

## TRANSATLANTIC TRADE AND INVESTMENT PARTNERSHIP

### ISSUE:

The United States and the European Union (EU) have been negotiating the Transatlantic Trade and Investment Partnership (TTIP), a proposed comprehensive free trade agreement (FTA), since February 2013. TTIP negotiations, however, have been put on the back burner as the Trump administration formulates its trade policy objectives and the EU negotiates the United Kingdom's exit from membership.

### BACKGROUND:

TTIP is significantly unique among all previous FTAs negotiated by the United States. While the basic premise of removing trade barriers is the same, U.S. manufacturers and exporters for the first time enjoy the potential of accessing an overseas consumer market that rivals our own. Considering this shift in dynamic, U.S. negotiators are taking an aggressive approach, and critical challenges from an NCTO perspective include:

- **Rule of Origin** – The EU utilizes a “two-step” origin rule in their trade agreements that is weaker than the U.S. yarn-forward system. Certain products may only require a fabric-forward rule or even finishing-forward under the European system. NCTO strongly supports a yarn-forward rule and urges its adoption under TTIP. Yarn forward has a proven track record of driving production, trade, and investment to signatory countries instead of outside parties like China.
- **Market Access** – As with all FTAs, the U.S. will eventually eliminate all duties on EU products that meet the TTIP origin requirements. The EU has proposed immediate duty-free treatment on all products, and the U.S. has agreed to immediate duty elimination on at least 97% of the existing U.S. tariff code. The remaining 3% would be phased-out over various timelines such as three or seven years. It is critical that the U.S. government include highly sensitive textile products in the 3% grouping.
- **Defense Procurement** – The EU continues to request access to all U.S. government procurement mechanisms, including the Berry Amendment. The EU argues that their defense procurement system is open to non-EU parties; however, this position is largely disingenuous. While the EU Commission does not preclude access to defense contracting for non-European firms, it grants discretion to individual member states to do so. As a result, Italy, Germany, France, and other EU member countries all have individualized procurement

rules. A number of EU member states block outside parties from participating in defense contracting while others do not.

Moreover, with the United States outspending the EU by approximately 3:1 for military purposes, the EU would substantially and instantaneously gain from a weakening of procurement rules such as the Berry Amendment.

The Berry Amendment requires the U.S. Defense Department to buy textiles and certain other products, judged essential to military readiness, made with 100 percent U.S. content and labor. It has been congressionally mandated since 1941. Any opening of the Berry Amendment is a complete non-starter for the domestic textile sector.

- **Regulatory and Labeling Issues** – Both parties are attempting to determine how testing, regulatory, and labeling requirements can be harmonized and simplified as part of TTIP. NCTO supports the effort to reconcile and improve requirements in this area.

#### **POSITION:**

Assuming TTIP moves forward and regardless of any timetable, NCTO will remain heavily focused on ensuring that the final TTIP agreement includes a sound rule of origin based on the yarn-forward construct, provides extended tariff phase-out periods for sensitive products, and preserves the Berry Amendment in full.