

CRS Report for Congress

Received through the CRS Web

Textile and Apparel Rules of Origin in International Trade

May 23, 2003

Bernard A. Gelb
Specialist in Industry Economics
Resources, Science, and Industry Division

Textile and Apparel Rules of Origin in International Trade

Summary

In moves to open foreign markets to U.S. goods and services, and vice versa, and to boost economic growth in poorer regions of the world, the United States has entered into free trade agreements and established preferential trade programs. Major challenges are preventing non-members or ineligible countries or products from benefitting, and limiting the potential harm to U.S. producers. These challenges are addressed in part by explicitly or implicitly setting rules for determining the origin of each of particular categories of goods to ensure that benefits flow only to the appropriate trade partner(s) and/or only to the designated categories of goods made by a partner or beneficiary country. Usually, this is done by establishing rules of origin based upon one more or conceptual approaches that have been developed to help designate a category of products or particular item as the “product” of a particular country or group of countries — as unambiguously as possible. Because the United States is considering entering into other free trade agreements, it may be instructive to examine the rules that are part of current agreements and preferential programs.

Existing U.S. free trade agreements and trade preference programs include the following: the North American Free Trade Agreement, the United States-Jordan Free Trade Agreement, the United States-Israel Free Trade Agreement, Andean trade preference (Andean Trade Preference and Drug Eradication Act), Caribbean trade preference (Caribbean Basin Trade Partnership Act as amended), and sub-Saharan trade preference (African Growth and Opportunity Act, AGOA, as amended). The United States has signed proposed free trade agreements with Chile and Singapore.

Based upon brief summaries of the free trade agreements and preferential trade programs listed above, it is observed that if a trade agreement has broader coverage than a trade preference program it does not necessarily indicate that it is a more generous trade promotion vehicle with respect to textiles and apparel. A trade agreement is intended to generate reciprocal benefits whereas a preference program is a unilateral grant of benefits to the intended beneficiary country(ies). However, while recognizing this caveat, it needs to be reported that the trade agreements cover textile and apparel categories more broadly than the preferential programs.

Also, a major characteristic of rules of origin contained in all of the agreements and programs covered is that they tend to be very specific with respect to textiles and apparel. One overall rule, usually set out at the beginning of the relevant document(s), applies to textiles and apparel to the extent that the specific rules do not supercede it. That rule requires that the value of materials produced in a beneficiary country plus the direct cost of processing in a beneficiary country must equal at least 35% of the total value of the article at its entry into the United States. But up to 15% of the 35% may consist of the value originating in the United States.

Thirdly, all of the agreements and preferential programs make special allowance for handloomed, handmade, and folklore articles, as defined by consultation among or between the countries. This report will not be updated.

Contents

Setting and Scope	1
The Need for and Approaches to Rules of Origin	2
Concepts and Definitions	3
Substantial transformation	3
Change in tariff classification	3
Value-added standard	3
Critical process criterion	3
Summaries of Rules of Origin	4
Comparisons	8
General Comments	8
Specific Comments	9
North American Free Trade Agreement	9
U.S.-Jordan Free Trade Agreement	9
Proposed U.S.-Singapore Free Trade Agreement	9
Andean Trade Preference Program	9
Caribbean Basin Preference Program	10
Sub-Saharan Africa Preference Program	10
Selected Current CRS Reports Related to Free Trade Agreements and Preferential Trade Programs	11

List of Tables

Summaries of Textile and Apparel Rules of Origin: Selected Trade Agreements and Programs	5
---	---

Textile and Apparel Rules of Origin in International Trade¹

Setting and Scope

In moves to open foreign markets to U.S. goods and services and vice versa, and, in some cases, to boost economic growth in poorer regions of the world, the United States has entered into free trade agreements and established preferential trade programs. Major challenges are preventing non-members or ineligible countries or products from benefitting, and limiting the potential harm to U.S. producers in the form of improved opportunities for foreign producers to sell in U.S. markets. There is tension between how much the United States wishes to open its markets and how much foreign competition U.S. producers will face. The agreements and programs explicitly or implicitly define rules for determining the origin of each of particular categories of goods to ensure that benefits flow only to the appropriate trade partner(s) and/or only to the designated categories of goods made by a partner or beneficiary country.

Free trade agreements entered into by the United States include the North American Free Trade Agreement (NAFTA) with Canada and Mexico, and individual country agreements with Israel and Jordan. Free trade agreements with Chile and Singapore have been signed.² Preferential trade programs include Andean trade preference (Andean Trade Preference and Drug Eradication Act), Caribbean trade preference (Caribbean Basin Trade Partnership Act as amended), and sub-Saharan trade preference (African Growth and Opportunity Act as amended).³

An important context of these agreements and programs is that textile and apparel manufacture has been shifting to developing countries, with textiles and apparel accounting for large portions of their exports to developed economies in the last few decades. Because textile and apparel manufacture and trade are important elements of developing country economies, provisions regarding textile and apparel products are prominent in the agreements and programs listed above.⁴

¹ Vladimir N. Pregelj, Specialist in International Trade and Finance, Foreign Affairs, Defense, and Trade Division, provided expert guidance in the preparation of this report.

² Presidential signing of the Singapore pact occurred May 6, 2003; the signing of the Chile accord has not been scheduled. Congressional approval must follow in both cases.

³ This report does not discuss the General System of Preferences (GSP) inasmuch as the GSP specifically excludes preferential treatment for textiles and apparel.

⁴ Also, the bilateral trade agreement with Vietnam, which confers conditional normal trade relations (NTR) with that country has been supplemented by an agreement pertaining (continued...)

Because the United States is considering entering into other free trade agreements, it may be instructive to examine the rules that are part of current agreements and preferential programs.

This report first presents the reasons for establishing rules of origin, the issues involved, and the approaches to establishing such rules. It summarizes the actual rules used by several agreements and programs, and then compares the rules of those agreements and programs. The report provides minimal information on the trade agreements and programs other than the summaries of rules of origin. For more extensive details on these agreements and programs, see the list of selected CRS reports on the last page of this report. For discussion and analysis of the economics of textile and apparel production and of textile and apparel trade issues in general, see CRS Report RL31723, *Textile and Apparel Trade Issues*.

The Need for and Approaches to Rules of Origin⁵

A variety of issues arise in constructing trade agreements and preferential programs. One is preventing non-members or ineligible countries from benefitting. Another is the potential harm to U.S. producers in the form of improved opportunities for foreign producers to sell in U.S. markets. In both cases, there is tension between how much the United States wishes to open its markets (and those of beneficiary countries) and how much foreign competition will be faced by U.S. producers. Consequently, a key challenge is to define exactly what constitutes the product of a trade agreement member or what goods (and/or services) qualify to benefit from a preferential program. Usually, this is done by establishing rules of origin. In some cases, such “rules” are designated as such, but essentially are incorporated in stated criteria of eligibility for benefits.

The challenge is technical as well as political. Growing globalization of the world economy makes it difficult to identify the “nationality” of many products. Many products are an amalgamation of labor, capital, and material inputs from two or more countries. A systematic conceptual approach to deal with this is needed, although economic interests usually force departure from a strict approach.

As discussed below, stated or implicit rules of origin are essential components of the agreements and programs. Such rules, moreover, will have continuing relevance inasmuch as the Agreement on Textiles and Clothing (under the aegis of the World Trade Organization) provides for the phasing out of quotas (effective January 1, 2005) but not the phasing out of tariffs. Consequently, it may be instructive to examine the rules that are part of current agreements and preferential programs for possible consideration and comparison in future circumstances.

⁴ (...continued)

exclusively to textiles and apparel. U.S. imports of those products from Vietnam have increased markedly since Vietnam began receiving the lower NTR tariff rates.

⁵ This presentation of issues, concepts, and definitions is based largely upon more extensive discussion of such matters in CRS Report 92-584E, *Rules of Origin and the North American Free Trade Agreement*, by Douglas Karmin.

Concepts and Definitions

Basically, four different approaches have been developed to design rules of origin that, as unambiguously as possible, designate a particular item as the product of a particular country or group of countries, or a product of a beneficiary country. Minimizing ambiguity usually means establishing extremely detailed rules. In some cases, the term “rules of origin” per se is not used, but such “rules” are implicit in stated criteria of eligibility for benefits. The trade agreements and programs covered here use different approaches to defining origin. Most use two or more approaches; some applying to only one category of articles. *There almost always are exceptions to the general approaches or rules.* The four basic approaches are as follows:

Substantial transformation. One or more manufacturing or assembling processes (possibly involving the addition of new materials) change(s) the character of a good or a class of goods thereby producing a new or different product. Thus, in the case of a trade agreement, origination generally is assigned if the application of a manufacturing or assembling process changes the character of a good or a combination of goods thereby producing a new or different product with a different character. In the case of a preferential program, eligibility for benefits is conferred if the product (or product category) undergoes a specified transforming process, and specifically not conferred if it undergoes a less transforming process.

Change in tariff classification. One or more manufacturing or assembling processes (possibly involving the addition of new materials) alters the product to the extent that its tariff classification changes. For trade agreements, origination is assigned if the application of a manufacturing or assembling process alters the product to the extent that its tariff classification changes. For preferential programs, eligibility for benefits is conferred if the product is or was, or is not or was not, of a specified tariff classification.

Value-added standard. Manufacturing, assembling, and materials newly included account for a specified minimum proportion of the product’s total production costs or value — often measured by value added. In the case of a trade agreement, origination is assigned if the application of a manufacturing or assembling process and/or materials newly included account for a specified minimum percentage of the product’s production costs. In the case of a preferential program, a specified minimum percentage of the value of the article at entry into the United States must be accounted for by the value of materials produced in a beneficiary country and included in the product plus the direct costs of processing in that country.

Critical process criterion. A specified key input is incorporated or a specified key manufacturing process is performed. For trade agreements, origination is assigned if a key input is incorporated or a key manufacturing process is performed. For preferential programs, it often is the case that a product must contain one or more specified inputs or components made in the United States.

A variant of the critical process criterion, the “yarn forward” rule of origin, is used at least to some extent as an explicit or implicit general principle with respect to textiles and apparel by the trade agreements and preferential programs covered in this report, albeit usually with exceptions. In NAFTA, a textile product is considered

as “originating” if the material used in each of the successive stages of fabricating textile products — the yarn itself, the fabric, and the sewing thread — originate in a beneficiary country. Thus, it is used to limit trade benefits to NAFTA countries only. When used in U.S. preferential programs such as the Caribbean Basin program, the purpose of the yarn-forward principle is to limit the extent to which intended beneficiary countries can incorporate their own materials.

Summaries of Rules of Origin

The following table presents brief summaries of the explicit and implicit rules of origin provisions with respect to textiles and apparel in the following free trade agreements and preferential trade programs: The North American Free Trade Agreement (NAFTA), the United States-Jordan Free Trade Agreement (US-Jordan FTA), the Andean Trade Preference and Drug Eradication Act (ATPDEA), the Caribbean Basin Trade Partnership Act as amended (CBTPA), the African Growth and Opportunity Act as amended (AGOA), and the proposed United States-Singapore Free Trade Agreement (US-Singapore FTA).

As in the case of nearly all trade agreements and preferential programs, these have special rules of origin with respect to textiles and apparel, and the provisions (a) are extremely detailed in their entirety and/or with respect to certain aspects, and (b) contain numerous exceptions (for particular product categories) and qualifications (such as phase-in periods). Consequently, it is not practicable to present and compare them in their entirety. CRS has applied judgement as to what provisions are most important.

As noted earlier, the trade agreements and programs covered here use different approaches to defining origin; and more than one of these agreements and programs use more than one system.

These summaries are based upon one or more of the following: (a) the text of the trade agreements themselves, (b) the U.S. statutes implementing the agreements or the program, and (c) summaries prepared by the Office of Textiles and Apparel, U.S. Department of Commerce, and (d) summaries from a few of the CRS reports listed below.

Inasmuch as the summaries are, in virtually all cases, generalizations, readers should use them only for general analytical purposes.

Summaries of Textile and Apparel Rules of Origin: Selected Trade Agreements and Programs

Approach or Product Category	Agreement or Program	
	North American Free Trade Agreement	U.S.-Jordan Free Trade Agreement
General Approach and/or Principle(s)	Yarn forward (critical process criterion): Yarn used in each of the successive stages of fabricating textile products (the yarn itself, the fabric, and the sewing thread) must originate in a NAFTA country. Also, each non-originating material used must undergo an applicable change in tariff classification (specified in an Annex), or the good must otherwise satisfy applicable requirements where no tariff classification change is required.	Critical process criterion: Basically, an article must be made of a fiber or fabric manufactured by a Party, or wholly assembled by a Party.
Exception(s)	(a) For many individual product categories, substantial transformation or change in tariff classification must occur. (b) NAFTA-made yarn, fabric, apparel not meeting strict NAFTA content requirements can be eligible for preferential duty treatment up to agreed annual levels.	A textile or apparel product that is knit-to-shape in a Party is considered the growth, product, or manufacture of that Party notwithstanding other rules.
Yarn	Cotton & man-made fiber spun yarn & sewing thread must be of NAFTA origin. Filament yarns must be NAFTA formed; feedstocks not limited. Yarns, sewing thread of other fibers must be spun in a NAFTA country.	If yarn, thread, rope, twine, cordage, etc., the constituent staple fibers must be spun in a Party, or the continuous filament be extruded there.
Fabric	Yarn forward, except: Cotton & man-made fiber knit fabrics and man-made fiber non-woven & specialty fabrics require NAFTA-origin fiber. Coated fabric must have NAFTA-origin fabric, except tire cord & belting, and man-made fiber hose.	Constituent fibers, filaments, yarns must be woven, knitted, tufted, felted, needled, entangled, or substantially transformed by any other fabric-making process in the Party. If a cotton, silk, man-made, or vegetable fabric is dyed, printed, and undergoes 2 or more finishing operations in a Party, it qualifies.
Apparel	Yarn forward, except: Apparel made from fabrics originating in a non-NAFTA country that are in short supply in NAFTA must be cut or knit to shape and assembled in a NAFTA country. Men's dress shirts made from certain cotton and cotton/man-made fiber blend fabrics must undergo substantial transformation. Nightwear and women's underwear of fine count cotton knit fabric must undergo substantial transformation. Bras-sieres & all silk & linen apparel must undergo substantial transformation.	Must be wholly assembled in the Party from its component parts.
Other Textile Items	Yarn forward, except: Fiber in man-made fiber products must be of NAFTA-origin. A fabric forward rule applies to luggage, handbags, flat goods, & curtains of certain yarns. Silk & linen goods must undergo substantial transformation.	Must be wholly assembled in the Party from its component parts.

Summaries of Textile and Apparel Rules of Origin: Selected Trade Agreements and Programs (continued)		
Approach or Product Category	Agreement or Program	
	Andean Trade Preference Program	Caribbean Basin Trade Preference Program
General Approach	Critical process criterion: Must be assembled from products of a beneficiary country or the U.S.	Yarn forward (critical process criterion): In most cases, U.S.-made yarn and/or U.S.-made fabric required.
Exception(s)	(a) In some cases, dyeing, printing, & finishing of fabrics must be performed in U.S. (b) If short supply situation in the U.S., President, at request of interested party, may proclaim additional fabrics & yarns eligible for preferential treatment after following certain steps. (c) Articles otherwise ineligible for preferential treatment because constituent fibers or yarns are not wholly ATPDEA- or U.S.-formed can qualify if total weight of such fibers or yarns does not exceed 7% of total weight.	(a) In some cases, dyeing, printing, & finishing of fabrics must be performed in U.S. (b) Short supply situation provisions essentially same as for ATPDEA. (c) Articles otherwise ineligible for preferential treatment because constituent fibers or yarns are not wholly formed in U.S. or CBTPA can qualify if total weight of such fibers or yarns does not exceed 7% of total weight.
Yarn	No provision related to yarn imports per se.	Thread used to assemble an apparel article must have been dyed, printed, or finished in the United States.
Fabric	No provision related to fabric imports per se.	No provision related to fabric imports per se.

Summaries of Textile and Apparel Rules of Origin: Selected Trade Agreements and Programs (continued)		
Approach or Product Category	Agreement or Program	
	Andean Trade Preference Program	Caribbean Basin Trade Preference Program
Apparel	Must be sewn or otherwise assembled in one or more ATPDEA countries or the U.S. or both from one or more of following components: (a) Fabrics or fabric components wholly formed, or components knit-to-shape, from yarns wholly formed in the U.S. or one or more ATPDEA countries, provided that dyeing, printing, and finishing of the woven and knit fabric components is carried out in U.S.; (b) fabrics or fabric components formed from yarns wholly formed in one or more ATPDEA countries if such fabrics (including certain fabrics not formed from yarns) are in chief value of llama, alpaca, or vicuña; (c) fabrics or yarns, to the extent that apparel articles of such fabrics or yarns are eligible for preferential treatment, without regard to source of the fabrics/yarns, under NAFTA short-supply provisions. Regional fabric provision: an apparel article qualifies if assembled in ATPDEA from fabrics or fabric components formed in an ATPDEA country from yarns wholly U.S. or ATPDEA formed, whether or not article is also made from any of the fabrics or components defined in (a), (b), and (c), unless the article is made exclusively from any of the components defined in (a), (b), or (c).	Fabric forward in most cases, with the following specifics: Must be sewn or otherwise assembled in one or more CBTPA countries from fabrics wholly formed and cut, or from components knit-to-shape, in the U.S. from yarns wholly U.S. formed, and all dyeing, printing, and finishing of the fabrics from which the articles are assembled must be carried out in the U.S. If cut and sewn, or otherwise assembled, in one or more CBTPA countries from U.S. fabric made from U.S. yarn, U.S.-made thread must be used, with all dyeing, printing, and finishing of the fabrics having been carried out in the U.S. Knit apparel articles, except socks and certain T-shirts, must be cut and assembled in 1 or more CBTPA countries from U.S. or CBTPA fabric made from U.S. yarn. Non-underwear T-shirts made from CBTPA fabric made of U.S. yarn are subject to a quota. The U.S.-made fabric components of brassieres cut and assembled in one or more CBTPA countries and/or the U.S. must account for at least 75% of customs value.
Other Textile Items	Luggage: Must be assembled in an ATPDEA country from fabric wholly formed & cut in the U.S. that enters the U.S. on same basis as Mexican production sharing/maquiladora provisions, or assembled from fabric cut in an ATPDEA country from fabric wholly formed in the U.S. from yarns wholly formed in the U.S.	Luggage: Must be assembled in a CBTPA country from fabric wholly formed and cut in the U.S. from yarns wholly formed in the U.S. if entering under a certain HTS, or assembled from fabric cut in a CBTPA country from fabric wholly formed in U.S. from U.S. yarn.
General Approach	Yarn forward (critical process criterion): U.S.-made yarn required in most cases; U.S.-made fabric required in most cases. Must be cut in U.S. in some cases.	Critical process criterion: (a) Products must be made from Singapore or U.S. yarn. (b) Assembly must be carried out in Singapore.

Summaries of Textile and Apparel Rules of Origin: Selected Trade Agreements and Programs (continued)		
Approach or Product Category	Agreement or Program	
	Andean Trade Preference Program	Caribbean Basin Trade Preference Program
Exception(s) to rule(s)	(a) Short supply situation provisions essentially same as for ATPDEA and CBTPA (b) Articles otherwise ineligible because constituent fibers or yarns are not wholly formed in the U.S. or a beneficiary country can qualify if the total weight of such items does not exceed 7% of total weight.	(a) Change in tariff classification required for nearly all individual product categories. (b) A limited yearly amount of textiles & apparel containing non-U.S. or non-Singaporean fiber, yarn, or fabric may qualify for duty-free treatment. (c) Short supply provision for apparel made from fabric or yarn in short supply in United States.
Yarn	No provision related to yarn imports per se.	Change in tariff classification required for all products.
Fabric	No provision related to fabric imports per se.	Change in tariff classification required for all products.
Apparel	(a) Must be sewn or otherwise assembled in one or more AGOA countries from fabric wholly formed and cut, or from components knit-to-shape, in the U.S. from yarns wholly U.S.-formed. If knit-to-shape component is either a U.S. or AGOA country product (made from U.S. yarn) and fabrics are cut in the U.S. or an AGOA country, U.S. sewing thread must be used. (b) If assembled from regional-made fabric (woven or knit-to-shape), that fabric must be made from yarn made in the U.S. or an AGOA country. Imports limited by a cap that increases over time. (c) If assembled in a lesser developed AGOA country, there is no restriction on the source(s) of the fabric or the yarn used to make the fabric.	Change in tariff classification required for most products, with qualifications in some instances specific to the individual product.
Other	No provision related to non-apparel items per se.	Change in tariff classification required for all products.

Comparisons

This section briefly compares the rules of origin with respect to textiles and apparel of the two trade agreements and three preferential trade programs in terms of (a) the breadth of inclusion of product categories that are afforded coverage in the trade agreement or preferential program, and (b) in the case of preferential programs, the extent to which the beneficiary countries' labor, capital, and materials are allowed or required to add value to the product. *The comparisons are based only upon the summaries in the table in the preceding section.* Moreover, readers should be aware of the fact that the program by program descriptions below use less precise language than the summaries.

With respect to both bases of comparison, one should note that if a trade agreement has broader coverage than a trade preference program it does not necessarily indicate that it is a more generous trade promotion vehicle. A trade agreement is intended to generate reciprocal benefits whereas a trade preference program essentially is a unilateral grant of benefits by the United States to the intended beneficiary country(ies).

General Comments

- The rules of origin in all of the agreements and programs covered tend to be very specific with respect to textiles and apparel.
- At least in general, all the agreements and preferential programs examined explicitly or implicitly use the critical process criterion approach to establishing rules of origin.
- An overall rule, usually appearing near the beginning of the relevant document(s) applies to textiles and apparel to the extent that the special rules do not supercede it. That rule requires that the value of materials produced in a beneficiary country plus the direct cost of processing in a beneficiary country must equal at least 35% of the total value of the article at its entry into the United States. But up to 15% of the 35% may consist of the value originating in the United States.
- While recognizing the caveat in the second paragraph of this section, the trade agreements cover textile and apparel categories more broadly than the preferential programs.
- All of the agreements and preferential programs make special allowance for handloomed, handmade, and folklore articles, as defined by consultation among or between the countries, and permit eligibility for trade benefits.
- While not specific to textiles and apparel, it should be noted that all the agreements and preferential programs require that a good be

imported directly into the United States from a party to an agreement or from a specified beneficiary country to qualify for trade benefits.

Specific Comments

North American Free Trade Agreement. In so far as textiles and apparel are concerned, NAFTA appears to have very broad product coverage, with provisions related to a very wide variety of types of textile and apparel goods — including textile end-products other than apparel. There are provisions specifically related to yarn, to fabrics, to apparel, and to non-apparel textile products. The “yarn forward” rule of origin principle applies quite broadly; and non-NAFTA-origin fiber (to produce the yarn) is allowed in a super majority of instances. However, special rules of origin regarding fiber origin or substantial transformation apply to several categories of apparel, such as men’s dress shirts, nightwear, women’s underwear, and silk and linen apparel in general. And change in tariff classification is required in nearly all cases at the individual product level. NAFTA went into effect January 1, 1994.

U.S.-Jordan Free Trade Agreement. The US-Jordan FTA appears to have broader product coverage than NAFTA. Here, too, there are separate provisions related to yarn, fabrics, apparel, and non-apparel textile products. But there seem to be fewer exceptions or special requirements affecting product-type groups; and the exceptions tend to include items rather than exclude them. However, considerable preference had already been accorded to Jordan indirectly through the U.S.-Israel Free Trade Agreement (USIFTA). This was expanded in scope in late 1996 to encompass, among other things, qualifying industrial zones between Israel and Jordan, which produce predominantly apparel, leading to a large increase in exports of apparel from Jordan to the United States. The U.S.-Jordan FTA went into effect in December 2001.

Proposed U.S.-Singapore Free Trade Agreement. The U.S.-Singapore FTA appears to have very broad product coverage, with fewer specifications pertaining, respectively, to the broad categories of yarn, fabric, apparel, and non-apparel textile products than is the case with NAFTA or the US-Jordan FTA. However, it is similar to NAFTA in that, although there is a general principle of yarn forward, change in tariff classification is required at the individual product level in a high percentage of cases. A relatively broad “exception” provides that a limited yearly amount of textiles & apparel containing non-U.S. or non-Singaporean fiber, yarn, or fabric may qualify for duty-free treatment. The agreement must be approved by the Senate.

Andean Trade Preference Program. The Andean Trade Preference and Drug Eradication Act (Title XXXI of P.L. 107-210) amended the Andean Trade Preference Act (Title II of P.L. 102-182) to include textiles and apparel. The program focuses almost entirely upon apparel sewn and assembled in beneficiary Andean countries or the United States, with important limitations from the standpoint of beneficiary countries. Fabrics or fabric components, including knit-to-shape components, must be made from yarns wholly formed in a beneficiary country or the United States, and all printing and dyeing of woven and knit fabrics must be performed in the United States. Fabrics or fabric components may be made of yarns

wholly formed in one or more beneficiary countries if the fabrics are made chiefly (in value) from llama, alpaca, or vicuña fiber. Another regional fabric provision, allows apparel articles to qualify for trade preference if assembled in a beneficiary country from fabrics formed in a beneficiary country but made from U.S. or beneficiary country yarn. A provision applying to luggage requires it to be assembled in a beneficiary country from entirely U.S.-made and U.S. cut fabric, or be assembled from entirely U.S.-made (including the yarn) fabric, but cut in a beneficiary country.

Caribbean Basin Preference Program. This preference program also focuses almost entirely upon apparel. But the (implicit) rules of origin are more “generous” than the Andean program in the respect that it does not have the option that the apparel can be sewn and assembled in the United States as well as in beneficiary countries. For the most part, fabrics must be wholly formed and cut, or components knit-to-shape, in the U.S. from yarns wholly formed in the U.S. If cut as well as sewn (or otherwise assembled) in one or more beneficiary countries from U.S. fabric made from U.S. yarn, U.S.-made thread must be used. In both the Andean-cut and U.S.-cut cases, all dyeing, printing, and finishing of the fabrics must be carried out in the United States. This is a requirement imposed by P.L. 107-210. Product-specific restrictions include the following: Knit apparel articles except socks and certain T-shirts must be cut and assembled in one or more beneficiary countries from U.S. or Caribbean fabric made from U.S. yarn. Non-underwear T-shirts made from Caribbean fabric made of U.S. yarn is subject to a quota. The U.S.-made fabric components of brassieres cut and assembled in one or more beneficiary countries and/or the United States must account for at least 75% of customs value. A provision applying exclusively to luggage requires it to be assembled in a beneficiary country from entirely U.S.-made and U.S.-cut fabric if entering under a particular Harmonized Tariff category, or be assembled from entirely U.S.-made (including the yarn) fabric, but cut in a beneficiary country.

Sub-Saharan Africa Preference Program. This program, provided for in the African Growth and Opportunity Act as amended, focuses entirely upon apparel, with (implicit) rules of origin applying to textiles and apparel that appear to be similar to those of the Andean program. To qualify for trade preference, apparel articles must be sewn or otherwise assembled in one or more AGOA countries from entirely U.S. made fabric and/or fabric components. If a knit-to-shape component is either a U.S. or AGOA country product (made from U.S. yarn) and fabrics are cut in the U.S. or an AGOA country, U.S. sewing thread must be used. In the regional fabric provision, apparel assembled from regional-made fabric (woven or knit-to-shape), that fabric must be made from U.S.-made or AGOA-made yarn; but imports of such-made fabric are limited by a cap that increases over time. A potentially important rule of origin exception provides that, for apparel assembled in a lesser developed sub-Saharan country, there is no restriction on the source(s) of the fabric or the yarn used to make that apparel.

Selected Current CRS Reports Related to Free Trade Agreements and Preferential Trade Programs

CRS Issue Brief IB95050. *Caribbean Basin Interim Trade Program: CBI/NAFTA Parity*, by Vladimir N. Pregelj.

CRS Report RS20063. *U.S. Sub-Saharan Africa Trade and Investment: Programs and Policy Direction*, by Lenore Sek.

CRS Report RL30790. *The Andean Trade Preference Act: Background and Issues for Reauthorization*, by J. F. Hornbeck.

CRS Issue Brief IB95017. *Trade and the Americas*, by Raymond J. Ahearn.