



**Second Quarter Legislative Update**  
**May 2007**  
**(With links for more detailed information)**

As Republicans and Democrats mobilize their forces in anticipation of the 2008 Presidential election, Congressional Democratic leaders continue their aggressive offensive against President Bush and the War in Iraq.

The \$124.2 billion supplemental appropriations bill, which narrowly passed both the House and Senate in late April, has given Democratic leaders and their presidential nominees ammunition as they fight the Administration and Congressional Republicans to push for a timeline for troop withdrawal. As expected, President Bush has vetoed the bill and Democratic leaders in Congress have been unable to garner the 2/3 majority needed to override it. House Speaker Nancy Pelosi, Senate Majority Leader Harry Reid, and other Democratic leaders have now pledged to send President Bush a workable compromise by Memorial Day. While it is hoped that the compromise would get support from both the Administration and “anti-war” members of Congress, continued pressure from within the Democratic Caucus to create deadlines for withdrawal may make this goal difficult.

In the days and weeks leading up to the scheduled Memorial Day Recess at the end of May, several other issues will become topics of debate in and around Washington. The uncertainty revolving around the Iraq war supplemental is causing heartache for the House and Senate Budget Committees, as conferees hope to soon come together to resolve the many differences between the two versions of the 2008 Budget Resolution. Nevertheless, congressional leaders do plan to bring the 2008 Budget Resolution to the floor before the scheduled recess.

Once the Budget Resolution is approved, Members of Congress should begin work in earnest on the thirteen annual appropriations bills – through which the government receives its funding. This year, there will be particularly close scrutiny on the way earmarks are included in these bills. The proliferation of earmarks – through which Members of Congress steer funds back to “pet” projects in their districts – has been a target of Congressional reform activities in recent months over their links to recent lobbying scandals and a progressively wider budget deficit.

On the trade front, extension of the President’s trade promotion authority (TPA), set to expire on June 30, 2007, could be a hot topic in the summer months. House Ways and Means Committee Chairman Charles Rangel (D-NY) has said he would consider passing a limited extension of TPA to allow the President and U.S. negotiators to finish the ongoing Doha Round of global trade talks. He even has hinted at possibly passing a broad package for other deals in the future, but has not elaborated further on what type of authority such legislation could entail. Senate Finance Committee Chairman Max Baucus (D-MT) has been less enthusiastic about a TPA extension, noting that it will likely expire for a number

of months or years before it is renewed. He has instead indicated that he will focus his efforts on renewal of Trade Adjustment Assistance (TAA), a program intended to provide assistance to workers who lose their jobs because of trade, which expires at the end of 2007. Persistent concerns about China and perceptions that the Bush Administration has not adequately enforced trade agreements will also color the trade debate this year.

Nevertheless, the outlook for the trade agenda brightened considerably with Rangel, House Speaker Nancy Pelosi (D-CA), House Ways and Means Ranking Republican Jim McCrery (R-LA), and key Administration officials – United States Trade Representative Ambassador Susan C. Schwab and Treasury Secretary Hank Paulsen – announced a [deal](#) for a bipartisan trade package in early May. A key issue being addressed in those talks was whether internationally recognized workers rights would be made fully enforceable in trade agreements. While Democratic leaders were looking to include international labor standards to prevent exploitation of foreign workers, Republicans and industry groups warned that such standards could allow foreign countries to challenge U.S. labor laws. Other issues raised concerned environmental protection, the role of investor disputes (particularly relating to port operations), and access to pharmaceuticals in developing countries. The business community largely welcomed the deal; the reaction from organized labor was decidedly mixed with the break-away labor group – Change to Win (including UNITE HERE) – expressing outright opposition. Given the strong support in the Democratic leadership for this bipartisan approach, the deal should pave the way for Congressional action on at least several of the pending free trade agreements (FTAs). However, with a crowded agenda, a limited appetite for trade, and distractions of upcoming elections, it remains to be seen whether this Congress will be able to devote much attention to trade liberalization.

In the coming weeks, Congressional leaders also hope to reauthorize the Food and Drug Administration and the Water Resources Development Act. In addition, House Democratic leaders have expressed their desire to bring new lobbying and disclosure legislation to the floor.

Suffice to say, these and other divisive issues will continue to occupy media time as politicians and pundits gear up for the 2008 Presidential election. Currently, nine Democrats and fourteen Republicans are vying for their party's nomination, each taking on hard policy positions to win over their parties' base, while also trying to appeal to the independent voter. While it is unclear at this point which candidates will win their party's nomination, these issues will continue to be at the forefront of policy debate and will certainly prove to be integral to which candidate the voters choose for President on November 4, 2008.

In this setting, AAFA is tracking a number of issues relating to

- **International Trade**
- **Government Contracting**
- **Labor**
- **Regulatory Matters**

Recent developments of note on some of these issues include:

## **International Trade**

1. ***Key Bilateral/Regional Trade Initiatives:*** On January 31, 2007, President George W. Bush [requested](#) that Congress extend Trade Promotion Authority (TPA). Currently set to expire on June 30, 2007, TPA authorizes and provides guidance to the U.S. government for new trade negotiations. TPA renewal has received cautious support from some Democrats, but only to the extent that other issues, such as job training, labor rights protection and environmental standards are addressed. Similarly, in the aftermath of the 2006 mid-term elections, a number of Democrats in both chambers, and some Republicans, have expressed wariness over any renewed grant of TPA. As a result, Congressional approval of a TPA extension remains very much in doubt. The recent trade policy deal may pave the way for action on individual free trade agreements, for renewal of TPA, or for further action on the ongoing Doha Round of global trade negotiations (see #12 below). ***AAFA welcomed the bipartisan trade deal and urges immediate action to approve pending trade agreements and renewing Trade Promotion Authority.***
- ***Central America/Dominican Republic:*** On August 2, 2005, President Bush signed into law the [U.S./Central America - Dominican Republic Free Trade Agreement](#) (CAFTA-DR) with five countries in Central America (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua) and the Dominican Republic. Attention has since turned to implementation, which the Administration has [implemented](#) on a “rolling” basis, in which each country accedes once it has completed all necessary domestic approval measures. Under this program, CAFTA-DR entered into force for El Salvador on March 1, 2006, Honduras and Nicaragua on April 1, 2006, Guatemala on July 1, 2006, and the Dominican Republic on March 1, 2007. Costa Rica, where newly inaugurated President Oscar Arias remains firmly committed to this trade agreement, is hoping to approve the agreement so it can enter into force with respect to that country by the end of 2007. Rolling implementation has created considerable disruption, particularly in scenarios involving the co-production of an article among several Central American countries. In early August 2006, the President [signed into law](#) a bill that provides retroactive duty free treatment to rectify some of the co-production problems. That bill also provided proclamation authority so the President could make future modifications to CAFTA-DR dealing with such areas as pocketing, the Nicaragua TPL, socks, and short supply. Deals to amend the agreement on pocketing have already been agreed to with all six countries. An effective date of implementation of those side deals remains to be seen. In addition, the Administration has sought deals with each of the countries on socks, and continues to hint that it may use the sock safeguard, particularly in connection with imports from Honduras, in the future. Work also continues to secure full implementation of the agreement’s cumulation provisions, which permit the use of Mexican inputs in certain CAFTA-DR garments. One requirement of the cumulation provisions – a customs cooperation deal between the United States and Mexico – was [completed](#) in January 2007. Other requirements may be completed by the end of the year possibly enabling this

program to take effect in late 2006 or early 2007. The latest information on CAFTA-DR can be found on the [AAFA web site](#). ***AAFA strongly supported congressional passage of CAFTA-DR and now urges swift and full implementation of this FTA with all five Central American countries and the Dominican Republic as a way to strengthen the footwear, textile and apparel trade partnership.***

- ***Completed and Pending FTAs:*** In addition to the Proclamations made above for CAFTA-DR, the President proclaimed the entry into force of recent FTAs with [Singapore](#) and [Chile](#) effective January 1, 2004, [Australia](#) on January 1, 2005, [Morocco](#) on January 1, 2006 and [Bahrain](#) on August 1, 2006. The FTAs, among other things, provide a combination of duty free and reduced duty treatment for certain qualifying textiles, apparel and footwear. Congress recently approved an FTA with [Oman](#), although that FTA has not yet entered into force. Next in the FTA queue are agreements that were recently concluded with [Peru](#), [Colombia](#), [Panama](#) and [Korea](#). The Democrat takeover of Congress has delayed consideration of the first three of these agreements while Administration and Congressional trade officials work to modify labor provisions in the agreements to address Democratic concerns, as noted above. It remains to be seen to what extent the trade policy deal, which will force a limited renegotiation of these agreements, will facilitate consideration of the pending FTAs. At this point, conventional wisdom suggests that Peru and Panama will be the first to be considered by the U.S. Congress. Korea and Colombia are both mired in issues (human rights in Colombia; beef and automobile access for Korea) that were not addressed in the bipartisan trade deal. Unless the renegotiation requires a renegotiation, and assuming Korea and Panama can be signed by June 30, all four can be considered under the current grant of TPA. ***AAFA has issued statements in support of the Colombia and Peru FTAs (and recently signed on to a letter with the entire textile and apparel supply chain in support of these agreements) and is currently evaluating the Panama and Korea deals to make sure they are consistent with AAFA priorities.***
- ***FTAs Under Negotiation:*** Recent initiatives to negotiate FTAs with the [United Arab Emirates](#), the [Southern African Customs Union](#) (Botswana, Lesotho, Namibia, South Africa, and Swaziland) and [Thailand](#) have stalled and resulted in those agreements being downgraded to Trade and Investment Framework Agreements. FTA talks with Switzerland and Egypt have been postponed. FTA talks with [Malaysia](#) continue, although it is unclear when the agreement can be finished since a finished U.S./Malaysia agreement depends on renewal of TPA. In addition, several initiatives, including the [Enterprise for ASEAN Initiative](#) and an ambitious proposal to create a [Middle East Free Trade Agreement](#) could see additional FTA negotiations with some or all of the countries that are members of the Association of South East Asian Nations (ASEAN) and in the Middle East. A [Free Trade Area of the Americas \(FTAA\)](#), which hopes to link together trade among the 34 democracies in the Western Hemisphere, has made little progress in recent years. ***AAFA generally supports such initiatives, provided they represent commercially***

***meaningful opportunities to expand trade, and is evaluating each one to determine how they best serve members' needs.***

2. ***Preferential Trade Programs:*** With the proliferation of FTAs and the work on multilateral trade initiatives (see #12 below), attention is shifting away from trade preference arrangements. Attention may shift back in the coming years, however, as new Democratic trade priorities emphasize unilateral trade preferences with developing countries, instead of bilateral free trade deals.

- As the CAFTA-DR enters into force for Central American countries, the Caribbean Basin Trade Partnership Act (CBTPA) ceases to be effective for those countries. Although it will still remain in force for such countries as Haiti and Jamaica, it is currently set to expire on September 30, 2008.
- Similarly, the Andean Trade Promotion and Drug Eradication Act (ATPDEA) is set to be replaced by individual FTAs with Andean nations as discussed above. The Andean program was initially scheduled to expire on December 31, 2006. In one of its final acts, the 109<sup>th</sup> Congress approved a bill ([HR 6406](#), which was incorporated into HR 6111) that contains a straight six month extension (through June 30, 2007), linked to a second six month extension (for countries that have approved FTAs). If Congress approves the FTAs with Peru and Colombia during the first six months of 2007, this second six month extension will hopefully ensure no gap in duty free coverage for imports from the Andean region. Congressional leaders, however, have indicated they may seek an extension anyway to relieve some of the pressure posed by the current deadline and to recognize the near-impossible goal of completing action on the FTAs by June 30, 2007. Legislation to this effect ([HR 1830](#)) has already been introduced by Congressmen Charlie Rangel (D-NY) and Sandy Levin (D-MI).
- As part of [HR 6406](#), the 109<sup>th</sup> Congress also approved an extension of the third country fabric provision under the [African Growth and Opportunity Act \(AGOA\)](#) until September 30, 2012. That extension also includes a provision that voids the third country fabric provision for components deemed in ‘abundant supply.’ During the initial year, the law designates “denim” as being in abundant supply, potentially complicating the ability of companies to use third country denim if they do not use sufficient quantities of African denim. Congress may revisit that provision in the coming months. In the meantime, the U.S. International Trade Commission is conducting [investigations](#) to determine whether the denim provision should be extended into 2008 (See [AAFA Comments](#)).
- As part of [HR 6406](#), the 109<sup>th</sup> Congress also approved an expansion of preferences with respect to Haiti to include a new value added rule and a small 3-year TPL for woven apparel. Although this new program sparked strong opposition from the textile industry, it took effect on March 20, 2007. Customs is set to publish regulations governing this program by June 20, 2007. Congress may explore making changes to the Haiti program to fix technical errors or expand benefits in the coming years.

- Preference programs for the least developing countries (LDCs), and for other countries of interest (such as Sri Lanka and Pakistan), were not enacted by the end of the 109<sup>th</sup> Congress. However, several of these ideas have already been introduced this year or are under active development by Members of Congress. For example, Senator Gordon Smith (R-OR) recently introduced the Trade Act of 2007 ([S. 652](#)) to create preferences for least developed countries and Sri Lanka, echoing a similar bill he sponsored in the previous Congress.
- Finally, as part of [HR 6406](#), Congress renewed the Generalized System of Preferences (GSP) program for an additional two years. The GSP program, which provides duty preferences for developing countries, but which generally does not apply to footwear or apparel, is now scheduled to expire at the end of December 2008.

Further action on these and other preference measures could occur in the 110<sup>th</sup> Congress. Democrat leaders in both Houses have already indicated they expect to conduct reviews of preference programs and may seek an opportunity to make additional reforms (in terms of product coverage, country coverage, duration and rules of origin) for several of these programs. In particular, several Democratic Members of Congress may introduce legislation to simplify, harmonize, and make permanent the range of preference programs. ***[AAFA supported enactment and enhancement of the Africa, Caribbean Basin and Andean trade enhancement programs. AAFA is working closely with Congress and Administration officials on other trade preference legislation and to improve current programs.](#)***

3. ***Vietnam***: Vietnam entered the World Trade Organization (WTO) on January 11, 2007, completing a gradual period of economic normalization that had taken nearly 10 years. As part of its WTO accession, the United States and Vietnam concluded a [bilateral WTO accession agreement](#) in May 2006. That agreement provides that, upon Vietnam's accession to the WTO, the United States discontinue imposition of quotas on U.S. textile and apparel imports from Vietnam. The agreement also requires Vietnam to discontinue prohibited export subsidies in the textile and apparel industry. Further, it provides for an enforcement mechanism, through the temporary reimposition of quotas at 2006 levels, if the United States believes, and the WTO affirms, that Vietnam has violated that requirement. Although the U.S. Congress was not able to vote on the agreement itself, it was able to vote on legislation to extend permanent normal trade relations (PNTR) to Vietnam, which is required before the United States can benefit from Vietnam's accession to the WTO. Vietnam PNTR was approved as part of the trade omnibus package ([HR 6406](#)) during the final hours of the 109<sup>th</sup> Congress. As required, the U.S. government [eliminated all quotas on U.S. apparel and textile imports from Vietnam](#) that were exported from Vietnam after January 10, 2007. However, considerable controversy continues to surround a [late September 2006 commitment](#) made by the Administration to Senators Elizabeth Dole (R-NC) and Lindsey Graham (R-SC) to monitor textile and apparel imports and possibly self-initiate anti dumping investigations on apparel products from Vietnam (even though apparel companies have not requested such trade remedies, which is necessary under the tight

“standing” rules of trade remedy law). Importers and retailers, as well as several Senators (Senators Dianne Feinstein (D-CA) and Gordon Smith (R-OR)), have pushed the Administration to clarify how this commitment will be implemented. While the monitoring program was implemented on January 11, 2007 (the day Vietnam joined the WTO), the U.S. government has failed to provide much detail on the implementation program or how it will work. ***AAFA continues to press the U.S. government to ensure that the Vietnam apparel and textile import monitoring program does not burden trade nor exceed U.S. law or WTO obligations. In addition to numerous meetings and discussions with U.S. government officials regarding the program, AAFA has twice submitted comments ([December 27, 2006 comments](#), [January 31, 2007 comments](#)), independently as well as with importers and retailers, in response to U.S. government Federal Register (FR) notices ([December 4, 2006 FR Notice](#), [January 23, 2007 FR Notice](#)). AAFA also testified at an April 24, 2007 hearing.***

4. ***Burma***: In late July 2003, outraged by the continuing human rights and labor rights abuses of a dictatorial regime in Burma, Congress approved and the President signed into law a new series of sanctions including a [complete 3-year ban](#) on U.S. imports from Burma. The import ban took effect on August 28, 2003 and was renewed by Congress every year. In July 2006, President Bush approved new legislation ([H.J. Res 86/S.J.Res 38](#)) to reauthorize the ban for an additional 3-year period. On a related point, the Bush administration has now brought the Burma issue before the United Nations Security Council, raising the profile of the situation to a new level. ***AAFA was one of the first organizations to publicly call for the original import ban. AAFA continues to urge the Congress and the Bush administration to work with other countries to renew and multilateralize the import ban.***
5. ***Miscellaneous Trade and Tariff Bill***: During 2006, Congress cleared two separate measures containing miscellaneous trade and tariff measures, including duty suspensions on a range of interests to AAFA members relating to apparel, footwear and textile components. These bills included the [pension bill \(H.R. 4\)](#) that was signed by President Bush in early August 2006 and the [omnibus trade bill \(H.R. 6406\)](#) that was signed by President Bush in December 2006. It is unclear how the MTB process will fare in 2007 and beyond. Concerns over earmarks benefiting corporations has ensnared the MTB process as well, leading to a series of transparency and procedural reforms that may make Congress reluctant to take action on an MTB in the coming year. ***AAFA strongly supported Congressional approval of both measures. AAFA will work to ensure that these provisions meet the needs of AAFA’s members. AAFA supports the continued use of the MTB process to seek duty suspensions and reductions.***
6. ***Affordable Footwear Initiative (AFI)***: Over the last five years, a number of actions – through free trade agreements and through targeted duty suspension and elimination bills – have been taken that have lowered footwear duties. However, with 99 percent of all footwear sold in the United States being imported and with

more than 80 percent of all footwear sold in the United States being imported from China, U.S. footwear firms still pay the U.S. treasury more than \$1.9 billion in duties every year. Under the coordination by the law firm of [Sandler, Travis & Rosenberg](#), a coalition of U.S. footwear companies, retailers and associations has created the Affordable Footwear Initiative (AFI). The [purpose of AFI](#) is to have Congress approve legislation to permanently eliminate U.S. duties on lower-priced and children's footwear, footwear no longer made in the United States. By focusing on these types of footwear, the AFI coalition hopes to convince Congress that this initiative would bring much needed tax relief to hardworking lower- and middle-income American families on one of their most essential necessities. Even by focusing on only \$700 million of the \$1.9 billion Americans pay every year in duties, with markups at the wholesale and retail level, this \$700 million in cost to the U.S. Treasury actually translates into \$2-3 billion in savings for hardworking U.S. families. The coalition formally launched AFI with a lobby day in February 2007 to a positive Congressional response and hopes to have legislation introduced in Congress within the next few months. ***AAFA strongly supports elimination of duties on footwear no longer made in the United States. AAFA successfully eliminated duties on virtually all footwear (under liberal rules of origin) in every U.S. free trade agreement during the past five years. Furthermore, AAFA has successfully lobbied for the temporary elimination or reduction of duties on U.S. imports on over 30 specific types of footwear through the U.S. Congress' Miscellaneous Trade Bill (MTB) process. AAFA was the first association to endorse the AFI and has taken a lead role in developing and lobbying for this important initiative to help accomplish AAFA's footwear duty elimination goals. Together with Sandler Travis and other footwear interests, AAFA is also working to prevent Customs from classifying footwear with textile outsoles into a higher duty rate. Toward that end, AAFA has helped generate numerous letters from Members of Congress in support of AAFA's and the footwear industry's position against reclassification.***

7. ***China Safeguards:*** The United States and China [reached an agreement on November 8, 2005](#) to impose safeguard quotas on U.S. imports of 34 individual categories (21 combined categories) of Chinese apparel and textiles for the period of January 1, 2006 - December 31, 2008. After China underutilized its quota allocation during 2006, the Chinese government announced [new procedures](#) for allocation during 2007. ***AAFA continues to work with the Bush administration and Congress to ensure smooth implementation of the agreement.***
8. ***EU Antidumping Cases against Chinese and Vietnamese Footwear:*** In a controversial decision that has already triggered at least one legal challenge, the European Union (EU) on October 6, 2006 "approved" a European Commission proposal to impose final dumping duties (on top of normal duties) of 16.5 percent and 10 percent, respectively, on European imports of certain leather footwear from China and Vietnam for a two-year period beginning October 5, 2006. The member states approved the Commission's proposal by a vote of 9 member states in favor, 12 member states against and 4 member states abstaining. Under EU rules, an

abstention counts as a vote in favor, meaning the proposal was approved by a vote of 13-12. This action came after several previous proposals were defeated. ***AAFA strongly opposes the EU anti-dumping action. In addition to keeping its members informed of the ongoing situation, AAFA is actively working with the U.S. government and AAFA's European counterparts to fight the anti-dumping cases, and prevent other countries from replicating this action.***

9. ***Other China Issues:*** Continuing irritation over Chinese subsidies led the Bush Administration in February 2007 to file a [complaint](#) with the World Trade Organization (WTO). That complaint could drag out for several years, but could ultimately result in WTO-consistent trade sanctions being imposed on China or the elimination of certain subsidies or practices the Chinese now support. The United States also filed two other requests March 10 for WTO dispute settlement consultations with China: one over deficiencies in China's legal regime for protecting and enforcing copyrights and trademarks on a wide range of products, and the other over China's barriers to trade in books, music, videos and movies. At the same time, the Bush Administration – through initiatives spearheaded by Treasury Secretary Hank Paulson, Commerce Secretary Carlos Gutierrez, and US Trade Representative Susan Schwab – are engaging in a series of high level dialogues to encourage resolution of bilateral commercial problems. Despite these efforts, more and more members of Congress have decided it is time for Congress to take action. While many are introducing legislation ([Davis/English Bill \(H.R. 1229\)](#), [English bill](#), [Hunter/Ryan bill](#), [Stabenow/Graham bill](#), etc.) targeting China over their alleged infractions on currency, subsidies and intellectual property rights, others are airing their grievances through Congressional hearings on China, the second of which was held by the [powerful House Ways & Means Committee](#) in February. Many believe that the Davis/English bill (H.R. 1229) has the most likelihood of moving forward, with a mark-up in the House Ways & Means Committee expected by early summer. In response, the Bush administration, reversing 23 years of policy, [announced March 30](#) that it will allow US manufacturers to bring countervailing duty (CVD) cases against U.S. imports from non-market economies, such as China and Vietnam, over alleged subsidies. Meanwhile, as part of their effort to prevent their economy from overheating and to deflect mounting criticism of their trade surplus, China [confirmed July 24, 2006](#) that it reduced or eliminated tax rebates exports of resource-intensive and environmentally-harmful products, including many inputs used in apparel and footwear, such as semi-processed/wet-blue leather and seems poised [to take additional measures](#) to slow its exports. ***AAFA is actively working on bilateral issues to ensure its members maintain as well as increase market access in China, to ensure China adheres to its WTO obligations, and to promote China as a predictable business partner.***
10. ***Customs/Port Security Issues:*** As part of the “first hundred hours” push of the new Democratic majority, the House of Representatives approved [9/11 Commission Implementation Act \(HR 1\)](#), which, among other things, contains a new mandate for 100 percent scanning for radiological materials of all inbound cargo before leaving foreign ports. This provision would override a 100 percent scanning pilot program

created in [The Security and Accountability for Every \(SAFE\) Port Act](#), which the President signed into law in October 2006. Senators, however, seem less inclined to revisit this issue, particularly since the pilot program in the SAFE Port Act has not yet been given time to be implemented and because it is unclear there exists the technology to satisfy a full 100 percent scanning mandate. Meanwhile, efforts continue regarding implementation of the SAFE Port Act. Among other things, that legislation will increase requirements for participants in Customs' Container Security Initiative (CSI) and the Customs-Trade Partnership Against Terrorism (C-TPAT) program and require background checks of all workers at US ports. The act also requires Customs to ensure it has sufficient data on shipments entering the United States, which has led to new 10+2 data requirements. Meanwhile, on February 23, California Senator Alan Lowenthal [re-introduced SB 974](#), [AAFA-opposed legislation](#) which calls for a \$60 per 40-foot container fee at the ports of Los Angeles, Long Beach and Oakland to pay for goods movement infrastructure investments and goods movement-related pollution reduction programs. The same bill passed the California General Assembly last year, but Governor Arnold Schwarzenegger (R) [vetoed the measure](#). Many experts feel that the political environment has changed, which could force Schwarzenegger to sign the measure if it reaches his desk again. On a related point, due to intense opposition by AAFA and others, [similar legislation](#) in the Washington State Senate that would have imposed a new \$100 per container fee on containers moving through the Ports of Seattle and Tacoma has now become a proposed study to evaluate whether a new container fee would lead to cargo diversion away from Washington State ports. ***AAFA will lobby to defeat or change proposed legislation and other initiatives that could adversely affect U.S. apparel and footwear firms while doing little to improve homeland security. At the same time, AAFA continues to work with Congress and the U.S. government to find constructive solutions to improving homeland security and to improve the transportation infrastructure in the United States without impeding trade. AAFA will also continue to monitor the situation on the West Coast and will explore alternative solutions (including possible legislative fixes) for AAFA members.***

11. ***EU Retaliation:*** The European Union (EU) [recently expanded retaliatory duties](#) of 15 percent (on top of normal duties) on European imports of certain U.S.-made footwear, apparel and textile exports in connection with a dispute settlement case on the Byrd Amendment (which provided for distribution of anti dumping and countervailing duties to trade remedy petitioners (U.S. manufacturers) – an action the WTO ruled was in violation of international trade agreements.) Although the Byrd Amendment was repealed in 2005, that repeal does not take effect until late 2007. Because of the delayed repeal, the EU has successfully petitioned the WTO to keep retaliatory duties in place. This situation is a perfect example of how an action that is supposedly meant to protect U.S. manufacturers (i.e. petitioners in an anti-dumping case) actually hurts U.S. manufacturers (i.e. the U.S. apparel, footwear and textile products manufacturers whose exports to Europe, their biggest export market, are now subject to sanctions in the form of 15 percent punitive duties). ***AAFA has been working to help remove members' products from***

***retaliation lists and supports legislation to remove the underlying trade disputes.***

12. ***Doha Round***: The Doha Round of global trade negotiations, halted in July 2006 after the members of the World Trade Organization (WTO) failed to break a stalemate over agriculture ([See AAFA Press Release](#)), has since moved forward in fits and starts. While WTO members and officials have made positive statements as to their willingness to overcome difficulties and the importance of concluding the round, little substantive work seems to have been done to bridge underlying differences. Once they are brought to a successful conclusion, the talks could lead to lower tariff and non-tariff barriers worldwide to U.S.-made and U.S.-branded apparel, footwear and textiles. In contrast, some groups, as part of the talks, have advocated new safeguards on textiles and clothing to restrain China, India, and other large producers in a post-quota environment. ***AAFA supports the successful completion of the Doha round as long as it substantially reduces and/or eliminates tariff and non-tariff barriers in key markets worldwide. AAFA remains opposed to efforts that would use these talks to create new trade barriers or safeguards, particularly with respect to textiles and clothing.***
  
13. ***Anti-Counterfeiting and IPR Issues***: Congress and the Administration continue to be active on efforts to strengthen intellectual property rights (IPR) protection and enforcement. A law ([PL 109-81](#), Stop Counterfeiting in Manufactured Goods) that was enacted in March 2006 to provide tougher penalties for the trafficking in counterfeit handbags and labels has already had some results and will continue to help law enforcers prosecute counterfeiters. Efforts are now being made to encourage individual states to approve their own version of this bill. Senators Evan Bayh (D-IN) and George Voinovich (R-OH) recently reintroduced legislation ([S. 522](#)), to strengthen the management, coordination, and effectiveness of domestic and international intellectual property rights enforcement. This legislation is based on a similar bill that was introduced in the 109<sup>th</sup> Congress. Congressman Delahunt (D-MA) and Congressman Goodlatte (R-VA) recently announced their plans to reintroduce legislation from the 109<sup>th</sup> Congress that would allow for a three year copyright on fashion design ([HR 5055](#)). A hearing held in late July 2006 highlighted some of the division within the fashion industry on the bill, in particular the potentially broad scope of what could be considered “substantially similar” to designs that get copyright protection. On the international front, the Administration continues to push a tough pro-IPR agenda in several ways. It recently initiated the first-ever WTO case on enforcement several weeks ago when it [filed two IPR-related cases on China](#). More recently, the USTR identified a series of countries which remain deficient in their IPR practices through its annual [special 301 report](#) on April 30, 2007. ***AAFA supports the continued strengthening of U.S. laws used to prosecute counterfeiters as well as the U.S. government’s efforts to improve the enforcement of IPR laws globally. AAFA is working with the International Anti-Counterfeiting Coalition (IACC) and the Chamber of Commerce (COC) to support efforts to implement portions of PL 109-81 at the state level. AAFA remains neutral on the fashion design copyright issue due to diverse member***

*opinions, but has engaged with the interested parties, including the Council of Fashion Designers of America (the group pushing the bill), to improve the legislation as it moves forward. The sponsoring members have expressed an interest in incorporating the provisions suggested by the AAFA Design Copyright Task Force. AAFA supports continued activity abroad to crack down on IPR violations and [filed comments](#) to the USTR for the annual Special 301 report.*

## **Government Contracting Issues**

14. ***Preservation of “Berry Amendment” Buy America protections:*** Rep. Robin Hayes (R-NC) sponsored the legislative provisions providing transparency and clarification that were included in the FY 2006 Defense Authorization Act, and has been a long-time supporter of these issues. Work continues to make sure these valuable changes are implemented faithfully. In addition, apparel and footwear contractors continue to express concerns over the manner in which contracts are awarded, which prevent adequate business planning. Separately, Hayes has reintroduced legislation, [HR 917](#), to extend Berry Amendment protections to the Department of Homeland Security (DHS), which includes the Border Patrol, the Transportation Security Administration (TSA), and other agencies. The bill does not have a Senate sponsor yet, though there are a few interested candidates. In early May, the approved a DHS Authorization bill ([HR 1684](#)) containing a provision that would require uniforms, protective gear, badges and ID cards to be manufactured in the United States. That provision was included at the request of the House Homeland Security Committee staff and is identified with with Rep. Bob Etheridge (D-NC) who has also introduced a stand alone bill ([HR 1686](#)) with that same procurement requirement. Unfortunately, this language does not track with the Berry Amendment and therefore does not require inputs to be of U.S. origin. In addition, the language is not compliant with U.S. international trade obligations. Although Hayes tried to insert his language through a series of parliamentary moves, he was ultimately rebuffed on a [vote of 217 to 199](#) (the voted needed to fail in order for the procedural tactic to succeed). A separate vote to strip the Etheridge language from the bill entirely also failed on a [vote of 36 to 390](#). It remains to be seen if this language will survive or if the underling DHS Authorization bill will even be signed into law. Among other challenges, the Administration [opposes](#) the DHS bill, and has even cited opposition to the Etheridge language as one of the factors contributing to its adverse position. ***AAFA strongly supports the preservation of the Berry Amendment as a national security issue and as a vital way to maintain a warm industrial base for the national defense. AAFA worked closely with Representative Hayes’ staff to ensure that the legislation introduced was compliant with U.S. international trade obligations while providing new opportunities for government contractors. AAFA does not support the Etheridge language. AAFA will continue to monitor and guard against any efforts to dilute or weaken DoD Berry protections and will work the DHS issue to advance AAFA member interests.***

15. ***Reform of Federal Prison Industries (FPI):*** Efforts in the 109<sup>th</sup> Congress were focused on securing enactment of a comprehensive FPI reform package. AAFA-supported legislation (see [HR 2965](#) - the FPI Competition in Contracting Act of 2006 or [HR 1829](#) – FPI Competition in Contracting Act of 2003) passed the House overwhelmingly in two previous Congresses, but never passed the U.S. Senate. This legislation would have built upon legislation approved in the 2002 for the military, and extended in 2004 for the entire government, that gave U.S. government contracting officers the ability to require FPI to meet the price, quality and delivery points of the private sector. With the Democratic majority focused on other areas, and with the Subcommittee of jurisdiction in the House now controlled by an FPI supporter, prospects for action in the current Congress remain unclear. ***AAFA supports permanent and comprehensive FPI reform to make that agency more accountable and subject to greater and more effective oversight in order to level the playing field for U.S. contractors by requiring the same price, quality and delivery time requirements met by the private sector.***

### **Labor Issues**

16. ***Anti Sweatshop Legislation:*** In January 2007, U.S. Senator Byron Dorgan (D-ND) introduced the [Decent Working Conditions and Fair Competition Act \(S. 367\)](#). Congressmen Michael Michaud (D-ME) and Chris Smith (R-NJ) [introduced similar legislation \(H.R. 1910\)](#) in the House on April 18. The legislation would define trafficking in sweatshop goods as an unfair practice before the Federal Trade Commission. It would also create a private right of action for companies (including individual shareholders in those companies) to sue other companies because they are allegedly selling sweatshop made goods. Finally, it would grant new powers to the U.S. Government to investigate contractors to ensure the U.S. government is not purchasing goods made with sweatshop labor. Because of the bill's wide scope and poorly defined provisions, it is unclear if the legislation will see much action. It will however be a vehicle to generate debate, as it did during [a hearing before the Senate Commerce Committee](#) in mid February 2007. ***AAFA supports efforts to eliminate goods produced under sweatshop conditions, but believes the S. 367 would fail to advance that goal.***
17. ***Minimum Wage:*** Legislation to increase the minimum wage, which has not been raised for the past 10 years, cleared both Houses of Congress during January 2007 (as part of the Democrats' 100 hour push). With such an increase enjoying the support of the President, most believe it will become law at some point this year, though it still has a few hurdles to cross. Although the House passed a simple increase in the minimum wage quickly, the Senate was only able to take action after pairing the minimum wage bill with a package of about \$12.3 billion in tax breaks for small business. The House then passed tax package provided just under \$2 billion. A compromise between the two bills that would pass both the House and the Senate has thus far eluded leadership. Recently, however, House Ways and Means Chairman Rangel and Senate Finance Chairman Baucus came to an agreement on a \$4.8 billion tax package that was included with the minimum wage increase in the Iraq War Supplemental Appropriations bill. The President's veto

(due to the inclusion of a troop withdrawal mandate) will open another opportunity to tweak the tax package. However, the current form of the agreement between Rangel and Baucus does not have the votes to pass the Senate in a stand-alone bill with minimum wage, so it could possibly be added again to a revised supplemental bill. Even under this scenario, passage of the minimum wage/tax package is not a foregone conclusion. For example, if the troop withdrawal timeline is taken out of the supplemental, some Democrat votes could be in question. ***AAFA has taken no position on the minimum wage issue but would like to ensure it applies fairly to all Americans, including those employed by Federal Prisons Industries.***

18. **Card Check:** A top priority of organized labor this year, the so-called Employee Free Choice Act (EFCA), would make it easier for unions to be recognized as collective bargaining representatives in workplaces in the United States. The legislation would replace the current system of federally supervised secret ballots with a simple card check system (which would be triggered if a majority of employees sign a card designating a union as their preferred collective bargaining representative), potentially subjecting workers to intimidation while preventing employers from presenting their views to employees. The legislation, however, would leave intact the secret ballot necessary to end a union's designation. Many in the business community have announced their strong opposition to the card check legislation, denouncing it as undemocratic. On March 1, 2007, the House approved its version of the EFCA ([H.R. 800](#)) by a vote of 241 to 185. The Senate version ([S.1041](#)) was introduced on March 29, 2007 by Senator Kennedy (D-MA), and now has 46 co-sponsors, all of which are Democrats. Senate passage, however, is unlikely. Further, the White House has already announced it will veto the legislation. ***AAFA is opposed to this legislation and has joined a broad industry coalition – the [Coalition for a Democratic Workforce](#) – to work this issue. The Coalition has sent a letter to Congress and is now actively meeting with Senators and staff to explain why this legislation is not needed.***

## **Regulatory Matters**

19. **Children's Clothing:** In 1996, the Consumer Product Safety Commission (CPSC) modified the children's sleepwear flammability standards to permit the sale of children's sleepwear made from non-flame resistant material for sizes 0-9 months or that meet certain snug-fitting dimensions. In 1999, the CPSC reaffirmed this rule with additional labeling requirements. Years of data continue to support the facts that this sleepwear is safe. Although efforts were made in previous Congress's to overturn this standard, no such efforts have been made thus far in the 110<sup>th</sup> Congress. ***AAFA strongly supports the retention of the 1996 children's sleepwear amendments. In order to keep the lines of communication open between the CPSC and AAFA members, AAFA's Childrenswear Division hosted a reception with the now former CPSC Chairman Hal Stratton on March 9, 2006. Mr. Stratton offered remarks and took questions concerning children's apparel issues. A follow up meeting was held at the CPSC headquarters in June 2006 with former***

***Chairman Stratton and his compliance team to discuss children's apparel and general wearing apparel issues AAFA companies are facing.***

20. **Drawstrings:** The Consumer Product Safety Commission (CPSC) issued a letter on May 19, 2006 to manufacturers, retailers and importers of children's upper outerwear garments, urging them to make certain the garments do not have hood drawstrings that can pose a strangulation hazard to children. Office of Compliance Director John Gibson Mullan urged the firms ensure that all children's upper outerwear imported, manufactured, distributed or sold in the United States complies with the current voluntary safety standard, ASTM F-1816 *Standard Consumer Safety Specification for Drawstrings on Children's Upper Outerwear*. The [states of Wisconsin and New York](#) have enacted laws that exceed these federal guidelines. ***AAFA supports national drawstring guidelines, and urges companies to operate in full compliance with them.***
21. **Flammable Fabrics Review:** On September 12, 2002, the Consumer Product Safety Commission issued a notice of Advanced Proposed Rulemaking (ANPR) to review and update the testing standards for the general wearing apparel flammability standard. On February 27, 2007 the CPSC issued a [Federal Register Notice](#) proposing to amend some of its flammability standards and seeking comments or oral presentations. ***AAFA filed technical comments on the ANPR and expects to comment on the proposed amendments as well.***
22. **Labeling Issues:** On December 6, 2006, Congress approved [H.R. 4583](#), titled the "Wool Suit Fabric Labeling Fairness and International Standards Conforming Act," which revised the requirements for labeling certain wool and cashmere products. The Act (which was approved as part of a larger omnibus trade package) amended the wording for the labeling of wool and cashmere products to "facilitate compliance and protect consumers." The changes took effect on January 1, 2007. ***AAFA has [written](#) to Representative Blackburn expressing support for this legislation.***

Numerous governments, including South Africa, Colombia, and S. Korea, continue to propose new rules on labeling of apparel, footwear, travel goods and other consumer products. Moreover, the US and EU Governments have proposed text to harmonize labeling standards as part of the Doha Round of global trade talks to prevent such non tariff trade barriers in the future. ***AAFA strongly opposes labeling regulations when they act as non tariff barriers, but strongly supports the efforts of the United States and the European Union to harmonize and standardize labeling for apparel, footwear, textile and travel goods products. AAFA submitted [comments](#) to the South African government expressing opposition. In response to these comments, the South African government made several modifications.***

The European Union (EU) is trying to [determine](#) whether to require labeling and product information for products sold in Europe to use metric-only measurements beginning on January 1, 2010. ***In its comments to the EU, [AAFA](#) noted that***

***the continuation of the current policy of allowing dual metric/US measurements would benefit both European and U.S. businesses and consumers and help to keep EU and U.S. labeling requirements in harmony.***

The [Federal Trade Commission \(FTC\)](#) and the U.S. Trade Representative are working with the Canadian and Mexican governments on a draft agreement that would harmonize the meaning of care label symbols across the three NAFTA countries. A final agreement is expected sometime soon. A similar initiative is occurring under the International Standards Organization (ISO) process, although it has reached stumbling blocks over the insistence of some European countries to use a system trademarked in Europe. A separate initiative may be undertaken to permit the FTC and the Canadian government to recognize each other's manufacturers' ID numbers. This initiative requires legislation since the FTC is only statutorily permitted to recognize its own ID scheme. Finally, in response to a legislative mandate, the FTC has issued new labeling guidelines for hosiery that took effect March 2006. ***AAFA is working with the government to ensure new onerous sock labeling rules are the least restrictive possible. AAFA is also working with the FTC to promote harmonization and simplification of labeling rules. In 2005, AAFA and the FTC released the latest edition of the labeling guide, [Threading Your Way Through the Labeling Requirements Under the Textile and Wool Acts.](#)***

## **Other**

23. ***Funding for NTC/[TC]<sup>2</sup>***: Each year, the [National Textile Center](#) (NTC) and the [Textile/Clothing Technology Corp. \[TC\]<sup>2</sup>](#) receive federal appropriations through an earmark in the annual Commerce/Justice/State (CJS) appropriations bill to support their work to advance the competitiveness of the U.S. textile and apparel industry complex. Over the years, NTC has received about \$10 million in funding while [TC]<sup>2</sup> usually receives around \$3 to \$3.5 million. FY 2006 funding levels were set at \$13 million and \$3.5 million, respectively. The legislative earmarks for FY 2007 were eliminated. The earmarks were also eliminated in the continuing resolution currently funding government and government programs for FY 2007 federal spending. ***AAFA supports continued funding for NTC and [TC]<sup>2</sup> and recently sent a [letter](#) to Commerce Secretary Gutierrez urging full funding and supported a letter sent to Senators Barbara Mikulski (D-MD) and Richard Shelby (R-AL) asking for full funding.***
24. ***Funding for Textile Marker System.*** At the request of Senator Elizabeth Dole (R-NC), the Small Business Administration was provided a grant of \$500,000 in FY 2005 to help support development of a [textile marker system](#). During FY 2006, that grant – also in the amount of \$500,000 – was channeled via the International Trade Administration. Officials at the Oak Ridge Laboratory who have received the grant believe the systems will have application for anti-transshipment issues, although it remains unclear if this technology can find an application in this area. ***AAFA is tracking this program closely.***

For additional information, please contact the AAFA Government Relations Staff at 703-524-1864 or through the “Legislative/Trade News” section of the AAFA Web Site at [www.apparelandfootwear.org](http://www.apparelandfootwear.org). You can also get more information by clicking on the hot links embedded throughout this document.

*Steve Lamar*  
*Executive Vice President*

*Felicia Cheek*  
*Director of Government Relations*

*Nate Herman*  
*Director of International Trade*

*Kurt Courtney*  
*Manager of Government Relations*

*Lindsay Masters*  
*Government Relations Representative*