CECATEC-RD

Central America - Dominican Republic
Apparel and Textile Council

December 15, 2021

The Honorable Richard E. Neal
Chairman, Ways and Means Committee
U.S. House of Representatives
1102 Longworth House Office Building
Washington D.C. 20515

Dear Chairman Neal,

On behalf of the Central America–Dominican Republic Apparel and Textile Council (CECATEC-RD), it is my honor to greet you and the rest of the Ways and Means Committee. Over the years, the Ways and Means Committee has played an invaluable role in ensuring that the strong economic partnership forged between the United States and the region is maintained through the strong rules that were negotiated to promote trade, investment and economic development through the United States, Central America, Dominican Republic Free Trade Agreement (CAFTA-DR).

This is especially true in the case of the textile and apparel supply chain which has been strengthened with the implementation of the Agreement, where cotton and synthetic yarn and fabric producers in the United have partnered with firms in Central America and the Dominican Republic in order to compete with producers from all over the world. Today, 80% of total U.S. spun yarn exports go to the CAFTA-DR market, where they are transformed into fabric and then into apparel to be swiftly shipped to serve the U.S. market for the most part.

The strong, "yarn-forward" rule of origin brought trade and investment to our region and allowed us to make the necessary changes in order to compete against these highly subsidized economic agents and thus survive the onslaught we have faced in the last years.

The existence of the CAFTA-DR Agreement helped the U.S. and Central American textile and apparel sector navigate some of the most difficult obstacles it has ever faced with the accession of new entrants to the World Trade Organization (WTO) and the elimination of the Agreement on Textiles and Clothing (ATC). When Central America and the Dominican Republic signed up to the CAFTA-DR Agreement, they never thought they would be competing against products made in highly subsidized and centralized economies.

This unfair competition strongly impacted the region. In 2005, before CAFTA-DR's entry into force, the region was exporting \$9.2 billion. This was the year quotas were phased out under the ATC, causing the region to lose ground to Asian competitors, until the year 2009, when U.S. imports reached \$6.3 billion. Since then, exports have grown to \$8.4 billion (as of October/2021).

15 Avenida 14-72 zona 13 2do. Nivel. Guatemala, Guatemala
Telephone (502) 2410 8323 Fax. (502) 2410 8320
info@cecatecrd.com
apparelcentralamericandr.com

Nevertheless, the U.S. – Central America textile and apparel supply chain has always been conscious of the yet-to-be-realized growth potential in terms of investment in the region, exports and employment under the CAFTA-DR Agreement.

It is therefore no surprise that today, with the recent changes to U.S. trade policy towards unfair trading practices and with disruptions to supply chains, many buyers and investors have turned to the U.S. and the region to onshore and nearshore their production. Finally, the CAFTA-DR is starting to operate as it was envisioned. So much so that according to industry representatives, between the past two years and the coming year, the region will be receiving more investment than it has received in the last 30 years. This is an enormous accomplishment which we expect will be a game changer for the region and for the United States.

Factories in the region are working at capacity in order to meet demand and local investors have increased their capacity threefold. Big players in the U.S. industry are also investing in the region, and with their support the CAFTA-DR region, according to independent estimates, will be increasing its production capacity eightfold. It was also this supply chain that partnered up in 2020 at the start of the COVID -19 crisis and almost overnight pivoted to produce Personal Protective Equipment for the region and the United States.

We are aware that parties interested in sourcing from outside the CAFTA-DR region have been asking for changes to the rules of origin in the Agreement, so that duty free treatment is granted to products from outside the region. We believe that such calls to change the CAFTA-DR´s rules of origin will negatively impact and undermine the gains we have cited as well as compromise potential future gains. The worst thing an investor can hear – when about to start said investment – is that the rules of the game might change.

We are convinced that this strong economic partnership we have forged under the CAFTA-DR Agreement can only grow stronger if we allow the rules to work as envisioned: promoting trade and investment within the region, strengthening our supply chain so that we can fairly compete with the rest of the world. This is also particularly timely and mutually beneficial to our countries carrying out concerted efforts to address the root causes of irregular migration.

We hope the Ways and Means Committee will continue to support these important goals that can bring increased prosperity and progress to the people of the U.S., Central America and the Dominican Republic.

Sincerely yours,

Daniel Facussé
President

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