U.S. Industrial Fabrics Institute

Narrow Fabrics Institute

## U.S. FREE TRADE AGREEMENTS

***Building a U.S. Trade Policy That Works for Textile Manufacturers***

**ISSUE:**

The U.S. textile industry can compete globally under trade rules that are reasonable and fair. Done the right way, free trade agreements (FTAs) can open new markets to U.S. textile exports and spur domestic production and jobs. Done the wrong way, FTAs can devastate companies, their employees, communities, and entire regions of our country when they undercut domestic competitiveness.

The details of a given FTA matter immensely, from the macro level of the country or countries involved down to the product-specific rules of origin, tariff schedules, and enforcement measures. Further, there is a cumulative effect when multiple agreements contain harmful provisions that discourage U.S. production and stress customs enforcement resources.

In certain cases, FTAs have been a headwind to the U.S. textile sector's stability and its ability to contribute to the American economy. As the United States engages in critical thinking and analysis to determine what is and is not working with respect to U.S. trade policy, USIFI and NFI have the following key thoughts and recommendations.

**TPP:**

On January 23, President Trump issued an executive order instructing his administration to take all necessary steps to formally withdraw from the Trans-Pacific Partnership (TPP) free trade agreement. Because Congress cannot move to adopt an FTA until it is formally submitted by the White House for consideration, the president's action also effectively blocks any possible consideration of TPP by the legislative branch. It should be noted, however, that the president has signaled a willingness to negotiate individual bilateral agreements with various TPP countries.

**USIFI and NFI support the decision to walk away from TPP** for the following reasons:

- the inclusion of Vietnam, a non-market economy with a government-subsidized textile sector;
- customs enforcement concerns inherent in any large, multilateral agreement, and
- a docking feature leaving the door open for unspecified countries to join later.

**NAFTA**

The Trump administration appears poised to make NAFTA renegotiation an early priority and has indicated a willingness to scuttle the agreement if it cannot be made more favorable to the United States. Mexico recently announced a formal 90-day consultation period with its industries and other stakeholders, and the United States soon will initiate a similar internal process. This timeline would potentially place formal bilateral or multilateral NAFTA negotiations in May of this year.

USIFI and NFI agree that NAFTA is due for comprehensive review to determine whether it can be improved. However, noting that U.S. textile and apparel exports to NAFTA totaled $11.8 billion in 2015 and the high level of integration that exists today in the North American textile supply chain, **USIFI and NFI oppose a wholesale cancelation of NAFTA**.

Instead, USIFI and NFI **support an improvement** along the lines of:

- **Committing greater resources and focus to customs enforcement**

  During the past 30 years, there has been a systematic deemphasis of commercial fraud enforcement at U.S. Customs and Border Patrol (CBP). CBP suffers from both a lack of resources and focus, especially noting the uptick in the number of trade agreements and overall trade flows during this timeframe. Consequently, the benefits of these agreements have been siphoned off by third-party countries and importers willing and able to circumvent U.S. trade laws and agreements.

  USIFI and NFI strongly support the adoption of a new mentality that places an increased, but proper, emphasis on customs enforcement of NAFTA and other FTAs. We encourage Congress to tangibly demonstrate that new approach by increasing resources at CBP to enable more effective enforcement of U.S. trade laws and duty assessments.

  USIFI and NFI also note that more effective trade enforcement will not only pay for itself, but also generate new revenues that could then be used to promote trade facilitation through the rebuilding and expansion of America's infrastructure.

- **Conducting a review of exceptions to yarn forward in the NAFTA rule of origin**

  The standard rule of origin for textiles in nearly all U.S. FTAs is the yarn-forward rule, which requires yarn and everything following the yarn stage to be done in the FTA region. Yarn forward was originally devised under NAFTA and is the accepted rule of origin for the domestic textile industry because it reserves key benefits for manufacturers within the signatory countries. A yarn-forward concept is also markedly easier to enforce versus a value-added rule of origin.

  Although most U.S. FTAs are built on yarn forward as the basic structure, exceptions to the basic rule exist in many agreements that shift business away from U.S. producers to FTA parties, namely China. These yarn-forward loopholes take many forms, with the most egregious being TPLs. TPLs allow for a specific quantity 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.

  Under NAFTA, Mexico is permitted ship up to the equivalent of 24 million square meters (SME) of certain fabrics and made-up textile articles, including man-made fiber industrial products, annually to the U.S. duty free. Canada has a 72 million SME TPL for this category of articles. There are three additional TPLs for cotton and man-made fiber yarns, cotton and man-made fiber apparel, and wool apparel. These and other loopholes and should be eliminated in any renegotiation.

- **Closing the loophole that dilutes the Kissell Amendment**

  The Kissell Amendment, 6 USC 453b, is a Berry Amendment-like buy American law for textiles that applies to the Department of Homeland Security. In practice, however, DHS only applies Kissell to purchases by the Coast Guard and Transportation Security Administration (TSA) because of U.S. commitments made under the WTO's Revised Agreement on Government Procurement (GPA).

  With respect to its application to TSA, Kissell has further been diluted. This is because the U.S. government failed to notify Mexico and Canada under NAFTA, as well as Chile under the Chilean FTA, that the United States was reserving TSA from the GPA when TSA was created. Thus, the United States has taken the position that those countries are acceptable as U.S. sources under Kissell. This oversight should be rectified in any NAFTA renegotiation.