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COMMON MYTHS

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

YARN FORWARD AND THE TPP

Myth: *Yarn forward will lead to trade and investment in TPP member countries*

Fact: A yarn forward rule, particularly the restrictive version proposed by the United States, appears designed to discourage trade and investment in the textile and apparel sector, as the history of prior FTAs subject to this rule demonstrates. There is no evidence to support the conclusion that the yarn-forward rule would work any differently under the TPP. While some vertical supply chains may be able to use yarn forward in limited circumstances, taking advantage of narrow product lines that use dedicated suppliers, the vast majority of companies will find the rules too burdensome and restrictive. The experience to date is that trade flows away from yarn forward FTAs, rather than to them. The four FTA partners that the U.S. already has in the TPP region have experienced trade and investment declines. The only growth that has occurred has centered on either flexibilities built into the agreements (such as tariff preference levels) or narrow vertical supply chains for specialized garments and textile inputs. Likewise, the CAFTA-DR has witnessed stagnation under its yarn forward rules except when it has been able to complement yarn forward with the numerous flexibilities built into that agreement.

Myth: *A TPP yarn forward rule of origin will prevent further consolidation of the industry towards China.*

Fact: U.S. apparel brand and retailers maintain balanced sourcing strategies. China currently is the largest supplier of apparel to the U.S. market, supplying 40 percent of these imports. A flexible rule of origin in the TPP will provide incentives for companies to expand sourcing from many TPP countries. Conversely, a yarn forward rule of origin in the TPP, particularly the restrictive version proposed by the United States, will provide no incentive for the development of new trade and investment in textiles and apparel in the TPP countries. Ironically, if TPP features a yarn forward rule of origin, the biggest beneficiary may be China since the rule actually discourages companies from moving their sourcing to some of China's main competitors. Although companies have to pay high U.S. duties when sourcing apparel from China, they are not saddled with the expense and burden of the yarn-forward rule, can use inputs from anywhere, and can manage their sourcing operations and supply chains more efficiently.

Myth: *TPP does not need to apply exceptions to yarn forward to be workable.*

Fact: While yarn forward is difficult under any circumstances, it is impossible without viable exceptions that incentivize trade and investment and recognize realities of a global supply chain. In the CAFTA-DR, one of the biggest success stories is Nicaragua, where both U.S. apparel imports and U.S. fabric exports have surged in recent years. The foundation of this success is an exception to the yarn-forward rule called a tariff preference level (TPL). The Nicaragua TPL permits the use of up to 100 million square meter equivalents (SME) of third-country yarns and fabrics in qualifying, duty-free apparel production, which accounts for about one-third of all U.S. apparel imports from that country.

Myth: *Opposing a yarn forward rule of origin will delay the TPP agreement.*

Fact: The TPP is a very complicated negotiation, involving many stakeholders. Some of the most politically sensitive issues, such as labor, have not yet been discussed. Negotiators are just now beginning to review the various offers that have been made in a wide variety of areas. It is wrong to believe that textile and apparel negotiations – which have barely begun – are “holding up” the agreement. Moreover, textile and apparel talks in previous FTAs are often among the last issues to be resolved.

Myth: *Congress will only pass a TPP that contains tough yarn forward rules.*

Fact: Congress will vote for an agreement that advances U.S. interests. Whether an agreement is seen as beneficial for the United States is a balancing act among all parts of the agreement. Therefore, if yarn forward provisions result in a less-beneficial agreement for U.S. companies in sectors other than just textiles, then many Members may in fact oppose the resulting agreement. Moreover, many Members of Congress who identify themselves as supporting textile interests will not necessarily vote for the agreement because it has yarn forward or even support the views of textile trade associations. Of the 52 House members who recently signed a letter supporting yarn forward rules, only 15 supported all three recent FTAs that contain yarn forward rules. Moreover, 20 of those signatories voted against all 3 FTAs despite their inclusion of yarn forward rules. Further, 27 voted against the Colombia FTA, even though textile groups supported it while 17 voted to support the Korea FTA, even though textile groups opposed it.