

The Transpacific Partnership (TPP):

An Overview of the Rules of Origin and Market Access Commitments for Textiles and Apparel

U.S. Department of Commerce
Office of Textiles and Apparel
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The Trans-Pacific Partnership (TPP)

- A 21st Century agreement between 12 nations representing 40% of the world's GDP.
- Opens markets to U.S. goods and services exports in one of the fastest growing regions in the world.
- Levels the playing field for American workers & American businesses, leading to more Made-in-America exports and more higher-paying American jobs here at home.
- TPP advances our values, helping to build a global trading system that will allow our workers to effectively compete in the modern economy.

12 Partner Countries

- **Australia**
- **Brunei**
- **Canada**
- **Chile**
- **Japan**
- **Malaysia**
- **Mexico**
- **New Zealand**
- **Peru**
- **Singapore**
- **United States**
- **Vietnam**

Bilateral FTA already in force

Textiles Chapter Elements

- Strong Customs enforcement language
- Yarn-forward rule of origin with flexibilities
- Balanced market access opportunities and protections

TPP Moving Forward

- Negotiations completed October 4, 2015
- NEXT STEPS:
 - Agreement signed by countries
 - Approval by U.S. Congress
 - Approval by partner countries
 - Implementation

THE U.S. TEXTILE AND APPAREL INDUSTRY – A GLOBAL LEADER

The U.S. Textile and Apparel Industry

- The U.S. has a strong and diverse textile industry, manufacturing a range of high quality products including fibers, yarn, fabric, and apparel.
- The U.S. is the **fourth largest single country exporter** of textiles (behind China, India, and Germany), with \$14.4 billion in exports in 2014.
- A significant trade partner to TPP countries and the world, the U.S. imported \$93.2 billion in apparel and \$28.3 billion in textiles in 2014.
- In 2014, the U.S. was the **largest single country importer of apparel and the largest single country importer of textiles**, accounting for 18% of total world imports of apparel and 8% of textiles.

Source: WTO Statistics Database, "Time Series on International Trade".

TPP Region Has Substantial Textile and Apparel Production

- Total TPP textile exports in 2014 - \$34.3 billion¹
- Total TPP apparel exports in 2014 - \$40.4 billion¹
- The four largest TPP textile exporters – the U.S., Japan, Vietnam and Mexico – represent over 80 percent of total TPP textile exports.

¹Source: *WTO Statistics Database, "Time Series on International Trade"*.

²Source: *Global Trade Atlas*.

THE TEXTILE AND APPAREL PRODUCT SPECIFIC RULES OF ORIGIN

RULES

If... Then...

If a good meets the TPP rule of origin,



https://www.mfat.govt.nz/assets/_securedfiles/Trans-Pacific-Partnership/Annexes/Annex-4-A.-Textiles-and-Apparel-Product-Specific-Rules-of-Origin.pdf

Then it can be imported into a TPP country at the negotiated tariff rate in the TPP market access schedule, https://www.mfat.govt.nz/assets/_securedfiles/Trans-Pacific-Partnership/Annexes/2-D.-United-States-Tariff-Elimination-Schedule.pdf

Rule of Origin, Generally:

- **Fibers:** fibers must originate
- **Yarns:** fibers and extrusion or spinning must originate
- **Fabrics**
 - **Woven:** yarn forward (yarns must originate, fibers from anywhere)
 - **Knit:** fiber forward (fibers and yarns must originate)
- **Apparel:** yarn forward (yarns and fabric must originate, fibers from anywhere)

Yarn-Forward Rule of Origin for Apparel

Yarn →

Fabric →

Apparel



The Rule of Origin Applies to the ‘Essential Character’



Collars, cuffs, linings, and pocket bag fabric do not have to meet the rule of origin

Chapter Notes

- **Narrow Elastic Fabrics** must originate for apparel items in chapters 61 and 62
- **Sewing Thread** must originate for items in chapters 61, 62, and 63



Flexibilities

- ***Viscose Rayon Filament yarn and Vegetable fibers, yarns and fabrics of Ch. 53***
- ***De Minimis: 10%*** by weight of the fibers and yarns of a product can be from outside the region. However, all **elastomeric** content must be sourced from the region
- ***Single Transformation (Cut-and-sew)***
 - Travel Goods
 - Brassieres
 - Synthetic Knit and Woven Babies Garments
 - Carpets / Rugs
- ***Short Supply Products*** (187 fibers, yarns, fabrics)
- ***Vietnam Earned Import Allowance Program***

The Short Supply List

- Fibers, Yarns, or Fabrics on the Short Supply List may be sourced from outside the TPP region for use in otherwise qualifying goods
- The TPP tariff rate applies to the goods using inputs from the Short Supply List
- Chapter notes relating to sewing thread and narrow elastics for goods of Chapter 61, 62, 63 apply to items incorporating products from the Short Supply List
- Appendix 1 to Annex 4-A: Short Supply List of Products, https://www.mfat.govt.nz/assets/_securedfiles/Trans-Pacific-Partnership/Annexes/Appendix-1-to-Annex-4-A.-Short-Supply-List-of-Products.pdf

Accumulation Among Parties

- Textile and apparel goods may be sourced from any TPP country and can be made using inputs from any or all TPP countries to gain preferential tariff treatment
- When accumulating textile inputs to build a good, the good may not temporarily leave the TPP region and enter the Customs territory of a non-TPP country and re-enter the TPP region

Handmade or Folkloric Goods

Can be eligible for duty-free or preferential treatment that the importing/exporting Party mutually agree fall within:

- Hand-loomed fabrics of a cottage industry;
- Hand-printed fabrics with a pattern created with a wax-resistance technique (batik);
- Hand-made cottage industry goods made of such hand-loomed or hand-printed fabrics; or
- Traditional folklore handicraft goods

MARKET ACCESS (TARIFF ELIMINATION COMMITMENTS)

The U.S. TPP Market Access Package for Textiles and Apparel

A carefully balanced package

- All duties on qualifying textile and apparel products are cut on day 1.
- Duties on less sensitive qualifying products eliminated completely on day 1.
- Duties on more sensitive qualifying products phased out over 10 or 12 years.
- Combination of duty elimination and cuts yields valuable savings for importers
 - Importers paid \$1.8 billion in duties in 2014 on imports of apparel from TPP countries, including \$1.7 billion from Vietnam alone

U.S. Market Access Commitments

Staging Categories

- **EIF:** duty free on day 1;
- **B5:** 20% equal annual cuts beginning on day 1; duty-free on January 1 of year 5;
- **US10/US11:** 50% up-front cut followed by holding duty at resulting rate until elimination on January 1 of year 11 for fibers, yarns, knit fabric, and knit apparel; January 1 of year 13 for woven fabric and woven apparel;
- **US8/US9:** 35% up-front cut followed by holding duty at resulting rate until day 1 of year 6 for fibers, yarn, knit fabric, and knit apparel, or day 1 of year 7 for woven fabric and woven apparel; additional 15% cut of the base rate and then holding at resulting rate until duty is eliminated on January 1 of year of 11 or January 1 of year 13; and
- **US6/US7:** 35% up-front cut followed by holding duty at resulting rate until January 1 of year 11 for fibers, yarns, knit fabric, and knit apparel; or January 1 of year 13 for woven fabric and woven apparel

U.S. Market Access Commitments - Examples

- *HTSUS 61045200, Women's or girls' skirts & divided skirts, knitted or crocheted, of cotton:*
 - Staging category EIF
 - Current MFN: 8.3%
 - Duty-free on day 1 (of entry into force)

- *HTSUS 62019335, Men's or boys' anoraks, windbreakers and similar articles, not knitted or crocheted, of manmade fibers, nesoi:*
 - Staging category B5
 - Current MFN: 27.7%
 - 20% cut to tariff on day 1 = 22.2%, followed by 20% equal annual cuts in years 2 through 4, then duty free on day 1 of year 5;

U.S. Market Access Commitments - Examples

- *HTSUS 62034340, Men's or boys' trousers, breeches & shorts, of synthetic fibers, containing under 15% by weight down etc, containing under 36% by weight wool, not water resistant, not knitted or crocheted:*
 - Staging category US7
 - Current MFN: 27.9%
 - 35% cut to tariff on day 1 = 18.1%; tariff remains at this rate until elimination on day 1 of year 13
- *HTSUS 61046320, Women's or girls' trousers, breeches & shorts, knitted or crocheted, of synthetic fibers, nesoi:*
 - Staging category US10
 - Current MFN: 28.2%
 - 50% cut to tariff on day 1 = 14.1%; tariff remains at this rate until elimination on day 1 of year 11

U.S. Market Access Commitments - Examples

- *HTSUS 61051000, Men's or boys' shirts, knitted or crocheted, of cotton:*
 - Staging category US8
 - Current MFN: 19.7%
 - 35% cut to tariff on day 1 = 12.8%; tariff remains at this rate until day 1 of year 6, when there is additional 15% cut to the base rate calculated down from 12.8% = 9.8%, followed by tariff elimination on day 1 of year 11
- *HTSUS 62033190, Men's or boys' suit-type jackets and blazers, of wool or fine animal hair, not knitted or crocheted:*
 - Basket US9
 - Current MFN: 17.5%
 - 35% cut to tariff on day 1 = 11.4%; tariff remains at this rate until day 1 of year 7, when there is additional 15% cut to the base rate calculated down from 11.4% = 8.8%, followed by tariff elimination on day 1 of year 13

Opportunities for Importers: Certain Products in Staging Category EIF

- All dresses (knit and woven, all fiber types)
 - In 2014, Vietnam exported over \$700 million in dresses to the U.S., and importers paid over \$100 million in duties
 - With tariffs as high as 16% and over \$4.9 billion in imports paying full duty, dresses are high value proposition for movement to a TPP Party.
- All textile-type travel goods
 - In 2014, Vietnam exported over \$385 million in textile-type travel goods to the U.S., and importers paid over \$57 million in duties
 - With tariffs as high as 17.6% and more than \$3.9 billion in imports paying full duty, textile-type travel goods are high value proposition for movement to a TPP Party.

TPP Partner Country Tariff Commitments

- Australia, Brunei, Canada, Chile, Japan, Malaysia, New Zealand, and Vietnam will eliminate duties on upwards of 80% of its tariff lines on day 1.
- The longest duty phase-out for any of the TPP Partner countries is 15 years for Mexico and Peru, covering certain inputs and finished items.
- For the TPP Partner countries' market access schedules, <https://ustr.gov/trade-agreements/free-trade-agreements/trans-pacific-partnership/tpp-full-text>

Note: Singapore is already duty-free.

Benefits to U.S. Exporters of Textiles & Apparel

- ***Vietnam, Non-Wovens*** – Exports of non-woven fabric to Vietnam grew an impressive 951% from 2009 to 2014, to \$23 million. The TPP will eliminate Vietnam’s tariffs on non-woven textile products, which average 12%, immediately upon entry into force.
- ***Japan, Men’s & Boys’ Trousers & Knit Shirts*** – Japan is the 5th largest market for U.S. exports, which totaled \$32.6 million in 2014, an increase of 31% from 2009. The TPP will eliminate tariffs, which average 9.8%, immediately upon entry into force.
- ***Japan, Synthetic Textiles*** – Since 2009, U.S. exports of synthetic fibers, yarns, and fabrics to Japan have grown by 61%, and last year U.S. manufacturers exported \$91 million of these products to Japan. However, U.S. exporters face tariffs on their goods ranging from 2.7% to 10%. Under TPP, these tariffs will be eliminated immediately, further opening the Japanese market to U.S. synthetic textile manufacturers.

Textile and Apparel Safeguard Provision

- Can be used by a TPP Party if imports of a textile or apparel good benefiting from the reduction or elimination of duty under the TPP are found to be causing serious damage or actual threat thereof to the domestic industry producing a like or directly competitive good.
- TPP Party can increase rate of duty to a level not to exceed the lesser of:
 - the most-favored-nation (MFN) applied rate of duty in effect at the time the action is taken; or
 - the MFN applied rate of duty in effect on the day immediately preceding date of entry into force of this Agreement.
- Can be applied for 2 years with possibility of 2-year extension.
- Cannot be maintained beyond 5-year period after products are duty-free
- Requires compensation by the TPP Party taking the action.

On-Line Resources

- Office of Textiles and Apparel (OTEXA), <http://otexa.trade.gov/>
- Legal Verified Text, <https://www.mfat.govt.nz/en/about-us/who-we-are/treaty-making-process/trans-pacific-partnership-tpp/text-of-the-trans-pacific-partnership>
- USTR - <https://ustr.gov/trade-agreements/free-trade-agreements/trans-pacific-partnership/TPP-Full-Text>
- U.S. Customs – Import issues and Advanced Rulings, <http://www.cbp.gov/trade>
- U.S. International Trade Commission – Tariff Schedule (HTSUS), <http://www.usitc.gov/>

TPP Questions?

Contact the U.S. Department of Commerce,
Office of Textiles and Apparel (OTEXA)

Robert Carrigg, robert.carrigg@trade.gov
(202) 482-2573

Richard Stetson, richard.stetson@trade.gov
(202) 482-2582

Maria D'Andrea, maria.d'andrea@trade.gov
(202) 482-1550