The Importance of CAFTA-DR and NAFTA to the U.S. Textile Industry

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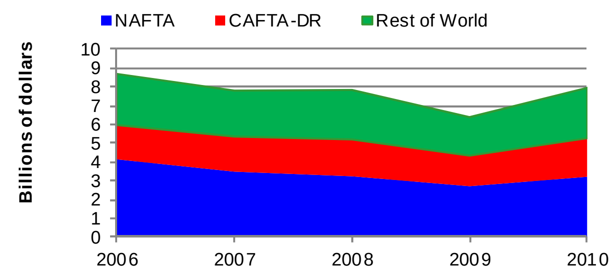
The U.S. textile industry—consisting namely of yarns and fabrics—has sought to maintain and grow its downstream apparel markets in the Western Hemisphere, particularly countries with which the United States has a free trade agreement (FTA) or trade preference program. To help preserve and expand its export markets, the U.S. textile industry routinely advocates for a yarn-forward rule of origin for apparel in FTAs, most recently in the Trans-Pacific Partnership Agreement negotiations.[1] Under a yarn-forward rule, the yarn and fabric components of an apparel product must be produced in the United States and/or its FTA partner country in order for the apparel item to be treated for Customs purposes as an originating product under the FTA (and therefore qualify for duty-free treatment under the FTA). Owing in part to the inclusion of such rules and their proximity to the United States, the CAFTA-DR and NAFTA countries (particularly Mexico) are important markets for certain U.S. yarns and fabrics.[2] In some cases, over one-half of U.S.-produced yarns and fabrics are exported to the CAFTA-DR and NAFTA countries.

NAFTA and CAFTA-DR countries represent about 60 percent of the U.S. textile export market.

- While the NAFTA countries are still major markets for U.S. textile exports, the share of U.S. textile exports going to these countries declined from 48 percent in 2006 to 40 percent in 2010. In absolute terms, U.S. exports to these countries declined by 22 percent during 2006–10 to $3.2 billion, largely due to a decline in demand from downstream industries, particularly apparel.
- U.S. exports to the CAFTA-DR countries increased in terms of market share (from 21 percent in 2006 to 26 percent in 2010) and value (by 12 percent during 2006–10 to $2.1 billion). Some of this growth is likely attributable to the CAFTA-DR, which entered into force for five of the FTA partners in 2006[3] and encouraged the use of U.S. textile inputs in apparel produced for the U.S. market.

U.S. textile exports to the NAFTA and CAFTA-DR countries totaled $5.3 billion or two-thirds of total U.S. textile exports in 2010.

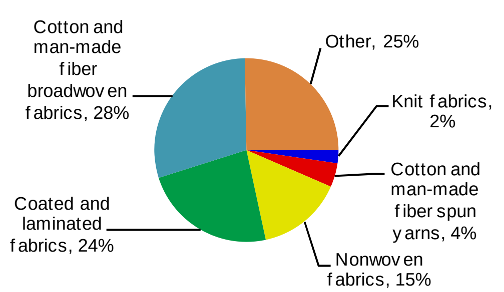


Source: USITC DataWeb.

Mexico is the larger of the two NAFTA markets for U.S. textile exports[4]

- Mexico was the largest market for U.S. textile exports in 2010, accounting for 27 percent ($2.1 billion) of the $8.0 billion in total U.S. textile exports in 2010.
- U.S. textile exports to Mexico are used in numerous applications, including apparel, industrial products, and other end-uses. Major exports for apparel end-use included cotton and man-made fiber broadwoven fabrics.

U.S. textile exports to Mexico are diversified across many product segments.



Source: USITC DataWeb.

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[1] American Manufacturing Trade Action Coalition and National Council of Textile Organizations joint press statement, "U.S. & Regional Textile Groups Press for Jobs-Oriented 'Yarn-Forward' Rule in TPP Negotiations in Chicago," September 13, 2011, http://ncto.org/.

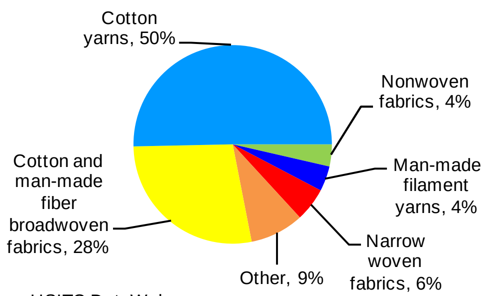
[2] These yarns and fabrics are used in production of apparel in the CAFTA-DR and NAFTA countries. U.S. apparel imports from these countries accounted for 71 percent ($9.3 billion) of the value of U.S. apparel imports under FTAs and preference programs in 2010. U.S. apparel imports under all FTAs and trade preference programs accounted for 22 percent of the value of total U.S. apparel imports in 2010.

[3] The agreement entered into force for the United States, El Salvador, Guatemala, Honduras, and Nicaragua in 2006; for the Dominican Republic in 2007; and Costa Rica in 2010.

[4] Canada received only 13 percent ($1.1 billion) of total U.S. textile exports in 2010. A large share of U.S. textile exports to Canada consisted of textiles typically used in industrial and other non-apparel applications.

Most U.S. textile exports to CAFTA-DR countries are used in apparel.

Cotton yarns accounted for one-half of the value of total U.S. textile exports to the CAFTA-DR countries in 2010.



Source: USITC DataWeb.

- The largest CAFTA-DR market for U.S. textile exports is Honduras, which accounted for 57 percent ($1.2 billion) of U.S. textile exports to the CAFTA-DR region in 2010.

- U.S. textile exports to the CAFTA-DR region are concentrated in a few product areas, particularly cotton yarns, and to a lesser extent, broadwoven fabrics. U.S. exports of cotton yarns to the region are typically used to produce knit apparel (e.g., t-shirts, underwear, and socks).[5] Broadwoven fabrics are used to produce woven apparel, especially men's and women's trousers.

The CAFTA-DR countries and Mexico are particularly important markets for certain U.S.-produced textiles.

There are significant incentives for using U.S.-produced inputs in apparel made in the CAFTA-DR and NAFTA regions, since U.S. apparel imports under these FTAs must generally be made with U.S. or partner country yarns and fabrics to gain duty-free treatment. For example, the duty savings on U.S. imports of cotton t-shirts under these FTAs is 16.5 percent and for men's denim or cotton twill trousers it is 16.6 percent.[6] The following yarns and fabrics are examples of U.S.-produced textile products that are an integral part of the apparel supply chains in the Western Hemisphere. The figures show total U.S. production for these products, broken out by domestic consumption and exports.

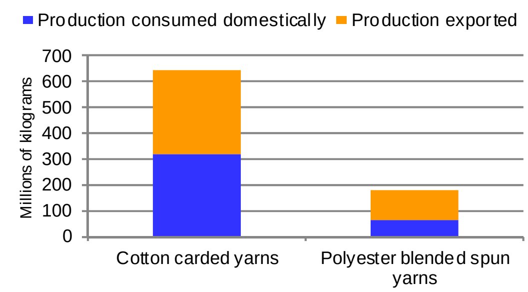
- **Cotton carded yarns:** Nearly 90 percent of U.S. exports of cotton carded yarns were shipped to the CAFTA-DR countries in 2010, accounting for about one-half of domestic production of such yarns.

- **Polyester blended spun yarns:** In 2010, U.S. exports of polyester blended spun yarns to the CAFTA-DR countries accounted for 62 percent of the total volume of U.S. production and nearly all U.S. exports of such yarns.

- **Blue denim fabrics:** Virtually all domestically produced blue denim was exported in 2010. The largest U.S. export market for this fabric was Mexico (68 percent), followed by the CAFTA-DR countries (23 percent).

- **Other cotton twill fabrics:** Over 90 percent of the volume of U.S. exports of these fabrics were shipped to the NAFTA and CAFTA-DR countries in 2010, with Mexico accounting for the largest share of the exports (63 percent).

A large share of certain domestically produced yarns were exported in 2010.



Source: *USDOC, Current Industrial Reports, Textiles*, 2010.

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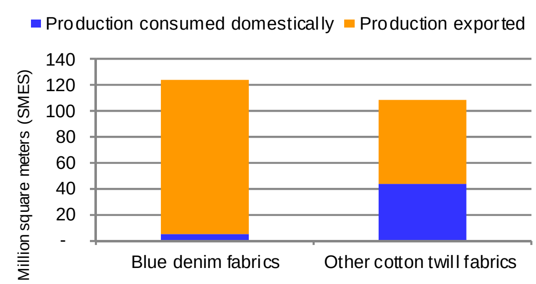

Source: *USDOC, Current Industrial Reports, Textiles*, 2010.

Sources: Unless otherwise noted, all of data are based on U.S. import and export data from U.S. International Trade Commission, Interactive Tariff and Trade DataWeb (DataWeb). http://www.dataweb.usitc.gov; U.S. Department of Commerce (USDOC), *Current Industrial Reports, Textiles*, 2010, (MQ313A(10)-5).

[5] U.S. textile industry officials, telephone interviews by USTIC staff, April 4–6, 2010.

[6] The savings is calculated based on the normal trade relations duty rates for U.S. Harmonized Tariff Schedule (HTS) subheadings 6109.10.00 (t-shirts) and 6203.42.40 (men's woven cotton pants).

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