



Testimony of Kimberly Glas, President and CEO, National Council of Textile Organizations

Promoting Supply Chain Resilience (USTR–2024–0002)

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On behalf of the National Council of Textile Organizations (NCTO), thank you for the opportunity to testify on how U.S. trade and investment policy can better support the growth and resilience of domestic textile manufacturing, a key sector identified in the Office of the U.S. Trade Representative's (USTR) supply chain review. Given USTR's central role in the development of overall U.S. trade policy, trade negotiations, enforcement, and other key administration initiatives, we welcome this timely and important review.

NCTO represents the full spectrum of the U.S. textile sector – a production chain that employs over 500,000 workers nationwide and produces almost \$65 billion in output annually. U.S. textiles are an essential industry that equips U.S. warfighters and pivoted overnight to produce PPE during the COVID pandemic.

While the domestic textile industry is an integral part of the military and public health industrial base, unchecked foreign predatory trade practices, a lack of effective customs enforcement, and misguided trade policy proposals are creating unstable and unsustainable market dynamics. The confluence of these factors is threatening the future of domestic textile manufacturing as well as the textile and apparel coproduction chain between U.S. and our Western Hemisphere free trade agreement (FTA) partners responsible for \$40 billion in annual two-way trade.

Alarming, no less than 14 U.S. textile factories have been permanently shuttered in recent months, and an estimated 100,000 jobs have been lost in the U.S. and broader hemisphere. The U.S. alone shed over 26,000 jobs in 2023 according to government statistics. Tied to each lost U.S. textile job are three more workers in their communities through our sector's high multiplier effect. Beyond the jobs already lost, there are 2 million workers directly employed in Western Hemisphere textile and apparel coproduction bases that are at risk. This includes employment tied to \$2 billion in textile and apparel investments announced earlier by the Biden administration as part of Vice President Harris' Call to Action to stem migration by fostering greater economic opportunity in the Northern Triangle countries.

When the U.S. and our nearshore FTA partners bleed jobs and production, that market share largely goes to Asia and specifically to China, the dominant global producer of textiles and apparel. In addition, China is the number one supplier of the entire gamut of textile components including

fibers, yarns, and fabrics to countries like Vietnam, Bangladesh, India, and other major Asian apparel exporters to the U.S. market. These countries compete by sourcing subsidized textile inputs from China, including those made from slave labor in Xinjiang where 20 percent of global cotton is produced and where made-made fibers like rayon have been tied to forced labor production, to be cut and sewn in operations that profit from ultra-low wage rates and a wholesale lack of meaningful labor and environmental standards. China is also investing heavily in textile and apparel production in these countries, notably through the Belt and Road Initiative.

The contribution that the U.S. textile production chain makes to our national security cannot be overstated. Domestic textile manufacturers supply over 8,000 different products to the U.S. military. These goods extend far beyond basic uniforms to include incredibly light and strong fighter jet components made from carbon fibers, ballistic vests and body armor, and chem-bio and hazardous material handlers' suits. These cutting-edge textile materials and end-products allow our warfighters to be the best equipped military in the world. More importantly, the fact that these products are all manufactured in the United States – from base fiber to finished item – alleviates concerns about defense supply chain dependency on unreliable or even adversarial offshore producers in the event of a military crisis.

As we learned during the COVID pandemic, having China at the center of global supply chains for strategic, essential products like textiles puts the U.S. in a highly vulnerable position. U.S. textile and apparel manufacturers and our FTA partners pivoted rapidly – overnight is not an exaggeration – to producing desperately-needed PPE during the height of the pandemic. This could happen because we had a textile production base and one that was willing to do all it could to support our frontline healthcare workers who were forced to wear trash bags and reuse disposable PPE as China cut-off supply of these essential goods at the height of the pandemic.

Yet, as soon as the PPE shortages abated, business flowed right back to China and elsewhere in Asia. This was due to China and Asia's unmatched downward pricing pressure stemming from unfair trade and production practices. It was also due to a failure on the part of the U.S. government to effectively ensure long term demand for U.S.-made PPE. U.S. producers who pivoted are now idled with expensive equipment and no demand.

China is being highly strategic and purposeful in their quest for and success in gaining a stranglehold on the global supply of critical products like textiles. The U.S. must be more deliberate moving forward and not leave this challenge by an increasingly hostile geopolitical rival unanswered. Absent a course-correction to properly prioritize and bolster domestic manufacturing, the consequences in the next crisis will be severe and manifold.

Our top line trade and investment policy recommendations to advance resiliency for the U.S. textile sector include:

- 1) **Immediately close the de minimis tariff loophole.** Four million packages are entering the U.S. each day duty free and largely uninspected. CBP reports that textile and apparel goods comprise an estimated half of these entries and China is the largest beneficiary. De minimis serves as an unearned FTA primarily for China and the rest of the world, and approximately half of these packages contain apparel. These entries are not subject to Section 301 duties and have been linked to Uyghur Forced Labor Prevention Act (UFLPA) violations as well as dangerous and counterfeit goods and illicit drugs like fentanyl and precursors.

The de minimis loophole is undercutting our industry and the industries of our FTA partners. The demand destruction in our industry and the Western Hemisphere region due to this provision that awards an FTA to the world cannot be overstated. The administration has existing authorities to close this dangerous loophole now; it is important to immediately exercise them. Congress also has a responsibility to address this pervasive trade threat and must act through permanent statutory reform of this outdated and destructive loophole in the U.S. tariff code. Inaction is not the solution when de minimis poses such a significant economic and national security threat to us all.

- 2) **Dramatically ramp up and publicize customs enforcement and trade penalty activities.** Tough market conditions are creating a frenzied environment where customs fraud and unfair trade practices are becoming more prevalent as suppliers scramble to secure orders by whatever means necessary. This includes UFLPA violations on cotton as well as man-made fiber apparel, widespread dumping, undervaluation, misclassification, transshipment, failure to adhere to published minimum wages rates abroad, and false originating status claims under our FTAs. There has been a large uptick in yarns and fabrics flowing into our FTA regions from Asia. Meanwhile enforcement activities have been anemic, including declining UFLPA activity in our sector and minimal isotopic testing by CBP. Dwindling enforcement and failure to apply severe penalties is an open invitation for cheating and a massive benefit for Asian competitors.

We applaud the public-facing customs enforcement plan recently announced by the Department of Homeland Security (DHS), and persistent and aggressive follow through on that plan will be critical. An effective plan requires consistently ramped up onsite inspections and utilization of analytics necessary to help target enforcement efforts; significantly increased civil and criminal penalties; public amplification of bad actors to serve as a deterrence for fraud and illegal trade; increased isotopic and lab testing of imported goods; among several other enforcement activities. These have been detailed by the industry to the administration in previous comments. The industry's health is directly tied to the success of customs enforcement activities during the road ahead.

- 3) **Reform the trade remedy process to help alleviate injury to upstream producers.** Our trade laws need to be significantly updated to ensure upstream component manufacturers have standing to file anti-dumping and countervailing duty trade cases when downstream

items flood the U.S. marketplace. To date, our fiber, yarn, and fabric manufacturers are unable to have standing in trade cases involving finished apparel or home textiles despite serious injury displacing domestic upstream component production as a result of illegal subsidies and dumping into the U.S. market.

- 4) **Immediately pass the Miscellaneous Tariff Bill (MTB).** The current extended lapse in the MTB is causing significant hardship for U.S. textile manufacturers. There are certain base fibers that have not been produced in the United States for many years, meaning U.S. textile companies are completely dependent on imports from these specific fibers (namely, rayon and acrylic). The lack of an MTB plus recent inflationary pressures is pricing U.S. manufacturers of products made from rayon and acrylic out of certain markets and hampering current and future investments.
- 5) **Reject proposals to expand Generalized System of Preferences (GSP) product coverage to textiles or apparel.** Duty-free imports of textiles and apparel, as proposed by some in Congress, would only further supercharge already dominant Asian supply chains, reward China, and undercut U.S. and regional competitiveness. This would undermine all our existing FTAs and decimate the U.S. textile industry.
- 6) **Preserve, protect, and promote the yarn forward rules of origin.** This includes continuing to reject all attempts to undermine the critical yarn forward based rules of origin in our FTAs under the guise of proposals like cumulation or expanded short supply. These rules of origin have driven over \$20 billion in new textile investment in the United States over the past 10 years and are critical to ensuring that non-signatory parties – like China – do not have backdoor access to the U.S. market through duty free trade. We greatly appreciate the Biden administration’s support for this critical rule of origin and rejecting attempts to undermine this essential rule that supports over 500,000 jobs across the textile and apparel supply chain in the United States.
- 7) **Increase the China Section 301 penalties on textiles and apparel.** Undervalued Chinese textile and apparel products continue to flood the U.S. market despite the existence of Section 301 penalty duties on these goods. Unit pricing of Chinese textile and apparel products shipped to the U.S. has dropped significantly since the initiation of the 301 case, while a decrease in pricing of Chinese textile exports has not been observed in the EU market. As a result, despite the additional duties, there is little incentive to shift out of China to the U.S. and the Western Hemisphere due to these price cuts as well as de minimis serving as a workaround.
- 8) **Fully implement the Make PPE in America Act and expand procurement opportunities.** This law was designed to build and maintain a domestic public health industrial base equipped to meet American needs during a public health emergency. It requires that all PPE purchased by DHS, Health and Human Services, and Veteran’s Affairs must be made in the

U.S. from domestic materials and that contracts must be issued for a minimum of two years. Despite having been in effect since February of 2022, domestic textile producers remain unaware of any long-term contracts for domestically produced PPE that have been issued by any of the covered federal departments.

- 9) **Further strengthen government procurement law.** The administration should ensure more Berry-like requirements across the supply chain and create expanded opportunities for domestic textile manufacturers by designating the U.S. textile and apparel industry as a priority sector for Defense Production Act funding to address supply chain capabilities. Congress and the administration should also explore opportunities to enhance domestic procurement law for other agencies and products and hold agencies accountable to ensure they properly comply with procurement laws.
- 10) **Enhance tax incentives to bolster domestic and regional production.** Textiles and apparel are a mission critical sector for our national security and our national economy. Textile and apparel specific tax incentives are needed to help bolster domestic production and output. Congress and the administration should also explore opportunities to make final purchasers eligible for tax benefits for qualified goods meeting the rules of origin in our FTAs.

While none of these solutions is comprehensive, in tandem they can play a critical role in stabilizing the sector and enhancing opportunities for significant growth.

With the right response, we can reverse the current downward trajectory in domestic textile manufacturing and usher in a host of beneficial outcomes. This would include saving U.S. jobs and investments; ensuring the U.S. is not dependent on adversaries for military textiles, PPE, and other strategic textile products; standing firmly against forced labor and environmental abuses; increasing sourcing from nearshore FTA partners that use U.S. inputs and create less greenhouse gas emissions; and providing increased economic opportunities for underserved and vulnerable communities in the U.S. and broader Western Hemisphere.

Thank you again for the opportunity to testify today, and I look forward to your questions.