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COMMON MYTHS

ABOUT THE TRANS-PACIFIC PARTNERSHIP AND THE YARN FORWARD RULE OF ORIGIN

U.S. FREE TRADE AGREEMENTS AND THE YARN FORWARD RULE

Myth: *The textile and apparel sector has always been treated as a separate chapter under U.S. free trade agreements.*

Fact: The Panama, Israel, and Jordan FTA contain no separate textile and apparel chapters. Further, the concept of a separate textile chapter was introduced to trade agreements during a time when U.S. textile and apparel trade was highly regulated and dependent on a quota system. Since the end of 2008, textiles and apparel have been fully integrated into the global trading system, with no special rules or protections. The regulatory system that led to the need for a separate chapter for textiles and apparel no longer exists today. The World Trade Organization reflects this change and there no longer is a separate textile and apparel agreement, or even a separate chapter, in the Doha Round negotiations.

Myth: *The yarn-forward rule of origin is the accepted rule for the industry.*

Fact: The yarn-forward rule is advocated only by portions of the U.S. textile industry. The National Textile Association, for example, regularly advocates for less restrictive fabric-forward rule of origin provisions. INDA, the association representing Non-Woven textile companies does not support a yarn-forward approach either. Apparel and travel goods companies regularly ask for simplified and more flexible rules of origin than yarn-forward. Negotiating partners, in both the TPP and in other contexts, often advocate for different approaches that create more flexibility and more opportunity to grow trade and investment.

Myth: *The yarn-forward rule is incorporated into all U.S. free trade agreements dating back to NAFTA.*

Fact: No two yarn forward rules in U.S. FTAs are alike. The Jordan FTA, negotiated more than 5 years after NAFTA, does not contain yarn forward rules of origin. Moreover, just about every FTA negotiated after NAFTA contain alternative rules of origin and significant exemptions to the yarn forward rule of origin.

Myth: *A non-yarn forward rule in the TPP would damage the competitiveness of existing agreements and destroys U.S. export markets.*

Fact: U.S. export markets for textiles and apparel exist around the world. Flexible rules in a TPP will encourage the development of growing U.S. export markets in Asia and Latin America. The TPP Apparel Coalition supports broad cumulation to create business opportunities for partnership with existing free trade agreement partners, as their inputs, some of which contain U.S. content, will be able to be used under the TPP.

Myth: *Yarn-forward is the most logical rule because it reserves the benefits for the signatories to the agreement.*

Fact: Because it very narrowly restricts the ability to source inputs from only those produced by parties of an agreement, and because it creates an enormous administrative burden for companies to prove they comply, a yarn-forward style rule actually creates incentives for companies to avoid using Free Trade Agreements (FTAs) or preferential arrangements that contain such restrictions. Instead successful companies build trade and investment relationships outside the agreements, relationships that are based on the realities of today's global supply chain, and simply pay the duties. The garment industry depends on a constantly evolving global value chain, with inputs coming from ever changing sources from all over the world. Companies have great difficulty creating fashionable and affordable garments when they are forced to rely on a narrow list of acceptable countries for inputs year in and year out for all styles. Moreover, because yarn-forward is an "all or nothing" approach, it creates disincentives for the use of U.S. inputs because those inputs rarely line up with other textile inputs in an FTA. For example the yarn forward rule of origin would mean that suits sewn and tailored in the U.S. using Italian fabric could not qualify for duty-free sales to TPP countries.

Myth: *Yarn forward is a logical rule because the vast majority of the value of a finished textile or apparel product comes from its components rather than final assembly.*

Fact: In general, only about 25 percent of the retail value of a garment comes from the value of the materials and the direct manufacturing processes. In contrast, on average, 75 percent of the value of the garment is attributed to research and development, design, compliance, marketing, merchandising, and retailing. Not only are such functions critical to the end product, but almost all of these high-paying jobs occur in the United States. Yarn forward does not promote or sustain these jobs or value-additions. Moreover, the amount of value-added in a garment from material components is no different than other consumer goods, and in some cases is even less. For example, a University of California, Irvine study shows that material inputs account for 31 percent of the value of an iPad.

Myth: *A weak textile text could lead to an increase in the U.S. trade deficit and cause the loss of significant textile and apparel jobs in the United States.*

Fact: More than 3 million Americans are employed in the United States in the design, production, distribution, and sale of clothing today. Their jobs depend on the ability of U.S. apparel and retail companies to make efficient use of global supply chains to create garments that can sell. Restrictive and onerous rules, such as those found in a yarn-forward approach, create costs and burdens that limit the ability of U.S. companies to bring affordable and fashionable clothing to market. New markets created by a robust and commercially meaningful TPP will create opportunities for those companies, as well as their U.S. textile suppliers, to maintain and grow well-paying U.S. jobs.

Myth: *Textile and Apparel Trade Grows Under a Yarn Forward Rule*

Fact: Yarn-forward creates a very high hurdle to be overcome in order to export or import textiles and apparel. In the case of apparel, yarn-forward limits the availability of inputs to just a few countries or producers, driving up costs (by creating artificial monopolies) and strangling the ability of apparel companies to respond to ever changing fashions. Documentation requirements that accompany yarn forward – each input must be tracked to each final garment – impose additional burdens, costs, and liabilities. Textile exporters lose under yarn forward because it discourages the development of a robust apparel industry – i.e., it scares away customers. Moreover, because yarn-forward is an “all or nothing” approach, requiring all inputs to be produced in the region or nothing qualifies, there is less incentive for companies to invest in new apparel production since they cannot guarantee the availability of FTA-qualifying inputs. Individual exporters are disincentivized because their products will be useful in a final product only if combined with other qualifying inputs. Finally, despite the proliferation of FTAs containing yarn forward rules, the percent of apparel imports that are entered pursuant to FTAs (and other preference programs) is declining.

Myth: *CAFTA-DR is a Yarn-Forward Success Story.*

Fact: Yarn forward has had a mixed record in CAFTA-DR. From 2007 to 2010, U.S. apparel imports from the CAFTA-DR region dropped by 9.35 percent. It is also important to note that some of these imports reflect rules of origin that are NOT yarn forward, such as the Nicaragua Tariff Preference Level (TPL) or the CAFTA single transformation provisions. Although U.S. exports of yarns and fabrics to CAFTA have increased slightly during that period, that increase is a fraction of the growth of U.S. textile exports to other regions. While, U.S. yarn exports to the CAFTA-DR region have seen significant growth during this period, it has come almost entirely at the expense of U.S. fabric exports to the CAFTA-DR region, which have dropped by more than half a billion U.S. dollars during that time. The healthiest growth in U.S. fabric exports is to Nicaragua because the U.S. fabrics can be cost-averaged with non-CAFTA fabrics using the TPL.

Myth: *A Yarn-Forward rule is necessary to grow U.S. textile exports.*

Fact: The fastest growing significant market of U.S. textiles over the last five years hasn't been CAFTA-DR, Peru, Colombia, Chile, Singapore or Australia. The fastest growing significant market for U.S. textile exports has been China, where U.S. exports of yarn and fabric have almost doubled over the last five years. In fact, for the year ending July 2011, China bought 8.6% of all exports U.S. yarns and fabrics, or over \$1.1 billion. As a result, China is now the 2nd largest market for U.S. yarns and the 3rd largest market for U.S. fabrics. There are no yarn forward rules governing U.S.-China textile and apparel export trade.