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The Impact of Tariff Preference Levels on U.S. Textile and Apparel Trade

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Abstract

Certain U.S. bilateral or multilateral free trade agreements contain tariff preference levels (TPLs) that permit a limited quantity of specified finished textile and/or apparel goods to enter the U.S. market at preferential duty rates despite not meeting the agreement's required tariff shift rules. This article seeks to examine the effect of TPL provisions that have expired, or will expire in 2018, on U.S. textile and apparel imports and exports from certain FTA partners, including Bahrain, Nicaragua and Costa Rica (under CAFTA-DR), Morocco, Oman, and Singapore. It will discuss import and export trends after TPL implementation and in some cases, TPL expiration, in the context of an FTA partners' industry structure and competitiveness as a U.S. textile and apparel supplier. Such trends vary widely across countries, and analysis of the factors influencing these trade flows suggests that the effectiveness of TPLs is dependent upon myriad factors, including the structure of the partner country's textile and apparel sector, the country's competitiveness as a U.S. supplier, and existence or absence of relationships with U.S. textile firms.

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Introduction

Preferential rules of origin for textiles and apparel under a majority of U.S. free trade agreements (FTAs) are based on tariff shift rules that generally follow a yarn-forward concept for apparel and made-up articles, and a fiber-forward concept for yarns and some knit fabrics. The yarn-forward concept means that yarn used to form the fabric that is subsequently used to produce apparel and textile articles must originate in the FTA partner country or the United States in order for the finished product to be eligible for preferential duty rates. In order for a yarn to originate, it must be formed and finished in one of the parties to the FTA. Under the yarn-forward concept, the origin of the fiber used to produce the yarn may originate from anywhere, even a non-FTA partner. The fiber-forward concept means that the fiber used to form the yarn or fabric that is subsequently used to produce textiles or apparel articles must originate in the FTA partner country or the United States. The FTAs examined in this paper generally follow a yarn-forward concept, although there are some exceptions noted in the FTAs requiring a fiber-forward concept for knit fabrics or fabric-forward concept for certain finished goods. For example, the U.S.-Central American and Dominican Republic Free Trade Agreement (CAFTA-DR) generally follows a yarn-forward rule concept, with the exception that certain cotton and manmade fiber knit fabric follows a fiber-forward rule of origin, meaning that either the raw cotton must be regionally grown in any CAFTA-DR country or the United States, or the manmade fibers must be regionally produced.[1]

Some U.S. bilateral or multilateral FTAs contain an exception to the tariff shift rule known as tariff preference levels (TPL). These specific TPL provisions vary depending on the FTA, but all permit a limited quantity of specified finished goods to enter the U.S. market at preferential duty rates despite not meeting the required tariff shift rules. For example, for apparel, most TPLs require garments to be cut and sewn in the FTA partner country, but the fabric may be of any origin. In most cases, TPLs are exempt from chapter rules requiring original sewing thread, visible linings, narrow elastics or pocketing fabrics used in the production of apparel.[2] TPLs have annual limits and are measured in square meters equivalent (SMEs), the common unit of measurement for textile and apparel goods, in most cases.[3] Once an annual TPL limit is filled, additional finished goods not meeting the FTA rules of origin are subject to normal trade relations (NTR) duty rates when imported into the United States. Some of these NTR rates are as high as 32 percent for manmade fiber apparel products.

With the exception of the North American Free Trade Agreement (NAFTA) and the U.S.-Chile FTA, the TPL provisions found in U.S. FTAs are temporary measures that expire (table 1). The U.S.-Singapore FTA was the first FTA negotiated that contained an expiration date for its TPL provision, with subsequent FTAs following suit. NAFTA and the U.S.-Chile FTA were negotiated and implemented before the FTAs discussed in this paper. These two FTAs have permanent TPL provisions with no expiration dates. This paper seeks to examine the TPL utilization rates in FTAs that have an existing TPL that will expire by the end of 2018, or a TPL that has already expired. Four countries have expired TPL provisions: Bahrain,

[1] Baltazar, "CAFTA-DR Overview: The Agreement in Summary," July 21, 2006.
[2] Trans-Pacific Partnership Apparel Coalition, "Tariff Preference Levels," August 2013.
[3] Some TPLs are measured in kilograms, as in the case with cotton and manmade fiber spun yarn in NAFTA.

Nicaragua (as part of CAFTA-DR), Morocco and Singapore. Both Costa Rica (as part of CAFTA-DR) and Oman have TPLs that expire on December 31, 2018.

The inclusion of the TPL provision with an expiration date may have been due to trade negotiators' need to secure Congressional approval in the face of industry opposition, as well as domestic industry's concerns following the elimination of import quotas under the WTO Agreement on Textiles and Clothing (ATC).[4] This paper will analyze how U.S. imports and exports in each FTA partner country have been affected by the inclusion of a TPL provision as part of the preferential rules in selected FTAs, and in particular, the effect of the TPL expiration. With the exception of Singapore, most of these TPL expirations occurred within the last 3–4 years, making it too early to assess the long-term impact of TPL expiration.

Table 1: U.S. bilateral or multilateral trading partner, tariff preference level, and years in effect

Country	TPL Coverage	TPL HTS provision	Years in effect	TPL limit ranges (SMEs)
Bahrain	Cotton and manmade fiber fabric, apparel, and made-ups	9914.99.20	2006–16	65 million
Nicaragua[(a)]	Cotton and manmade fiber apparel;[(b)]sublimit for certain wool suit coats	9915.61.01	2006–14	100 million
Costa Rica[(a)]	Tailored wool woven apparel; certain tailored wool woven fabric; certain swimwear	9915.62.05 9915.62.15 9915.61.03 9915.61.04	2009–18	100,000–500,000[(c)]
Morocco	Cotton, wool, and manmade fiber fabric goods and apparel; yarns and knit fabric from sub-Saharan African countries' cotton	9912.99.20	2006–15	4.285–30 million[(d)]
Oman	Cotton and manmade fiber apparel	9916.99.20	2009–18	50 million
Singapore	Cotton and manmade fiber apparel	9910.98.01 through 9910.61.89	2004–11	3.125– 25 million[(d)]

Source: U.S. Harmonized Tariff Schedule, 2010 (Revision 2 Edition), Chapter 99.

[(a)] These countries are part of CAFTA-DR, but have separate TPL provisions, which vary by scope of coverage and duration.

[4] The ATC and its predecessor, the Multifiber Arrangement (MFA), governed most world trade in textiles and apparel by providing a framework for quotas to limit imports from developing countries into developed-country markets. The quotas were removed in phases under the ATC, with the final removal taking place after its expiration at the end of 2004.

[b] Under Nicaragua's "one-to-one" matching rule in CAFTA-DR, each shipment of pants made from either cotton or manmade fiber woven fabrics must be matched with a shipment of pants produced from cotton woven fabric made in the United States from yarns formed in the United States. Shortfalls in this provision are charged against TPL limits for Nicaragua in the next year.

[c] Under CAFTA-DR, Costa Rica's TPL limits vary by item: 500,000 for HTS 9915.62.05; 500,000 for HTS 9915.62.05; and 100,000–133,823 for HTS 9915.61.03 and HTS 9915.61.04.

[d] Both the U.S.-Morocco FTA and the U.S.-Singapore FTA had TPL provisions with phased out annual limits. The limit for the first year of the U.S.-Morocco FTA was 30 million SMEs, which decreased to 4.285 million SMEs in the last year of the TPL provision. The U.S.-Singapore FTA contained a TPL limit of 25 million SMEs for the first year, which scaled down to 3.125 million SMEs for the last year of the TPL provision.

Effect of Tariff Preference Level Implementation and Expiration

This paper addresses the impact of TPLs on U.S. trade with countries that have or had a TPL provision under a bilateral or multilateral FTA with the United States. Most of these FTA partners have not ranked among the top ten suppliers to the United States since their FTAs went into effect (table 2), but their duty-free preferences have allowed them to gain some import share growth in the U.S. textile and apparel market (table 3).[5] China remains the largest importer of textiles and apparel to the United States, accounting for 37 percent of U.S. imports from 2006–17.

Table 2: Top 10 suppliers of U.S. textile and apparel imports (with corresponding U.S. exports), 2006–17

Ranking	Country	U.S. imports (millions $)	U.S. imports (percent)	U.S. exports (millions $)	U.S. exports (percent)
1	China	447,497	37	12,543	5
2	Vietnam	93,378	8	766	[b]
3	India	71,907	6	1,750	1
4	Mexico[a]	58,211	5	61,981	24
5	Indonesia	56,678	5	1,505	1
6	Bangladesh	53,066	4	214	[b]
7	Pakistan	36,311	3	455	[b]
8	Honduras[a]	30,089	3	17,641	1
9	Cambodia	28,364	2	90	[b]
10	Italy	21,386	2	1,853	1

Source: U.S. Department of Commerce (USDOC), Office of Textiles and Apparel (OTEXA), "U.S. Imports," 2006–17 (accessed April 2018).

[a] Mexico and Honduras benefit from duty-free preferences since they are FTA partners to NAFTA and CAFTA-DR, respectively.

[b] Less than 1 percent.

[5] For purposes of this article and the trade data presented, the term "textiles and apparel" refers to HTS chapters 50 through 63. Specifically, textiles are classified under HTS chapters 50 through 60, and apparel is classified under HTS chapters 61 through 62. Chapter 63 covers made up textile articles.

Table 3: Top 10 FTA-partner suppliers of U.S. textile and apparel imports (with corresponding U.S. exports), 2006–17

Ranking	FTA Partner Country	FTA Preference Program	U.S. imports from FTA partner country (millions $) (percent)	U.S. exports to FTA partner country (millions $) (percent)
1	Mexico	NAFTA	58,208 (5%)	61,981 (24%)
2	Honduras	CAFTA-DR	30,089 (3%)	17,641 (7%)
3	El Salvador	CAFTA-DR	20,890 (2%)	6,160 (2%)
4	Canada	NAFTA	18,688 (1%)	59,111 (23%)
5	Guatemala	CAFTA-DR	16,263 (1%)	3,191 (1%)
6	Nicaragua	CAFTA-DR	14,776 (1%)	1,911 (1%)
7	Jordan	U.S.-Jordan FTA[a]	12,967 (1%)	169 [b]
8	Korea	U.S.-Korea FTA	12,172 (1%)	3,938 (2%)
9	Dominican Republic	CAFTA-DR	9,823 (1%)	8,221 (3%)
10	Peru	U.S. Peru Trade Promotion Agreement	8,409 (1%)	791 [b]

Source: U.S. Department of Commerce (USDOC), OTEXA, "U.S. Imports under Free Trade Agreements," 2006–16 (accessed April 2018).
[a] Jordan's imports previously entered through a Qualifying Industrial Zone (QIZ). In 1996, the U.S. Congress established the QIZ initiative for Jordan (as well as Egypt) to support the peace process in the Middle East. The QIZ initiative allowed Jordan to export products to the United States duty-free, as long as these products contained inputs from Israel. Jordan's QIZ was superseded by the U.S.-Jordan FTA, which was implemented in 2010.
[b] Less than 1 percent.

Factors Impacting Tariff Preference Levels

The effect of TPL expiration depends heavily on the structure of the FTA partner country's textile and apparel sector, its competitiveness as a U.S. textile and apparel supplier, and the existence or absence of relationships with U.S. suppliers.[6] For example, if FTA partner countries have captive production of yarns and fabrics that are used in the production of apparel or made-ups, TPL expiration may not necessarily impact qualifying apparel and made-up exports from the FTA country or U.S. textile exports. Industry representatives noted that TPL limits may have been negotiated in certain FTAs in order to provide a grace period for some countries to invest in their own yarn and fabric production, which is often costly due to its capital-intensive nature, or to develop stronger relationships with U.S. textile suppliers.[7] In some instances, U.S. companies have made investments in yarn and fabric production in the FTA partner country by adding weaving and spinning capabilities close to the TPL's expiration date. These investments would allow FTA partner apparel and made-up producers to source yarns and fabrics in the

[6] In some cases, foreign Asian companies (mainly Korean and Taiwanese companies) invested in these FTA partner countries but sourced their yarns and fabrics from their own countries in order to produce apparel, taking advantage of vertically integrated companies for significant cost savings.
[7] Industry representative, interview with USITC staff, North Carolina, October 3, 2017.

FTA partner country and export to the United States under preferential duty rates without having to rely on the TPL.

By comparison, in instances where the FTA partner countries do not have textile mill production, they would more likely rely on U.S. yarn and fabric exports in order to receive duty-free treatment for their finished products. U.S. industry representatives stated that their textile mill exports are competitive with China, India, and Bangladesh in FTA partner markets in terms of quality, but that these goods compete mostly on price.[8] Some foreign firms take advantage of the TPL provision in order to cost-average their non-U.S. inputs (which are often cheaper than U.S.-inputs) and higher-priced U.S. inputs in order to produce a price-competitive finished good or apparel article for the U.S market.[9] If an FTA partner country has strong relationships with U.S. yarn and fabric suppliers, they would likely be less impacted by TPL expiration because they would continue to tap into those established supply chains and export finished textile products or apparel to the United States at preferential duty rates. Distance and shipping rates and times to and from the United States have an impact on the competitiveness of an FTA partner. FTA partners that are located geographically closer to one are more likely to purchase U.S. yarns and fabric for their finished goods, as well as ship these finished goods to the United States. An industry representative noted that if there is not a viable supply chain or a specific reason to be in an FTA partner country, then the business is likely to leave that country after a TPL provision expires.[10]

The competitiveness of the FTA partner's domestic industry also influences the degree to which TPL expiration may affect subsequent trade flows. In some instances, an FTA partner is not as affected by TPL expiration because it has lower production costs or a skilled or cheaper workforce, making the FTA partner competitive with the industry in other countries. FTA partners that are globally competitive may more easily withstand the effects of TPL expiration.

Summary of FTA Partners' TPL Effects

The most important factor in determining the effect of TPL expiration on U.S. bilateral trade with an FTA partner is the partner country's structure of its textile and apparel sector, such as the extent of its captive domestic yarn and fabric production. Evidence supports the notion that FTA partners that lack domestic textile production likely purchase more U.S. yarn and fabric after FTA implementation and TPL expiration, such as the case with Morocco, Oman, and Bahrain. Morocco suffers from a lack of domestic yarn and fabric production, resulting in a significant increase in U.S. yarn exports to Morocco immediately after FTA implementation, followed by another increase upon TPL expiration, in order to sell more competitively to the U.S. market by taking advantage of preferential duty rates. Oman and Bahrain both have similar textile and apparel industry structures, relying on Asian and U.S.-based investment to bolster their domestic textile and apparel production. Bahrain is a small supplier to the U.S. market of apparel and made-ups, and has limited domestic yarn and fabric production. The TPL expiration had a significant effect on U.S. imports from Bahrain, resulting in a 50 percent decrease in

[8] Industry representative, interview with USITC staff, North Carolina, October 3, 2017.
[9] Lamar, "Op-Ed: Renewing Nicaragua TPL Is Just Not a Game," September 22, 2014.
[10] Industry representative, interview with USITC staff, Washington DC, November 8, 2017.

U.S. imports from Bahrain after the TPL expiration, while U.S. yarn exports to Bahrain only increased 28 percent and fabric exports were unchanged since TPL expiration. At the time that the TPL was expiring, some firms added very limited yarn spinning capacity in Bahrain. Although Oman's TPL provision expires in 2018, it is expected to follow the same trend as Bahrain due to the similar structure of their textile and apparel industries. Oman has been relying on the TPL more in the last three years, and has not made significant yarn and fabric investment in the country, furthering the case that U.S. imports will experience a drop similar to Bahrain's once Oman's TPL expires.

In some instances, countries that lack domestic yarn and fabric production have adapted to TPL expiration by bolstering their relationships with U.S. suppliers, sourcing more yarn and fabric from the United States close to and after TPL expiration. CAFTA-DR partner countries benefit from stronger relationships with U.S. suppliers (thereby minimizing the impact of TPL expiration) than other FTA partner countries, such as Morocco, Oman, and Bahrain.[11] The CAFTA-DR countries also benefit from closer geographically proximity to the United States, where they are able to gain access to U.S. textile inputs quicker than other FTA partners and with reduced shipping costs. Specifically, Nicaragua's limited yarn and fabric production led to an increase in U.S. yarn and fabric exports to Nicaragua after TPL expiration due to changes in Nicaragua's input sourcing.

Another important factor in determining the effect of TPL expiration is if an FTA partner can competitively produce textile and apparel articles through lower wages or cheaper production costs. For example, Nicaragua has been able to increase its apparel production despite the TPL expiration because the country benefits from a low-cost and high-quality workforce, resulting in a negligible change in U.S. apparel imports from Nicaragua after TPL expiration.[12]

The expiration of the TPL may also have a very limited effect on an FTA partner because there is a declining or absent textile and apparel industry in the FTA partner country. Both Costa Rica and Singapore have diversified their economies through investment in higher-value added sectors, resulting in decreasing textile and apparel exports to the United States and underutilization of the TPL. In the case of Singapore, overall U.S. imports from Singapore continued to decrease after FTA/TPL implementation and, more rapidly, after TPL expiration in 2011. Costa Rica's TPL is limited to very specific apparel articles and has been underutilized since it went into effect in 2009, which may have been a result of strict compliance of chapter rules for the TPL provision, which were not included in other FTAs.

There is evidence in trade data that the implementation of these FTAs has been generally beneficial in increasing U.S. yarn or fabric exports to respective FTA partner countries. For example, Morocco has increased its U.S. yarn imports by 3325 percent from 2006 (the implementation year of the U.S.-Morocco FTA) until 2017, despite having a TPL provision in place most of these years. According to industry representatives, Moroccan apparel producers prefer U.S. cotton yarn because of its high quality. Further, trade data show that U.S. yarn or fabric exports have generally increased since TPL expiration in most FTA partners in which a TPL expired, with the exception of Singapore. U.S. exports of

[11] Industry representative, interview with USITC staff, Washington DC, November 8, 2017.
[12] Kunz et. al, "Going Global: The Textile and Apparel Industry," 336.

yarn increased between 28 to 81 percent in Bahrain, Morocco, and Nicaragua following expiration of their TPLs. Although U.S. fabric exports did not increase significantly in Bahrain and Morocco after their respective TPLs expired, U.S. fabric exports to Nicaragua increased 48 percent since 2014 (the year Nicaragua's TPL expired). Table 4 briefly details the changes in trade on a percentage basis following FTA (and TPL) implementation and since the TPL expiration of each respective FTA. It should be noted that although the change in percentage basis may denote significant impacts, the actual dollar values behind these percentages may be not be substantial. These FTA partners, their industries, applicable TPL provisions and utilization, and other factors are discussed in greater detail below.

Table 4: Summary of changes in U.S. textile and apparel trade (U.S. imports and exports) between FTA partners after FTA and TPL implementation, and after TPL expiration

FTA partner country	TPL expiration date	Change in U.S. textile and apparel imports from FTA partner since TPL expiration	Change in U.S. textile exports after FTA implementation to 2017	Change in U.S. textile exports since TPL expiration to 2017
Bahrain	July 31, 2016	50 percent decrease from 2016–17	4 percent increase in U.S. yarn exports from 2006–17; 209 percent increase in U.S. fabric exports from 2006–17	28 percent increase in U.S. yarn exports from 2016–17[a] 1 percent increase in U.S. fabric exports from 2016–17
Nicaragua	December 31, 2014	2 percent increase from 2014–17	79 percent decrease in U.S. yarn exports from 2006–17; 191 percent increase in U.S. fabric exports from 2006–17	81 percent increase in U.S. yarn exports from 2014–17; 48 percent increase in U.S. fabric exports from 2014–17
Morocco	December 31, 2015	8 percent increase from 2015–17	3325 percent increase in U.S. yarn exports from 2006–17; 23 percent decrease in fabric exports from 2006–17	52 increase in U.S. yarn exports from 2015–17; 5 percent increase in U.S. fabric exports from 2015–17
Singapore	December 31, 2011	35 percent decrease from 2011–17	28 percent increase in yarn exports from 2004-17;	2 percent decrease in U.S. yarn exports from 2011–17;

FTA partner country	TPL expiration date	Change in U.S. textile and apparel imports from FTA partner since TPL expiration	Change in U.S. textile exports after FTA implementation to 2017	Change in U.S. textile exports since TPL expiration to 2017
			29 percent increase in fabric exports from 2004-17	16 percent decrease in U.S. fabric exports from 2011–17;
Oman	December 31, 2018	[b]	82 percent increase in U.S. yarn exports from 2009–17; 727 percent increase in U.S. fabric exports since 2009–17	[b]
Costa Rica	December 31, 2018	[b]	2 percent decrease in U.S. yarn exports from 2009–17; 9 percent increase in U.S. fabric exports from 2009–17	[b]

Source: Compiled by the author.

[a] Bahrain's TPL provision was in effect until July 31, 2016, but change in trade is based on 2016 and 2017 annual data.

[b] Data is unavailable because Oman and Costa Rica's TPLs will expire on December 31, 2018.

Bahrain

The U.S.-Bahrain FTA entered into force on August 1, 2006, and included a temporary annual TPL provision set at 65 million SMEs for the first ten years of the agreement. The TPL provision expired on July 31, 2016.[13] The TPL provision allowed for the use of third-party yarn and fabric in the production of certain cotton or manmade fiber fabric, apparel, and made-up goods.[14] The original annual TPL limit in the U.S.-Bahrain FTA was an acknowledgment by trade negotiators of Bahrain's limited domestic yarn

[13] The U.S.-Bahrain FTA originally stated that the TPL provision was set to expire on December 31, 2015, but a Presidential Proclamation was issued in 2014 clarifying that the TPL actually expired on July 31, 2016. Presidential Proclamation 9223, Annex III, December 30, 2014.

[14] Appendix A, table A.1 details specific types of articles, applicable HTS chapters and subheadings, and third-party content rules for the TPL contained in the U.S.-Bahrain FTA. U.S. Harmonized Tariff Schedule of the United States (HTSUS), Chapter 99, Subchapter XIV, Note 13, 2015.

and fabric production.[15] Since the TPL expiration, U.S. textile and apparel imports from Bahrain must now adhere to the agreement's yarn-forward rules of origin (also known as tariff shift rules), or alternatively, NTR duty rates are applied if those rules are not met.

Investment in Bahrain's textile and apparel industry has historically come from Asian-based suppliers, and more recently, U.S.-based companies after the U.S.-Bahrain FTA went into effect. Bahraini textile manufacturers (yarn, fabric and made-up producers) own the domestic spinning, weaving and finishing mills and export approximately one-third of their production to the United States.[16] In contrast, Bahraini apparel producers, who are predominantly owned by foreign firms, rely on the TPL provision in order to export almost all their apparel production to the United States. Bahrain's textile and apparel industry has been developed largely by Asian-based manufacturers, such as Pakistan and India. These Asian-based producers started investing in Bahrain during the years of the global textile and apparel import quotas, which restricted exports from India and Pakistan.[17] After the implementation of the U.S.-Bahrain FTA, U.S.-based textiles and home furnishing company, WestPoint Home,[18] produced sheets and semi-finished comforter/sleeping bag shells in Bahrain; some of these shells are finished in the company's Florida location.[19] Overall, Bahrain's employs over 6,000 workers in its apparel and home furnishing sector.[20]

Trade data suggest that the TPL provision in the U.S-Bahrain FTA correlated with a boost in Bahraini textile and apparel exports to the United States following the elimination of global textile and apparel quotas. Bahrain's high TPL utilization rate (as high as 61 percent in 2008) and high percentage of total exports shipped to the United States under the TPL provision demonstrate its importance to U.S.-Bahraini trade (table 5). Although Bahrain is not a major supplier to the U.S. market,[21] the TPL provision likely helped to bolster total U.S. imports from Bahrain. U.S. imports from Bahrain under the TPL increased from $16 million in 2006 to $157 million in 2015; the TPL share of total U.S. imports from Bahrain increased from 14 percent in 2006 to 76 percent in 2015.[22] The general increase in total U.S. imports from Bahrain during the time the TPL was in place corresponds to an increased TPL utilization rate from 17 percent in 2006 to 58 percent in 2015. The low TPL utilization rate in 2006, the first year of the TPL, was partly due to the TPL being implemented in August of that year. In 2016, the TPL was in

[15] Bair et. al, "Bahrain's Position in the Global Value Chain," January 2016.
[16] Bair et. al, "Bahrain's Position in the Global Value Chain," January 2016.
[17] Bair et. al, "Bahrain's Position in the Global Value Chain," January 2016.
[18] According to its website, www.westpointhome.com, WestPoint Home is a U.S-based company specializing in home fashion textile products, including sheets, towels, fashion bedding, sheets, comforters, blankets, mattress pads, and pillows. As of 2015, the company had manufacturing operations in the United States and is a vertically integrated manufacturer of a range of bedding products in Bahrain. "WestPoint Home Starts up Bahrain Plant," Home Textiles Today, January 8, 2007.
[19] Bair et. al, "Bahrain's Position in the Global Value Chain," January 2016.
[20] Yarns and Fibers, "Bahrain textile factories likely to hit hard if US fails to extend the TPL deal."
[21] U.S. imports from Bahrain comprised of one-tenth percent of total U.S. imports during 2006–16, which were the years the TPLs were in place.
[22] The most common products imported under the TPL during 2006–16 were women's or girls' apparel articles (suits, ensembles, suit-type jackets, blazers, dresses, skirts, divided skirts, trousers, bib and brace overalls, breeches and shorts (other than swimwear)), classified under HS 6204 ($589 million). Official statistics from the U.S. Department of Commerce.

place from January through July of that year, and U.S. imports from Bahrain under the TPL reached close to $100 million for the first 7 months of 2016 (38 percent TPL utilization). The modest drop in total U.S. imports (including both FTA-qualifying and non-FTA-qualifying imports) from Bahrain during 2015–16 may be attributed to the fact that the TPL was in place for only part of 2016, indicating that Bahrain may have relied on the TPL to boost its textile and apparel exports to the United States. Even more telling is the large decrease in U.S. imports from Bahrain in 2017, after TPL expiration. U.S. imports totaled only $82 million in 2017, down significantly from $165 million in the previous year (which only had the TPL in effect until July 31, 2016) (figure 1).

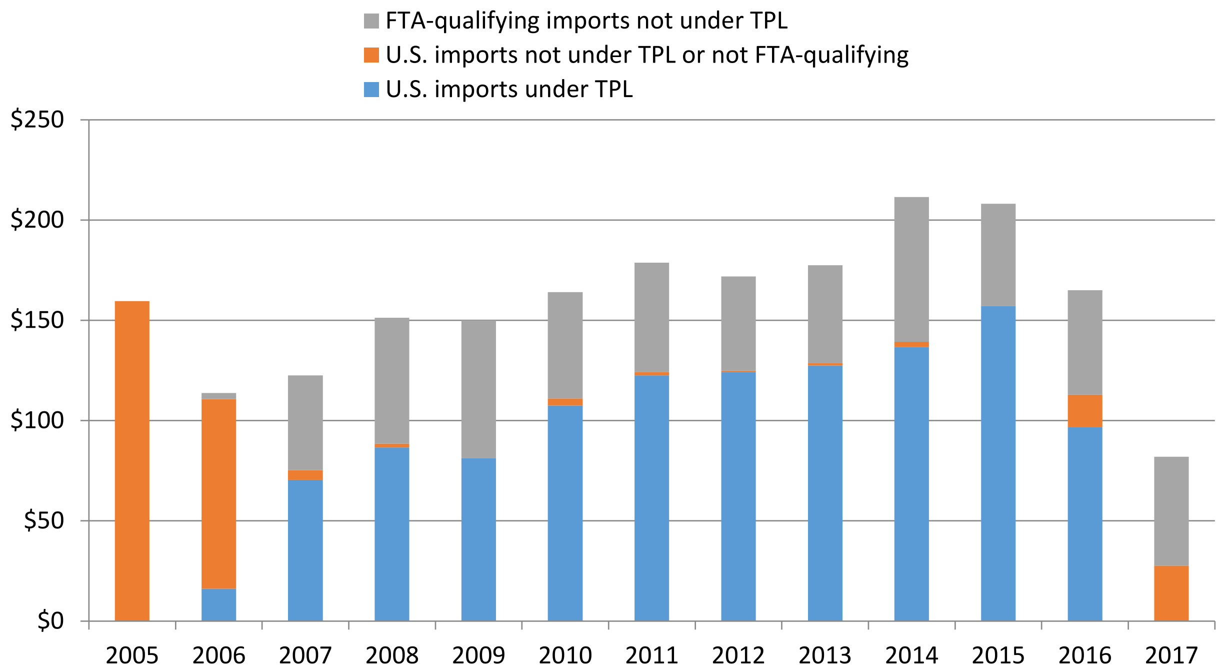
Table 5: Bahrain TPL limits, utilization rates, share of imports under total U.S. imports and U.S. imports under FTA 2006–16

Year	Annual TPL limit (SMEs)	TPL utilization rate (percent)	TPL share of U.S. textile & apparel imports from Bahrain under the FTA (percent)	TPL share of total U.S. textile & apparel imports from Bahrain (percent)
2006	65,000,000	17	84	14
2007	65,000,000	44	60	57
2008	65,000,000	61	58	57
2009	65,000,000	48	54	54
2010	65,000,000	54	67	66
2011	65,000,000	52	69	69
2012	65,000,000	50	73	72
2013	65,000,000	40	72	72
2014	65,000,000	49	65	65
2015	65,000,000	58	76	76
2016	65,000,000	38	65	59

Source: U.S. Department of Commerce (USDOC), OTEXA, "U.S. Imports under Free Trade Agreements, By Group," 2005–16; U.S. Customs Border Patrol, "Year-End Commodity Status Reports" (accessed April 2018).

Note: Since the U.S.-Bahrain TPL expired on July 31, 2016, TPL data is for partial year 2016. U.S. textile and apparel imports from an FTA partner under the FTA includes both U.S. FTA-qualifying imports (goods produced from inputs originating from the United States or the FTA partner country, and therefore imported under preferential duty rates), and those imports utilizing the TPL provision in the FTA. Total U.S. textile and apparel imports from an FTA partner country includes FTA-qualifying inputs (including those imported under the TPL) imported under preferential duty rates, as well as those that were not FTA-qualifying that entered under NTR rates.

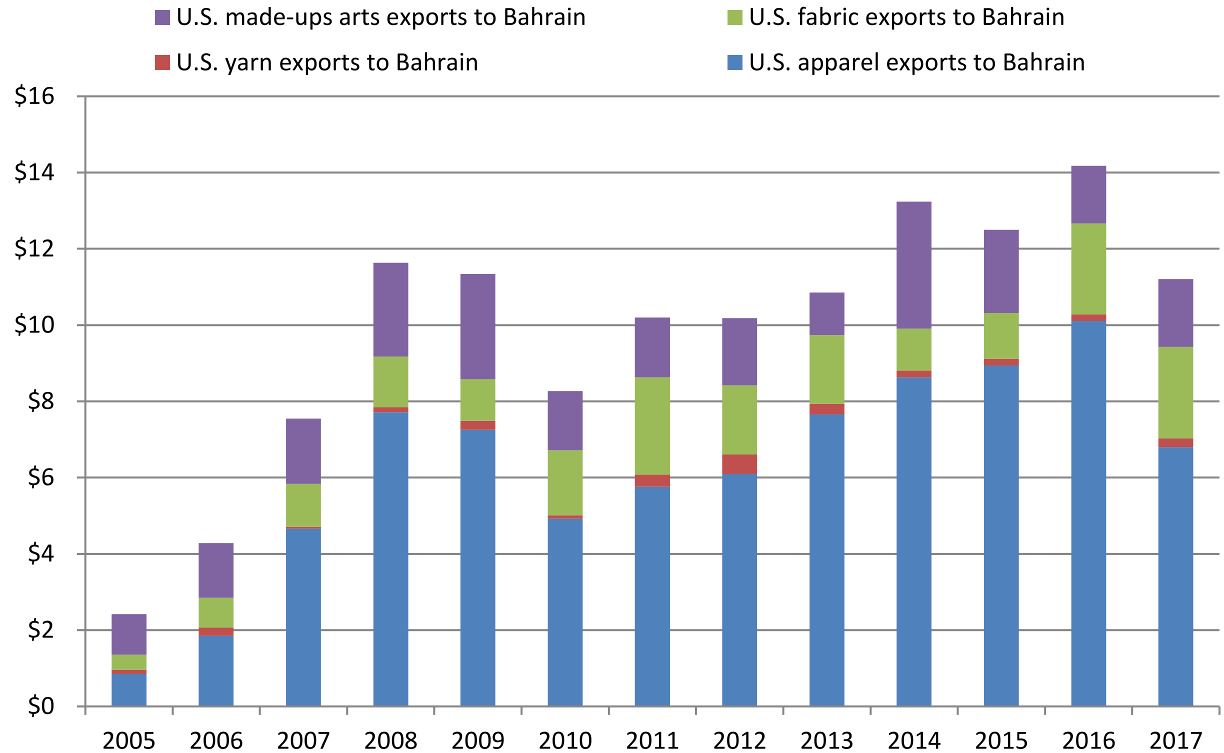
Figure 1: Value of U.S. textile and apparel imports from Bahrain, by TPL category, 2005–17, in millions $



Source: U.S. Department of Commerce (USDOC), OTEXA, "U.S. Imports under Free Trade Agreements, By Group," 2005–17 (accessed April 2018).

Although Bahrain is a small export destination for the United States, U.S. exports to Bahrain have risen substantially since the implementation of the U.S.-Bahrain FTA. U.S. exports to Bahrain increased from over $2 million in 2005 to over $14 million in 2016 (figure 2). U.S. yarn and fabric exports to Bahrain were relatively steady during 2006–17, ranging from $1 to $3 million during this period. U.S. fabric exports to Bahrain doubled from $1.2 million to $2.4 million during 2015–17; this increase may be attributed to Bahraini suppliers possibly adjusting their sourcing to U.S. fabrics in order to account for the impending expiration of the TPL provision. As a result, Bahraini producers may have relied more on U.S fabric exports in order to be granted preferential duty treatment.

Figure 2: U.S. textile and apparel exports to Bahrain, by category, 2005–17, in millions $



Source: Compiled from the official statistics from the U.S. Department of Commerce (accessed April 2018).
Note: Due to the limited U.S. apparel production, U.S. apparel exports to Bahrain may contain re-exports which will overstate the U.S. export figures.

As noted earlier, TPLs often provide a grace period for a country to invest in upstream production. In the case of Bahrain, the TPL seemed to have encouraged such investment from limited U.S.-based companies. Before the TPL expiration, WestPoint Home and other Bahraini producers that export to the United States argued that they would be uncompetitive due to lower prices from Asian producers and forced to leave Bahrain if the TPL was not renewed.[23] However, WestPoint Home diversified its manufacturing operations in anticipation of the TPL expiration in order to continue to import duty-free textile products into the United States.[24] WestPoint Home invested $9 million to open its third spinning facility in Bahrain, which is expected to increase WestPoint Homes' spinning capacity by almost 40 percent, and to offset financial losses from the TPL expiration.[25] Prior to TPL expiration, the company publicly stated that although it saw extension of the TPL as vital for them, their fate would "not hinge on the [TPL's] extension alone."[26] WestPoint Home is also expected to continue production capacity expansions, and continue to make investments in its manufacturing after the TPL expiration.[27]

[23] Bilaterals.org, "U.S. deal expiry may hit textile firms," April 28, 2015.
[24] "WestPoint Home to Invest $9B in Bahrain Unit Expansion," Textile Excellence, January 7, 2016.
[25] Home and Textiles Today, "WestPoint Home expands operation in Bahrain," January 24, 2017.
[26] Wyatt, "West Point Home: Closing Not Imminent," Chipley Paper, April 24, 2015.
[27] Home and Textiles Today, "WestPoint Home expands operation in Bahrain," January 24, 2017.

CAFTA-DR Countries

The CAFTA-DR was signed into law in 2004 between the United States, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and the Dominican Republic, although each country had to individually ratify the agreement prior to implementation.[28] CAFTA-DR includes TPL provisions only for Nicaragua and Costa Rica for limited types of apparel articles.[29] Prior to the implementation of CAFTA-DR, all six of the partner countries were parties to the Caribbean Basin Trade Partnership Act (CBTPA), which also required U.S. yarns and fabrics as inputs to apparel production in order to be granted preferential duty treatment.[30] The region's participation in CBTPA allowed the beneficiary countries to become large regional suppliers to the United States in the years leading up to the implementation of CAFTA-DR. The CAFTA-DR allows the FTA partners to source yarns and fabrics from other CAFTA-DR parties, whereas the CBTPA required the use of U.S. yarns, thread, and fabrics for apparel in order to be granted preferential duty treatment.

The CAFTA-DR's industry is more targeted to apparel production than textile production. According to a Congressional Research Service report published in 2014, the CAFTA-DR region has over 600 apparel producing companies and 90 textile mills that produce knit and woven fabrics and manmade fibers.[31] Among the firms with established production in the CAFTA-DR region are several U.S. based companies such as Fruit of the Loom.[32]

When CAFTA-DR first entered into force, there was limited woven fabric production and no yarn production in the CAFTA-DR partner countries.[33] The CAFTA-DR producers relied on U.S. imports of yarns and fabrics in order to cut and assemble apparel in their respective countries.[34] An industry representative stated that textile mill production is more expensive in CAFTA-DR countries due to their high energy costs.[35] In particular, yarn is generally more expensive to produce than fabric operations (such as knitting or weaving) because it is heavily dependent on a steady supply of electricity. Energy costs in the CAFTA-DR region are relatively high, and therefore fabric production is a more attractive textile investment than yarn manufacturing.[36]

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[28] Under CAFTA-DR, El Salvador ratified the agreement in March 2006, followed by Honduras and Nicaragua (April 2006), Guatemala (July 2006), Dominican Republic (March 2007) and Costa Rica (January 2009).

[29] Appendix A Table A.2 contains specific articles, applicable HTS chapters and subheadings, and third-party content rules that apply Nicaragua and Costa Rica's TPL provision in CAFTA-DR.

[30] The CBPTA was implemented in 2000, and expires in 2020, and originally contained 24 beneficiary countries. The 24 original beneficiary countries under CBTPA include: Antigua and Barbuda, Aruba, Bahamas, Barbados, Belize, Costa Rica, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Montserrat, Netherlands Antilles, Nicaragua, Panama, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Trinidad and Tobago, and British Virgin Islands. The beneficiary countries that are part of CAFTA-DR are no longer beneficiaries to the CBTPA.

[31] Platzer, "U.S. Textile Manufacturing and the Trans-Pacific Partnership Negotiations," August 28, 2014.

[32] Platzer, "U.S. Textile Manufacturing and the Trans-Pacific Partnership Negotiations," August 28, 2014.

[33] Frederick et. al, "Regional Trade Agreements and Export Competitiveness," June 24, 2015.

[34] Platzer, "U.S. Textile Manufacturing and the Trans-Pacific Partnership Negotiations," August 28, 2014.

[35] Industry representative, interview with USITC staff, October 4, 2017.

[36] Industry representative, interview with USITC staff, October 4, 2017.

Nicaragua

The CAFTA-DR contained a TPL provision for Nicaragua allowing for certain cotton and manmade fiber apparel to be granted duty-free treatment, if such apparel was cut (or knit-to-shape) and sewn in Nicaragua, regardless of the origin of the fabrics.[37] The specific TPL provision was limited to 100 million SMEs annually, and it expired on December 31, 2014. Nicaragua intended to leverage the TPL provision to generate employment in the country in the short-term, invest in fabric production or value-added garment production in the long-term, or build relationships with U.S. textile mill suppliers for their intermediate inputs.[38] A U.S. industry representative stated that the Nicaragua TPL provision was a last minute concession on the part of the U.S. trade negotiators because Nicaragua was the poorest CAFTA-DR country and needed additional time to catch-up to other CAFTA-DR textile and apparel industries.[39] Industry representatives also noted that the Nicaraguan government was eager to develop a textile infrastructure to sustain the country's apparel industry in the long-run.[40]

The Nicaragua TPL contained a unique provision for woven trousers under which Nicaraguan producers had to match one-for-one the amount (measured in SMEs) of trousers from U.S.-made fabrics (CAFTA-DR originating trousers) with trousers made from foreign fabrics.[41] The quantity of TPL cotton and man-made fiber trousers required to be matched by cotton and man-made fiber trousers made from U.S. fabrics (CAFTA-DR originating trousers) was initially set at 20 million SME in 2006, progressively increasing to 50 million SME in 2014, thereby requiring the use of more U.S.-made fabrics over time.[42] This provision included a penalty clause; if Nicaragua failed to match the use of trousers of U.S. fabrics (unlimited as CAFTA-DR originating goods) to trousers of any fabric (under the TPL) by April 1, then the shortfall from the previous year was deducted from the TPL limit for the current year. The one-for-one matching stipulation that U.S. fabric had to be used as part of the TPL provision was added during the negotiations of the first set of textile amendments (the so-called "pocketing amendments"[43]) at the

[37] Nicaragua was granted cotton and man-made fibers apparel TPL provision, with a small sub-limit for certain non-originating men's wool sport coats that was added to the TPL in exchange for Nicaragua's agreement to the pocketing rules. Nicaragua's non-originating men's wool sport coat sublimit has never been utilized.
[38] Frederick et. al, "Regional Trade Agreements and Export Competitiveness," June 24, 2015; industry representative, interview with USITC staff, October 4, 2017.
[39] Industry representative, telephone interview with USITC staff, November 1, 2017.
[40] Industry representative, interview with USITC staff, October 4, 2017.
[41] Under the "one-to-one" matching rule, each shipment of pants made from either cotton or manmade woven fiber fabrics must be matched with a shipment of pants produced from cotton woven fabric in the United States from yarns extruded in the United States. Shortfalls in this provision are charged against TPL limits in the next year. Frederick et al. "Nicaragua and the Apparel Value Chain in the Americas, 2015.
[42] Frederick et. al, "Regional Trade Agreements and Export Competitiveness," June 24, 2015.
[43] The pocketing amendment provided that if a good of HTS chapter 61 and 62 contained a pocket or pockets, the pocket bag of fabric must be formed and finished in the territory of the FTA-partner countries from yarn wholly formed in the FTA partner countries in order for an apparel to qualify as an originating good under CAFTA-DR. The pocketing amendments were negotiated after the signing of CAFTA-DR, but were before ratification of the agreement. These pocketing amendments were included in the legislation submitted to Congress. USTR, "Amendment to the Republic-Central America-United States Free Trade Agreement;" USDOC, OTEXA, "Free Trade Agreements: CAFTA-DR Commercial Availability-Pocketing Agreements," accessed January 16, 2018.

insistence of U.S. domestic textile mill manufacturers, so that their losses from the TPLs would be mitigated.[44]

Nicaragua had 71 textile and apparel producers in the country in 2012, almost three-fourths of which focused on knitted and woven apparel production and employed close to 71,000 workers in the apparel industry, mainly as sewing machine operators.[45] A number of U.S.-owned apparel companies operate in Nicaragua, mostly specializing in woven pants, knit shirts, and athletic wear. The U.S.-owned companies source their fabric from the United States, Mexico, Honduras, El Salvador and Asian countries.[46] Unlike other TPL provisions that use a first-come, first-served system, Nicaragua's annual TPL limit was allocated among existing export-oriented companies (approximately 70 percent of companies), and companies with new investments or textile mills that had less than one year of operations (30 percent), which accounted for the high annual TPL utilization rates.[47] In order to take advantage of the TPL allocation targeted towards new investments or textile mills, the International Textile Group's (ITG) Cone Denim announced a $100 million textile mill investment in Nicaragua with the capacity to produce 28 million yards of denim annually.[48] ITG may have also wanted to invest in local fabric production in Nicaragua because they would be in a position to supply CAFTA-DR fabric for CAFTA-DR originating denim apparel when the TPL expired. Other foreign companies also invested in the region in order to take advantage of the TPL.[49] Korea and Taiwan also own apparel factories in Nicaragua (as well as other CAFTA-DR partner countries), and specialize in producing both knit and woven shirts, tops, and pants for mass retailers.[50] Korean and Taiwanese-owned producers in Nicaragua source more fabric from Asia, resulting in a heavier reliance on TPLs than their U.S.-owned counterparts.[51]

The TPL provision in CAFTA-DR resulted in positive benefits for Nicaraguan producers that export to the United States, and Nicaragua historically used its TPL limits to remain a competitive U.S. supplier. The United States is Nicaragua's largest export destination, with knit shirts and blouses accounting for 65 percent of U.S. imports from Nicaragua in 2017. U.S. imports from Nicaragua increased 72 percent during 2006–14 when the TPL was in place. During this period, U.S. imports under the TPL accounted for 34 to 45 percent of total U.S. imports of textiles and apparel from Nicaragua (table 6). Nicaragua's TPL utilization rate was 76 percent in 2006, which was only implemented for part of the first year of the TPL provision, and then averaged 99 percent during 2007–14.

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[44] Frederick et. al, "Regional Trade Agreements and Export Competitiveness," June 24, 2015.
[45] Frederick et. al, "Regional Trade Agreements and Export Competitiveness," June 24, 2015.
[46] Frederick et. al, "Regional Trade Agreements and Export Competitiveness," June 24, 2015.
[47] Industry representative, interview with USITC staff, October 4, 2017; Government of Nicaragua, National Free Zone Commission, "Trade Agreements."
[48] In 2009, ITG idled its Nicaraguan plant as a result of the global recession; the plant opened in April 2008. In 2013, ITG sold its Cone Mills denim plant in Nicaragua to Grupo Karim, a Honduras-based textile and apparel manufacturer. Inter-American Development Bank, "Central American Report," No. 3, 2004–6, 72; Textile World, "ITG Downsizes its White Oak Facility, Idles its Nicaragua Operations," April 28, 2009.
[49] Inter-American Development Bank, "Central American Report," No. 3, 2004–6, 72.
[50] Frederick et. al, "Regional Trade Agreements and Export Competitiveness," June 24, 2015.
[51] Frederick et. al, "Regional Trade Agreements and Export Competitiveness," June 24, 2015.

Table 6: Nicaragua TPL limits, utilization rates, share of imports under total U.S. imports and U.S. imports under FTA 2006–14

Year	Annual TPL limit (SMEs)	TPL utilization rate (percent)	TPL share of U.S. textile & apparel imports from Nicaragua under the FTA (percent)	TPL share of total U.S. textile & apparel imports from Nicaragua (percent)
2006	100,000,000	76	61	37
2007	100,000,000	94	54	43
2008	100,000,000	97	48	39
2009	100,000,000	100	52	45
2010	100,000,000	100	55	44
2011	100,000,000	100	50	42
2012	100,000,000	100[a]	52	42
2013	100,000,000	101[a]	54	38
2014	100,000,000	99	51	34

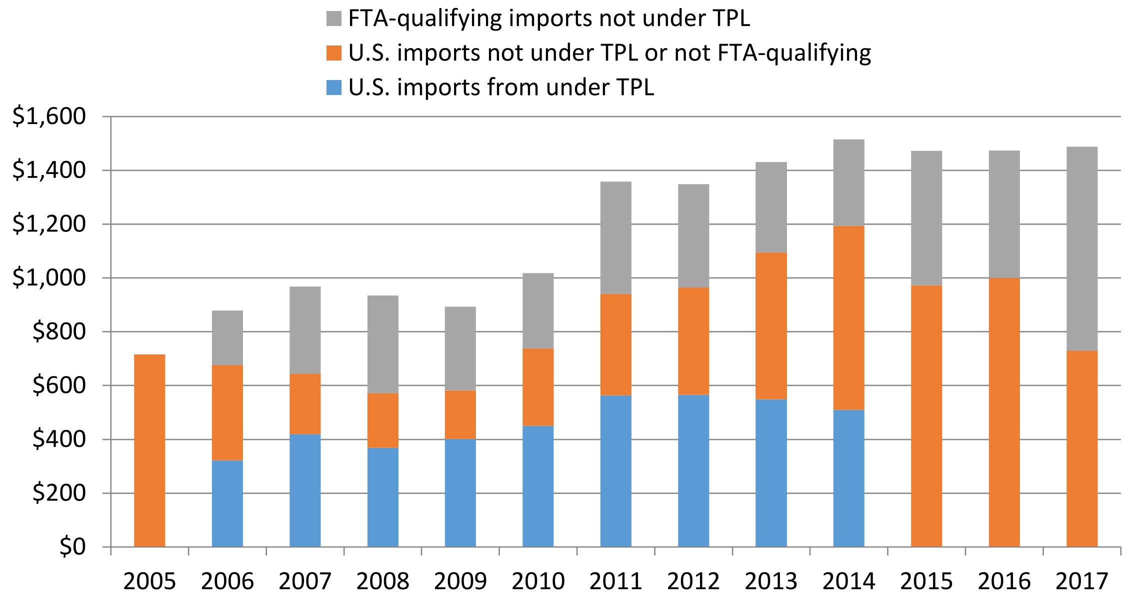
Source: U.S. Department of Commerce (USDOC), OTEXA, "U.S. Imports under Free Trade Agreements, By Group," 2005–16 (accessed April 2018).

[a] During 2012–13, Nicaragua's TPL utilization rate was overfilled.

Nicaragua's high utilization rate suggests that expiration of the TPL would lead to a noticeable drop in U.S. imports. U.S. imports from Nicaragua did decline by 7 percent on average from January 2015 to March 2015 (three months after the expiration of the TPL), but such imports have stabilized in the post-TPL years during 2015–17 (figure 3).[52] The impact of the TPL's expiration for Nicaragua appears to have been mitigated, in part, by Nicaragua's use of the CAFTA-DR provision for cumulation. Under CAFTA-DR, cumulation allows for a limited quantity of woven apparel to use otherwise origin-restricted inputs from Mexico and still qualify for duty-free treatment when imported into the United States. Cumulation in CAFTA-DR is subject to a limit of 100 million SMEs annually.

[52] Guerrero, "Zona Franca nica es atractiva aún sin TPL," June 1, 2015.

Figure 3: Value of U.S. apparel imports from Nicaragua, by TPL category, 2005–17, in millions $



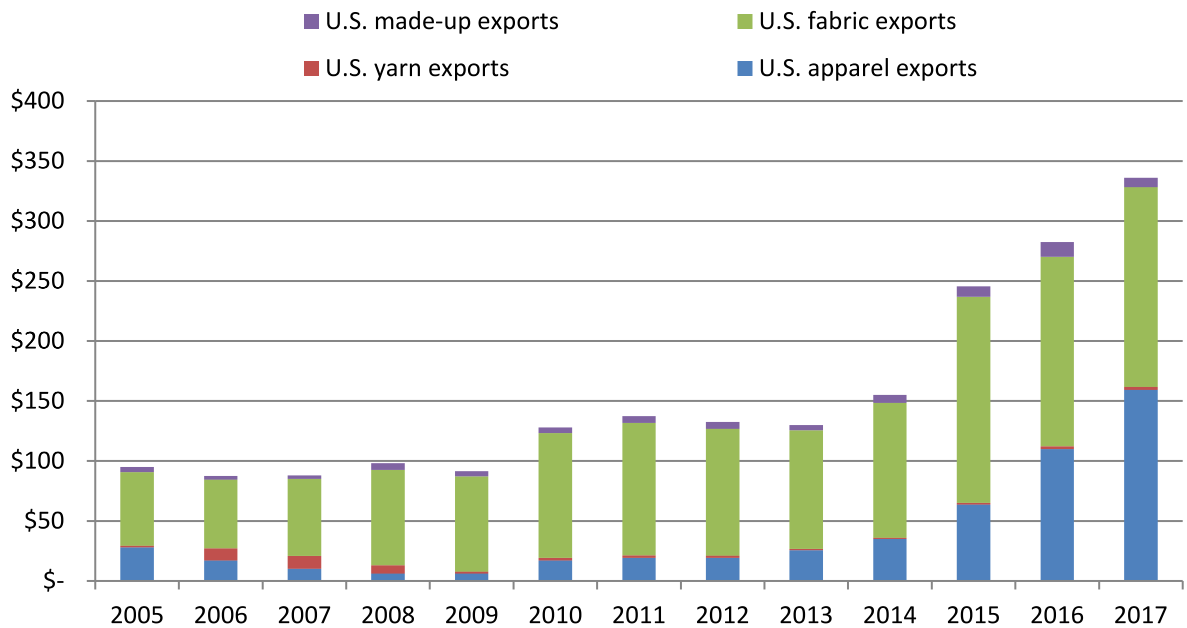
Source: U.S. Department of Commerce (USDOC), OTEXA, "U.S. Imports Under Free Trade Agreements, By Group," and "Major Shipper Reports" (accessed April 2018).

A growing relationship with the United States as a textile supplier is another reason for the limited effect of TPL expiration on U.S. imports from Nicaragua. Comparatively, Nicaragua is a small destination for U.S. textile exports, predominantly consisting of U.S.-produced knitted and woven fabric. An industry representative noted that the U.S.-produced woven fabric is not competitive with other suppliers due to its high costs.[53] However, despite being more expensive than Asian suppliers, U.S. yarn and fabric exports to Nicaragua have shown substantial growth since the implementation of CAFTA-DR, thereby benefiting U.S. textile producers.[54] U.S. exports to Nicaragua have also increased because of the proximity of the two FTA partners to one another, which allows for U.S. inputs to be supplied on a timely basis at cheaper shipping costs than FTA partners not located in the Western Hemisphere. U.S. textile exports to Nicaragua rose from $95 million in 2005, the year of CAFTA-DR implementation, to $155 million in 2014 (an increase of 63 percent), the last year the TPL was in place (figure 4). In the three years following TPL expiration, U.S. fabric exports increased by 48 percent over 2014 levels to $166 million in 2017, while U.S. yarn exports increased 81 percent to $2.2 million in 2017. In 2014 (the last year of the TPL), Nicaragua was the United States' 13th largest export destination for fabric, but was ranked 7th in 2015, the first year after the TPL expired.[55] One U.S. company representative also noted a small increase in their textile mill shipments to Nicaragua after the TPL expiration, and that more Nicaraguan companies are looking to use more yarn and fabric from the United States.[56] An industry

[53] Industry representative, email to USITC staff, October 5, 2017.
[54] Frederick et. al, "Regional Trade Agreements and Export Competitiveness," June 24, 2015.
[55] AAFA, "ApparelStats 2017," 2017; USDOC, OTEXA, "U.S. Export Markets, By Group" January 2018 data.
[56] Industry representative, email to USITC staff, October 4, 2017.

representative noted that many Nicaraguan companies altered their supply chains in anticipation of the TPL expiration, lessening the impact on Nicaraguan exports to the United States after the expiration.[57]

Figure 4: U.S. textile and apparel exports to Nicaragua, by category, 2005–17, millions $



Source: Compiled from the official statistics from the U.S. Department of Commerce (accessed April 2018).
Note: Due to the limited U.S. apparel production, U.S. apparel exports to Nicaragua may contain re-exports which will overstate the U.S. export figures.

Further, the TPL expiration had less of an effect than anticipated because the Nicaraguan apparel industry was in a stronger competitive position than other FTA partner countries that benefit from a TPL provision. A report by the International Labour Organization noted that Nicaragua apparel exports were initially dependent on trade policies, such as the TPL, to boost its apparel exports to the United States.[58] However, industry experts contend that the country is now a competitive producer that no longer needs to rely on the TPL to boost its exports to the United States. According to the Nicaraguan Textile and Apparel Industry Association, the TPL expiration for Nicaragua has not had a major impact on Nicaragua's competitive textile and apparel industry because the country is one of the lowest cost producers in the Western Hemisphere.[59] Many foreign textile and apparel companies that have invested in Nicaragua after CAFTA-DR continue to remain in the country after the TPL expiration due to its low

[57] Industry representative, email to USITC staff, October 5, 2017.
[58] Gereffi, et. al, "Promoting Decent Work in Global Supply Chains in Latin America and the Caribbean," 2016, 63.
[59] Guerrero, "Zona Franca nica es atractiva aún sin TPL," June 1, 2015; Frederick et. al, "Regional Trade Agreements and Export Competitiveness," June 24, 2015.

labor and production costs and stable political situation.[60] Nicaragua's government also negotiated five year collective wage agreements, which adds cost stability for manufacturers.[61]

At the same time, certain Nicaraguan firms have reported negative effects from the TPL lapse. One industry representative stated that the apparel firms that manufacture woven pants and other bottoms have been most affected by the TPL expiration because firms cannot produce these apparel items due to the high cost of U.S. fabrics.[62] U.S. imports of cotton and manmade fiber bottoms from Nicaragua decreased 16 percent from 2014–17.[63] There was some initial discussion among trade negotiators and industry representatives of extending the TPL for Nicaragua, but these efforts failed to conclude before the TPL expired.

Costa Rica

Costa Rica's textile and apparel industry began to decline with the elimination of global textile quotas in 2005, and its exports to the United States declined significantly after ratification of the CAFTA-DR Agreement despite containing a TPL provision for certain apparel from Costa Rica. Costa Rica reportedly entered negotiations to become part of CAFTA-DR in order to guarantee permanent[64] and improved access to the U.S. market for its textile and apparel industry.[65] Costa Rica was the last country to ratify the CAFTA-DR, even though all parties signed the agreement in 2004.[66] The first CAFTA-DR country implemented the agreement in 2006 (El Salvador); Costa Rica did not implement the agreement until 2009. This lag in implementation by Costa Rica resulted in lowered investments into the country and lost export share in textiles and apparel relative to other CAFTA-DR partners.[67] Notably, the Dominican Republic and Nicaragua increased their textile and apparel production while Costa Rica was waiting for CAFTA-DR implementation. After CAFTA-DR implementation, Costa Rica instead focused on investments in higher value sectors instead of textile and apparel production; such sectors include electronic components, medical devices, and advanced manufacturing.[68] Costa Rica's investments in higher-value

[60] Guerrero, "Zona Franca nica es atractiva aún sin TPL," June 1, 2015.
[61] Russell, "Nicaragua Leads August Growth in U.S. Apparel Imports," Just-Style.com, October 6, 2017.
[62] Industry representative, interview with USITC staff, October 5, 2017.
[63] Woven bottoms include cotton men's and boys' trousers (category 347), women's and girls' cotton slacks (348), men's manmade fiber trousers (category 647), and women's and girls' manmade fiber slacks (category 648). Collectively, these apparel articles accounted for $420 million in 2014 and decreased to $352 million in 2017.
[64] CAFTA-DR makes trade benefits permanent and expanded U.S. benefits given under the CBTPA legislation, while CBTPA required reauthorization from Congress. Hornbeck, "The Dominican Republic- Central America-United States Free Trade Agreement," Congressional Research Service, January 16, 2008.
[65] Borges, "Clothing Exporter Silencing Sewing Machines," June 27, 2008.
[66] Costa Rica ratified the CAFTA-DR pursuant to a referendum in October 2007, and after liberalization of the telecom and insurance sectors through a series of domestic legislative changes. Koehler-Gieb and Sanchez, "Costa Rica Five Years After CAFTA-DR: Assessing Early Results," The World Bank, 2015.
[67] Kunz et. al, "Going Global: The Textile and Apparel Industry," 335.
[68] World Bank, "Costa Rica's Development," 2015, 2.

added industries led to the higher production costs in the textile and apparel industry, further decreasing its competitiveness vis-à-vis CAFTA-DR partners.[69]

CAFTA-DR provides Costa Rica with three separate TPLs for certain wool apparel,[70] tailored wool apparel,[71] and certain swimwear. During initial negotiations, Costa Rica was granted a special allowance for certain wool apparel imported at 50 percent of U.S. NTR duty rates.[72] However, in exchange for Costa Rica's agreement to the pocketing rule,[73] the United States agreed to two TPL provisions of 500,000 SMEs annually for certain apparel of wool fabric and tailored wool apparel.[74] The apparel made from wool fabric has to comply with CAFTA-DR's special rules for visible lining fabric, pocketing fabric, sewing thread, and narrow elastic fabric.[75] Costa Rica's narrow TPL provisions had annual TPL limits that were significantly less than the TPLs limits contained in other FTAs, which may have been due to the sensitivity of the U.S. wool sector to domestic job losses and contraction.[76] Costa Rica was also initially granted a TPL limit of 100,000 SMEs in 2009 for women's knit post mastectomy swimwear assembled in Costa Rica. This TPL provision was gradually increased during 2010–13, reaching its maximum level of 133,823 SMEs during 2014–18. Costa Rica's TPL provisions for certain wool apparel and post-mastectomy swimwear expire on December 31, 2018.

Costa Rica's apparel industry has declined through a closure of many apparel production facilities, but there was some limited investment and operations in yarn and thread production in Costa Rica.[77] Despite Costa Rica entering the CAFTA-DR Agreement in 2009, many U.S.-based companies or companies providing apparel for the U.S. market closed their operations in Costa Rica due to rising wage and energy costs, and competition from other CAFTA-DR producers.[78] Costa Rica had a peak of 30,000 textile and apparel employees in the early 2000s, which contracted by more than half in 2008.[79] Cimer, an apparel producer supplying U.S.-based Dockers and Levi's, terminated their operations in 2010.[80] That same year, Confecciones Jinete, a Jockey brand plant, closed its facility in Costa Rica, leading to 500

[69] OECD, Reviews of Innovation Policy: Costa Rica, 2015, 88; Kunz et. al, "Going Global: The Textile and Apparel Industry," 335.
[70] Costa Rica's TPL provision applies to certain wool apparel, containing 36 percent or more by weight of wool or subject to wool restraints in subheading 6203 or 6204. Such goods must also comply with the Chapter rules 1, 3, 4, and 5 of General Note 29(n) for Chapter 62.
[71] Costa Rica's TPL provision applies to wool tailored apparel (except from fabric of carded wool or fabric made from wool yarn having an average fiber diameter of less than or equal to 18.5 microns).
[72] Cotton USA Sourcing Programs, "Free Trade Agreements: DR-CAFTA," September 2, 2014.
[73] Industry representative, telephone interview with USITC staff, November 1, 2017.
[74] Cotton USA Sourcing Programs, "Free Trade Agreements: DR-CAFTA," September 2, 2014.
[75] In contrast, the tailored wool apparel articles not made of carded wool fiber or of wool yarn with a diameter of greater than 18.5 microns (i.e., fine wool fabrics, typically used in suits) are not subject to CAFTA-DR's visible lining fabric, pocketing fabric, sewing thread, or narrow elastic fabric rules. Cotton USA Sourcing Programs, "Free Trade Agreements: DR-CAFTA," September 2, 2014; interview with industry representative, January 8, 2018.
[76] Industry representative, telephone interview with USITC staff, November 1, 2017.
[77] Platzer, "U.S. Textile Manufacturing and the Trans-Pacific Partnership Negotiations," August 28, 2014.
[78] Tico Times. "Another Textile Firm Closes in Costa Rica." March 12, 2013.
[79] Borges, "Clothing Exporter Silencing Sewing Machines," June 27, 2008.
[80] Tico Times. "Another Textile Firm Closes in Costa Rica." March 12, 2013.

workers being laid off.[81] In 2014, Cartex, a U.S. subsidiary of Hanes based in Costa Rica, closed its facility that employed over 1,200 workers because of increased manufacturing costs; operations were moved to Vietnam.[82] With the closures of apparel manufacturers in Costa Rica, there was limited investment from foreign yarn and thread producers in Costa Rica after CAFTA-DR went into effect. One notable recent exception is Korean-based Sae-A Trading, which opened Costa Rica's first cotton yarn spinning mill in 2015.[83] Industry representatives noted that Sae-A's facility was meant to change Costa Rica's textile industry to one that manufactures yarns and fabrics, which would require higher technology and more skilled workers than apparel manufacturing.[84]

Costa Rica's underutilization of its narrow and limited TPL provision coupled with its declining apparel industry may have led to the lack of an effect on U.S. apparel imports from Costa Rica. Total U.S. imports from Costa Rica entered under the TPL for certain wool apparel totaled only $6 million during 2010–17. Costa Rica's TPL for wool apparel was largely underutilized; the utilization rate fluctuated between less than 1 percent and 20 percent during this time period (table 7). Additionally, Costa Rica's TPL provision for tailored wool apparel was also severely underutilized, resulting in only $3 million of U.S. imports under the TPL during 2010–17, with TPL utilization rates fluctuating between less than 1 percent and 18 percent during this period (table 8). An industry representative stated that the underutilization of the TPLs was a result of the TPL provision being interpreted differently post-ratification in contrast to the original intent of the negotiations, which meant that wool apparel under the TPL also had to meet the chapter rules, including that pockets and linings must originate in one of the partner countries.[85] This made it more difficult to utilize the TPL provision because of the difficulty in sourcing specific lining fabric from the United States at a competitive price.[86] In addition, there were no U.S. imports under the TPL of post-mastectomy swimwear from Costa Rica due to limited Costa Rican manufacturers of this apparel article before CAFTA-DR was implemented.[87]

[81] Tico Times. "Another Textile Firm Closes in Costa Rica." March 12, 2013.
[82] Donaldson, "Hanesbrands Exits Costa Rica, Lays off 1,250," September 12, 2014.
[83] Barrie, "Sae-A Sets Up Costa Rica's First Spinning Mill," April 28, 2015.
[84] Central America Data, "Costa Rica Spinning Mill Starts Operations," April 23, 2015; Costa Rica Promotion Authority, "SAE-A Spinning to Pioneer in Highly Automated Processes and Technology with Cutting-Edge Spinning Mill in Cartago, Costa Rica," June 19, 2014.
[85] Industry representative, telephone interview with USITC staff, January 8, 2018.
[86] Industry representative, telephone interview with USITC staff, January 8, 2018.
[87] USITC, Probable Economic Effect of Modifications to DR-CAFTA Rules of Origin and Tariff for Certain Apparel Goods (Inv. No. DR-CAFTA 103-16), Publication No. 3941, September 2007.

Table 7: Costa Rica TPL limits for certain wool apparel (HTS 9915.62.0500), utilization rates, share of imports under total U.S. imports and U.S. imports under FTA 2009–17

Year	Annual TPL limit (SMEs)	TPL utilization rate (percent)	TPL share of U.S. textile & apparel imports from Costa Rica under the FTA (percent)	TPL share of total U.S. textile & apparel imports from Costa Rica (percent)
2009	500,000	9	0.3	0.3
2010	500,000	13	0.1	0.1
2011	500,000	11	0.4	0.4
2012	500,000	20	1.1	1.1
2013	500,000	18	1.4	1.2
2014	500,000	11	1.0	0.8
2015	500,000	4	1.0	0.6
2016	500,000	[a]	0.3	0.2
2017	500,000	[a]	0.1	0.1

Source: U.S. Department of Commerce (USDOC), OTEXA, "U.S. Imports Under Free Trade Agreements, By Group," and "Major Shipper Reports" (accessed April 2018); U.S. Customs Border Patrol, Year-End Commodity Status Reports (accessed April 2018).
[a] Less than one percent.

Table 8: Costa Rica TPL limits for tailored wool apparel (HTS 9915.62.1500), utilization rates, share of imports under total U.S. imports and U.S. imports under FTA 2009–17

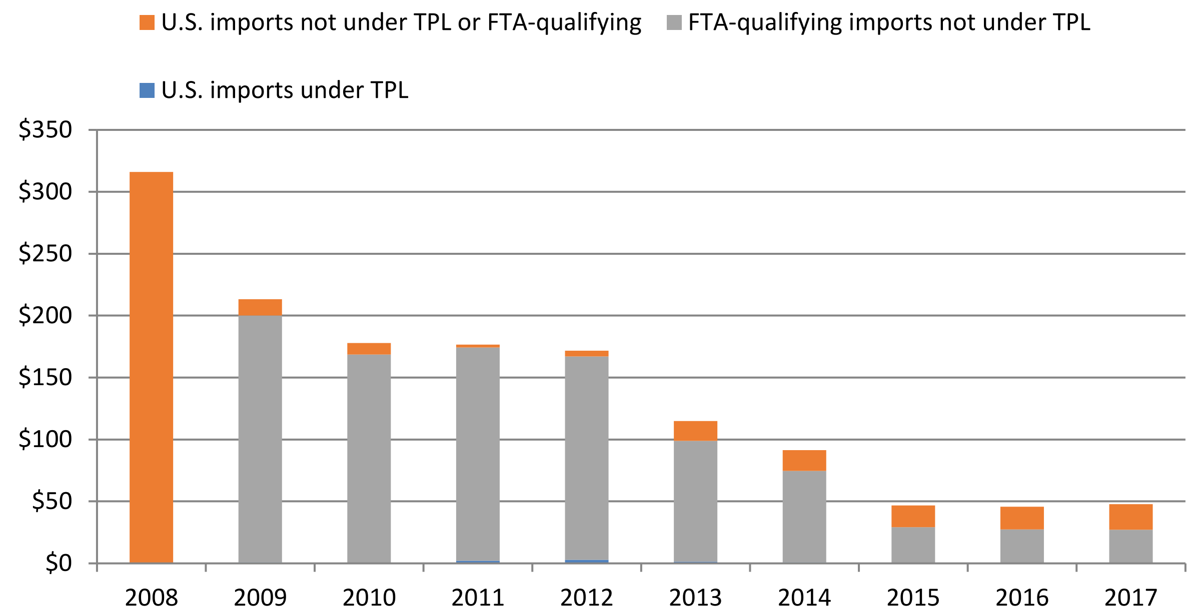
Year	Annual TPL limit (SMEs)	TPL utilization rate (percent)	TPL share of U.S. textile & apparel imports from Costa Rica under the FTA (percent)	TPL share of total U.S. textile & apparel imports from Costa Rica (percent)
2009	500,000	3	0.1	0.1
2010	500,000	1	0.0	0.0
2011	500,000	18	0.8	0.7
2012	500,000	15	0.7	0.7
2013	500,000	1	0.0	0.0
2014	500,000	1	0.1	0.1
2015	500,000	[a]	0.1	0.0
2016	500,000	[a]	0.1	0.0
2017	500,000	[a]	0.0	0.0

Source: U.S. Department of Commerce (USDOC), OTEXA, "U.S. Imports Under Free Trade Agreements, By Group," and "Major Shipper Reports" (accessed April 2018); U.S. Customs Border Patrol, Year-End Commodity Status Reports (accessed April 2018).
[a] Less than one percent.

One interesting point to note is that U.S. imports from Costa Rica declined after the Costa Rica ratified the CAFTA-DR Agreement. U.S. apparel imports from Costa Rica were $214 million in 2009, and fell significantly to $48 million in 2017 (figure 5). Further, overall U.S. textile and apparel exports to Costa Rica also declined substantially after Costa Rica implemented the CAFTA-DR Agreement in 2009, although U.S. made-up exports doubled from $14 million in 2009 to $28 million in 2016 (figure 6). The

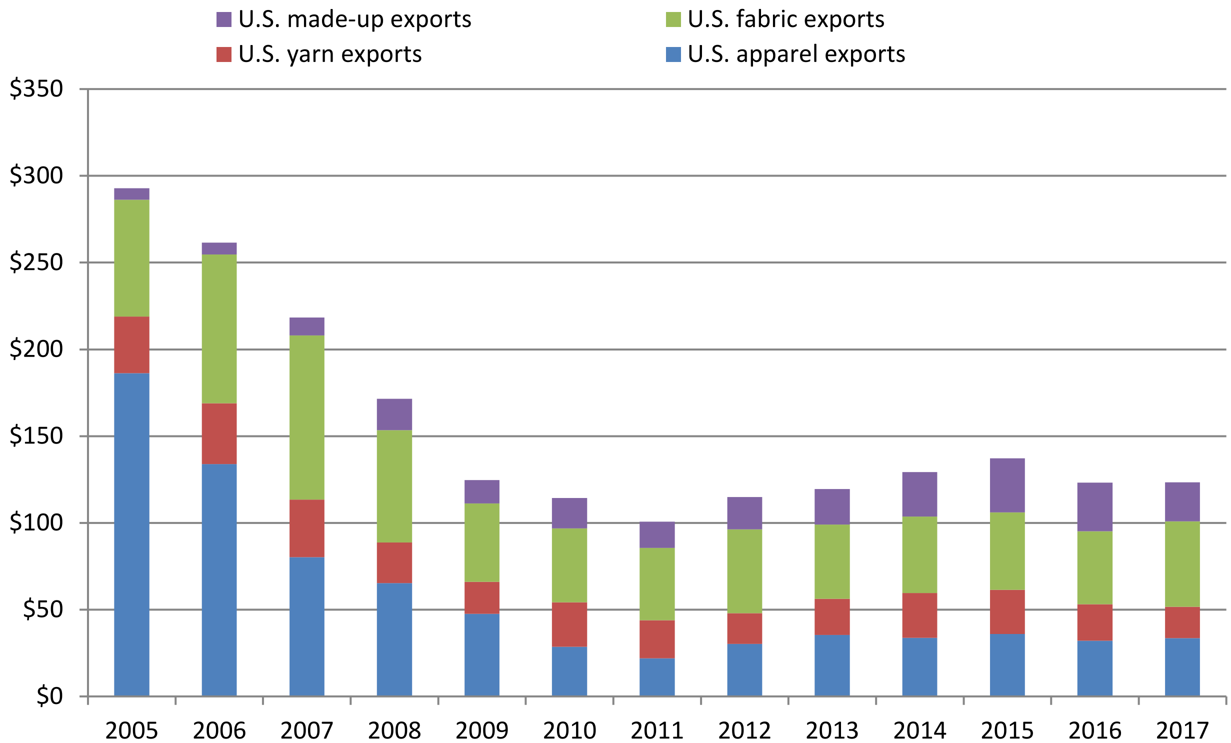
TPL provision did not help to bolster U.S.-Costa Rica bilateral trade, which may have been due partly to Costa Rica's investment in higher-value sectors rather than textile and apparel sector, as well as Costa Rica's narrow coverage of apparel articles under the TPL.

Figure 5: Value of U.S. apparel imports from Costa Rica, by TPL category, 2008–17, in millions $



Source: U.S. Department of Commerce (USDOC), OTEXA, "U.S. Imports Under Free Trade Agreements, By Group," and "Major Shipper Reports" (accessed April 2018).

Figure 6: U.S. textile and apparel exports to Costa Rica, by category, 2005–17, millions $



Source: Compiled from the official statistics from the U.S. Department of Commerce (accessed April 2018).
Note: Due to the limited U.S. apparel production, U.S. apparel exports to Costa Rica may contain re-exports which will overstate the U.S. export figures.

Morocco

The U.S.-Morocco FTA entered into force on January 1, 2006. The Moroccan Government and Morocco's largest textile and apparel trade association were eager to sign an FTA with the United States in order to diversify the country's export base after Asian-originated imports saturated the EU market (an important destination for Moroccan exports) as a result of quota elimination in 2005.[88] U.S. trade representatives originally negotiated a TPL provision in order to allow flexibility for the Moroccan textile and apparel industry to adapt to the FTA, and give time to Moroccan firms to develop relationships with U.S. suppliers.[89] The U.S-Morocco TPL provision covered both fabric and apparel, allowing for limited quantities of fabric and apparel of non-originating yarn or fabric to receive preferential treatment.[90] The U.S.-Morocco FTA contained an initial TPL limit of 30 million SMEs, which was set to gradually reduce

[88] Benabderrazik,"Moroccan Textile and Apparel Exports: An Evaluation."
[89] Benabderrazik,"Moroccan Textile and Apparel Exports: An Evaluation."
[90] Specifically, the TPL provision in the U.S.-Morocco FTA applied to fabric goods provided for in HS chapters 51, 52, 54, 55, 58, and 60 that are wholly formed in Morocco, regardless of the origin of the fiber or yarn used to produce the goods or of apparel goods provided for in HS chapters 61 and 62 that are cut or knit to shape, or both, and sewn or otherwise assembled in Morocco, regardless of the origin of the fabric or yarn used to produce the goods.

after 5 years of the agreement (table 9).[91] The TPL limit in the final year before expiration was 4.285 million SMEs. The U.S.-Morocco FTA TPL expired on January 1, 2016.

Table 9: Morocco TPL limits, utilization rates, share of imports under total U.S. imports and U.S. imports under FTA 2006–15

Year	Annual TPL limit (SMEs)	TPL utilization rate (percent)	TPL share of U.S. textile & apparel imports from Morocco under the FTA (percent)	TPL share of total U.S. textile & apparel imports from Morocco (percent)
2006	30,000,000	10.2	76	33
2007	30,000,000	8.5	78	34
2008	30,000,000	8.8	73	34
2009	30,000,000	3.1	52	21
2010	25,714,000	7.2	34	13
2011	21,428,000	8.6	46	17
2012	17,142,000	5.8	55	20
2013	12,856,000	19.5	53	22
2014	8,571,000	33.8	58	21
2015	4,285,000	62.6	53	18

Source: U.S. Harmonized Tariff Schedule, 2015 (Revision 1), Chapter 99, XXII, 99-XII-5; U.S. Department of Commerce (USDOC), OTEXA, "U.S. Imports Under Free Trade Agreements, By Group," and "Major Shipper Reports" (accessed April 2018); U.S. Customs Border Patrol, Year-End Commodity Status Reports (accessed April 2018).

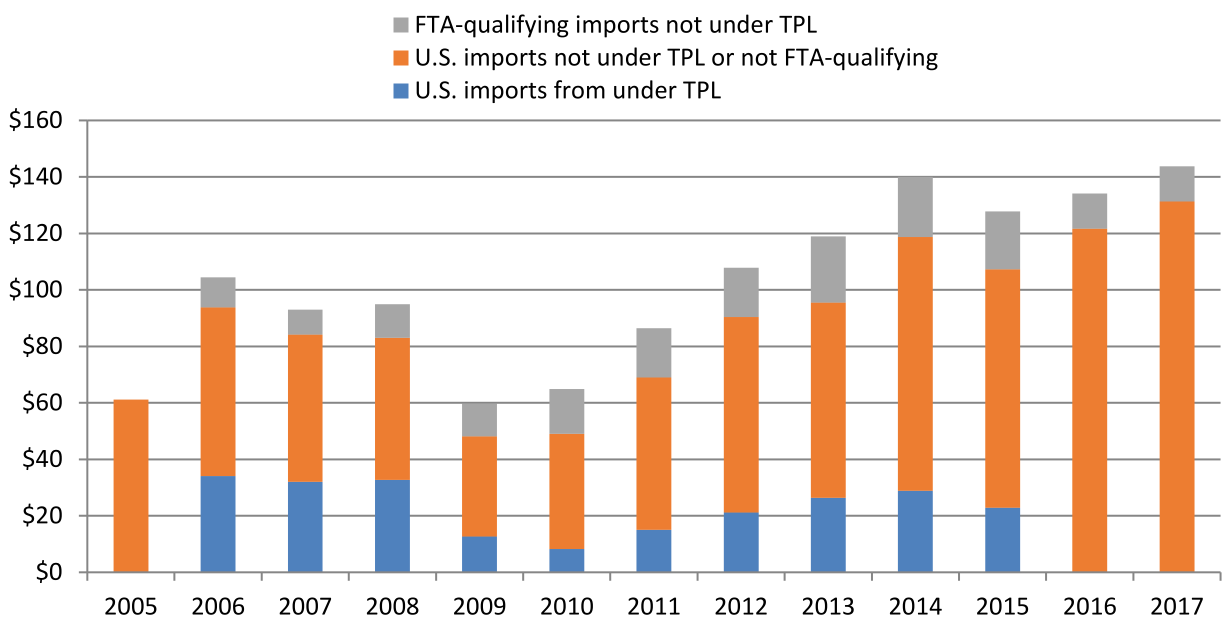
Morocco currently has over 1,600 textile and apparel manufacturers, including major international firms such as Spanish-owned Inditex (parent company of Zara).[92] In 2017, Morocco's textile and apparel industry employed 200,000 workers.[93] Morocco's apparel sector has several competitive advantages that make it appealing to other markets, mainly in Europe. Morocco's textile and apparel industry is predominantly concentrated on supplying the European market with smaller orders of fast-fashion items due to its just-in-time supply chains.[94] Morocco's textile and apparel industry also benefits from the ability to produce high-value, luxury apparel articles that have complicated production processes predominantly for the European market.[95] Morocco, however, is constrained by its specialized apparel product offerings and its nascent yarn and fabric sectors, which makes Moroccan producers dependent on inputs from China and Turkey for apparel production.[96] According to Morocco's leading textile and apparel association, the Moroccan government and industry recognize that the weakest parts of the

[91] Appendix A, table A.3 details specific types of articles, applicable HTS chapters and subheadings, and third-party content rules for the TPL contained in the U.S.-Morocco FTA.
[92] Oxford Business Group, "Textile Sector Growing in Morocco."
[93] Skara, "International Business Morocco," p. 43.
[94] Benabderrazik,"Moroccan Textile and Apparel Exports: An Evaluation;" Oxford Business Group, "Textile Sector Growing in Morocco."
[95] USAID, "Apparel Exports to the United States," October 2008.
[96] Kunz et. al, "Going Global: The Textile and Apparel Industry," 411; Volkman, "Sourcing: Morocco Sets Out Plans to Grow Fast Fashion Exports," April 15, 2015.

supply chain are the yarn and fabric sectors.[97] The Moroccan government and industry plan on strengthening their supply chain through investments, specifically targeting cotton and synthetics spinning, circular knitting, and weaving activities as growth sectors.[98]

Following implementation of the U.S.-Morocco FTA and institution of the TPL, U.S. imports from Morocco increased from over $100 million in 2006 to close to $140 million in 2014 (figure 7). However, for reasons unclear, the majority of U.S. imports from Morocco did not enter under the FTA or did not utilize the TPL, therefore these imports would have entered under NTR rates. Nonetheless, the TPL provision was utilized annually and likely boosted the overall volume and value of U.S. imports from Morocco. The largest category of U.S. imports under the TPL during 2006–15 were women's or girls' suits, ensembles, suit-type jackets, blazers, dresses, skirts, divided skirts, trousers, bib and brace overalls, breeches and shorts (other than swimwear) classified under HS 6204 ($130.3 million).[99] The next largest category of U.S. imports under the TPL are men's or boys' suits, ensembles, suit-type jackets, blazers, trousers, bib and brace overalls, breeches and shorts (other than swimwear) classified under HS 6203 ($24.2 million).[100]

Figure 7: Value of U.S. textile and apparel imports from Morocco, by TPL category, 2005–17, millions $



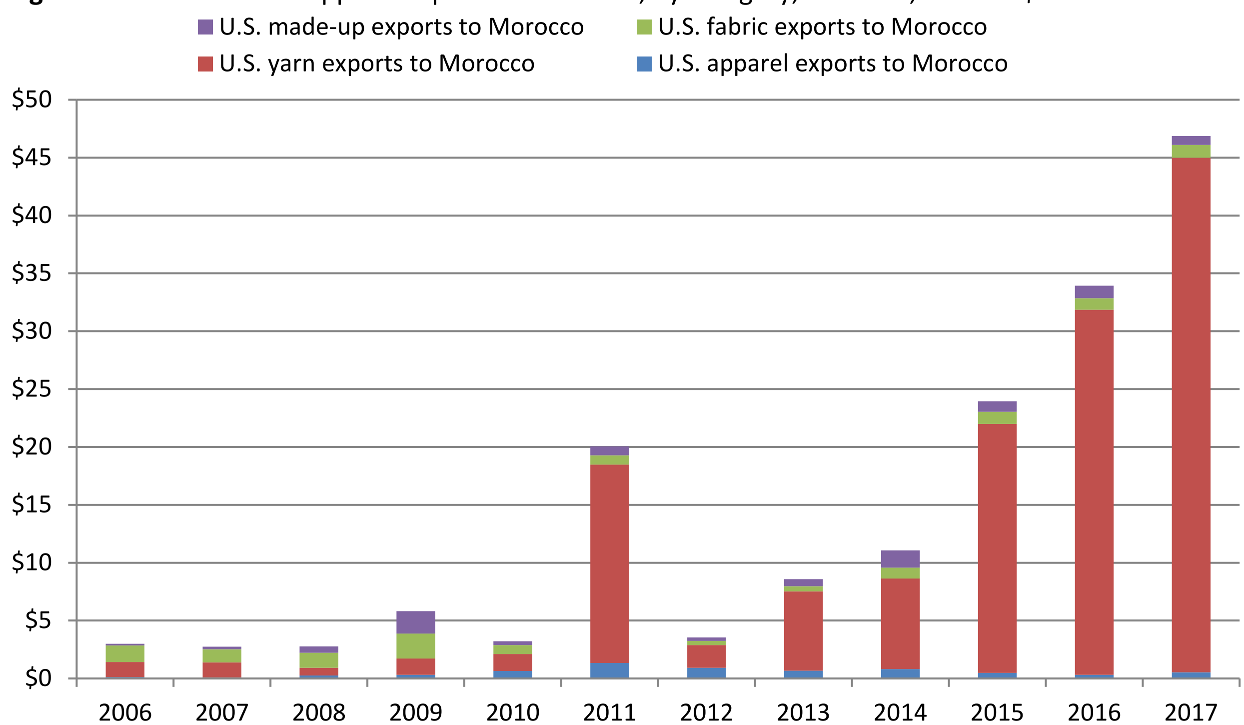
Source: U.S. Department of Commerce (USDOC), OTEXA, "U.S. Imports under Free Trade Agreements, By Group," 2005–17 (accessed April 2018).

With respect to U.S. textile exports, an analysis of U.S. export data shows that the decreasing nature of the TPL annual limits contained in the U.S.-Morocco FTA coincided with an increase in U.S. yarn exports to Morocco from $2 million in 2012 to $44 million in 2017 (figure 8). U.S. yarn exports to Morocco in

[97] "Morocco Plans to Grow Fast Fashion Exports," African Review, June 17, 2015.
[98] "Morocco Plans to Grow Fast Fashion Exports," African Review, June 17, 2015.
[99] Official statistics compiled from the U.S. Department of Commerce.
[100] Official statistics compiled from the U.S. Department of Commerce.

2017 were the highest since implementation of the U.S.-Morocco FTA. Moroccan industry representatives noted that one of the reasons for interest in U.S. yarns and fabrics is due to the fact that Moroccan apparel manufacturers must now use either U.S.-produced or Moroccan-produced inputs in their apparel production in order to receive duty-free treatment.[101] Moroccan industry representatives also mentioned that they prefer U.S. cotton for white and light color apparel due to high quality and lack of contamination.[102] Nonetheless, the increase in U.S. textile exports to Morocco did not translate to a corresponding increase in Moroccan exports to the United States under the FTA. FTA-qualifying imports from Morocco decreased from 2015 to 2016. It is likely that high quality U.S. yarn exports are being used in Moroccan apparel production, which is focused on export to the Spanish and French markets.[103] Morocco has underdeveloped yarn and fabric sectors, which make Morocco dependent on U.S. textile mill exports, in addition to third-party countries, for its apparel production.[104]

Figure 8: U.S. textile and apparel exports to Morocco, by category, 2006–17, millions $



Source: Compiled from the official statistics from the U.S. Department of Commerce (accessed April 2018).
Note: Due to the limited U.S. apparel production, U.S. apparel exports to Morocco may contain re-exports which will overstate the U.S. export figures.

There are other factors that have affected U.S.-Morocco textile and apparel trade besides the U.S.-Morocco FTA or the TPL provision in the FTA. U.S. trade from Morocco has been constrained for several reasons, namely because U.S. buyers want to purchase larger size orders than their EU counterparts,

[101] Fibre2Fashion, "Cotton USA takes US spinners to Egyptian textile mills," December 18, 2017.
[102] Fibre2Fashion, "Cotton USA takes US spinners to Egyptian textile mills," December 18, 2017.
[103] Fibre2Fashion, "Cotton USA takes US spinners to Egyptian textile mills," December 18, 2017.
[104] Kunz et. al, "Going Global: The Textile and Apparel Industry," 411; Volkman, "Sourcing: Morocco Sets Out Plans to Grow Fast Fashion Exports," April 15, 2015.

but also want such orders at a cheap price.[105] Morocco also produces different apparel than what is geared toward the U.S. market, as U.S. consumers prefer basic items such as t-shirts, sweatshirts, and casual clothing.[106] Morocco is more competitive in fast-fashion apparel articles of higher-quality, which they produce predominantly for the EU market.[107] U.S. importers note that Morocco is competitive in several apparel articles, including denim jeans and high-value apparel articles such as haute couture and lingerie.[108]

Oman

The U.S.-Oman FTA has been beneficial to both trading partners as both U.S. imports from Oman and U.S. exports to Oman have increased since the FTA was implemented. The U.S.-Oman FTA entered into force in 2009, and included a temporary TPL provision set at 50 million SMEs for cotton and manmade fiber apparel for the first ten years of the agreement.[109] Oman's TPL is set to expire on December 31, 2018.

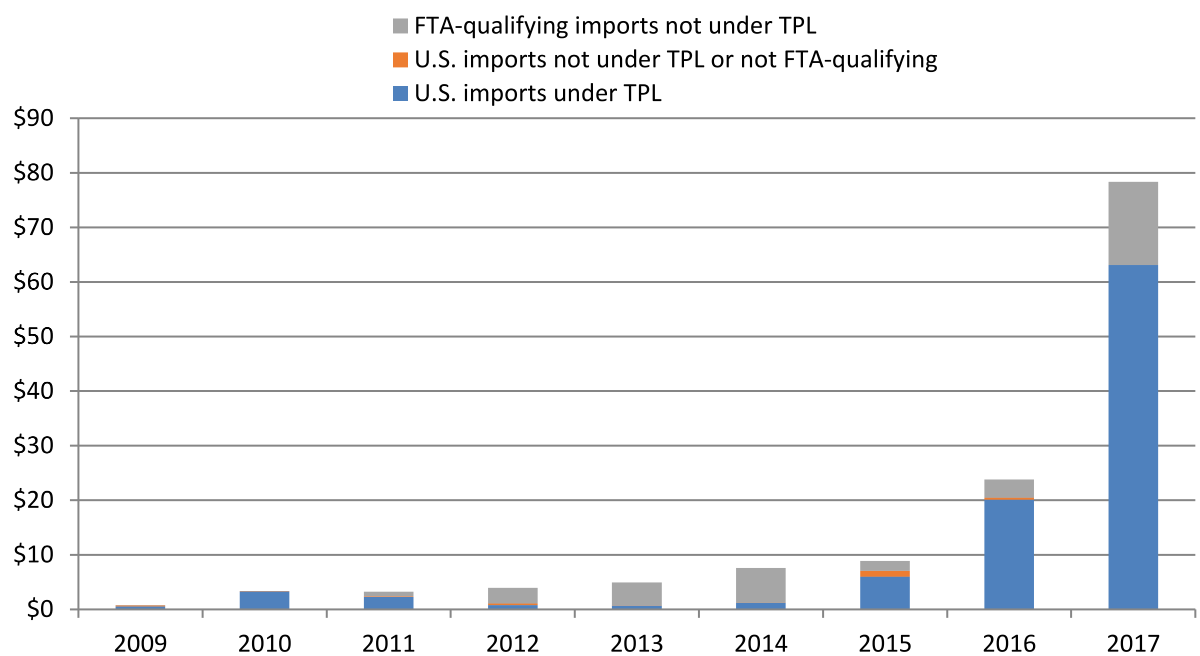
One of the reasons the U.S.-Oman FTA was implemented was in order to create new investment and relationship opportunities for U.S. textile producers in Oman, as well as spur increased investment from small-to-medium sized producers.[110] Oman entered FTA negotiations with the intent of saving its fledging textile and apparel industry, which took a hard hit after quotas were eliminated in 2005.[111] Many Omani factories were owned by Pakistani firms or other Asian-based companies that set up production in Oman to take advantage of the quotas.[112] Omani textile and apparel producers suffered from high labor costs, making it difficult to compete with Chinese and Indian apparel producers.[113] Before the quotas were abolished, Oman had 40 textile and apparel factories domestically (of which 25 were dedicated to textile production[114]), which then fell to only 5 factories in 2008.[115] These few remaining Omani producers mostly relied on local orders for their production.[116] Although Oman specializes more in handwoven cotton and woolen textiles, there has been some increase in production of Omani apparel in the last few years.[117] For example, an Omani garment producer named Fashion

[105] Benabderrazik,"Moroccan Textile and Apparel Exports: An Evaluation."
[106] Benabderrazik,"Moroccan Textile and Apparel Exports: An Evaluation."
[107] Acevedo and Robertson, "Sewing Success," The World Bank, 394.
[108] Benabderrazik,"Moroccan Textile and Apparel Exports: An Evaluation."
[109] Appendix A, table A.4 details specific types of articles, applicable HTS chapters and subheadings, and third-party content rules for the TPL contained in the U.S.-Oman FTA.
[110] Oceana Editorial Board, Consolidated Treaties and International Agreements, Volume 1.
[111] Jeffreys, "Emerging Oman 2007," The Oxford Business Group, 129, 131; Business Today. "Oman's Garment Export units in Dire Straits." August 30, 2008.
[112] Industry representative, interview with USITC staff, Washington DC, November 8, 2017.
[113] Jeffreys, "Emerging Oman 2007," The Oxford Business Group, 129, 131.
[114] Yousef, "Made in Oman Facing Industry Challenges," 2017.
[115] Business Today. "Oman's Garment Export units in Dire Straits." August 30, 2008.
[116] Business Today. "Oman's Garment Export units in Dire Straits." August 30, 2008.
[117] WIPO, "A Treasure Trove of Omani Crafts," December 2010. In addition, Oman is in the process of changing its strategy in order to restore local cotton variety farming in the country, which could help to revive the country's fledging textile industry. Oman is trying to capitalize on the increased global demand for organic cotton, with demand predicted to increase up to 20 percent next year as a result of both low-end and high-end brands sourcing organic cotton for their finished apparel articles. Pivac, "Growth in the GCC Textile Industry," August 2, 2015.

Apparel opened a $20 million production facility in Oman's Salalah Free Zone. The company employs 460 workers and was expected to employ a total of 2,000 workers by 2017.[118]

The TPL in the U.S.-Oman FTA appears to have significantly boosted U.S. imports from Oman, particularly in recent years. The TPL helped increase Oman's textile and apparel imports to the United States from under $1 million in 2009, increasing significantly to $78.5 million in 2017 (figure 9). U.S. imports from Oman entered under the TPL accounted for an average of 73 percent of total U.S. textile and apparel imports from Oman during 2009–17 (table 10). At the same time, Oman's TPL utilization rates have been historically low from 2009–14 and steadily increasing to 24 percent in 2017. Oman's low TPL utilization rates, however, have less to do with the usefulness of the TPL and likely stem from the Omani producers' capacity constraints to produce textile and apparel goods up to the high volume of the TPL limit.

Figure 9: Value of U.S. textile and apparel imports from Oman, by TPL category, 2009–17, in millions $



Source: U.S. Department of Commerce (USDOC), OTEXA, "U.S. Imports under Free Trade Agreements, By Group," 2009–17 (accessed April 2018).

[118] Trade Arabia, "Fashion Apparel Opens Unit in Salalah Free Zone," May 31, 2016.

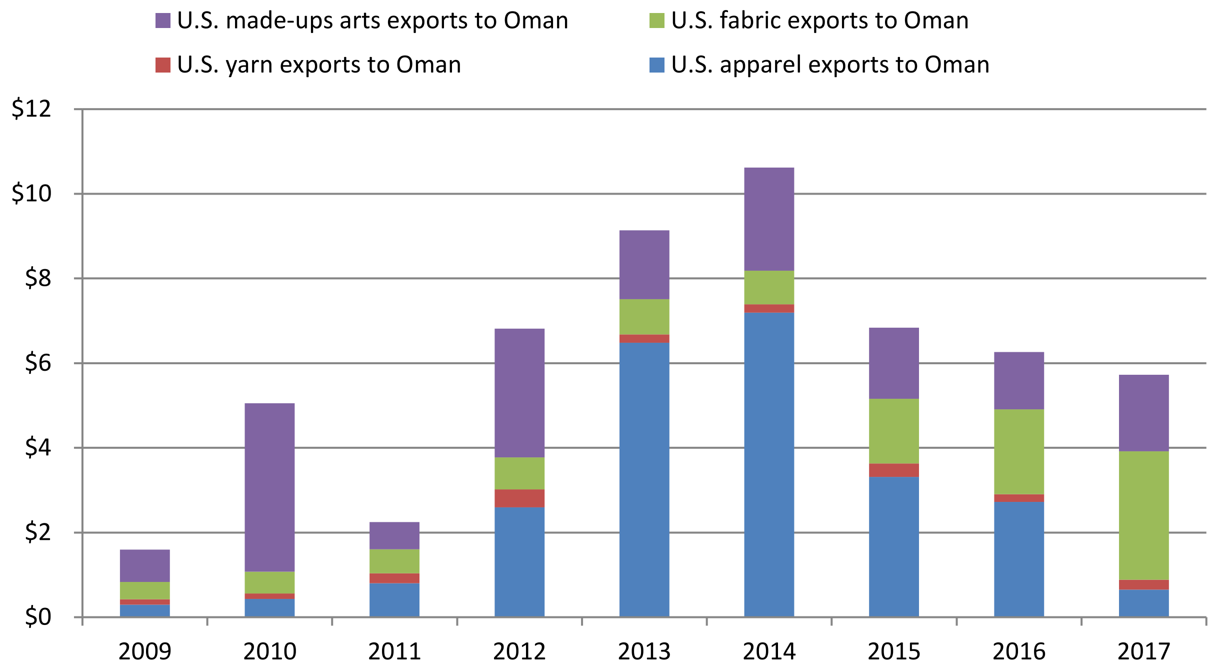
Table 10: Oman TPL limits, utilization rates, share of imports under total U.S. imports and U.S. imports under FTA 2009–17

Year	Annual TPL limit (SMEs)	TPL utilization rate (percent)	TPL share of U.S. textile & apparel imports from Oman under the FTA (percent)	TPL share of total U.S. textile & apparel imports from Oman (percent)
2009	50,000,000	0.3	100	76
2010	50,000,000	1.6	100	98
2011	50,000,000	0.7	73	70
2012	50,000,000	0.8	21	20
2013	50,000,000	0.3	14	14
2014	50,000,000	0.5	16	16
2015	50,000,000	6.6	76	67
2016	50,000,000	7.8	86	84
2017	50,000,000	23.7	81	80

Source: U.S. Department of Commerce (USDOC), OTEXA, "U.S. Imports Under Free Trade Agreements, By Group," and "Major Shipper Reports" (accessed April 2018); U.S. Customs Border Patrol, "Year-End Commodity Status Reports" (accessed April 2018).

U.S. textile and apparel exports also showed favorable increases after the U.S-Oman FTA went into effect. U.S. textile and apparel exports to Oman were $1.6 million in 2009, reaching a peak of $10.6 million in 2014 (figure 10). Much of the increase in U.S. exports to Oman was the result of increased U.S. apparel exports (which may actually be re-exports), followed by made-ups and fabric exports. Specifically, U.S. exports of specialty and industrial fabrics increased 975 percent during 2009–17, totaling $2.6 million in 2017.

Figure 10: U.S. textile and apparel exports to Oman, by category, 2005–17, in millions $



Source: Compiled from the official statistics from the U.S. Department of Commerce (accessed April 2018).
Note: Due to the limited U.S. apparel production, U.S. apparel exports to Oman may contain re-exports which will overstate the U.S. export figures.

Singapore

The U.S.-Singapore FTA entered into force on January 1, 2004. The U.S.-Singapore FTA contained a TPL provision allowing certain cotton and manmade fiber apparel goods subject to cotton or manmade fiber restraints to contain third-party fabric or yarn and still receive preferential treatment, as long as the apparel article was both cut (or knit to shape) and sewn or otherwise assembled in Singapore.[119] Unlike most of the other TPLs discussed, however, the Singapore TPL did not allow such goods to enter free of duty but rather at reduced tariff rates.[120] The TPL provision was initially set at 25 million SMEs for the first year, then reduced over the next seven years, ending at 3.125 million SMEs before expiring in 2011 (table 11).

[119] Appendix A, table A.5 details specific types of articles, applicable HTS chapters and subheadings, and third-party content rules for the TPL provision contained in the U.S.-Singapore FTA. USDOC, OTEXA, "Summary of U.S.-Singapore FTA."

[120] The U.S.-Singapore FTA was the first FTA to contain a TPL provision that expired, and had a staged elimination of duty rates for textile and apparel articles. The TPL provision in the U.S. Singapore FTA was classified under HTS subheadings 9910.61.01 through 9910.61.89. The reason for the numerous HTS provisions was because preferential rates of duty under the TPL were comparable to those for FTA-originating goods. During the period where duty rates were phased out, different articles had different rates of duty. As of January 1, 2008, all textile and apparel goods were allowed to enter duty-free into the United States under the TPL provision.

Table 11: Singapore TPL limits, utilization rates, share of imports under total U.S. imports and U.S. imports under FTA 2004–11

Year	Annual TPL limit (SMEs)	TPL utilization rate (percent)	TPL share of U.S. textile & apparel imports from Singapore under the FTA (percent)	TPL share of total U.S. textile & apparel imports from Singapore (percent)
2004	25,000,000	38	[a]	[a]
2005	21,875,000	61	86	50
2006	18,750,000	82	92	61
2007	15,625,000	91	92	62
2008	15,625,000	91	96	65
2009	9,375,000	50	56	44
2010	6,250,000	90	77	58
2011	3,125,000	87	94	44

Sources: U.S. Department of Commerce (USDOC), OTEXA, "U.S. Imports under Free Trade Agreements, By Group," 2005–16 (accessed April 2018); U.S. Harmonized Tariff Schedule, 2011 (Revision 1), Chapter 99, XXII, 99-X-4; USDOC, ITA, OTEXA, "Summary of U.S.-Singapore FTA."
[a] Data not available.

Singapore's competitiveness in the apparel industry is hampered by high wage and input costs, a lack of skilled labor, and regional competition from other Asian suppliers.[121] Most apparel manufacturing factories in Singapore have relocated to lower-cost countries.[122] As a result, much of Singapore's apparel industry is focused on apparel marketing and consumption, rather than apparel production.[123] In 2013, Singapore had 500 manufacturers of textiles and apparel and approximately 5,000 wholesalers and retailers.[124] Of these 500 manufacturers, approximately 130 were dedicated to producing apparel for large multinational companies such as Nike, GAP, Polo Ralph Lauren, Adidas, Eddie Bauer and Macy's in 2013.[125] These Singaporean apparel manufacturers source most of their fabric from other regional suppliers mainly Japan, Taiwan, and South Korea.[126]

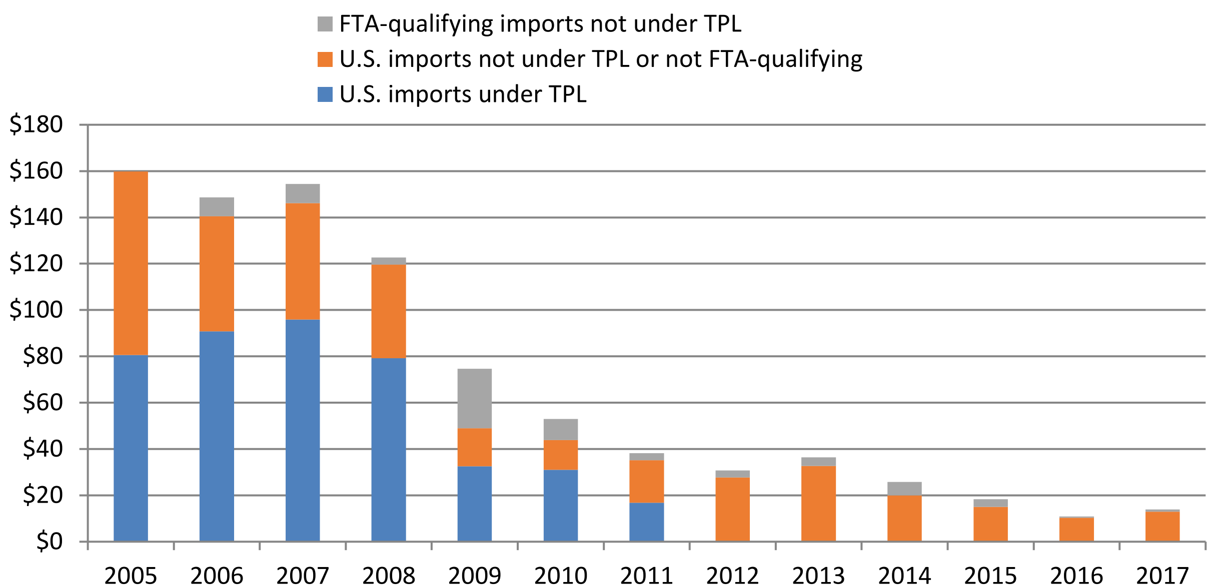
U.S. textile manufacturers in Singapore have shifted from manufacturing lower-cost apparel to producing advanced textiles. For example, Dupont Imaging Technologies specializes in digital printing for

[121] International Business Publications, "Singapore Clothing and Textile Industry Handbook," 2011.
[122] Kunz et. al, "Going Global: The Textile and Apparel Industry," 372; Ying, "Straits Times: Top clothing brands' Singapore connection."
[123] Kunz et. al, "Going Global: The Textile and Apparel Industry," 372.
[124] USDOC, International Trade Administration, "2016 Top Markets Report: Singapore," 2016.
[125] MarketLine Report, "Apparel and Non-Apparel Manufacturing in Singapore," October 2015; International Business Publications, "Singapore Clothing and Textile Industry Handbook," 2011.
[126] International Business Publications, "Singapore Clothing and Textile Industry Handbook," 2011.

textiles, and Huntsman Textile Effects manufactures chemicals and dyes for finished textiles in Singapore.[127]

The TPL provision in the U.S.-Singapore FTA appears to have had an impact on U.S. textile and apparel imports from Singapore. The U.S.-Singapore TPL bolstered U.S. imports from Singapore initially, but such imports then decreased, likely due to the contraction of the TPL limits in the FTA, in addition to MFA quota elimination, the availability of duty-free preferences from other FTA partners, rising costs in Singapore, and the industry's shift to producing higher valued goods. The value of U.S. imports under the TPL ranged from $17 to $96 million during 2005–11. U.S. imports fell from $160 million in 2005 to less than $38 million in 2011, the last year before the TPL expired. After TPL expiration, U.S. imports from Singapore steadily dropped to $14 million in 2017 as Singapore continued to focus on higher-value added industries (figure 11). TPL utilization rates were generally over 50 percent (reaching 80–90 percent in a number of years) when the TPL was in place, with the exception of 2004, the first year of the FTA and the last year quotas were in place. These high utilization rates are indicative of the importance of the TPL provision to Singapore; however, the continued sharp decline in U.S. imports following TPL expiration is largely explained by other more significant factors, including the end of quotas, increased global competition for apparel production, and the shift in Singapore's domestic industry to production of high-value added goods.

Figure 11: Value of U.S. textile and apparel imports from Singapore, by TPL category, 2005–16, millions $



Source: U.S. Department of Commerce (USDOC), OTEXA, "U.S. Imports under Free Trade Agreements, By Group," 2005–16 (accessed April 2018).

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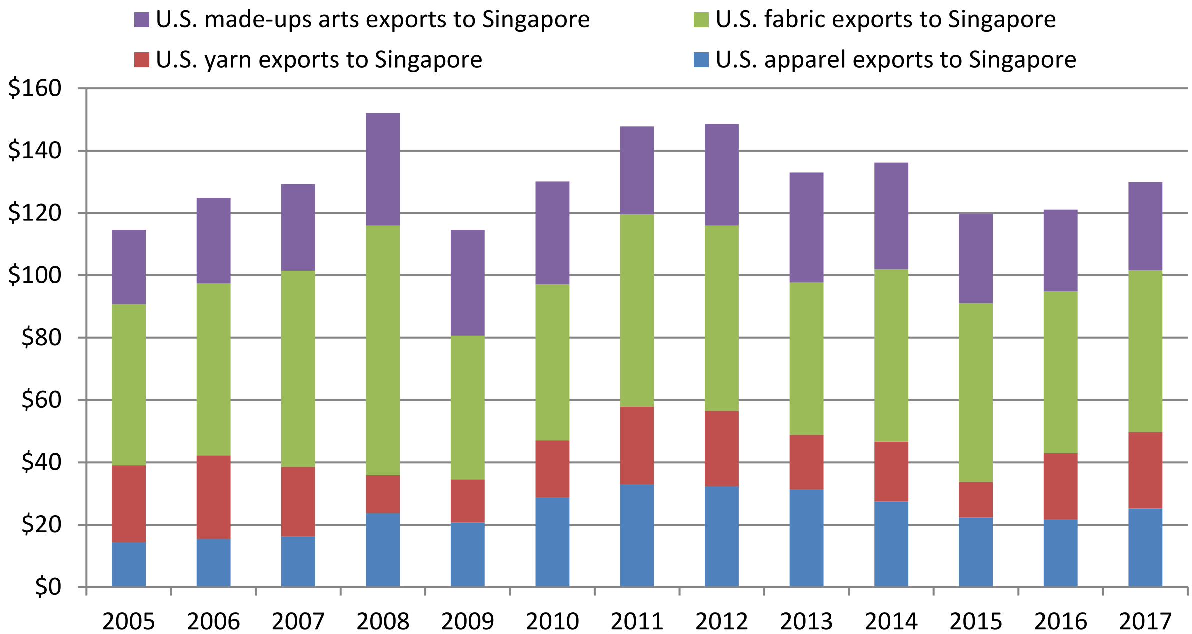
[127] USDOC, ITA, "2016 Top Markets Report: Singapore," 2016; Invest in ASEAN, "Textiles and Apparel: Where to Invest?"

An analysis of U.S. exports to Singapore suggests that U.S. yarn and fabric exporters did not benefit greatly from TPL expiration in the U.S.-Singapore FTA. Before the TPL expired, U.S. textile and apparel exports to Singapore increased from $115 million in 2005 to a peak of $152 million in 2008; close to one-half of these exports were fabric. However, after TPL expiration, there was a general downward trend in U.S. exports to Singapore during 2012–16 ($149 million in 2012 to $121 million in 2016) (figure 12). The general decline in U.S.-Singapore textile and apparel bilateral trade has little to do with the TPL and may be largely attributed to a decline in Singapore's overall textile and apparel industry.[128]

Figure 12: U.S. textile and apparel exports to Singapore, by category, 2005–17, in millions $



Source: Compiled from the official statistics from the U.S. Department of Commerce (accessed April 2018).
Note: Due to the limited U.S. apparel production, U.S. apparel exports to Singapore may contain re-exports which will overstate the U.S. export figures.

Conclusion

Tariff preference levels in various FTAs are important to textile and apparel trade between an FTA partner and the United States because it allows the FTA partner to develop relationships with U.S. suppliers or invest in yarn or fabric production within their own countries, further bolstering bilateral economic trade. The impact of TPL expiration on a country's exports to the United States can be influenced by many things, however three factors are key: an FTA partner's industry structure, its competitiveness as a U.S. textile and apparel supplier, and the strength of its relationships with U.S. textile suppliers. An FTA partner's industry structure is important in determining whether they are reliant on TPLs to bolster their textile and apparel production. There is evidence in trade data that when a country does not have a domestic source of yarn or fabric production, U.S. exports of these goods

[128] MarketLine Report, "Apparel and Non-Apparel Manufacturing in Singapore," December 2016.

likely increase after TPL expiration, except in cases where a country's apparel industry is already in decline. In cases where an FTA partner lacks global competitiveness in its domestic textiles and apparel industry, a sharp decline in U.S. textile and apparel imports from an FTA partner indicates that the FTA partner is more harmed by TPL expiration. Further, unless an FTA partner has a strong supplier network with the United States that is developed before the TPL expires, that FTA partner would likely be harmed by TPL expiration.

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Appendix A

Table A.1: TPL provision contained in the U.S.-Bahrain FTA

Type of Article	Applicable HTS chapters or subheadings	Specific Third-Party Content Rule
Cotton or manmade fiber fabric goods	Chapters 52, 54, 55, 58, and 60	Wholly formed in the territory of Bahrain from yarn produced or obtained outside the territory of Bahrain or the United States.
Cotton or manmade fiber fabric goods	HTS subheadings 5801.21, 5801.22, 5801.23, 5801.27, 5801.26, 5801.31, 5801.32, 5801.33, 5801.37, 5801.36, 5802.11, 5802.19, 5802.20, 5802.30, 5803.10, 5803.90.30, 5804.10.10, 5804.21, 5804.29.10, 5804.30, 5805.00.30, 5805.00.40, 5806.10.10, 5806.10.24, 5806.10.28, 5806.20, 5806.31, 5806.32, 5807.10.05, 5807.10.20, 5807.90.05, 5807.90.20, 5808.10.40, 5808.10.70, 5808.90, 5809.00, 5810.10, 5810.91, 5810.92, 5811.00.20, 5811.00.30, 6001.10, 6001.21, 6001.22, 6001.91, 6001.92, 6002.40, 6002.90, 6003.20, 6003.30, 6003.40, 6004.10, 6004.90, 6005.21, 6005.22, 6005.23, 6005.24, 6005.31, 6005.32, 6005.33, 6005.34, 6005.41, 6005.42, 6005.43, 6005.44, 6006.21, 6006.22, 6006.23, 6006.24, 6006.31,6006.32, 6006.33, 6006.34, 6006.41, 6006.42, 6006.43, 6006.44	Wholly formed in the territory of Bahrain from yarn spun in the territory of Bahrain or the United States from fiber produced or obtained outside the territory of Bahrain or the United States.
Cotton or manmade fiber apparel goods	Chapters 61 or 62	Cut or knit to shape, or both, and sewn or otherwise assembled in the territory of Bahrain from fabric or yarn produced or obtained outside the territory of Bahrain or the United States.
Cotton or manmade fiber made-up goods	Chapter 63	Cut or knit to shape, or both, and sewn or otherwise assembled in the territory of Bahrain from fabric wholly formed in Bahrain or the United States from yarn produced or obtained outside the territory of Bahrain or the United States.

Source: U.S. Harmonized Tariff Schedule of the United States (HTSUS), Chapter 99, Subchapter XIV, Note 13, 2015.

Table A.2: TPL Provisions in CAFTA-DR for Nicaragua and Costa Rica

Country	Type of Article	Applicable HTS chapters or subheadings	Specific Third-Party Content Rule
Nicaragua	Cotton or of man-made fibers apparel goods	Chapters 61 or 62[(a)]	Must be originating goods and are both cut or knit to shape, and sewn or otherwise assembled, in the territory of Nicaragua.[(a)]
Costa Rica	Apparel goods, not knitted or crocheted, containing 36 percent or more by weight of wool or subject to wool restraints provided for in HS heading 6203 and 6204	Specifically: (i) suits for men or boys classified in subheading 6203.11.15, 6203.11.30, 6203.11.60, 6203.11.90, 6203.12.10, 6203.19.20, 6203.19.90 or 6203.29.10; (ii) suit-type jackets and blazers for men or boys classified in subheading 6203.23.00, 6203.29.10, 6203.29.15, 6203.31.50, 6203.31.90, 6203.33.10, 6203.39.10 or 6203.39.90; (iii) trousers, breeches and shorts for men or boys classified in subheading 6203.23.00, 6203.29.10, 6203.29.15, 6203.41.05, 6203.41.12, 6203.41.18, 6203.43.30, 6203.49.20 or 6203.49.80; (iv) suits for women or girls classified in subheading 6204.11.00, 6204.13.10, 6204.19.10 or 6204.19.80; (v) suit-type jackets and blazers for women or girls classified in subheading 6204.31.20, 6204.33.40, 6204.39.20 or 6204.39.80; (vi) skirts for women or girls classified in subheading 6204.21.00, 6204.23.00, 6204.29.40, 6204.51.00, 6204.53.20, 6204.59.20 or 6204.59.40; or	Must be both cut and sewn or otherwise assembled in the territory of Costa Rica.[(b)]

Country	Type of Article	Applicable HTS chapters or subheadings	Specific Third-Party Content Rule
		(vii) trousers, breeches and shorts for women or girls classified in subheading 6204.21.00, 6204.23.00, 6204.29.40, 6204.61.10, 6204.61.90, 6204.63.25, 6204.69.20, 6204.69.60 or 6204.69.90.	
Costa Rica	Apparel goods made from fabric of wool (except fabric of carded wool, or made from wool yarn having an average fiber diameter of less than or equal to 18.5 microns)	Specifically, (i) suits for men or boys classified in subheading 6203.11.30 or 6203.11.90; (ii) suit-type jackets and blazers for men or boys classified in subheading 6203.29.15 or 6203.31.90; (iii) waistcoats (vests) for men or boys classified in subheading 6203.29.15 or 6211.39.05; (iv) trousers and breeches for men or boys classified in subheading 6203.29.15, 6203.41.05 or 6203.41.18; (v) suits for women or girls classified in subheading 6204.11.00; (vi) suit-type jackets and blazers for women or girls classified in subheading 6204.21.00, 6204.31.10 or 6204.31.20 (vii) waistcoats (vests) for women or girls classified in subheading 6204.21.00 or 6211.49.41; (viii) skirts for women or girls classified in subheading 6204.21.00 or 6204.51.00; or (ix) trousers and breeches for women or girls classified in subheading	Must be both cut and sewn or otherwise assembled in the territory of Costa Rica.

Country	Type of Article	Applicable HTS chapters or subheadings	Specific Third-Party Content Rule
		6204.21.00, 6204.61.10 or 6204.61.90.	
Costa Rica	Women's knitted or crocheted swimwear specially designed to accommodate post-mastectomy breast prostheses, containing two full size interior pockets with side openings, two preformed cups, a supporting elastic band below the breast and vertical center stitching to separate the two pockets	HTS subheading 6112.41.00 or 6112.49.00 specially designed to accommodate post-mastectomy breast prostheses, containing two full size interior pockets with side openings, two preformed cups, a supporting elastic band below the breast and vertical center stitching to separate the two pockets	Must be both cut or knit to shape and sewn or otherwise assembled in the territory of Costa Rica.

Source: U.S. Harmonized Tariff Schedule of the United States (HTSUS), Chapter 99, Subchapter XV-18, Note 15, 2017.

[a] The tariff treatment provided for in subheading 9915.61.01 shall also apply to men's sport coats, containing 23 percent or more by weight of wool or fine animal hair, of subheadings 6103.23.00, 6103.29.05, 6103.31.00, 6103.33.10, 6103.39.80, 6203.23.00, 6203.29.10, 6203.29.15, 6203.31.50, 6203.31.90, 6203.33.10 or 6203.39.10, provided that the component that determines the tariff classification of the good is of carded wool fabric of subheading 5111.11.70, 5111.19.60 or 5111.90.90, and provided that the good satisfies all other applicable requirements of this note. Of the quantity specified above for any such year, not more than 1,500,000 SME may be men's sport coats, containing 23 percent or more by weight of wool or fine animal hair.

[b] This TPL provision would also have to comply with CAFTA-DR's special rules for visible lining fabric, pocketing fabric, sewing thread, and narrow elastic fabric.

Table A.3: TPL Provisions in the U.S.-Morocco FTA

Type of Article	Applicable HTS chapters or subheadings	Specific Third-Party Content Rule
Fabric goods	HTS chapters 51, 52, 54, 55, 58, and 60	Must be wholly formed in Morocco, regardless of the origin of the fiber or yarn used to produce the goods.
Apparel goods	HTS chapters 61 and 62	Must be cut or knit to shape, or both, and sewn or otherwise assembled in the territory of a Party, regardless of the origin of the fabric or yarn used to produce the goods.

Source: U.S. Harmonized Tariff Schedule of the United States (HTSUS), Chapter 99, Subchapter XII, Note 64, 2015.

Table A.4: TPL Provisions in the U.S.-Oman FTA

Type of Article	Applicable HTS chapters or subheadings	Specific Third-Party Content Rule
Cotton or man-made fiber apparel goods	HTS chapters 61 or 62	Must be cut or knit to shape, or both, and sewn or otherwise assembled in the territory of Oman from fabric or yarn produced or obtained outside the territory of Oman or of the United States.

Source: U.S. Harmonized Tariff Schedule of the United States (HTSUS), Chapter 99, Subchapter XVI, Note 13, 2015.

Table A.5: TPL Provisions in the U.S.-Singapore FTA

Type of Article	Applicable HTS chapters or subheadings	Specific Third-Party Content Rule
Cotton or of man-made fiber apparel goods or apparel goods subject to cotton or manmade fiber restraints	6101.20.00, 6101.30.10, 6101.30.20, 6102.20.00, 6102.30.05, 6102.30.20, 6103.10.30, 6103.10.60, 6103.22.00, 6103.23.00, 6103.29.10, 6103.32.00, 6103.33.20, 6103.39.10, 6103.42.10, 6103.42.20, 6103.43.15, 6103.43.20, 6103.49.10, 6103.49.20, 6104.13.20, 6104.19.60, 6104.22.00, 6104.23.00, 6104.29.10, 6104.32.00, 6104.33.20, 6104.39.10, 6104.42.00, 6104.43.20, 6104.44.20, 6104.52.00, 6104.53.20, 6104.59.10, 6104.62.10, 6104.62.20, 6104.63.10, 6104.63.20, 6104.69.10, 6104.69.20, 6105.10.00, 6105.20.20, 6106.10.00, 6106.20.20, 6107.11.00, 6107.12.00, 6107.21.00, 6107.22.00, 6107.91.00, 6107.99.10, 6108.11.00, 6108.19.90, 6108.21.00, 6108.22.90, 6108.31.00, 6108.32.00, 6108.91.00, 6108.92.00, 6109.10.00, 6109.90.10, 6110.20.10, 6110.20.20, 6110.30.10, 6110.30.20, 6110.30.30, 6111.20.10, 6111.20.20, 6111.20.30, 6111.20.40, 6111.20.50, 6111.20.60, 6111.30.10, 6111.30.20, 6111.30.30, 6111.30.40, 6111.30.50, 6111.90.10, 6111.90.20, 6111.90.40, 6111.90.50, 6112.11.00, 6112.12.00, 6112.19.10, 6112.20.10, 6112.20.20, 6112.31.00, 6112.39.00, 6112.41.00, 6112.49.00, 6113.00.90, 6114.20.00, 6114.30.10, 6114.30.20, 6114.30.30, 6115.10.10, 6115.10.15, 6115.10.30, 6115.10.40, 6115.10.55, 6115.21.00, 6115.22.00, 6115.29.80, 6115.30.90, 6115.95.60, 6115.95.90, 6115.96.60, 6115.96.90, 6115.99.14, 6116.10.17, 6116.10.48, 6116.10.55, 6116.10.75, 6116.92.64, 6116.92.74, 6116.92.88, 6116.92.94, 6116.93.88, 6116.93.94, 6116.99.48, 6116.99.54, 6117.10.20, 6117.10.60, 6117.80.87, 6117.80.95, 6117.90.90, 6201.12.10, 6201.12.20, 6201.13.10, 6201.13.40, 6201.92.10, 6201.92.15, 6201.92.20, 6201.93.10, 6201.93.20, 6201.93.30, 6201.93.35, 6202.12.10, 6202.12.20, 6202.13.10, 6202.13.40, 6202.92.10, 6202.92.15, 6202.92.20, 6202.93.10, 6202.93.20, 6202.93.45, 6202.93.50, 6203.12.20, 6203.19.10, 6203.19.30, 6203.22.10, 6203.22.30, 6203.23.00, 6203.29.20, 6203.32.10, 6203.32.20, 6203.33.20, 6203.39.20, 6203.42.20, 6203.42.40, 6203.43.15, 6203.43.20, 6203.43.25, 6203.43.35, 6203.43.40, 6203.49.10, 6203.49.15, 6203.49.20,	Both cut (or knit to shape) and sewn or otherwise assembled in Singapore from fabric or yarn produced or obtained outside the territory of Singapore or of the United States.

Type of Article	Applicable HTS chapters or subheadings	Specific Third-Party Content Rule
	6204.12.00, 6204.13.20, 6204.19.20, 6204.22.10, 6204.22.30, 6204.23.00, 6204.29.20, 6204.32.10, 6204.32.20, 6204.33.10, 6204.33.20, 6204.33.50, 6204.39.30, 6204.42.20, 6204.42.30, 6204.43.10, 6204.43.20, 6204.43.40,	
	6204.44.20, 6204.44.40, 6204.52.20, 6204.53.10, 6204.53.30, 6204.59.10, 6204.59.30, 6204.62.20, 6204.62.30, 6204.62.40, 6204.63.12, 6204.63.15, 6204.63.20, 6204.63.30, 6204.63.35, 6204.69.10, 6204.69.25, 6205.20.10, 6205.20.20, 6205.30.10, 6205.30.20, 6206.30.10, 6206.30.20, 6206.30.30, 6206.40.10, 6206.40.20, 6206.40.30, 6207.11.00, 6207.19.90, 6207.21.00, 6207.22.00, 6207.91.10, 6207.91.30, 6207.99.75, 6207.99.85, 6208.11.00, 6208.19.20, 6208.21.00, 6208.22.00, 6208.91.10, 6208.91.30, 6208.92.00, 6209.20.10, 6209.20.20, 6209.20.30, 6209.20.50, 6209.30.10, 6209.30.20, 6209.30.30, 6209.90.10, 6209.90.20, 6209.90.30, 6210.10.90, 6210.20.50, 6210.20.90, 6210.30.50, 6210.30.90, 6210.40.50, 6210.40.90, 6210.50.50, 6210.50.90, 6211.11.10, 6211.11.80, 6211.12.10, 6211.12.80, 6211.20.04, 6211.20.15, 6211.20.28, 6211.20.38, 6211.20.48, 6211.20.58, 6211.20.68, 6211.20.78, 6211.32.00, 6211.33.00, 6211.42.00, 6211.43.00, 6212.10.50, 6212.10.90, 6212.20.00, 6212.30.00, 6212.90.00, 6213.20.10, 6213.20.20, 6213.90.10, 6214.30.00, 6214.40.00, 6214.90.00, 6215.20.00, 6215.90.00, 6216.00.17, 6216.00.21, 6216.00.24, 6216.00.29, 6216.00.38, 6216.00.41, 6216.00.54, 6216.00.58, 6217.10.95 or 6217.90.90.	

Source: U.S. Harmonized Tariff Schedule, 2011 (Revision 1), Chapter 99, XXII, 99-X-4.