



Robert R. Carpenter
Director
State & Federal Affairs

1530 Wilson Blvd. – Suite 210
Arlington, VA 22209
Telephone: 703-558-0107
Fax: 703-358-9786

www.celanese.com

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The Honorable Phil Crane
Chairman, Trade Subcommittee
Ways & Means Committee
1104 Longworth House Office Building
U.S. House of Representatives
Washington, DC 20515

Subject: Celanese Objections to Duty Suspension Bill HR-4471

Dear Mr. Chairman:

This correspondence is designed to serve as a formal response to your May 3, 2002 request for public comment in relation to the miscellaneous duty suspension bills. On behalf of the Celanese Corporation and our 5,400 U.S. employees, I am writing to strongly object to HR-4471 which is designed to suspend duties on high tenacity rayon single filament yarn used in garment linings, women's fashion garments and home furnishings. Celanese does not oppose other rayon yarn duty suspensions such as HR-4472 or HR-4473 as these grades of rayon are for industrial uses such as belt fabrics and tire cord, markets in which Celanese currently has no commercial interest.

Celanese opposes HR-4471 for many reasons including the following:

Rayon is a Direct Substitute for Acetate: In many instances, acetate yarn is a direct substitute for rayon in the production of fabrics with various end-uses. This is certainly the case with narrow fabrics. As a result, the granting of duty free treatment to some grades of imported rayon yarns would have a direct and damaging effect on U.S. producers of acetate. Any incentive on the part of narrow fabric manufacturers in the United States to use acetate in the production of their goods would be negated by the ability to source foreign rayon tariff free. A recent study prepared by the College of Textiles at North Carolina State University speaks directly to the issue of substitutability between acetate and rayon yarns.

Completed in April of this year, the study concludes.:

Based on the above findings it can be concluded that rayon and acetate filament yarns are substitutable on the basis that:

- **they have a number of significant common characteristics: (see attached Table 9 from the NC State study)**
- **they share many of the same end-use applications: (see attached Table 7 from the NC State study)**
- **and they are used in combination in at least six blends: (see attached Table 8 from NC State study)**
- **very low costs rayon imports are available from India and Brazil: (see attached Table 14 from the NC State report)**
- **rayon & acetate import prices are converging: (see attached Table 12 from the NC State report)**

The Honorable Phil Crane
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For your convenience, I have attached a copy of the Executive Summary of the North Carolina State study. In addition, we would appreciate an opportunity to meet with your staff and review the study as a whole in order to aid your investigation of this matter.

Acetate Employment is Substantial in the U.S.: Celanese is the largest manufacturer of acetate filament yarns in the world, with major facilities in Rock Hill, South Carolina and Narrows, Virginia employing over 2,375 people. In addition, Eastman Chemical Company of Kingsport, Tennessee is also a major U.S. employer and producer of acetate yarn. It is our understanding that Eastman also strongly objects to HR-4471. Due to existing tightness in this market, domestic acetate producers have recently been forced to downsize facilities and lay-off workers. The granting of duty-free treatment for rayon will only further jeopardize these existing jobs.

Rayon Imports Come From Various Sources: Currently, imports of rayon come from numerous different countries, ranging from Germany to India and Brazil. All of these suppliers, many of which are already extremely low cost producers would benefit from the duty suspension proposed in HR-4471. Most of these offshore producers enjoy enormous advantages in terms of labor rates and lax environmental and safety regulations.

“The most potent threat to acetate filament yarn is from the growth of low priced yarn and fabric imports from developing countries that remove price differential and permit rayon to be substituted for acetate. Although it is unlikely that rayon filament will entirely displace acetate filament, because of its superior technical and aesthetic properties and the many common applications, rayon poses a credible threat of taking significant market share away from acetate if its price were to converge with that of acetate.”

Obviously, the suspension of U.S. duties on particular grades of imported rayon would accelerate the price convergence mentioned, therefore greatly disadvantaging U.S. acetate producers. As a result, passage of the bill in question would allow rayon exporters to gain a significant price advantage in the U.S. market and further damage U.S. acetate manufacturers.

As you can see Mr. Chairman, clearly HR4471 is controversial. Moreover, Celanese has long participated in the miscellaneous duty suspension process. Just two years ago, we were denied a duty suspension because a U.S. manufacturer argued that the product in question could potentially compete in future market applications. We accepted this high standard, noting that it is designed to preserve the interest U.S. companies and workers. We could have objected to HR-4472 and HR-4473 on the same grounds, but in the interest of the benefits of free trade Celanese declined to. We respectfully ask that our domestic worker's interests take precedent over the concerns of foreign importers of rayon single filament yarn. In this case, our existing commercial interests clearly would be compromised.

For these reasons, we continue to oppose any legislative effort to suspend duties on rayon single filament yarns. Thank you for your consideration of our commercial interests. If you desire any further information from Celanese on this matter, please do not hesitate to contact me.

Sincerely,

Robert R. Carpenter
Director, State & Federal Affairs

RRC:sfp

An Analysis of the Substitutability of Viscose Rayon Filament Yarn for Acetate Filament Yarn

By Peter Kilduff, College of Textiles, NC State University

Executive Summary

This study was commissioned by the Celanese Government Relations Office to provide an independent assessment of whether filament yarns of viscose and cupramonium rayon were substitutes for acetate filament yarns.

Theoretically, any textile fiber or yarn can be considered a potential substitute for another. In practice, however, individual fibers have established fairly specific domains according to their relative technical and aesthetic properties, prices and the tastes and preferences of consumers.

The regenerated cellulosic fibers, cupramonium, viscose and acetate share a common ancestry within the man-made fiber family that is distinct from that of synthetics. They have common attributes that distinguish them from synthetics, although individually they exhibit technical characteristics that show significant differences.

Both rayon and acetate production and consumption have been declining in the US for many years. Imports completely dominate the rayon filament market but account for only a fraction of the acetate yarn market. The two fibers are locked into an endgame battle with synthetics.

There are a number of end uses where both fibers (in filament yarn form) find application, notably in apparel linings; but also in fashion outerwear such as blouses, dresses, sportswear and in home furnishings. In these markets, acetate and rayon occupy distinctive niches, based on their relative prices and technical characteristics. Some evidence was obtained of blended rayon and acetate filament yarns, and of rayon/ polyester filament blends that compete with acetate yarns.

Technically there are many differences but also significant similarities between rayon and acetate yarns. These similarities and differences result in rayon and acetate being found in common applications but often in different segments of the market. Rayon yarns are considered superior to acetate in a number of applications, including linings.

The price trend for imported rayon fibers shows that the historic price differential between the more expensive rayon yarns and the cheaper acetate yarns is being eroded rapidly, especially from new low cost sources, such as India and Brazil.

The differences between rayon and acetate yarns in terms of their technical characteristics, prices and market segments covered, is the basis for the position of those who perceive the two yarns as not being substitutes. However, these arguments ignore the impact of fashion shifts, fiber blending and fiber price convergence on this traditional segmentation across the many common end-uses. Overall, it is clear that both rayon and acetate are substitutes, albeit imperfect ones. The most potent threat to acetate filament yarn is from the growth of low priced yarn and fabric imports from developing countries that remove the price differential and permit rayon to be substituted for acetate.

Although it is unlikely that rayon filament will entirely displace acetate filament, because of its superior technical and aesthetic properties and the many common applications, rayon poses a credible threat of taking significant market share away from acetate if its price were to converge with that of acetate. There appears to be a reasonable and credible threat that as low cost rayon imports from developing countries, such as Brazil and India, expand in the US market they will negatively impact demand for acetate filament products. Given the highly competitive nature of textile markets, this erosion is likely to have a disproportionate effect on the viability of US acetate production.

Table 7 summarizes end-uses for each fiber identified through this survey. It clearly indicates a significant degree of overlap between the two fibers in terms of end use applications. Therefore, the two fibers must be competing in these applications at some level.

Table 7: Major End Uses for Man-made Cellulosic Filament Yarns		
	Acetate	Rayon
Wovens	<p>Apparel:</p> <ul style="list-style-type: none"> • Apparel lining fabrics • Women’s and men’s fashion fabrics (blouses, dresses, pants, sweater, jacket, shirts), party dresses, ball gowns, bridal wear, evening wear (crepes) • Coats <p>Home furnishings:</p> <ul style="list-style-type: none"> • Window fabrics, draperies, upholstery, velvets, duvet covers • <p>Technical uses:</p> <ul style="list-style-type: none"> • Surgical tape and athletic <p>Miscellaneous:</p> <ul style="list-style-type: none"> • Ribbons and artificial flowers • Casket linings • Lamp shades 	<p>Apparel:</p> <ul style="list-style-type: none"> • Apparel lining fabrics • Women’s outerwear; blouses, dresses, jackets, lingerie, slacks, sport shirts, sportswear, suits, ties, work clothes • Millinery <p>Home furnishings:</p> <ul style="list-style-type: none"> • Bedspreads, blankets, curtains, draperies, sheets, slipcovers, tablecloths, upholstery <p>Technical uses:</p> <ul style="list-style-type: none"> • Industrial products, medical surgical products, tire cord <p>Miscellaneous:</p> <ul style="list-style-type: none"> • ribbon fabrics
Knits	<p>Warp knits:</p> <ul style="list-style-type: none"> • Fashion fabrics • Active sportswear • Medical; Bandages and tape • Fleece fabrics; robes • Decorative fabrics; lace and crochet <p>Circular knits:</p> <ul style="list-style-type: none"> • Fashion fabrics; slinky • Braid and chainette 	<p>Fashion fabrics</p> <p>Sportswear</p> <p>Trimmings</p>

Sources: Interviews, www.fibersource.com [4].

The most significant overlap is in lining fabrics, where rayon, acetate and polyester split the market between them. Rayon is regarded as aesthetically superior and is considered a more expensive luxury product. Polyester is a low cost, commodity alternative. Acetate fits in between these two in terms of price and quality.

Recent articles refer to the marketing of blended filament yarns, combining rayon, acetate and other fibers as companies seek to improve both functional and aesthetic performance properties. Table 8 indicates that rayon and acetate blends in staple and filament form have more than a recent history. Blending implies not only complimentary properties for a specific application but clearly suggests substitutability. Indeed, one interviewee noted that rayon poses a more direct competitive challenge to acetate in blends with polyester filament. Polyester/ rayon filament yarns provide a convergence of technical and price characteristics to more closely rival acetate filament yarns in the marketplace.

Fibers in the blends	% Blend	Year cited	Type of Fabric
Rayon/wool/acetate/nylon	57/28/10/5	1955	Uniforms
Cotton/rayon	67/33	1958	
Triacetate/acetate	50/50	1960	
Triacetate/rayon		1960	
Rayon/acetate/dynel		1960	
Acrilan/rayon	50/50	1960	
Kodel/rayon	50/50	1960	
Triacetate/cotton	50/50	1960	
Acrylic/rayon		1960	
Cotton/nylon/rayon/jute/Taslan		1960	
Orlon/rayon	50/50	1961	Lining
Cotton/rayon	60/40	1962	Sheets & pillows
Orlon/rayon	50/50	1964	Slacks & skirts
Triacetate/cotton		1964	
Triacetate/cotton		1964	Diapers
Rayon/polypropylene/silk		1964	Dress & skirts
Rayon/polypropylene		1965	Upholstery
Olefin/rayon		1965	Shirting
Triacetate/nylon	75/25	1965	Tricot knit
Wool/acetate/flax	70/15/15	1965	Dress fabric
Rayon/acetate/flax	85/8/7	1965	
Nylon/rayon/acetate	40/30/30	1965	Stretch fabric
Rayon/nylon	65/35	1965	Satin look
Cotton/rayon/linen	60/25/15	1966	Towels & potholders
Nylon/rayon	50/50	1967	Water repellent
Wool/rayon	70/30	1970	
Triacetate/nylon	85/15	1972	
Fiberglass/acetate	60/40	1972	
Silk/rayon		1993/1994	Women's fashion apparel
Rayon/acetate		1993/1994	
Rayon/acetate/nylon		1993/1994	

Source: Ian R. Hardin (1993). "History of Blend Fibers" [5].

Comparison of Technical Characteristics of Rayon and Acetate

Rayon and acetate are the two oldest man-made fibers and have been produced in large quantities, filling an important need in the textile industry. They lack the easy care, resilience, and strength of the synthetics and have had difficulty competing in uses where these characteristics are important. Rayon and acetate have some similarities because they are made from the same raw materials, cellulose. The manufacturing processes differ, so the fibers have many individual characteristics and uses.

Interviews with academics, consultants and fabric companies all indicated that rayon was perceived as a technically and aesthetically superior product. The aesthetics were regarded as very different – viscose being seen as a more natural, silky product, whereas acetate (although similar in appearance) had a harsher, more synthetic-like handle. In garment linings, polyester was generally seen as being a closer substitute to acetate than was rayon.

Tables 9 and 10 show two basic comparisons of respective fiber characteristics. Similarities are readily apparent. However, the property profile of acetate fibers differs significantly from viscose and cupro fibers, and in many parameters, is closer to that of synthetics.

Table 9: Basic Characteristics of Acetate and Rayon

Acetate	Rayon
Luxurious feel and appearance	Soft and comfortable
Excellent drapability and softness	Drapes well
Wide range of colors and lusters	Easy to dye
Relatively fast drying	Highly absorbent
Shrink, moth and mildew resistant	

Source: www.fibersource.com [4].

Tables A-E in Appendix 1 provide details of technical comparisons between rayon and acetate fibers.

A number of interviewees suggested that, historically, rayon filament prices were between 50-100% more expensive than the equivalent acetate product. Celanese estimates put the differential at the upper end of this spectrum.

Keith Nagy, sales director for Celanese Acetate, is quoted in the press as stating that acetate prices have held at about US\$ 1.90 a pound or US\$ 4.18 per kilogram between 1999 and 2001.[10] Another source indicates that, in 2001, the price of viscose rayon filament yarns (denier 120D/30F) dropped from US\$ 3.10 to US\$ 2.75 per kilogram.[11]

The latter item reflects that many fiber prices have been weakening in recent years as a result of intensified competition in international fiber markets and the slowing of the US and global economies.

Table 12 shows trends in the value of acetate and rayon filament yarn imports since 1995. Whereas prices of acetate fiber have generally increased, there has been a steady decline in rayon prices. At least in terms of imports, and remembering that the US market for rayon is now almost wholly supplied by imports, the historic price differential between rayon and acetate is being steadily and significantly eroded.

Table 12: Cellulosic Yarn Imports for Consumption and Price: 1995-2001						
	Rayon < 5 turns/meter*			Acetate < 5 turns/meter**		
	US\$000s	000s lbs	US\$/lb	US\$000s	000s lbs	US\$/lb
1995	6,946	2,191	3.17	2,784	1,483	1.88
1996	5,348	2,025	2.64	8,098	4,705	1.72
1997	3,487	1,452	2.40	10,663	5,710	1.87
1998	5,630	2,394	2.35	14,449	6,291	2.30
1999	5,203	2,418	2.15	15,863	7,325	2.17
2000	4,338	1,649	2.63	8,103	4,418	1.83
2001	3,899	1,597	2.44	3,929	1,749	2.25
	Rayon >5 turns/m***			Acetate >= 5 turns/m****		
	US\$000s	000s lbs	US\$/lb	US\$000s	000s lbs	US\$/lb
1995	41,242	12,867	3.21	23,887	12,913	1.85
1996	31,907	9,995	3.19	32,769	16,160	2.03
1997	38,500	13,511	2.85	26,460	12,439	2.13
1998	36,760	13,294	2.77	12,223	5,578	2.19
1999	22,206	8,124	2.73	4,539	2,352	1.93
2000	20,384	7,298	2.79	2,702	1,416	1.91
2001	13,915	4,979	2.80	578	223	2.59

HTS Number

* 5403310020

** 5403330020

*** 5403320000/5403310040

**** 5403330040

Source: US Department of Commerce [3].

Table 14 indicates trends in rayon import prices by major supplier. There are considerable differences between high cost suppliers in Europe and Japan, and low cost suppliers such as India and Brazil. Indeed, the latter already appear to be shipping viscose yarns at prices lower than those of acetate indicated above.

Table 14: Trends in Rayon Filament Import Prices by Major Supplier 1996 - 2001							
		1996	1997	1998	1999	2000	2001
Average Price (US\$/lb)		3.24	2.83	2.62	2.63	2.70	2.69
Leading suppliers:	Germany	3.83	3.17	3.13	3.23	3.28	3.31
	Belgium	2.87	3.09	3.53	3.22	2.79	2.61
	India	2.13	1.66	1.57	1.39	1.14	1.28
	Brazil	2.52	2.23	2.15	1.85	1.55	1.52
	Netherlands	3.83	3.43	3.17	3.15	3.50	3.31
	Mexico	2.45	2.69	2.48	2.33	2.85	2.61
	Japan	9.67	4.43	2.85	4.21	4.11	10.05

Source: USITC Data for HTS 540331 [3].

Discussion of Rayon and Acetate Filament Substitution

Interviews with experts, fabric companies and designers brought mixed results. Many view the fibers as entirely distinct products. Although they service some common product destinations and applications, eg blouses and lining fabrics, they go into different segments based on product prices and properties. Rayon is perceived to be at the top end of the market, with acetate in the middle and polyester at the lower end. Rayon and acetate are regarded as largely performing different roles. The most significant area of 'head-to-head' competition was seen as being in household textiles.

A key consideration in substitution is the extent to which competing products may be subject to developments that affect their price/ performance characteristics. This aspect of substitution potential was therefore investigated.

Rayon and acetate fibers are regarded as a mature “technology”. They have been around for nearly 100 years. Although there is some innovation from time to time, it is regarded that there is not much scope for significant technical breakthroughs. Some interviewees noted that it is difficult to significantly alter the character of these yarns. The conclusion reached was that the likelihood of a significant breakthrough in viscose and cupro technology was unlikely.