Afghanistan and Pakistan Reconstruction Opportunity Zones (ROZs), H.R. 1318/H.R. 1886/H.R. 2410 and S. 496: Issues and Arguments

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Summary

On June 9, 2009, the House Rules Committee issued a rule providing for the consideration of H.R. 1886, the Pakistan Enduring Assistance and Cooperation Enhancement Act. The rule inserted, with modifications, H.R. 1318, The Afghanistan-Pakistan Security and Prosperity Enhancement Act, the ROZ legislation, into the base text of H.R. 1886. On June 11, 2009, the House passed H.R. 1886 by a vote of 234 to 185, and the clerk was directed to add it as new matter to the end of H.R. 2410, the Foreign Relations Authorization Act, Fiscal Years 2010 and 2011.

The Afghanistan-Pakistan Security and Prosperity Enhancement Act (H.R. 1318) and the Afghanistan and Pakistan Reconstruction Opportunity Zones Act (S. 496) would establish a unilateral U.S. trade preference program for Afghanistan and parts of Pakistan. In an effort to promote economic development in both countries, the legislation would permit certain goods produced in designated geographic areas called *Reconstruction Opportunity Zones* (ROZs) to be imported into the United States duty-free.

ROZs would be a specific type of *export processing zone*, and thus part of a world-wide network of *free trade zones*. Free trade zones are typically fenced-in industrial parks. As such they are self-contained islands of infrastructure necessary to support manufacturing, often located in relatively undeveloped geographic locations. They support economic development by facilitating cooperative production among workers in more than one country.

Both Pakistan and Afghanistan are currently exporting certain goods to the United States duty-free under the *Generalized System of Preferences* (GSP). The ROZ program would offer additional tariff benefits to Afghanistan and Pakistan. In turn, it would place additional requirements on both countries.

The legislation appears to be of primarily political and symbolic importance for U.S. relationships with Afghanistan and Pakistan, and was specifically supported by President Obama in his March 27 announcement of a new U.S. strategy for Afghanistan and Pakistan. Proponents of the legislation see it as a way of promoting economic development in remote and restive areas of Afghanistan and Pakistan. On the other hand, there are those who point out restrictions:

- the limited possible locations for ROZs;
- the limited range of products eligible for tariff-free treatment;
- the labor requirements in H.R. 1318; and
- security concerns.

Contents

Figures

Tables

Appendixes

Contacts

I. Recent Legislative Action

On June 9, 2009, the House Rules Committee issued a rule providing for the consideration of H.R. 1886, the Pakistan Enduring Assistance and Cooperation Enhancement Act. The rule inserted, with modifications, H.R. 1318, The Afghanistan-Pakistan Security and Prosperity Enhancement Act, the ROZ legislation, into the base text of H.R. 1886. On June 11, 2009, the House passed H.R. 1886 by a vote of 234 to 185, and the clerk was directed to add it as new matter to the end of H.R. 2410, the Foreign Relations Authorization Act, Fiscal Years 2010 and 2011.

On June 9, the House Rules Committee made several changes to H.R. 1318, which are discussed in greater detail in sections that follow. The Rules Committee amendment would:

- offer the President another element of discretion to determine the ability of the country to establish the required labor program: He could take into account the capability of the country to establish such a technical assistance program for labor (Section 3 in H.R. 1318/S. 496, and Section 403 in H.R. 1886);
- add additional conditions, circumstances, and procedures for extending the initial 16-month grace period of duty free treatment by six month increments under certain circumstances (Section 7/Section 407);
- remove the International Labor Organization (ILO) as the cooperative party to work with Afghanistan or Pakistan to establish a labor monitoring and compliance program, and substitute an entity designated by the Secretary of Labor (Section 7/Section 407); and
- establish new customs user fees to be assessed on top of existing customs user fees for the provision of customs services relating to imports and travel from Afghanistan and Pakistan (new Section 411.)

II. Introduction

The Afghanistan-Pakistan Security and Prosperity Enhancement Act (H.R. 1318, Van Hollen) and the Afghanistan and Pakistan Reconstruction Opportunity Zones Act (S. 496, Cantwell) would establish a unilateral U.S. trade preference program for Afghanistan and parts of Pakistan. The legislation would permit certain goods produced in designated geographic areas called *Reconstruction Opportunity Zones* (ROZs) to be imported into the United States duty-free.

ROZs would be a specific type of *export processing zone*, and thus part of a world-wide network of *free trade zones*. Free trade zones are typically fenced-in industrial parks. As such they are self-contained islands of infrastructure necessary to support manufacturing, often located in relatively undeveloped geographic locations. They support economic development by facilitating cooperative production among workers in more than one country. That is, they are physically located *inside* the boundaries of a country but are treated as if they were located *outside* the country for customs purposes. Thus, for components or materials which are imported into ROZs, processed into finished goods, and later exported from the country, no tariffs would be payable and customs procedures would be streamlined.

Both Pakistan and Afghanistan are currently exporting certain goods to the United States duty-free under the *Generalized System of Preferences* (GSP).[1] The ROZ program would offer additional tariff benefits to Afghanistan and Pakistan. In turn, it would place additional requirements on both countries.

Where the Congressional Debate Will Likely Focus

The legislation appears to be of primarily political and symbolic importance for U.S. relationships with Afghanistan and Pakistan, and was specifically supported by President Obama in his March 27th announcement of a new U.S. strategy for Afghanistan and Pakistan. Proponents of the legislation see it as a way of promoting economic development in remote and restive areas of Afghanistan and Pakistan. On the other hand, there are those who point out restrictions:

- the limited possible locations for ROZs;
- the limited range of products eligible for tariff-free treatment;
- the labor requirements in H.R. 1318; and
- security concerns.

Evolution and Purpose of Legislation

The ROZ proposal was originally designed to benefit Pakistan (primarily a textile and apparel exporter) by rewarding it with trade preferences when it was losing U.S. market share to other countries that had free trade agreements with the United States. Similar legislation in the 110th Congress was introduced but not passed.[2] The current version of the ROZ legislation introduced as H.R. 1318 and S. 496, would permit non-"import sensitive"[3] exports to enter the United States duty-free, as long as the governments of both Afghanistan and Pakistan, the investors, and the products produced in ROZs met specific requirements under the program.

The purposes of the ROZ program as enumerated in the bills [Sec. 2(b)] are: (1) to stimulate economic activity and development in Afghanistan and the border region of Pakistan, which are seen as critical fronts in the struggle against violent extremism; (2) to reflect the strong support that the United States has pledged to Afghanistan and Pakistan for their sustained commitment to the global war on terrorism; (3) to support the three-pronged U.S. strategy in Afghanistan and the border region of Pakistan that leverages political, military, and economic tools, with ROZs as a critical part of the economic component of that strategy; and (4) to offer a vital opportunity to improve livelihoods of indigenous populations of areas designated as potential ROZs, as well as to promote good governance, improve economic and commercial ties between the people of Afghanistan and Pakistan, and extend and strengthen the governments of both countries.

[1] See CRS Report RL33663, *Generalized System of Preferences: Background and Renewal Debate*, by Vivian C. Jones.

[2] USTR Considers Possible Pakistan Free-Trade Zone, *Inside U.S. Trade*, August 11, 2006.

[3] Import sensitive products are determined by the President after receiving the advice of the International Trade Commission, in the context of imports from a ROZ.

ROZs as a Trade Preference Program

The ROZ program is, at its essence, a trade preference program similar to five other trade preference programs. Under such programs, the United States unilaterally permits certain non-import sensitive goods meeting rules-of-origin requirements to enter the United States tariff-free so long as certain conditions are met by the exporting country. Existing U.S. trade preference programs include the Generalized System of Preference (GSP), the Caribbean Basin Economic Recovery Act (CBERA), the Andean Trade Preference Act (ATPA), the African Growth and Opportunity Act (AGOA), the Qualifying Industrial Zone (QIZ) Program under the U.S.-Israel Free Trade Agreement (USIFTA), and the Haitian Hemispheric Opportunity through Partnership Encouragement Act of 2006.

ROZ and QIZ Trade Preference Programs Compared

The ROZ program was modeled after and is often compared with the Qualifying Industrial Zone (QIZ) program under the *U.S.-Israel Free Trade Agreement Implementation Act*, (P.L. 99-47, as amended by the 1996 *West Bank and Gaza Strip Free Trade Benefits Act* (P.L. 104-234). Both encourage co-operative production by two or more countries. Both are designed to achieve foreign-policy objectives as well as trade objectives. The ROZ and QIZ programs also have a number of differences. The ROZ proposal: (1) has stricter rules-of-origin requirements for textiles and apparel; (2) reinforces rules of origin by specifically prohibiting unlawful transshipment of goods from non-authorized countries; (3) prohibits the establishment of zones in certain economically developed regions of one of the countries (Pakistan). ROZs may be located anywhere in Afghanistan; (4) includes in H.R. 1318, strong labor requirements; and (5) would be implemented in the context of ongoing hostilities throughout Afghanistan and in restive parts of Pakistan. However, the security situation is acute to the point where many believe that the ROZ concept cannot be realistically implemented.

Economic Context for the Legislation[4]

Afghanistan has recorded rapid economic growth since 2001, thanks primarily to the construction sector which, assisted by foreign efforts, has rebuilt some infrastructure and private housing. Agriculture, a dominant industry, has experienced strong growth, tempered by several severe droughts in 2001-2007. The country's largest economic sector and agricultural export is opium, which is technically illegal. Afghanistan accounted for roughly 90% of global opium production in 2007, and many senior figures in local and central government reportedly have ties to or are tolerating the opium trade.[5]

Pakistan's economy is dominated by the agricultural sector and its exports are dominated by the textile sector. The textile and apparel sector accounts for two-thirds of export income, and depends on the size of the annual cotton crop. Pakistan's dependence on textiles (and in particular

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[4] For political considerations relating to Afghanistan and Pakistan, see CRS Report RL30588, *Afghanistan: Post-Taliban Governance, Security, and U.S. Policy*, by Kenneth Katzman and CRS Report RL33498, *Pakistan-U.S. Relations*, by K. Alan Kronstadt.

[5] Economist Intelligence Unit (EIU) Country Profile, 2008 for Afghanistan.

cotton-based textile and apparel manufacturing products) has hampered its economic growth beyond this basic industry.[6]

Trade and Investment Context for Legislation[7]

Trade

Both Pakistan and Afghanistan are small trading partners for the United States, together accounting for less than one-fifth of one percent of all U.S. imports and exports: 0.18% of all U.S. imports and 0.19% of all U.S. exports. For 2008, the United States had a trade deficit with Pakistan ($1.6. billion), and a trade surplus with Afghanistan ($397 million). The value of U.S. trade with Pakistan, at $5.6 billion ($3.6 billion imports and $2.0 billion in exports) is roughly ten times as great as trade with Afghanistan, at $566 million ($85 million in imports and $482 million in exports.)[8]

The value of imports from Afghanistan was so small in 2008 that it equaled only 2% of the value of all U.S. imports from Pakistan. Of U.S. imports from Afghanistan, 70% were U.S. military and related equipment sent to Afghanistan and then returned to the United States. Remaining U.S. import items are primarily works of art more than 100 years old, oil seeds, natural or cultured pearls, precious or semiprecious stones and metals, carpets and other textile floor coverings. Because of the small size and makeup of imports from Afghanistan, discussions of potential trade impact of this proposed legislation, below, refer primarily to Pakistani imports, although U.S. officials hope that the exports can play a growing role in Afghanistan's economy and stabilization, as well.

Investment

The stock of U.S. foreign direct investment (FDI) in Pakistan, as shown in **Table 1**, gradually increased to a peak of $1.2 billion in 2006, and then declined to $674 million in 2007.[9] This may have been a product of both security issues in Pakistan and changes in the U.S. economy.

Table 1. U.S. Foreign Direct Investment (FDI) in Pakistan, 2000-2007

(in $millions)

Year	2000	2001	2002	2003	2004	2005	2006	2007
FDI	474	474	849	790	945	1100	1200	674

Source: Office of the U.S. Trade Representative. *Foreign Trade Barriers*, various years.

[6] EIU Country Profile 2008, p. 17.

[7] Unless otherwise indicated, data for this section are taken from Global Trade Atlas, which obtains its data from the U.S. Department of Commerce, Bureau of the Census.

[8] Source of data: U.S. International Trade Commission, *Dataweb*.

[9] Source: Office of the U.S. Trade Representative. *Foreign Trade Barriers*, 2009.

Trade-Related Agreements

The United States concluded a Trade Investment Framework Agreement (TIFA) with Pakistan in 2003, and in 2004 began discussions on a bilateral investment treaty (BIT). However, the BIT was never completed. A TIFA is an agreement that provides a forum for Pakistan and the United States to examine ways to expand bilateral trade and investment by promoting principles that underpin a mutual trade and investment relationship. BITs take the investment relationship to a higher step, by including numerous protections for investors.[10] In 2004, the United States and Afghanistan signed a TIFA. On December 13, 2004, the 148 countries of the World Trade Organization voted to start membership talks with Afghanistan.[11]

III. Major Elements of H.R. 1318 and S. 496

In establishing a program of trade preferences for qualifying products imported into the United States from ROZs in Afghanistan or Pakistan, H.R. 1318 and S. 496 include a number of major elements designed to define geographic areas of Afghanistan and Pakistan that may be designated as ROZs; set out country eligibility criteria; define articles for which duty-free treatment may be authorized; and set out protections against unlawful transshipment. In addition, H.R. 1318, but not S. 496, lays out a program for technical assistance and capacity building, focusing on providing labor protections to workers in ROZs.

Permissible Locations for ROZs (Sec. 2/Sec. 402)

ROZs may be established in specific areas of Pakistan, most of which are less developed and more mountainous than regions where most export processing zones currently exist, such as in or near Karachi or the fertile valley surrounding the Indus River and its tributaries. Areas permissible for ROZ establishment include (1) the Federally administered Tribal Areas; (2) areas of Pakistan-administered Kashmir that the U.S. President determines were harmed by the earthquake of October 8, 2005; (3) areas of Baluchistan that are within 100 miles of Pakistan's border with Afghanistan; and (4) the North West Frontier Province. ROZs may be established anywhere in Afghanistan. (See map, **Figure 1**.)

[10] Office of the U.S. Trade Representative, *United States, Pakistan Begin Bilateral Investment Treaty Negotiations*, September 28, 2004.

[11] CRS Report RL33498, *Pakistan-U.S. Relations*, by K. Alan Kronstadt. See also, Office of the USTR, *United States and Afghanistan Sign Trade and Investment Framework Agreement*, September 21, 2004.

Figure 1. Areas of Afghanistan and Pakistan Eligible for Designation of Reconstruction Opportunity Zones (ROZs) as Provided for in H.R. 1318 and S. 496

Source: CRS.

Country Eligibility Criteria for Participating in the ROZ Program (Sec. 3/Sec. 403)

Section 3 of the ROZ bills list extensive and very detailed (i.e., at least 25) country eligibility criteria for participation in the ROZ program. For example, Afghanistan or Pakistan must meet eligibility requirements for designation as a GSP beneficiary developing country. In addition, the country must have established or be making continual progress toward establishing: (1) a market based economy; (2) the rule of law; (3) the elimination of barriers to U.S. trade and investment; (4) the protection of intellectual property; (5) efforts to combat corruption; (6) policies to reduce poverty; (7) policies to increase the availability of health care and educational opportunities; and (8) the protection of human rights and internationally recognized worker rights. According to provisions of the bill, the President can determine whether these eligibility conditions have been met. The bill also gives the President the authority to suspend eligibility if these conditions have not been met and maintained.

Rules Committee Amendment: The Rules Committee amendment would offer the President an additional element of discretion in deciding whether to designate an area of Afghanistan or Pakistan as a ROZ: He would be directed to take in to account the capability of the country to establish a technical assistance program for labor.

Articles Eligible for Duty-Free Treatment under the ROZ Program and Rules of Origin (Sec. 4/Sec. 404 and Sec. 5/Sec. 505)

Sections 4 and 5 of H.R. 1318 and S. 496 identify two groups of eligible articles for tariff elimination–textile and apparel articles, and non-textile and non-apparel articles. Eligible non-textile and non-apparel articles are those listed under the Generalized System of Preferences (GSP) program plus any others identified by the President (after receiving the advice of the U.S. International Trade Commission) as being non-import sensitive in the context of imports from a ROZ. Rules of origin requirements are similar to those for other trade preference programs.[12]

Eligible textile and apparel items under ROZ number roughly 2,000 [defined at the 10-digit Harmonized Tariff Schedule (HTS) level]. Nearly 1,600 of these articles would be eligible for duty-free status if imported from either country, so long as rules-of-origin requirements are met.

[12] Non-textile and non-apparel articles designated as eligible under GSP or other program from all developing countries have different rules of origin requirements, depending on whether they are imported from Pakistan or Afghanistan. (1) For those articles imported from Pakistan, 35% of the cost may be constituted by materials and processing from one or more ROZs in Pakistan or Afghanistan; and materials only from the United States (which are limited to 15% of the total cost); (2) For the articles imported from Afghanistan, 35% of the cost may be constituted by materials and processing from one or more ROZs in Pakistan or Afghanistan; materials but not processes from the South Asian Association for Regional Cooperation (SAARC) which includes, besides Afghanistan and Pakistan, Bangladesh, Bhutan, India, Maldives, Nepal, and Sri Lanka; and materials but not processes from the United States (which are limited to 15% of the total); (3) Separate rules of origin are given for GSP articles designated as eligible from a least developed beneficiary developing country and imported from Afghanistan. For non-textile and non-apparel articles imported from Afghanistan, 35% of the cost may be constituted by the sum of: materials and processing operations in one or more ROZs in Afghanistan, materials, but not processes, from SAARC, and materials from the United States (limited to 15% of the total).

Over 400 additional articles would be eligible for duty-free status only if imported from Afghanistan, so long as rules-of-origin requirements are met. In the bills, the articles are identified in two ways: by HTS 10-digit codes, and by quota categories. These quota categories were formerly used under the *WTO Agreement on Textiles and Clothing*, which expired in 2005, and encompass anywhere from 1 to 100 HTS item numbers each.

Rules of origin for textile and apparel products require that products be wholly the growth, product, or manufacture of one or more ROZs, except that articles cut or knit to shape and sewn or otherwise assembled in one of more ROZs from their component parts may use imported fabric.[13]

Protections Against Unlawful Transshipment (Sec. 6/Sec. 406)

To guard against unlawful transshipment of articles from ROZs to the United States, duty-free treatment is conditioned on certain enforcement measures: Afghanistan or Pakistan, respectively: (1) must have adopted an effective visa or electronic certification system, domestic laws, and enforcement procedures to prevent unlawful transshipment and false documentation. Such laws and regulations would permit the U.S. Customs and Border Protection (CBP) access to investigate thoroughly allegations of unlawful transshipment; (2) must agree to provide the CBP with a monthly report on relevant shipments and cooperate with the United States to address any necessary actions; (3) must agree to require each ROZ production entity to register with the government and provide specific information; [14] and (4) must agree to require that all entities in ROZs maintain complete records for at least five years after production or export. It is up to the President to determine whether compliance has been met. If transshipment conditions are not met, he may suspend eligibility.

In addition, the U.S. Customs and Border Protection (CBP) shall submit to Congress no later than March 31 of each year, a report on the effectiveness of the visa or electronic certification system, and on measures taken by Afghanistan and Pakistan to prevent circumvention. For additional

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[13] Textile and apparel articles may be imported duty-free directly from ROZs in *either Pakistan or Afghanistan* if: (1) the article is wholly the growth, product, or manufacture of one or more ROZs; (2) the article is yarn, thread, twine, cordage, rope, cable, or braiding, and the fibers are spun in or extruded in one or more ROZs; (3) the article is a fabric and the fibers, filaments, or yarns are woven, knitted, needled, tufted, felted, entangled, or transformed by any other fabric-making process in one of more ROZs; or (4) the article is any other textile or apparel article and is cut (or knit-to-shape) and sewn or otherwise assembled in one or more ROZs from its component pieces. Certain other textile and apparel articles may be directly imported into the United States only from a ROZ in *Afghanistan* duty-free if: (1) the article is wholly the growth, product, or manufacture of one of more ROZs in Afghanistan; (2) the article is a yarn, thread, twine, cordage, rope, cable, or braiding and the constituent staple fibers are spun in or the continuous filament fiber is extruded in one or more ROZs in Afghanistan; (3) the article is fabric, including a fabric classifiable under chapter 59 of the HTS (impregnated, coated, covered, or laminated textile fabrics; or textile articles of a kind suited for industrial use) and the constituent fibers, filaments, or yarns are woven, knitted, needled, tufted, felted, entangled, or transformed by any other fabric-making process in one of more ROZs in Afghanistan; or (4) the article is any other textile or apparel article that is cut (or knit-to-shape) and sewn or otherwise assembled in one or more ROZs in Afghanistan from its component pieces.

[14] This information includes the production entity's name, address, telephone, fax and e-mail numbers/addresses, names and nationalities of owners, directors, corporate officers and positions within the business; the number of employees and their occupations; a general description of covered articles and the production capacity of the plant; the number and types of machines in use; the number of hours the machines operate each week; the identity of any supplier to the entity of textile or apparel goods, fabrics, yarns, fibers, etc.; and the name and contact information for each of its customers in the United States.

customs enforcement by the CBP, the bill authorizes the appropriation of $10 million annually for FY2010–FY2023. If the President determines, based on sufficient evidence, that an entity has engaged in unlawful transshipment, he shall deny eligibility to the entity, its successor, and any other entity owned, operated, or controlled by the same principals.

Technical Assistance, Capacity Building, Compliance Assessment, and Remediation Program (Labor Protections, Sec. 7/Sec. 407)

Beginning 16 months after the President notifies Congress of his intent to designate an area as a ROZ under Section 3, each ROZ shall continue to receive duty-free treatment under the act only if the President certifies to Congress that Afghanistan or Pakistan, respectively: (a) has implemented labor requirements of this section; and (b) has agreed to require and has developed a system to ensure that each textile or apparel exporter participates in the labor and registry program, described below.

Under the original bill, the President could extent the period for compliance by Afghanistan and Pakistan beyond 16 months if he determined the country had made a good faith effort toward such compliance and provided appropriate congressional committees with reports every six months on Afghanistan’s or Pakistan’s progress in meeting the requirements.

Rules Committee Amendment: The amendment by the Rules Committee would add procedures for extending eligibility for six month and subsequent six month periods. These procedures include offering opportunities for public comment, and the publication of substantiating information in the *Federal Register* to initial requirements for consultation with appropriate committees and declaration of “extraordinary circumstances.”

Section 7 would also set out requirements and responsibilities for (1) a labor official to be designated in Afghanistan and Pakistan respectively; (2) **as amended by the Rules Committee Amendment**, a designee of the U.S. Labor Department to monitor labor conditions in ROZ plants and offer technical assistance on their remediation; (3) the President of the United States to report annually to appropriate congressional committees on various labor efforts of Afghanistan and Pakistan; and (4) the Secretary of Labor to report to appropriate congressional committees an evaluation of the labor condition monitoring program and options for expanding it.

Responsibilities of Labor Officials in Afghanistan and Pakistan

The designated labor official in Afghanistan and Pakistan, reporting directly to that President shall develop and maintain a registry of textile or apparel exporting enterprises and a system to ensure their participation in a labor standards compliance program conducted with the help of the ILO.

ILO Responsibilities

The original bill provided that the ILO would operate a program with the labor officials of Afghanistan and Pakistan, respectively, to assess compliance by textile or apparel exporting companies listed in the registry, with core labor standards and conditions of work relating to minimum wages, hours of work and health and safety regulations. In addition, the ILO would identify and assist textile and apparel exporters in remediating deficiencies, conduct follow-up site visits and provide training to workers and management. The ILO would also provide a publicly available annual report, which would identify whether each exporting enterprise listed in the registry, has met the labor conditions. For each enterprise with labor deficiencies, the report would describe deficiencies; offer suggestions; and describe remediation efforts and progress made. The ILO would also assist the governments of Afghanistan and Pakistan in promoting core labor standards and educating labor officials, worker representatives, labor inspectors, judicial officers, and other relevant personnel about them.

Rules Committee Amendment: The amendment by the Rules Committee removes the ILO as the cooperative party to work with Afghanistan or Pakistan to establish a labor monitoring and compliance program. It substitutes an entity designated by the Secretary of Labor (p. 51) It also instructs the Secretary of Labor (p. 60) to evaluate the program and options for expanding it to include non-textile or non-apparel articles (p. 61).

Presidential Responsibilities

Under H.R. 1318 and S. 496, the President of the United States would determine whether Afghanistan and Pakistan are protecting core labor standards. Every two years the President would identify whether a textile or apparel exporting enterprise listed in the registry has failed to comply with core labor standards and labor laws of Afghanistan and Pakistan, and seek to assist any enterprises that have failed to comply. If such efforts fail, he shall withdraw, suspend, or limit the application of preferred treatment.

The President would be required to transmit an annual report to the House Ways and Means and Senate Finance Committees on the implementation of this capacity-building section (Section 7.) The bill authorizes a total appropriation of $20 million to carry out this section, for the entire period October 1, 2009 through September 30, 2014.

Changes Embodied in Rules Committee Amendment: The amendment by the Rules Committee adds additional conditions, circumstances, and procedures for extending the initial 16-month grace period of duty free treatments by six month increments when “extraordinary circumstances” exist that preclude Afghanistan or Pakistan from meeting the technical assistance labor requirements The original bill required that extension (for unspecific time periods) be dependent on Afghanistan’s or Pakistan’s “good faith effort” toward compliance, and reports to appropriate congressional committees on steps toward full compliance and progress. The amendment adds procedures for extending eligibility for six months, and subsequent six month periods. These procedures include offering opportunities for public comment, and the publication of substantiating information in the *Federal Register*. The amendment also extends the period for which the $20 million authorization would extend, nine more years, so that the authorization extends from October 1, 2009, through September 30, 2014.

Limitations on Providing Duty-Free Treatment (Sec. 9/Sec. 409)

The legislation would allow the President to waive the application of duty-free treatment if he determines that providing such treatment is inconsistent with the national interests of the United States, and shall advise Congress of such.

Termination of Benefits (Sec. 10/Sec. 410)

Duty free treatment would remain in effect through September 30, 2024 under provisions of these bills.

Increase in Customs User Fees (Sec. 411)

The Rules Committee Amendment establishes new section increasing the level of customs user fees. It would require the Secretary of the Treasury to increase the amount of fees charged and collected under Section 13031(a) of the Consolidated Omnibus Budget Reconciliation Act of 1985 [19 USC 58c(a)] for the provision of customs services for imports and travel from Afghanistan and Pakistan. The amount of the increase would be not less than $12 million for the period beginning the date of enactment through September 30, 2014. It would be not less than $105 million for the period beginning on the date of enactment through September 30, 2019. The above amount would be in addition to the level of normal customs user fees that would otherwise be charged and collected under Section 13031(a) of 19 USC 58c(a).

IV. Potential Issues

The main issue in the ROZ legislation is: Can the concept be implemented; and would businesses invest the resources needed to make ROZs work? Textile and apparel products, particularly those made of cotton, are the main Pakistani export to the United States. Production typically takes place in developed areas, including around Karachi on the Arabian Sea. This legislation offers a different approach to production, offering tariff benefits for goods produced in remote, undeveloped, mountainous, and earthquake affected areas along Pakistan's borders with Afghanistan, China, and India, and in rugged Afghanistan—all places located 200 to 800 miles or more from the sea. The question is, are the potential tariff benefits from producing permitted items in ROZs (and any wage savings from producing in remote parts of Pakistan and Afghanistan) substantial enough to outweigh security and transportation requirements and labor issues relating to the bill?

Tariff Line Issues

Background

H.R. 1318 and S. 496 would propose eliminating tariffs on nearly 2,000 Harmonized Tariff Schedule (HTS) categories of imports at the 10-digit level. Some of these appear in the bill as 10-digit HTS categories, and some appear as three-digit quota groups, each representing many 10-digit HTS categories pulled together by type of fiber: cotton, wool or other animal fiber, silk, synthetic, etc.[15]

[15] The 3-digit quota categories were used under the WTO Agreement on Textiles and Apparel, which expired January 1, 2005. Each quota category represents from one to more than 100 specific import categories at the 10-digit level.

Of the 2,000 separate tariff-elimination categories, 1,500 would apply to both Pakistan and Afghanistan. An additional 500 would apply only to Afghanistan as a "lesser developed country" under the Generalized System of Preferences. These 500 include items of apparel determined to be more import-sensitive: suits, coats, dresses, shirts, and skirts made from wool or other animal fiber, silk, or synthetic material. None of the items in these 500 tariff lines authorized for tariff elimination is made from cotton, the backbone of Pakistan's textile industry.

The Congressional Research Service compiled these 2,000 categories from the bill and compared the 1,500 categories applicable to Pakistan with a list of the top 100 Pakistani imports at the 10-digit HTS level. These top 100 import categories (listed in **Table A-1 through Table A-4**) represent 84% of all imports from Pakistan ($3.0 billion out of $3.6 billion).

Within these top 100 import lines, 87 are textile and apparel categories. These 87 lines represent 87% of all U.S. textile and apparel imports from Pakistan in 2008 ($2.7 billion out of $3.1 billion textile and apparel imports).[16]

Of these 87 top textile and apparel import categories totaling $2.7 billion, the bill would remove tariffs on 38 categories totaling $1.4 billion (See **Table A-1**). Their current trade-weighted tariff rate is 8.0%[17]. The bill would not remove tariffs on 45 categories totaling $1.3 billion in 2008 (**Table A-2**). Their current trade-weighted tariff rate is 15.6%.

The tables in the **Appendix** divide the 100 top Pakistani import categories into four groups:

- **Table A-1** includes *textile and apparel* items for which H.R. 1318 and S. 496 *would* remove the tariff. These are primarily *cotton household items*, and consist predominantly of terrycloth towels, sheets, pillow cases, comforters, table cloths, dish towels, window curtains and valances, bar mops, dust cloths, and blankets. A few cotton apparel items are covered in this category: coats, nightgowns and pajamas, and a few shirts and blouses.
- **Table A-2** includes *textile and apparel* items for which H.R. 1318 and S. 496 *would not* remove the tariff. These items consist primarily of the following *cotton apparel items*: men's and women's shirts (primarily knit), trousers and shorts, briefs, T-shirts, tank tops, pullovers, sweatshirts, socks, and blue jeans.
- **Table A-3** includes *non-textile and non-apparel* items for which H.R. 1318 and S. 496 *would not* remove the tariff. These items consist of resins, gold or platinum jewelry, and manicure instruments.
- **Table A-4** includes all import items (including several textile and apparel items) that are already tariff-free. This group includes four categories of textiles: wool hooked rugs, cotton rugs, cotton rags/scrap twine, and non-wool unsorted rags/scrap twine. Other items are non-electrical medical/surgical instruments, naphthas, soccer balls, rice, mucilages and thickeners, glucose syrup, and antiques over 100 years old.

[16] The value of all textile and apparel items comes from the Office of Textiles and Apparel (OTEXA), International Trade Administration, Department of Commerce, while import data for individual 10-digit import items comes from the U.S. International Trade Commission's "*Dataweb*."

[17] Trade-weighted averages are obtained by dividing the total value of imports by the total value of tariffs levied on them.

Discussion

Types of items slated for newly tariff-free U.S. import under the ROZ legislation are limited, particularly textile and apparel items, compared with what Pakistan actually produces for export. Ranking minority member of the House Ways and Means Committee, Representative Dave Camp, has referred to the "product mix [on which tariffs would be removed as] stingy—an economic fig leaf."[18]

An examination of the data reveals that four of the top eight imports from Pakistan in 2008 are clothing import items on which tariffs are not eligible for elimination. These items are: cotton knit shirts, cotton socks, cotton pullovers, and cotton denim trousers (see **Table A-2**). The other four top import items are mostly household textile products on which tariffs are proposed for elimination. These items are: two tariff lines of cotton terrycloth towels and two tariff lines of cotton sheets (see **Table A-1**).

The American Apparel and Footwear Association (AAFA), the National Retail Federation, the Retail Industry Leaders Association (RILA) and the United States Association of Importers of Textiles and Apparel (USA-ITA, hereafter collectively referred to as "four textile and apparel retail associations") and the U.S. Chamber of Commerce argue in favor of expanding the list of eligible articles to include all or many more textile and apparel items—particularly, cotton trousers and shorts and cotton knit tops. They argue that "these products are most likely to generate employment opportunities in zones near the border region," and "already account for 64% of the apparel exports from Pakistan to the United States, and more than a quarter of all exports from Pakistan to the U.S. market. [19]They further argue that Asian producers, not U.S. producers, are at risk from apparel exports from Pakistan. They argue that U.S. imports of cotton knit shirts and cotton trousers from Pakistan represent 3.6% of total U.S. imports of these particular products."[20] They could also argue that such an expansion in product lines could help reverse the 44% decline in investment between 2007 and 2008 (see **Table 1**) and increase the potential for economic growth and job creation in areas where employment levels are low.

The Chamber and the Council argue in favor of expanding the tariff-free product line to include cotton trousers and shirts in order to "improve the competitiveness of Pakistani apparel producers vis-à-vis other international suppliers" and keep jobs from migrating "out of Pakistan to third countries."[21] In addition, eight associations argue that in the world today, when there are no longer any quotas, "Asian suppliers are in fierce competition for sales to the U.S. market," and

[18] House Floor Statement by Representative Dave Camp, Ranking Minority Member of the House Ways and Means Committee. *Congressional Record*, June 11, 2009, p. H.6569.

[19] This 64% includes imports from Pakistan in four former quota categories under which imports are still reported by shippers: 338 and 339 (cotton knit shirts and blouses) and 347 and 348 (cotton trousers and shorts). Each of these categories represents a number of HTS 10-digit categories. The HTS categories represented by the quota categories can be found at the ITA's OTEXA website (see footnote 16): http://otexa.ita.doc.gov/corr.htm. Clicking on the three-digit number brings up the HTS categories. In addition, the shippers report on the dollar value of exports from Pakistan by three-digit category, can be found at http://otexa.ita.doc.gov/msrcty/v5350.htm by clicking on "Pakistan."

[20] Letter to Congress, June 10, 2009 from the American Apparel and Footwear Association (AAFA), the National Retail Federation, the Retail Industry Leaders Association (RILA), and the United States Association of Importers of Textiles and Apparel (USA-ITA); and letter from R. Bruce Josten, Executive Vice President for Government Affairs, U.S. Chamber of Commerce, to Senator Maria Cantwell, May 18, 2009.

[21] Letter from The U.S. Chamber of Commerce to Representative Chris Van Hollen, May 18, 2009.

"configuring the ROZ program to include duty-free treatment on all textile and apparel products will give Pakistan a fighting chance in this competitive industry."[22]

Defenders of the currently-proposed list of products on which tariffs would be eliminated might argue that the U.S. textile and apparel industry has come under increased international pressure in recent years. It has suffered both output and employment losses, in part because textile and apparel items can be produced relatively easily in developing countries and require a relatively low capital investment. Between 2002 and 2008, employment in the U.S. textile and apparel industry declined 41% (from 845,000 to 497,000). Over nearly the same time (2002-2007, most recent data) output declined an estimated 21% (from $119 billion to approximately $96 billion). (See **Table A-5**.) In contrast to this, employment for the entire U.S. manufacturing sector decreased a much smaller 12% over 2002-2008 (from 15.3 million to 13.4 million), whereas output increased by an estimated 28% between 2002 and 2007 (from $3.9 trillion to $5.0 trillion).[23]

Issues Related to Geographic Areas Permitted for ROZ Location

Transportation Issues

Some argue that geographic areas eligible for ROZ establishment and tariff-free production of eligible items under H.R. 1318 and S. 496, are too remote, making transportation of components to and finished goods from ROZs difficult. They argue that eligible regions for ROZ location should include some that are not located just in the mountains and in the areas affected by the 2005 earthquake. In addition, they argue that it would be an important incentive for investment to permit ROZs to be established closer to the Arabian Sea than the current 200 to 800 miles, since the 8% savings in tariff rate on permitted items could be erased by transportation costs.

Defenders of the originally designated locations for ROZs emphasize that the goal of the legislation is to take the work to the mountainous regions where jobs and economic development are needed. They could also argue that the Indus River in Pakistan (see **Figure 1**) is navigable nearly as far north as Attock, close to Islamabad, which can offer a transportation route for goods produced in ROZs further north.

Security Issues

Those in favor of expanding geographic areas eligible for ROZ construction argue that security issues could threaten isolated production operations. Fenced-in manufacturing operations could be targets for militants.

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[22] Letter to the Senate Finance Committee, June 22, 2009, signed by the American Apparel & Footwear Association (AAFA), the Fashion Accessories Shippers Association (FASA), the National Foreign Trade Council (NFTC), the National Retail Federation (NRF), the Retail Industry Leaders Association (RILA), the Travel Goods Association (TGA), the U.S. Association of Importers of Textiles and Apparel (USA-ITA) and the United States Chamber of commerce.

[23] Sources for employment data: Bureau of Labor Statistics. For output in the manufacturing sector, U.S. Census Bureau, *Survey of Manufactures* for output data covering 2002-2006; and the Commerce Department's Bureau of Economic Analysis (BEA) for output data for 2007.

Defenders of the current provisions could argue that a similar drug-related security problem exists in Mexico, and that there the issue is being addressed in two ways. First, the Mexican government is providing some additional security. Second, private investors have also hired additional security guards. Proponents for expanding geographical areas could counter that security measures would add costs to doing business.[24]

Representative Chris Van Hollen, the House bill's sponsor, stressed the notion that ROZs can help increase security. "We need ROZs now—economic opportunities must be expanded to quickly follow up military operations with economic development to prove to populations in critical targeted areas that there are benefits to defeating the militants."[25]

Other Considerations

Some observers have suggested expanding the geographic areas in which ROZs may be established in Pakistan. Defenders of the current proposal could argue that if ROZs were permitted in geographic areas close to existing production operations, businesses now producing in Pakistan close to the river valleys where most of the cotton is grown, could easily shift production to nearby ROZs, without expanding production to geographic regions targeted for economic assistance and without creating jobs in the mountainous regions.

The above-mentioned four textile and apparel retail associations "urge...Congress to revisit the limited areas in Pakistan that are eligible to use the ROZ program to create employment." They argue that "the proposed ROZ areas are limited to extremely remote areas that are experiencing intense conflict and are not yet mature for industrial growth," and that "limiting ROZ investment to these areas would delay job creation."[26]

A March 22, 2009 editorial from the *Washington Post* addressed the politics of the issue and the difficulty of determining where the ROZ lines should be. "It's not a magic formula, of course. The investment areas have to be drawn widely enough to make the prospect of investment realistic; if you limit them to the most intense battle zones, you're not going to see many jobs created. The bigger they are, though, the likelier the bill will arouse union opposition, so the politics are tricky."[27]

Labor-Related Issues

The House bill contains labor provisions not in the Senate bill. These would establish a framework for oversight and enforcement of labor rights in Afghanistan and Pakistan. The bill would require both countries to designate a labor official, who would report directly to the President of either country and would keep a registry of textile and apparel exporters located in ROZs to ensure their participation in the labor monitoring and compliance program.

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24 Mexico: Why Business is Standing Its Ground, *Business Week*, April 20, 2009, p. 34.

25 House Floor Statement by sponsor Chris Van Hollen in support of H.R. 1318/H.R. 1886. *Congressional Record*, June 11, 2009, p. H. 6573.

26 Letter to Congress June 10, 2009 from the USA-ITA et al., op. cit.

27 Plowshares for Peace, *Washington Post* editorial, Mar. 22, 2009.

Labor Costs and Wage Issues

Production decisions are based on a number of factors. These include labor productivity, skill level of available workers, proximity to natural resources and trade-related services, transportation time and transportation costs, and wages and other labor considerations.

Proponents of expanding tariff lines and expanding eligible geographic regions could argue that the 8% tariff reduction might not be a great enough incentive for businesses to invest in the ROZ program. They could argue that labor costs could be greater under the ROZ program than in production operations not in ROZ areas, given all the extra labor requirements on businesses made by the legislation.

Defenders of the House labor provisions could point out that labor costs in current Pakistan free trade zones, according to the Export Processing Zone Association of Pakistan (EPZA Pakistan), are the equivalent of about $87 per month for unskilled workers and $145 per month for skilled workers.[28] Comparative wage data are difficult to come by. The United Nations reported that in 2005, agricultural wages in Afghanistan were about $1.90 per hour, or about the same value based on a 40-hour week (which may or may not reflect actual conditions in Afghanistan.) It notes further that wages in Afghanistan were higher than those for Pakistan (about $1.70 per hour) or India (about $1.10), reflecting strong competition for labor from the drug sector, especially during the poppy harvest.[29] At the other extreme, AlJazeera reported in a 2007 film report entitled "Rebuilding Bamiyan, Part II" July 23, 2007, that the average wage in Bamiyan, one of the poorest parts of Afghanistan, was the U.S. equivalent of $20 per month.[30]

Strength of Labor Requirements

Some critics of the ROZ proposal argue against the labor requirements in the House bill—that they go beyond current U.S. law, both trade preference laws and U.S. free trade agreements—in two aspects.

Do They Go Beyond Current U.S. Trade Preference Law?

First, some critics argue, the ROZ proposal would expand labor requirements beyond those in U.S. law because they would be the first U.S. trade preference program to call for adherence to ILO "core labor standards," instead of U.S. "internationally recognized worker rights." ILO core labor standards are defined and backed by eight detailed conventions, of which the United States has ratified two.[31]

Defenders of the change could argue that the definition of "core labor standards" in the ROZ proposal lists them in the same way that other U.S. trade preference programs list "internationally

[28] Pakistan Export Processing Zone Association, Information is from its website, at http://www.epza.gov.pk/laborLaws.html.

[29] UNAMA Fact Sheet: *Understanding Afghanistan's Economy – a Brief Guide for Journalists*, Kabul, May 8, 2006.

[30] AlJazeera film entitled Rebuilding Bamiyan, Part II, July 23, 2007 available from YouTube at http://www.mefeedia.com/entry/3188372.

[31] Letter to Members of the Senate Finance Committee, by Emergency Committee for American Trade (ECAT), National Association of Manufacturers (NAM), National Foreign Trade Council (NFTC), United States Chamber of Commerce, and United States Council for International Business (USCIB), June 26, 2009.

recognized worker rights," but does not define them as coming from the ILO, and does not reference the ILO conventions. Defenders could argue, therefore, that the change was meant to incorporate a list of worker rights that stemmed from an international body and includes standards which most country governments have already signed on to and ratified, rather than one limited totally to U.S. law.[32]

Monitoring and Technical Assistance Requirements

Second, some critics argue, the ROZ proposal would go beyond requirements in even the most recent free trade agreements because it would mandate that compliance by producers with core labor standards be assessed and monitored with both initial and follow-up evaluations at the site by an "entity"[33] named by the Department of Labor.[34] The free trade agreements do not require that every site be monitored by an outside source.

Representative Dave Camp argues against the monitoring provisions for three reasons: (1) that the "entity" assigned to do the monitoring could include "even a nongovernmental organization (NGO) hostile to trade;" (2) "given the dire security situation in Afghanistan and Pakistan, having inspectors go from door to door, even cottage to cottage, to enforce such standards strains credibility;" and (3) such labor requirements "could be viewed as a precedent to justify the inclusion of similar language... in new trade agreements...[and] perhaps even in efforts to revise existing ones...leaving the U.S. vulnerable to challenges that our labor laws don't meet the standard." In summary, Camp declares that the labor provisions are "heavy, intrusive, impractical, impede investment and won't improve labor conditions."[35]

Defenders of the labor monitoring and technical assistance provisions argue that the detailed requirements in ROZ are very similar to those included in the Haiti HOPE Act in 2008.[36] These provisions call for the monitoring of labor conditions by the International Labor Organization (ILO). This requirement was first carried over into, and then changed, in the ROZ bill by the June 9, 2009 Rules Committee amendment. That amendment substituted for the ILO as the monitoring entity, "an entity designated by the Secretary of Labor ... subject to evaluation by the ILO at the request of the Secretary of Labor."

Critics of applying the Haiti provision to the ROZ situation point out that the structure of industry in Afghanistan and Pakistan differs from that in Haiti, making repeat inspections difficult. In Afghanistan and Pakistan, they argue, textile and apparel production operations are often characterized as "cottage industry," with production locations dispersed to individual homes in many cases; whereas in Haiti, production more often takes place in larger-scale factories.

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[32] The list of ILO "core labor standards" differs from the list of U.S. "internationally recognized worker rights" on one right or standard. They agree on the other four: the right to organize and bargain collectively; protections against forced labor; and protections for child labor. In addition, the ILO list also includes protections against employment discrimination, while the U.S. list includes the right to labor standards pertaining to minimum wages, maximum hours, and safety and health protections.

[33] Ibid.

[34] These free trade agreements are with Peru, Colombia, Panama, and South Korea. Of these, only the one with Peru has been approved by Congress, so far. (P.L. 110-138).

[35] Floor Statement of Representative Dave Camp, op. cit.

[36] Title XV of the Food, Conservation, and Energy Act of 2008 (P.L. 110-246), Sec. 15403.

The above-mentioned four textile and apparel retail associations argue that the labor provisions in the House bill "only serve...as a further disincentive for companies to use this program." However, the four retail associations state that they would support "labor provisions that reinforce our members' commitment to source apparel only under socially responsible and ethical conditions from factories that meet strict labor compliance standards."[37] The five additional organizations, in their letter to the Senate Finance Committee, support, as an alternative to the House labor provisions, the labor approach taken by S. 496, which does not include requirements for specific monitoring of production sites.[38]

Issues Relating to Child Labor

Some critics of the ROZ program are concerned that with the "cottage industry" structure that ROZ could encourages, there could be considerable employment of young people producing from home or small group operations. According to the State Department's *Country Reports on Human Rights Practices*, 2008 (most recent year available), child labor remains a pervasive problem in both Afghanistan and Pakistan. Many children are reportedly forced to work in Pakistan in particular, and their hours may be long, their wages low, and safety and health protections few if any. Added to this would be the difficulty of inspecting large numbers of small or home-based operations. According to the International Labor Organization (ILO), Afghanistan has ratified only three of the eight conventions relating to ILO "core labor standards. Among the five it has not ratified are the two standards providing child labor protections. In Pakistan, also according to *Country Reports*, enforcement of child labor protections is a serious problem and fines to employers for violations, to the extent that they are levied, may be relatively small for certain employers, ranging from $5 in the Northwest Frontier Province to $93 in Baluchistan.[39]

Issues Relating to Protections Against Illegal Transshipment

Some critics might argue that extensive protections against transshipment in the bill could cost companies considerable expense to comply. The requirements are fairly technical. Questions may arise concerning whether Afghanistan or Pakistan could meet the technical requirements of the visa or electronic certification system. In addition, questions might arise over whether the information obtained would be 100% reliable. At the same time, it is not clear how serious the threat of transshipment would be under this legislation.

Seven U.S. textile and apparel retail organizations plus the U.S. Chamber of Commerce concur that transshipment is a legitimate concern, and support the anti-transshipment provisions that exist in other trade preference programs such as the African Growth and Opportunity Act (AGOA). They argue that protections against illegal transshipment in S. 496 (and the similar House bill) goes way "go way beyond [AGOA] provisions" and "requires extensive disclosure of sensitive and proprietary information," including the names of all owners, directors, officers, suppliers, and U.S. customers of ROZ entities. This, in turn, they argue, "raises significant proprietary information concerns because companies do not want to reveal their sourcing strategies to competitors. The group also argues that the additional requirement to compile a list

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[37] Letter to Congress June 10, 2009 from the USA-ITA et al., op. cit.

[38] Letter to the Senate Finance Committee, June 26, 2009, op. cit.

[39] U.S. Department of State. *Country Reports on Human Rights Practices*, 2008. Labor sections (at end of respective chapters) for Afghanistan and Pakistan.

of all participating entities (ROZ producers in the region) "would surely" make these entities "a target list for America's enemies in the region."[40]

Issues Relating to the Increase in Customs User Fees

Two authorizations in the bill would total $160 million. One would be for customs enforcement to protect against unlawful transshipment ($10 million for each fiscal year 2010 through 2023). The other would be for certain requirements related to labor protections: technical assistance, capacity building, compliance assessment, and remediation program ($20 million for the total period beginning October 1, 2009, through September 30, 2023.)

Partly balancing these U.S. outlays and any tariff losses under ROZ would be increases in customs user fees charged and collected. These would be levied on imports, whether made in a ROZ or not, and on travel from Afghanistan and Pakistan. They would be levied in amounts of not less than $12 million for the period beginning on the date of enactment through September 30, 2014. This increase in customs user fees charged and collected would then be part of a greater levied sum of not less than $105 million for the period beginning on the date of enactment through September 30, 2019.

Representative Camp argues against the customs user fee provision because, "for every dollar of duty relief the ROZ exports from these countries receive, other Pakistani and Afghan exports have to pay at least that amount in increased fees, making these countries potentially worse off."[41]

The four textile and apparel retail associations argue that this "pay-for mechanism" in the bill "increases the cost of doing business in non-ROZ areas of Pakistan, which is contrary to the goal of bringing greater job creation to this critically important region and raises most-favored-nation concerns for those areas of Pakistan that are not eligible for ROZ investment." The four associations further argue that "penalizing one part of Pakistan to benefit another is a terrible precedent in a trade preference program."[42]

In addition, some lawyers have argued that the increased fee would likely violate World Trade Organization rules in that they could raise "most-favored-nation concerns for those areas of Pakistan that are not eligible for ROZ investment." That is, Article I of the General Agreement on Tariffs and Trade requires that trade concessions granted to one Member be applied immediately and without conditions to all other Members.[43]

[40] Letter to the Senate Finance Committee, June 22, 2009, from the American Apparel & Footwear Association (AAFA), the Fashion Accessories Shippers Association (FASA), the National Foreign Trade Council (NFTC), the National Retail Federation (NRF), the Retail Industry Leaders Association (TGA), the U.S. Association of Importers of Textiles and Apparel (USA-ITA), and the U.S. Chamber of Commerce.

[41] Floor statement by Representative Dave Camp, op. cit.

[42] Ibid.

[43] House Passes ROZ Bill Over Business, Republican Objections. World Trade Online. *Inside U.S. Trade*. June 12, 2009.

V. Outlook

Sponsors of the ROZ legislation, together with key diplomats from the United States, Pakistan, and Afghanistan, have issued statements of support. Backing the legislation have been Special U.S. Representative for Afghanistan and Pakistan, Ambassador Richard Holbrooke, Pakistan's ambassador to the United States Husain Haqqani, and Afghanistan's ambassador Said T. Jawad. Also supporting the legislation, in addition to President Obama and former President Clinton, are the U.S. Chamber of Commerce, and the U.S.-Pakistan Business Council with a qualification listed below. They point to the proposed legislation as a means for achieving or contributing to a safe and peaceful Afghanistan and Pakistan and a safe and peaceful United States by offering employment alternatives to al-Qaeda and Taliban employment and recruitment efforts. They look to ROZ legislation as a means toward raising incomes, creating good jobs, and developing a strong middle class in a part of the world that remains critical to U.S. national security. The House sponsor of the bill also argues that through ROZs, Congress would affirm the importance the United States attaches to Pakistan and Afghanistan.[44]

Neutral on the legislation are the U.S. textile and apparel producers. They do not object to the bill as currently written, but could oppose it if certain changes were made to the bill, particularly in the scope of products coverage. Similarly, the AFL-CIO does not oppose the legislation as introduced.

Four U.S. textile and apparel importers, including the American Apparel and Footwear Association, the National Retail Federation, the Retail Industry Leaders Association, and the U.S. Association of Importers of Textiles and Apparel, plus the U.S. Chamber of Commerce and the U.S.-Pakistan Business Council would support the legislation with some specific amendments, discussed in greater detail in the "issues" section, above, but summarized here: The four textile and apparel importers summarize their suggested amendments as follows. "The United States has an important opportunity to send a tangible message to the nation and people of Afghanistan and Pakistan with this initiative. We have a chance to create real employment that counters the recruitment efforts of the al Qaeda and Taliban. But that is possible only if the product scope, geographic coverage and the labor provisions of the ROZ program reflect the realities of the region. Any less amounts to a hollow symbolic gesture that will do little to help Pakistan or Afghanistan or demonstrate a U.S. commitment to our allies."[45] Similarly, the five organizations previously mentioned, including the U.S. Chamber of Commerce and the U.S.-Pakistan Business Council, would support the Senate version of the legislation, which excludes the House labor provisions.[46]

House sponsor, Representative Chris Van Hollen, affirmed wide support for the bill on the day of its passage in the House, including from President Obama and Special Representative for Afghanistan and Pakistan Richard Holbrooke. "In announcing his strategy for Afghanistan President Obama called on Congress to pass ROZ legislation and 'develop the economy and bring hope to places plagued by violence.'" Moreover, he reported, "in a recent letter to Speaker Pelosi, Ambassador Holbrooke called ROZs, 'a vital component of our policy towards Pakistan in a

[44] Office of Congressman Chris Van Hollen, "Van Hollen Introduces the Afghanistan-Pakistan Security and Prosperity Enhancement Act," press release, March 4, 2009.

[45] Letter to Congress June 10, 2009 from the USA-ITA et al., op. cit.

[46] June 26 letter to the Senate Finance Committee, op. cit.

moment of great challenge, indeed crisis, for that critically important nation.' … With this bill, we are taking steps to forge a true strategic partnership with Pakistan and its people, strengthen its democratic government, and help Pakistan to be a force for stability in this volatile region."[47]

Senator Maria Cantwell, in a statement released the day after the House passed legislation including the ROZ bill, echoed similar sentiments earlier stated in a report by the 9/11 Commission: The "9/11 Commission recommended that 'a comprehensive U.S. strategy to counter terrorism should include economic policies that encourage development, more open societies, and opportunities for people to improve the lives of their families and to enhance prospects for their children's future.... I fully agree with this sentiment. ROZS will give the people of Afghanistan and Pakistan new opportunity and hope."[48]

[47] *Van Hollen Applauds Pakistan Enduring Assistance and cooperation Enhancement Act: Urges Senate to Move Quickly on Legislation, Including ROZ Initiative.* Press Release, June 11, 2009.

[48] *Cantwell Urges Swift Senate Passage of her Reconstruction Opportunity Zones bill in Senate Finance Hearing.* Press Release, Thursday, June 12, 2008.

Appendix. Related Data Tables

This appendix pulls together relevant data pertaining to H.R. 1318/H.R. 1886/H.R. 2410 and S. 496. **Tables A-1 through A-4** show which Pakistani imports would be permitted to enter the United States duty-free, and which imports would still be assessed tariffs. The tables divide the 100 highest value import categories into four groups: (1) items for which tariffs would be removed under the bills; (2) textile and apparel items for which tariffs would not be removed; (3) non-textile, non-apparel items for which tariffs would not be removed; and (4) all items among the top 100 imports, which currently carry zero tariff rates.

Table A-5 looks at U.S. textile and apparel employment and output, and U.S. imports of textiles and apparel from the world, and from Pakistan over the years 2002-2008.

Table A-1. Top 100 U.S. Imports from Pakistan for 2008: HTS 10-Digit Textile and Apparel Items for Which Tariffs *Would* Be Removed Under H.R. 1318 and S. 496

HTS Number	Import Item	Import Value ($)	Tariff Rate (%)	Tariff Value ($)
6302.60.0020	cotton terry towels	281,957,259	9.1	25,658,111
6302.31,9020	cotton sheets	207,108,910	6.7	13,876,297
6302.60.0030	cotton terry towels	115,194,682	9.1	10,482,716
6302.21.9020	cotton sheets	109,228,281	6.7	7,318,295
6101.20.0010	men's' and boys' cotton overcoats	73,762,187	15.9	11,728,188
6302.10.0008	cotton bed linens knit or crocheted	64,033,213	6	3,841,993
9404.90.8020	cotton quilts/comforters	63,265,029	4.4	2,783,661
6307.10.1020	cotton bar mops	60,496,038	4.1	2,480,338
6307.10.1090	cotton dust cloths	60,033,312	4.1	2,461,366
6302.31.9010	cotton pillow cases	46,774,068	6.7	3,133,863
6211.42.0081	misc. women's' cotton apparel	29,460,825	8.1	2,386,327
6303.91.0010	cotton window curtains	27,900,313	10.3	2,873,732
6302.21.9010	cotton pillow cases	26,833,137	6.7	1,797,820
6304.92.0000	misc. cotton furnishings	24,465,551	6.3	1,541,330
6303.91.0020	cotton valances	21,010,892	10.3	2,164,122
6303.92.2010	synthetic fiber window valances	17,899,914	11.3	2,022,690
6301.30.0010	woven cotton blankets	17,668,224	8.4	1,484,131
6102.20.0010	women's cotton knit coats	17,504,162	15.9	2,783,162
6307.10.2005	cotton shop towels	14,720,603	5.3	780,192
6116.10.6500	plastic or rubber coated knit gloves made from cotton or man-made fibers	14,386,436	7	1,007,051
6302.21.7020	cotton sheets	13,735,592	2.5	343,390
6108.31.0010	women's' cotton nightgowns/PJs	13,065,007	8.5	11,105,26

HTS Number	Import Item	Import Value ($)	Tariff Rate (%)	Tariff Value ($)
6302.31.7020	cotton sheets	11,337,649	3.8	430,831
6302.21.9050	cotton bedding	10,386,645	6.7	695,905
9404.90.8505	cotton quilts/comforters	9,759,667	12.8	1,249,237
6216.00.5820	man-made fiber gloves/mittens	9,612,882	10.4	999,740
6302.10.0005	cotton pillow cases	9,404,932	6	564,296
6304.19.1000	other cotton furnishings	8,404,228	4.4	369,786
6302.53.0020	man-made fiber tablecloths	8,307,646	11.3	938,764
6307.10.2027	cotton dish cloths	8,188,629	5.3	433,997
6114.30.3060	boys' garments, man-made fiber	7,536,733	14.9	1122,973
6201.92.2051	men's cotton wind breakers	7,267,922	9.4	683,185
6302.60.0010	cotton terry dish towels	6,969,208	9.1	634,198
6211.43.0091	women's or girls' apparel, man-made fibers	6,851,312	16	1096,210
6302.91.0045	cotton dish towels	6,845,300	9.2	629,768
6302.91.0050	cotton woven towels	6,115,458	9.2	562,622
6302.32.2040	man-made fiber bed linens	6,072,055	11.4	692,214
6211.42.0056	women's and girls' cotton shirts and blouses	5,445,644	8.1	441,097
	Total/Average Tariff Rate:	**1,449,009,545**	**8.0**	**115,604,121**

Source: USITC Dataweb. Data analysis performed by CRS.

Note: All HTS codes beginning with "50"-"56" are fibers or related materials; all HTS codes beginning with "57" are carpets and other floor coverings; all HTS codes beginning with "58"-"60" are fabrics; all HTS codes beginning with "61"-"62" are apparel items with "61"referring to knit or crocheted articles, and"62" referring to non-knitted or crocheted articles; HTS codes beginning with "63" are made-up textile articles.

Table A-2. Top 100 U.S. Imports from Pakistan for 2008: HTS 10-Digit Textile and Apparel Items for Which Tariffs *Would Not* be Removed Under H.R. 1318 and S. 496

HTS Number	Import Item	Import Value($)	Tariff Rate (%)	Tariff Value ($)
6105.10.0010	men's and boys' cotton knit shirts	160,063,941	19.7	31,532,596
6115.95.9000	men's or boys' cotton socks	138,314,129	13.5	18,672,407
6110.20.2069	men's and boys' cotton pullovers	126,336,652	16.5	20,845,548
6203.42.4011	men's cotton denim trousers	81,319,021	16.6	13,498,957
6203.42.4016	men's cotton trousers	63,583,300	16.6	10,554,828
6109.10.0012	men's cotton T-shirts	61,609,842	16	9,857,575
6110.20.2040	men's or boys' cotton sweatshirts	57,807,632	16.5	9,538,259
6203.42.4051	men's cotton shorts	44,091,210	16.6	7,319,141
6110.20.2079	women's or girls' cotton pullovers	43,134,800	16.5	7,117,242
6204.62.4011	women's cotton denim trousers	42,258,151	16.6	7,014,853
6204.62.4021	women's cotton trousers	41,735,256	16.6	6,928,052
6105.10.0030	boys' cotton knit shirts	39,411,438	19.7	7,764,053
6109.10.0040	women's cotton T-shirts	28,749,419	16.5	4,743,654
4203.10.4030	men's and boys' leather coats	26,787,712	6	1,607,263
6109.10.0004	men's and boy's cotton T-shirts	18,102,729	16.5	2,986,950
6108.21.0010	women's cotton knit briefs	15,223,824	7.6	1,157,011
6109.10.0027	men's and boy's cotton T-shirts and tank tops	15,051,150	16.5	2,483,440
6104.62.2011	women's cotton knit trousers	14,896,280	14.9	2,219,546
6106.10.0010	women's cotton knit blouses/shirts	14,262,765	19.7	2,809,765
4203.29.3010	leather gloves/mittens	14,224,016	14	1,991,362
6107.11.0010	men's cotton briefs	14,144,932	7.4	1,046,725
6307.90.9889	other made-up articles	13,767,123	7	963,699
6203.42.4036	boys' cotton denim trousers	13,532,282	16.6	2,246,359
4203.10.4085	men's or boys' leather apparel	12,336,609	6	740,197
6103.42.1020	men's cotton knit trousers	11,205,790	7.4	829,228
6104.62.2030	women's cotton knit shorts	9,524,545	14.9	1,419,157
6101.20.0020	men's or boys' cotton knit coats	9,510,582	15.9	1,512,183
6109.10.0070	women's or girls' cotton T-shirts	9,399,499	16.5	1,550,917
6110.20.2045	women's or girls other cotton knit sweatshirts	9,193,869	16.5	1,516,988
4203.21.8060	leather sports gloves	8,687,198	4.9	425,673
6109.10.0060	women's cotton knit tank tops	8,670,739	16.5	1,430,672

HTS Number	Import Item	Import Value($)	Tariff Rate (%)	Tariff Value ($)
6109.10.0011	men's or boy's thermal cotton undershirts	8,556,230	16.5	1,411,778
6204.62.4056	women's cotton shorts	8,399,297	16.6	1,394,283
6203.42.4061	boys' cotton shorts	8,390,445	16.6	1,392,814
6203.42.4046	boys' cotton trousers	8,252,214	16.6	1,369,868
6109.10.0014	boys' cotton T-shirts	8,067,115	16.5	1,331,074
6109.10.0045	girls' cotton T-shirts	7,400,712	16.5	1,221,117
6204.62.4041	girls' blue denim cotton trousers	7,170,915	16.6	1,190,372
9603.90.8050	brooms, brushes, squeegees unidentifiable by fiber of material	6,382,722	2.8	178,716
5210.11.6020	unbleached poplin (less than 85% cotton)	6,158,638	10.2	628,181
5205.32.0000	uncombed yarns (at least 85% cotton)	6,120,506	7.3	446,797
4203.10.4060	women's leather coats	5,980,288	6	358,817
6205.20.2066	men's cotton shirts	5,979,519	19.7	1,177,965
5205.12.1000	single cotton yarns	5,852,876	5.2	304,350
5208.52.3045	cotton woven fabrics	5,791,305	6	347,478
	Total/Weighted Average Tariff Rate:	**1,265,439,217**	**15.6**	**197,077,911**

Source: USITC Dataweb. Data analysis performed by CRS.

Table A-3.Top 100 U.S. Imports from Pakistan for 2008: HTS 10-Digit Non-Textile and Non-Apparel Items for Which Tariffs Would Not Be Removed Under H.R. 1318 and S. 496

HTS Number	Import Item	Import Value ($)	Tariff Rate (%)	Tariff ($)
3907.60.0010	bottle grade resins	25,606,689	6.5	1,664,435
7113.19.5000	gold or platinum jewelry	22,783,663	5.5	1,253,101
8214.20.3000	manicure/pedicure instruments	8,796,118	4	351,845
7113.19.5015	gold or platinum jewelry w/ jadeite or rubies	7,197,761	5.5	395,877
	Total/Average Tariff Rate:	**64,384,231**	**5.7**	**3,665,257**

Source: USITC Dataweb.

Table A-4.Top 100 Imports from Pakistan for 2008: HTS 10-Digit Items (Both Textile and Apparel and Non-Textile and Apparel) with Zero Tariff Rates

HTS Number	Import Item	Import Value ($)	Tariff Rate (%)	Tariff ($)
5701.10.4000	wool hooked rugs	77,021,981	0	0
9018.90.8000	medical/surgical/vet instruments with no electrical parts	45,284,873	0	0
2710.11.2500	naphthas	19,082,422	0	0
9506.62.4080	soccer balls	15,334,050	0	0
1006.30.9010	long grain rice	12,390,045	0	0
6310.10.2010	cotton rags/scrap twine	11,997,993	0	0
1302.32.0020	mucilages and thickeners	10,541,118	0	0
1006.20.2000	basmati rice	9,848,988	0	0
1702.30.4040	glucose syrup	8,307,446	0	0
5702.49.1080	cotton rugs	7,459,256	0	0
9999.95.0000	low value transactions	6,795,442	0	0
6310.90.2000	unsorted rags or scrap twine (not of wool or animal hair)	6,430,204	0	0
9706.00.0060	antiques over 100 years old	6,350,625	0	0
	Total:	**236,844,443**		

Source: USITC Dataweb.

Table A-5. Comparison of Certain Textile and Apparel-Related Data, 2002-2008

Year	U.S. Employment (thousands)	U.S. Output[a] ($ billions)	Total U.S. Imports ($ billions)	Imports from Pakistan ($billions)
2008	497	NA	93	3.1
2007	542	96*	96	3.2
2006	594	102	93	3.3
2005	645	110	89	2.9
2004	698	107	83	2.5
2003	753	113	77	2.2
2002	845	119	72	2.0
(a) % change 02-08	**-41%**	**-21% (2002-2007)**	**29%**	**55%**
(b) Total U.S. imports from Pakistan as a share of total U.S. imports in 2002: 3%; and in 2008: 3%				

Source: U.S. Employment: Bureau of Labor Statistics, NAICS manufacturing codes 313, 314, and 315; U.S. Output: U.S. Census Bureau, *Annual Survey of Manufactures*, NAICS codes 313, 314, and 315; U.S. Imports from

China and Pakistan: Office of Textiles and Apparel (OTEXA), International Trade Administration, Department of Commerce.

Notes: Numbers have been rounded for easier comparison. Percentages reflect unrounded numbers.
Est: Estimated values of U.S. output in the textile and apparel sector are extrapolations based on the rates of decline of output over the years 2002-2006.

a. Output figure for 2007 is taken from the U.S. Commerce Department's Bureau of Economic Analysis (BEA). Its figure may differ from the Census Bureau's forthcoming data by less than $1 billion. The BEA data includes output data for producers of leather apparel, which is not included in the Census source.

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