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NATIONAL COUNCIL OF TEXTILE ORGANIZATIONS

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National Council of Textile Organizations Comments in Response to Executive Order Regarding Trade Agreements Violations and Abuses, Docket USTR-2017-0010

July 31, 2017

These comments are provided on behalf of the National Council of Textile Organizations (NCTO) in response to the Federal Register request for public comments found at 82 FR 29622 and dated June 29, 2017 (USTR-2017-0010).

NCTO jointly submitted comments with AFMA, USIFI, and NFI, on May 10, 2017, regarding the *Administration Report on Significant Trade Deficits* (DOC 2017-0003), which addressed some of the same questions raised in the current request. As a result, we are attaching our prior comments for consideration in the context of this study as well. In addition, we are providing below further information on the function of the World Trade Organization (WTO) as it pertains to textiles and apparel.

WTO Doha Round

The WTO has adopted many of the seriously flawed underpinnings that plagued its predecessor organization, the General Agreement on Tariffs & Trade (GATT). The WTO has fostered an entitlement mindset among many of its members, leading to a belief that industrialized countries, such as the United States, should grant ever increasing access to their markets while being satisfied with unfair and nonreciprocal treatment on the part of other WTO trading partners.

The Doha Development Round is a classic example of how the WTO and a majority of its members assume that international trade rules should be slanted to the direct disadvantage of countries like the United States. Over the life of the fifteen-year negotiation of the Doha Round, members of the WTO have been insistent on major and unreciprocated concessions that would certainly result in increases to the U.S. trade deficit and the contraction of U.S. manufacturing output and employment. While there have not been substantive talks in a number of years, if these negotiations are reinvigorated, the United States must demand full reciprocity from our trading partners as a basic tenet of any new WTO agreement.

As it currently stands the average U.S. bound tariff is 3.5 percent, while the average worldwide WTO bound tariff is 39 percent. Factoring in U.S. FTAs and preference programs, the average trade-weighted U.S. tariff on an applied basis is even lower at 1.5 percent. Clearly, the United States should not make any additional tariff concessions until other WTO members reduce their tariffs and border-adjusted taxes to our level.

Furthermore, countries under the WTO system are allowed to self-designate their economic status and thereby shield themselves from significant obligations. For example, India and China claim to be "developing nations" for the purposes of the WTO and thus argue that they should not be required to make concessions similar to developed or industrialized nations, like the United States. This flawed system allows export superpowers like China and India to masquerade as poor countries and reap the benefits of greater access to key international markets while continuing to protect their home markets.

As a result, if the Doha Round is concluded, there is little doubt that it will be detrimental for U.S. textile manufacturers and their workers. The latest negotiating text on non-agricultural market access, which nearly produced an agreement in June 2008, will injure U.S. industry through drastic, non-reciprocal tariff cuts and numerous provisions granting "special and differential" treatment for developing countries including China. In short, the United States will once again be required to make significant market-opening concessions while the vast majority of our WTO trading partners will be allowed to keep their markets insulated from our exports.

Recommendation: U.S. negotiators should communicate that the United States only will provide increased access to the U.S. market on the condition that there is full reciprocity on the part of other WTO members. Furthermore, USTR should strive to eliminate the ability of WTO countries to self-designate their development status. This practice undermines the integrity and functionality of the WTO by allowing countries such as China and India to claim special concessions as developing countries even though they dominate global markets in many key product sectors.

WTO Environmental Goods Agreement

USTR notified Congress in March 2014 of the Obama administration's intent to negotiate a new trade agreement on environmental goods under the auspices of the WTO. Termed the Environmental Goods Agreement (EGA), the stated goal of the negotiations is to reach agreement on eliminating tariffs and non-tariff barriers on a wide range of environmental goods and services such as wind turbines, water treatment filters, catalytic converters, and solar technologies. Global trade in environmental goods is estimated to total nearly $1 trillion annually.

While eighteen individual countries including the United States have been directly involved in the negotiations, the stated intention is for duty-free treatment ultimately to be extended to all WTO members. Eighteen rounds of EGA negotiations have taken place to date; however, the talks stalled in December 2016 due to China's unwillingness to provide reciprocal access.

During the product nomination stage, hundreds of products were put forward, including more than 70 textile-related products. Examples include aramids and polyester staple fibers, a large number of man-made filament yarns, felts, coated and laminated fabrics, knit garments, and flags and other made up articles in Chapter 63. The vast majority of the textile products proposed for inclusion have no environmental linkage and some of those that do are highly import sensitive, such as certain filtration fabrics.

After examining product requests for duty-free treatment, it is clear that a number of countries have been misusing this process in an attempt to gain unwarranted, additional U.S. market access. NCTO has provided detailed input to USTR, the Commerce Department and the U.S. International Trade Commission in terms of identifying product sensitivities and flagging product descriptions that would not be enforceable such as recycled yarns.

Recommendation: Should the EGA talks continue, it is critical that U.S. negotiators ensure that the agreement does not disadvantage U.S. textile manufacturers and should insist on the complete dismissal of sensitive textile products from the agreement.

Public Comments of the U.S. Textile Industry Regarding Docket DOC 2017-0003, Administration Report on Significant Trade Deficits

May 10, 2017

These comments are provided on behalf of the National Council of Textile Organizations (NCTO), American Fiber Manufacturers Association (AFMA), Narrow Fabrics Institute (NFI), and United States Industrial Fabrics Institute (USIFI) in response to the Federal Register request for public comments found at 82 FR 16721 and dated April 5, 2017 (DOC 2017-0003).

Prior to detailing our specific positioning, we are providing basic background information on our respective trade associations and the U.S. textile industry at large.

The **National Council of Textile Organizations (NCTO)** is a not-for-profit trade association established to represent the entire spectrum of the United States textile sector, from fibers to yarns to fabrics to finished products, as well as suppliers of textile machinery, chemicals and other such sectors, which have a stake in the prosperity and survival of the U.S. textile sector. U.S. textile and apparel manufacturers produced $74.4 billion in output in 2016, and our sector's supply chain employs 565,000 workers from fiber to finished sewn products. NCTO's headquarters are in Washington, DC. www.ncto.org

The **American Fiber Manufacturers Association, Inc. (AFMA)** is the trade association for U.S. companies that manufacture synthetic and cellulosic fibers. The industry employs 27,000 people and produces over 6 billion pounds of fiber in the U.S. Annual domestic sales exceed $8 billion. The membership is limited to U.S. producers that sell manufactured fiber in the open market and firms with a significant commercial relationship to the sector. The Association maintains close ties to other manufactured fiber trade associations worldwide. AFMA's headquarters are in Arlington, VA. www.fibersource.com

The **Narrow Fabrics Institute (NFI)** is a division of the Industrial Fabrics Association International (IFAI) whose mission is to work on common interests and issues in the narrow fabrics industry. Narrow fabrics are defined as textiles that are no more than 12 inches (300mm) in width and are made by weaving, knitting or braiding fibers or yarns with an edge to prevent unraveling. The primary product areas of NFI's 57 member companies include automotive, military, safety, transportation, medical, and other (aerospace, industrial, pet, recreational, electronics). The North America market is estimated at over $335 million in annual sales. http://narrowfabrics.ifai.com/

The **United States Industrial Fabrics Institute (USIFI)** is a division of the Industrial Fabrics Association International (IFAI). Member companies manufacture highly-specialized textile products, advanced materials, and components used to support a variety of high-value-added and sophisticated industries. These include the aerospace, automotive, construction, marine, medical, military and safety/protective gear sectors among others. USIFI currently has 75 member companies, and its headquarters are in Roseville, MN. http://usindustrialfabrics.ifai.com/

Overview of the U.S. Textile Industry and Key Statistics

The U.S. textile industry, its domestic suppliers, and customers are comprised of the following: yarn and fabric manufacturers, suppliers in the cotton, wool, and man-made fiber sectors, dyers, printers, and finishers, the machinery and textile chemical industries, and our customers in the U.S. apparel industry.

The U.S. textile industry, suppliers, and our customers are an important component of the U.S. economy and are found in every region of the country. The industry provides much-needed jobs in rural areas and has functioned as a springboard for workers out of poverty into good-paying jobs for generations.

The industry is also a key contributor to our national defense and supplies over 8,000 products a year to our men and women in uniform. Finally, the industry is a driving force in high-tech innovation. Textile products are now major components in everything from heart valves and stents to aircraft bodies and advanced body armor.

U.S. Textile Industry Key Facts

- The U.S. textile industry supply chain - from fibers to apparel and other sewn products - employed 565,000 workers in 2016. One textile job supports three other jobs.
- The U.S. is the fourth largest exporter of textile-related products in the world. Fiber, textile, and apparel exports combined were $26.3 billion in 2016.
- The U.S. textile industry exported to more than 200 countries, with 26 countries importing $100 million or more.
- Domestically, the U.S. textile industry invested $17.9 billion in new plants and equipment from 2006 to 2015.
- U.S. textile mills have increased productivity by 52% since 2000.
- The United States is the world leader in textile research and development, producing advanced materials with technical, medical, military, aerospace, athletic, and myriad other applications.

Impact of Unfair Foreign Trade Practices on U.S. Trade Deficit in Textiles and Apparel

U.S. textile manufacturers accomplish all the above on one of the most unbalanced economic playing fields of any industrial manufacturing segment. As such, our coalition of textile trade associations welcomes the opportunity to provide input to inform the report on significant trade deficits per Executive Order 13786 dated March 31, 2017. We have long called for a review of U.S. textile trade policy and the negative ramifications for U.S. prosperity of the aggressive predatory practices of many of our foreign competitors and the often less than reciprocal market access for our products abroad.

The United States is the largest single-country importer of textile and apparel products in the world. In 2016, the U.S. imported over $117 billion worth of textile and apparel products, following a record

$124 million in imports in 2015. Much of these imports enter the U.S. duty free under our numerous free trade agreements and duty preference programs.

Of the twelve countries identified in the Federal Register Notice, the U.S. had a deficit in 2016 with all except for Mexico and Canada. The top five contributors to the deficit in textiles and apparel are listed below and largely overlap with the Executive Order with the addition of Bangladesh. Notably, all are low-cost Asian producers with China alone accounting for almost half of the trade deficit in our sector. Furthermore, textiles and apparel are second only to electronics in terms of their annual contribution to the U.S. trade deficit according to the U.S. International Trade Commission.

Top 5 Contributors to U.S. Trade Deficit in Textile & Apparel (Billion $) (2016)		
Country	**Trade Balance**	**% of Total**
China	-$43.9	46%
Vietnam	-$11.5	12%
India	-$7.6	8%
Bangladesh	-$5.5	6%
Indonesia	-$4.9	5%
World	-$95.0	

Source: U.S. Dept. of Commerce, Office of Textiles and Apparel (OTEXA), Interactive Trade Balance Report

U.S. Merchandise Trade balance by Major Industry/ Commodity Sectors (Billion $) (2015)	
Agricultural products	$9.7
Forest products	-$3.2
Chemicals and related products	-$32.4
Energy-related products	-$82.7
Textiles and apparel	-$103.4
Footwear	-$26.2
Minerals and metals	-$53.2
Machinery	-$47.0
Transportation equipment	-$99.2
Electronic products	-$185.0
Miscellaneous manufactures	-$77.4
Special provisions	-$37.1
Total	-$737.1

Source: Shifts in U.S. Merchandise Trade, 2015, Investigation No. 332-345, USITC Publication 4641 (September 2016)
https://www.usitc.gov/research_and_analysis/trade_shifts_2015/us.htm

Clearly the United States has offered incredibly generous access to the its textile and apparel market, while failing to secure reciprocal export opportunities with a number of the countries that have been main drivers for the U.S. textile trade deficit. While the U.S. textile sector supports initiatives to open export markets, we are also convinced that too little focus has been placed on eliminating predatory trade practices that make it virtually impossible to ship to certain overseas markets, even when those markets are technically open to U.S. exports.

A confluence of major economic developments and various U.S. policy initiatives drove the massive expansion of foreign penetration into the U.S. textile and apparel market that began in the late 1990s and extended through the recession. Listed below are the overlapping circumstances behind the surge in U.S. textile and apparel trade deficits over this time.

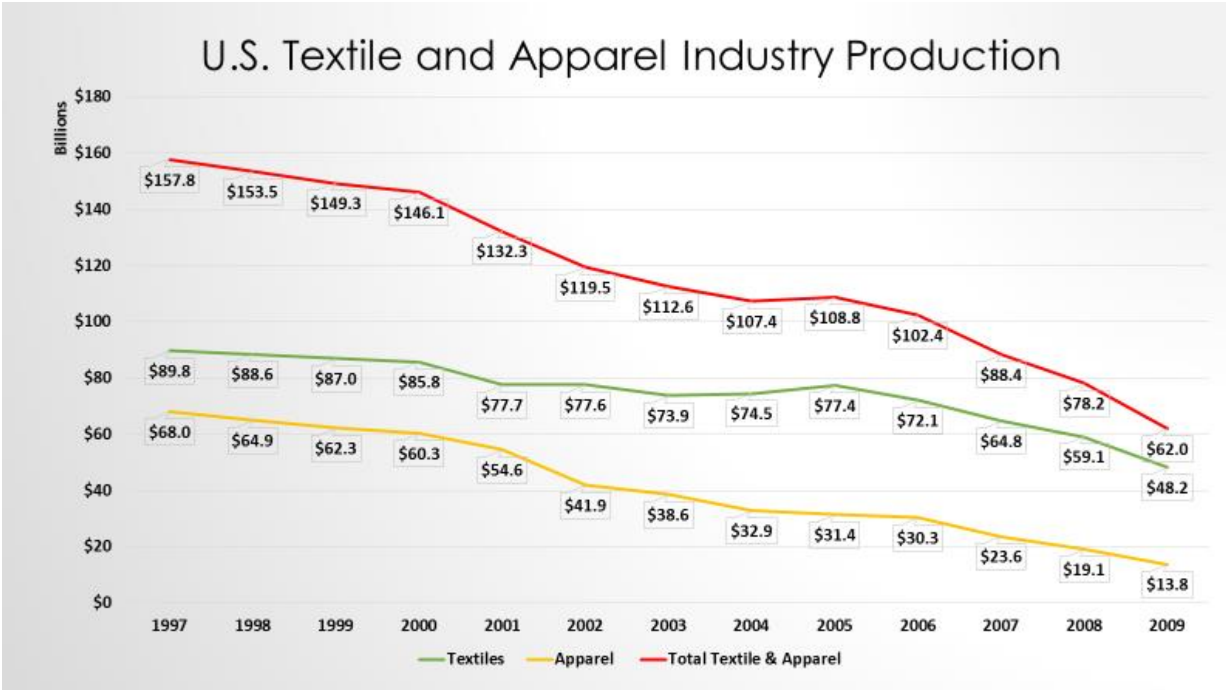
Macroeconomic Factors:

- July 1997 – Asian Financial Crisis
- Asian currency collapse
- GDP of ASEAN fell by $218 billion in 1998 (U.S. Dollars)
- Currency depreciation from June 1997 to July 1998:
    - Thai baht: 40%
    - Indonesian rupiah: 83%
    - Philippine peso: 37%
    - Malaysian ringgit: 39%
    - South Korean won: 34%
- Persistent currency undervaluation from major players like China
- 2008 – 2009 – Global financial crisis enters acute phase

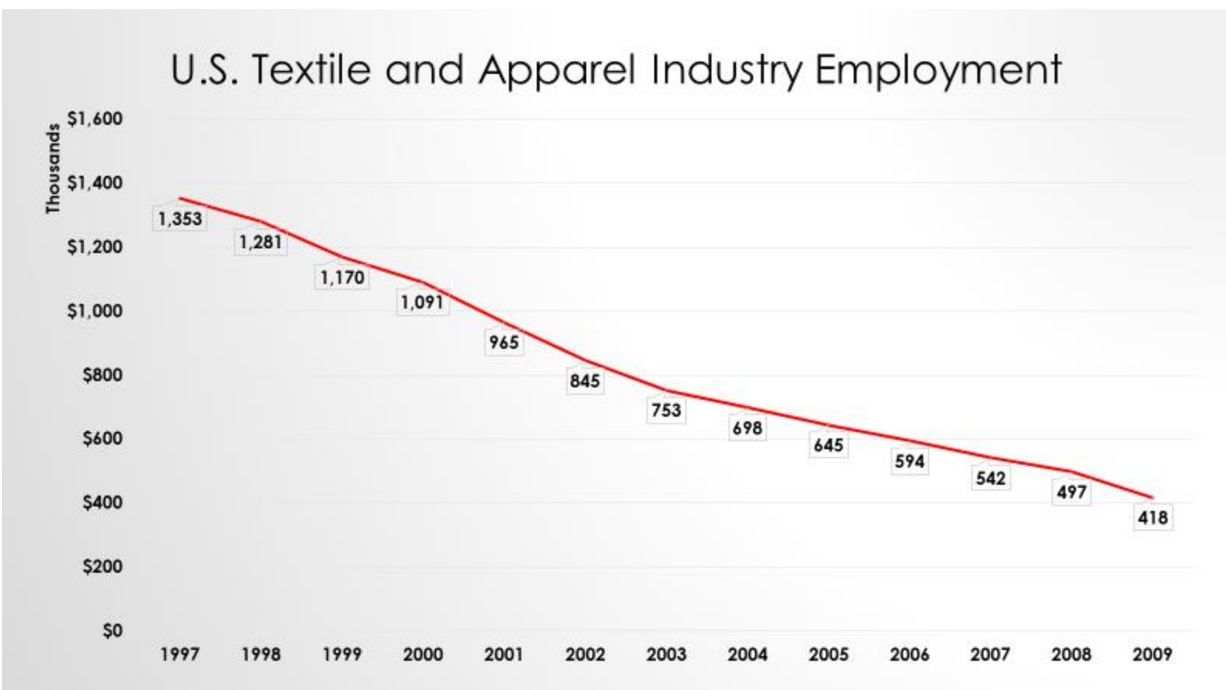
Policy Factors included:

- January 1995 – MFA Quota phase-outs begin
- December 2001 – China joins the WTO
- December 2001 – Vietnam is granted temporary normal trade relations status with the U.S.
- January 2005 – Quota phase-outs completed
- January 2007 – Congress approves Permanent Normal Trade Relations (PNTR) for Vietnam
- 1995 – Present – Liberalization of the U.S. market through free trade agreements with 20 countries to date

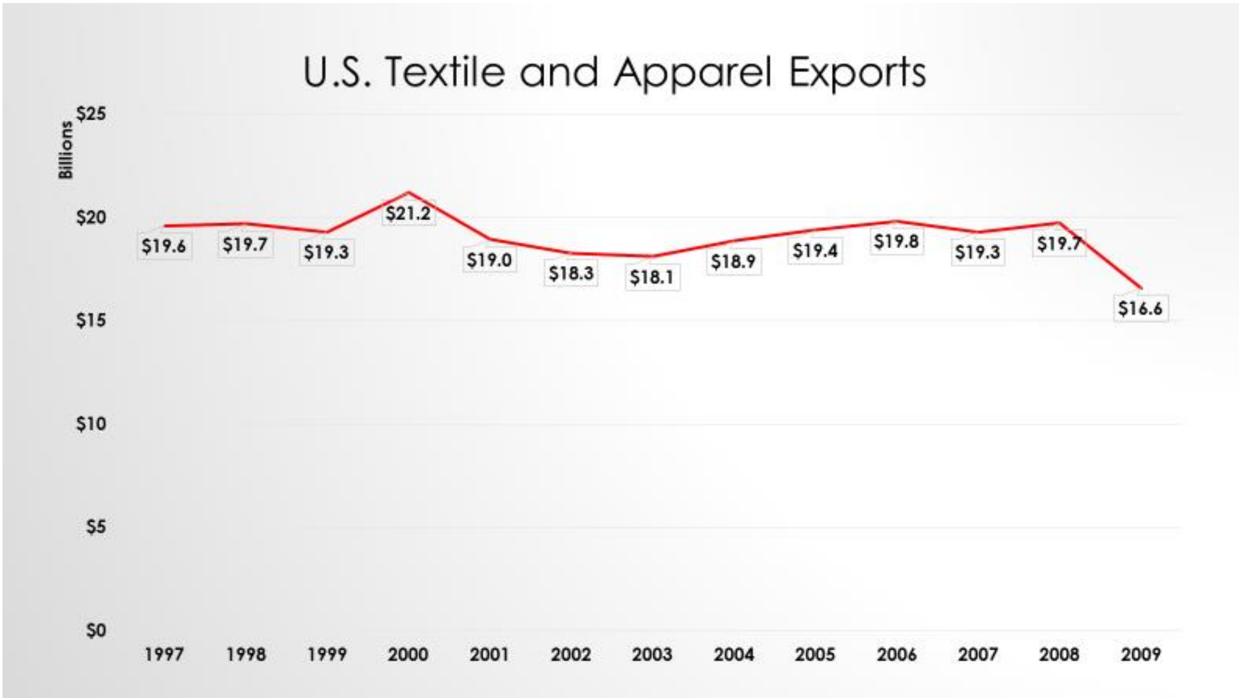
We are supplying a series of charts to show the impact of these macroeconomic and policy factors on the industry in the 1997-2009 timeframe, a period during which U.S. textile and apparel production declined by 61 percent, employment decreased by a staggering 69 percent, exports fell by 15 percent, and the trade deficit increased by 82 percent. This devastating downturn took place even as U.S. consumption of textile and apparel goods was expanding, with the U.S. population growing by nearly 12 percent and GDP up by almost 30 percent over the same time span.



Note: Above output data does not include natural and man-made fiber production
Source: U.S. Census Bureau; Manufacturers' Shipments, Inventories, and Orders; Not Seasonally Adjusted Value of Shipments for Textiles Mills (313), Textile Products (314), and Apparel (315)



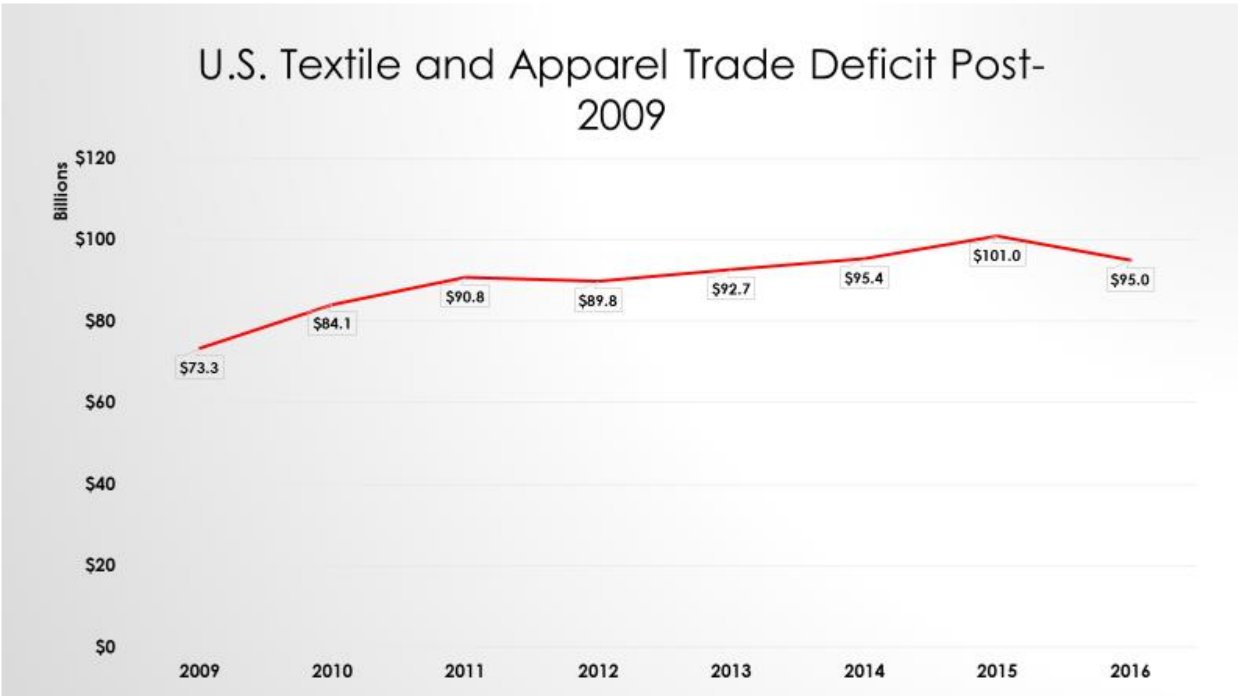
Note: Above employment data does not include natural and man-made fiber production workers
Source: Bureau of Labor Statistics; Current Employment Statistics Survey; Not Seasonally Adjusted Total Employment for Textile Mills (313), Textile Product Mills (314) and Apparel (315);



Source: U.S. Dept. of Commerce, Office of Textiles and Apparel, Export Market Report

Source: U.S. Dept. of Commerce, Office of Textiles and Apparel, Trade Balance Report

Since this period of precipitous declines, the industry has stabilized and in fact made a significant recovery. Since 2009, domestic textile and apparel output has increased by 11 percent to a total of $74.4 billion last year. As noted earlier, textile and apparel exports have steadily increased and 2016 was a near record year at $26.3 billion. The recovery is due to the industry's strong focus on product innovation, its adoption of highly technical production processes, and its commitment to remaining the global leader in product quality. However, due to the extreme predatory trade practices that plague our industry sector, the U.S. trade deficit for textiles and apparel continues to expand, as demonstrated by the chart below.



Source: U.S. Dept. of Commerce, Office of Textiles and Apparel, Trade Balance Report

As the 30 percent increase in the trade deficit since 2009 indicates, the U.S. industry continues to be undermined by our competitors in the global textile and apparel supply chain — namely Asian countries that often grant limited access to their own markets — that continue use every unfair advantage available to them to grab market share at the expense of U.S. manufacturing jobs. Their means include exploitative labor practices, government-subsidized production, state-owned enterprises, currency manipulation, intellectual property theft, lax or non-existent environmental standards, and many more.

Highlighting the stark contrast between American textile manufacturing and that of many of our global competitors, it is worth recalling the April 2013 Rana Plaza disaster in Bangladesh, when an eight-story commercial building that housed garment production for numerous apparel brands collapsed, killing over 1,100 people and injuring approximately 2,500 more. According to reports, the disaster occurred a day after engineers called for the structure to be evacuated, yet garment workers were ordered to return to work without regard to their safety.[1] Follow-up investigations indicated that a large portion of the output from that factory was destined for the U.S. market.[2]

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[1] http://www.latimes.com/world/asia/la-fg-bangladesh-factory-charges-20150601-story.html

[2] http://www.newsweek.com/year-after-bangladeshs-deadly-factory-collapse-western-companies-slow-248506

Further, the U.S. Department of Labor's *List of Goods Produced by Child Labor or Forced Labor* released in September 2016 cited textiles from Bangladesh, Cambodia, China, Ethiopia, India, Nepal, North Korea, and Vietnam.[3]

In addition to labor abuses, producers in these same countries routinely pollute the air and water with impunity. For example, in Xintang, China, where one in three pairs of jeans sold globally is made, the dust in the streets is blue, the water in the rivers is indigo, and the workers' lungs are embedded with fine silica according to reports.[4] Similar reports from Bangladesh, Cambodia, India, Indonesia, and others abound.[5,6]

As is evident, unethical cost reduction practices and predatory trade activities plague global textile and apparel production and markets. It is no coincidence that these types of activities are pervasive in the very countries that fueled the nearly $100 billion U.S. textile and apparel trade deficit in 2016.

Recommendations to Tackle the Trade Deficit and Spur Growth

Our coalition of domestic textile manufacturers recommends the following specific actions to tackle the U.S. trade deficit and spur growth in U.S. textile and apparel jobs and output:

Eliminate Unnecessary Exceptions in FTAs

The United States has free trade agreements currently in place with 20 countries, and 18 are based on a yarn-forward rule of origin for textile and apparel trade. Yarn forward goes back to NAFTA and is the accepted rule of origin for the industry because it reserves the benefits for the agreement signatories and aids in customs enforcement versus a value-added rule. Although most U.S. FTAs are built on yarn forward as the basic structure, exceptions to yarn forward exist in many agreements as well. Exceptions are a gift to non-contracting parties, namely China, by allowing yarns and fabrics to come from outside the FTA region and the downstream product still be considered an originating product for duty benefits.

For example, NAFTA contains an extensive tariff preference level regime that allows non-originating textile and apparel goods to qualify for duty benefits up to certain annual quantity limits. Canada and Mexico are permitted to ship up to a combined 133 million square meter equivalents of cotton and man-made apparel annually to the U.S. duty free. There are additional TPLs for wool apparel, cotton and man-made fiber fabrics, and cotton and man-made fiber yarns.

These are unnecessary and significant exceptions that shift business away from U.S. and NAFTA region producers and grant lucrative benefits to non-NAFTA parties, such as China. Unnecessary exceptions to the yarn-forward rule of origin are prime candidates for renegotiation in any effort to modernize

[3] https://www.dol.gov/ilab/reports/child-labor/list-of-goods/
[4] https://www.linkedin.com/pulse/true-denim-capital-world-disgrace-industry-we-should-act-ayompe?trk=v-feed
[5] http://www.newsweek.com/2015/08/21/environmental-crisis-your-closet-362409.html
[6] https://undark.org/article/indonesia-textiles-citarum-river-pollution/

NAFTA, and their elimination should establish a template that could be extended to other existing FTAs.

Expand and Improve Buy-American Programs

President Trump campaigned on the pledge to use more American-sourced material in large government sponsored products by pledging to "buy American and hire American." Reasonable buy-American laws strengthen the domestic manufacturing base, create good-paying jobs, and provide value and high-quality products to the American taxpayer.

We support reasonable buy-American rules as part of any new national infrastructure projects to take advantage of quality American-made products wherever possible. The United States should also strengthen current programs and expand buy-American procurement rules to other federal agencies.

Prioritize Customs Enforcement

Over the past 30 years, there has been a systematic deemphasis in terms of commercial fraud enforcement at U.S. Customs and Border Protection (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. Common methods of duty evasion include misclassification (false product identification), transshipment (false country-of-origin identification), and undervaluation, all of which often go unrecognized and result in unintended access in import-sensitive product categories.

Our sector is especially prone to illegal customs activity, noting that the United Sates collects approximately $14 billion a year in textile and apparel duties, representing 40 percent of all duties collected. Further, over 20 percent of all U.S. importers import textiles and apparel.[7] There should be a special textile customs taskforce to identify and address fraudulent activity in this sector.

We strongly encourage the Trump administration to adopt a mentality that places a proper emphasis on customs enforcement and to tangibly demonstrate that new approach by increasing resources at CBP to adequately enforce our trade laws and duty assessments. Further, because the cost of duty evasions to the U.S. Treasury likely runs in the millions, if not hundreds of millions of dollars or more, this program would be self-funding and likely run a large surplus.

Tackle Currency Manipulation

We agreed with President Trump's statements during the campaign that there is excessive currency manipulation and strongly support the designation of countries such as China and Vietnam as illegal currency manipulators. Long after the Asian currency crisis documented above, nonmarket economies continued to suppress the value of their currencies throughout the decade of the 2000s. This illegal

[7] https://www.cbp.gov/sites/default/files/assets/documents/2016-Dec/FY%202016%20-%20Textiles_PTI%20Brochure.pdf

currency manipulation allowed China and Vietnam to artificially lower export prices and unfairly consume large segments of the U.S. textile and apparel market.

Although the U.S. Treasury Department has repeatedly found that China's yuan is significantly undervalued and kept it on a currency "monitoring list," no administration has named any country as a currency manipulator since citing China in 1994. If the U.S. Treasury were to designate China as a currency manipulator, this would trigger bilateral consultations on exchange rate policy — the first step in taking any direct action.

Enact Comprehensive Tax Reform

Our coalition strongly supports efforts to reduce the corporate tax rate and permit the immediate deduction of capital investments to improve manufacturing competitiveness. Furthermore, we recognize that there is an inequity stemming from the differences between the U.S. tax code and foreign VAT systems that undercuts U.S. manufacturers' competitiveness both at home and abroad. This can be seen in the fact that even with countries like the European Union member states, where the cost of production is roughly on par with the United States, we still run a trade deficit.

Address Regulatory Burdens

Regulations that unnecessarily increase the cost of U.S. manufacturing should be reviewed and eliminated. We applaud the president's early steps to bring federal regulations in line with the reality of today's global marketplace in an effort to help make domestic manufacturing more globally competitive.

In conclusion, a historical review demonstrates that the domestic textile industry has suffered as much as any single sector as the U.S. trade deficit has exponentially ballooned in recent decades. For that reason, we ask that the various remedies outlined above be given every consideration to finally establish a reasonable and fair environment within the global textile marketplace.

Further, while some of the factors that have driven these deficits have been beyond the U.S. government's control, overly aggressive U.S. trade policies combined with a failure to adequately enforce existing trade statutes have certainly been major contributors to the problem. As a result, the U.S. textile industry strongly supports the Administration's desire to investigate the causes of our nation's trade deficit and respectfully requests that the Administration take steps as soon as feasible to address the root issues associated with this persistent and severely damaging problem.