

Tariff Preference Levels

ISSUE:

Tariff Preference Levels (TPLs) provide a specific exemption from the yarn-forward rule of origin used under U.S. free trade agreements (FTAs). Countries that are not party to the free trade agreement can supply yarns and fabrics that eventually enter the United States duty-free as part of finished apparel and home furnishings.

BACKGROUND:

The foundation of textile rules of origin in U.S. FTAs is yarn forward. Under this concept, textile products must have nearly all major manufacturing steps done in one of the FTA countries to be eligible for duty-free treatment. Traditionally, this meant the yarn must be spun or extruded, the fabric formed as well as dyed and finished, and the final product assembled in one of the countries party to the deal.

TPLs break the yard forward rule by allowing products to be shipped duty free among FTA partner countries even though the components within the products are sourced from nations that are not signatories to the agreement. 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 under the TPL. Consequently, TPLs circumvent the yarn-forward rule of origin and directly undermine benefits for NAFTA regional textile manufacturers. Worse yet is the fact that TPLs transfer lucrative benefits to non-signatory countries, such as China.

Although TPLs have annual limits, they result in hundreds of millions of dollars of textile and apparel product entering the U.S. market duty free each year under FTAs that fail to comply with the basic FTAs rule of origin for textiles.

NAFTA, again for example, has TPLs for various categories of product, including cotton and man-made fiber apparel, wool apparel, cotton and man-made fiber fabrics and made-up articles, and cotton and man-made fiber yarns. Overall, Mexico and Canada combined are permitted to ship nearly 236 million square meter equivalents (SME) of apparel, made-ups, and fabric and 12.8 million kilograms of yarn containing third-party components. While the last step of production must be conducted in a NAFTA country, upstream inputs can come from anywhere despite these fiber, yarn, and fabric inputs being available throughout the NAFTA region.

POSITION:

TPLs create loopholes in our FTA structure that displace U.S. production, exports, and jobs. These harmful derogations from the yarn-forward rule also give countries that utilize predatory and illegal trading practices, like China, a backdoor entry into the U.S. market through our FTA system. As such NCTO will continue to work to remove all TPLs from existing U.S. FTAs.