

# AMTAC

American Manufacturing Trade Action Coalition

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## 2010 AMTAC AGENDA

### Border Adjusted Taxation/Value Added Tax (VAT)

Manufacturers in the United States are at a great competitive disadvantage to foreign manufacturers as a result of disparate treatment of tax systems under World Trade Organization (WTO) rules. With the exception of the United States, nearly every developed nation in the world employs some type of border-adjusted consumption tax, also known as value added tax (VAT), on manufactured goods. The average worldwide VAT rate is 15.5 percent. These taxes are rebated on exports and levied on imports. The rebate of taxes upon export normally is prohibited under the WTO trading regime. In the 1950s, however, the United States agreed to allow the assessment of these border taxes and their rebates to be permissible the General Agreement on Tariffs and Trade (GATT), the predecessor to the WTO. Despite numerous attempts to correct the inequity, this loophole still exists today. In fact, VAT taxes rebated on exports and assessed on imports resulted in an estimated \$518 billion dollar "border tax" disadvantage to U.S. producers and service providers in 2008 alone.

AMTAC believes the border tax disadvantage is the greatest contributing factor to the \$5.8 trillion U.S. current account deficit for the decade of the 2000s. Noting this, AMTAC strongly supports enactment of legislation that would negate the border tax disadvantage to U.S. producers and service providers. Such legislation would need two basic components. First, it would direct the United States Trade Representative (USTR) to negotiate a remedy for the border tax inequity through the WTO by a date certain. Second, if there is no negotiated solution by that specified date, the United States then would begin charging an offsetting tax on goods and services at the U.S. border equal to the VAT rebated by the exporting country. The U.S. government would also rebate taxes to U.S. companies exporting goods to foreign countries at the same rate as those countries impose a VAT at their borders. Congressman Bill Pascrell (D-NJ) has introduced legislation along these lines as H.R. 2927, the Border Tax Equity Act. AMTAC endorses and strongly supports this bill.

### Currency Manipulation/Misalignment

A few countries, most notably China, peg or fundamentally misalign their currencies' value to the U.S. dollar at a level much lower than market value. For example, it is estimated that China's currency is pegged at 35 percent or more below its actual value as compared to the U.S. dollar. Absent this peg, the massive \$226 billion U.S. trade deficit with China should trigger a natural free market reaction of increasing the value of the Chinese yuan in relation to the dollar. Such a rise would increase the cost of U.S. imports from China and lower the cost of U.S. exports to China, thus partially correcting the trade imbalance. China, however, steadfastly has refused to float its currency freely

on the market, handicapping U.S. producers versus their Chinese competitors and preventing a much-needed solution to this unfair trade practice.

AMTAC strongly supports legislation that would discourage currency manipulation by China and other countries by giving U.S. producers and workers the right to seek a remedy for injurious export subsidies or dumping under U.S. countervailing duty (CVD) and antidumping law. Senators Debbie Stabenow (D-MI) and Jim Bunning (R-KY) and Congressmen Tim Ryan (D-OH) and Tim Murphy (R-PA) have introduced such legislation as S.1027/H.R. 2378, the Currency Reform for Fair Trade Act of 2009.

### **Strengthening Berry Amendment/Buy American Laws**

Congress should preserve and strengthen current procurement laws and regulations that encourage the U.S. government to buy products made with U.S. content and labor. AMTAC strongly supports the Berry Amendment and the Kissell Amendment, laws that require U.S. military and certain agencies within the U.S. Department of Homeland Security to procure certain products made with 100 percent U.S. content and labor. Especially in these uncertain times, the U.S. national security structure should not be dependent on foreign sources for critical products. It is also why AMTAC supports H.R. 3116, the Berry Amendment Extension Act, introduced by Cong. Larry Kissell (D-NC). This legislation would permanently expand a modified version of the Berry Amendment procurement rules to the Transportation Security Administration (TSA) and the U.S. Coast Guard within the U.S. Department of Homeland Security (DHS). AMTAC also supports extending the Berry Amendment to the Federal Aviation Administration and U.S. highway and mass transit programs and supports expanding the Kissell Amendment to cover all agencies within DHS. Finally, AMTAC supports H.R. 4351, the Buy American Improvement of 2009, introduced by Cong. Dan Lipinski (D-IL). H.R. 4351 would boost U.S. content requirements and increase transparency of waivers for general U.S. government procurement.

### **U.S.-Korea Free Trade Agreement (KORUS)**

The U.S.-South Korea free trade agreement (KORUS) was announced on April 2, 2007, and is expected to be submitted to Congress under Trade Promotion Authority (TPA) rules. The pact is the largest free trade agreement since North American Free Trade Agreement (NAFTA) and the first negotiated with an East Asian industrial exporting power. For industrial products, KORUS will either eliminate immediately or phase out U.S. tariffs but does not guarantee reciprocal U.S. access to the Korean market for such industrial products as autos. AMTAC opposes KORUS because the agreement gives South Korea (pop. 48.5 million) far more access to the \$14.5 trillion U.S. market than the United States (pop. 307 million) receives in return to the \$1.3 trillion South Korean market. Moreover, with China, Vietnam and other low-cost Asian manufacturing competitors in much closer geographical proximity, the South Korean market has a considerably smaller growth potential for U.S. products than the U.S. market has for South Korean products. The United States ran a cumulative trade deficit in goods of approximately \$125 billion with South Korea between 2001 and 2009. The largest South Korean trade surpluses with the United States were in manufactured goods while, in contrast, the largest U.S. trade surpluses with South Korea (with the exception of aircraft and medical instruments) were in agricultural products and raw materials.

## **WTO Doha Round**

The United States must demand full reciprocity from our trading partners as a basic tenet of any new World Trade Organization (WTO) agreement. As it currently stands the average U.S. bound tariff for industrial products is 3 percent, while the average worldwide WTO bound tariff for these same products is 30 percent according to the Statement of Senator Charles Grassley at a Senate Finance Hearing on WTO negotiations October 27, 2005. Moreover, in 2007, the average trade-weighted U.S. tariff was actually 1.3 percent. Clearly the United States should not make any additional tariff concessions until other WTO members come down to our level.

Furthermore, countries under the WTO system are allowed to self-designate their economic status and thereby shield themselves from significant obligations. For example, India and China claim to be “developing nations” for the purposes of the WTO and thus argue that they should not be required to make concessions similar to developed nations, like the United States. This flawed system allows export superpowers like China and India to masquerade as developing countries and reap the benefits of greater access to key international markets while continuing to protect their home markets.

As a result, if the Doha Round is concluded, there is little doubt that it will be detrimental for U.S. manufacturers and their workers. The latest negotiating text which nearly produced an agreement in June 2008 mandates a very specific and harmful outcome for U.S. industry through drastic, non-reciprocal tariff cuts and numerous provisions granting “special and differential” treatment for developing countries including China. In short, the United States will once again be required to make massive market-opening concessions, while the vast majority of our WTO trading partners will be allowed to maintain insulated markets from our exports.

### **Duty-Free Access to the U.S. Market for Least-Developed Countries (LDCs)**

AMTAC strongly opposes proposals that would give duty-free access to the U.S. market for imports of all products from least developed countries (LDCs) and African Growth and Opportunity Act (AGOA) countries.

These proposals represent a substantial threat both to U.S. manufacturing, especially the domestic textile industry, and to our preference partners in Latin America and Africa. Several nations that would benefit from passage of this bill are already export superpowers in textile and apparel products. Bangladesh and Cambodia, respectively, already are the third and eighth largest sources of U.S. apparel imports by volume and the fifth and eighth largest sources by value. In 2009, U.S. apparel imports from these two countries totaled nearly \$5.3 billion.

Since Cambodia and Bangladesh are not large producers of textile components, the yarns and fabrics used in garments they assemble often are supplied by China. China shipped \$2.5 billion in subsidized textile and apparel components to Bangladesh and Cambodia in 2008. With a substantial percentage of apparel exports from those countries going to the United States hundreds of million dollars in Chinese components were included U.S. imports from Bangladesh and Cambodia last year. That figure only will rise at the expense of U.S. producers if Bangladesh and Cambodia gain even more market share as a result of duty-free treatment.

## **Trans-Pacific Partnership**

AMTAC has long-standing concerns with the failed U.S. policy of rampant proliferation of free trade agreements (FTAs) with countries that are major exporters to the U.S. market who, in return, buy comparatively few finished U.S. goods. These “one-way” trade deals have contributed significantly to the massive debt crisis and job losses plaguing the U.S. economy. AMTAC strongly opposes the proposed Trans-Pacific Partnership (TPP) agreement with Singapore, Chile, New Zealand, Brunei, Australia, Peru and Vietnam because it replicates this flawed trade policy model.

For the U.S. textile and apparel sector in particular, a free trade agreement with Vietnam would be nothing short of catastrophic. Vietnam’s ability to flood the U.S. import market with subsidized products is also well documented. Paying full duties, Vietnam currently is the second largest textile and apparel supplier to the United States behind China. Since Vietnam was given “normal trade relations” access to the U.S. textile and apparel market on December 10, 2001, its exports have increased by 10,706 percent and totaled \$5.33 billion in 2009. China, already the world’s largest exporter of textile and apparel products, is a major beneficiary of Vietnam’s growth as it supplied approximately \$2 billion in textile components to that country in 2008.

The TPP is the wrong endeavor at the wrong time. It has the potential for severe, negative consequences for U.S. companies. We urge the U.S. government to withdraw from the negotiations. Resources should be used to study and modify our current FTA agreements and trade policy instead of continuing on the same path that has helped usher in the worst economic crisis since the Great Depression.

## **Trade Promotion Authority (TPA)**

Trade Promotion Authority (TPA) is the name of a procedure that governs the consideration and enactment of bills implementing trade agreements signed by the Executive Branch. The last grant of this authority expired on June 30, 2007. Agreements finalized before that date and that still are pending before Congress will fall under TPA rules regardless of the timing of the vote. In addition, the Obama Administration has said that they will seek its reinstatement at a future undetermined date. AMTAC opposes the reinstatement of TPA because it allows the Executive Branch to usurp constitutionally enumerated powers of the Legislative Branch to regulate commerce with foreign nations and to impose duties on imported goods. Under TPA rules, the U.S. House and Senate (1) are required to introduce legislation completely drafted by the Executive Branch to implement a trade agreement, (2) are prohibited from amending the implementing legislation, and (3) are required to vote it up or down within 90 days. Congress can outline trade negotiating objectives, but the Executive Branch is not bound by them. Because TPA prohibits any amendments to the implementing bill, the terms of the underlying trade agreement have to be either approved or disapproved in their entirety. This makes it much easier to implement flawed trade agreements because Congress is often reluctant to repudiate an entire agreement that may have taken years to negotiate, even if it has reservations about particular parts.