

**JUNE 18, 2009**

**TESTIMONY**

**D. HARDING STOWE, CEO R.L. STOWE MILLS  
BEFORE THE U.S. HOUSE OF REPRESENTATIVES  
SMALL BUSINESS SUBCOMMITTEE ON RURAL AND URBAN  
ENTREPRENEURSHIP**

**TEXTILE IMPORT ENFORCEMENT: IS THE PLAYING FIELD LEVEL FOR  
AMERICAN SMALL BUSINESSES**

Good morning, Chairman Shuler, Ranking Member Luetkemeyer and members of the subcommittee, my name is Daniel Harding Stowe. I am President and CEO of R.L. Stowe Mills. R.L. Stowe Mills ceased operations in the first quarter of 2009 and is going through the process of liquidating its plants and real estate. I am testifying at the hearing today because lack of effective customs enforcement was an important factor in our decision to close the business. It is my hope that by contributing to this hearing other American textile companies that still remain in business will have a future in our industry.

Our company was organized in 1901 and began operations in 1902. At its peak the company employed over 1,500 people in eight facilities. We produced yarns for many markets and product applications. These markets included apparel, hosiery, home furnishings, industrial, medical and military. Being in business for more than a century caused R.L. Stowe Mills to react to changes involving the market and adapt our processes and products to the demands that the market dictated. One market that was especially important to us was the knitted shirt industry in Central America because we had developed an extensive customer base that purchased fine count cotton yarns. We were able to grow our export business from 3% of our sales in 1999 to over 40% of our sales in 2008.

Almost all of this growth came from the CAFTA region and much of it in Guatemala. The Caribbean Basin Initiative allowed us to build strong supply chains into the region with our yarn. R. L. Stowe along with the textile's industry's principle trade group, the National Council of Textile Organizations supported the Central America Free Trade Agreement. The industry felt that by joining together with our Central American trading partners and customers would allow us to best compete with the overwhelming Chinese trade flows that were rapidly taking market share in most of the textile and apparel product categories.

Customs enforcement is a critical component in any trade agreement. It is especially true with CAFTA because of the many countries involved and the volume of goods being transferred between countries. We sought and were given assurances from the White House on down that enforcement would be diligent and given the highest priority. This was particularly important because we had discovered during the CAFTA debate that Customs had not hired over 72 textile and apparel specialists that Congress had appropriated money for several years before. We therefore asked for and got assurances that the CAFTA enforcement efforts would be stronger and more comprehensive than ever before.

As a matter of fact, our company hosted a presidential visit during the critical time that CAFTA was being debated. Former President George W. Bush toured our mill in July of 2005 and spoke to our employees on the importance of the CAFTA agreement. Privately I discussed with him the threat that Chinese exports into the US were having on the mill. To be clear, the promise of a unified Western Hemisphere business strategy to better compete with Chinese goods was the driving force behind our support for CAFTA along with the all but guaranteed increase in enforcement in what is now the CAFTA region.

Based on these assurances the textile industry provided the needed support to win passage of CAFTA, yet after CAFTA passed, enforcement of our customs laws grew weaker, not stronger. In fact, lack of customs enforcement was an issue almost from the beginning of CAFTA. The agreement was only one year old when the textile enforcement division was abruptly moved from Operations to a new policy branch. The industry protested loudly at this action ó it made no sense to take what was primarily an enforcement division and move it to a policy division. This was particularly upsetting because Customs had done exactly the same thing back in the late 1990s ó and had such problems with its enforcement efforts that textiles was transferred back to Operations. Now, a year after our commitments from the government, it was happening again.

2006 was good year for R. L. Stowe. We shipped over 11 million pounds of 30/1 and 2.5 million pounds of 40/1 much of it into the CAFTA region. We were operating four ring spinning plants and had seen constant growth in the region since we had entered the market in 2001. It was at the end of 2006 and early 2007 that we began to see blatant evidence of imported yarn being used from companies that either didn't exist, or were shipped with forged Affidavits of Origin claiming U.S. origin. In some cases, affidavits claimed that the yarn was made by R.L. Stowe.

In 2007, the problem had gotten so bad that representatives from RL Stowe Mills, Frontier, Parkdale and Tuscarora met with Matt Priest, the head of the Office of Textile and Apparel (OTEXA) to discuss the problem of falsified customs documents (fake affidavits of origin) and the precipitous drop in the prices for yarn "Made in U.S." for use in CAFTA goods.

It was about this time that we first began to hear discussions of US companies that we knew did not exist. Our customers in the CAFTA region were suddenly being offered cheap fabric from California that was labeled "CAFTA qualified", but at price points that were significantly lower than fabric that could be produced in either the United States or the CAFTA region.

As a result, for two of our primary yarn counts into the region, in 2007 our overall sales of 30/1 sales fell from 11 million to 5.8 million and 40/1 sales fell from 2.6 million to 1.9 million while our sales to California over-all were down by 70-80% for natural yarns. We were now regularly being told that U.S. made yarn was "too expensive" and could not compete "yet U.S. yarn <sup>1</sup>was required to get CAFTA benefits. Yet many of our traditional California customers were exporting CAFTA qualifying fabric to Central America. We reported our concerns to Customs through NCTO. As evidence, we provided proof of falsified documents alleging CAFTA origin but when we submitted them to Customs, we were told they could not do anything until the goods came back into the U.S. Then we were told that because we did not know the name of the importer of record who brought the goods in, it would be very difficult, if not impossible, for Customs to trace the records back and take action. This was all very frustrating because we knew the knitters and in certain cases the cut and sew companies who were getting illegal goods and we knew who was sending them the illegal goods but this was still not enough information for Customs to crack down. Getting this information sometimes put the sources of our information at risk in terms of both their jobs and their well being and the lack of Customs follow-through made it difficult to gather more information.

Even after new assurances from Customs that it would move aggressively, fraudulent activity continued to increase with shell companies openly advertising their product as U.S. made yarn and offering false certificates of origin. By the fourth quarter of 2008, Central America was flooded with fraudulent yarn. Shipments and prices declined rapidly and in December because of these conditions and softening in other markets we made the decision to close RL Stowe Mills after 108 years and three generations in business.

I urge Congress to take action to make customs enforcement the priority that we were promised and help this important part of the United States industrial base survive in the future. It is difficult enough to compete in this global industry when rules are maintained and almost impossible when they are not.

Thank you for the opportunity to share the story of my company and I'd be pleased to answer any of your questions.

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<sup>1</sup> There was no significant yarn production in the CAFTA region, therefore U.S. yarn was "de facto" required.