



UNITED STATES-MEXICO-CANADA AGREEMENT

Updating Key Textile Provisions in NAFTA

ISSUE:

Last year, the Trump administration finalized negotiations with Mexico and Canada modernizing the 25-year-old North American Free Trade Agreement (NAFTA). Known as the United States-Mexico-Canada Agreement (USMCA), this new agreement makes some common-sense improvements to NAFTA, while aligning other aspects of the agreement more closely with free trade agreements (FTAs) that have followed in the intervening years. Congress will likely consider legislation intended to implement the terms of USMCA prior to the end of 2019. Key outcomes pertaining to textiles in the new agreement are outlined below.

The Kissell Amendment Loophole Closed

The Kissell Amendment is a Buy American law for textiles that applies to the Department of Homeland Security (DHS). Similar to the Berry Amendment under the Department of Defense, Kissell requires that textile products used by the U.S. military be manufactured with 100% U.S. content with very limited exceptions. 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 Agreement on Government Procurement.

Regarding TSA procurement, Kissell has a problematic loophole 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. USMCA fixes this loophole, ensuring that annual DHS expenditures on clothing and textiles for TSA, which totaled \$34 million in FY 2017, are spent domestically as Congress intended. This change should have a direct, beneficial impact for USIFI and NFI members in that most textile inputs with security end-uses are of a highly sophisticated, technical nature.

Pocketing, Sewing Thread, and Narrow Elastics

There is a vibrant U.S. production base for "secondary" textile components like pocketing fabric, sewing thread, narrow elastic fabric, and certain coated fabrics that is not reflected in NAFTA's origin rules. Despite being commercially available in the U.S. and broader NAFTA region, secondary inputs may be sourced from any country and the finished garment or home textile product may still qualify for NAFTA duty-free status. This loophole grants non-NAFTA producers in China and elsewhere the same lucrative access to our market and status in the NAFTA origin rules as U.S. producers of these component materials.

The secondary components oversight was later corrected in our other major Western Hemispheric trade agreement, the Dominican Republic-Central America FTA (CAFTA-DR), which clearly stipulates that regional pocketing, sewing thread, and narrow elastics must be used. USMCA recognizes the value of this concept by including these products under the agreement's rule of origin, which will certainly benefit U.S. production and jobs by stimulating more U.S. value-add in USMCA regional goods.

Tariff Preference Levels

The standard origin rule for textiles in nearly all U.S. FTAs is “yarn forward,” which requires the production of yarn and every ensuing manufacturing stage of a textile or apparel product to be done in the FTA region. Yarn forward was originally devised under NAFTA and is the accepted rule for the domestic textile industry because it reserves key benefits for producers within the FTA partner countries and is easier to enforce than alternatives like value-based rules.

Although most U.S. FTAs are built on a yarn-forward structure, a key exception to the rule exists under NAFTA that shifts business away from U.S. producers to non-FTA parties, namely China. This loophole, known as tariff preference levels (TPLs), allows for a specific quantity of product to be shipped duty free among FTA partner countries although the components are sourced from third-party countries. NAFTA contained several large TPLs for certain apparel, fabrics, and other textile articles made of third-party inputs.

Under USMCA, the caps on NAFTA’s TPLs have been pared back, helping to limit the future use of third-party textile inputs that come at the expense of U.S. textile manufacturers and workers.

Other Updates

USMCA makes several additional improvements over the original NAFTA text. Notably, USMCA adds a new, separate chapter of the agreement for textiles that includes dedicated customs enforcement language. This recognizes the fact that Congress has designated textiles and apparel as a *Priority Trade Issue*, an industry with singular rules of origin that faces unique challenges in customs enforcement. Having a separate textile chapter elevates a sector that accounts for 41% of all duties collected by the U.S. government and brings NAFTA in harmony with subsequent trade agreements.

USIFI/NFI Position & Request

USIFI and NFI support the various improvements contained in USMCA and urge Congress to move swiftly to review and approve this new regional trade agreement.