

CUSTOMS ENFORCEMENT

Background

Due to the volume of duties collected on textiles and apparel—traditionally around 40% of annual duties collected by Customs and Border Protection (CBP)—there is a hefty incentive for bad actors domestically and around the world to cheat the system and circumvent our trade laws. The situation has reached a tipping point where U.S. textile production has slowed significantly as demand in our free trade agreement (FTA) regions has virtually disappeared. As a result, a large portion of U.S. textile production and employment, as well as the broader Western Hemisphere textile and apparel co-production chain, is at stake if Congress and the administration do not address customs enforcement with urgency.

Textile and Apparel Trade Fraud

The United States has an elaborate system of FTAs that tie lucrative duty-free benefits in the textile sector to a yarn-forward rule of origin, mandating for most textile/apparel items that production steps from the yarn stage forward must be conducted in the FTA region. The FTA system is defrauded when importers claim FTA tariff-free treatment even though the finished item is comprised of yarn or fabric sourced from China or another non-FTA country. This is often accomplished by falsifying documents showing that textile inputs were sourced from a legitimate textile manufacturer in the United States or the FTA region.

Unscrupulous importers use additional methods to subvert our FTA rules, including purposely misclassifying products to qualify for a lower duty rate, undervaluing goods for a lower customs assessment, and transshipping banned and non-qualifying goods through third countries to disguise them as legal imports. A proactive and robust enforcement regime is required to identify, target, and hold accountable Chinese companies and others who undermine U.S. trade laws and threaten domestic manufacturing jobs.

Experience shows that the best deterrents to trade fraud remain the very real possibility of significant economic penalties and jail time. To put teeth to enforcement, NCTO strongly supports the bipartisan Protecting American Industry and Labor from International Trade Crimes Act (H.R.1869) which creates a dedicated unit within the Department of Justice (DOJ) to investigate and prosecute international trade crimes, which costs the United States an estimated \$163-\$327 billion a year. Due to the sheer amount of fraud prevalent in international trade, enforcement in this sector will pay for itself many times over and create a culture of compliance in the trade.

NCTO Position

We commend Congress for championing the creation of new dedicated enforcement resources at DOJ that support American manufacturers and workers targeted by predatory trade violations from bad actors in China and elsewhere. It is imperative that Congress strengthen customs enforcement by ensuring international trade crimes are fully investigated and that perpetrators are brought to justice.