



**Testimony of Kimberly Glas, President & CEO  
National Council of Textile Organizations**

**House Small Business Economic Growth, Tax, and Capital Access Subcommittee Hearing on  
Supply Chain Resiliency and the Role of Small Manufacturers**

**April 29, 2020**

Chairwoman Davids and Ranking Member Meuser, thank you for the opportunity to testify on this subject that is so important to our nation, and to the U.S. textile industry and our workers.

My name is Kimberly Glas, and I am President and CEO of the National Council of Textile Organizations (NCTO). NCTO represents the full spectrum of the U.S. textile sector, from fiber through finished sewn products, as well as suppliers of machinery, chemicals, and other products and services with a stake in the prosperity of our industry. U.S. textile and apparel manufacturers produced \$64 billion in output in 2020, and our sector's supply chain employs more than 530,000 workers.

Textile manufacturers are considered an "essential" industry in the United States due to the many consumer, military, and industrial products that we manufacture, including personal protective equipment (PPE) and textile and apparel products for the military. In fact, the U.S. textile industry supplies more than 8,000 different textile products for the U.S. military alone. The United States is also the world leader in textile research and development, with the U.S. textile complex developing next generation textile materials such as conductive fabric with anti-static properties, electronic textiles that can monitor heart rate and other vital signs, antimicrobial fibers, lifesaving body armor, and new fabrics that adapt to the climate to make the wearer warmer or cooler.

In my remarks today, I hope to demonstrate for the subcommittee the astounding resiliency of the U.S. textile industry supply chain — the preponderance of which is comprised of small businesses that are in many cases multi-generational, family-owned companies. My testimony will provide an overview of our industry's response to the COVID-19 pandemic, including a review of the impact the pandemic has had on small U.S. textile manufacturers and our workforce. I will then discuss the several options available to small manufacturers to access capital during the pandemic's ensuing economic downturn and some of the challenges we have faced accessing that support. Finally, I will offer some recommendations for key areas of action where the subcommittee can focus future efforts to ensure the resiliency and long-term viability of industries like ours that play a central role in U.S. manufacturing, output, and employment.

***U.S. Textile Industry's Response to COVID-19***

With the focus of today's hearing being supply chain resiliency and how to bolster small business, there is much to learn from studying and acknowledging the overwhelming challenges the industrial base confronted during the ongoing pandemic. As our country faced devastating challenges in responding to COVID-19 beginning last spring, U.S. textile manufacturers stepped forward and answered America's call during this time of crisis. Our industry received pleas, from the highest levels of government to nurses

and doctors on the front lines, asking for immediate assistance. The U.S. textile industry was honored to help during this critical time and feel it is our duty to contribute to the health and safety of our nation.

Decades of offshoring these industries to China put our healthcare workers in harm's way when global supply chains broke down. The sheer dominance of these essential supply chains in China coupled with the export controls they placed on PPE and raw materials as global demand surged led to the shocking headlines revealing nurses wearing garbage bags and reusing N95 masks.

U.S. textile manufacturers quickly mobilized to find innovative solutions to the crisis, proactively retooling production lines and retraining workers to provide U.S.-made PPE to front-line medical workers. They put aside competitive differences to construct multi-company PPE supply chains virtually overnight. In doing so, our members were able to manufacture and supply over 1 billion urgently needed items including face masks, isolation gowns, and their textile components at a time when global supply failed to meet the needs this crisis has required.

While the U.S. textile industry and its small-business backbone has undertaken heroic efforts to confront the ongoing crisis, the onshoring of a permanent PPE industry will only materialize if proper government policies and other actions are put in place to help domestic manufacturers survive the current economic crisis and incentivize the long-term investment needed to fully bring PPE production back to the United States.

### ***Impact of the Pandemic on the U.S. Textile Industry***

While domestic textile manufacturers remain a fully committed partner in the government's efforts to battle the pandemic and supply essential PPE, the severity of the economic crisis brought on by COVID-19 and its impact particularly on small businesses cannot be overstated. Despite all their PPE production efforts, many U.S. textile companies were confronted with idle capacity, rampant cancellation of orders, plant closures, and workers being furloughed at the height of the pandemic. Orders for the military also declined because of COVID restrictions. Regrettably, conditions have been so severe at certain points that century-old textile companies that survived the Great Depression, the onslaught of imports over the past 40 years, and the recent Great Recession have faced possible bankruptcy.

COVID-19 has created unprecedented demand destruction for apparel and textiles. Billions of dollars of orders for fiber, yarn, and fabric were cancelled last year as retail shopping outlets were closed for many months and then operated at reduced capacity. The Census Bureau reports that for March through May 2020, clothing sales were down \$44 billion, or 66 percent, relative to the same three months in 2019. In fact, clothing sales exhibited the largest percentage decline of all major spending categories within the U.S. economy over this time period.<sup>1</sup>

While there was some improvement in the latter months of 2020 and moving into 2021, sales are still not back to pre-pandemic levels. For the full calendar year 2020, clothing sales were down \$70 billion, or 26 percent, compared to 2019.<sup>2</sup> This historic downturn in demand led to many U.S. textile manufacturers operating at barely 10 percent of existing capacity beginning in March 2020. The

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<sup>1</sup> U.S. Census Bureau, Monthly Retail Trade Report, Seasonally Adjusted Monthly Sales for 448: Clothing and Clothing Accessories Stores

<sup>2</sup> Ibid.

collapse in demand has been felt throughout the supply chain, including very acutely among small manufacturers.

These grim statistics lead to the conclusion that U.S. textile manufacturers have suffered as much as any single segment of the U.S. economy because of the COVID crisis. Noting that our ability to make PPE long term in the United States depends on the overall health of a strong domestic textile industry, we must use all the tools necessary to ensure this small-business-heavy manufacturing sector and other key sectors survive and thrive long after this crisis is over.

### ***Textile Manufacturers' Increased Capital & Operating Expenses During the Pandemic***

To paraphrase an old adage, crisis creates opportunity — and the COVID-19 pandemic, while devastating to existing textile business, created opportunities for many of our small manufacturers to rise above the challenges and serve our country by producing lifesaving PPE. Many textile manufacturers retooled facilities and production lines, at their own considerable expense, to produce these essential products. This required industry to purchase expensive equipment, at a time with incredible market and capital uncertainty, to reconstitute production chains to make essential supplies. Simultaneously, industry needed to expend significant resources to ensure safe workplaces to bring workers back on the job and to acquire raw materials necessary for making PPE.

While much of the industry is automated with sophisticated production chains, textile manufacturing still requires trained workers onsite to operate machinery, conduct quality control, facilitate logistics, and complete other necessary duties that cannot be easily automated or offloaded to software. In order to provide a safe environment for their workforce, immediate capital expenditures were required for these small textile businesses to remain open during the pandemic.

A recent survey of our membership indicates expenses were vast and wide ranging, including purchasing:

- Disinfectant wipes and additional cleaning supplies
- Hand sanitizer, including public stations and personal supplies for employees
- Disposable and reusable face masks and other PPE for employees to use both at work and at home
- Instant thermometers for checking employees and visitors
- Specialized cleaning services, including rapid decontamination when infections were discovered; in many cases this included expanding places and surfaces that were cleaned, and increasing the number of cleanings per week
- COVID-19 testing and vaccination costs for workforce
- Installation of plexiglass dividers at entrances, in office spaces, break rooms, and work floors
- Expanded break areas with additional tables and seating to allow for safe social distancing
- Upgrades for portion of staff who could complete duties from home, including computer equipment and IT upgrades
- Bonuses, incentives, and “hero pay”

- Additional costs associated with requirements for companies to cover healthcare expenses for employees infected with coronavirus
- Acquiring raw material supply for manufacturing PPE
- Machinery upgrades to produce PPE and critical medical supplies

One small business, a fabric manufacturer, estimated their COVID-related expenditures in these areas over the past year to total \$200,000 just to ensure a safe workplace. All of these expenditures were necessary to remain operational, protect worker safety, and maintain productivity in the face of a severe economic crisis.

Throughout 2020, there was a high level of business uncertainty, and many small manufacturers did all they could to stay afloat until government relief arrived. It is impossible to fully quantify the uncertainty the pandemic created within the industry about the future stability of our business operations.

Now that PPE orders have largely subsided as China continues to dominate the marketplace and vaccines continue to be deployed, many companies are sitting with idle equipment purchased during the pandemic while struggling with legitimate concerns over the long-term viability of producing PPE in the United States. Further compounding the problem is a severe shortage of labor across the industry exacerbated by the COVID-19 crisis.

Without strong federal government policies to incentivize this production chain long term, including domestic procurement requirements and other production investments, our industry fears that this opportunity to onshore the domestic PPE supply chain will be lost forever. We simply cannot let that happen — this is a serious public health security and national security issue. Your continued leadership to find ways to bolster the small business industrial base is essential to improving the resiliency and global competitiveness of the U.S. textile industry and the overall industrial base.

### ***Textile Manufacturers' Access to Capital During the Pandemic***

As you can see, many of the solutions necessary for small textile manufacturers to weather the challenges of the pandemic required access to capital. Textile manufacturing is a capital-intensive industry, with small businesses reliant on massive outlays for facilities, machinery, automation, R&D, and workforce training and retention, among other areas. In addition, because textile manufacturing is increasingly automated, energy costs are a major operating expense for textile mills. For smaller businesses in our sector, Small Business Administration (SBA) programs serve an important role in ensuring they can remain viable in a highly competitive industry.

Our members have availed themselves of many federal small business programs available to them prior to and during the pandemic, including the Paycheck Protection Program (PPP), Economic Injury Disaster Loans (EIDL), Main Street Lending Program (MSLP), 7(a) loans, and 504 loans.

Overall, our membership appreciates several aspects of SBA loans, including the lower down payment and extended payment terms often associated with them. These advantages, however, are sometimes offset by other factors that can disincentivize their use. I will review some of these challenges shortly.

These various programs took on outsized importance this past year as manufacturers in crisis scrambled to access the capital needed to weather the pandemic.

### ***Paycheck Protection Program (PPP)***

We cannot overstate the value of the Paycheck Protection Program to small textile manufacturers. This program alone kept innumerable essential textile businesses open, thousands of workers on payroll, and facilities viable. Many of our small manufacturers consider the PPP as the lifeline that saved their businesses during the worst of the economic downturn experienced in 2020.

### ***Economic Injury Disaster Loans (EIDL) and Main Street Lending Program (MSLP)***

To a lesser extent, EIDL and MSLP were accessed by textile manufacturers during this past year. Our members have also shared that there were unexpected challenges in attempting to access these programs as additional avenues of support.

A small textile manufacturer from the northeastern United States shared with us that they applied for both PPP and EIDL funds at approximately the same time in early April 2020. The PPP funds were disbursed within about two weeks and kept every employee on payroll for two months. The EIDL, however, was not as helpful for several reasons. First, the borrower was not provided with a formula upfront to calculate how much capital they were eligible to borrow. Instead, they submitted significant amounts of personal and business information to the SBA with no idea what kind of relief they could expect to receive. It took about 60 days to learn that they would receive only a fraction of what was needed with no explanation about why the figure was unexpectedly low.

This past January, this same borrower applied for a second EIDL loan only to learn that they had unwittingly maxed out their first loan — the one with the smaller than expected benefit — which as they understood it was due to the small amount of funding available to SBA for the program. This borrower felt that a significant amount of their time was wasted in this effort, time that could have been saved had SBA more clearly communicated the program's details and informed them early on that they did not qualify for additional funds.

In general, our membership found these programs to be too complicated in terms of eligibility requirements and cumbersome in terms of the application procedures to respond to the emergency environment ushered in by the COVID pandemic.

In a business environment that demands a level of certainty, we would recommend that SBA improve communication with prospective borrowers by providing concise, easy-to-understand guidance about each of the programs available to small businesses, including eligibility criteria and ways to calculate their expected benefits. This is especially important as small businesses often have limited staffing, time, and resources in comparison to larger companies who might retain dedicated legal and financing staff.

### ***7(a) and 504 Loans***

When it comes to the more standard loans available to small businesses through SBA, we note some frustration some small companies have expressed when attempting to access these funds.

As mentioned earlier, SBA loans have attractive upsides, including lower down payments, extended payment terms, and currently extremely generous interest rates. For certain companies, these advantages can be offset by several factors that, on balance, might make SBA loans less attractive options.

Historically, SBA loans carry with them expensive upfront fees, significant paperwork, and other policies that some find counterproductive, and these loans can rely too much on personal guarantees. Each of these issues can present a barrier to accessing the capital needed to build and grow a competitive small business.

One of our small businesses shared recently that they have not taken advantage of SBA loans in the past because they do not own real estate, and their other assets were already pledged to the bank as collateral on traditional loans.

We would ask the subcommittee to consider taking steps to help mitigate some of these problems by reviewing ways to reduce paperwork, lower application fees, and reduce personal guarantees. The subcommittee should also examine ways in which banks can also play an increased role in assisting small businesses by sharing these responsibilities with borrowers.

### ***Recommendations***

One silver lining associated with the immense challenges posed by the COVID-19 crisis is that it afforded the domestic textile industry an opportunity to demonstrate its enormous resiliency, flexibility, and overall value to the U.S. economy. Despite the fact that there was virtually no U.S. production of textile-based PPE prior to the pandemic, the heroic actions of domestic textile manufacturers resulted in the ability to supply homegrown PPE at the height of the greatest healthcare emergency our country has faced in the past 100 years.

The ability to successfully respond to this current challenge was honed by a series of severe trials that have confronted the U.S. textile sector over past three decades. Most notably among them was the emergence of highly subsidized, state-owned competitors in China and Vietnam that continue to benefit from central government planning intended to help those countries dominate global textile markets.

These difficult, unfair, and often illegal circumstances in recent years have proven the need for sound government policies that allow U.S. manufacturers a reasonable and legitimate ability to compete in an extremely hostile global marketplace. From a textile perspective, chief among these valuable policies is the Berry Amendment, which governs textile related defense procurement, and the strong rules of origin that govern trade under our various free trade agreements, including USMCA and CAFTA-DR.

As we exit the current crisis, rational federal policies are once again needed to ensure a stable overall environment where small businesses can compete and thrive, and targeted initiatives are required to ensure that domestic supply chains for critical materials, such as PPE, exist in the United States. In that regard, NCTO has proactively coordinated with 20 additional trade associations and labor groups representing the entire domestic supply chain to develop and propose a commonsense approach to strengthening the integrated U.S. textile sector, including fiber producers, yarn and fabric

manufacturers, cut-and-sew operators, and American workers.<sup>3</sup> We are united in our support for key policy improvements in a number of areas, such as those listed below.

**Strengthen Buy American Procurement Rules:** First, we must maintain and expand strong domestic procurement rules for federal purchases of textile products. These buy American rules should mirror the existing Berry Amendment, which can serve as a model for any new domestic procurement rules covering federal purchases of PPE.

Our military leadership recognizes the importance of having a U.S. manufacturing base capable of servicing its mission critical needs. Otherwise, our national defense would be severely hampered in times of conflict by disrupted international supply chains and our military effectiveness beholden to the whims of potentially hostile regimes who control production through state-owned businesses.

We are pleased that the President's Build Back Better initiative outlines the importance of having stronger domestic manufacturing supply chains. In January, President Biden issued an Executive Order to identify ways to strengthen Buy American rules. For our industry, it is essential that we couple these Executive Orders with legislation that ensures our supply chain is resilient and significantly stronger as we confront the next crisis.

The Berry Amendment, a domestic procurement law which ensures that we have the domestic industries capable of servicing our men and women in uniform, sets the standard that America needs to follow to safeguard our public health. As with military procurement, new federal government domestic purchasing requirements for PPE will create the stable demand for U.S.-made PPE that will incentivize investment in and the viability of domestic PPE manufacturing. This is especially true for small businesses who need a strong and consistent demand signal from the federal government in order to justify the capital investment required to expand U.S. PPE production.

Further, our taxpayer dollars should not go to China and other offshore PPE producers, only to have those same offshore producers withhold access to vital supplies and equipment in the face of global shortages. To the contrary, applying strong procurement rules across federal government purchases of PPE will unequivocally lead to investments in this sector and help onshore this industry.

In this regard, we support H.R. 1466, the American PPE Supply Chain Integrity Act, sponsored by Representatives McHenry of North Carolina and Pascrell of New Jersey. This bipartisan bill would implement a buy-American mandate modeled on the Berry Amendment across all key federal agencies involved in PPE procurement.

In addition to the need for buy-American mandates for targeted product sectors, further policy enhancements are needed to nurture these important supply chains, including:

**Provide Funding Assistance for Companies to Reconstitute Domestic Supply Chains Important to U.S. National and Healthcare Security:** This can be done through focusing the Defense Production Act and federal production grants and tax credits on textiles and other key sectors to support future investments in manufacturing capacity for strategically important supply chains.

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<sup>3</sup> Joint Statement on Policy Objectives for Reshoring and Safeguarding Domestic PPE Manufacturing, <http://www.ncto.org/wp-content/uploads/2020/07/2020-07-20-Joint-Industry-Statement-on-PPE-Principles-Final.pdf>

In this regard, we support H.R. 346, the SUPPLIES Act. This bill, sponsored by Chairwoman Davids, will create a \$100 million fund to help small businesses dedicate new and expand existing manufacturing capacity to the production of medical PPE in the United States.

**Key Contracting Reforms:** Private sector investment in important U.S. supply chains can be further bolstered by contracting reforms that promote long-term contracts for U.S. suppliers and that emphasize the following:

- Employing a “best value” as opposed to “lowest price technically acceptable” selection process in making awards
- Awarding contracts directly to manufacturers over distributors
- Dedicating a certain portion of contracts to set-asides for small business manufacturers with proven abilities to manufacture products
- Conducting a due diligence process in which the U.S. government fully vets awardees and ensures contracts are awarded to those who clearly demonstrate the ability to meet the federal government obligations, including having the necessary credit to execute on contract awards

We believe these vetting tools being deployed prior to contracts being awarded will help strengthen the federal government contracting process and ensure the government is receiving quality/timely products.

These reforms are essential to strengthen the U.S. industrial base and ensure the government is receiving quality product from capable domestic suppliers. These necessary contract reforms will help U.S. manufacturers better compete with offshore suppliers who often have significant price advantages due to government subsidies, along with undervalued, and in some abhorrent instances, forced labor.

**Streamline the SBA Loan Application Process:** In addition to designating specific funding for small businesses involved in strategic supply chains, we believe that a streamlining of SBA’s loan process is warranted as well as clear communication with borrowers. This would include reducing the significant paperwork required in the application process and lowering borrowers’ costs associated with SBA loans, like expensive upfront fees and excessive personal guarantees. These issues serve as a hidden deterrent in the SBA application process for small businesses who are naturally constrained from a personnel and resource standpoint.

**Provide Additional Funding for Workforce Training:** As a result of the pandemic, our industry is finding it increasingly difficult to find workers at a time when orders are rebounding. This significant labor shortage cannot be overstated. Incentivizing small manufacturers and providing additional tools for workforce training and recruitment would help the industry more fully rebound.

### ***Conclusion***

In summary, the COVID-19 crisis once again demonstrated the enormous contribution the U.S. textile industry makes to our overall economy and to our national and healthcare security. While we have suffered significantly due to market contractions and forced production shutdowns, we are confident that the domestic textile industry will exit the current crisis stronger and more agile than before the onset of the pandemic. With that said, NCTO and our members stand ready to work with this



committee and the Congress as a whole to enact rational policies that strengthen U.S. small businesses, and particularly those small businesses involved in strategically critical domestic supply chains.

Thank you for allowing to me this opportunity to testify at this important hearing, and I look forward to working with you to further strengthen America's small business community.