Testimony of Kim Glas, President & CEO
National Council of Textile Organizations

Docket USTR–2019–0004
Proposed Determination of Action Pursuant to Section 301

June 2019

On behalf of the National Council of Textile Organizations, thank you for the opportunity to provide input regarding the administration's ongoing review of Section 301 and consideration of a Tranche 4 of retaliatory tariffs on U.S. imports from China.

NCTO represents the full spectrum of the U.S. textile sector, from fiber through finished sewn products, as well as suppliers of machinery, chemicals, and other products and services with a stake in the prosperity of our industry. U.S. textile and apparel manufacturers produced $76.8 billion in output in 2018, and our sector's supply chain employs 594,000 workers from fiber to finished sewn products.

China's rampant abuse of intellectual property rights and IP theft has gone on far too long at the direct expense of the U.S. textile industry and its supply chain, resulting in the loss of over a million U.S. manufacturing jobs in this critical sector as we have detailed in our previous submissions.

The overarching view of the U.S. textile industry is one that supports the President's authority to use Section 301 to address China's unfettered practice of IP theft, which has had a profound and damaging impact on the entire U.S. textile and apparel production chain.

While it is important to note that NCTO supports the administration's efforts to crack down on China's unfair trade practices through the Section 301 mechanism—we have also repeatedly recommended that finished apparel and home furnishings be included in any retaliatory tariffs against China.

To effectively respond to China's predatory practices in our sector, we believe the administration needs to address the exports from China that are disrupting our market and distorting trade: exports of end items to the United States. Underscoring why we are requesting these end items, finished apparel, home furnishings and other made-up textile goods equate to 93.5 percent of U.S. imports from China in our sector, while fiber, yarn and fabric imports from China only represent 6.5 percent.

China's growth in the U.S. textile market has been meteoric. It has become the single largest contributor to the U.S. trade deficit in textile and apparel products, which totaled nearly $101 billion in 2018. Last year, the United States imported $47.3 billion worth of textiles and apparel from China, while exporting only $928 million, resulting in a $46.5 billion trade deficit with China in these products, according to Commerce Department data. China's exports to the United States represented 38 percent of all textile and apparel imports to the U.S. last year.

As China's exports surged and the U.S. deficit in the industry's products expanded, U.S. textile and apparel employment plunged to 346,700 in 2017 from 1,353,400 in 1997—a loss of more than 1 million jobs, according to government data.

If the United States truly wants to resolve China's rampant IPR abuse, pillar sectors of the Chinese economy will need to be included on the 301-retaliation list. Leaving sectors that are highly sensitive within China's economy off the list has actually weakened U.S. leverage throughout the negotiating process, delaying a long overdue remedy to this systemic trade problem.

It is for these reasons that NCTO is pleased the proposed Tranche 4 includes finished imported items from China, which have the most significant impact on U.S. employment, production and investment. We believe this move will lead to the re-shoring of production to the United States and the Western Hemisphere production platform—and will also address and mitigate China's rampant trade distortions.

It is long past time the U.S. government take steps to address this serious imbalance and send a strong message to China to stop using predatory trade practices to gain an unfair competitive advantage over U.S. producers.

Further, we believe that the parties that have benefitted from China's unfair trade practices have greatly exaggerated the potential impact on the consumer that might result from higher prices associated with tariffs on end products. There are literally hundreds of options to source and produce apparel around the world, many of which can be done duty-free from our free trade agreement and trade preference partners, particularly in the Western Hemisphere, which is the U.S. textile industry's top export market. Moreover, tariffs are assessed on the price of merchandise when sold for exportation to the United States, not the retail value.

For example, by the time a pair of Chinese blue jeans arrives in the U.S. market, the effects of China's illegal trade practices have been compounded at every stage in the production chain, allowing them to displace other products in the market. The pre-duty unit cost of a pair of jeans is $7.50 imported from China compared to $8.29 from our Western Hemisphere free trade partners. A 25% additional tariff adds $1.88 to China's price, so consumers will not see a big price increase at retail. However, at the volume that retailers source from China there would a considerable incentive to shift sourcing from China to duty-free sources in the Western Hemisphere that incorporate U.S. fibers, yarns and fabrics.

While we support the inclusion of finished products in Tranche 4 for all of the reasons mentioned above, I want to stress that we have very serious concerns that certain inputs already vetted by the administration and removed from previous retaliatory tariff lists are back on this list for proposed duties. These inputs include but are not limited to: certain machinery, dyes and chemicals and textile components not available domestically, like rayon staple fiber.

Adding tariffs on imports of manufacturing inputs that are not made in the U.S. in effect raises the cost for American companies and makes them less competitive with China. Such a move would worsen our trade deficit with China and directly harm domestic textile manufacturing—outcomes diametrically opposed to the administration's stated goals with the China 301 and broader trade policy efforts. We believe it would be illogical to reverse previous determinations that found a legitimate case for an exclusion. As such, we believe that the integrity of the earlier exclusion reviews should be upheld. Further, we urge the U.S. government to institute a fair, transparent and expeditious exclusion system for all retaliation tranches.

In addition, while we don't have time to fully discuss this topic in our oral testimony today, we want to highlight a significantly growing concern related to the 321 de minimis provision in light of the 301 retaliatory tariffs. As you know, any de minimis shipment below $800 is not subject to the 301 retaliatory tariffs. This creates a concerning and substantial loophole at a time when the administration is spearheading efforts to address China's unfair trade practices.

The 321 de minimis provision allows items under this dollar threshold to qualify for duty-free access to the U.S. market as long as the shipment is sent directly from China or another country to a U.S. consumer on a given day. With the explosion of e-commerce sales and the significant trade qualifying for de minimis treatment, this provision is giving China backdoor duty-free access into the U.S. market and undermining what the Administration is trying to achieve for U.S. industries and workers. We request that the administration address the 321 issue and apply the 301 retaliatory tariffs to de minimis shipments as well. We also encourage the administration to review this issue more holistically as part of its trade policy agenda given the exponential growth in the volume of goods being imported as a result of this provision in the tariff code.

The U.S. textile sector has gone through a major transformation and is a thriving contributor to overall U.S. economic growth—with the development of next generation fibers, yarns, fabrics and cutting-edge characteristics. Our sector is now the second largest exporter in the world but China's rampant IP abuse and theft continuously threatens the strides the industry has made.

We are literally under attack in this area and you have to look no further than the U.S. government's own efforts to counter IPR theft in our sector, which was the single largest sector of IPR seizures by DHS of any sector in fiscal years 2016 and 2017, representing a combined total of nearly $200 million over that two-year span.

Conclusion

The U.S. textile industry strongly encourages the U.S. Trade Representative and President Trump to adopt the following recommendations:

- Enact the proposed 25% penalty tariffs on finished apparel items and other sewn products
- Maintain the previous exemptions that were vetted by the U.S. government and granted to products deemed not to be good candidates for tariff retaliation
- Institute a transparent, fair and expeditious exclusion system for all Tranches
- Apply 301 retaliatory tariffs to Section 321 de minimis shipments

By adopting these recommendations, the administration could provide a level of much overdue relief to an industry that has been directly targeted and heavily damaged by China's industrial policy. To the contrary, failure to include end products while keeping certain manufacturing inputs on the list in this sector will, in fact, be a significant net benefit to the Chinese and condone their illegal activity in the textile and apparel sector.

Finally, to address an issue raised in other testimonies this week. Despite our support for tariffs on imports of finished textile and apparel products from China, Chinese textiles could still evade such U.S. tariffs if duty-free treatment were extended to finished textile and apparel imports from countries who qualify for preferences under the Generalized System of Preference, or GSP. GSP countries in the Asian apparel supply chain rely on cheap Chinese textile inputs that compete against American-made textiles and finished apparel from the Western Hemisphere. Current proposals to add finished textiles and apparel to GSP would give China a backdoor duty break on 65% of the value of all eligible products. We strongly oppose efforts to give new duty breaks to Chinese textiles through GSP.

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

NCTO is a Washington, DC-based trade association that represents domestic textile manufacturers, including artificial and synthetic filament and fiber producers.

- U.S. employment in the textile supply chain was 594,147 in 2018.
- The value of shipments for U.S. textiles and apparel was $76.8 billion in 2018.
- U.S. exports of fiber, textiles and apparel were $30.1 billion in 2018.
- Capital expenditures for textile and apparel production totaled $2.0 billion in 2017, the last year for which data is available.