

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, DC 20436

MEMORANDUM TO THE COMMITTEE ON WAYS AND MEANS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES ON PROPOSED TARIFF LEGISLATION ¹

[**Date approved:** December 22, 1999]²

Bill No.: H.R. 1360; 106th Congress

Introduced by: Mr. WALSH (for himself, Mr. HOUGHTON, Ms. SLAUGHTER, Mr. ROGERS, Mr. BOEHLERT, and Mr. FORBES)

Similar and/or related³ bills: S. 218

Summary of the bill:⁴

The bill would temporarily reduce the general rate of duty of 30.6 percent ad valorem on high-value wool fabrics intended for use in the production of suits, suit-type jackets, and trousers and would suspend that duty on other such fabrics. The bill would reduce the rate for wool fabrics certified by the importer as “Super 70s” or “80s” to 19.8 percent (the rate for men’s or boys’ wool suit-type jackets) and suspend the rate for those fabrics certified as “Super 90s” or higher grades. In addition, the bill would apply the same staged general rate reductions to the former fabrics as are scheduled under subheading 6203.31.00 of the Harmonized Tariff Schedule of the United States (HTS), which provides for the men’s or boys’ wool suit-type jackets.⁵

Effective: The 15th day after the date of enactment.

Through: December 31, 2004.

Retroactive effect: None.

[The remainder of this memorandum is organized in five parts: (1) information about the bill’s proponent(s) and the product which is the subject of this bill; (2) information about the bill’s revenue effect; (3) contacts by Commission staff during preparation of this memorandum; (4) information about the domestic industry (if any); and (5) technical comments.]

¹ International trade analyst: Laura Rodriguez-Archila (202-205-3499); attorney: Jan Summers (202-205-2605).

² Access to an electronic copy of this memorandum is available at <http://www.usitc.gov/billrpts.htm>. Access to a paper copy is available at the Commission’s Law Library (202-205-3287) or at the Commission’s Main Library (202-205-2630).

³ “Similar bills” are bills in the other House, in the current Congress, which address, at least in part, the substance of this bill. “Related bills” are bills in the **same** House, in the current Congress, but which are either earlier (or later) in time than the bill which is the subject of this memorandum.

⁴ The product nomenclature is as set forth in the bill. See technical comments for differences in recommended nomenclature.

⁵ As a result of Uruguay Round tariff concessions, the U.S. rate of duty for subheading 6203.31.00 is being reduced in annual stages to 17.5 percent ad valorem as of January 1, 2004.

– THE PROPONENT AND THE IMPORTED PRODUCT –

The proponent firm/organization(s)

<u>Name</u>	<u>Location contacted</u>	<u>Date Contacted</u>	<u>Written Response (Y/N)</u> ⁶
Tailored Clothing Association (TCA) ⁷	Washington, DC	10/5/99	Y

Location of the proponent’s U.S. facility (if different from above): None

The imported product

Description and uses of the imported product:

The broadwoven wool fabrics covered by the bill are high-value materials used mainly in the production of men’s suits. The fabrics are also used to make men’s or boys’ suit-type jackets (e.g., sport coats) and trousers, as well as women’s or girls’ suits, suit-type jackets, and trousers. It is believed that the terms used in the bill to describe the fabrics (e.g., “Super 70s”) are based on a grading system that relates the fineness, or diameter, of the wool fiber to the kind of yarn that can be spun from 1 pound of scoured wool.⁸ According to the U.S. Department of Agriculture (USDA), 70s and 80s grade wool has an average fiber diameter ranging from not more than 21.09 microns to 18.10 microns, and higher grade wool has an average fiber diameter of less than 18.10 microns (the lower the micron count, the higher or finer the fabric).⁹ (A micron is a millionth of a meter.)

TCA claims that the wool fabric definitions now in use by much of the textile industry differ from those published by the USDA 30 years ago, stating that the micron counts are 20.5 for Super 70s, 19.5 for Super 80s, and less than 19.0 for Super 90s and higher. By contrast, a Burlington Industries official contends that these terms (e.g., Super 80s) are marketing terms rather than technical terms, and that no standard definitions exist for these terms.¹⁰

The manufacture of fine wool fabrics reportedly is more complex than that of cotton or man-made fiber fabrics and usually requires specialized machinery. More than 50 processes may be required to convert raw wool into worsted apparel fabrics, compared with 20 to 25 processes to convert cotton or man-made fibers into suiting fabrics. Each grade of wool has distinct tactile and visual characteristics. Fabric softness and appearance are key determinants of the quality of wool apparel fabrics.

Principal countries of origin of the imported product: Italy, United Kingdom, and Korea.

⁶ Written responses received prior to approval of this report by the Commission, if any, will be included in appendix C.

⁷ TCA represents 89 organizations, including U.S. producers of tailored clothing, their suppliers, importers of wool fabrics, and labor unions (see attachment for a list of the organizations). According to unpublished Customs data, many of the largest importers of the fabrics covered by the bill are TCA members. Commission staff contacted five of these importers.

⁸ Bernard P. Corbman, *Textiles: Fiber to Fabric* (New York: McGraw-Hill, Inc., 1983), 6th ed., p. 272.

⁹ USDA, “The Official Standards of the United States for Grades of Wool Top,” Jan. 20, 1969.

¹⁰ James C. Leonard, III, Director, Economic Analysis, Burlington Industries, Inc., meeting with USITC staff, Oct. 6, 1999.

– EFFECT ON CUSTOMS REVENUE –

[Note: This section is divided in two parts. The first part addresses the effect on customs revenue based on the duty rate for the HTS number set out in the bill. The second part addresses the effect on customs revenue based on the duty rate for the HTS number recommended by the Commission (where a different number has been recommended). Three year estimates (or four year estimates, etc.) are given based on the duration of the proposed duty suspension. If the indicated duty rate is subject to “staging” during the duty suspension period, the rate for each period will be stated separately.]

HTS Numbers in the Bill

Estimated value of total dutiable imports, in \$1,000 dollars, during the duration of the duty suspension:¹¹

<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
\$127,440	\$127,570	\$127,695	\$127,820	\$127,950

HTS (8-digit) Nos. used in the bill: 5111.11.70; 5111.19.60; 5112.11.20; and 5112.19.90

General rate of duty¹² (AVE) currently in effect for these HTS Nos.: 30.6 percent ad valorem

Calculated customs revenue loss (in \$1,000 dollars, based on rates for the HTS numbers in the bill):¹³

<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
\$2,739-\$6,770	\$2,741-\$6,777	\$2,744-\$6,784	\$2,747-\$6,790	\$2,479-\$6,797

There are no known official data for the specific fabrics covered by this bill. The estimates provided here are only for imported wool fabrics of Super 100s and higher grades, which would comprise a small share of fabrics eligible for duty suspension under the bill.

Therefore, the revenue loss estimates presented here would understate the total revenue loss resulting from the bill. No reasonable estimates could be made for the other fabrics covered by the bill because of the absence of reliable data. The revenue loss estimates relating solely to the Super 100s and finer grade fabrics were based on information from trade and industry sources, as follows: (1) U.S. production of men’s suits made from these grades of wool fabrics totaled an estimated 700,000 suits, or roughly 20 percent of total U.S. wool suit output, in 1998; (2) imported fabrics of these grades were used in an estimated 40 percent (280,000) of these wool suits;¹⁴ (3) a man’s fine wool suit contains about 2.9 to

¹¹ The estimated value of dutiable imports for the years 2000-2004 is based on the 1998 level reported by the U.S. Department of Commerce, less imports from Mexico, which became eligible for duty-free treatment under NAFTA on January 1, 1999, with an allowance for annual growth of 0.1 percent. The subject fabrics represent a portion of total imports.

¹² See appendix B for column 1-special and column 2 duty rates.

¹³ The actual revenue loss may be understated if a significant increase in imports occurs during the duty suspension period.

¹⁴ The information supplied by industry sources is conflicting; the percentage breakdown for domestically produced and imported fabric cannot be stated with certainty.

3.3 square meters of fabric;¹⁵ (4) the average unit value of the imported fine wool fabrics was an estimated \$11 per square meter, based on the average trade-weighted unit value of wool fabric imports from Italy and the United Kingdom under HTS subheadings 5111.11.70, 5111.19.60, 5112.11.20, and 5112.19.90 in 1998; and (5) the average unit value of Super 100s wool fabrics sold in the United States was an estimated \$21-24 per square meter.¹⁶ The total revenue loss attributable to the bill would presumably be higher than the figures presented above.

HTS Number Recommended by the Commission¹⁷

Estimated value of dutiable imports during the duration of the duty suspension:

<u>First year</u>	<u>Second year</u>	<u>Third year</u>
n/a	n/a	n/a

HTS (8-digit) No. recommended by the Commission (where different): None.

General rate of duty¹⁸ (AVE) currently in effect for this HTS No.: n/a

Calculated customs revenue loss (based on rate for the Commission's HTS number):

<u>First year</u>	<u>Second year</u>	<u>Third year</u>
n/a	n/a	n/a

– CONTACTS WITH OTHER FIRMS/ORGANIZATIONS –

Following is a list of contacts by the Commission in connection with this memorandum with firms or organizations **other than** the proponents.

<u>Name</u>	<u>Location</u>	<u>Date Contacted</u>	<u>Written Response (Y/N)¹⁹</u>
Burlington Industries, Inc.	Greensboro, NC	9/30/99	Y
Warren Corp. ²⁰	Stafford, CT	10/1/99	N

¹⁵ While the Department of Commerce's Office of Textiles and Apparel uses a figure of 3.76m² of fabric per suit, industry sources say that efficient cutting and usage of fabric means that the per-suit figure has dropped to 2.9-3.3m².

¹⁶ TCA, fax to Laura Rodriguez-Archila, International Trade Analyst, U.S. International Trade Commission, Oct. 27, 1999.

¹⁷ If a different HTS number is recommended, see technical comments.

¹⁸ See appendix B for column 1-special and column 2 duty rates.

¹⁹ Written responses received prior to approval of this report by the Commission, if any, will be included in appendix D.

²⁰ The Warren Corp. is owned by Loro Piana of Italy.

– THE DOMESTIC INDUSTRY –

*[Note: This section is divided in two parts. The first part lists written submissions received by the Commission which assert that **the imported product itself** is produced in the United States and freely offered for sale under standard commercial terms. The second part lists written submissions received by the Commission which assert either that (1) the imported product will be produced in the United States in the future; or (2) another product which **may compete** with the imported product is (or will be) produced in the United States and freely offered for sale under standard commercial terms. All submissions received by the Commission prior to approval of this report will be included in appendix D. The Commission cannot, in the context of this memorandum, make any statement concerning the validity of these claims.]*

Statements concerning current U.S. production

<u>Name of Product</u>	<u>Name of Firm</u>	<u>Location of U.S. Production Facility</u>	<u>Date Received</u>
Fine wool fabrics	Burlington Industries, Inc.	Clarksville, VA; Halifax, VA; Raeford, NC	10/6/99

An official of Burlington Industries, Greensboro, NC, indicated that Burlington and the Warren Corp., Stafford, CT (owned by Loro Piana of Italy) are the only known firms making wool fabrics of Super 100s or higher grades in the United States. The Burlington official also said a number of firms make the other wool fabrics covered by the bill in the United States. According to Burlington, the most recent available data show that annual U.S. production of wool fabrics covered by the bill totaled 20.1 million square meters (17.7 million square meters of 70s, 80s, and 90s grades and 2.4 million square meters of 100s and higher grades). Burlington also noted that the United States has existing capacity to produce more than 3.9 million square meters of wool fabrics of 100s and higher grades and that this capacity will expand to more than 4.8 million square meters in the year 2000.

According to TCA, however, the Warren Corp. is the only firm currently making high-end worsted wool fabrics in the United States. TCA claimed that the Warren Corp. cannot supply more than 10 percent of U.S. demand for such fabrics, but that U.S. apparel firms have promised to continue to purchase the firm's fabrics because of their quality and the convenience of domestic sourcing.²¹

According to a large U.S. tailored clothing firm, the two U.S. producers of fine wool fabrics require large minimum purchase orders compared to Italian wool fabric sources and offer only a limited number of fabric styles.²² Tailored clothing firms claim that in order to differentiate their suits in the highly competitive marketplace through the use of fabric and styling, they must now import as much as 80 to 90 percent of their wool fabrics.

²¹ TCA, letter to Laura Rodriguez-Archila, International Trade Analyst, U.S. International Trade Commission, Oct. 12, 1999.

²² U.S. wool suit producer, telephone conversation with Commission staff, Oct. 8, 1999.

Statements concerning “future” or “competitive” U.S. production

<u>Name of Product</u>	<u>Name of Firm</u>	<u>Location of U.S. Production Facility</u>	<u>Date Received</u>
Fine wool fabrics	Burlington Industries, Inc.	Clarksville, VA; Halifax, VA Raeford, NC	10/6/99

– TECHNICAL COMMENTS –

Recommended changes to the nomenclature in the bill.²³

As drafted, the proposed fabric descriptions could make the provisions difficult to administer, because the terms (i.e., Super 70s, 80s, 90s, or higher grade) are not defined in the proposed legislation or in the HTS. In addition, conversations with trade and industry officials suggest that no universal or common definition exists for these terms. Based on conversations with these officials and with U.S. Customs representatives, it is suggested that the bill define the fabrics in terms of the average diameter of the wool fibers in the fabric (the micron count), instead of reference to Super 70s, 80s, and 90s.

The bill’s requirement that fabrics must be “intended” for use in making suits, suit-type jackets, or trousers could make it difficult for Customs to administer the legislation. It is unclear how Customs could determine that imported fabric is “intended” for use in making the specified garments. It is suggested that an “actual use” provision and an affidavit from the importer as to the eventual use of the fabric could avoid this problem, although an actual use provision generally raises administrative and compliance problems. (Importers must establish that their shipments are put to the stated use, which can be difficult for importers of record who are unrelated customs brokers, and Customs must verify that the use is accomplished.) Alternatively, substituting the term “suitable for” in place of “intended for use in” could ease administration of the proposed legislation, although the proposed term may also broaden its coverage.

Recommended changes to any C.A.S. numbers in the bill (if given): None.

Recommended changes to any Color Index names in the bill (if given): None.

Basis for recommended changes to the HTS number used in the bill: n/a

Other technical comments (if any): None.

²³ The Commission may express an opinion concerning the HTS classification of a product to facilitate the Committee’s consideration of the bill, but the Commission also notes that, by law, the U.S. Customs Service is the only agency authorized to issue a binding ruling on this question. The Commission believes that the U.S. Customs Service should be consulted prior to enactment of the bill.

APPENDIX A

TARIFF AND TRADE AGREEMENT TERMS

In the **Harmonized Tariff Schedule of the United States** (HTS), chapters 1 through 97 cover all goods in trade and incorporate in the tariff nomenclature the internationally adopted Harmonized Commodity Description and Coding System through the 6-digit level of product description. Subordinate 8-digit product subdivisions, either enacted by Congress or proclaimed by the President, allow more narrowly applicable duty rates; 10-digit administrative statistical reporting numbers provide data of national interest. Chapters 98 and 99 contain special U.S. classifications and temporary rate provisions, respectively. The HTS replaced the **Tariff Schedules of the United States** (TSUS) effective January 1, 1989.

Duty rates in the **general** subcolumn of HTS column 1 are most-favored-nation (now referred to as normal trade relations) rates, many of which have been eliminated or are being reduced as concessions resulting from the Uruguay Round of Multilateral Trade Negotiations. Column 1-general duty rates apply to all countries except those listed in HTS general note 3(b) (Afghanistan, Cuba, Laos, North Korea, and Vietnam), which are subject to the statutory rates set forth in **column 2**. Specified goods from designated general-rate countries may be eligible for reduced rates of duty or for duty-free entry under one or more preferential tariff programs. Such tariff treatment is set forth in the **special** subcolumn of HTS rate of duty column 1 or in the general notes. If eligibility for special tariff rates is not claimed or established, goods are dutiable at column 1-general rates. The HTS does not enumerate those countries as to which a total or partial embargo has been declared.

The **Generalized System of Preferences** (GSP) affords nonreciprocal tariff preferences to developing countries to aid their economic development and to diversify and expand their production and exports. The U.S. GSP, enacted in title V of the Trade Act of 1974 for 10 years and extended several times thereafter, applies to merchandise imported on or after January 1, 1976 and before the close of June 30, 1999. Indicated by the symbol "A", "A*", or "A+" in the special subcolumn, the GSP provides duty-free entry to eligible articles the product of and imported directly from designated beneficiary developing countries, as set forth in general note 4 to the HTS.

The **Caribbean Basin Economic Recovery Act** (CBERA) affords nonreciprocal tariff preferences to developing countries in the Caribbean Basin area to aid their economic development and to diversify and expand their production and exports. The CBERA, enacted in title II of Public Law 98-67, implemented by Presidential Proclamation 5133 of November 30, 1983, and amended by the Customs and Trade Act of 1990, applies to merchandise entered, or withdrawn from warehouse for consumption, on or after January 1, 1984. Indicated by the symbol "E" or "E*" in the special subcolumn, the CBERA provides duty-free entry to eligible articles, and reduced-duty treatment to certain other articles, which are the product of and imported directly from designated countries, as set forth in general note 7 to the HTS.

Free rates of duty in the special subcolumn followed by the symbol "IL" are applicable to products of Israel under the **United States-Israel Free Trade Area Implementation Act** of 1985 (IFTA), as provided in general note 8 to the HTS.

Preferential nonreciprocal duty-free or reduced-duty treatment in the special subcolumn followed by the symbol "J" or "J*" in parentheses is afforded to eligible articles the product of designated beneficiary countries under the **Andean Trade Preference Act** (ATPA), enacted as title II of Public Law 102-182 and implemented by Presidential Proclamation 6455 of July 2, 1992 (effective July 22, 1992), as set forth in general note 11 to the HTS.

Preferential free rates of duty in the special subcolumn followed by the symbol "CA" are applicable to eligible goods of Canada, and rates followed by the symbol "MX" are applicable to eligible goods of Mexico, under the **North American Free Trade Agreement**, as provided in general note 12 to the HTS and implemented effective January 1, 1994 by Presidential Proclamation 6641 of December 15, 1993. Goods must originate in the NAFTA region under rules set forth in general note 12(t) and meet other requirements of the note and applicable regulations.

Other special tariff treatment applies to particular **products of insular possessions** (general note 3(a)(iv)), **products of the West Bank and Gaza Strip** (general note 3(a)(v)), goods covered by the **Automotive Products Trade Act (APTA)** (general note 5) and the **Agreement on Trade in Civil Aircraft (ATCA)** (general note 6), **articles imported from freely associated states** (general note 10), **pharmaceutical products** (general note 13), and **intermediate chemicals for dyes** (general note 14).

The **General Agreement on Tariffs and Trade 1994** (GATT 1994), pursuant to the Agreement Establishing the World Trade Organization, is based upon the earlier GATT 1947 (61 Stat. (pt. 5) A58; 8 UST (pt. 2) 1786) as the primary multilateral system of disciplines and principles governing international trade. Signatories' obligations under both the 1994 and 1947 agreements focus upon most-favored-nation treatment, the maintenance of scheduled concession rates of duty, and national treatment for imported products; the GATT also provides the legal framework for customs valuation standards, "escape clause" (emergency) actions, antidumping and countervailing duties, dispute settlement, and other measures. The results of the Uruguay Round of multilateral tariff negotiations are set forth by way of separate schedules of concessions for each participating contracting party, with the U.S. schedule designated as Schedule XX. Pursuant to the **Agreement on Textiles and Clothing (ATC)** of the GATT 1994, member countries are phasing out restrictions on imports under the prior "Arrangement Regarding International Trade in Textiles" (known as the **Multifiber Arrangement (MFA)**). Under the MFA, which was a departure from GATT 1947 provisions, importing and exporting countries negotiated bilateral agreements limiting textile and apparel shipments, and importing countries could take unilateral action in the absence or violation of an agreement. Quantitative limits had been established on imported textiles and apparel of cotton, other vegetable fibers, wool, man-made fibers or silk blends in an effort to prevent or limit market disruption in the importing countries. The ATC establishes notification and safeguard procedures, along with other rules concerning the customs treatment of textile and apparel shipments, and calls for the eventual complete integration of this sector into the GATT 1994 over a ten-year period, or by Jan. 1, 2005.

Rev. 10/26/98

APPENDIX B

**SELECTED PORTIONS OF THE
HARMONIZED TARIFF SCHEDULE OF THE UNITED STATES**

[Note: Appendix may not be included in the electronic version of this memorandum.]

APPENDIX C

STATEMENTS SUBMITTED BY THE PROPONENTS

[Note: Appendix C may not be included in the electronic version of this memorandum posted on the Commission's web site if an electronic copy of the statement was not received by the Commission.]

APPENDIX D

STATEMENTS SUBMITTED BY OTHER FIRMS/ORGANIZATIONS

[Note: Appendix D may not be included in the electronic version of this memorandum posted on the Commission's web site if an electronic copy of the statement was not received by the Commission.]

106TH CONGRESS
1ST SESSION

H. R. 1360

To amend the Harmonized Tariff Schedule of the United States to provide for equitable duty treatment for certain wool used in making suits.

IN THE HOUSE OF REPRESENTATIVES

MARCH 25, 1999

Mr. WALSH (for himself, Mr. HOUGHTON, Ms. SLAUGHTER, Mr. ROGERS, Mr. BOEHLERT, and Mr. FORBES) introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Harmonized Tariff Schedule of the United States to provide for equitable duty treatment for certain wool used in making suits.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. DUTY TREATMENT OF CERTAIN FABRICS.**

4 (a) IN GENERAL.—Subchapter II of chapter 99 of
5 the Harmonized Tariff Schedule of the United States is
6 amended—

7 (1) by adding at the end of the U.S. notes the
8 following new note:

1 “13. For purposes of headings 9902.51.11 and
 2 9902.51.12, the term ‘suit’ has the same meaning such
 3 term has for purposes of headings 6203 and 6204.”; and

4 (2) by inserting in numerical sequence the fol-
 5 lowing new headings:

9902.51.11	Fabrics, of carded or combed wool, all the foregoing certified by the importer as ‘Super 70’s’ or ‘Super 80’s’ intended for use in making suits, suit-type jackets or trousers (provided for in subheadings 5111.11.70, 5111.19.60, 5112.11.20, or 5112.19.90)	19.8%	No change	No change	On or before 12/31/2004
9902.51.12	Fabrics, of carded or combed wool, all the foregoing certified by the importer as ‘Super 90’s’ or higher grade intended for use in making suits, suit-type jackets or trousers (provided for in subheadings 5111.11.70, 5111.19.60, 5112.11.20, or 5112.19.90)	Free	Free (CA,IL,MX)	No change	On or before 12/31/2004

6 (b) STAGED RATE REDUCTION.—Any staged reduc-
 7 tion of a rate of duty set forth in heading 6203.31.00 of
 8 the Harmonized Tariff Schedule of the United States that
 9 is proclaimed by the President on or after the date of en-
 10 actment of this Act shall also apply to the corresponding
 11 rate of duty set forth in heading 9902.51.11 of such
 12 Schedule (as added by subsection (a)).

13 (c) EFFECTIVE DATE.—The amendments made by
 14 subsection (a) apply with respect to goods entered, or
 15 withdrawn from warehouse for consumption, on or after
 16 the 15th day after the date of enactment of this Act.