Before the United States Senate
Committee on Finance
Subcommittee on Trade

PAUL ARCIA
A.R.C. International

August 3, 2001

Statement for the Record

Mr. Chairman, members of the Subcommittee, I am Paul Arcia, President and co-owner of A.R.C. International, an apparel-making company with operations in both Miami, Florida, and Barranquilla, Colombia. I appear here today to talk about the extreme importance of a new Andean Trade Preference Act. Companies like mine need a renewed and enhanced ATPA now, if we are to survive, much less grow.

Let me tell you about my company and what has happened to us over the last year -- it is typical of what has happened to many of the companies manufacturing apparel in the Andean region. A.R.C. is a manufacturer of clothing, both knits and wovens, for men, women and children. We make everything from denim jeans to woven shirts to polo shirts to fleece baseball jackets. We take great pride in our diversity, because for many years it has shielded us from market fluctuations. We count among our customers some of this country's largest retailers, including Target, Wal-Mart and Costco. We are representative of most apparel manufacturing companies. We started nine years ago with 50 employees. Today, we have 1,500 employees. We want to keep these employees; we want to grow to employ even more people.

A.R.C. is typical of the garment industry. It is a dynamic industry with low entry barriers because you don't need large amounts of capital. Very few industries provide such a large fountain of employment with such a small amount of capital investment, while simultaneously offering a rapid growth potential. With the moxie of good management and the dedication and hard work of our employees, ARC has built a large and viable business.

Nothing, however, could have prepared us for the impact of the enactment of the Caribbean Basin Trade Partnership Act. The day after the CBTPA law was passed, the bottom started falling out for us, even though the business we do is quite different from what is done in the Caribbean and Central American countries. On that day in May 2000, we were contacted by our customer Sara Lee Corporation with the news that a confirmed contract, which would have expanded our operation by 35 % and added almost 500 new employees, was being cancelled. We had agreed upon deliveries, price, transportation costs, everything, but suddenly the CBTPA made us unattractive.

This is not surprising in the apparel industry. It is a miserable penny pinching business. With the advent of the super-retailer and the consolidation of many customers, cutting costs is a paramount objective. Deals have been lost over a nickel.

Almost immediately thereafter, our largest customer at the time, Fruit of the Loom, confronted us with a demand: we must reduce our prices by 20 percent, to make up for the duties they have to pay on our goods but would not have to pay if their goods entered the U.S. under CBTPA benefits. We had no choice but to accept the price cut rather than lose the business altogether, all along hoping that the Andean nations would soon have the ability to ship duty-free too. That did not happen so to offset the loss to us, we have been compelled to reconsider our sourcing options for fabrics. Traditionally, we have used U.S. fabrics, but with a 20 percent price cut, we have switched to cheaper Asian sources of fabric supply. It is truly ironic that the CBTPA, which was supposed to encourage the use of U.S.-formed components, has actually had just the opposite effect in Colombia.

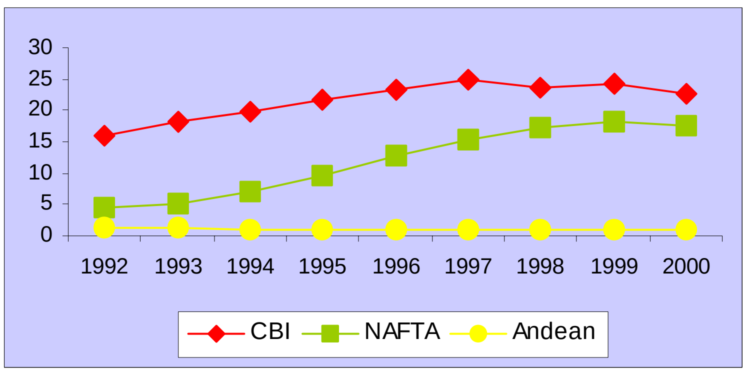
We had hoped these measures would allow us to maintain our business, even if we could not grow it, pending action by the Congress on ATPA. With unemployment in Colombia reaching 20 percent, it is clear that without these apparel-making jobs, there are no legitimate alternative opportunities for workers. Unfortunately, in May, just two months ago, Fruit of the Loom notified us that they are terminating their business with us altogether. In their letter to us, Fruit of the Loom made clear that the decision was "strictly business" -- the Caribbean offers duty-free access to the U.S. market. We don't. I am attaching a copy of that letter to my testimony today. All manufacturing for Fruit will cease by the end of September, at which point we will have to lay off 400 employees in Colombia. Worse yet, A.R.C. has not received a single new order from any customer for almost two months now. At this point, I have just enough business to keep my remaining 1,100 employees working until mid-November.

And A.R.C. is one of the luckier ones. In the free zone in which we operate in Barranquilla, almost all of the neighboring apparel producing factories have already shut down, laying off some 4,000 workers. Most of these workers are women heads of household, with school age children to support. The fact is that the apparel assembly business is highly transportable, making it easy for companies to pull up sewing machines and move elsewhere, leaving the workers behind. I have to admit that my own company is a perfect example of this. In the 1980s, our operations were in El Salvador, but the campaign of terror pursued by the FMLN guerillas proved to be a major deterrent for our U.S. customer base and after three years we were forced to abandon the factory.

But while I have told you about how CBTPA has impacted our business, I do not mean to suggest that merely providing CBTPA-type benefits to the Andean apparel sector will solve the problems of the region. In fact, because of the distinct differences between the CBI region and the Andean regions, we need a very different type of preference program, both to save our industry, and to grow it so that companies like ours can generate employment opportunities to people who might otherwise be induced to harvest the coca fields.

The ATPA countries are currently a minor player in the U.S. apparel market. Together, the four countries account for less than one percent of total apparel imports -- and that is all they have accounted for every year since 1992. In contrast, the CBI countries account for 22.3 percent of total U.S. apparel imports, and their share of the U.S. market has been growing over the past decade. Those numbers demonstrate that, with respect to textile and apparel exports to the United States, the ATPA countries are more like the sub-Saharan African countries than we are like the CBI countries. Therefore, I believe that an enhanced ATPA should be based on the model established in the African Growth and Opportunity Act rather than the one in the CBTPA.

Apparel Imports to the United States
CBI versus NAFTA versus Andean Region



(Percentage of total apparel imports to the U.S.)

Unlike the CBI region, the Andean region is not dominated by so-called 807 assembly operations. The apparel industry in the ATPA countries is highly vertical, meaning that it manufactures yarns, fabrics, and finished garments and textile goods, offering our customers a "full package" of services. The vertical nature of the Andean industry makes for a much stronger, more rooted industry.

Significantly, as yarn and fabric makers, Colombia and the other ATPA countries import a great deal of inputs from the United States. The fact is that today the Andean countries already import far more raw cotton from the United States than the CBI countries, even though there are only 4 ATPA countries and there are two dozen CBI countries ($72 million versus $58 million worth of raw cotton). The United States is by far Colombia’s top supplier of raw cotton, accounting for 50 percent of Colombia's cotton imports. The ATPA countries also import a significant quantity of manmade fibers and manmade fiber yarns from the United States – a total of $57 million worth in 2000. (The U.S. exported $32 million worth to the CBI region during the same period.) These inputs provide some indication of the extent to which enhanced ATPA offers real export opportunities for the U.S. cotton, manmade fibers and yarn industries. There is no doubt in my mind that they would import even more if there were benefits for the textile and apparel exports to the U.S.

under ATPA. And supporting vertical operations also would do much to insure the economic security of the Andean region. It is a classic "win-win" proposition.

With these facts in mind, let me suggest what textile and apparel benefits are absolutely essential to ensure a successful ATPA program that complements the other initiatives by the United States to address the problems in the region. In presenting this, I have to emphasize that simply providing the ATPA countries with the same benefits as the CBI countries will not necessarily induce investors or U.S. importers to do business with the Andean countries. Besides the fact that manufacturers in Colombia are often vertical and provide "full package" goods, companies in the region need to offer a greater incentive to customers in order to overcome the higher cost of labor in the ATPA countries, the higher cost of transportation from the region, and the security concerns of American business.

To have a successful ATPA, there must be unlimited duty-free access for all apparel produced in the Andean region from either U.S. or Andean inputs. It should be that simple. From the sidelines, one lesson we have learned from the Caribbean experience is that complicated provisions are not in the interest of business. Instead of many separate provisions, there should be just a few that are easy to understand and comply with, and easy for the U.S. Government to administer. This is absolutely necessary to induce companies to do business in the region. Further, by including benefits for apparel made from regional fabric, the United States can help the industry grow deeper roots and greatly diminish its risk of losing the cut and sew business over a nickel.

Ultimately, even with ATPA renewal and expansion on the terms I describe, we will still have to fight and claw for anything we can get. But at least we will be competing on an even playing field.

I hasten to note that the jobs generated by these benefits will in no way take away jobs from the United States. The duty-free access will instead permit the ATPA countries to compete with suppliers in Asia, which currently account for almost half, 47.4 percent, of total apparel imports into the U.S. market. Moreover, while even a tripling of apparel exports from the ATPA countries would be insignificant in the huge American market, it would be dramatically important to a country like Colombia, where apparel production accounts for a considerable portion of the gross domestic product.

Mr. Chairman, members of the Subcommittee, the Andean countries greatly appreciate your support in holding this hearing today to promote renewal and enhancement of the ATPA. Clearly, we need a new and improved ATPA and we need it quickly. We are very hopeful that the Congress will move swiftly to complete action on the necessary legislation before the current program expires, because time is not on our side.

Thank you.

FRUIT OF THE LOOM.

May 9, 2001

Paul Arcia
ARC Merchandising
7150 NW 36th Avenue
Miami, FL 33147

RE: Notice of expiration of

Master Assembly/Packaging Agreement
(dated July 14, 1997)
between Fruit of the Loom Operating Ltd.
and ARC Merchandising

Dear Paul:

This letter will verify that the above referenced agreement expired on July 14, 2000.

As we have discussed last week, Fruit of the Loom will cease shipments of cut goods so that ARC International and Merchandising finishes sewing Fruit of the Loom goods no later than August 4, 2001.

Fruit of the Loom is currently working its way through Chapter 11 Bankruptcy reorganization. As we reorganize, Fruit of the Loom must meet many objectives of cost reduction in order to increase its margins and remain competitive.

Unfortunately one method we are using to become more competitive is to use sewing contractors who are located in the Caribbean Basin area. These contractors enjoy duty and quota free treatment. This large cost advantage cannot be ignored.

ARC International and Merchandising has been one of Fruit of the Loom's best and least problem contractor's. Our operation together was run "Hands Free". It is very unfortunate that this move must take place but continued cost reductions is on our "Front Burner". We as a Company need to survive and this move is one small step in the right direction.

If there is anything we can do to assist you during this transition, please call. We certainly hope the opportunity will come again to use your services.

Thanks again for your efforts and support all these years.

Sincerely,

Luis Carlos Gomez
Vice President of Apparel Operations, Central America
Fruit of the Loom Operating Ltd.

Cc: Rick Medlin	Dana Taylor
Danny Munford	Chris Cundiff
Carl Smith	Dan Swanson
John Daniel	

/gr