



February 15, 2016

The Honorable Lisa R. Barton
Secretary to the Commission
United States International Trade Commission
500 E Street SW
Washington, D.C. 20436

Dear Secretary Barton:

The following submission is provided on behalf of the National Council of Textile Organizations (NCTO) in response to the Federal Register request for public comments found at 80 FR 72736 and dated November 20, 2015 (Investigation No. TPA-105-001, Trans-Pacific Partnership Agreement: Likely Impact on the U.S. Economy and on Specific Industry Sectors).

NCTO represents the entire spectrum of the U.S. textile industry, including fiber, yarn, fabric, finishing, and supplier companies. The U.S. industry production chain from fiber to finished apparel employs approximately 500,000 workers, and, according to U.S. government statistics, indirectly supports nearly one million additional U.S. jobs. The sector is also the third largest exporter of textile products in the world with nearly \$24 billion in exports in 2015. Two-thirds of our exports go to our trading partners in the Western Hemisphere, specifically the NAFTA, CAFTA-DR, and Andean regions.

On January 20, 2016, the membership and Board of Directors of NCTO voted to formally support the Trans-Pacific Partnership (TPP) free trade agreement. This position of support was taken after a careful and exhaustive analysis of the agreement and its potential impact on U.S. textile manufacturers.

Specifically, our support is tied to an analysis of the terms of the agreement under four key areas identified by NCTO:

1. Rules of origin;
2. Market access;
3. Impact on the Western Hemisphere production chain; and
4. Additional standard textile chapter terms in U.S. FTAs, such as customs enforcement and a safeguard mechanism.

Rules of Origin

TPP contains a yarn-forward rule of origin for the vast majority of textile, apparel, and home furnishing products. With regard to Vietnam, the second largest exporter of textiles and apparel to the U.S. market, the U.S. government estimates that 75-90% of all of Vietnam's exports to the United States will fall under the yarn-forward rule. The inclusion of a yarn-forward rule was essential from our standpoint in order to ensure that the agreement affords benefits to manufacturers throughout the vertical production chain, as opposed to simply rewarding those who conduct the final assembly steps. The yarn-forward rule prevents non-contracting parties, such as China, from becoming major beneficiaries through the supply of yarn and fabric inputs that are readily available within the TPP region.

The yarn-forward rule also functions as a significant investment driver by incentivizing additional upstream manufacturing within the TPP nations. Furthermore, yarn-forward provides the basis for two-way trade between the contracting nations, as major yarn and fabric suppliers such as the United States and Mexico can access market opportunities with major apparel producers in Vietnam and Malaysia.

Finally, the TPP yarn-forward rule ensures that our current FTA structure is not destabilized, noting that six TPP partner countries have existing FTAs with the United States founded on a yarn-forward construct. If the TPP had adopted a more liberal arrangement, existing customers in Mexico, Canada, Peru, Chile, Australia, and Singapore would have been granted the option to operate under a weaker preference system, jeopardizing billions in existing U.S. textile exports.

While NCTO believes that the overall textile origin rules under TPP are strong, there are areas of concern from our perspective. Our membership expressed dissatisfaction with the designation of various short supply items, such as certain wool yarns for sweaters and polyester/wool blend fabrics. There were also broad-based hemispheric concerns over the Earned Import Allowance (EIA) program for cotton woven trousers.

Noting these areas of sensitivity for our industry, we do believe that the concessions granted on rules of origin were balanced with positive aspects from our perspective. This includes the following:

- The agreement does not contain a generic Tariff Preference Level (TPL), which would have allowed for duty-free treatment for a designated quantity of imports despite the fact that those goods did not meet the yarn-forward rule. The avoidance of a TPL is viewed as a key improvement over a number of previous U.S. FTAs.
- The agreement has a more limited number of cut and sew exemptions than other key agreements, such as NAFTA and CAFTA-DR.
- The cotton trouser EIA or "matching program" takes significant steps to insulate the very valuable men's cotton trouser business in the Western Hemisphere and could lead

to some export opportunities on yarns and fabrics for women's trousers that are mainly sourced out of Asia.

Market Access

The final TPP agreement contains a three-tiered tariff phase-out structure for textile and apparel products.

A Basket: Least sensitive products selected for immediate duty-free treatment, known as entry into force (EIF)

B Basket: Moderately sensitive products selected for a five-cut linear phase-out over four years (designated as staging category B5 in the agreement text)

X Basket: Most sensitive products selected for a 10-year duty phase-out for knits and a 12-year phase-out for wovens (designated as staging categories US6, US7, US8, US9, US10, and US11 in the agreement text)

The Market Access arrangement wisely provides for reasonable duty phase-out periods on the majority of trade with key participants, such as Vietnam. Vietnam's treatment in regard to tariff phase-outs was highly critical from NCTO's perspective due to the fact that Vietnam is the second largest exporter of textile and apparel products to the United States. Their exports have been growing at a rapid rate, and we believe that Vietnam enjoys numerous pricing advantages as a result of their non-market economy structure and the corresponding prevalence of state-owned enterprises in the textile sector. Noting the fact that any transition in Vietnam from a state-controlled economy to a more market-based system will take considerable time, it was only reasonable that TPP include multi-year phase-outs for products that represent billions of dollars in U.S. output and thousands of U.S. jobs.

For these reasons, we felt that the majority of Vietnamese textile and apparel exports to the United States warranted coverage under the 10-12 year phase-out formula as prescribed in the X Basket. In addition, it was essential to include the majority of products critical to the Western Hemisphere textile and apparel production chain in the X Basket. In that regard, based on 2012 trade data (the year used as the official basis of the negotiation), X Basket treatment is as follows:

- \$4.0 billion (52%) of U.S. imports from Vietnam
- \$6.6 billion (81%) of U.S. imports from CAFTA-DR partners
- \$10.9 billion (66%) of U.S. imports from key Western Hemisphere FTA Partners (NAFTA, CAFTA-DR, Peru)

Like rules of origin, there are areas of concern for NCTO members in the finalized Market Access segment of the agreement. There are products, such as acrylic knit tops and cotton sweaters, we felt deserved X basket coverage that will become duty-free upon entry into force.

In addition, it is our assessment that the B Basket, which provides a five-year linear phase-out, was underutilized. We note that the vast majority of textile apparel products that were not included in the X Basket migrated to the EIF category. For example, only 2.5% of Vietnam's exports to the United States were assigned B Basket coverage, while more than 45% are eligible for duty-free treatment upon entry into force.

Despite these concerns, NCTO believes that the final Market Access structure for textiles and apparel was reasonably balanced noting the conflicting pressures facing U.S. negotiators in this area.

Impact on the Western Hemisphere Production Chain

NCTO made a concerted effort to ensure that the final TPP text did not result in an erosion of benefits for our key trading partners in the NAFTA/CAFTA-DR region and the broader hemisphere. We provided extensive input to the U.S. government detailing our relationships in this region and the need to nurture past policy initiatives that have resulted in nearly \$30 billion in annual two-way trade between the United States and FTA partner countries in the Western Hemisphere.

In regard to the final TPP text, evidence of the desire to keep the Western Hemisphere stable can be found in points referenced earlier, such as:

- TPP contains a rule of origin that is in keeping with the critical yarn-forward system that governs our existing FTAs with NAFTA, CAFTA-DR, Chile, Colombia, Panama, and Peru.
- TPP omits damaging TPLs and has limited cut and sew designations.
- TPP covers under the X Basket 81% of U.S. imports from CAFTA-DR countries and 66% of imports from the entire Western Hemisphere.

There is no question that TPP will introduce greater pricing pressures for manufacturers in our region as brands and retailers gain access to more tariff-free sourcing options on goods for sale in the U.S. market. Consequently, the U.S. industry and our partners in this hemisphere will have to brace for enhanced competition from Vietnam and other players once TPP enters into force. While not ignoring this reality, we are appreciative that the final TPP provisions in our chapter recognized the absolutely critical nature of the existing Western Hemisphere textile and apparel production chain.

Additional Provisions

Enforcement: TPP includes specific commitments to enforce each TPP country's measures affecting trade in textile and apparel goods, to ensure the accuracy of claims of origin, and to prevent circumvention of the TPP rules of origin. Enhanced customs cooperation under TPP will allow information sharing between the United States and TPP partner countries to identify non-

compliant traders and prevent customs offenses. In addition, the agreement will allow U.S. Customs and Border Protection (CBP) to conduct verification activities in TPP partner countries, including visiting factories themselves. This will aid CBP in their efforts to ensure that textile products being imported into the United States meet applicable TPP rules of origin and to take targeted, effective enforcement action whenever unscrupulous businesses are breaking the rules.

Safeguard: TPP includes a special textile safeguard mechanism, which will provide for temporary re-application of tariffs if imports under the agreement are shown to cause or threaten to cause serious damage to domestic industry.

It was our goal that these important provisions be roughly equivalent to previous FTAs. We feel that the final TPP text met this objective.

U.S. Exports

Beyond the aforementioned focus areas, we have reviewed the TPP text to determine the validity of export opportunities for our sector.

We want to first reiterate the point that the inclusion of a yarn-forward origin rule was critical in relation to U.S. textile export performance. With six TPP partner countries that have existing U.S. FTAs founded on yarn-forward, the construction of a weaker or vastly different TPP rule would have undermined billions in existing U.S. exports. Had TPP not been based on yarn-forward, customers in critical export markets such as Mexico or Canada would have been able to circumvent NAFTA yarn-forward requirements and legally displace existing U.S. yarn and fabric exports.

The chart below details the amount of current U.S. textile exports to the various TPP countries that have a trade agreement with the United States. This group of countries equated to over half of total U.S. textile and apparel exports in 2015.

U.S. Textile and Apparel Exports to TPP Countries with Existing U.S. FTAs			
In Millions of Dollars			
	2013	2014	2015
Mexico	\$5,748	\$6,208	\$6,510
Canada	\$5,471	\$5,596	\$5,247
Australia	\$307	\$310	\$300
Chile	\$199	\$190	\$191
Singapore	\$133	\$136	\$120
Peru	\$87	\$88	\$91
Subtotal	\$11,945	\$12,528	\$12,459
% of Total U.S. Exports	50%	51%	52%

Secondly, we feel that there may be additional opportunities in certain product sectors for our members to export to TPP countries that represent new FTA partners. U.S. exports in our sector to Brunei, Japan, Malaysia, New Zealand, and Vietnam total approximately \$1 billion annually. With 93% of U.S. textile and apparel exports to these five countries going duty free upon entry into force, there are likely to be some expanded opportunities in areas such as technical textiles, cotton yarns, and various early stage textile fibers, although on a limited scale.

Summary and Conclusion

In summation, NCTO views the TPP as the most important trade policy initiative to confront our sector since NAFTA. This assessment is based on the following:

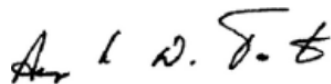
- TPP includes major textile and apparel exporters, such as Vietnam and Malaysia.
- TPP held the potential to essentially rewrite and weaken rules for a number of critical existing U.S. FTAs.
- TPP will impact current trade flows with critical partners and customers in the Western Hemisphere.

Consequently, our organization set a high bar in determining whether the TPP agreement could ultimately win our approval.

Earlier in this submission, we identified the key areas of concern that would frame our final determination. As we studied the terms of the final text, we concluded that like all trade agreements, TPP is not perfect. The agreement includes significant tradeoffs in our chapter that had to be considered in light of the broader objectives of the Obama Administration and the desire to reach a final deal. With that noted, we have concluded that the agreement strikes a proper balance between benefits and concessions and that the provisions that deal with our key objectives were finalized in a manner that allows NCTO to fully support the agreement.

We hope that this submission provides the Commission with a clear understanding of our positioning on TPP. However, please do not hesitate to reach out to us if you desire further information from NCTO in regard to this important trade policy issue.

Sincerely,



Augustine Tantillo
President & CEO
NCTO