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Public Comments of the Upholstery Fabrics Committee of the National Council of Textile Organizations Regarding Docket DOC 2017-0003, Administration Report on Significant Trade Deficits

May 10, 2017

The National Council of Textile Organizations (NCTO), headquartered in Washington, DC, is the national trade association representing the entire spectrum of the textile sector. The U.S. textile industry is one of the most innovative and scientifically advanced industries in the world providing products to the automotive, aerospace, military, medical, technical, home furnishings, and apparel industries. For more information about the U.S. textile industry, view NCTO's website at www.ncto.org.

The Upholstery Fabrics Industry.

While there will be a broad based NCTO submission as part of this review on trade deficits, these comments are submitted primarily on behalf of our Upholstery Fabrics Committee, which is comprised of members who manufacture cover fabrics for use by the furniture industry, and suppliers of fibers and chemicals used by this industry sector.

The Upholstery Fabrics Committee was formed over 40 years ago to address a variety of issues facing this industry sector. Regulatory and international trade Issues that have had a big impact on the upholstery sector have included state and federal flammability regulations, regulation of flame retardant chemicals used to comply with government regulations, copyright infringement matters and huge increases in imports.

The domestic industry's make-up has changed dramatically - eight of the top 10 upholstery fabric manufacturers that existed in 2003 are no longer in business. Though this industry sector is much smaller than it was when the Committee was formed, it still provides the styling, design and innovation that leads the world. It has survived by being a leader in these fields and improving its competitiveness by using advanced manufacturing technology. Nonetheless, it has lost significant market share to imports, especially from China with its non-market economy.

When China joined the World Trade Organization (WTO) 15 years ago, imports in this market were negligible; however, they have now grown to an estimated 70 - 80% in the woven upholstery fabric market for residential furniture. Much of this growth, attributed primarily to Chinese imports, has been accomplished by copying U.S. copyrighted styles and designs and selling these fabrics at prices lower than U.S. manufacturers can purchase the necessary raw materials.

Woven upholstery fabrics are a prime example of how flawed U.S. trade policy has penalized this industry sector as described below:

The primary fibers used to make upholstery fabrics are polyester and cotton, though smaller amounts of nylon, rayon, olefin, acrylic and other fibers are also used. The U.S. has one of the most advanced and cost-competitive petrochemical industries in the world that makes polyester and other synthetic fibers, which are readily available for the domestic industry. The U.S. also has the world's most efficient, innovative and cost-competitive agricultural industry that supplies cotton to satisfy the textile industry as a whole and the upholstery fabrics industry specifically.

Innovation and reinvestment of capital have enabled U.S. yarn plants to modernize and convert polyester, cotton and other fibers into yarns; these manufacturers are extremely efficient and require relatively little labor. Though these plants require energy to manufacture textile products, they take advantage of the low cost of electricity in the U.S. compared to other parts of the world.

The woven upholstery fabric industry manufactures and sells bulk rolls of fabric to furniture manufacturers. There is very little direct labor in a modern upholstery fabric weaving facility (estimated to be about 15% of selling price) because highly automated equipment is used to manufacture superior quality fabrics. There are no labor-intensive processes in upholstery fabric manufacturing as there are in other manufacturing sectors like the cut and sew processes for apparel items and furniture.

Competing with China.

It has been reported that Chinese upholstery fabrics are so inexpensive that American importers can buy the fabric, pay freight and the low import duty, mark the fabric up 20 to 40%, and still sell it for one-half to two-thirds of the price of American fabrics. This is due to a number of factors tied to low import duties on upholstery fabrics and the fact the Chinese producers enjoy myriad unfair advantages that ensure their products are available at prices well below those of U.S. fabric manufacturers. These include lax IPR enforcement, exploitative labor practices, government-subsidized production, state-owned enterprises, currency manipulation, lenient or non-existent environmental standards, and many more.

Many of the trade-related problems with China stem from its non- market economy structure. For example, U.S. trade policy has allowed that country to set the value of its currency (the RMB or yuan) unilaterally by decree with no input from the free currency markets. All the major economic powers in the world have their currency value set by open currency markets except China, and U.S. upholstery manufacturers will continue to be at a demonstrative disadvantage as long as U.S. trade policy allows this to happen.

As a communistic and totalitarian government, China controls who can exchange the RMB with other currencies, the exchange rate itself, and how many RMB can be taken out of China. As a closed society, China has created an alternative financial universe where their entire economy exists based on an undervalued currency. Even if China suddenly joined the world currency markets, it would still be undervalued because of the risks of owning currency in a closed communist country. The undervalued Chinese yuan has the net effect of being a tariff on U.S. goods and a subsidy for Chinese goods.

There are other issues with Chinese upholstery fabrics. Lack of environmental law enforcement in China gives Chinese manufacturers, primarily dyers and finishers, a huge cost advantage over American companies that must comply with air, water and solid waste laws and regulations. Likewise, U.S. manufacturers must compete with Department of Labor (Occupational Safety and Health Administration) workplace laws and rules which are quite costly to U.S. upholstery manufacturers.

It is apparent that some of the mills in China are owned by the central government and others by local governments. Some of the private mills are given government incentives (profits) based on how many people they employ so they merely have to break even financially. We understand it is common practice in China to buy equipment, land, and buildings with government (or government owned banks) loans, which are ultimately forgiven and the owners do not have a pay-back obligation.

The Solution.

The most obvious solution to this unfair trade issue is for the U.S government to self-initiate countervailing duty and dumping procedures against Chinese upholstery fabrics. Doing so would provide a mechanism to assess appropriate penalty tariffs on Chinese imports of woven upholstery fabrics in roll form, in cut-and-sewn kits, and in upholstered furniture.

Cut-and-sewn kits are comprised of upholstery fabrics that are cut, sewn and attached to furniture frames and filled with foam. Since they enter the U.S. duty free, they are a huge issue and represented an estimated $829 million of Chinese exports to the U.S. in 2016. Addressing imported Chinese upholstery fabrics and cut-and-sewn kits would encourage increased imports of finished upholstered furniture, so the downstream finished product from China should be covered as well.

Recommendation.

Woven upholstery fabric imports exemplify the flawed U.S. trade policy with China and the issues need to be resolved to create jobs in this important U.S. manufacturing sector. The solution noted above is clear, and we strongly recommend that it be implemented.