



**Statement of the National Council of Textile Organizations
Before the House Ways and Means Subcommittee on Trade
On the Trans-Pacific Partnership Negotiations
December 14, 2011**

The National Council of Textile Organizations (NCTO) appreciates the opportunity to present written testimony to the Subcommittee on Trade regarding the Trans-Pacific Partnership. The United States Trade Representative has laid out a goal to “conclude an ambitious, next-generation, Asia-Pacific trade agreement that reflects U.S. economic priorities and values.” NCTO understands the broad trade and geopolitical opportunities that the TPP presents because NCTO member companies and their workers have themselves benefited enormously from free trade and preference agreements in the past.

These past agreements, which include strong textile rules, are now driving trade – and jobs – in textiles back to the United States. That job-creating dynamic is why NCTO and the textile industry has been a strong supporter of free trade agreements, including the NAFTA, CAFTA, Andean Trade Preferences Act and the Colombia, Chile, Peru and Panama FTAs, among others. Because of the strong textile rules in these agreements, U.S. textile and apparel exports will hit an all time record of \$22 billion in 2011, an increase of 15% over 2010. In fact, U.S. textile and apparel exports to our free trade partner countries in the Western Hemisphere are increasing at an even faster rate, an average of 26 percent. NCTO believes that strong textile rules in TPP can similarly drive increased exports of U.S. textile products, including apparel yarns and fabrics, to Asia.

The importance of this agreement is heightened because the U.S. economy has been struggling with high unemployment, record trade deficits and declining real wages. This combination of problems has been spurred in part by the steepest drop in U.S. manufacturing jobs in history. During the last ten years, over five million workers, nearly one-third of the U.S. manufacturing workforce, have lost their jobs. As a result, we believe this agreement will be heavily scrutinized for the impact it will have on U.S. manufacturing jobs, including textile jobs, as well as overall job creation. We strongly believe that as a 21st century trade agreement, the TPP will need to make job creation in the United States an important priority if it is to be successful.

Given the inclusion of Vietnam in the TPP, NCTO also recognizes that these negotiations pose unique challenges – in addition to new opportunities – for the U.S. textile industry and its partners in the existing FTA and preference areas. Because of the size of Vietnam’s apparel industry and its government’s aggressive plans for its expansion, NCTO believes that the textile rules in the TPP have the potential for having the greatest impact on U.S. textile jobs of any FTA during the last twenty years.

Because of the interdependent nature of textile and apparel trade, the textile rules in the TPP will impact not only the U.S. textile industry but our export partners in the NAFTA, CAFTA and Andean regions. In addition, other regions with trade preference arrangements – particularly in Africa and the Middle East – will be impacted as well. All in all, nearly two million textile and apparel jobs either in the United States or in the FTA and trade preference areas will be impacted by the decisions made during the TPP negotiations.

In recognition of these impacts, NCTO, along with textile and apparel groups from 25 countries representing African, Central American, the Andean region, Mexico, and Haiti recently sent a letter to Ambassador Kirk¹ in support of strong textile rules within the TPP negotiations. Textile and apparel groups in these countries – which depend on strong textile rules in their FTAs to export to the United States market – agree that in order for the TPP to become the high standard, 21st century trade agreement desired, strong textile rules must be included. The joint textile association letter followed a letter by [52 Members of Congress](#)² also supporting inclusion of these powerful jobs-creating rules within the TPP negotiations.

The following outlines the textile industry views on the three major elements of textile negotiations in the TPP: 1) a yarn forward rule of origin, 2) fair market access duty phase-outs and 3) strong customs enforcement rules and implementation.

1. The “Yarn Forward Rule” – A 21st Century Rule That Promotes More Manufacturing Jobs in the United States.

The standard textile rule in FTAs for the past 25 years, and which the Obama Administration has tabled during the TPP negotiations, has been the “yarn forward” rule. This manufacturing rule³, which has been consistently supported by both Democratic and Republican Administrations, ensures that the benefits under a FTA accrue to the manufacturers within the FTA region⁴. This in turn creates and fosters economic development amongst the partnering countries and, for the United States, investment in higher value textile manufacturing and textile jobs.

The “yarn forward” rule of origin requires that the yarns, fabrics and the final garment (a “triple transformation” rule) are produced within the FTA countries in order to get benefits under the FTA. The standard rule of origin since the NAFTA agreement in 1993, the “yarn forward” rule has created and sustained more than \$25 billion in two-way trade between the United States and its FTA partners. Today, this rule of origin supports more than 2 million jobs in the textile and apparel supply chain which includes over 1.5

¹ [“Trade Associations from 25 Countries Urge Strict Textile Rules in TPP Negotiations,”](#) NCTO release, Sept. 9 2011.

² 52 Members of Congress Send USTR Key Negotiating Objectives for Trans-Pacific Partnership, NCTO release, June 11, 2011.

³ Rules of origin in FTA negotiations govern manufacturing processes only; e.g., they determine how much of a good must be manufactured in an FTA region in order to get duty-free status. .

⁴ One demonstration of the commercial viability of the “yarn forward” rule is that no major importing group has ever asked Congress to oppose an FTA that contains the yarn forward rule.

million textile and apparel jobs in countries bordering the United States. Finally, the “yarn forward” rule has been essential to establishing the U.S. textile industry as the third largest exporter of textile products in the world.

In the United States, the “yarn forward” rule has been an essential factor in the creation of nearly \$14 billion in textile exports to our NAFTA, CAFTA, and Andean trade partners. The rule has been the primary force behind the 250,000 textile jobs in the United States and hundreds of thousands of indirect jobs in the United States that are supported by the U.S. textile industry.

Under the rule, U.S. yarns and fabrics are exported to FTA partner countries, which then process them into apparel and home furnishings products. Most of those final products are then sent back to the United States duty free. For textile and apparel importers, these duty savings are large, averaging 15 percent, and save importers billions of dollars a year. However, without the “yarn forward” requirement, most of this export trade would instead be sourced by Chinese producers, who get significant subsidies in terms of currency undervaluation and multiple industrial subsidies from the Chinese government⁵.

- Flexible Rule of Origin – A Pro-China Investment Model that Outsources more U.S. Textile Jobs Overseas

Opponents to the “yarn forward” rule are instead promoting a “flexible rule of origin,” which is, in reality, a “single transformation” rule. Such a rule would require only that the sewing of the garment be done in a TPP country in order to get duty free status under the TPP.

The “flexible rule” proponents, primarily importing groups with no domestic manufacturing, are seeking this rule because they wish to receive over one billion dollars in tariffs they pay to the U.S. government while still purchasing yarns and fabric from China and other Asian countries that are used in apparel exported from Vietnam. (Vietnam currently imports most of its yarn and fabric needs, though it is beginning to develop its own textile sector.) However, under existing FTA rules for textiles, importers would not receive duty free benefits unless the yarns and fabrics used in Vietnamese apparel were made in the United States or Vietnam, e.g., the TPP countries.

From a U.S. textile perspective, the “flexible rule” proposal has several fatal flaws:

- a) A “flexible” rule of origin would cost jobs in the United States and in our neighboring free trade partners, including Haiti and Sub-Saharan Africa.

The “flexible rule” concept undermines the more than \$25 billion in existing two way trade in textile and apparel that have been built up over the last 25 years under the “yarn forward” rule of origin encapsulated in the NAFTA, CAFTA, Colombia and Peru FTA’s. This includes nearly \$14 billion in U.S. textile

⁵[Analysis Details Vast Chinese Subsidies for Their Textile Exporters](#),” NCTO release, Oct. 5, 2011.

exports to that region. It does this by giving more liberal terms to TPP member countries than it does to aforementioned countries.

The rule proposed by importers would even be more liberal than preferences given to the least developed countries. Least developed countries have been granted relaxed trade terms in acknowledgement of their development problems; but under the importer proposal, Vietnam, already an apparel super-competitor, would get better terms than Lesotho, Madagascar or Haiti⁶.

| Comparison of “Yarn Forward” Rule Vs. “Flexible Origin” Rule | | |
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| | “Yarn Forward” | “Flexible Origin Rule” for TPP |
| Jobs in United States | Has created hundreds of thousands of textile jobs in United States, plus: - A U.S. textile job supports three other jobs in the U.S. | Would outsource U.S. textile jobs to China, other Asian countries - Would outsource other U.S. jobs that depend on U.S. textile industry. Would NOT create any additional new jobs in the United States ⁷ . |
| Jobs in Western Hemisphere | Created and sustained 1.5 million textile and apparel jobs in Mexico, Central America, Haiti and the Andean region. | Would outsource Western Hemisphere jobs that depend on “yarn forward” rule to Vietnam and China. |
| U.S. Exports | Created more than \$14 billion in U.S. textile and apparel exports to FTA countries. | Would destroy U.S. textile export markets to the Western Hemisphere by transferring those export orders to Chinese and other Asian producers. |
| Manufacturing Investment | U.S. textile manufacturers currently invest \$1 billion a year in new plants and equipment in the U.S. each year. | Investment by U.S. textile mills would decline sharply while Chinese textile mills would increase investment and expand production. |

Under a “flexible rule of origin,” Vietnamese apparel exporters would receive an enormous cost advantage over CAFTA, NAFTA and other producers because they would be able to continue to source subsidized yarns and fabrics from China

⁶ This is because trade from these LDCs is capped and the preference programs have time limits; under the importer proposal for TPP, Vietnam would get access in perpetuity to Chinese yarns and fabrics with no caps. Over the past ten years, apparel imports from Vietnam have grown faster percentage-wise than any other country and Vietnam has moved from being the sixth largest supplier to the US to the second largest supplier.

⁷ In a creative turn of phrase, proponents cite 3.8 million jobs in the “US apparel industry” that would be supported by a “flexible rule of origin.” US government statistics however show that the US apparel industry actually employs 170,000 workers. The proponents have merged different sectors – the retail trade has been merged into the apparel industry - to show increased job numbers. These retail jobs, however, are unaffected by where a yarn or fabric is sourced in the TPP region. Claiming that retail jobs could suffer under a “yarn forward” rule undervalues the real impact that a change in rules could have on actual US workers. US textile mills will clearly suffer if Chinese yarns and fabrics are sourced rather than US yarns and fabrics are sourced under the “flexible rule” proposed by importers; contrary to what proponents imply, WalMart, JC Penney or the Gap, will not add or subtract a single store clerk whatever the final rule for textile manufacturing in the TPP is.

and other countries while also getting a new 15 percent cost advantage through the elimination of duties under the TPP.

Under such a scenario, Vietnam, with its access to Chinese yarns and fabrics intact, would become the low cost supplier to the U.S. market in virtually every product segment that the NAFTA, CAFTA and AGOA countries produce goods in. This would cause a profound shift in sourcing away from the Western Hemisphere and Africa and into Vietnam.

As a result, this new rule would not only devastate U.S. textile exports to the preference countries – and cost tens of thousands of U.S. textile jobs – but it would cripple production in the NAFTA, CAFTA, Andean countries as well as the AGOA region and Haiti. Hundreds of thousands of textile and apparel workers in countries on the U.S. border and other Western Hemisphere trade partners could be lost as billions of dollars in orders shift to Vietnam from the trade preference countries.

- b) A “flexible” rule of origin would benefit China and retard the development of higher value textile manufacturing in the TPP area.

A “flexible” rule of origin essentially means that yarns and fabrics used in apparel can be sourced anywhere. As no preference is given to the producer of the textile inputs, sourcing under this rule will inevitably go to the lowest cost supplier.

That supplier today is China, which, through the implementation of 12 Five Year Plans, now dominates world production of textiles and apparel. As recent testimony⁸ before the United States Trade Representative’s Office demonstrated, China today employs more 30 subsidy programs which deliver billions of dollars of funding to its textile and apparel export sectors each year. As a result, China exports are now seven times larger than the next biggest producer of textile and apparel. Today, China has an import market share in the United States of 47 percent in textiles and apparel, with the next biggest supplier being Vietnam at 7 percent. China is also by far the largest supplier of textile products to Vietnam. Most of these products are used in the production of apparel for export overseas, primarily to the United States.

As the major supplier of textile inputs to Vietnam, China would benefit more than any other country from a “flexible rule of origin.” This is because apparel orders would quickly switch from U.S. FTA partner countries to Vietnam in order to get duty-free access to subsidized Chinese yarns and fabrics. As the Western Hemisphere loses apparel orders, orders for yarns and fabrics from U.S. textile mills would shrink as well, leading to widespread plant closures and job losses.

The same scenario would face textile producers throughout the TPP region. By giving Chinese producers special access under a “flexible rule,” there would be

⁸ [“Analysis Details Vast Chinese Subsidies for Their Textile Exporters,”](#) NCTO release, Oct. 5, 2011

little incentive to put textile plants – and textile jobs – in the TPP region. Instead, the importers proposal would drive new investment in China as importers shift apparel orders to Vietnam and, in turn, increase their sourcing of Chinese yarns and fabrics to fill those orders. This is the opposite of what the United States economy needs, which is more export jobs for US workers. A “flexible” rule of origin cuts out the possibility for more U.S. textile exports to the TPP region, including Vietnam, by cutting out the requirement that textile products be produced in the region.

In FTA countries with strong textile rules, the “yarn forward” rule has helped to jumpstart apparel *and* textile production. This has been particularly true for countries in the Western Hemisphere which have concentrated on textile and apparel production and whose relatively low labor rates have enabled them to compete with Asian producers. Mexico and the CAFTA countries now export nearly two billion dollars in textile products each year, in addition to the nearly \$15 billion in apparel they send to the United States. Hundreds of new textile companies have been created in the CAFTA region to service the apparel trade. Using El Salvador as a case study, 59 new textile companies have invested in the country since CAFTA was passed.

- c) A “flexible” rule of origin hurts the major U.S. jobs producing sector in the TPP apparel chain and destroys manufacturing investment in the U.S.

Because of relatively higher labor costs, over 95 percent of all apparel consumed in the United States is made abroad. The same, however, is not true in the textile sector, which is more capital intensive and has remained firmly embedded in the United States. This result was an intentional policy decision by past Congresses and Administrations that recognized that higher value, higher paying textile jobs were important to retain in the United States. In fact, retaining textile manufacturing jobs in the United States was the primary reason that previous FTAs have mandated that textile inputs be made in the FTA region. The FTA’s recognized that as apparel orders migrated overseas, it was important that the textile jobs that are tied to those orders remain in the United States. As a result, at least half the value of the apparel coming from the Western Hemisphere is content made in the United States by U.S. textile workers.

The U.S. textile industry has remained committed to maintaining U.S. plants and U.S. employment. While other manufacturing sectors have moved overseas, U.S. textile companies have increased their investment in U.S. plants and in U.S. jobs. Over the past 18 months, five new plants have opened in the United States, including a new \$500 million textile fiber facility in South Carolina. The industry spends over one billion dollars a year on new plants and equipment in the United States.

The U.S. textile sector employs directly over 250,000 workers and, according to U.S. government statistics, indirectly supports hundreds of thousands of other

workers in the United States. A textile job in the United States supports cotton growers, man-made fiber producers, chemical manufacturers, machinery companies, trucking companies, energy generators, packaging companies and the like.

In contrast, the groups that are supporting a “flexible” rule of origin will not add – or lose – a single job in the United States if such a rule is adopted. As importers and retailers, their domestic workforce will not be significantly impacted regardless of the final rule of origin. While importers and retailers would undoubtedly increase their profits under a “flexible” rule of origin, the rule itself would not bring any new jobs to the United States because the rule only impacts where the textile manufacturing occurs. Thus while WalMart or the Gap would see a “flexible” rule of origin as benefiting their corporate bottom lines because they can continue – and even increase – their access to subsidized Chinese yarns and fabrics, they will not add store clerks or management to their U.S. workforce. Efforts to imply that a “flexible” rule of origin supports U.S. jobs are simply inaccurate.

Instead, what these groups would get is higher profits. Currently, they pay over one billion dollars to the U.S. Treasury in duties for apparel products imported from Vietnam that are made with Chinese yarns and fabric. Under the ‘flexible rule of origin’ proposal, they would get that 15 percent duty removed, which would add billions of dollars over time to their bottom lines.

The cost of such a strategy is borne by U.S. textile workers, U.S. textile companies and by apparel workers in countries bordering and near the United States who depend on orders from these companies for their jobs. As importers shift more orders to Vietnamese apparel plants and Chinese yarn and textile mills, U.S. workers and U.S. companies suffer and the U.S. loses more manufacturing jobs.

The overall U.S. economy suffers as well because this strategy continues the cycle of transferring U.S. manufacturing jobs overseas in return for increased importer profits, and it has played a significant role in the decline of living standards in the United States. Textile jobs, as with other manufacturing jobs, produce more wealth and value added benefits to the rest of the U.S. economy than any other type of labor. Numerous studies show that once a textile, or other manufacturing job, is lost, it is usually replaced by a lower paying job in the retail or service sector which supplies fewer worker benefits. That is, when the job is replaced at all.

2) Fair Market Access Rules

Market access rules define how quickly tariffs under a TPP agreement will phase-out. In past agreements, tariff phase-outs have been extended for longer periods of times if

products were import-sensitive, either because of significant production or government assistance to a home industry.

In the case of the TPP, Vietnam has both a large apparel industry and significant government support of that industry. Vietnam's apparel exports constitute the great majority of its export trade, and the government continues to target that export sector with large subsidies and other types of support. As has been past practice, the United States should insist on extended tariff phase-outs and other adjusting mechanisms for textile and apparel products where Vietnam could surge into the U.S. market.

Vietnam – State Owned Enterprises – Vinatex

In terms of trade flows, Vietnam, paying full duties, is the second largest supplier of textiles and apparel to the United States, only behind China. And Vietnam has a long history of supporting and promoting state-owned enterprises, especially within the textile and apparel sector. For instance, Vinatex, the state-owned textile and apparel consortium in Vietnam, is the tenth largest garment producer in the world. Furthermore, 57 percent of the U.S. merchandise trade deficit with Vietnam is in textiles and apparel.

The Government of Vietnam (GOV), like China, still provides overall direction to its textile sector through the use of Ten Year Plans. Through the plans, the GOV sets production targets for its fiber, fabric and apparel sectors. The 2001-2010 plan set incentives that would allow apparel production to double. The most recent plan, through 2020, has a goal of nearly tripling that figure.

Government Ten Year Plans make it clear that the GOV intends to drive this extraordinary growth through a range of preferential policies and subsidies that target the sector for “rapid development.” Given the GOV ambitious targets for its textile sector, export-oriented products such as textiles and apparel will continue to benefit from GOV support for the foreseeable future.

As a study supplied to the U.S. government by NCTO shows, Vietnamese textile and apparel producers and exporters receive subsidies from the GOV that include:

- 1) Discounts on loan rates (as much as 50 percent)
- 2) Access to state capital for financing needs
- 3) Free or discounted land and preferential access to land
- 4) Income tax reductions and postponements
- 5) Preferential exemptions and reductions for other taxes and fees
- 6) Preferential duty-free imports of parts, accessories and other goods
- 7) Subsidies for research and development, trade promotion and technology transfer
- 8) Special subsidies on export promotion and financing for exporters impacted by the Global Financial Crisis
- 9) Excessive rebates of import duties for inputs to goods to be re-exported
- 10) Worker training subsidies
- 11) Cotton subsidies (currently being introduced)

Vinatex is one of the most glaring examples of a state owned enterprise in Vietnam. Vinatex, a state-owned company, is the largest producer of garments in Vietnam, the tenth largest producer of garments in the world and currently controls about 25 percent of Vietnam's textile and apparel export sales.

State intervention – which is anathema to our free market system – cannot be allowed to damage or possibly destroy a large and successful textile and apparel platform that has been developed over the past 20 years through a succession of carefully constructed U.S. government trade initiatives.

The depth and range of Vietnam's support for its textile and apparel sector is a primary reason that NCTO has asked for the longest tariff phase-out terms and other mechanisms for sensitive textile and apparel products. NCTO also supports language that would force Vietnam to divest from its state-owned entities and halt subsidization of its textile and apparel sector.

3) Strong Customs Enforcement Rules

The past five years have demonstrated that the present set of customs rules developed under the CAFTA agreement are easily evaded by fraudulent producers, most of whom reside in China. The loopholes exploited by these fraudulent players have significantly cost both the domestic textile industry and U.S. Treasury. In order to ensure the laws are being enforced and that fraudulent players are not allowed duty free access to our market, customs rules must be updated to include an effective tracking system of yarn and fabric inputs, in addition to other measures. Given Vietnam's heavy reliance on China for yarns and fabrics, strong customs rules are mandatory if fraudulent activity is to be contained.

The U.S. textile industry urges the U.S. government to develop a customs enforcement system that builds trust in the system by effectively eliminating illegal transshipment of goods. The industry believes that effective customs enforcement must move away from a paper-based tracking system where fraud is common place and detection occurs after-the-fact. Instead, negotiators should include an electronic customs enforcement system that would eliminate the potential for fraud and errors that accompany paper-based record keeping systems. Electronic documentation makes record keeping easier for producers and importers alike and would ensure that benefits from the TPP rules are realized by partner countries, not by illegal producers.

In order to make an electronic customs enforcement tracking system a reality for other FTAs as well, legislative action is necessary. The industry urges the House Ways and Means Committee to incorporate H.R. 2754, the Textile Enforcement and Security Act, into its overall Customs Reauthorization effort. H.R. 2754 would make the statutory changes necessary to move textile and apparel customs enforcement from a paper-based system into an electronic system as well as make other changes to reduce textile fraud.

Conclusion:

The United States government has a unique opportunity to develop a high-standard, Twenty-first Century, forward thinking agreement through the Trans-Pacific Partnership negotiations. In the textile chapter, the “yarn forward” rule of origin supports hundreds of thousands of U.S. textile jobs as well as 1.5 million textile and apparel jobs in countries bordering and near the United States. This rule is today bringing back jobs and production from Asia.

In contrast, a “flexible” rule of origin would reverse that trend, causing widespread plant closures and job losses in the U.S. textile sector and destroying enormous export markets that our free trade partners in the CAFTA, NAFTA, Andean, Haiti and African trade programs depend on. It would also enrich Chinese textile manufacturers who would displace U.S. production and retard textile development in the entire TPP region. The other principal beneficiaries would be importers and retailers who would get more than \$1 billion in new duty savings while displacing more U.S. manufacturing at a time when the need for more jobs in the United States, particularly U.S. manufacturing jobs, is extremely high. NCTO and its many partners overseas strongly urge that the “yarn forward” rule, along with the principles of fair market access and strong customs enforcement, that have been encapsulated in every major FTA during the last 25 years be continued in the Trans-Pacific Partnership Agreement.

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