



TEXTILE SECTOR: CLOTHING

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Annex 300 B of NAFTA TLCAN changes to Chapter 6: Textile and Clothing Items of the new United States-Mexico-Canada Agreement (USMCA).

According to the United States Trade Representative, the new textile provisions encourage a greater American textile and clothing items production, reinforce the fulfillment of the customs regulations and facilitate a more comprehensive consultancy and cooperation among the Parties concerning textile sector trade matters.

In order to reinforce the supply chains to offer new market opportunities for this sector, the new textile provisions are more strict than the NAFTA provisions.

The provisions promote a greater use of fibers, yarns and fabrics made in the United States, while considering the following points:

- Restriction of the rules that permit to use certain materials not included in the NAFTA concerning textiles and clothing items trade.
- The sewing thread, pocketing fabric, elastics and the coated fabric must come from the region of destination with trade benefits, once they are integrated to the rest of clothing items and other final products.
- Including verification and customs cooperation provisions that offer new instruments to reinforce the customs control and prevent fraud, as well as undervaluation in this relevant sector.

According to the Economic Department, the following points concern the benefits that Mexico received:

- The Tariff Preference Levels (TPLs) remained with the current amounts. Only some adjustments were performed with the amounts for the TPLs concerning fabrics and yarns in the United States.
- The free trade remains without restrictions concerning the clothing items assembled in Mexico using fabric formed and cut in the United States (special regime).

- A coverage of verification shall be applied to detect customs offenses. A Textile Committee shall be established to facilitate consultancies while the authorities cooperate in a greater manner.

The Textile Committee shall be composed of governmental representatives of each country. As it may be requested by one of these three countries, all parties shall consult their sectors to decide whether certain products must be subjected to different rules of origin in order to solve commodity supply problems concerning fibers, yarns and fabrics in the USMCA.

Taxes shall not be applied to the textile products and clothing items assembled in Mexico starting from fabrics formed and cut in the United States, with the exception of visible lining fabrics exported and reimported into the United States.

B. HISTORICAL BACKGROUND



On May 8th, 2017, the President of the United States notified to the Congress his purpose of renegotiating the NAFTA, since, according to him, the mentioned agreement caused a loss of jobs and industries in the country. Therefore, On July, the issued a document in order to renegotiate, starting a sequence of consultancies and public hearings with all production sectors and society.

According to the comments, this document was updated on November of the same year. **Establishing the following objectives for the textile sector:**

- Maintaining the current duty-free access to the national markets of NAFTA for textile products and clothing items from the United States, and pursuing the improvement of the competitive opportunities for the exports of textile products and clothing items from the United States, while taking into consideration the imports sensibility of the United States.



- Implementing original procedures that facilitates the certification and verification of the rules of origin, as well as promoting a strict application, even concerning textiles.

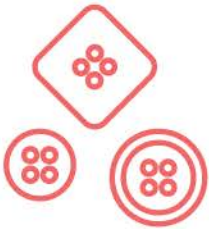
It is relevant to keep in mind that, at the beginning and during the negotiation, the American government requested:

- Maintaining the “yarn forward” rule of origin.
- Eliminating the TPLs.
- Eliminating the special regimes.

The last two requests, made mainly by the American textile sector, argued that the facility of using supplies, not provided by the NAFTA area, originated a decrease in textile production.

C. USMCA

Chapter 6 is composed of:



- Article 6.1: Rules of Origin and Related Issues
- Article 6.2: Artisan, folkloric and traditional products, or made by natives
- Article 6.3: Special Supplies
- Article 6.4: Review and Changes of Rules of Origin
- Article 6.5: Cooperation
- Article 6.6: Verification
- Article 6.7: Determinations
- Textiles and Clothing Items Committee
- Article 6.8: Confidentiality
- Annex 6 A: Special Provisions
- Appendix 6 A.1: Tariff Preference Levels for Non-Originating Clothing Items (TPLs)
- Appendix 6 A.2: Tariff Preference Levels for Non-Originating Cotton and synthetic fiber Clothing (TPLs)
- Appendix 6 A.3: Tariff Preference Levels for Non-Originating Cotton and yarn made of synthetic fiber (TPLs)
- Annex 6 B: Conversion Factors

In any case, The “yarn forward” Rule of Origin of NAFTA remains, and it is relevant to verify once again the texts of the specific Rules of Origin, since there might be certain flexibilities. The Specific Rules of Origin may be found in Chapter 4.



Rules of Origin Notes of Chapter 61:

Note 2: Effective 18 months from the date of entry into force of the agreement, and notwithstanding Chapter Note 1, a good of this chapter containing fabrics of subheading 5806.20 or heading 60.02 is originating only if such fabrics are both formed from yarn and finished in the territory of one or more of the Parties.

Note 3: Effective 12 months from the date of entry into force of the agreement, and notwithstanding Chapter Note 1, a good of this chapter containing sewing thread of heading 52.04, 54.01 or 55.08, or yarn of heading 54.02 used as sewing thread shall be considered originating only if such sewing thread is both formed and finished in the territory of one or more of the Parties.

Note 4: Effective 18 months from the date of entry into force of the agreement, and notwithstanding Chapter Note 1, if a good of this chapter contains a pocket or pockets, the pocket bag fabric must be formed and finished in the territory of one or more of the Parties from yarn wholly formed in one or more of the Parties.

Rules of Origin Notes of Chapter 62:

Note 3: Effective 18 months from the date of entry into force of the agreement, and notwithstanding Chapter Note 2, a good of this chapter containing fabrics of subheading 5806.20 or heading 60.02 is originating only if such fabrics are both formed and finished from yarn in the territory of one or more of the Parties.

Note 4: Effective 12 months from the date of entry into force of the agreement, and notwithstanding Chapter Note 2, a good of this chapter containing sewing thread of heading 52.04, 54.01 or 55.08, or yarn of heading 54.02 used as sewing thread shall be considered originating only if such sewing thread is both formed and finished in the territory of one or more of the Parties.

Note 5: For apparel made of blue denim fabric of subheadings 5209.42, 5211.42, 5212.24, and 5514.30, effective 30 months from the date of entry into force of the agreement, and notwithstanding Chapter Note 2, if such goods of this chapter contain a pocket or pockets, the pocket bag fabric must be formed and finished in the territory of one or more of the Parties from yarn wholly formed in one or more of the Parties.



For all other apparel, effective 18 months from the date of entry into force of the agreement, and notwithstanding Chapter Note 2, if a good of this chapter contains a pocket or pockets, the pocket bag fabric must be formed and finished in the territory of one or more of the Parties from yarn wholly formed in one or more of the Parties.

The main changes for this sector, in the general text, concern the following points:



Art. 405.

6. A good provided for in Chapter 50 through 63 of the Harmonized System that does not originate because certain fibers or yarns used in the production of the component of the good that determines the tariff classification of the good do not undergo an applicable change in tariff classification set out in Annex 401, shall nonetheless be considered to originate if the total weight of all such fibers or yarns in that component is not more than seven percent of the total weight of that component.



Art. 6.1

2. A textile or apparel good classified in Chapters 50 through 60 or heading 96.19 of the Harmonized System that contains non-originating materials that do not satisfy the applicable change in tariff classification requirement specified in Annex 4-B (Product-Specific Rules of Origin), shall nonetheless be considered to be an originating good if the total weight of all those materials is not more than 10 percent of the total weight of the good, of which the total weight of elastomeric content may not exceed 7 percent, and the good meets all the other applicable requirements of this Chapter and Chapters 4 and 5 (Rules of Origin and Origin Procedures).

3. A textile or apparel good classified in Chapters 61 through 63 of the Harmonized System that contains non-originating fibers or yarns in the component of the good that determines the tariff classification of the good that do not satisfy the applicable change in tariff classification set out in Annex 4-B (Product-Specific Rules of Origin), shall nonetheless be considered to be an originating good if the total weight of all those fibers or yarns is not more than 10 percent of the total weight of that component, of which the total weight of elastomeric content may not exceed 7 percent, and the good meets all the other applicable requirements of this Chapter and Chapters 4 and 5 (Rules of Origin and Origin Procedures).

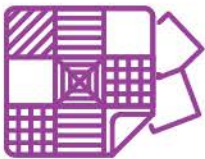


Sets

4. Notwithstanding the product-specific rules of origin set out in Annex 4-B (Product-Specific Rules of Origin), textile and apparel goods put up in sets for retail sale, classified as a result of the application of Rule 3 of the General Rules for the Interpretation of the Harmonized System, shall not be regarded as originating goods unless each of the goods in the set is an originating good or the total value of the non-originating goods in the set does not exceed 10 percent of the value of the set.

5. For the purposes of paragraph 4:

(a) the value of non-originating goods in the set shall be calculated in the same manner as the value of non-originating materials in Chapters 4 (Rules of Origin); and (b) the value of the set shall be calculated in the same manner as the value of the good in Chapter 4 (Rules of Origin).



Artisan, folkloric and traditional products, or made by natives

An extension for the provisions coverage concerning folkloric textile goods, integrating the goods manufactured by natives.

Verification

2. An importing Party may request a site visit under this article from an exporter or producer of textile or apparel goods to verify whether:

(a) a textile or apparel good qualifies for preferential tariff treatment under this

Agreement; or

(b) customs offenses with regard to a textile or apparel good are occurring or have occurred.

3. During a site visit under paragraph 2, an importing Party may request access to:

(a) records and facilities relevant to the claim for preferential tariff treatment; or

(b) records and facilities relevant to the customs offences being verified



TPL

The Tariff Preference Levels (TPLs) are compared with the current amounts. The amounts were adjusted for the TPLs concerning fabrics and yarns in the United States.

The exceptions must be reviewed in every single context.

Non-Originating Apparel

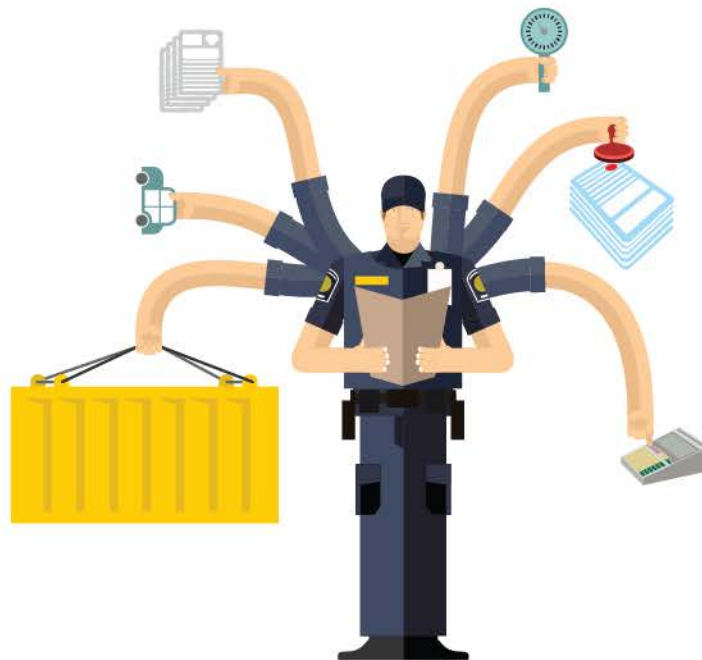
Imports into Canada:	From Mexico	From the United States
Cotton or Manmade fiber apparel	6,000,000 SME	9,000,000 SME ↓
Wool apparel	250,000 SME	919,740 SME ↑
Imports into Mexico:	From Canada	From the United States
Cotton or Manmade fiber apparel	6,000,000 SME	12,000,000 SME
Wool apparel	250,000 SME	1,000,000 SME
Imports into the United States:	From Canada	From Mexico
Cotton or Manmade fiber apparel	↓ 40,000,000 SME	45,000,000 SME
Wool apparel	↓ 4,000,000 SME	1,500,000 SME

Non-Originating Cotton or Man-made Fiber Fabrics and Made-Up Good

Imports into Canada:	from Mexico 7,000,000 SME	from the United States ↑ 15,000,000 SME
Imports into Mexico:	from Canada 7,000,000 SME	from the United States ↓ 1,400,000 SME
Imports into the United States:	from Canada 71,765,252 SME	from Mexico ↓ 22,800,000 SME (3)

Non-Originating Cotton and Man-made Fiber Spun Yarn

Imports into Canada:	from Mexico 1,000,000 kg	from the United States 1,000,000 kg
Imports into Mexico:	from Canada 1,000,000 kg	↓ from the United States 950,000 kg
Imports into the United States:	↓ from Canada 6,000,000 kg	↓ from Mexico 700,000 kg



The following chapters must be examined additionally

Customs Administration and Trade Facilitation

- It integrates provisions concerning customs cooperation and compliance, intending to accomplish the following points:
 - Regional and bilateral cooperation to improve the customs coordination and it promotes initiatives to detect and prevent customs offenses.
 - Information exchange that prevents customs offenses.
 - Verifications by collaborating with customs authorities to obtain documents and conduct visits to enterprises.



Labor Sector:

- Certain specific provisions are included for Mexico, in terms of collective bargaining, intending to guarantee the current right.
- The cases of sustained or frequent action or inaction, while implementing the labor law by a government, shall be subjected to the disputes settlement mechanism.



Origin Procedures

- The origin certificate may be issued by the exporter, manufacturer or importer.
- The certificate format is removed, and the invoice certification or any other commercial document is permitted as long as minimum data of the information is declared.
- In case of a non-compliance, by the importers, of the stipulated part concerning the origin of the goods, each country shall determine whether a civil, criminal or administrative penalty shall be applied.



Copyright

- The authorities may intercept the goods in case they suspect these inbound or outbound goods have been counterfeit.
- Implementing measures against counterfeit goods and piracy on a commercial scale.

Source:

1.

<https://www.gob.mx/tlcan/acciones-y-programas/resultados-de-la-modernizacion-del-acuerdo-comercial-entre-mexico-estados-unidos-y-canada?state=published>

2.

<https://ustr.gov/trade-agreements/free-trade-agreements/united-states-mexico-canada-agreement/united-states-mexico>

3. IQOM (Trade Intelligence)