



Malaysian
Knitting
Manufacturers
Association

Trans-Pacific Partnership Agreement (TPPA)

跨太平洋伙伴关系协定

Technicality of TPPA Textile and Apparel Industry

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Member Countries of Trans Pacific Partnership Agreement (TPPA)

- Australia RCEP ASEAN
- Brunei Darussalam ASEAN
- Canada
- Chile Bilateral
- Japan Bilateral
- Malaysia
- Mexico
- New Zealand Bilateral ASEAN
- Peru
- Singapore ASEAN
- United States of America
- Vietnam ASEAN



Trade Opportunities

Malaysia's Involvement in FTAs

Bilateral	Regional / Block
<p>Malaysia-Japan (2005) Malaysia-Pakistan (2007) Malaysia-New Zealand (2009) Malaysia-Chile (2010) Malaysia-India (2011) Malaysia-Australia (2012) Malaysia-Turkey (2014)</p>	<p>ASEAN Free Trade Area (1992) ASEAN-China (2004) ASEAN-Korea (2006) ASEAN-Japan (2008) ASEAN-India (2009) ASEAN-Australia-New Zealand (2009) Trans-Pacific Partnership Agreement (TPPA) (Signed - Feb 2016 @ Auckland, New Zealand. Effective Jan 2018) (Australia, Brunei, Canada ,Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, America, and Vietnam.)</p>
<p>Malaysia-EU (Negotiation) Malaysia-EFTA (Negotiation) (Iceland, Switzerland, Liechtenstein, Norway)</p>	<p>ASEAN-Hong Kong (Negotiation) Regional Comprehensive Economic Partnership (RCEP) (ASEAN, China, Japan, Korea, India, Australia, New Zealand)</p>



Harmonized System Code (HS Code)

Total 21 Sections in HS Code

- First 2 digits : Chapter
- Next 2 digits : Tariff Heading
- Next 2 digits : Sub Heading
- Example:

Chapter 62 – Woven Apparel

Tariff Heading 01 – Men / Boy overcoats, ski / wind jacket

Sub Heading 12 – of Cotton

Chapter	Product description
41	Raw hide and skins and leather
42	Leather articles
43	Furskins
50	Silk
51	Wool
52	Cotton
53	Other vegetable fibres
54	Filaments
55	Fibres
56	Wadding, etc .
57	Carpets
58	Special woven fabrics
59	Impregnated, coated fabrics
60	Knitted/ crocheted fabrics
61	Apparel and clothing access, knitted.
62	Apparel and clothing access., not knitted/crocheted
63	Other made- up textiles
64	Footwear



Technicality of TPPA for Textile & Apparel

Product Specific Rule of Origin -PSR (Qualification for Market Access)

- Yarn Forward

<http://fta.miti.gov.my/miti-fta/resources/Text%20of%20TPPA/4-A. Textiles and Apparel Product Specific Rules of Origin Annex .pdf>

- Short Supply List

<http://fta.miti.gov.my/miti-fta/resources/Text%20of%20TPPA/4-A-1. Short Supply List of Products Appendix 1 to Annex 4-A .pdf>

- Single Transformation
- De Minimis
- Sewing Thread

Market Access

- Time Schedule
- Tariff Schedule

<http://fta.miti.gov.my/index.php/pages/view/267>



Technicality of TPPA for Textile & Apparel

Rule of Origin (ROO)

“YARN FORWARD”



Must be manufactured within the FTA region

- Yarn, fabrics and end product from TPP countries



Technicality of TPPA for Textile & Apparel



Unavailable Yarn? → SHORT SUPPLY LIST (SSL)

Treatment of Short Supply List Materials (SSL)

A provision on “short supply” list, which allows fabrics, yarns, and fibers that are not commercially available in the TPP region to be sourced from non-TPP countries and used in the production of apparel in the TPP region yet still entitle to Market Access (Duty Reduction). Two sets of SSLs, permanent (186 items) and temporary (8 items) of 5 years.

SSL is given in the form of pair/couple. Specific input must be made into specific output in order to enjoy market access.

Technicality of TPPA for Textile & Apparel

“SINGLE TRANSFORMATION”



Can be sourced from anywhere

Single Transformation Products for TPPA

Single transformation rule for selected products such as synthetic baby clothes, travel goods including handbags, and brassieres.

Raw materials can be sourced from non-TPP countries and used in the production in the TPP region yet still entitle to Market Access - Duty Reduction.



Technicality of TPPA for Textile & Apparel

De Minimis

- **Textiles.** For textile goods classified in Chapters 50 through 63 of the Harmonized System, the De Minimis rule is applied by weight (instead of value) to the component of the good that determines its tariff classification, as determined in accordance with the General Rules of Interpretation of the Harmonized System.

For Textile goods the *De Minimis* rule is not more than 10% by weight of the component of the good that determines its tariff classification.

The De Minimis can be excluded from the Yarn Forward Rule.

Such raw materials can be sourced from Non TPP countries and use to make up for the end products in the TPP region. Yet the end product is still entitle for Market Access – Duty Reduction.



Example:-

A Mexican manufacturer produces women's shirts which have knit bodies and woven sleeves. The composition of the knit bodies is 60 percent cotton, 35 percent wool, and 5 percent rayon, by weight. The sleeves are made of Japanese fabric that is 100 percent polyester.

Since the knit bodies give the garments their essential character, the shirts are classified under HTS 6106.10. The Annex 401 rule of origin criterion for HTS 6106.10 is "yarn forward" (see Chapter 5 of this publication for rules of origin for textiles).

Assuming the cotton and wool portions of the bodies meet the yarn-forward rule, the garment can still be considered originating even if the rayon yarn was from China since it falls under the De Minimis provision. The sleeves are ignored in determining whether the shirts originate because only the component that determines the tariff classification of the goods is considered when applying the De Minimis provision.



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Technicality of TPPA for Textile & Apparel

Sewing Thread

- Sewing Thread is to be sourced from TPP Countries only in order to enjoy the benefit of market access.
- In general, if the sewing thread is not source from TPP countries, the end product – apparel would not be entitled market access.
- Please refer to Product Specific Rule (PSR), HS Code Chapter 61 and 62 to see the details requirement.

Example - Woven Fabric

<u>Fiber</u>	<u>Yarn</u>	<u>Fabric</u>
Non TPP	TPP	TPP

Yarn Forward Rule



Example - Knitted Fabric

<u>Fiber</u>	<u>Yarn</u>	<u>Fabric</u>
TPP	TPP	TPP



Fiber Forward Rule

Fiber, Yarn and Fabric formation must occur in one or more of the TPP countries



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Example-Apparel (knit/woven)

<u>Fiber</u>	<u>Yarn</u>	<u>Fabric</u>	<u>Cut & Sew</u>
Non TPP	TPP	TPP	TPP

Yarn Forward Rule



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Example – Shirts 62052020A, 62063030A

<u>Fiber</u>	<u>Yarn</u>	<u>Fabric</u>	<u>Cut & Sew</u>
Non TPP	Non TPP	Non TPP	TPP

Short Supply List (SSL) #65



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Example – Synthetic Baby Cloths, Brassieres, travel goods

<u>Fiber</u>	<u>Yarn</u>	<u>Fabric</u>	<u>Cut & Sew</u>
Non TPP	Non TPP	Non TPP	TPP

Single Transformation Rule



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Example - De Minimis

Main component of goods determining its tariff classification subject to Yarn Forward Rule BUT...De Minimis Portion subject to:

<u>Fiber</u>	<u>Yarn</u>	<u>Fabric</u>	<u>Cut & Sew</u>
Non TPP	Non TPP	Non TPP	TPP

Not More than 10% by weight



Technicality of TPPA for Textile & Apparel

MARKET ACCESS

Total Textile n Apparel HS Code is about 1,617 items.

Provided the item is qualifying from PSR (Yarn forward, Short Supply List, Single Transformation, De Minimis and Sewing Thread), **then** the said Item shall be entitle to Market Access – Tariff (Duty) Reduction Schedule.

Total 38 Baskets. There are **8 Key Baskets** of **Time Schedule** for Textile & Apparel for import into USA Market, ie EIF, B5, US6, US7, US8, US9, US10 & US11, each basket provide different speed of duty reduction in the different time spectrum.

Note: Members country within TPPA may apply different Basket Number (Time Schedule), different duty reduction and different time spectrum.



Market Access – Time Schedule to USA

Market Access - Speed of Duty Reduction														
The number display of Reduction % which shall take place on 01 Jan of the year														
Duty Import Reduction Schedule - Applicable for USA only														
Key Basket governing Textile & Apparel														
Basket	1	2	3	4	5	6	7	8	9	10	11	12	13	Total
EIF	100													100
B5	20	20	20	20	20									100
US6	35	0	0	0	0	0	0	0	0	0	65			100
US7	35	0	0	0	0	0	0	0	0	0	0	0	65	100
US8	35	0	0	0	0	15	0	0	0	0	50			100
US9	35	0	0	0	0	0	15	0	0	0	0	0	50	100
US10	50	0	0	0	0	0	0	0	0	0	50			100
US11	50	0	0	0	0	0	0	0	0	0	0	0	50	100



Tariff Schedule

- **Tariff Schedule** refer to the respective HS Code and its entitlement to the Time Schedule.
- Members country within TPPA may apply different Basket Number (Time Schedule), different duty reduction and different time spectrum.
- Please refer to web link below to see the respective Tariff Schedule for members within TPPA.
- <http://fta.miti.gov.my/index.php/pages/view/267>



TPPA Countries Tariff Elimination for Textile & Apparel

Country	Range of MFN Import Duty (%)	Elimination at Entry Into Force (%)	Less Than 5 Years (%)	6 to 10 Years (%)	More Than 10 Years (%)
Canada	4.5-18	83.8	12.8	3.3	-
Mexico	5-30	17	-	75.6	7.4
Peru	9-17	13.3	-	11.3	75.5
US	0.4-32	73.7	7.0	3.6	15.7
Chile	6	87.6	3.3	9.1	-
Vietnam	3-100	98.7	0.3	0.4	0.5
Japan	2.4-9.8	98.8	-	1.2	-
New Zealand	5-10	81.7	5.5	12.7	-
Australia	5-10	81.8	18.2	-	-
Brunei	5-10	96.6	-	3.4	-
Singapore	0	100	-	-	-
Malaysia	2-30	99.2	-	0.8	-



Duty Elimination-Textiles & Apparel to USA

	Percentage of Tariff Line Eliminated Under TPP	Percentage of Total Export to US
Entry into Force	1,178 lines (72.9%)	36.7%
Duty Free Year 5	117 lines (7%)	3.0%
Duty Free Year 11	145 lines (8.97%)	46.86%
Duty Free Year 13	177 lines (10.95%)	13.44%

DUTY ELIMINATION-TEXTILE & APPAREL TARIFF LINES & EXPORT PORTION TO RESPECTIVE COUNTRY

Country		With TPP		Without TPP	
		Tariff Line	Export	Tariff Line	Export
USA	EIF	72.90%	36.70%	11.00%	0.90%
Canada	EIF	83.80%	89.00%	40.00%	12.46%
Mexico	EIF	27.57%	0.74%	12.67%	0.02%
Peru	EIF	13.25%	2.53%	6.52%	0.02%



Technicality of TPPA for Textile & Apparel

- There are 12 Lines that has been broken into two sub-lines which is labelled with ending on “A” and “B” by USA:
- Example :
HTS 5501 3000 is broken into HTS 5501 3000A and HTS 5501 3000B.
- The 12 lines are as follows:
 - HTS 5501 3000, HTS 6106 2020, HTS 6110 2020, HTS 6110 3030, HTS 6114 2000, HTS 6114 3010
 - HTS 6114 3030, HTS 6205 2020, HTS 6206 3030, HTS 6211 3200, HTS 6211 4200, HTS 6211 4300

Exclusivity of Two Lines Shirts

- The two lines exclusivity is now shared with Vietnam.
- HTS 6205 2020 and HTS 6206 3030.
- This two lines is using SSL #65.
- However, there are restriction for this two lines.



Technicality of TPPA for Textile & Apparel

HTS 6205 2020

- HTS 6205 2020A will enjoy Entry Into Force (EIF) for dress shirts
- Dress shirts are defined as the following four USHTS ten digit lines: 6205202016, 6205202021, 6205202026, 6205202031.
- HTS 6205 2020B will be under US11 which is shall be reduced by 50 percent of the base rate upon entry into force of this Agreement and shall remain at the resulting rates until December 31 of year 12. Such goods shall be duty-free effective January 1 of year 13.



Technicality of TPPA for Textile & Apparel

HTS 6206 3030

- HTS 6206 3030A will enjoy Entry Into Force (EIF) for dress women's and girl's blouses, shirts and shirt blouses.
- dress women's and girls' blouses, shirts and shirt-blouses means those that are either long or short sleeved or sleeveless. Shirts or blouses have a top-stitched collar (whether or not button down) and a full front, button opening. If long sleeves, shall have either button cuff or fold-over cuffs that would require cuff-links or other closure device. Shirts or blouses may have one chest pocket, no other pockets are allowed. The garment shall not have knit collars, knit cuffs, knit waistbands, or any means of tightening at the bottom. No lining shall be present. The term lining does not include interlining or double layers of fabric required for cuffs, collars, plackets, yokes, pockets or embroidery. Shirts and blouses may have a back yoke, but no front yoke. Shirts and blouses shall be appropriate for wear on business or social occasions when some degree of formality is required.
- HTS 6206 3030B will be under US 11 which is shall be reduced by 50 percent of the base rate upon entry into force of this Agreement and shall remain at the resulting rates until December 31 of year 12. Such goods shall be duty-free effective January 1 of year 13.



Opportunities

- Greater and liberalized market. TPPA comprising of 12 countries – Malaysia, Singapore, Brunei, Vietnam, Japan, Australia, New Zealand, Peru, Chili, Canada, Mexico and USA.
- Total GDP of US\$27.5 Trillion.
- Total Population of 800 Million VS 30 Million of Malaysia Population.
- TPPA will change the landscape of sourcing & marketing.
- Enhance Malaysia's competitive edge in regional & global supply chain.
- The market is beyond our imagination.



Challenges

- **Yarn Forward (YF) & Product Specific Rule (PSR)**
 - Perusal study on YF, SSL, Single Transformation, Deminimis and Market Access to determine the right product.
 - Team Matching with yarn & fabric supplier whom qualify for Market Access to make an effective offer to buyer.
 - The magic of finding a right product for right country to a right customer in order to maximize the duty saving.
- **Capacity and Capabilities Building**
 - Upstream integration in fibre, yarn spinning, fabric making (weaving / knitting) facilities installation need to be speed up in Malaysia in specific or TPPA member's country in general.
- **Multiple Country Production Base**
 - In order to gain quick response to the market and tap into the abundant resources such as labour force, player may need to look into multiple country production base.

Challenges

- **Labour shortage - major threat to success factor**
 - Foreign Worker is a need and important input to sustain and grow the economy.
 - Government shall facilitate & make available (simple & easy) of the Foreign Worker in order for the private sector to fully tap into the potential greater demand upon TPPA regime.
 - Levy & Minimum Wage to be maintained at current level.
- **Government to provide the strategic and competitive business / manufacturing environment, to curb the cost of doing business.**
- **Trade Union Activity**
 - TPPA requested for Freedom of Association, government shall extremely careful in amending the relevant law & regulation.



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Thank You



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