Testimony of Auggie Tantillo, President and CEO, National Council of Textile Organizations
United States-Mexico-Canada Agreement
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On behalf of the National Council of Textile Organizations (NCTO), thank you for the opportunity to provide input regarding the recently negotiated United States-Mexico-Canada Agreement (USMCA). 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 550,000 workers nationwide. In 2017, the industry manufactured nearly $78 billion in output, while exporting more than $28 billion of our production.

I want to preface my remarks by stating that NCTO has not yet adopted a formal position on USMCA. We have produced a detailed internal analysis on the agreement for our members and have solicited their feedback. Once we have reviewed input from our membership, the NCTO Board will come to final position that we will then make public.

With that said, it is important to note that the United States, Canada, and Mexico have built a vibrant and prosperous textile production chain over the 24-year life of the North American Free Trade Agreement (NAFTA). In 2017, total textile and apparel trade between the three countries was approximately $20 billion. U.S. exports accounted for more than $11 billion of this trade, with Canada and Mexico serving as our two largest export markets worldwide.

These figures compare to just $7 billion in textile trade between the three countries in 1993, the year prior to NAFTA's implementation. An understanding of this data validates that the current, yarn-forward structure embedded in NAFTA has been highly successful, providing significant benefit to North American manufacturers throughout the entire textile production chain.

It is for this reason that NCTO is very pleased that the basic textile origin rules adopted originally in NAFTA were essentially reaffirmed in USMCA. Further, we commend the three governments for creating a separate textile chapter in the new agreement as opposed to relegating textiles to an annex of the broader market access provisions. A stand-alone chapter recognizes the sensitivities associated with trade in this sector and allows for unique provisions, such as separate and enhanced customs enforcement language over the original NAFTA. Enforcement is critical in the textile sector as the lucrative duty-free benefits create enormous incentives for fraud.

In terms of changes to the original text, NCTO is very supportive of revisions that will require the use of USMCA-origin sewing thread, pocketing, narrow elastics, and coated fabrics in certain end items. While there are transition periods associated with these new requirements, their ultimate inclusion should offer a boost for

U.S. producers formerly left out of the origin rules in the original NAFTA. We estimate the USMCA market to be $250 million annually for sewing thread for apparel applications and $70 million annually for pocketing.

We are also appreciative of a key change made in the Government Procurement Chapter of USMCA regarding the Kissell Amendment, which is a Buy American statute for textiles that applies to the Department of Homeland Security (DHS). Kissell requires 100% U.S. content, with very limited exceptions, for purchases by the Coast Guard and Transportation Security Administration (TSA).

Regarding TSA procurement, Kissell has a problematic loophole tied to NAFTA that has allowed Mexico to supply these contracts. As a result, under the terms of NAFTA, Mexico can supply TSA uniforms made from Mexican fiber, yarn, and/or fabric. The TSA Mexico loophole translates to a significant weakening of U.S. Buy American statutes. Noting that DHS spent $34 million on clothing and textiles for TSA in FY2017, closing the Kissell loophole was a substantive change from NCTO's perspective.

While all the items mentioned to this point are clear improvements to the original NAFTA, there was one key area of disappointment, from our perspective, with USMCA. NAFTA incorporated a major exemption to the yarn-forward origin requirement through a system of Tariff Preference Levels (TPLs). TPLs allow products to be shipped duty free among free trade partner countries even though the components within the product are sourced from countries that are not signatories to the agreement.

While NAFTA TPLs have annual limits that cap their impact to a degree, more than $641 million in textile and apparel TPL shipments entered the U.S. last year. As such, eliminating the TPLs was a primary focus of NCTO's in the NAFTA renegotiation. While USMCA did reduce the size of some specific TPLs, the reductions will not cut into existing trade levels. This outcome is frustrating given the President's stated goals of increasing benefits for U.S. manufacturers and eliminating provisions that have helped non-signatory countries, such as China, take advantage of tariff preferences intended for North American producers.

Conclusion

As stated earlier, NCTO is not yet in a position to communicate a formal position on USMCA. We hope to have a decision finalized soon, which will be shared with both the Administration and Congress as soon as we complete our review process.

Nonetheless, it is accurate to state that in an overarching fashion, the new agreement is an improvement over the original NAFTA in many areas. This is certainly the case for U.S. manufacturers of component parts such as thread, pocketing, narrow elastics, and coated fabrics. There is also a clear victory on the Kissell amendment and a strong upgrade in customs enforcement. With our strong disappointment in the TPL outcome noted, we are also grateful for the Administration's willingness to work with domestic manufacturers in an effort to improve this important agreement.

Thank you for this opportunity to provide input, and I would be pleased to answer any questions that you may have at this time.