Textile Policy Update

SEAMS Annual Networking Conference
August 3, 2018
The National Council of Textile Organizations (NCTO) is a unique association representing the entire spectrum of the textile industry. From fibers to finished products, machinery manufacturers to power suppliers, NCTO is the voice of the U.S. textile industry. There are four separate councils that comprise the NCTO leadership structure, and each council represents a segment of the textile industry and elects its own officers who make up NCTO’s Board of Directors.

- **Fiber Council** membership represents domestic textile denier fiber producers
- **Yarn Council** membership represents domestic yarn manufacturers
- **Fabric & Home Furnishings** membership represents domestic manufacturers of fabric, including woven, knitted, non-woven, tufted, braided or other, and home furnishings
- **Industry Support** includes textile distributors; converters, dyers, printers and finishers of textiles; and suppliers of products and services to such fiber and textile entities
STATE OF THE INDUSTRY
2017 Value of Shipments in $ Billions

Man-Made Fiber, Yarn, Fabric, Apparel, & Sewn Products Only

Source: Census Bureau Annual Survey of Manufactures. 2016 data for NAICS 32522 used to compute 2017 figure.
2017 Value of Shipments by Category

<table>
<thead>
<tr>
<th>Category</th>
<th>Data in $ Billions</th>
</tr>
</thead>
<tbody>
<tr>
<td>313 - Yarns &amp; Fabrics</td>
<td>$31.5</td>
</tr>
<tr>
<td>314 - Home Furnishings, Carpet, &amp; Non-Apparel Sewn Products</td>
<td>$12.5</td>
</tr>
<tr>
<td>315 - Apparel</td>
<td>$7.3</td>
</tr>
<tr>
<td>32522 - Man-Made Fibers &amp; Filaments</td>
<td>$26.6</td>
</tr>
</tbody>
</table>

Source: Census Bureau Annual Survey of Manufactures. Data for NAICS 32522 is for 2016 b/c 2017 data is n/a.
Capital Investment – in $ Millions

Capital Investment Up $1.1 Billion in Last 7 Years for Textiles

Source: U.S. Census Bureau Annual Capital Expenditures Survey (ACES)
2017 Employment – 550,500

Textile Supply Chain Jobs in Thousands

- 313 - Yarns & Fabrics
- 314 - Home Furnishings, Carpet, & Non Apparel Sewn Products
- 315 - Apparel
- Cotton Farming & Related Industry
- Wool Growing & Related Industry
- 32522 - Man-Made Filaments & Fibers

Exports of Fiber, Textiles & Apparel

2017 Exports to Regions in $ Billions

56% of U.S. Textile Supply Chain Exports to NAFTA & CAFTA-DR

2017 Exports by Category in $ Billions

- Cotton, Wool & Fine Animal Hair: $8.9
- Yarns: $5.7
- Fabrics: $5.9
- Home Furnishings, Carpet, & Non-Apparel: $3.7
- Sewn Products: $4.4
- Apparel: $5.9

Top Markets for U.S. Yarn & Fabric

2017 MMF, Yarn & Fabric Exports = $13.22 B – Data in $ Millions

Source: U.S. Department of Commerce and U.S. International Trade Commission; China = China+HK+Macau
2017 U.S. Imports by Category; Total = $118.4 Billion

Yarns: $3.1
Fabrics: $8.2
Home Furnishings, Carpet, & Non-Apparel Sewn Products: $24.4
Apparel: $82.7

Source: U.S. Department of Commerce, Office of Textiles and Apparel
U.S. Trade Balance by Category in 2017

- Yarn = + $1.3 billion
- Fabric = + $662 million
- Home Furn., Carpet & Non-Apparel Sewn Products = (- $20.7 billion)
- Apparel = (- $77.0 billion)
- Total Trade Deficit in Textiles and Apparel = (- $95.7 billion)

Source: U.S. Department of Commerce, Office of Textiles and Apparel
• The U.S. textile industry supply chain - from fibers to apparel and other sewn products - employed 550,500 workers in 2017. One textile job supports three other jobs.

• In 2017 shipments from the U.S. textile sector were valued at $65.4 billion; U.S. apparel shipments were valued at $12.5 billion.

• The U.S. textile industry is the fourth largest exporter of textile products in the world. Total textile and apparel exports were $28.6 billion in 2017.

• The U.S. textile industry invested more than $20 billion in new plants and equipment from 2006 to 2016.
U.S. TRADE POLICY OUTLOOK
Trump Trade Policy Review

Trump Administration has begun by reviewing:

- Causes of U.S. trade deficit
- U.S.-China trade relationship
- NAFTA
- KORUS
- U.S.-Japan trade relationship
Phase II

• We are now beginning to see actions being taken stemming from these reviews

• USTR recently launched a WTO challenge against illegal export subsidies the Indian government provides to industries including textiles

• 301 investigation regarding massive IPR issues with China has resulted in some retaliatory tariffs
China 301 IPR Case

• Section 301 of the Trade Act of 1974 provides the U.S. with broad authority to enforce trade agreements, resolve trade disputes, and open foreign markets to U.S. goods and services.

• Last August, the President formally instructed USTR to determine whether to launch a 301 investigation of:

  “laws, policies, practices, or actions of the Government of China that may be unreasonable or discriminatory and that may be harming American intellectual property rights, innovation, or technology development”

• USTR launched an investigation and released report in late March.
On April 3, the Trump administration released a proposed list of products imported from China that could be subject to additional tariffs of 25%.

This first list covered $50 billion in goods and 1,333 tariff lines—reportedly designed to target products that benefit from China’s programs while minimizing the impact on U.S. economy and consumers.

No textile/apparel products were included, but nearly all textile machinery and parts made the list ($63 million in imports).

Following a public comment period and a hearing, tariffs were imposed on 818 HTS lines covering $34 billion in Chinese imports; almost all textile machinery was excluded.
On June 15, the Trump administration released a second proposed list of 284 tariff lines covering $16 billion in products imported from China that could be subject to additional tariffs of 25%.

This first and second lists add up to Trump promise of $50 billion.

Dozen lines covering coated fabrics in Chapter 39 on new list.

Public comment period ended July 23; hearing July 30; mid-September likely date for any new tariffs imposed.
China 301 – Proposed U.S. Retaliation List – Round 3

- On July 10, the Trump administration released a third list of $200 billion in products imported from China that could be subject to additional tariffs of 10%; USTR since directed to consider upping tariff to 25%

- List **includes** HTS Chapters 50-60 – fiber, yarns & fabrics

- List **excludes** HTS Chapters 61-63 – apparel & sewn products

- Public comment period ends Aug. 17; hearing Aug. 20-23; rebuttal comments due Aug. 30; **NOTE**: some of these dates will change

- Roughly six-week time lapse between close of comments and imposition of Round 1 tariffs.
NCTO China 301 Objectives

- NCTO supports tariffs on textile and apparel end products from China; particularly end products because this boosts entire supply chain.
- NCTO will review proposed tariffs on inputs line by line.
- China’s $44B trade surplus IPR theft aided; hence retaliation appropriate.
- China’s textile & apparel sector employs 10 million people, good leverage for U.S. negotiators.
- Tariffs on Chinese textiles & apparel will encourage importers to diversify sourcing, leading to more Western Hemisphere production.
NAFTA Status

• NAFTA unpopular with Trump as a multilateral agreement under which U.S. runs large deficits ($89 billion trade deficit in goods)

• President notified Congress in May 2017 of his intention to renegotiate

• Multiple negotiating rounds have taken place
NCTO supports renegotiation, but not cancellation, due to the high level of integration in the supply chain.

- In 2017, the U.S. ran a $3.5 billion trade surplus in textile and apparel products with our NAFTA partners

- U.S. textile/apparel exports: Mexico - $6.0B / Canada $5.4B

- U.S. textile/apparel imports: Mexico - $5.9B / Canada $2.0B
NCTO NAFTA Objectives

1. Eliminate tariff preference levels (TPLs) on various Apparel items, Made-Ups, Fabrics, and Yarns

2. Require use of NAFTA origin components beyond the “essential character” fabric (e.g. sewing thread, pocketing, narrow elastics)

3. Fix the Kissell Amendment (buy-American) loophole under NAFTA for Mexico & Canada

4. Strengthen NAFTA Customs enforcement
TPL Impact

- TPLs allow importers to bypass rational yarn-forward rule, harming upstream textile producers by shifting benefits from NAFTA parties to China and other non-signatories.

- Mexico & Canada can export 235 million square meters of non-complying textile/apparel products duty-free to the U.S. annually, plus 13 million kg of non-qualifying yarns.

- $641 million in duty-free NAFTA TPL exports to the U.S. in 2017.

- Estimated $16.7 billion in duty-free TPL exports to the U.S. over the life of NAFTA.
Component Fabrics

• NAFTA should require the use of “secondary” textile components such as sewing thread, pocketing, and narrow elastics

• These items are readily available in the NAFTA region

• China and other non-NAFTA parties are allowed to capture NAFTA market share due to this current loophole

• This fix would equalize NAFTA with CAFTA in this area
Kissell Amendment

- Kissell requires the Department of Homeland Security to buy American-made textiles for certain agencies.
- FY 2017 DHS spending for textiles & clothing was $111 million (TSA $34M, Coast Guard $11M).
- Canada and Mexico were given an exemption and can supply DHS.
- Like the Berry for DOD, Kissell should be 100% U.S. only.
- President Trump – “Buy American, hire American”
Customs Enforcement

- U.S. needs to greatly improve customs enforcement
- 2017 U.S textile/apparel duties collected - $13.5 billion
- 39% of $34.8 billion in U.S. Customs duties collected in 2017
- NAFTA customs issues are a microcosm of the bigger problem
- Drug cartels involved in money laundering schemes
Why Is Renegotiation Proving Difficult

- Influential stakeholders like the status quo:
  - Governments of Mexico and Canada
  - Importing & Retailing Community
  - Many large U.S. manufacturers/multinationals
  - U.S. Agriculture Sector

- Sectors unrelated to textiles could have major impact on whether U.S. textile industry achieves any of its objectives
NAFTA Next Steps

• This spring marked informal deadline to leave enough time under U.S. Trade Promotion Authority for a vote this year

• The United States and Mexico talking separately and could strike deal soon; timeline likely driven by the inauguration of new Mexican president on Dec. 1

• If United States and Mexico can reach an agreement, talks with Canada will resume with United States and Mexico in a unified position

• If United States and Mexico cannot reach agreement, the path forward on negotiations becomes more uncertain.
Other Trade Issues

• NAFTA renegotiation will be a bellwether

• Korea free trade agreement review resulted in minor tweaks

• U.S.-Japan Agreement?
  ➢ Japan being very cautious

• Reengaging in TPP or elsewhere in Asia – Vietnam? Philippines?

• Commitment to Africa
Key Legislative Issues NCTO Is Tracking in 2018

• 2019 National Defense Authorization Act (NDAA) – Berry Amendment
  ➢ Commercial item & component part problems resolved
  ➢ House & Senate have passed conference report

• Farm Bill – Cotton & Wool Programs
  ➢ Short-term extension likely if conference report not passed on time

• Miscellaneous Tariff Bill (MTB)
  ➢ Senate passed differing bill; House not back in DC until September
PUBLIC RELATIONS CAMPAIGN
Thank you

Lloyd Wood
E-mail: lwood@ncto.org