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PRESS STATEMENT

NCTO Renews Call for Tariffs on Textile and Apparel End Items at USTR China 301 Hearing

August 20, 2018

WASHINGTON, DC – National Council of Textile Organizations (NCTO) Senior Vice President Sara Beatty is testifying this afternoon on Panel 6 at the Office of the U.S. Trade Representative's hearing on the Trump administration's proposed Section 301 tariffs on $200 billion in imports from China.

Beatty's statement as prepared for delivery is included at the bottom of this release and it reiterates NCTO's 24-page public comments and testimony from earlier this year that the following products be prioritized on the China 301 retaliation list:

- finished apparel that tracks with product being sourced from U.S. Free Trade Agreement (FTA) partners,
- textile-based home furnishings and other end items, and
- advanced technical textile products.

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 550,500 in 2017.
- The value of shipments for U.S. textiles and apparel was $77.9 billion in 2017.
- U.S. exports of fiber, textiles and apparel were $28.6 billion in 2017.
- Capital expenditures for textile and apparel production totaled $2.4 billion in 2016, the last year for which data is available.

Sara Beatty, Senior Vice President, National Council of Textile Organizations
China 301 IPR Hearing
Panel 6, August 20, 2018
Remarks as Prepared for Delivery

My name is Sara Beatty, and I am the Senior Vice President of the National Council of Textile Organizations. Thank you for the opportunity to appear today.

NCTO represents the full spectrum of the U.S. textile sector, from fiber through finished sewn products. As we have consistently voiced throughout this process, NCTO steadfastly supports the President's pursuit of a Section 301 case to address China's rampant intellectual property (IP) abuses.

Importance of Covering End Items

In NCTO's previous testimony and public comments, we documented the severely damaging effects of China's IP theft and related abuses on U.S. textile and apparel manufacturers and our views on how best to address the problem in our sector. To summarize, it remains our recommendation that priority should be placed on covering the following products on the retaliation list:

- finished apparel that tracks with product being sourced from U.S. Free Trade Agreement (FTA) partners,
- textile-based home furnishings and other end items, and
- advanced technical textile products.

While products in Chapters 50-60 covering textile fibers, yarns and fabrics are on the subject $200 billion list, finished apparel and other sewn products in Chapters 61-63 are again absent. The U.S. textile industry is disappointed by this repeated omission and asks that USTR consider the following:

First, 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 represent only 6.5 percent. Given that apparel and other sewn products made in China almost always contain Chinese inputs, a significantly greater value of fibers, yarns and fabrics made in China enter the U.S. market in the form of Chinese-made downstream finished products than at the input stage.

Noting textiles have been identified as a key industry under the Made in China 2025 plan and Chinese-made textiles gain significant competitive advantages in the U.S. market through intellectual property theft, NCTO agrees that textiles should be part of the administration's 301 strategy. It is also why, however, NCTO continues to stress that the most logical and effective way to target China's predatory trade practices in our sector is to address their primary means of disrupting our market, exports of end items to the United States.

Most of China's 10 million direct textile and apparel jobs are concentrated at the final steps of the supply chain, the highly labor-intensive cutting and sewing operations. As such, imposing tariffs on end items would maximize U.S. leverage in bringing China to make meaningful reforms.

Further, the importance of targeting finished products on the retaliation list is not only derived from the fact that China predominantly ships end items versus intermediate inputs, but also because end item imports most directly and negatively impact U.S. textile and apparel production, investment and jobs. China's apparel and other textile-based end items compete head to head with like Western Hemisphere products that typically are made from U.S. fibers, yarns and fabrics.

By the time a pair of Chinese blue jeans arrives in the U.S. market, they have benefited from China's illegal trade practices 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, providing a considerable incentive to shift sourcing from China to duty-free sources in the Western Hemisphere.

NCTO is convinced that the Trump administration's Section 301 tariffs would be far more effective if Chinese apparel and related end products were included on the 301 list because that would benefit the entire U.S. textile and apparel supply chain and address the root issue.

<u>Textile and Related Products on the $200 Billion List</u>

With the inclusion of virtually all fiber, yarn and fabric tariff lines on the $200 billion list, NCTO is finalizing feedback on a line-by-line basis that identifies products where the U.S. textile industry would be negatively impacted by additional tariffs of 10%, or up to 25%, on product from China. A number of our member companies are also filing comments speaking to their unique circumstances. Given that these are largely intermediate-stage manufacturing inputs, additional duties on products imported from China for further processing can be counterproductive in instances where there is no U.S. production and China is one of a limited number of import sources.

As this type of detailed information cannot be adequately conveyed in testimony form, NCTO will be submitting supplementary public comments. However, acrylic and rayon staple fibers serve as good examples of products that NCTO recommends be removed from the 301 list to avoid undue harm to U.S. manufacturers. These fibers are not produced in the United States and their unavailability is reflected in the rules of origin of our more recent free trade agreements as well as in the Miscellaneous Tariff Bill (MTB) pending in Congress.

Raising the production costs for these inputs will only undercut U.S. competitiveness for manufacturers that utilize them without bolstering U.S. producers, of which none exist. Further, yarn and fabric producers in China and other countries will not face these added costs, thus simultaneously placing U.S. producers at a significant disadvantage while providing a loophole for Chinese fibers to enter the U.S. market in the form of a downstream product.

Beyond the traditional textile chapters, NCTO recommends removal of certain chemicals, dyes and finishes that are integral to the textile manufacturing process and create value add in U.S. products. Our members report that many of these products are largely unavailable from U.S. sources, particularly in the quantities consumed, and thus the increased raw material costs will damage downstream domestic manufacturing competitiveness. Again, a list of specific tariff lines will be provided.

Last, we are concerned that while textile machinery was largely removed from the initial $50 billion list, additional lines have been proposed on this list. NCTO continues to strongly recommend the removal of all machinery-related items as U.S. textile companies are almost entirely dependent on imports to equip their factories.

Thank you again for the opportunity to appear today. NCTO looks forward to working with the Trump administration on ways to maximize the benefit of Section 301 tariffs to American industry and workers, and I would be pleased to answer any questions.

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