U.S. with market disruption, and imports of the subject products from China will play a role in that increase and in the threat of market disruption. Imports of the subject products have increased and will increase in 2005.

This petition establishes:

- That imports will increase in 2005 as a result of the lifting of quotas;
- That imports from China will play a role in that increase;
- That the increase in imports will contribute to a decline in U.S. production of the subject products and a decline in U.S. market share;
- That the U.S. market for the subject products will be disrupted in January and throughout 2005 by increasing imports of the subject products; and
- That imports of the subject products from China play a role in the threatened market disruption to the U.S. market.

By demonstrating the threat of market disruption and the role of Chinese imports in that disruption, Petitioners have established sufficient grounds for action to be taken under section 11.242 of the Report of the Working Party. The imminent threat of substantial increases in imports of the subject products from China and of market disruption will impede the orderly development of trade in the subject products.

This Petition is filed on behalf of organizations[1] which represent U.S. manufacturers and workers involved in the production of apparel and components of apparel (including fabric). Some of these organizations' members produce products like or directly competitive with the subject products. The production of the subject products occurs in the United States and under outward processing arrangements.

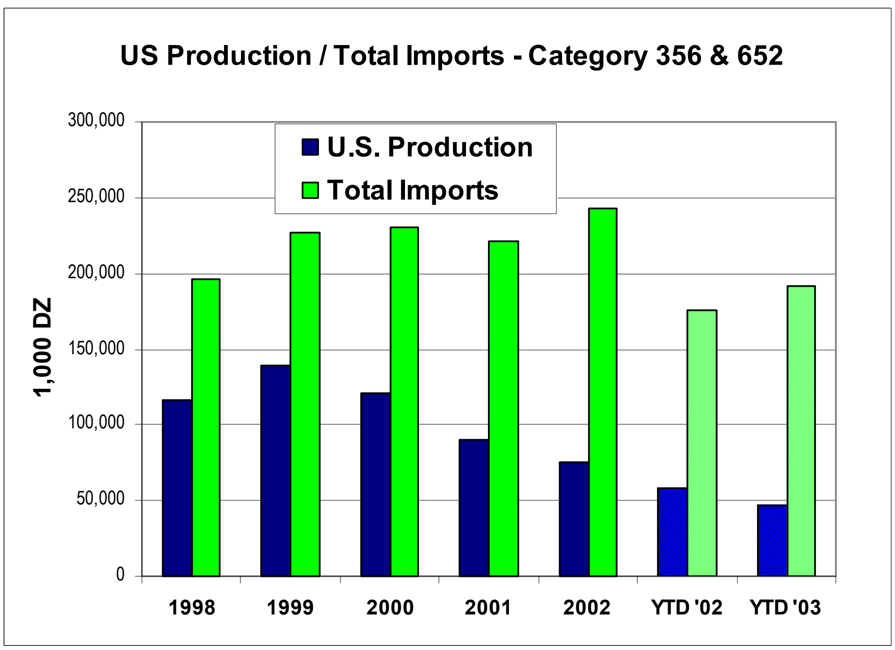
[1] A description of each organization and its membership is included in section C of this report and in Exhibit 1.

B. SUMMARY OF THE CASE

This petition proves that total imports of the subject products into the United States will rise upon the expiration of quotas on January 1, 2005. Imports from the People's Republic of China will play a role in the rise of overall imports in the subject product categories. As a result of these rising imports, U.S. production of the subject products will decrease. Consequently, the percentage of U.S. market share held by domestic producers will also decline and there will be disruption to the U.S. market.

It is evident that imports of the subject products into the United States will increase because 1) imports of the subject products are currently increasing; 2) the removal of import quotas on January 1 will provide greater opportunity for imports to increase; 3) in all other textile or apparel categories where quotas have been removed, imports have increased; 4) the price of imports typically falls after import quotas are removed, making them more attractive in the U.S. market; and 5) the world's textile and apparel producing countries continue to build capacity.

Imports of the subject products into the United States have risen by 12.7 percent since 1999 and will continue to increase when import limitations are removed on January 1, 2005. Increasing imports of the subject products threaten to disrupt the U.S. market and impede the orderly development of trade in the subject products. U.S. production of the subject products has declined by 36 percent since 1998.[2]



In this regard, the petition provides evidence that China is well-positioned to play a role in the increase of imports from the world into the United States in the subject product categories. China is already a major producer and exporter of the products in question. China filled its import quota for the subject products or has had very high fill rates in every year for which data is complete.

[2] The percentage increase is based off of a full year's production for the years 1998 through 2002 - the last year for which full production data is available.

The petition demonstrates that China is increasing its textile and apparel production capacity at unprecedented rates. Chinese government statistics reveal that China has invested $21.2 billion in its textile and apparel operations over the past three years.

China's ability to penetrate and capture world markets is substantially aided by the existence of numerous unfair trading practices. For example, China's ability to undercut the prices of its competitors, including U.S. producers, is a direct result of its resort to unfair trade practices, such as the manipulation of its currency, direct state subsidization, export tax rebates and the proliferation of non-performing loans - many of which are in the textile and apparel sectors. All of these practices have enabled China to undermine free market conditions and give it substantial capability to disrupt world markets, including the United States.

China’s ability to disrupt the U.S. market is clearly evident from recent quota removal experience. In virtually every apparel category where quotas were removed in 2002, China has increased its imports to the U.S. substantially, while cutting prices dramatically. In addition, in overseas markets similar to the United States where China has not faced quota restraints, it has moved quickly to dominate those markets.

Further reinforcing the threat of disruption is the fact that the financial condition of the U.S. industry producing the subject products has worsened, with recent declines in virtually every measure of financial health, including declines in sales, volume, production, employment, and capacity utilization.

Virtually every independent study or report that has considered the quota removal issue has come to the same conclusion - China textile and apparel exports to the U.S. will accelerate dramatically after quotas are lifted.

Historical trends, current levels of import, price considerations, recent history in other textile and apparel categories where quotas were lifted, examples from other markets where quotas were lifted, productive capacity, retail business operations and voluminous studies by experts and market participants demonstrate conclusively that imports of the subject products from China will surge after quotas are lifted.

Implementation of appropriate limitations in January 2005 as provided for in paragraph 11.242 of the Working Party Report is the only avenue by which CITA can avoid market disruption and the disruption of the orderly development of trade due to imminent increases in imports from China and the world.

C. PETITIONERS

Petitioners are trade associations and unions which are representative of either domestic producers of products that are like or directly competitive with the subject products or of domestic producers of a component used in the production of products that are like or directly competitive with the subject products.

This Petition is filed on behalf of the following organizations[3] which represent U.S. manufacturers of cotton and man-made fiber underwear and trouser components (including fabric):

The National Council of Textile Organizations (NCTO)	The American Manufacturing Trade Action Coalition (AMTAC)
The National Textile Association (NTA)	UNITE HERE!

D. PRODUCT DESCRIPTION

This Petition is brought with respect to U.S. imports of cotton and man-made underwear of Chinese origin and includes all such products which are classified within categories 352 and 652 of the U.S. Textile and Apparel Category System.

The subheadings of the Harmonized Tariff Schedule of the United States applicable to Categories 352 and 652 are set out in Exhibit 2.

Imports classified in categories 352 and 652 were covered by the WTO Agreement on Textiles and Clothing as of the date the WTO Agreement entered into force and are under quota restraints until January 1, 2005. The U.S. quota on imports of the subject product from China has grown from 4.6 million dozen in 1999 to 5.1 million dozen in 2003. Data from OTEXA[4] indicates that China has filled 93% of this merged category's quota as of October 6th.

Imports of the subject product compete directly with products produced in the U.S. market that are classified as categories 352 and 652.

E. IMPORT DATA

As required by the guidelines issued by CITA, this section provides import data concerning the subject products from all sources and from China.

With respect to total imports, the data shows significant increases in the subject products with total imports rising by 12.7% from 1999 to 2003. Imports from China of the subject products have been restrained by a quota. China has had very high fill rates under its quota for the subject products in every year since 1999.

[3] A description of each organization and its membership is included in Exhibit 1.

[4] Office of Textile and Apparel, International Trade Administration, U.S. Department of Commerce.

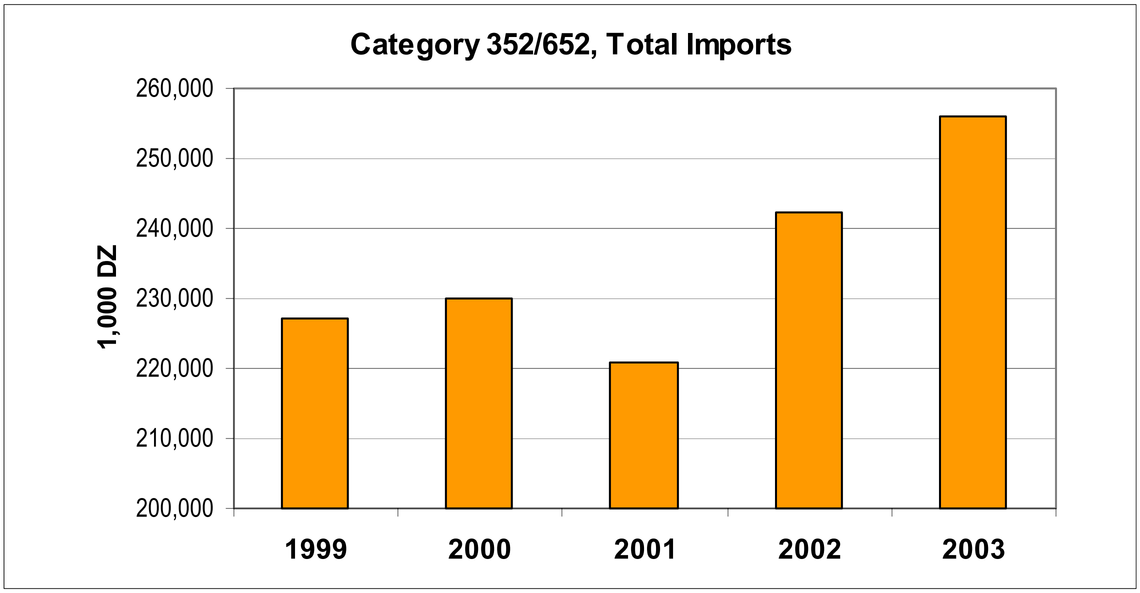
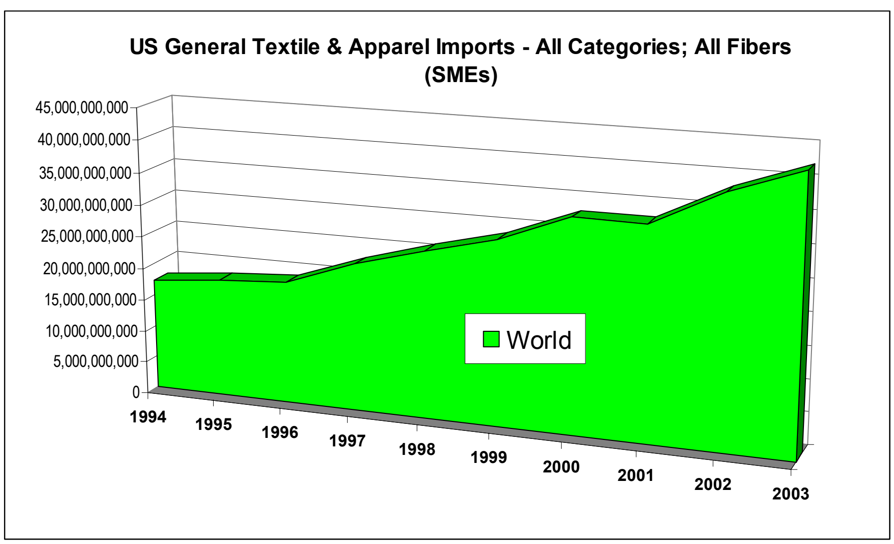


Chart 1 - Total US Imports 352 and 362

Imports from China of the subject products on a year-to-date basis for 2004 are entering the U.S. at approximately the same rate as in previous years. Imports of the subject products from China have risen by 8 percent since 1999, despite being under quota. Imports of the subject products from China are not expected to increase rapidly in 2004 due to several factors: 1) Imports of the subject product from China remain subject to quota; 2) CITA has announced it may not allow entry into the United States of any product shipped before January 1, 2005, unless such product is covered by a quota visa; 3) CITA has announced it will not allow any over-shipment of quota in 2004; and 4) CITA has precluded any carry-forward provisions for 2005. These actions have encouraged China not to increase its exports of the subject products to the United States until January 1, 2005.



Imports of the subject product, in general, are likely to rise significantly once quotas are removed.

First, imports into the United States of all categories of textile and apparel have consistently increased for the last 10 years.

Second, imports surged in most product categories once quotas were removed. For example, according to data compiled by the Department of Commerce, imports of apparel from the world surged following the removal of quota restraints on 25 apparel categories on January 1, 2002. Imports in these categories increased by 60 percent

(675 million square meters) in two and one-half years. China played the overwhelming role in this increase, with imports increasing by 1 billion square meters while apparel imports from other countries declined by 369 million square meters. By June 2004, China's share of these apparel imports rose to 72 percent from 10 percent in 2001 while the share held by the rest of world fell from 90 percent to 28 percent.

Third, given the high value added of the subject products and high corresponding fill rates for quotas imposed on these products, it is even more likely that imports from the world will increase once quotas are removed.

Imports of the subject products, despite being constrained by quotas, have risen every year since 1999, except 2001.

China imports will undoubtedly play a role in the overall increase in imports of the subject products. As discussed more fully in section H below, the combination of China's productive capacity in textile and apparel, its commitment to its textile and apparel sectors, its use of unfair trade practices, its performance in other apparel categories and in other, similar, apparel markets, and a virtually unanimous chorus of opinions by experts in the textile and apparel field conclusively demonstrate that imports of the subject products into the U.S. from China will increase after January 1, 2005.

The lifting of quotas on January 1, 2005, threatens the outward processing component of the U.S. market for the subject products with market disruption and threatens to disrupt the orderly development of this portion of the U.S. market.[5]

[5] See discussion concerning outward processing, *infra*, section I-2.

1. Table Showing Total US Imports

Total Imports		Category 352/652 Quantity (1,000 DZ)	Value (000's U.S. Dollars)
5 Full Years	1999	227,180	$2,997,728
	2000	229,884	$3,053,371
	2001	220,921	$2,869,821
	2002	242,402	$3,078,158
	2003	255,977	$3,146,099
YTD	YTD '03	148,578	$1,820,292
January - July	YTD '04	133,787	$1,623,679
Quarterly Data	1Q '03	58,530	$727,824
	2Q '03	64,476	$782,720
	1Q '04	57,451	$727,384
	2Q '04	55,032	$647,947

2. Table Showing Imports from China into the US

Imports From China		Category 352/652 Quantity (1,000 DZ)	Value (000's U.S. Dollars)
5 Full Years	1999	4,988	$104,579
	2000	4,423	$98,529
	2001	5,394	$110,009
	2002	4,446	$103,844
	2003	5,394	$120,126
YTD	YTD '03	2,993	$63,304
January-July	YTD '04	2,939	$72,532
Quarterly Data	1Q '03	1,080	$24,136
	2Q '03	1,297	$26,799
	1Q '04	1,256	$29,966
	2Q '04	1,280	$32,814

China Quota Performance		Category 352/652		
		Quantity (1,000 DZ)	*Quota Limits (1,000 DZ)*	Percent quota filled
5 Full Years	**1999**	4,554	4,646	98.02%
	2000	4,630	4,721	98.07%
	2001	4,955	4,955	100.00%
	2002	4,962	4,962	100.00%
	2003	5,032	5,115	98.38%
YTD as of 10/6	**2004**	3,829	4,094	93.53%

Source: 1999-2003 data from China Performance Reports available at http://otexa.ita.doc.gov/chinaperform.htm. YTD 2004 data from U.S. Customs and Border Protection Textile Status Report for China accessed at http://www.customs.gov/quotas/files/cntxtrpt.htm.

F. PRODUCTION DATA

The production of the subject product is a significant component of the U.S. textile and apparel manufacturing sectors. The U.S. produced 624 million square meters of the subject products (categories 352 and 652) during the October 2002-September 2003 period and nearly 75 million dozen in 2002 - down by almost 64 million dozen from the level produced in 1999.

US Production of Textiles and Apparel - Top 10 Categories (Ranked based on YE Sept. 2003 data)

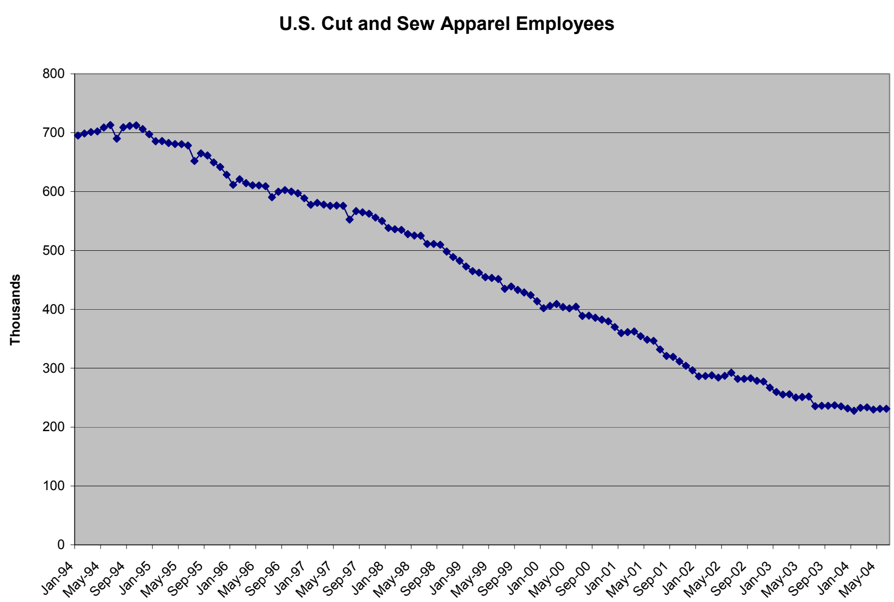
Category (top 10)		**Estimated US Production YE Sept. 2003** (million square meters equivalent)	**Amount of Production - Thousand Dozen**				
			1999	**2000**	**2001**	**2002**	**YE Sept. 2003**
347/348	Cotton Trousers	682	64,472	58,643	51,928	49,864	45,788
352/652	Underwear	642	138,714	121,029	90,293	74,856	63,112
332/432/632-part	Socks	631*	209,774	214,968	207,321	184,820	166,056
338/339	Cotton Knit Shirts & Blouses	489	108,471	110,050	96,947	78,579	81,531
336/636	Dresses	349	16,172	13,839	10,577	10,481	9,212
638/639	MMF Knite Shirts & Blouses	234	21,204	17,328	16,800	17,176	16,731
647/648	MMF Trousers	200	19,444	18,502	18,345	13,936	13,391
351/651	Pajamas & Other Nightware	133	5,515	4,888	4,860	3,690	3,050
340/640	Men's and Boys' Woven Shirts	107	8,680	9,528	7,209	6,063	5,339
341/641	Women's & Girls' Woven Blouses	107	13,497	13,625	11,379	10,616	8,813

* Ranking is based on year ending September 2003 production multiplied by the applicable conversion factor in the Correlation, the official OTEXA publication used to categorize textile imports. The U.S. sock production figure used is for calendar year 2003, since production data are not available from OTEXA's I/P book.

U.S. production of the subject products has declined each year since 1998, and in 2002 was nearly 36% below 1998 production levels. The latest data also shows a continuation of that trend in the first three quarters of 2003, with year-to-date production down as well.

U.S. Production		**Category 352/652 Quantity (1,000)**
5 Full Years	**1998**	116,581
	1999	138,714
	2000	121,029
	2001	90,293
	2002	74,856
YTD	**YTD '02**	58,553
January - Sept.	**YTD '03**	46,809
Year Ending	**Sept. 02**	78,521
	Sept. 03	63,112

According to the Bureau of Labor Statistics, the U.S. cut and sew apparel manufacturing sector employed an average of 703,800 people in 1994. By 2003, the number of employees in this sector had declined to an annual average of 244,600.



G. MARKET SHARE DATA

In every year between 1999 and 2002 (the last full year reported), the U.S. industry's share of the U.S. market of the subject products has declined, while import market share has increased. U.S. market share for year-to-date 2003 is below 20 percent. China's share of the U.S. market has very slightly increased over this time period, despite the existence of import quotas on the subject products.

Compiled Data / Prod. & Imports		Category 352/652 (Quantity = 1,000 DZ) US Production	Total Imports	Total Domestic Market	China Imports
Calendar Years	1998	116,581	196,270	312,851	4,141
	1999	138,714	227,180	365,894	4,988
	2000	121,029	229,884	350,913	4,423
	2001	90,293	220,921	311,214	5,394
	2002	74,856	242,402	317,258	4,446
YTD	YTD '02	58,553	175,327	233,880	3,208
Jan - Sept	YTD '03	46,809	191,371	238,180	4,039
YE	YE '02	78,521	234,951	313,472	4,189
Sept	YE '03	63,112	258,446	321,558	5,277

Compiled Data / Market Shares		Category 352/652 (% of total market based on quantities) U.S. Market Share (% of total market)	Import Market Share (% of total market)	Total Domestic Market (1,000 DZ)	China Mkt. Share (% of total market)
5 Full Years	1998	37.26%	62.74%	312,851	1.32%
	1999	37.91%	62.09%	365,894	1.36%
	2000	34.49%	65.51%	350,913	1.26%
	2001	29.01%	70.99%	311,214	1.73%
	2002	23.59%	76.41%	317,258	1.40%
YTD	YTD '02	25.04%	74.96%	233,880	1.37%
Jan - Sept	YTD '03	19.65%	80.35%	238,180	1.70%
YE	YE '02	25.05%	74.95%	313,472	1.34%
Sept	YE '03	19.63%	80.37%	321,558	1.64%

H. THE THREAT OF INCREASED IMPORTS FROM CHINA

There is strong and compelling evidence from many sources that imports of the subject products from China will increase when quotas are removed on January 1.

1. Growth in textile and apparel production capacity in China has occurred at an astounding rate, demonstrating the country's commitment to accelerated market share in textiles and apparel worldwide;

2. China has moved quickly to dominate the market in virtually all apparel categories removed from quota control;

3. China has engaged in significant price cutting in order to rapidly accumulate orders in every category removed from quota in the U.S. market;

4. There is a general agreement by academicians, analysts and international institutions that China will dominate world trade in apparel, and particularly the U.S. market;

5. There have been consistent statements by executives from major suppliers, retailers and sourcing agents that China will dominate world trade in apparel, and particularly the U.S. market;

6. In other developed markets similar to the United States where quotas were removed, China moved quickly to dominate them; and
7. China continues to engage in a variety of unfair trade practices, including currency manipulation, that allow Chinese textile and apparel manufacturers to undercut U.S. and other competitors' prices.

1. Growth in China's Productive Capacity for Textiles and Apparel

China's capacity to produce the subject products and other apparel products has increased dramatically in recent years[6] and this increase will fuel growth in U.S. imports from China. China has been aggressively buying textile and apparel machinery for the past four years, in some cases consuming up to two-thirds of world production of textile machinery (i.e. broadwoven fabric looms). Chinese government statistics reveal that China has invested $21.2 billion in textile and apparel sector since 2001.

China's garment industry, already by far the largest in the world, has been expanding rapidly in order to take advantage of the removal of quotas. According to the CEIC Economic Database,[7] China's production of garments has expanded by 50 percent during just the past four years, growing from 6.9 billion pieces in 2000 to 10.3 billion pieces in 2003.

As noted by the International Trade Commission, the "size and performance of the world textile industry can be measured in terms of mill consumption of fibers, installed spinning and weaving capacity, and investment in new production equipment....there has been a shift of world yarn spinning and fabric weaving capacity from developed countries to developing countries in the past two decades. Most of the increase in production capacity has occurred in Asia, particularly China, which along with India, has the largest number of spindles and weaving machines in the world. Growth of spinning and weaving capacity in China and India has been facilitated by strong demand for their exports of downstream textile goods."[8]

The ITC report goes on to note that "mill fiber consumption in China far exceeded that of any other developing country .... China alone accounted for 29 percent (34.7 billion pounds) of the

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[6] "In 2001, China imported the advanced textile machinery in value of US$2.5 billion, 31.4% up as against 2000. And the textile machinery imports for the first half of 2002 has already reached US$1.3 billion, a 5.82% up against the same period of last year; 2001 saw an import of 5.9526 million tons of dyestuffs and textile chemicals, 22.75% up against 2000, and from 1-6 months this year, this import arrived at 3.69 million tons, 37.71% growth compared with the same period of last year." Statement of Mr. Du Yuzhou, President of China National Textile Industry Council (2002), as reported at http://www.cntextile.com/cntex/english2/2002_du.htm.

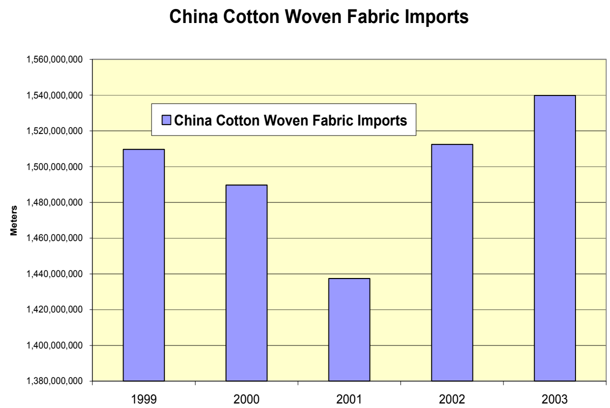
Also see, "The country's import textile machinery reached 4,372,090,000 US dollars in 2003, an increase of 24.26 percent over the previous year. Of this, import in December was 452.04 million US dollars, rising 27.6 percent over the previous month. The biggest importers of textile machinery were Zhejiang Province to reach 1,167,210,000 US dollars and Jiangsu Province to 1,118,070,000. The two accounted for 48.67 percent of the total, rising 3.6 percentage points over the previous year. ... Looms and knitting machinery took up the biggest part of the import, followed by spinning and dyeing and printing machinery. Import of looms was 921.40 million US dollars; knitting machine, 834.85 million US dollars; spinning machinery, 732.72 million US dollars, and dyeing and printing machine, 745.38 million US dollars. Import value of knitting machinery jumped 34.72 percent and the price increased 52.54 percent." *China's fast development of textile industry has spurred a fast growth of imports of textile machinery,* Xinhua Economic News Service*,* April 7, 2004.

[7] CEIC Data Ltd ("CEIC") has had over 12 years of well-regarded reputation in the financial information service industry, specializing in providing high quality, comprehensive databases, focusing on Asia economic, industrial and financial time series data.

[8] ITC Report, page 1-19.

world total in 2001; its mill consumption rose three times as fast as that for the world during 1997 through 2001 (39 percent versus 13 percent)."[9]

Mill use of cotton in China continues to skyrocket and is supplemented with significant purchases of cotton fabric and cotton yarn from around the world.



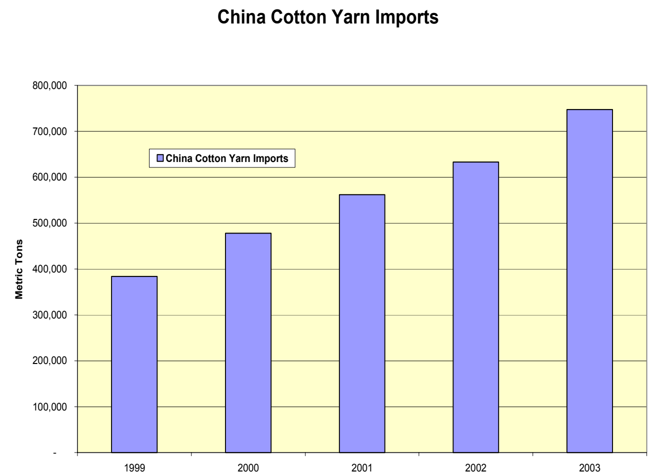
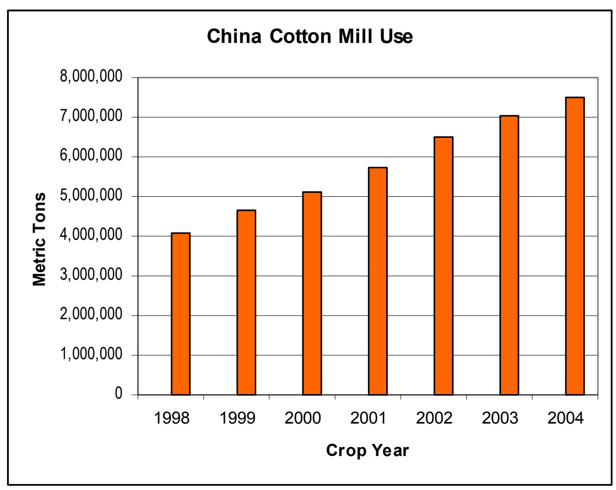


Chart 2- Source, Global Trade Atlas Database

China Cotton Mill Use
(Source: USDA/FAS PSD Database)

Crop Year	Metric Tons	Million Bales
1995	4,223,895	19.39
1996	4,343,645	19.94
1997	4,169,464	19.14
1998	4,071,487	18.69
1999	4,637,576	21.29
2000	5,116,574	23.49
2001	5,715,322	26.23
2002	6,510,024	29.88
2003	7,054,340	32.38
2004	7,511,566	34.48
	Increase since '98	84%



Man-made fiber production capacity grew by 18 percent during the 1990s in China and has continued on a dramatic pace since 2000. China's share of world polyester fiber capacity has moved from 26% in 2000 to 44% in 2004. The following table charts China's growth in polyester fiber capacity over the last 6 years and contains an estimate for 2005.

[9] *Id. See*, ITC discussion of Yarn and Fabric production Capacity, pp. 1-19 - 1-22 of the ITC Report.

China Polyester Fiber Capacity	
Year	***Thousand tons***
2000	7,300
2001	8,847 (+21%)
2002	10,354 (+17%)
2003	12,846 (+24%)
2004	15,835 (+23%)
2005	17,025 (+8%)
Source: PCI Consulting	

China is not just a significant producer of man-made fiber, but has imported and ever-increasing amount of man-made fiber from other sources to feed its growing man-made textile and apparel operations, having increased polyester imports from 832,000 tons in 2000 to 992,000 tons in 2003.[10]

According to a recent report in the China Textile Leader[11], the production of man-made fibers in China continues to rise at a torrid pace. In an article reporting chemical fiber production in China for the January - July period, it reported:

> *The chemical fiber production in China in the January-July period of 2004 totaled 7.97 million tons, up 27.02% over the same period of last year, according to the National Bureau of Statistics. The production of ... synthetic fibers 7.36 million tons, up 28.01%.*
>
> *According to the customs, China imported about 1.04 million tons of chemical fibers, an increase of 90,100 tons by 9.49% compared with the same period of last year. The import of ... synthetic fibers 997,300 tons, an increase of 74,500 tons by 8.07% compared with same period of last year. The production of major synthetic fibers is respectively as follows: polyester fiber about 6.34 million tons, up 30.72% compared with same period of last year, polyester chips 4.77 million tons, up 17.86%, polypropylene fiber 168,500 tons, up 11.07%, polyvinyl alcohol fiber 21,739 tons, up 8.33%, polyamide fiber 378,800 tons, up 20.98% and acrylic fiber 386,800 tons, up 8.99%.*

Petitioners attempted to discover the names and addresses of manufacturers of cotton and man-made fiber underwear in China. A search for manufacturers of underwear, however, returned a listing of a large number of companies requiring an additional 120 pages to print. Petitioners note this result in Exhibit 3, but did not attach this list due to its length. This list can be made available to CITA in electronic format.

In its 2004 Report to Congress, the U.S.-China Economic and Security Review Commission stated:

> China is continuing to attract massive levels of foreign direct investment (FDI), including $57 billion in 2003. Its policies to attract FDI have been supplemented by industrial policies aimed at developing national productive capacity in selected "pillar" industries. These policies support Chinese corporations through a wide range of measures that

[10] Source: China Customs Statistics.

[11] China Textile Leader, 10F China Textile Mansion 6 South Dongzhimen St., 100027 Beijing China, Tel: 86-10-64160494, Fax: 86-10-64159702, E-mail: info@texleader.com.cn.

include tariffs, limitations on access to domestic marketing channels, requirements for technology transfer, government selection of partners for major international joint ventures, preferential loans from state banks, subsidized credit, privileged access to listings on national and international stock markets, discriminatory tax relief, privileged access to land, and direct support for R&D from the government budget. Such policies give Chinese industry an unfair competitive advantage, thereby contributing to erosion of the U.S. manufacturing base. Many of these policies are not permitted under World Trade Organization (WTO) and U.S. trade rules.[12]

China has now overtaken the United States as the world's largest recipient of foreign direct investment.

Major Textile Machinery Imports		
Item	**2002 (in units)**	**% Change from 2001**
Automatic Spooling	1,186	23.54%
Rapier Looms	5,873	67.61%
Water-jet Looms	9,589	71.82%
Air-Jet Looms	14,963	108.31%
Washing, Bleaching, Dyeing Machines	4,582	51.82%

Source: China National Textile Industry Council,
2002/2003 Report on China Textile Industry Development

News reports consistently cite increases in the buildup of production capacity in China.[13]

- Chinese government statistics showed that last year there were 3,784 textile plants under construction in China, with $180 billion in outstanding planned investment and $78 billion poured into new production in 2003.[14]
- A new survey of Chinese apparel manufacturers by Global Sources, a large broker for many Chinese exports, found that 89 percent of them were planning to expand output after the global end of apparel quotas. Half the 215 companies surveyed planned to increase production capacity by 20 to 50 percent, and several other companies intended to expand capacity by more than 50 percent.[15]
- Total investment in the textile sector is up significantly in China. It is reported that there are 90 million people directly or indirectly employed in the Chinese textile industry.[16]

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[12] 2004 Report to Congress of the U.S.-China Economic and Security Review Commission, June 2004. The report is available online at http://www.uscc.gov/researchreports/2004/04annual.report.pdf.

[13] *See also, Gerber Technology Embarks on Chinese Expansion, just-style.com, September 24, 2004,* CAD/CAM supplier Gerber Technology has expanded its Advanced Technology Center in China in anticipation of a surge in business after quota phase-out.

[14] *China Surge Big Topic at Cotton Meet,* Women's Wear Daily, March 3, 2004.

[15] *U.S. Weighs Import Limits on China,* The New York Times, September 11, 2004.

[16] *China: Stick to WTO Rules, Commerce Minister Urges,* just-style.com, September 20, 2004.

China: Cumulative Fixed Asset Investment in the Textile Industry (Bil US$)

	Cumulative Annual Total	
	Amount	**% Change**
1999	1.64318	---
2000	2.48413	51.2%
2001	3.54893	42.9%
2002	4.34511	22.4%
2003	7.24306	66.7%
2004	5.99555	29.3%

Note: Excluding investment by rural collectives and urban and rural individuals.
Sources: State Development Planning Commission, National Bureau of Statistics and SIC.

2. China Dominates the Market in Textile Product Categories Previously Removed From Quotas

China consistently dominates trade in those textile product categories where quotas have been removed. U.S. Commerce Department data show that China increased its market share from 10 percent in 2001 (quotas still in place) to 72 percent as of year to date June 2004 with respect to categories where quotas had been removed. China's share is still increasing and is predicted to reach between 75 percent and 80 percent of the U.S. market by the end of the year.[17]

Imports from China in these product categories grew by 1,009 percent or 1.05 billion square meters during the two and half year period after quotas were removed. Imports by the rest of the world fell from a 90 percent market share to 28 percent while shipments by the rest of the world fell by 370 million square meters. The difference between of the rise in imports from China and the decline in imports from other suppliers – a difference of 635 million square meters – indicates that damage was inflicted both on U.S. domestic producers and other foreign suppliers.

China's share of the U.S. market increased dramatically in every single apparel category removed from quota control. China's lowest share in a product category in June 2004 was 42 percent of the market (category 630 - man-made fiber gloves); the highest was 100% (category 834 – men's vegetable fiber coats).

3. China Engages in Significant Price Cutting in Categories Removed From Quota

Once quotas are lifted, there will be significant price cutting with respect to imports from China, providing added incentive and push to its import growth. All the evidence points to a significant price decline in imports from China of the subject products once quotas are lifted in the United States. Price declines have been evident in other import categories where quotas have been lifted and have been evident in other markets where quotas were lifted on products from China.

U.S. Commerce Department data show that China dropped its prices by an average of 53 percent, with average prices falling from $6.23/square meter in 2001 (with quotas still in place) to $3.12/square meter for year-to-date June 2004.[18]

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[17] Results of a tracking study by the National Council of Textile Organizations (NCTO) on the impact of China on the apparel categories released from quota control in 2002.

[18] Results of a tracking study by the National Council of Textile Organizations (NCTO) on the impact of China on the apparel categories released from quota control in 2002.

China's prices dropped in every single apparel category removed from quota control, with the largest drop being 89% and the smallest drop being 4 percent. However, the 4 percent price drop occurred in a category (silk gloves) where China already had an 80 percent share of the market.

In the category with the 89 percent price drop (wool hosiery), China went from a 4 percent share of the U.S. import market to a 48 percent share in two and a half years.

Of the twenty five apparel categories that had quotas removed, China's prices were below average world prices in every single category except one, vegetable fiber knit shirts. However, China's prices only climbed above average world prices after the China had gained an import market share of 95 percent.

China's average price for cotton and man-made underwear imported during the 12-month period ending July 2004 was $24.22 per dozen. If China's price for the subject products declines at the same rate that prices fell in the apparel categories removed from quota in 2002 (53%), the price for the subject products will drop to $11.38 per dozen after January 2005. This predicted price decline on imports from China compares with an estimated average U.S. production price of $35 per dozen[19].

In several major subsets of the underwear category, China's ability to disrupt markets based on low prices is starkly defined. According to Kurt Salmon & Associates NTS report for 2005, Chinese prices for women's white cotton panties are projected at $.55 each compared to $1.03 for U.S. produced panties. In dyed cotton panties, KSA projects a price of $.60 per panties for goods sourced from China in 2005 compared to $1.09 from U.S.-sourced goods. Regarding men's white briefs, KSA expects a price of $.63 per brief from China, compared to a price of $1.04 per brief from the United States. And for dyed men's briefs, KSA expects a Chinese price of $.67 per brief compared to $1.09 per brief.

Data from Australia demonstrates China's ability to undersell other suppliers. As recorded by the Australian Bureau of Statistics, prices of imports of knit underwear into Australia from China are extraordinarily low, with Chinese underwear averaging $11.16/doz or $ .93 per piece of underwear in 2003-4. The Chinese price was 53% lower than the price for all other suppliers, which averaged $20.16/doz or $1.68 per piece of underwear. China supplies approximately 92 percent of the underwear market in Australia while all other suppliers provide 8 percent.

Petitioners submit that, absent implementation of timely threat-based safeguard action, similar price declines can be expected to occur for imports of the subject products when remaining quotas are removed on January 1, 2005.

4. Academicians, Analysts and International Institutions Agree that China Will Dominate World and US Trade in Apparel

The anticipated growth in imports from China is supported by a wide array of economic literature and independent studies. Virtually every study produced by private consulting groups, governments and international agencies has concluded that once quotas are removed China will

[19] This figure was derived based on the value of shipments for underwear and nightwear divided by the quantity of production as reported in the Apparel Fourth Quarter 2003, Current Industrial Report, U.S. Department of the Census

rapidly increase its share of world trade in apparel, and particularly the U.S. market. These studies include:

Goldman Sachs: "China's Textile/Apparel Manufacturing: The big bang in 2005," June 2004.

Goldman Sachs concludes that "without quotas, China's exports are set to expand immediately" and that "China has the ability to grow its textile and apparel exports rapidly once trade barriers are removed."

The Sachs study cites China's domination of similar sectors "such as footwear or toys or sporting goods – equally labor-intensive and low-value added" with Chinese market shares of 66 and 67 percent as an example of the kind of market control China can assert. The study also cites the development of a "complete food chain in textile and apparel manufacturing" in China and the likelihood that "once quotas are removed, wholesalers and retailers are likely to immediately consolidate their orders."

The study concludes that "we expect a rapid increase in textile and apparel manufacturing" from China and warns that "China is likely to have rapid market dominance in certain products, and exert tremendous price pressure and destructive power on other exporters as well as domestic manufacturers in the importing countries once quotas are removed."

The study also concludes that safeguard measures *based on market disruption* are not likely to be successful because of China's ability to rapidly capture market share. Sachs says that such safeguards may be approved but because "there is likely a lead time for China's exports to prove to be market disruptive, and by which time, China's exports in these product may already be very substantial.

World Trade Organization, Hilegunn Nordds: "The Global Textile and Clothing Industry post the Agreement on Textiles and Clothing," 2004

Nordds concludes "the predicted changes (from quota elimination) are a substantial increase in market shares for China and India, while previously unrestricted (no quota or non-binding quotas) countries will lose market share as well as *local producers in North America* and the European Union." [emphasis supplied]

Using a GTAP general equilibrium model, Nordds predicts that China (including Hong Kong) "triples its share" and takes a 56 percent share of the U.S. import market for apparel while the Mexico and the rest of Latin American loses 70 percent, with the Mexican share falling to 3 percent (from 10 percent) and the South and Central American share falling to 5 percent (from 16 percent).

Nordds also notes the consensus view among researchers: "Most analyses of the phasing out of impact of the ATC conclude that China and India will come to dominate world trade in textiles and clothing, with post-ATC share of China alone estimated at more than 50 percent or more. This study replicates those predictions."

United States International Trade Commission, publication 3671: "Assessment of the Competitiveness of Certain Foreign Suppliers to the U.S. Market"

The United States International Trade Commission study of the impact of the quota phase-out concluded that "China is expected to become the 'supplier of choice' for most importers because of its large ability to make almost any type of textile and apparel product at any quality at a competitive price." The Commission cited importers who said "there is no garment that they would not make in China."

The Commission also concluded a primary reason that importers were unlikely to concentrate sourcing entirely in China was "because of uncertainty over the use by the United States of the textile-specific safeguard provision."

The Commission reviewed a number of recent studies concerning the quota phase-out, all of which predicted a large increase in Asian market share (China share was not generally extrapolated). One study by Avisse and Fouquin (2001) extrapolates China's apparel exports, predicting that it would jump 87 percent once quotas are removed.

The Commission noted many reasons for China's predicted dominant position, including that "China is the world's largest producer and exporter of textiles and apparel and it has invested more in spinning and weaving equipment than any other country during the last five years. Moreover, China's huge supply of inexpensive labor and skilled sewers, coupled with access to indigenous raw materials, has enabled China's textile and apparel industries to remain highly price competitive and attract foreign direct investment in facilities and technologies."

The World Bank, Elena Ianchovichina and Will Martin: "Trade Liberalization in China's Accession to the World Trade Organization," 2001.

The World Bank study concludes that China will gain a 47 percent share of the world's export market in apparel once quotas are removed. While the study does not break out the U.S. import market, most studies and commentators agree that the U.S. import market is more susceptible to Chinese import penetration than others because of its "big box" retail concentration, intense price competition and long standing ties that U.S. importers and retailers have already developed with China.

The World Bank concludes that "the most important impact of [WTO accession] is on China's output of apparel" and predicts that production of apparel in China, which is already by far the largest producer in the world, will increase by 57 percent once quotas are removed.

McKinsey & Company – DHL: "DHL-McKinsey Apparel and Textile Trade Report," March 2004.

The McKinsey study concluded that China will account for 50 percent of world apparel exports once quotas are removed, noting that "many commentators have expressed concern that China will wipe out less competitive exporting countries." McKinsey concludes that China's apparel exports of apparel will grow from 12 percent to 50 percent in four years time, with actual value of apparel exports from China increasing by $72 billion dollars to $126 billion by 2008.

5. Major Suppliers, Retailers and Sourcing Agents Indicate China Will Dominate World And US Trade in Apparel

The companies that supply the U.S. consumer with textile and apparel merchandize believe imports from China into the United States will dramatically increase. Numerous statements from major importers and retailers have appeared in the media that confirm the executives who make the sourcing decisions regarding the purchase of textiles and apparel in the United States plan to quickly move sourcing to China.

Of these statements perhaps most significant was a confidential survey earlier this year of top US executives for major importing and retailing firms who predicted that China would dominate trade in apparel once quotas are removed. The poll, which was conducted in January at the Cotton Sourcing Summit in Miami, asked what percentage of the U.S. apparel market China would take once quotas were removed. 87% of the respondents said China's share would exceed 50 percent and half of those predicted that China would gain between 75 and 90 percent.

Regarding major suppliers, 96 textile and apparel trade associations from 54 countries around the world have joined together in the Global Alliance for Fair Trade in Textiles (GAFTT) to raise concerns about China's ability to disrupt markets around the world once quotas are lifted. Citing member concerns, GAFTT recently stated: "Since China joined the WTO at the end of 2001, it has engaged in a premeditated and systematic effort to monopolize world trade in textiles and clothing by undercutting free market prices through a complex scheme of industrial subsidization and currency manipulation" and that "China has used and continues to use the following unfair trade practices to artificially undercut the prices of every other country in the world."

Regarding sourcing agents, one leading sourcing executive recently sketched his scenario for the end of quotas and the likely Chinese response. In a Women's Wear Daily article, Robert Zane, of Liz Claiborne, described why China would move to quickly flood the U.S. market. Zane, who is senior vice president of sourcing, distribution and logistics at New York-based Liz Claiborne Inc., said the likelihood of safeguards will probably prompt a flood of Chinese goods into the U.S. market starting in January.

> *"We should not underestimate what many Chinese factories will do at the end of this year to prepare to ship early next year," he told the group of mill, importer and apparel manufacturer executives. "They will be looking for incentives to offer their buyers."*
>
> *In a later interview, Zane said price cuts of as much as 20 percent might be reasonably expected in the opening months of the year. He added that for a brief period companies might resort to selling goods at or below cost to drive volume.*
>
> *Chinese exporters will be looking to quickly fill their order books for a simple tactical reason, Zane said. The U.S. is allowed to impose one-year safeguard quotas that would limit Chinese exports in any given category to no more than 7.5 percent higher than the volume of goods imported over the past year. Even a few months of sharply higher imports could lead to significantly higher safeguard quotas.*
>
> *According to several sources, including Zane, Chinese officials have indicated they will not negotiate safeguard quotas until the U.S. can show evidence that their exports are growing rapidly enough to meet the standard of market disruption called for in the bilateral agreement. That suggests that if safeguard quotas were imposed after a few months of enormous export growth, those quotas would be higher than they would have*

> *been if they were imposed in January, when they would have been based on a restricted level of trade.*
>
> *"They're going to assume there will be a quota number and the new quota will be based on actual business," said Zane.*
>
> *Another speaker suggested that idea will also motivate Chinese negotiators to delay and prolong talks.*
>
> *"What they may try to do is extend the period of time under which negotiations take place," said Martin Trust, president of Salem, N.H.-based Brandot International Ltd., a sourcing company with investments in countries including Sri Lanka and Madagascar. "They'll look to buy time. The longer they can stretch it out, the better the performance is going to be and the higher amount of quota they can get."*

Other leading retail, importing and sourcing executives have regularly expressed their own expectations regarding how China will quickly move to dominate the US market:

South China Morning Post 6/11/04 – "A lot of importers in the US and Europe are placing huge orders for basic items like jeans and polo shirts, in anticipation of the lifting of quotas. These importers want to grab market share. These are not normal purchases but speculative. In the end they may depress prices and prompt dumping." – Hong Kong Textile Council vice-chairman Willy Lin Sun-mo

Women's Wear Daily 3/3/04 – 300 importers and retailers who participated in a survey at the Cotton Sourcing Summit in Miami if February 2004 were asked to predict what percentage of U.S. market share China would capture after quotas expire. 43 percent of the respondents thought China would capture 50 to 75 percent market share while another 44 percent thought China share would total 75 to 90 percent.

Bloomberg News 8/4/04 – Bruce Rockowitz, an executive director at Hong Kong-based Li & Fung, which sources clothing worldwide for retailers including American Eagle Outfitters and Abercrombie and Fitch, estimates that 70 to 80 percent of all clothing production will move to China after January 1. Mr Rockowitz said that the Li & Fung has seen a sharp rise in U.S. orders for Chinese clothing. "The surge probably reflects fears that the US will impose anti-surge quotas on Chinese clothing," stated Rockowitz.

Financial Times 7/20/04 – Bob Zane, head of global sourcing and manufacturing for Liz Claiborne, told the Financial Times that he expects Liz Claiborne to halve the number of countries from which it sources clothes in the next three to four years. In the process, China's share of company direct overseas sourcing will go from about 15 percent to about half, a ratio that Zane expects other big U.S. purchasers will match. He sees China becoming "the factory of the world."

Textile Asia, June 2004 - Alex To Man-yau, head of Chinese operations for Hong Kong trade facilitator, Trade Easy, said: "We are seeing a lot of inquiries and orders for Chinese garments from the US, Europe and Canada." Mr. To said that the average value of orders placed through his firm for Chinese garments by US, Canadian and European buyers has increased fivefold this year over last year."

Textile Asia, June 2004 - Mr. Neeraj Sawhney, a director for the Hong Kong textile trade, Topnet International, said: "There are many more queries for orders and shipments of Chinese garments from the U.S. for 2005 and beyond."

Textile Asia, July 2004 - Steven Feninger, Chief Executive of Linmark Group, a trading firm, said: "Garment orders are rushing to the Mainland from Southeast Asia and Central America in anticipation of the lifting of global textile quotas next January. The scale of the move to China is going to affect national economies." Linmark notes that "once textile quotas are eliminated under World Trade Organization rules, buyers are expected to shift en masse to cheaper Chinese goods." Linmark estimated "that the proportion of its sourcing from Mainland, Hong Kong and Taiwan will rise to 70 percent in two years."

6. In Markets Similar to the US, China Quickly Dominated Categories Removed From Quota.

It is expected that imports from China into the United States will increase on January 1 because textile and apparel imports from China quickly took a dominant position upon the lifting of quotas in other markets similar to the United States. In her WTO study, Nordds confirmed this by stating, "a high and rapidly increasing market share is observed for China following its accession to the WTO in 2001 in Australia, Japan and South Africa." In 2001, Chinese share of the apparel market in South Africa was 56%, Japan was 78% and Australia was 70 percent (source: Comtrade database). WTO figures also show that by 2003 China had achieved an 80 percent share of the Japanese apparel market.

As cited by the US International Trade Commission report, "China has proven its ability to compete in other developed country markets, particularly Australia and Japan, for which it accounted for 69 percent (2002) and 77 percent (2001) of their apparel import markets, respectively." Australia is significant because it represents a developed market with similar consumption patterns and preferences as the United States but for whom quotas were removed ten years ago.

Data from Australia demonstrates China's ability to undersell other suppliers and take market share. As recorded by the Australian Bureau of Statistics, prices of imports of knit underwear into Australia from China are 53% lower than the price for all other suppliers. China supplies approximately 92 percent of the underwear market in Australia while all other suppliers provide 8 percent.

Similarly, the ITMF Country Statements Publication[20] for Australia stated: "China has maintained its dominance and has demonstrated sustained growth and increasing share in the last year. Over the past five years, imports from China in value terms have roughly doubled and now account for 70% of clothing imports. As average fob prices from China are low relative to other countries, in quantitative terms, this share is significantly higher."

[20] For its annual conference, the International Textile Manufacturers Federation (ITMF) publishes a review of the current state of the textile industry in each member country. Included are data relating to the general economic situation, textile manufacturing capacities, activity levels and trade in textiles. ITMF is an international association for the world's textile industries.

7. China Engages in a Variety Of Unfair Trade Practices, Including Currency Manipulation

China's persistent use of unfair trade practices will provide additional fuel to its export surge. In a major review last June by the U.S.-China Economic and Security Review Commission of China's industrial policies[21], Commissioners cited a wide range of unfair and mercantilist trade practices. In summation, the Commissioners noted that major areas of concern were "China's manipulation of its currency, continued provision of direct and indirect subsidies to Chinese producers, use of unjustified technical and safety standards to exclude foreign products and poor enforcement of intellectual property rights."

Regarding the textile and apparel sector, the Commission noted that the Chinese government had selected this sector as one of its "pillar industries." According the Commission, the Chinese government supports these pillar industries "through a wide range of measures that include tariffs, limitations on access to domestic marketing channels, requirements for technology transfer, government selection of partners for major international joint ventures, preferential loans from state banks, subsidized credit, privileged access to listings on national and international stock markets, tax relief, privileged access to land, and direct support from R&D from the government budget."

Of particular note, China's tax rebates of 13 percent for textile and apparel products exported to the United States, China's government subsidization of state-owned textile and apparel enterprises and the proliferation of "free credit" for both these enterprises and private enterprises have created a "playing field" in textiles and apparel where China can choose to underprice its competitors, including U.S. producers, virtually at will. Indeed with a non-performing loan rate at near fifty percent by its state banks and an apparent enormous increase in apparel capacity, Chinese manufacturers are poised to meet and break price points set by its free market competitors in the U.S. and around the world.

China's manipulation of its currency over the past ten years by pegging the yuan to the U.S. dollar has had a particularly disruptive impact on world trade of textiles and apparel, and this disruption has been even more pronounced since 1999. The undervaluation of China's currency has enabled China to sell the subject products at prices that are lower than fair value and enabled it to undercut prices for the products in many markets around the world. Further, the continued devaluation of the yuan ensures that China retains significant price flexibility once quotas are lifted on January 1, 2005. It is clear that China is positioned to repeat the type and degree of price undercutting it has practiced with respect to other products and in other markets.

According to the Federal Reserve, over the past five years, the yuan has been valued at an average of 8.2775 yuan to the U.S. dollar, with only a very narrow fluctuation range of plus or minus 0.1 percent (essentially equal to 1/100th of one U.S. cent). In the last year, the range has narrowed even further to plus or minus 0.01 percent (equal to 1/1000th of one U.S. cent). Such microscopic variations in the yuan vis-à-vis the U.S. dollar clearly constitute a fixed-peg currency system, and as a consequence it is the consensus view among economists, academicians and policy makers that the yuan has been artificially undervalued by a significant margin, possibly as much as 40 percent.

[21] *Ibid.*

Moreover, this fixed-peg currency system, when combined with the absence of quantitative restraints, has given China such an unbeatable and unfair competitive advantage that it has enabled China to literally manipulate and seize control of textile and apparel markets worldwide.

China's currency manipulation, which has been acknowledged by the Administration as harmful to U.S. manufacturing, violates a number of international agreements and legal obligations, including those which prohibit export subsidies, and it circumvents the basic goal of the World Trade Organization -- to promote the orderly development of world trade. It also violates the International Monetary Fund's Articles of Agreement, which states that each IMF member shall "avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members."[22]

I. ADDITIONAL INFORMATION

1. Economic Condition of the U.S. Textile and Apparel Industries

U.S. apparel shipments have been consistently contracting in recent years. For 2003, the end of the year total of $52.7 billion marked the sixth consecutive year in which shipments declined since they peaked at $68.0 billion in 1997. Looking at the first six months of 2004, shipments were at $28.3 billion, which was $3.5 billion lower than they were in the first six months of 1999. While shipments rose during the second quarter, inventories continued to decline. At $7 billion, inventories were $2.6 billion lower than the comparable period in 1999.[23]

Employment in U.S. apparel manufacturing continued to fall in 2004. In August, employment in this industry stood at 282,300 workers, which was 21,400 or 7 percent below August 2003 levels. August 2004 employment levels are almost half of August 1999 levels, representing a 48.6 percent decrease in total U.S. apparel jobs.[24]

U.S. apparel production is continuing to show the same negative trends evident in both the employment and shipment sectors of the industry. For 2003, apparel production was at $23.9 billion or 11.8 percent below 2002 levels. Like the continuing decline in shipments and employment, production has declined year in and year out. Since reaching the $41.6 billion mark in production in 1999, U.S. apparel production has dropped $17.5 billion or 42.5 percent.[25]

Apparel sales at the wholesale stage of the pipeline dropped considerably in 2003 with more than a 5.5 percent decline for the year from the previous year 2002. At $84.7 billion, wholesale U.S. apparel sales are now at their lowest levels since 1998. End of period inventories are also on the decline and are 12.3 percent lower than 1998 levels.[26]

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22 International Monetary Fund Articles of Agreement, Article IV, Section 1 (iii).

23 Source: U.S. Census Bureau

24 Source: U.S. Bureau of Labor Statistics

25 Source: U.S. Census Bureau

26 Source: U.S. Census Bureau

The expected increase in imports of underwear and other apparel products from China when quotas are lifted will exacerbate these negative trends.[27]

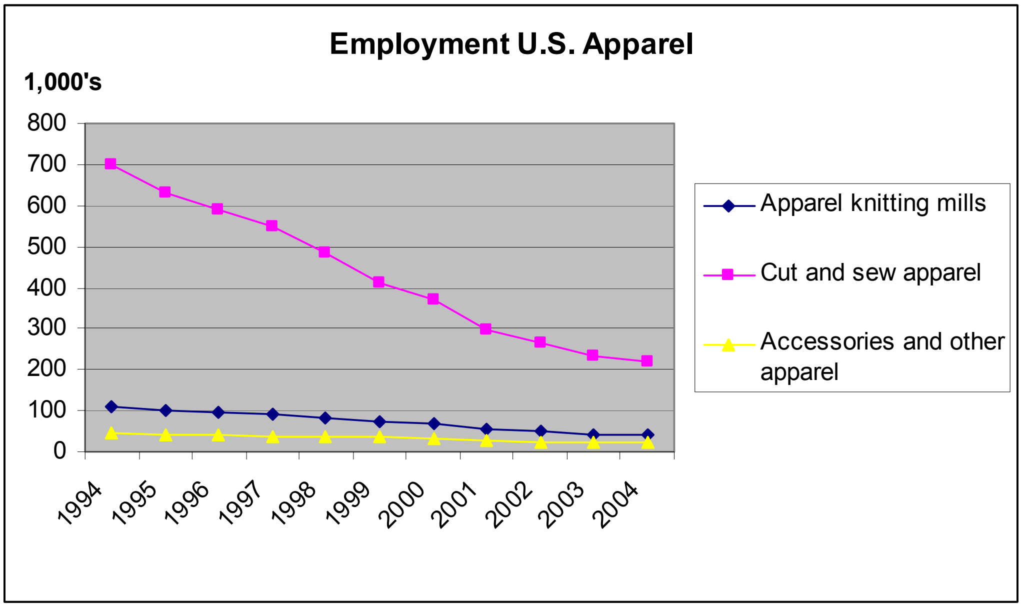

Chart 3 - Employment in US Apparel

Since the late 1990s, and despite spending over $2 billion annually[28] in capital investments in an effort to modernize and increase productivity, the United States textile sector has experienced an unprecedented wave of plant closings and job losses. In the last six years, the United States has lost some 220,000 textile jobs, fully 33 percent of its entire workforce. The textile industry lost 50,000 jobs in 2003 alone, fully 10 percent of the workforce, jobs which paid an average of between $11 and $12 per hour, depending on the position.[29] (For apparel, the damage has been even worse, as 347,000 jobs have been lost in the last six years, equal to 55 percent of that workforce.) Using a 50 year time frame, the 10 percent rate of decline in textiles employment in 2003 was second only to the 13 percent rate the industry suffered in 2001.[30]

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[27] Bruce Raynor, President of the Union of Needle, Trades, Industrial and Textile Employees predicts that an additional 500,000 domestic jobs will be lost if textile quotas, which were set when China entered the WTO, are lifted. In 2001, Wal-Mart brought its international buying division in-house and almost half of Wal-Mart's global sourcing employees work in China. Daniels, Alex, *"Suppliers Move Jobs Overseas,"* Arkansas Democratic – Gazette, November 12, 2003.

[28] Source: U.S. Census Bureau (industry record for capital expenditures was $3.4 billion in 1997; because of industry contraction, capital expenditures had dropped to $2.3 billion in 2001, the most recent year for which figures are available)

[29] Source: U.S. Bureau of Labor Statistics

[30] Source for all employment data: U.S. Bureau of Labor Statistics

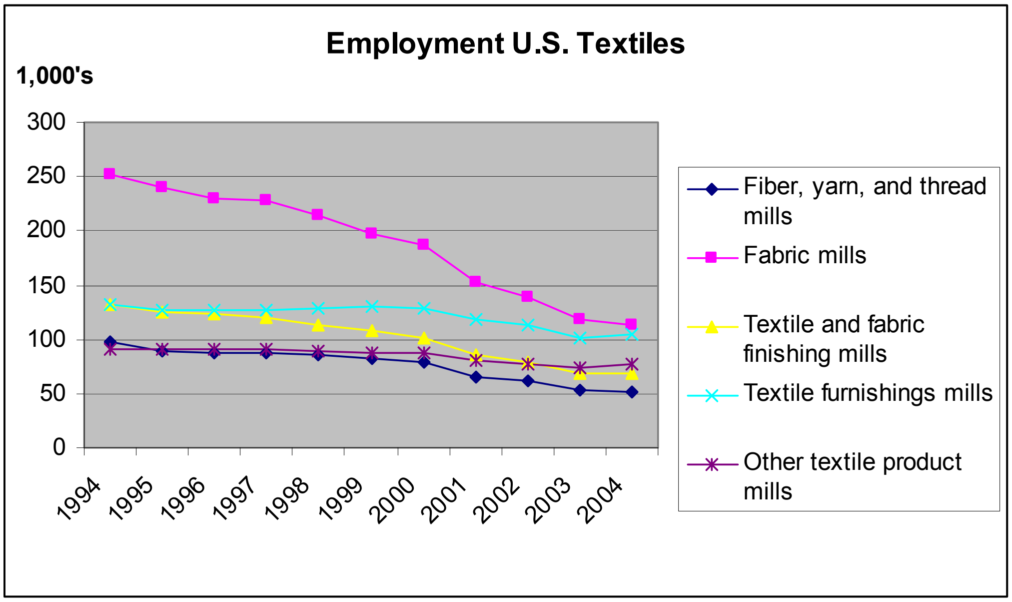

Chart 4 - Employment in U.S. Textiles

By virtually every measure, the textile industry's fortunes continued to suffer in 2003 and did not rebound significantly in 2004, even as the rest of the economy was reported to be recovering. Textile mill shipments fell in 2003 by eight percent to $39.8 billion and, while they have risen in 2004 by a small percentage, 3.5% over last year, in year-to-date figures through August, they are still 6% lower than the comparable period in 2002.[31] Textile corporate sales also declined in 2003 by three percent to $47 billion and, while corporate sales are up somewhat in 2004, so far they are still barely three percent above the comparable period in 2002.[32] The Textile Mill workweek throughout 2003 was consistently below that of comparable months in 2002, and for the year the average industry workweek was down by one hour and 36 minutes from 2002. (Although the unadjusted textile mill workweek has rebounded slightly in 2004 to 40.2 hours, this workweek is still below the levels consistently recorded from 1993 through 2000.)[33]

Also, total fiber consumption on the cotton spinning system, where yarn for most apparel and home furnishings use is produced, fell ten percent in 2003 and through August of this year has fallen by another 12 percent, meaning 2004 will assuredly be the seventh consecutive year in which such consumption has declined.[34] The drop in 2003 brought consumption last year to its lowest level since the early 1980's. This contraction in the consumption of raw material is the result of a consolidation which saw the industry lose more than 1,600,000 ring spindles, nearly 300,000 open-end rotors, and 27,000 air-jet positions between year-end 2000 and year-end 2003.[35] Finally, seasonally adjusted capacity utilization continued to fall in 2003 to 71.8% and has fallen further in the first eight months of 2004 to a year-to-date average of 71.4 percent,

[31] Source: U.S. Census Bureau

[32] Source: U.S. Census Bureau Quarterly Financial Report

[33] .Source: U.S. Bureau of Labor Statistics (NOTE: From 1993 through 2000, the monthly textile mill workweek exceeded 40.2 in 94 months out of 96, the only exceptions being two months adversely affected by severe winter weather in textile producing states)

[34] Source: U.S. Census Bureau, M313P (data unadjusted for variation)

[35] Ibid.

nearly a full percent below the first eight months of 2002 and far below the average mark of 84.3% realized for the years 1995-2000.[36]

As imports have risen, the U.S. textile industry has experienced losses in employment and an increased number of plant closings. The charts below show job losses over the past five years in textiles nationally and in key textile producing states, as well as plant closing data:

Textile Job Losses Over the Past 5 Years

(Thousands of jobs)

	Latest Employment Figures	*Change Since:*			
		Over 12 Month Period (June-03)		**Over 5 Year Period (June-99)**	
	(June 2004)	Jobs Lost	Percent	Jobs Lost	Percent
United States Textile Workers:	414.6	-29.9	-6.70%	-199.4	-32.50%
Alabama	23.8	-1.4	-5.60%	-8.8	-27.00%
North Carolina	78.9	-10.2	-11.40%	-61.1	-43.60%
South Carolina	47.8	-1.9	-3.80%	-27.8	-36.80%
Virginia	12.8	-1.1	-7.9%	-7.1	-35.70%

Source: U.S. Bureau of Labor Statistics

Textile Plant Closings

(as of July 1, 2004)

	2004	**2003**	**2002**	**2001**	**2000**	**1999**	**1998**	**1997**	**Since Crisis Began (1997 – to date)**
United States	**21**	**50**	**42**	**116**	**29**	**35**	**26**	**14**	**328**
- North Carolina	**5**	**24**	**20**	**31**	**14**	**16**	**9**	**6**	**125**
- South Carolina	**2**	**11**	**5**	**31**	**6**	**5**	**4**	**6**	**70**
- Georgia	**4**	**1**	**1**	**16**	**2**	**4**	**6**	**0**	**34**
- Virginia	**1**	**1**	**3**	**4**	**1**	**3**	**2**	**1**	**16**
- Alabama	**1**	**4**	**1**	**7**	**0**	**0**	**0**	**1**	**14**
- All other states	**8**	**9**	**12**	**22**	**6**	**7**	**5**	**0**	**69**

Sources: various media and company reports.

A partial listing of textile plant closings can be found by visiting the following website: http://www.ncto.org/ustextiles/plantclosingsUSA.html

This decline would have been far more pronounced had it not been for a successful transition into an increased outward processing trade. U.S. participation in an outward processing trade

[36] Source: Federal Reserve, "Industrial Production and Capacity Utilization"

has increased substantially over the last 10 years. Increased imports of the subject products from China seriously threaten the continuation of the outward processing trade.[37]

According to the U.S. Department of Labor Bureau of Labor Statistics there are 220,000 U.S. workers in the apparel cut and sew industry.

Series Id: CEU3231520001
Not Seasonally Adjusted
Super Sector: Manufacturing
Industry: Cut and sew apparel
NAICS Code: 3152
Data Type: ALL EMPLOYEES, THOUSANDS

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
1999	472.7	464.7	462.1	454.6	453.2	451.5	435.0	438.6	432.9	428.7	424.1	413.6	444.3
2000	401.8	405.7	409.0	403.9	401.7	404.5	388.6	389.2	385.7	382.3	379.8	369.9	393.5
2001	359.7	361.4	362.3	354.3	348.3	346.3	331.8	320.9	319.2	311.5	304.1	296.4	334.7
2002	286.4	286.8	287.8	284.2	287.0	292.4	281.9	281.9	282.9	278.6	277.3	267.0	282.9
2003	259.6	255.3	255.7	250.2	251.1	251.8	235.4	236.3	236.2	237.2	235.1	231.5	244.6
2004	227.8	232.8	233.4	229.8	231.0	231.1	219.9(p)						

p : preliminary - [SOURCE: U.S. Dept. of Labor Bureau of Labor Statistics]

Those 220,000 apparel workers are employed on all sorts of fabrics for all sorts of garments. Petitioners attempted, but were unable to determine the exact number of workers engaged in the production of the subject products.

2. Threat to Outward Processing Trade

U.S. trade in the subject products has participated in a growing outward processing trade, primarily with Western Hemisphere countries which has been beneficial for all trading partners (Charts 6[38] and 7).

[37] *See* discussion of Preferential trade in section I.2 below.

[38] Export data for cut parts are recorded with apparel exports and cannot be broken out separately.

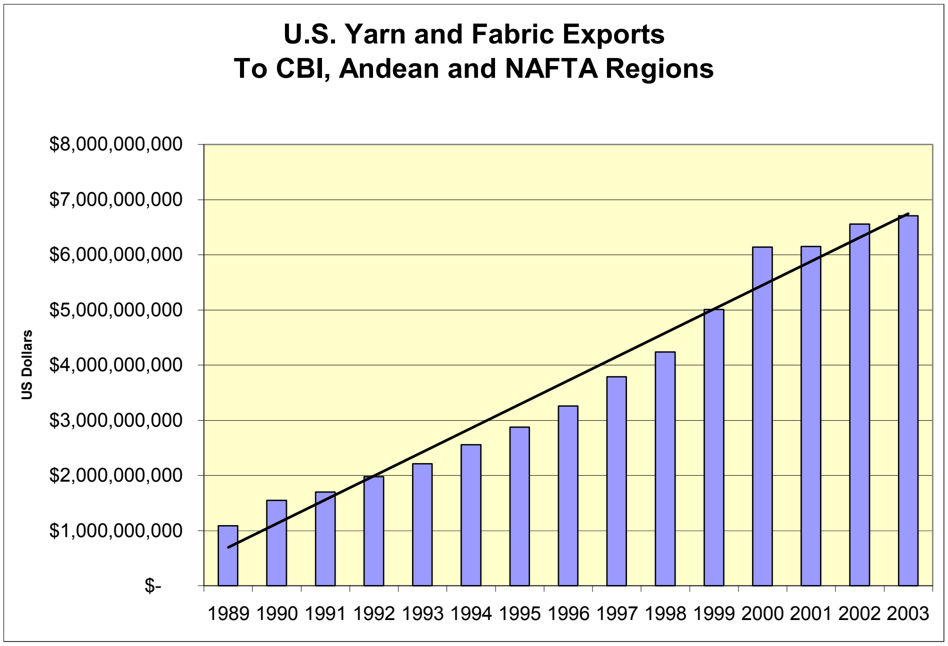

Chart 5 - US Exports in Outward Processing Trade

Source: OTEXA data.

U.S. yarn and fabric exports to Mexico, Canada and the CBI and Andean regions have been in a strong upward trend. Many U.S. textile and apparel manufacturing companies currently have a significant level of participation in the outward processing trade. A December 2003 study conducted jointly by the National Cotton Council and the Jassin-O'Rourke Group[39] revealed a 2003 U.S. retail market for apparel totaling 25.7 billion SMEs, sourced as follows:

24.9% - apparel made in the U.S. from yarn and fabric made in the U.S.

25.3% - apparel made in the Americas, excluding the U.S.

49.8% - apparel from the rest of the world

At least three-fourths of the yarns and fabrics consumed in apparel made in the Americas (excluding the U.S.) are of U.S. origin. The substantial volume of yarn and fabric production involved in the outward processing part of the trade has been beneficial to the U.S. textile industry.

[39] Merits of A Free Trade Area of the Americas, December 2003.

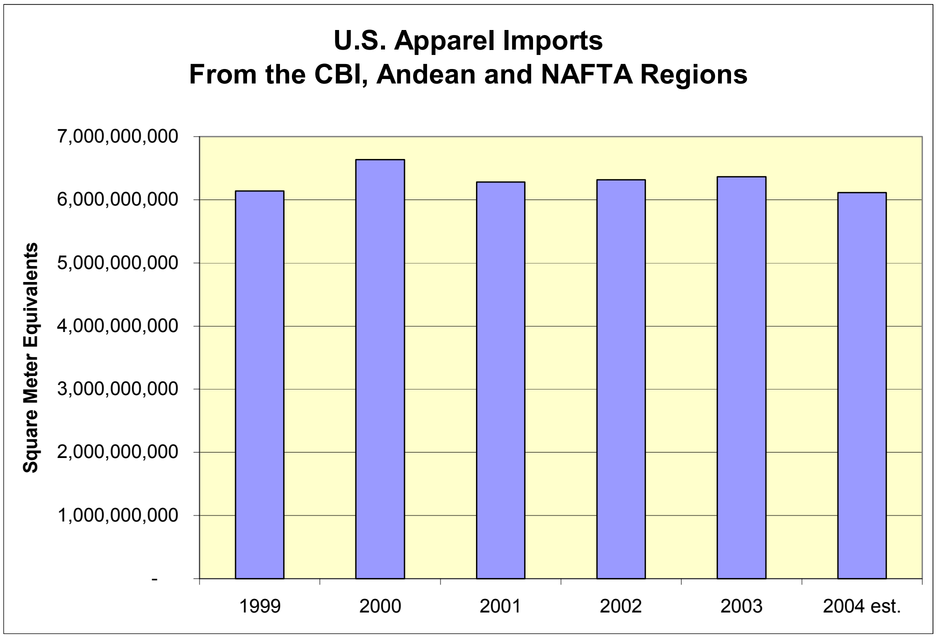

Chart 6 - US Apparel Imports in Connection With Outward Processing Arrangements

In a February 9, 2004, news release announcing findings of its study on Competitiveness of apparel manufacturing, the U.S. International Trade Commission (ITC) underscores the importance of textile safeguard action. The ITC study cites findings of a 2001 study by Avisse and Fouquin (see table reproduced below as Table J-5) reflecting a commonly held view of China's dominance of global apparel markets. Asian exporters, led by China, are expected to increase substantially their apparel exports at the expense of other countries and regions, with the biggest losses occurring among Western Hemisphere trading partners of the U.S., many of which are involved in outward processing arrangements with the U.S. industry producing the subject products.

Table I-2

Likely Impact of Removing Quotas on Apparel Exports

Region	**Percent Change**
NAFTA	-27
Latin America (Excluding Mexico)	-39
China	87

Source: Avisse, Richard and Michel Fouquin (2001) "Textiles and Clothing, The End of Discriminatory Protection," La Lettre du CEPII, No 198, Feb 2001.

The ITC study cites work by Francois and Spinanger[40] showing Asia to be the biggest winner from quota removal, with Mexico and Latin America being among the biggest losers. The ITC study, together with findings of numerous other studies, support petitioners' contention that

[40] Francois, Joseph and Dean Spinanger (2001), "With Rags to Riches but Then What? Hong Kong's T & C Industry vs. the ATC and China's WTO Accession," Paper prepared for The Fourth Annual Conference on Global Economic Analysis, Purdue University, West Lafayette, Indiana, June 27-29, 2001.

removal of quotas is an imminent threat to the orderly development of trade. The only way in which this threat can be avoided is through the imposition of a timely safeguard action.

J. ACTION AUTHORIZED UNDER THE AGREEMENT

Action by the United States under paragraph 11.242 of the Report of the Working Party is authorized, warranted and appropriate upon the belief of the United States that there is a threat of market disruption concerning the subject products and that Imports from China of the subject products played a role in the threat of market disruption.

The WTO Report of the Working Party—Special Safeguard Authorization provides, in pertinent part, as follows:

> "... The Member requesting consultations would provide China, at the time of the request, with a detailed factual statement of reasons and justifications for its request for consultations with current data which, in the view of the requesting Member, showed: (1) the existence or threat of market disruption; and (2) the role of products of Chinese origin in that disruption;..."

K. REQUESTED ACTION

The Committee for the Implementation of Textile Agreements (CITA) is hereby requested to take all appropriate steps in order to avoid market disruption in 2005 with respect to imports from China of such products. Petitioners submit that such market disruption can only be avoided by the imposition of limitations on imports of the subject products from China according to the provisions of Section 11.242 of the Report of the Working Party and the guidelines issued by the Committee for the Implementation of Textile Agreements (68 F.R. 27788 (May 21, 2003).

L. EXHIBITS

Exhibit 1 - Description of Petitioners

Exhibit 2 - HTSUS Codes of articles covered by the applicable category

Exhibit 3 - List of China manufacturers (as complete as possible)

EXHIBIT 1

Description of Petitioners

The American Manufacturing Trade Action Coalition (AMTAC) – AMTAC is a not-for-profit manufacturing trade association established for the purpose of preserving and creating American manufacturing jobs through the establishment of trade policy and other measures necessary for the U.S. manufacturing sector to stabilize and grow. Its members are involved in a wide variety of manufacturing, including textiles, throughout the United States. Its office is in Washington, DC. (www.amtacdc.org)

National Council of Textile Organizations (NCTO) – NCTO is a not-for-profit trade association established to represent the entire spectrum of the United States textile sector, from fibers to yarns to fabrics to finished products, as well as suppliers in the textile machinery, chemical and other such sectors which have a stake in the prosperity and survival of the U.S. textile sector. Its headquarters is in Washington, DC, and it also maintains an office in Gastonia, NC. (www.ncto.org)

The National Textile Association (NTA) – NTA is a not-for-profit trade association of companies who knit or weave fabrics in the United States, dye, print or otherwise finish fabrics in the United States, or supply fibers, yarns, or other supplies or services to the American textile industry. NTA's office is in Boston, MA. (www.nationaltextile.org)

UNITE HERE! – Formed by a merger in 2004 of UNITE (formerly the Union of Needletrades, Textiles and Industrial Employees) and HERE (Hotel Employees and Restaurant Employees International Union), the union UNITE HERE represents more than 440,000 active members and more than 400,000 retirees throughout North America. UNITE HERE's headquarters are in New York, NY. (www.unitehere.org)

It is difficult for UNITE HERE! to determine the exact number of its members that make the subject products exclusively as it represents numerous contract apparel workers who make all types of apparel, including the subject products. UNITE HERE! has as many as 608 members who are engaged in the production of men's and women's tops, including the subject products, on a constant basis.

EXHIBIT 2

HTSUS Codes of articles covered by the applicable category

CATEGORY 352 * COTTON UNDERWEAR

(Conversion Factor to Square Meters= 9.20 ; Unit=DOZ)

HTS CODE	DESCRIPTION
6107.11.0010	MEN'S UNDERPANTS AND BRIEFS OF COTTON ,KNIT
6107.11.0020	BOYS' UNDERPANTS AND BRIEFS OF COTTON, KNIT
6108.19.9010	W/G SLIPS AND PETTICOATS OF COTTON, KNIT
6108.21.0010	WOMEN'S BRIEFS AND PANTIES OF COTTON, KNIT
6108.21.0020	GIRLS' BRIEFS AND PANTIES OF COTTON, KNIT
6108.91.0005	WOMEN'S & GIRLS' UNDERPANTS OF COTTON, KNIT
6108.91.0015	WOMEN'S UNDERWEAR EXCEPT UNDERPNTS OF COTTON, KNIT
6108.91.0025	GIRLS' COTTON UNDERWEAR EXCEPT UNDERPANTS, KNIT
6109.10.0005	M/B T-SHIRTS, ALL WHITE UNDERWEAR OF COTTON, KNIT
6109.10.0007	M/B SINGLETS, ALL WHITE UNDERWEAR OF COTTON, KNIT
6109.10.0009	M/B ART SMLR T-SHIRTS UNDERWEAR OF COTTON, KNIT
6109.10.0037	W/G UNDERWEAR OF COTTON, KNIT
6207.11.0000	M/B UNDERPANTS AND BRIEFS OF COTTON, NOT KNIT
6207.91.3020	M/B SINGLETS, OTHER UNDERSHIRTS COTTON, NOT KNT
6208.19.2000	W/G SLIPS AND PETTICOATS OF COTTON, NOT KNIT
6208.91.3010	WOMEN'S BRFS PNTS SGLTS & O UDRSHRTS OF COTTON N K
6208.91.3020	GIRLS' BRFS PNTS SNGLTS & O UDRSHRT OF COTTON, N K

CATEGORY 652 * MMF UNDERWEAR

(Conversion Factor to Square Meters= 13.40 ; Unit=DOZ)

HTS CODE	DESCRIPTION
6107.12.0010	MEN'S UNDERPANTS AND BRIEFS OF MANMADE FIBERS, KNI
6107.12.0020	BOYS' UNDERPANTS AND BRIEFS OF MANMADE FIBERS, KNI
6108.11.0010	WOMEN'S SLIPS AND PETTICOATS OF MANMADE FIB, KNIT
6108.11.0020	GIRLS' SLIPS AND PETTICOATS OF MANMADE FIBERS,KNIT
6108.22.9020	WOMEN'S BRIEFS AND PANTIES OF MANMADE FIBERS, KNIT
6108.22.9030	GIRLS' BRIEFS AND PANTIES OF MANMADE FIBERS, KNIT
6108.92.0005	WOMEN'S & GIRLS' UNDERPANTS OF MANMADE FIBER, KNIT
6108.92.0015	WOMEN'S UNDERWEAR EXC UNDERPANTS OF MMF, KNIT
6108.92.0025	GIRLS' UNDERWEAR EXCEPT UNDERPANTS OF MMF, KNIT
6109.90.1047	MEN'S OR BOYS' THERMAL UNDERSHIRTS OF MMF, KNIT
6109.90.1075	WOMEN'S OR GIRLS' THERMAL UNDERSHIRTS OF MMF, KNIT
6207.19.9010	M/B UNDERPANTS AND BRIEFS MANMADE FIBERS, NT KNIT
6207.92.4020	M/B SINGLET & UNDERSHIRT MAN-MADE FIBER, NOT KNIT
6208.11.0000	W/G SLIPS AND PETTICOATS MAN-MADE FIBERS, NOT KNIT
6208.92.0030	WOMEN'S BRFS PNTS SNGLT OTHER UNDSHRTS MMF N KT
6208.92.0040	GIRLS' BRFS PNTS SNGLTS OTH UNDSHRTS OF MMF N KT

EXHIBIT 3

List of China manufacturers

A search of "underwear" on **China Commodity Net,** **http://ccn.mofcom.gov.cn/cbg/zgsp/zgsp_en.html**, returned listings for 2,666 different manufacturers in China. A narrower search for cotton and man-made underwear manufacturers also returned a very large list that would have required over 120 pages to print. Petitioners did not include that list in this petition due to its size, but can deliver this list to CITA, either in paper form or electronically, if it would be helpful to the agency. Petitioners can also make this list available on one of their websites if requested by CITA.