

Intelligence MEMOS



From: Jon Johnson
To: The Canadian NAFTA Negotiating Team
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Re: **WHY DOES THE US WANT TO UNRAVEL THE TRADE IN TEXTILES ?**

Textile and apparel goods are outliers in the world of trade agreements. Developed countries have historically insisted on special rules to protect their textile and apparel producers because of perceived vulnerability to import competition. Under the 1974 Multi-Fibre Arrangement (“MFA”), many textile and apparel goods were subject to trade rules totally at odds with normal GATT rules. If a country (invariably developed) determined that imports of specified categories of textile and apparel goods from another country (invariably developing) were causing “market disruption” the two countries would enter into an MFA-sanctioned bilateral agreement imposing annual import quotas. Both Canada and the US entered into many such agreements to protect their textile and apparel sectors.

Under the CUSFTA, Canada and the US agreed to tariff elimination for all categories of textile and apparel goods that satisfied rules of origin (ROOs). Tariff elimination was completed under NAFTA and was extended to textile and apparel goods from Mexico. However, the US negotiated more restrictive ROOs that frequently impose yarn-forward rules. Under a yarn-forward rule, fabric woven in a NAFTA country does not meet the rules of origin unless the yarn originates in a NAFTA country. Some goods are even subject to a rule that requires that the fibre from which the yarn is spun originate in a NAFTA country.

NAFTA provides for some relief from strict ROOs by permitting prescribed volumes (“tariff preference levels” or “TPLs”) of certain categories of goods to be imported into each NAFTA country from another NAFTA nation without having to fully comply with the ROOs. This concept originated with the CUSFTA because Canadian apparel manufacturers were more dependent on imported fabric than their US counterparts.

Despite the strict NAFTA ROOs, imports from the US into Canada of textile and apparel goods have dropped considerably since NAFTA became effective, both absolutely and in terms of market share.

Imports from the US of textiles (yarn, fabric, thread, etc.) dropped from \$1.4 billion in 1995 (56 percent of all imports) to \$569 million (43 percent) in 2016. Imports from all countries into Canada of these goods also dropped, from \$2.49 billion in 1995 to \$1.36 billion in 2016. Imports from the US of apparel goods dropped from \$608 million in 1995 (18.5 percent of all imports) to \$436 million (13.75 percent) in 2016. However, imports from all countries into Canada of apparel increased from \$3.29 billion in 1995 to \$11.63 billion in 2016.

These significant shifts in import figures takes us back to the MFA. The WTO Agreement on Textiles and Clothing phased out the MFA in stages ending in 2005. All the import restrictions imposed by the MFA bilateral agreements are now gone. The effect of the elimination of the import restrictions has been dramatic, as the above figures indicate.

While TPLs are generally underutilized by Canadian exporters, the US negotiators have proposed that the TPLs be eliminated. The benefit to US textile and apparel producers of TPL elimination would be marginal at best, but the rationale for the demand lies in the significant impact that the elimination of MFA-sanctioned import restrictions has had on textile and apparel markets.

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