NATIONAL COUNCIL OF TEXTILE ORGANIZATIONS | AMERICAN TEXTILES WE MAKE AMAZING

PRESS STATEMENT

Independent Study Highlights Benefits of U.S.-CAFTA-DR Agreement and Devastating Impact of Weakening Agreement's Rules

January 26, 2022

WASHINGTON—The National Council of Textile Organizations (NCTO), representing the full spectrum of U.S. textiles from fiber through finished products, issued a statement today on the release of an independent study examining the valuable economic and societal impact of the U.S.-Dominican Republic-Central America Free Trade Agreement (CAFTA-DR), and the significant adverse impact of proposals aimed at weakening the agreement's rules of origin.

The economic study conducted by Werner International highlights the importance of maintaining the current rules of origin in the agreement, which supports more than **one million jobs** in the U.S. and the region and **$12.5 billion in two-way trade** and has fostered significant and impactful investments in manufacturing and apparel production. The study also finds various proposals aimed at weakening the agreement's carefully negotiated and longstanding textile rules of origin would severely harm the region and U.S. and result in massive job, investment, and export losses.

"The Werner report comes at a pivotal time, as the global supply chain crisis and concerns over forced labor in Xinjiang have sparked a shift in sourcing out of Asia and a renewed focus on nearshoring and onshoring jobs back to the Americas. As outlined in this report, the U.S-CAFTA-DR agreement is a critically important and deeply economically impactful agreement that has fostered a co-production chain for textiles and apparel supporting over one million jobs in the region and the U.S," **said NCTO President and CEO Kim Glas.** "This is due to a key element of the agreement called the 'yarn forward rule of origin,' a unique investment-based rule that ties lucrative duty-free access to the U.S. market to investment in yarn, fabric, and cut-and-sew production in the region and the U.S."

Glas added, "We appreciate the broad bipartisan support, including from the administration, for maintaining the essential yarn forward rule of origin and ensuring those rules are not eroded through harmful changes. This common support for preserving the provision is vital to the bipartisan efforts focused on ushering in a new era of American manufacturing prowess and economic prosperity. Conversely, the report found that weakening the rules by adding 'flexibilities' such as cumulation and short supply changes would exacerbate the migration crisis by devastating our industries and further tether us to our counterparts in Asia, including China."

Jan Urlings, Vice Chairman of Werner International, stated, "In our examination of the economic and societal impact of the U.S.-CAFTA-DR agreement, we found the current benefits of the agreement support a strong and vertically integrated co-production chain that has contributed significantly to investment and economic stability in the region and the United States. A major aspect of our report examined how various proposals aimed at weakening the rules of origin would impact the region and the U.S. The data overwhelmingly demonstrates that the current co-production chain would be undermined by subsidized

Asian/Chinese fabrics and yarns whether directly or indirectly through a third party, would devastate direct and indirect textile employment and investment in the U.S., the region and the entire Western Hemisphere. It would also exacerbate enforcement issues associated with Xinjiang cotton produced with forced labor."

The study goes on to find that if brands and retailers made a commitment to double exports from CAFTA-DR to the U.S under the current rules, it would result in an additional 180,000 U.S. textile jobs, 2.17 million new jobs in the CAFTA-DR region, and conservatively $6 billion in new investments in the U.S. and region.

Rep. Bill Pascrell (D-NJ), Textile Caucus Co-Chair, stated, "Imports from China and other countries that use forced labor and other predatory trade practices have crippled our manufacturing industries and destroyed millions of U.S. jobs. The manufacturing of cotton products and other goods from Xinjiang have tainted our supply chains and helped perpetuate the Chinese Communist Party's continued human rights atrocities. As global supply chains are recalibrating to nearshore and onshore textile and apparel production chains under the rules of origin in our Hemispheric trade agreements, we must strongly reject efforts to erode those essential rules that support textile and apparel jobs in the U.S. We must not allow China backdoor access to these critical markets, which will further hurt our own industries and reward China and other countries with direct and indirect preferential tariff access."

Rep. Patrick McHenry (R-NC), Textile Caucus Co-Chair, stated, "The global supply chain crisis triggered by the coronavirus pandemic has exposed our severe overreliance on China. This report showcases that onshoring and nearshoring of this critical production chain is critical for the U.S. textile industry and workers in the CAFTA-DR region. The US-CAFTA-DR trade agreement has spurred hundreds of millions of dollars of investment because of the strong rules of origin that support this co-production chain. Any erosion of these rules would harm American producers and exacerbate the immigration crisis. As supply chains are pivoting, we must seize on the opportunity for growth in good paying jobs in both the U.S. and the region and end our overreliance on China."

Key Findings from Werner report:

I. Adverse consequences to adding flexibilities to/weakening the yarn forward rule:

- **Destroys U.S. and Western Hemisphere textile employment,** with a total projected loss of more than 307,000 U.S. textile and cotton farming jobs and a loss of 250,000 jobs in Central America's primary textile industry.
- **Devastates U.S. cotton farmers**, currently employing 115,000 people in 18 states. Projected sales drop of 30% for U.S. and Western Hemisphere cotton growers.
- **Provides direct and indirect backdoor access to Chinese textile inputs,** further perpetuating Xinjiang forced labor.
- **Chills future investment and destabilizes current investment in region**. Over $1 billion in capital investments have been made in CAFTA-DR countries since 2005, which have helped create a vertical regional production chain. Weakened rules place major future and long-term U.S. investments at risk.
- **Severely undermines defense procurement under the Berry Amendment and the domestic warm industrial base supplying mission critical items to U.S. armed forces.** More than two-thirds of the U.S. textile and apparel industry would be wiped out, destabilizing the domestic textile military industrial base and its ability to meet surge production in times of military mobilization.

- **Cripples efforts to construct a viable domestic/nearshoring supply chain for personal protective equipment (PPE).**
- **Exacerbates the flow of immigration**, undermining the administration's intended goal of spurring economic development in the region to address the root causes of outward migration.
- **Exponentially increases greenhouse carbon emissions** through transpacific shipping and Asian coal-fired energy.

II. Proactive steps to help improve the competitive position of CAFTA-DR region:

- **Better coordination among lending agencies of the federal government,** such as the U.S. Agency for International Development, Inter-American Development Bank, and Export-Import Bank, to ensure targeted, strategic investment in this sector and competitive low or zero interest financing and loan guarantees.
- **Support for a comprehensive infrastructure plan with targeted, high-impact investments** and competitive loans to upgrade regional power grids, roads, and local ports would pay immediate dividends.
- **Provide incentives to the Western Hemisphere co-production chain for carbon emission reductions and sustainable products.**
- **Ensure trade stability** in the region by maintaining maximum pressure on China, including enforcing the U.S. ban on cotton and cotton products made with forced labor in Xinjiang.
- **Refrain from changing cumulation and short supply process**, which would lead to a surge of third-country yarns and fabrics and displace hundreds of thousands of jobs in the region and U.S.
- **Oppose granting duty-free access and other benefits through an expansion of the Generalized System of Preferences (GSP)** program to apparel and textiles and negotiating free trade agreements with major Asian suppliers.
- **Close the de minimis loophole** for imports from China that allow goods valued at $800 or less to enter duty free if imported by one person on one day.

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