



July 26, 2010

Mr. Joe Hurd
Senior Director
Trade and Promotion Coordinating Committee
Department of Commerce – Room C102
1401 Constitution Ave, NW
Washington DC 20230

RE: Public Comment to Inform Development of National Export Initiative Plan

Dear Mr. Hurd:

Thank you for the opportunity to comment on the development of the National Export Initiative. NCTO represents the domestic textile industry, an industry whose survival is dependent on the development of strong export markets, and we strongly support the President's initiative.

With more than \$12 billion a year in exports, the U.S. textile industry is the third largest textile exporter in the world, and is one of the most export intensive industries in the United States. In particular, the industry exports yarns and fabrics primarily to NAFTA, CAFTA and Andean countries and those yarns and fabrics are then made into apparel and are re-exported back to the United States duty free. This textile-apparel chain has been created as a result of the passage of trade preference and free trade agreements in Western Hemisphere and now supports nearly two million textile and apparel jobs throughout the Hemisphere.

The U.S. textile industry itself employs more than 400,000 workers in the United States, with most of those jobs located in small or medium sized businesses in rural areas of the Southeast. These export-oriented jobs have become more and more important to these areas as other manufacturing has declined and new business have not stepped in to take their place. In many small towns and counties, textile mills are not only the primary source for tax revenue for local governments but communities themselves depend on them for tax revenue, utility costs, salaries, and other benefits that these mills provide in the community.

Government statistics show that a single textile job supports three other jobs in a community. Every time a textile mill closes, small communities suffer disproportionately. Likewise, when new textile mills open, communities not only gain employment but new services, increased home values, more funding for schools and other benefits follow in their wake.

In reviewing the steps that the government could take in order to double textile exports over the next five years, we urge the government to concentrate on four specific areas:

- 1) **Reducing the cost of trade financing in the Western Hemisphere textile and apparel supply chain;**
- 2) **Reducing overseas subsidies, including currency manipulation, given to competitor industries in Asia, particularly China;**
- 3) **Increasing and improving Customs enforcement in free trade and preference areas, and**
- 4) **Re-emphasizing the Western Hemisphere textile and apparel supply chain through increased trade promotion, reverse trade missions and full package programs.**

We will review each of these areas in more depth in paragraphs below. We note that each of these initiatives requires the government to “step outside its box” and to take actions that, in the past, have often become bogged down in the bureaucracy or have been judged too difficult to accomplish.

We believe that the depth of our country’s economic distress, the destruction of so many high paying manufacturing jobs, the need both to restore balance to our federal deficit and to reduce our dependence on China for both capital and for goods all speak to importance of moving forward now with determination and speed. The United States needs an aggressive and determined export policy that supports businesses and sweeps away impediments, both at home and overseas, to our goods. We hope that the following ideas are of use in framing that policy.

- 1) **Reducing the cost of trade financing in the Western Hemisphere textile and apparel supply chain**

In order for the National Export Initiative to achieve the President’s goal to double exports over the next five years, manufacturers must have access to capital in order to ensure that resources are available to produce goods for export and that exports themselves can be financed in a secure and cost effective manner. If manufacturers cannot easily access financing through private lending sources or with government backing, U.S. manufacturers cannot gain a competitive advantage. When overseas governments offer their export industries cheaper financing than what private U.S. lenders or the Ex-Im bank can offer, that drives business away from the United States. The result is loss of orders, jobs, and ultimately the closure of U.S. manufacturing plants.

Particularly over the last year and a half, the U.S. textile industry has experienced tremendous difficulty in securing financing through private lending institutions as well as from the Export Import Bank of the United States (Ex-Im bank). The recession dramatically exacerbated an existing problem: over the past ten years, the U.S. textile industry has

experienced declining production – and declining access to credit - due to a phased removal of quotas and increasing subsidization overseas. While our exports have remained significant, this has caused private lenders to peg the industry as high risk. The recession has magnified this problem further.

While financing costs for U.S. textile exporters were climbing dramatically, China and other Asian governments announced new lines of low cost credit for their textile exporters. These governments have historically used government institutions to ensure that their exporters had the lowest financing costs available. These additional interventions during the height of the crisis meant more orders were lost by U.S. textile exporters to China and China was, in fact, one of the few countries to keep its textile exports to the U.S. stable during the crisis. Exports from the CAFTA countries, for example, fell by 20 percent. Unfortunately, the U.S. government made no protests over China's additional assistance and continues to give little or no attention to the competitive problem of Chinese and other Asian producers providing below market export loans financing to their exporters.

In absence of support from the private sector, the industry's only alternative has been to look to Ex-Im bank. This turned out to be an exercise in frustration. Ex-Im affixes risk based primarily on the country in which the U.S. producer is shipping its goods. The higher the country risk, the higher the interest rate affixed to Ex-Im financing. Unfortunately, Ex-Im bank considers most of the countries in NAFTA and CAFTA to be "high risk" thereby substantially increasing the rate/price of credit insurance for the industry. The cost has been so prohibitive that the textile industry cannot do use Ex-Im and still do business. As a result, only \$25 million out of the \$12 billion that the industry exported last year utilized Ex-Im financing. So, in the face of tightening credit and the refusal of Ex-Im to help in financing, U.S. textile exports plunged last year, down 16 percent, a decline of \$2.5 billion.

Looking ahead, in order to increase exports, the U.S. textile industry needs assistance from Ex-Im in identifying new financing options that will provide sufficient resources for production and exports. The Federal government has an important role to play in ensuring that the industry is able to fulfill its supply chain obligations.

As stated above, while the Ex-Im bank is tasked to provide credit guarantees, credit insurance, and financing to U.S. exporters and equalizing the export finance market for U.S. producers, the textile industry has found that Ex-Im does not provide a viable option. As we have discussed this problem with our member companies, we hear repeatedly that Ex-Im is too risk adverse, that financing products are too expensive and too limited, that Ex-Im puts too much weight on overall industry condition and country of export (versus more weight on examining individual companies and reliability of their supply chains), and that paperwork and processing delays often compromise the entire process.

➤ The Ex-Im is Risk Adverse:

When offering credit insurance or guarantees Ex-Im bank affixes risk based on the country receiving the exports. As previously mentioned, the bulk of the U.S. textile industry exports

go to the NAFTA and CAFTA regions. Many of the countries in these regions are considered by the Ex-Im bank to be 'high-risk' countries and therefore the cost associated with credit insurance or guarantees is prohibitively high for textile producers. Ex-Im programs, however, ignore certain business realities, namely that the structure of the NAFTA and CAFTA trade agreements means that large and dependable production chains have been created by giving the end product (apparel) duty free access provided that U.S. or regional textile yarns and fabrics are used. These imports are ordered, in general, by large brands and retailers who have had stable relationships with Central American or Mexican apparel manufacturers for many years. Ex-Im bank, however, does not take these long lasting and stable relationships into account when determining financing rates.

NEI Recommendation: The NEI should direct the Ex-Im bank to relax its policies in determining risk based on the following factors: (1) exports going to FTA partner countries should be taken into special consideration when determining risk; and (2) if the exporter is able to prove that the input(s) exported will enter the U.S. as a different product, the risk should reflect ultimate country destination.

➤ Ex-Im Financing is Limited Based on Industry and Country:

The U.S. textile industry needs access to a broader range of financing options than are currently made available by Ex-Im bank. As noted earlier, the U.S. industry competes primarily against Asian exporters that receive comprehensive and low cost financing from government institutions. Currently, Ex-Im bank offers only credit insurance - and prohibitively expensive credit insurance at that - to domestic textile exporters. The lack of financing options that can compete with those offered by the Chinese government and other governments has caused U.S. textile exports to suffer. While Ex-Im has informed the industry that it might be able to reduce some costs if mills were able to provide certain financial information on their customers to the Ex-Im bank, this offer has been judged to be too limited to be of real use.

NEI Recommendation: The U.S. textile industry would be able to work more closely with the Ex-Im bank if the bank were able to offer true multi-buyer financing including direct loans in addition to credit guarantees/insurance to the textile industry. This would allow Western Hemisphere producers that use U.S. textile exports to compete head on with Asian exporters. We believe access to both financing options would dramatically increase textile exports to the Western Hemisphere countries.

➤ Paperwork Processing Delays at Ex-Im Bank:

According to the members of NCTO, the paperwork and processing associated with the Ex-Im bank's financial products has caused needless delays and in some respects has caused private lending institutions working with Ex-Im to withdraw financing based on these delays.

NEI Recommendation: Ex-Im bank should conduct an extensive review of the paperwork associated with each financial product offered to exporters as well as the time in which it takes to process applications. In addition, Ex-Im should track the number of financial products that were not offered to exporters due to needless paperwork and processing delays within the agency. The process should be streamlined so that processing takes place simultaneously with outside lenders.

2. Reducing overseas subsidies, including currency manipulation, given to competitor industries in Asia, particularly China.

In today's competitive world, no issue is more frustrating for U.S. textile exporters than the unfair playing field that overseas subsidies have created for textile and apparel trade and the lack of U.S. government attention to those subsidies. Subsidies offered by foreign governments to directly or indirectly subsidize their export sectors are rife throughout Asia and they are responsible for the loss of billions of dollars of exports by U.S. textile companies.

This situation is clearly not unique to textiles. Many other domestic manufacturers lose export orders every day because of subsidies that would provoke outrage if offered in the United States. Unfortunately, these same subsidies offered overseas have failed to elicit much of a government response. As the President and his top advisors have repeatedly recognized, the use of currency as an economic weapon by China has caused enormous job losses in the United States manufacturing sector and yet the United States government continues to shy away from even the simple step of citing China as a currency manipulator.

The advantage that currency manipulation offers to Chinese exporters is immense – a 20 to 40 percent price advantage – and this has enabled China to increase its exports to the United States by nearly \$30 billion over the last ten years. China's market share for apparel has increased from **12 percent in 2000 to nearly 45 percent today** and it is still climbing.

The impact on the U.S. textile industry has been enormous as well – Chinese exports of apparel have displaced Western Hemisphere exports to the United States and this has caused the loss of billions of dollars of U.S. exports orders for yarns and fabrics from those countries. As a result, hundreds of thousands of textile export jobs in the United States have been lost.

Exports to other countries have been lost as well. China itself is a major export market for U.S. textiles, with nearly half a billion dollars in U.S. textile exports a year. Our members tell us that the Chinese market has barely been scratched but that it will remain essentially closed for as long as China's manipulated yuan acts as a 20 to 30 percent tax on U.S. exports. The U.S. textile industry has also experience a long term decline of exports to the European Union, once its third largest export market. Our exports have declined as imports from China have jumped – another indicator that currency and other subsidies are taking valuable export orders away from U.S. textile companies.

Currency is not the only subsidy that China offers to its export industry, merely the largest. NCTO has compiled a list of 63 subsidies that China gives to its textile and apparel sector and

each of these registers an impact on U.S. producers. These subsidies run the gamut from financing to raw materials to energy costs to new machinery and equipment. Despite these many subsidies, or perhaps because of them, China continues to refuse to submit a comprehensive list of subsidies to the WTO as required under its WTO charter. Unfortunately, while the United States has complained for years about the Chinese refusal to abide by WTO rules, United States continues to prefer the use of rhetoric to real action in terms of confronting them.

NEI Recommendations:

In order to ensure real export gains, the U.S. government must understand that currency manipulation and other subsidy programs employed by China and others have a real and detrimental impact on the ability of U.S. companies to export their goods to markets around the world. Nearly everywhere China is challenging U.S. exporters with their own subsidized products and it is a stunning statement that China has risen in just the past ten years to become the world's top manufacturing exporter, overtopping the U.S. but provoking almost no meaningful government response. If the U.S. is retain its economic leadership in the world, NCTO believe that the U.S. government must finally confront these subsidies squarely. NCTO suggests the following actions by the U.S. government:

- A) Label China as a currency manipulator and support legislation that would allow U.S. companies and their workers to defend themselves against this practice;
- B) Use WTO rules to challenge China in sectors where its subsidies have caused injury to U.S. exports.
- C) Create a comprehensive public database of Chinese industrial subsidies, from the national to the municipal level, and make it available to domestic industry.
- D) Reduce the cost of filing of dumping and countervailing duty cases: at \$1 million and up, these cases are prohibitively expensive for most small businesses.

3) Increasing and improving Customs enforcement in free trade and preference areas

Seventy percent of all U.S. textile exports go to the free trade and preference areas in the NAFTA, CAFTA and Andean region and each export shipment is dependent on the assurance that fraudulent goods will not be tolerated by U.S. Customs. Unfortunately, five years after CAFTA was signed and 15 years after NAFTA was signed, fraudulent players have increasingly discovered that U.S. Customs no longer considers commercial fraud a high priority. Fraud has now become prevalent in the Western Hemisphere region with U.S. textile mills losing more and more orders as bad players ship Pakistani or Chinese yarns and fabric into the region and claim them as U.S. made. Billions of dollars in U.S. textile exports are lost each year because of this fraud and the U.S. Treasury itself is being defrauded by as much as a billion dollars a year in lost revenue.

Unfortunately, the increase in fraud has not been matched by an increase in efforts by U.S. Customs to combat the problem. While indices for key textile fraud – high failure rates for goods examined by product verification teams, large scale fraud found during special

operations on short supply claims and Chinese apparel undervaluation, large and growing discrepancies between U.S. textile production statistics and actual trade preference claims, *Customs efforts have waned*. Staffing for textile enforcement in the headquarters office has been cut by 40 percent during the last five years and textile verifications, audits, seizures and other key indicators of Customs activity are way down.

NEI Recommendations:

Recently two committees in Congress – the House Trade Subcommittee of the Ways and Means Committee and the Small Business Committee – held hearings that examined, at least in part, the problem of textile Customs fraud.

These hearings coincided with the introduction of H.R. 5393, the Textile Enforcement and Security Act (TESA) which is designed to give Customs the resources, authority and tools that it needs to ensure that fraudulent activity in free trade and preference areas is kept to a minimum. If implemented, NCTO believes the Act would increase U.S. textile exports significantly because it would crack down fraudulent players who are illegally using Asian yarns and fabrics in the preference areas.

The NEI should support the passage of TESA and should also direct the Customs and Border Protection to make textile customs fraud a major priority, with increased staffing, new resources and new support from within the Agency.

4) Re-emphasizing the Western Hemisphere textile and apparel supply chain through increased trade promotion and reverse trade missions.

The textile and apparel sector in the Western Hemisphere employs nearly two million workers and produces nearly \$25 billion in two-way trade but, with few exceptions, importers and retailers have kept their sourcing apparel primarily in Asia. In discussions with importers and retailers, NCTO has learned that the benefits of the sector are not well known enough and believes that more brands would order from the region, and therefore from U.S. textile mills, if the U.S. government could help publicize the opportunities that the region offers.

The region offers brands and importers a number of unique features that are hard for Asia to compete with. These include duty free access for textile and apparel products and a quick response time for orders placed within the region. As fashion becomes more and more response oriented and the need to reduce the time lag in ordering goods increases, the region should become more and more attractive to brands and marketers.

NEI Recommendations:

The NEI should recommend that the Commerce Department create a forum for brands and sourcing agents to review and understand the benefits of sourcing garments made in the region from U.S. textile exports. This concept could take the form of a sourcing forum for brands that is centered on regional opportunities as well as reverse trade missions that bring Western Hemisphere apparel manufacturers to the United States in order to meet with and create linkages with U.S. textile exporters.

Conclusion

In closing, NCTO would like to again congratulate the Obama Administration for undertaking the ambitious goal of doubling exports over the next five years. Such an increase will clearly require new thinking and new initiatives if it is to be achieved. In the eyes of the U.S. textile industry, the goal of doubling textile imports is imminently achievable but it requires the U.S. government to take undertake the following initiatives:

- 1) Seriously addressing the issue of subsidies and currency manipulation;
- 2) Compelling Ex-Im to step outside of its "safe zone" and create trade financing packages that can work for small businesses who export to "higher risk" areas
- 3) Re-energizing textile customs enforcement with new resources, tools and a new focus and by doing so replace fraudulent products with U.S. made products.
- 4) Re-emphasizing the Western Hemisphere textile and apparel supply chain through increased trade promotion, reverse trade missions and full package programs.

If these actions are taken, NCTO firmly believes that textile exports will surge - as will exports of many other commodities. Historical figures and an analysis of market share figures show that a U.S. textile export increase from \$12 billion to \$24 billion is clearly within reach.

We look forward on working with the Administration on these important efforts.

Sincerely,

A handwritten signature in black ink, appearing to read "Cass Johnson", written in a cursive style.

Cass Johnson
President