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<u>2016 STATE OF THE U. S. TEXTILE INDUSTRY – REMARKS AS PREPARED FOR DELIVERY</u>

[Note: A PowerPoint presentation accompanies this speech. 2015 NCTO Chairman Jeff Price is President, Specialty Fabrics Division, Milliken & Company (Spartanburg, SC) – www.milliken.com.]

It pleases me to report that the U.S. textile industry is on sound footing.

Between 1995 and 2009, our industry suffered through a historic and heartbreaking contraction that impacted countless workers and communities.

The last six years, however, have been different. Emerging from the depths of a severe national recession, the U.S. textile sector has rebounded.

Now, our challenge is both to sustain this impressive recovery and to find viable ways to generate a new era of growth.

THE NUMBERS

Let me review some of the U.S. textile industry's key numbers.

In 2015, the value of U.S. man-made fiber and filament, textile, and apparel shipments totaled an estimated $76 billion.[1] This is an increase of almost 14 percent since 2009.

[1] Source: U.S. Census Bureau Annual Survey of Manufactures (ASM). Data covers NAICS categories 313 (Textile Mills), 314 (Textile Product Mills), 315 (Apparel), and 32522 (Artificial and Synthetic Fibers and Filaments). 2015 Data for NAICS 32522 is not yet available. Our 2015 estimate for the value of shipments in that category is $8.2 billion.

The breakdown of 2015 shipments by industry sector is:[2]

- $30.7 billion for Textile Mills
- $23.2 billion for Textile Product Mills
- $13.9 billion for Apparel
- An estimated $8.2 billion for Artificial and Synthetic Fibers and Filaments

Our sector's supply chain employs 579,300 workers.[3] The 2015 figures include:

- 116,400 jobs in Textile Mills
- 116,400 jobs in Textile Product Mills
- 136,800 jobs in Apparel Manufacturing
- 25,600 jobs in Artificial & Synthetic Fibers & Filaments Manufacturing
- 116,300 jobs in Cotton Farming and Related Industry
- 67,800 jobs in Wool Growing and Related Industry

A look back to employment data from 2009 onward further illustrates that precipitous job losses have virtually stopped.

Today, job gains and losses likely are the result of normal business cycles, new investment, or productivity increases instead of being tied to the massive loss of market share as was the case in the 1995-2008 timeframe.[4]

Since 2009, U.S. exports of fiber, yarns, fabrics, made-ups, and apparel are up 38 percent, reaching almost $27.8 billion in 2015.[5]

In particular, the U.S. has a strong export position in fiber, yarns, and fabrics. Exports of those products totaled $21.6 billion alone in 2015,[6] making America the 4th largest exporter of fiber and textile products in the world.[7]

Growing capital expenditures are also a clear sign of our industry's positive outlook.

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[2] Source: U.S. Census Bureau Annual Survey of Manufactures (ASM). Data covers NAICS categories 313 (Textile Mills), 314 (Textile Product Mills), 315 (Apparel), and 32522 (Artificial and Synthetic Fibers and Filaments). 2015 Data for NAICS 32522 is not yet available. Our estimate for the value of shipments in that category is based on data from 2014.

[3] Sources: U.S. Bureau of Labor Statistics, U.S. Department of Agriculture, National Cotton Council, and the American Sheep Industry Association.

[4] Source: U.S. Bureau of Labor Statistics

[5] Source: Data for textiles and apparel is from The Export Market Report produced by the U.S. Department of Commerce, Office of Textiles and Apparel (OTEXA). U.S. export data for cotton, wool, and fine animal hair is calculated from the U.S. International Trade Commission Interactive Tariff and Trade DataWeb using HTS Codes 5101, 5102, 5103 (wool), 5201, 5202, and 5203 (cotton).

[6] Id.

[7] Source: U.N. COMTRADE Database

The textile and apparel sector spent $2 billion on capital expenditures in 2014,[8] the latest year for which data is available.

Investment in Textile Mills and Textile Product Mills has seen especially explosive growth, climbing from $960 million in 2009 to $1.8 billion in 2014 – an increase if 87 percent.[9]

In contrast, capital investment in Apparel is down $157 million, a decrease of 39 percent.

The index for Capacity Utilization for Textile Mills is up 39 percent since 2009 as compared to increases of 19.5 percent for Textile Product Mills, 3 percent for Apparel, and 17 percent for All U.S. Manufacturing respectively.

In even better news, Capacity Utilization for Textile Mills exceeded that of All Manufacturing during three out of four quarters in 2015.[10]

Finally, the index calculating change in Industrial Production demonstrates that the textile industry is no longer a negative outlier within the U.S. manufacturing sector.

Since 2009, industrial production is:

- up 12.2 percent for Textile Mills
- up 3.2 percent for Textile Product Mills
- down 17.8 percent for Apparel, and
- up 20 percent for All U.S. Manufacturing

But since 2012, however, growth in industrial production by Textile Mills has exceeded that of All U.S. Manufacturing.

Industrial production is up 7.6 percent for Textile Mills as compared to just 6.1 percent for All U.S. Manufacturing.[11]

Growth in industrial production for Textile Product Mills was 5.9 percent, a figure almost identical to that for All U.S. Manufacturing.

Wrapping up the numbers, the fundamentals for our industry are sound. That does not mean, however, that the industry is free of challenges. Our sector has begun to see changes in demand as the global economy struggles to grow. Downturns in the business cycle are natural

[8] Source: U.S. Census Bureau Annual Capital Expenditures Survey (ACES).
[9] Id.
[10] Source: U.S. Federal Reserve; All Manufacturing is NAICS All Manufacturing.
[11] Source: U.S. Federal Reserve; All U.S. Manufacturing is NAICS All Manufacturing.

to every manufacturing sector and all of us need our own specific strategies for weathering difficult market conditions.

POLICY

Moving on to policy, the textile sector is unique because changes in trade policy often can affect our business with serious, unpredictable consequences.

It is for this reason that we as an industry, and certainly as a trade association, must engage in the Washington policymaking process; otherwise we would have no working relationship with those who are shaping our government's position on trade.

Trans-Pacific Partnership

It is my view, that the most important policy challenge to confront our industry in the past twenty years is the Trans-Pacific Partnership (TPP) free trade agreement. Due to the inclusion of Vietnam with its state-run economy, TPP holds the potential to negatively impact the existing U.S. and Western Hemisphere textile and apparel production chain.

Consequently, it was essential for any agreement to meet the U.S. textile industry's key negotiating objectives:

- A strong yarn forward rule-of-origin;
- Reasonable duty phase-outs on sensitive textile and apparel items;
- Continued stability in the Western Hemisphere textile and apparel supply chain; and
- Workable rules to facilitate Customs enforcement.

Thanks to the efforts of many NCTO members, NCTO staff, fellow textile-related trade associations, and our supporters on Capitol Hill, we can say that those goals were sufficiently met:

- A yarn-forward rule of origin that mirrors NAFTA/CAFTA;
- 10 to 12-year tariff phase-outs for the most sensitive products;
- Terms that provide for the stability of the Western Hemisphere production chain; and,
- Customs language that captures the stronger enforcement provisions from previous free trade agreements.

Accordingly, after carefully studying the finalized agreement, NCTO endorsed TPP in January of this year.

This endorsement, however, did not come without a full weighing of the various shortcomings and tradeoffs that were included in the final text.

There were a number of legitimate concerns. Most notable was the inclusion of a short supply list that waived yarn-forward mandates for nearly 190 items.

NCTO since has communicated our displeasure with certain aspects of the agreement to the Obama administration and Congress so as to lay a foundation to prevent a repetition of these objectionable provisions in future agreements.

With that said, no trade agreement is perfect; but in this instance, U.S. negotiators struck a balanced deal that met NCTO's key objectives.

Transatlantic Trade and Investment Partnership

Beyond the TPP, the United States is ramping up efforts to reach a free trade agreement with the European Union (EU), known as the Transatlantic Trade and Investment Partnership, or TTIP.

While these negotiations have moved at a slower pace than that of the TPP, TTIP talks are accelerating and that comes with two challenges for our industry:

- the EU favors a fabric-forward instead of a yarn-forward rule; and,
- the EU is pressing for access to U.S. military contracts.

We are engaging our government proactively to resolve differences with the EU over textile origin rules. This part of the negotiation will be very complex, but we feel that a reasonable solution can be reached.

At the same time, the U.S. textile sector and our industry partners have drawn a hard line on defense procurement.

U.S. military purchases must continue to be governed by the Berry Amendment.

No deal with the EU or any other set of nations is worth diluting the domestic sourcing mandates in our defense procurement code.

As TTIP negotiations proceed, we will continue to work to make sure policymakers understand our positions on rules of origin, the Berry Amendment and other key elements of the agreement.

Tariff Preference Levels

Tariff Preference Levels (TPLs) are an exception to yarn forward rules that have been included in a number of our free trade agreements.

NCTO opposes TPLs because they allow free-trade-agreement countries to export finished apparel and home furnishings duty free to the United States, despite the fact that these products contain yarn and fabric from third parties, such as China and Pakistan.

Two such TPLs have expired and another is scheduled to sunset this summer. They are:

- Nicaragua TPL – 100 million square meters
- Morocco TPL – 30 million square meters
- Bahrain TPL – 65 million square meters -- (expires July 31)

Despite an aggressive lobbying effort on the part of various foreign governments, importers, brands and retailers, Congress sided with NCTO and allowed these TPL arrangements to sunset. Undeterred by their defeat, TPL proponents continue to press for renewals. As such, NCTO will keep working diligently to make sure these harmful loopholes are not reopened.

Miscellaneous Tariff Bill

While noting these industry victories, we are mindful that at least one vexing legislative problem is still in need of a solution.

For several years, the Miscellaneous Tariff Bill has languished in Congress.

This lack of action has hurt the U.S. textile sector because MTBs reduce duties on imports of inputs that are not produced in the United States.

The good news is that there appears to be a breakthrough on this issue. It is our understanding that the House Ways and Means committee and House Leadership are intent on moving legislation that would allow the MTB process to move forward.

Our message is simple. Because MTBs enhance the competitive position of our industry, we strongly urge Congress to restart the long-stalled MTB legislative process.

Other Trade Policy Matters

The industry's Washington lobbying and advocacy efforts in other trade areas also directly benefited the bottom line of NCTO members. Those activities included:

- Successfully working to reauthorize the Ex-Im Bank;
- Fighting unwarranted Foreign Trade Zone applications; and
- Assisting member companies in defending against unjustified short supply petitions.

The Berry Amendment

Beyond trade matters, several government procurement issues have arisen in the last year.

First, the U.S. textile industry rallied to defeat an attack on the Berry Amendment.[12]

Opponents tried to weaken Berry by raising the contract threshold.

Intense industry lobbying efforts were successful in striking language in the FY 2016 National Defense Authorization Act (NDAA) that would have increased the threshold from $150,000 to $500,000.

This victory is a tangible example of how NCTO's efforts in Washington directly benefit the bottom lines of our members.

NCTO also welcomed two more audits – for a total of three – by the Department of Defense (DoD) Inspector General that assessed DoD's compliance with the Berry Amendment.

A law requiring these audits was enacted as part of the FY 2014 NDAA.[13] It would not be on the books were it not for the lobbying efforts of the Berry Amendment Textile Coalition of which NCTO is an active member.

After analyzing the three audits now in hand, NCTO believes that more training of contracting officers would improve DoD's compliance with Berry.

The Revolutionary Fibers & Textiles Manufacturing Innovation Institute

NCTO welcomed the April 1 announcement by U.S. Defense Secretary Ash Carter of the selection of Advanced Functional Fabrics of America to lead the Revolutionary Fibers & Textiles Manufacturing Innovation Institute (RFT-MII).[14]

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[12] The Berry Amendment is codified at 10 USC 2533a. Defending and strengthening the Berry Amendment has been a longstanding point of emphasis for NCTO. This is because the law says that textile items bought with Department of Defense (DoD) funds must be made entirely in the United States, from fiber production all the way through final assembly. The Berry Amendment makes our nation more secure by ensuring that the United States always has access to an industrial base capable of innovating and manufacturing the world's best military textiles.

[13] See Section 1601 of the FY 2014 NDAA.

[14] See: www.affoa.org and http://www.defense.gov/News/News-Releases/News-Release-View/Article/710462/dod-announces-award-of-new-revolutionary-fibers-and-textiles-manufacturing-inno.

The RFT-MII is a part of President Obama's National Network of Manufacturing Innovation Initiative (NNMI). It is slated to receive roughly $320 million in funding – $75 million from DoD, and the rest coming in money and in-kind contributions from the private sector.

NCTO spent 2014 and the spring of 2015 working to ensure that textiles would win an open competition against other industrial sectors to be picked for an innovation institute. From April 2015 onwards, NCTO provided advice to DoD at their request about how to help launch the RFT-MII and about how to educate industry on how to participate.

We are both excited and confident that the RFT-MII will spur innovation in fiber formation and textile science by more effectively encouraging collaboration among our industry's brightest minds.

<u>Other Government Procurement Matters</u>

Finally, in other government procurement matters, NCTO continued its work to strengthen relationships with the Defense Logistics Agency and other government customers.

NCTO also has been aiding the Department of Commerce's Bureau of Industry and Security (BIS) as it studies the U.S. textile industry, especially as it relates to our ability to supply product under the Berry Amendment.

EFFECTIVE WASHINGTON PRESENCE VITAL

NCTO must acknowledge that there are well funded interest groups whose agendas do not always coincide our own.

2013 spending by these groups dwarfs the $1.9 million budget approved by NCTO's Board of Directors two days ago.[15]

- $35.5 million – National Retail Federation (NRF)
- $19.4 million – Retail Industry Leaders Association (RILA)
- $5.2 million – American Apparel & Footwear Association (AAFA)

The contrast in 2015 lobbying expenditures is even more pronounced.[16]

- $9.55 million – Wal-Mart
- $8.25 million – NRF
- $2.75 million – RILA
- $1.63 million – NIKE

[15] Source: Foundation Center database. See: http://foundationcenter.org/findfunders/990finder/.
[16] Source: U.S. Senate Lobbying Disclosure Act Database.

- $1.55 million – Target Corporation
- $760,000 – Sears
- $732,000 – AAFA
- $200,000 – L Brands Inc. (formerly The Limited Brands)

Noting this sizeable financial disadvantage, it is imperative to keep growing this trade association.

Please help NCTO by identifying companies that should join our membership.

Moreover, we will also need your continued focus on NCTO's Washington agenda if our industry is to enjoy continued policy success.

REBRANDING OUR INDUSTRY

Finally, I want to raise awareness of the fact that NCTO is leading a special public relations effort to help level the playing field for our industry.

This past May, NCTO engaged the public relations firm of Wray Ward to develop and execute an industry rebranding initiative. We have been joined in this important campaign by several industry partners.

Financial contributors include:

- American Fiber Manufacturers Association
- The National Cotton Council
- The Industrial Fabrics Association International
- Glen Raven, Inc.

We are grateful for their support because the time is long overdue for our industry to take charge of how we are viewed by policymakers, the news media, and the public at large.

We simply cannot allow parties that oppose our policy agenda to perpetuate the false notion that we are antiquated and non-competitive.

Instead, it is our responsibility to paint a picture for opinion leaders and consumers that establishes a baseline appreciation for our industry as a major employer, investor, innovator, producer, exporter, and competitor in the global marketplace.

The campaign's theme is *American Textiles: We Make Amazing*. It encapsulates our amazing cutting-edge technologies, our amazing products, our amazing contribution to the U.S.

economy, our amazing impact on national defense, and most of all, our amazing associates who make all of this happen every day.

Suffice it to say, there is a lot of hard work ahead, but our industry much at stake in changing outdated and false perceptions.

CHALLENGES AHEAD

While last year was one of the most productive in NCTO history, challenges still dot the horizon.

Whether it be a soft global economy, the prospect of implementing the most important trade agreement in two decades, or just being committed to the goal of becoming a better industry tomorrow than we are today, complacency is not an option.

In Washington, D.C., it is incumbent upon NCTO to engage federal policymakers routinely and substantively on the many issues that directly impact our sales, investments, and workers because if we don't, it will cost the U.S. textile industry revenue, markets, output, and eventually jobs.

As for what our industry wants from our government, we simply ask for a stable and logical policy environment that recognizes the value of the textile sector and its workforce. Doing so will allow this great industry to continue to grow, employ, invest, and improve America's standard of living and quality of life.

In terms of how we are perceived inside and outside the Washington Beltway, we certainly cannot allow others to speak for our interests or to define our image.

That is why, each of us here today and our industry colleagues not in attendance owe it to ourselves, our companies, and most importantly to the people who depend on us for their livelihoods, to be the best advocates we can be for our amazing industry.

My parting challenge to my fellow industry colleagues is this; if you are involved, stay involved; if not, get involved, and support this organization to greatest degree possible.

CONCLUSION

Thank you for allowing me the privilege to serve as 2015 Chairman of NCTO; and although I am handing over my gavel later today to a very able successor in Robert H. Chapman III, Chairman, CEO & Treasurer of Inman Mills, I look forward to keep working with you to make this great American industry even more amazing.

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