



IFAI | INDUSTRIAL FABRICS
Association International

May 10, 2013

Mr. Douglas Bell
Chair, Trade Policy Staff Committee

Via Electronic Filing

RE: Request for Comments on the Proposed Transatlantic Trade and Investment Partnership (TTIP) agreement with the European Union (EU) (Docket No: USTR-2013-0019)

Dear Mr. Bell:

Thank you for the opportunity to provide comments on the proposed Transatlantic Trade and Investment Partnership (TTIP) in accordance with 78 FR 19566 dated April 1, 2013. The following comments are provided on behalf of the United States Industrial Fabrics Institute (USIFI), a special interest group of the Industrial Fabrics Association International (IFAI).

USIFI and its parent organization IFAI represent some of the most technically-advanced and state-of-the-art manufacturing facilities in the world with U.S. employment of approximately 160,000 highly-skilled workers spanning almost every state in the Union. Our member companies manufacture highly-specialized products and advanced materials for numerous industrial and military applications. Examples would include ballistic, shelter, chemical-biological-radiation-nuclear protection textiles; potable water and fuel fabrics and bladders; and transportation, housing and roofing construction fabrics. These advanced material components are used to support a variety of high-value-added and sophisticated industries including aerospace, automotive, medical, and energy production.

Our companies also partner with U.S. military and academic institutions for research and development that has resulted in significant U.S. investments in more advanced and sophisticated manufacturing, including textile fibers, fabrics, and finishes with cutting-edge properties. The U.S. technical textile industry is a success story – expanding, efficient, advanced and leading the world in innovation.

In the past, USIFI has been skeptical of entering into free trade agreements with major textile exporting countries who buy comparatively few of our textile products in return. In contrast, we are not averse to pursuing a trade agreement with the European Union, a market with per capita income and consumer buying power close in line with the United States. Because the EU countries have the capability and track record of purchasing U.S.-made goods, they are a more logical FTA partner than, for example, Vietnam under the Trans-Pacific Partnership (TPP) negotiations. Two-way trade between the U.S. and EU in textiles has been roughly balanced historically, and there are also high levels of foreign investment in each other's markets.

While we are generally favorable towards the concept of a U.S.-EU FTA, the agreement could quickly become detrimental to our industry depending on the details of the agreement. Specifically, we have four main concerns:

Separate Textile Chapter

- Rule of Origin
- Tariff Phase-Out Schedule
- Customs Enforcement

Government Procurement

Regulatory Barriers

Value-Added Tax

Please be aware that this is not an exhaustive list but instead is designed to give a general overview of our key areas of concern with regard to any EU agreement.

Separate Textile Chapter

We note that textiles and apparel have always been treated as an independent chapter under U.S. free trade agreements. This policy should be continued. It is essential that textiles and apparel be handled as a separate negotiating group, distinct from other manufacturing sectors in the TTIP negotiations. Textiles are a complex area of U.S. trade policy with unique sensitivities compared with virtually all other industrial sectors. As a result, these products are not suitable for treatment under a generic formula for all manufacturing products. Moreover, trade that would be covered in a separate textile chapter is not small. Two-way trade between the United States and European Union in textiles and apparel totaled \$6.2 billion in 2012. If Turkey is included, that total grows to \$7.2 billion.

Within a specific textile and apparel chapter under the TTIP agreement, we support the following concepts:

Yarn-Forward Rule of Origin

USIFI strongly supports a yarn-forward rule of origin for textiles and apparel and favors its adoption for the TTIP. Yarn forward is the accepted rule of origin for the industry and is incorporated into nearly all U.S. free trade agreements and preference arrangements dating back to NAFTA. As the name implies, all stages of production starting with yarn spinning, moving to fabric formation and the final product assembly must be done either in the United States or in a FTA partner country to qualify for duty-free treatment.

It is also vital that all textile components in both technical fabrics as well as garments (including linings, narrow elastic fabrics, sewing thread and pockets) be covered by the rule of origin and be required to originate in parties to the agreement in order for the finished product to qualify. This insures that significant sectors of the U.S. textile industry which produce these component materials see benefits from the agreement.

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. Allowing high value-added elements of the production chain to take place outside of the contracting FTA countries transfers benefits to third countries which have not had to make market-opening concessions in return. Specifically, China is well-positioned to take advantage of a single transformation rule or double transformation rule if incorporated in the TTIP. China shipped 7.1 billion euro (\$9.2

billion USD) in textile components to the EU alone in 2012, equating to approximately one third of total EU imports of textiles.

Finally, the yarn-forward rule lends itself to effective Customs enforcement as Customs agents can track production activity and do not have to verify elusive value determinations that are easily manipulated as under a value-added rule of origin.

Market Access Provisions

It is critical that sensitive tariff lines be given protracted phase-outs under the market access provisions. U.S. producers must have an adequate opportunity to adjust to the duty-free treatment that will be afforded under this agreement.

USIFI members paid an inordinate price under the KORUS agreement, which gave immediate duty-free entry into the U.S. market for highly sensitive technical yarns and fabrics such as weft insertion knit fabrics and vinyl coated yarns. It is our sincere hope that the mistakes in KORUS will not be replicated in either TTIP or the pending TPP agreement.

USIFI will prepare a detailed list of sensitive tariff lines and provide that list to USTR and the U.S. Department of Commerce as the negotiations progress.

Strengthened Customs Enforcement Provisions

Obviously, an agreement of this nature is only as sound as its enforceability. With billions of dollars in duty savings in play, there is always an enormous incentive to circumvent the terms of the final arrangement through fraudulent activity. Consequently, the TTIP should include provisions that allow for adequate Customs cooperation among all of the countries. Moreover, expanded Customs resources will be needed to ensure that our government can effectively deal with the challenges posed by this multi-national trade agreement.

Government Procurement

USIFI notes that the U.S. government already has made significant market access concessions in the area of government procurement to the 27 member nations of the European Union as a signatory to World Trade Organization's Agreement of Government Procurement (GPA). Consequently, USIFI urges the United States to leave the U.S. exceptions in the GPA unchanged as they cover a number of sensitive items, including textiles procured by our armed services.

With respect to the GPA, USIFI's highest priority is that the United States should not make any concession that would eliminate or create exceptions to the Berry Amendment as part of any TTIP.

United States Annex I stipulates that the GPA does not apply to a number of purchases for the Department of Defense (DOD), including, (a) All elements of Federal Supply Classification (FSC) 83 other than pins, needles, sewing kits, flagstuffs, flagpoles, and flagstaff trucks and (b) All elements of FSC 84 other than subclass 8460 (luggage). FSC 83 and 84 cover nearly all textile and clothing products.

The DOD exceptions in Annex I allow the United States to retain the Berry Amendment (U.S.C. Title 10, Section 2533a), a provision, with some exceptions, that requires the Department of Defense to procure textile and clothing products made with 100 percent U.S. content and labor. This statute ensures that

America's armed services will have continuous access to a robust manufacturing base for the high performance technical textiles and clothing used by our soldiers, airmen, and sailors. We estimate that Department of Defense spending on textiles and clothing has averaged in the \$1.5 to \$2 billion plus range annually during the past decade.

With fierce competition for contracts, the Berry Amendment has spurred substantial innovation in the area of military textiles by domestic manufacturers. These innovations have helped America's textile manufacturers stay at the forefront of the cutting edge of technical textiles, boosting employment and exports.

Annex I and Annex 2 contain other exceptions that USIFI strongly believes that the United States should preserve as part of any TTIP. In Annex I, with respect to the Department of Homeland Security (DHS), the GPA does not apply to procurement by the Transportation Security Administration (TSA). Also with respect to DHS, the national security considerations applicable to the Department of Defense are equally applicable to the U.S. Coast Guard. Procurement by the Federal Aviation Administration is exempted as are the shipbuilding activities of NOAA and the procurement activities associated with safeguarding nuclear materials and technology. The U.S. Notes to Annex 2 stipulate that the GPA shall not apply to any procurement made by a covered entity on behalf of non-covered entities at a different level of government (note 4) or to restrictions attached to Federal funds for mass transit and highway projects (note 5).

Geosynthetics used in construction, underground fuel tank liners, safety suit materials and marine fabrics are just a sample of the textile products annually procured by Federal agencies and spending programs not covered by the GPA. Spending on these procurements runs in the hundreds of millions of dollars on an annual basis.

The exceptions in Annex I allowed the United States to include a Berry-like provision in the 2009 stimulus bill that applied to funds expended on textile and clothing by DHS for the TSA and Coast Guard. The now-expired stimulus provision is important as an example of how "buy American" statutes can be applied to entities not covered by the GPA to boost U.S. employment.

Because of the potential job-creating importance of having the flexibility to apply stronger "buy American" statutes to entities not covered by the GPA, USIFI urges the United States to retain the exceptions included in Annexes 1 and 2 for TSA, the Coast Guard, FAA, NOAA, safeguarding nuclear facilities and technology, non-covered entities at a different level of government, and Federal funds for mass transit and highway projects.

Regulatory Barriers

USIFI is deeply concerned by the potential use of excessive regulation as non-tariff barrier by the EU. The EU's REACH chemical regulations can hinder U.S. textile exports, especially if based on incomplete or faulty data. Duplication of effort by government and industry in the testing, assessment, and evaluation of chemicals used in textile products on both sides of the Atlantic is also a concern. Any TTIP should work to harmonize health, safety and environment regulations, or at a minimum, provide for reciprocal recognition of testing procedures and assessments.

Value-Added Tax


Another major concern is how the agreement will deal with value-added taxes (VAT). EU-member nations pioneered the VAT. In addition to being assessed at each point of value added, a VAT is assessed on top of all tariffs and other duties paid. The VAT distorts trade because it is assessed on imports and rebated on exports. This has the effect of stimulating exports and suppressing imports, especially when trading with a country that does not have a VAT, like the United States. The average VAT rate in the EU exceeds 21 percent. In 2008, the distortion to U.S. trade with the EU as a result of VAT assessments and rebates was an estimated \$171 billion. U.S. exporters of goods and services were hit with an estimated \$79 billion in VAT assessments upon entry into EU markets while EU countries rebated an estimated \$92 billion in taxes to their producers upon export to the United States. Any future U.S. free trade agreement should include a VAT remedy to eliminate this massive tax disadvantage for U.S. producers.

Conclusion

In summary, with sound rules, the TTIP holds potential for our members to see considerable benefits through increased exports to the European Union. However, if there is a departure from yarn forward or other key textile provisions, or if the agreement opens up U.S. government procurement, the TTIP will cause the loss of additional valuable manufacturing jobs in our high-tech industry in the United States. Consequently, it is critical that the basic recommendations listed above be fully adopted as part of the U.S. negotiating position.

We appreciate this opportunity to provide input and thank you for your consideration of USIFI's views. Moreover, it is our strong desire to continue working with your team as the TTIP negotiations progress.

Sincerely,

A handwritten signature in black ink that reads "Andrew Aho". The signature is written in a cursive, slightly slanted style.

Andrew Aho
Director of Technical Markets