



**P.O. Box 2002
Kingsport, TN 37662**

May 31, 2002

Honorable Philip M. Crane
Chairman
Subcommittee on Trade of the
Committee on Ways and Means
U.S. House of Representatives

Re. Comments on H.R. 4471

Dear Representative Crane:

Eastman Chemical Company is opposed to H.R. 4471, to suspend temporarily the duty on certain high tenacity rayon filament yarn (provided for in subheading 5403.10.30 of the Harmonized Tariff Schedule of the United States). H.R. 4471 was introduced in the House of Representatives by Representative Linder on April 17, 2002.

It is the opinion of Eastman Chemical Company that granting duty suspension for such rayon filament yarn will bring harm to the domestic cellulose acetate yarn industry by reducing domestic demand for cellulose acetate yarns.

Eastman Chemical Company produces more than 400 chemicals, fibers and plastics including cellulose acetate fibers produced by our Voridian Company Division. Our main production facility in Kingsport, Tennessee has produced cellulose acetate yarns used by America's textile industry for more than 60 years. Over 500, high tech, above-average-wage jobs depend upon the production and sale of cellulose acetate yarn.

Basically stated, all evidence we have clearly shows that imported rayon filament is substitutable for acetate filament yarn and that imported rayon filament yarn prices are close to those of acetate yarn. With these facts in evidence, imported rayon filament yarn is a major threat to domestically produced acetate filament yarn, the significant number of American jobs represented by this business, as well as the taxes paid by those job holders.

U.S. Acetate Filament Yarn Industry

The cellulose acetate yarn industry in the U.S. has been shrinking since the early 1970's due to the substitution of acetate yarn with other fibers, such as nylon and polyester, and by increasing imports of apparel from Asia, Latin America and Europe. In 1970, the cellulose acetate yarn capacity in the U.S. exceeded 500 million pounds per year. By the end of 2001, cellulose acetate yarn capacity fell to about 108 million pounds per year. Over this period of time, the U.S. fiber industry has seen DuPont and Avtex close cellulose acetate yarn plants and exit the business; Celanese close plants in Cumberland, MD and Rock Hill, SC; and Eastman reduce its capacity in Kingsport. This year the two remaining U.S. producers of cellulose acetate yarns, Celanese and Eastman, will supply about 60 million pounds of acetate yarn to the U.S. textile industry.

Rayon And Acetate Filament Yarns – Substitutable Products

In many end uses, rayon filament yarns and acetate filament yarns are interchangeable. The single largest end use is in woven lining fabrics that are used for lining suits, jackets, coats, dresses, etc. Rayon filament

yarns must be considered to be in direct competition with cellulose acetate yarns in lining fabric applications.

The substitutability of acetate filament yarn and rayon filament yarn is borne out in a recently concluded impartial study by Peter Kilduff of the Textile & Apparel Business Intelligence Consortium, College of Textiles, North Carolina State University entitled, “An Analysis of the Substitutability of Viscose and Cupramonium (sic) Rayon Filament Yarn for Acetate Filament Yarn,” dated April 2002. The objectives of the study (page 5.) are stated as, “. . . to provide a thorough and impartial review, within the permitted scale of the project, to determine the extent to which rayon and acetate filament yarns are substitutable in major textile and apparel end uses. It has also been an objective to make an assessment, based on information available, of the extent to which they are being substituted in practice.”

In the Executive Summary (page 4.) of this study the author states, “. . . 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.”

The study (page 3.) recognizes a trend toward a convergence of prices for rayon and acetate filament yarns. “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 author, in the study section titled “Conclusions” (page 19.), states, “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; they share many of the same end-use applications; and they are used in blends.” Additionally, he states (page 20.), “. . . interviewees among fabric companies provided direct evidence that in order to meet retail price points or changing fashions, they often switch between rayon and acetate.” And, reiterating an earlier point, “Within the constraints of the study described above, there would appear to be a reasonable and credible threat of low cost rayon imports from developing countries, such as Brazil and India, entering the market and impacting demand for acetate filament products.”

Rayon Filament Yarn Sources And Prices

Due to the closing of the last textile rayon filament producer in the U.S. in 1997, only imported rayon filament is now a threat to displace domestically produced cellulose acetate yarns. Today, rayon filament imported under HTSUS subheadings 5403.10 incurs a General tariff level of 10%. According to import statistics from the U.S. Department of Commerce, major sources of these products in 2002 Q1 were Germany (47% of total quantity), Italy (21%), India (20%) and Austria (12%).

A shift in major sources for imported 5403.10 rayon products has occurred over the period 1999 - 2002 Q1 as shown in the following table. The data shows a decline in the percentage of imports from Germany and substantial growth in percentages from Italy and India.

	1999	2000	2001	2002 Q1
Germany	64.3%	54.5%	53.0%	47.3%
Italy	0.6%	0.6%	2.9%	20.6%
India	4.7%	0.8%	1.3%	20.4%
Austria	8.0%	1.1%	6.3%	11.6%

A look at the average price of imported rayon products over the period 1999 – 2002 Q1 also indicates a shift toward lower priced products. The table below shows the average price of 5403.10 products in dollars per pound as well as the average prices of products imported by major source. It is evident that the overall average price of the imports has fallen due to 1) substantial increases in lower-priced products from Italy and India, and 2) a decline in price of products from Germany and Austria.

	1999	2000	2001	2002 Q1
Germany	1.80	1.96	2.58	1.90
Italy	(not meaningful)	(not meaningful)	2.30	1.42
India	1.17	1.16	1.27	1.04
Austria	1.74	1.69	1.31	1.22
Total	1.89	2.15	3.02	1.54

The downward shift in prices of 5403.10 imported rayon filament products is very important considering the conclusions drawn by Peter Kilduff in the independent study referenced above. To reiterate that conclusion, “. . . there would appear to be a reasonable and credible threat of low cost rayon imports from developing countries, such as Brazil and India, entering the market and impacting demand for acetate filament products.” The study also references direct evidence of mill customers making a substitution based on a lower-price-product, “. . . interviewees among fabric companies provided direct evidence that in order to meet retail price points or changing fashions, they often switch between rayon and acetate.”

Domestically produced cellulose acetate yarn is available to the domestic textile industry today at about \$1.90/lb. Prices, derived from U.S. Department of Commerce data, of the 5403.10 imported rayon filament products fell to about \$1.54/lb in 2002 Q1, a 49% decline from the average price of 2001. The price of rayon filament imported from India (20% of total) fell to only \$1.04/lb in 2002 Q1. With these extremely low imported rayon filament prices, domestic use of acetate filament yarn is almost certain to experience additional decline due to substitution by imported rayon filament yarns.

Therefore, in light of the conclusion of the independent study cited above as to the substitutability of rayon and acetate filament yarns, the fact that the imported 5403.10 rayon filament yarn average price has fallen below that of domestically-produced acetate filament prices, and a further loss of acetate filament yarn sales volume threatens the viability of the U.S. acetate filament yarn producers, Eastman Chemical Company is opposed to H.R. 4471.

Thank you for your consideration of the views of Eastman Chemical Company regarding this bill.

Sincerely yours,

V. A. Robbins, Jr.
 Acetate Yarn Business Unit Manager
 Fibers Business Group
 Voridian Company, A Division of Eastman Chemical Company