United States Fashion Industry Association
<u>Testimony</u>

Impact of the U.S.-Mexico-Canada Agreement (USMCA) on U.S. Economy, Consumers, and Fashion Industry

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Good morning and thank you for the opportunity to appear today to talk about our assessment of the impact of the new U.S.-Mexico-Canada Agreement. The United States Fashion Industry Association represents fashion brands, retailers, importers, and wholesalers based in the United States and doing business globally—many of the companies you and your families wear on a daily basis. Our member companies manage supply chains that span the globe, and trade with Mexico and Canada is critically important both for sourcing and for retail.

The North American Free Trade Agreement (NAFTA) has been one of the most important trade agreements for the fashion industry. According to our annual survey of American brands and retailers, NAFTA is the most-utilized trade agreement: 65 percent of companies say they utilize it and more than half explicitly say NAFTA is important to their business operations. This is more than any other US free trade agreement.

We reviewed the details of the USMCA, and we were pleased to find much we can support in it. Thank you to the Administration's negotiators for listening to our members' concerns on several critical issues.

As we asked, USMCA remains a trilateral agreement, and "does no harm" to existing U.S.-Mexico-Canada supply chains. This should ensure a level of business continuity in a time of increasing uncertainty in trade and supply chains. We believe this certainty will allow American businesses to continue their plans to expand and hire more Americans to fill high-paying jobs in the United States.

The agreement also maintains the Tariff Preference Levels (TPLs) for apparel to and from all three countries. This is one of the most important elements of the agreement for our industry, and according to some of our members, the only way they can source textiles and apparel with these trading partners.

We also applaud the elimination of the requirement that visible linings for tailored clothing come from the NAFTA region. This was a barrier to more trade in our sector under NAFTA. Both of these provisions—the maintenance of the TPLs and the elimination of the visible linings requirement--will help companies continue and expand business with our trading partners Canada and Mexico. USFIA looks forward to supporting efforts to expand trade in the region.

I want to repeat the importance of trade with Mexico and Canada for American brands and retailers. While our NAFTA partners represent slightly less than four percent of total U.S. apparel imports (by quantity), our survey shows that almost two-thirds of companies have some NAFTA sourcing. That is why we are concerned that the addition of more regulatory requirements to qualify for duty-free market access may hold back the ability of some companies to expand their sourcing with Mexico and Canada.

However, in this time of uncertainty and cost concerns, the addition of regulatory requirements to qualify for duty-free market access will deter this expansion of business. The yarn-forward rule of origin already discourages trade in our sector—and some companies have told us that they don’t claim the duty savings on eligible products from the region because the compliance requirements are simply too onerous and expensive. In addition, the USMCA creates new technical requirements --for example, the addition of requirements for originating sewing thread, pocketing and narrow elastic bands—which will result in higher costs for inputs and higher costs for brands and retailers (as well as their suppliers in Mexico and Canada) to administer the agreement.

We are concerned that there will be some companies who shift operations out of the Western Hemisphere, or decide not to move new orders to Canada or Mexico because of these cost increases. The new regulations WILL make it more expensive and complicated for American brands and retailers to use the agreement. That is not an assumption, that is what companies tell us. So, complicated rules of origin and heavy documentation requirements mean we have a missed opportunity -- for American companies as well as for our trading partners Canada and Mexico. Let’s be honest, if the Administration wants to encourage companies to move their sourcing out of China, it would make sense to make it easier to do business with America’s closest neighbors.

And let’s not forget the most important piece of the equation – that apparel imports create jobs and value here in the United States. According to recent analysis, U.S. workers contribute an average of 70 percent of the value of the final price of a retail item sold in the United States, regardless of where it’s manufactured. This translates to high-paying, high-quality jobs in the United States—and 1 in 4 jobs in the United States are supported by retail—as well as affordable apparel for American families and economic growth for our neighbors Canada and Mexico.

The fashion industry, perhaps more than any other manufactured consumer products industry, relies on complex global supply chains to deliver the right products at the right price for American consumers. Let’s make sure the rules and requirements work with existing supply chains and create new openings for American jobs and business with our trading partners—not deter them.

We appreciate the opportunity to appear today and look forward to answering any questions.