



PRESS STATEMENT

NCTO CEO Testifies at USTR NAFTA Hearing, Outlines U.S. Textile Renegotiation Objectives

CONTACT: Lloyd Wood
(202) 822-8028 or lwood@ncto.org

June 27, 2017

WASHINGTON, DC – National Council of Textile Organizations (NCTO) President & CEO Auggie Tantillo testified at the U.S. Trade Representative’s (USTR) hearing on Negotiating Objectives Regarding Modernization of North American Free Trade Agreement (NAFTA) with Canada and Mexico held in Washington, DC on Tuesday, June 27.

In his oral remarks as prepared for delivery, Tantillo outlined the U.S. textile industry’s NAFTA negotiating objectives:

“On behalf of the National Council of Textile Organizations, thank you for the opportunity to provide input as USTR develops its objectives for modernizing NAFTA. NCTO represents the full spectrum of the U.S. textile sector, from fibers to yarns to fabrics to finished products, as well as suppliers of machinery, chemicals, and other products and services with a stake in the prosperity of our industry. The entire U.S textile manufacturing chain, from fiber through finished sewn products, employs 565,000 workers nationwide. In 2016, the industry manufactured over \$74 billion in output, while exporting more than \$26 billion of our production.

We strongly support President Trump’s intention to reopen NAFTA and agree that it can be updated and improved to significantly enhance U.S. textile production, exports, and employment. The NAFTA region enjoys vibrant fiber, yarn, and fabric sectors in addition to cut and sew capabilities. As a result, NCTO supports building on the successes of NAFTA through seeking reasonable improvements to the agreement, but not a cancellation thereof, due to the high level of supply chain integration that exists today.

This partnership is evidenced by robust trade flows. The U.S. textile sector has a demonstrated capability of developing export markets within the NAFTA region. In fact, Mexico and Canada are our two largest export markets, where U.S. textile and apparel exports topped \$11 billion in 2016. Furthermore, we maintain a positive trade balance in the sector with our NAFTA partners, achieving a \$3.5 billion surplus last year.

NCTO does not foresee a need to reinstate tariffs on NAFTA-qualifying trade. Instead, we recommend a thorough review of the rules of origin to ensure that lucrative tariff benefits are appropriately reserved for manufacturers within the region. NAFTA is based on a yarn-forward rule of origin for textile and apparel

trade, a main driver for the integration that has developed among the three countries. Yarn forward was originally devised under NAFTA and is the accepted rule for the industry and the U.S. government in every free trade agreement (FTA) since because it reserves key benefits for manufacturers within the signatory countries. It is also easier to enforce than a value-added rule.

Despite the logic of the yarn-forward structure, most U.S. FTAs, including NAFTA, also contain damaging loopholes in the textile rules of origin. The most egregious example is tariff preference levels. Tariff preference levels (TPLs) allow for products to be shipped duty free despite their components, representing the bulk of the value, being sourced from outside countries. For example, a cotton top, made from Chinese yarn and fabric, can be cut and sewn in Mexico and shipped duty free to the United States. Consequently, TPLs undermine benefits for NAFTA textile manufacturers, transferring them to non-signatories, such as China, who often use predatory trading practices and have made no market-opening concessions themselves.

Altogether, Mexico and Canada may ship nearly 236 million square meter equivalents of apparel, made-ups, and fabric and 12.8 million kilograms of yarn containing third-party inputs annually under the TPLs. It is our strong recommendation that the NAFTA TPL regime be eliminated.

Beyond TPLs, there are other yarn-forward derogations, including assembly-only rules for certain garments. These additional loopholes warrant analysis to determine whether they should be eliminated or adjusted to enhance the benefits for U.S. textile manufacturers under the agreement. We also believe that there should be a review of certain buy-American concessions that were unnecessarily granted to our NAFTA partners.

As a final point, it is our view that there has been a systematic deemphasis of commercial fraud enforcement at U.S. Customs and Border Protection (CBP) over the past 30 years. CBP suffers from both a lack of resources and focus particularly considering the layering of new trade agreements and significant increase in imports over this time. As a result, the benefits of NAFTA are being siphoned off by those willing and able to circumvent U.S. trade laws. Our sector is especially prone to fraud, noting that textiles and apparel represent 40 percent of all U.S. duties collected, or \$14 billion a year. Clearly, improving NAFTA customs enforcement should be a major focus of this renegotiation.

In conclusion, we fully agree with President Trump that NAFTA can be improved through a set reasonable adjustments to the current text designed to enhance U.S. textile manufacturing and exporting. Further, we believe that by closing unnecessary loopholes in the agreement and placing a greater emphasis on customs enforcement, all parties throughout the NAFTA region will benefit. Doing so will help to build on the vibrant textile and apparel production chain in North America that has evolved under NAFTA.

Thank you for your consideration of our views, and NCTO looks forward to working with the Trump administration as the NAFTA modernization effort progresses.”

###