

September 20, 2006

VIA HAND DELIVERY

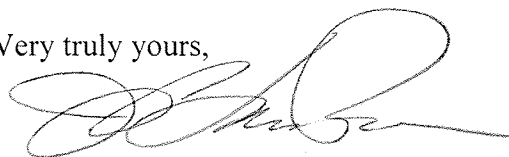
Chairman
Committee for the Implementation of Textile Agreements
Room 3100
United States Department of Commerce
14th and Constitution Avenue, N.W.
Washington, DC 20230

Dear Chairman:

The Eastman Chemical Company is pleased to submit the attached comments in response to Federal Register Notice 06-7077 "Request for Public Comment on Commercial Availability Request under the North American Free Trade Agreement (NAFTA)" of August 16, 2006. Eastman is a producer of filament yarn of cellulose acetate ("acetate yarn") classified in heading 5403 of the Harmonized Tariff Schedule of the United States (HTSUS) and has been reliably supplying commercial quantities to the Mexican market in a timely manner. Accordingly, Eastman is opposed to a modification of the NAFTA rules of origin for woven fabrics classified in HTSUS 5408 and HTSUS Chapter 58. We are providing confidential and non-confidential versions of the submission, and are happy to provide a non-confidential summary if necessary.

Eastman would be pleased to meet with the Committee for the Implementation of Textile Agreements (CITA) to further discuss our submission, and will contact the CITA office to arrange a meeting at your convenience. In addition, please feel free to contact me at (703) 524-7653, or Al Robbins, Business Director for Acetate Yarn, at (423) 229-3081.

Very truly yours,



Jorge P. San Pedro
Director, Trade Relations



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SEPTEMBER 20, 2006**NON-CONFIDENTIAL VERSION****BY HAND AND E-MAIL DELIVERY**

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Committee for the Implementation of Textile Agreements
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Dear Chairman:

The Eastman Chemical Company (“Eastman” or the “company”), a \$7 billion U.S. company based in Kingsport, Tennessee, is a producer of filament yarn of cellulose acetate (“acetate yarn” or “AY”) that is the subject of Federal Register Notice 06-7077, “Request for Public Comment on Commercial Availability Request under the North American Free Trade Agreement (NAFTA),” of August 16, 2006, and respectfully submits these comments in opposition to a modification of the NAFTA rules of origin for acetate yarn classified in heading 5403 of the HTSUS as the company has more than sufficient capacity to supply acetate yarn to the NAFTA industry in commercial quantities in a timely manner.

Our submission is organized as follows: 1) a brief summary of the NAFTA provisions at issue; 2) an overview of the acetate yarn industry; 3) Eastman Chemical’s Acetate Yarn (AY) business, and 4) a discussion of Eastman’s capacity to produce acetate yarn and to supply such products in a timely manner to the NAFTA market (including a review of the Mexican market).

I. NAFTA

The Mexican government has asked for consultations to consider whether fabrics classified under HTSUS 5408 and products classified in chapter 58 should be modified to allow the use of non-North American acetate yarn. Section 202(q) of the NAFTA Implementation Act allows the parties to amend the rules of origin for textile and apparel products [where there is not sufficient availability of supply of fibers, yarns, or fabrics in the free trade area and where domestic producers are not capable of supplying commercial quantities of the good in a timely manner.]

It is Eastman’s affirmation that it is capable of supplying commercial quantities of acetate yarn in a timely manner. Furthermore, as shown below, the production capacity of Eastman outweighs the demand for acetate yarn in the North American free trade area. Accordingly, there is no justification for changing the NAFTA rules of origin with respect to HTSUS 5408 and Chapter 58.



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II. BACKGROUND ON THE ACETATE YARN MARKET

In order to best understand Eastman's ability to timely meet North American acetate yarn demand, we first provide a general background on acetate yarn - the product, the market, recent trends, and today's industry capacity.

A. General Background on Acetate Yarn: What is AY and What is it Used For?

Acetate yarn is a specialty yarn that is used in the manufacturing of woven and knit fabrics that are comfortable to wear, have beautiful, deep colors, excellent drape, soft hand, and physical properties suitable for specialty applications such as medical tape. Because of its superior functional and technical qualities it remains a product in demand from customers in a range of industry segments, especially men's and women's suit linings, ribbons, medical tapes, and women's knit apparel. It is also used in drapery, casket linings, and ribbons. It is a niche product that is produced to meet the needs of a discriminating customer base that requires certain functionalities that cannot be completely met by lower priced and less functional products such as polyester or rayon filament yarns.

B. Acetate Yarn Market

The customer base for acetate yarn can be grouped as follows:

- Weaving and knitting mills who make the fabrics;
- Converters who dye the goods and sell them to garment manufacturers;
- Garment manufacturers who sell garments to retailers.

Acetate yarn is produced by spinning a solution of cellulose acetate and acetone on a spinning machine. Acetate yarn applications use a spectrum of deniers depending on the final end use. Denier is a measure of the weight of filament and it is defined as the weight in grams of 9000 meters of yarn. Weavers typically use 2 different deniers – one for the machine direction (warp) and one for the cross direction (filling). Knitters typically use one denier on a circular knitting machine (150 denier yarn). Deniers vary according to final end use. Typical deniers range from 75 to 300 (with the most common being 75 and 150, which is generally used by textile and apparel manufacturers to make linings and knit products). Three hundred denier yarn is used in both heavy weight apparel fabrics as well as in ball fringe and tassel products, which are essentially twisted yarns. Six hundred denier yarn is also used in ball fringe and tassel product. Two ends of 300 denier yarn can easily be substituted for one end of 600 denier yarn in ball fringe and tassel manufacturing.

The AY producer market is mature and has not seen new entrants. Of significance is that many AY producers have exited the market, most importantly Celanese in 2005. Closings of AY plants since 1999 include: Canada (Celanese- 1999), South Carolina (Celanese-2000), Belgium

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(Celanese-2001), Japan (Teijin- 2002), England/Italy (Acordis-2003), Mexico (Celanese- 2005) and Virginia (Celanese-2005). All of these closings/exits were driven by over capacity and the resultant poor economics of making AY. Accordingly, among AY producers a premium is placed on improving efficiencies in the face of global competition while also better meeting customer needs in the face of lower price and less functional product competition. For this reason, capacity utilization (actual production divided by the stated capacity) is a critical measure of business health.

C. Demand Trends over the Last Five Years

Several long term trends have had a negative impact on the demand for AY, namely an increase in business casual dress which has resulted in a sharp decline in the purchase of men's and women's business suits (normally lined with acetate fabric) and wide-spread substitution of the higher priced AY by cheaper polyester filament exported from China.

In addition, prices for acetate yarn declined steadily following the Asian financial crisis in 1997. When the financial crisis hit, Asian acetate and polyester producers were forced to lower their prices to keep production rates at acceptable levels (higher capacity utilization). Other AY producers followed in an effort to maintain market share. Also, cheaper polyester filament prices resulted in more substitution by polyester in traditional acetate end uses such as casket linings and graduation robes, which today are almost █% polyester. For example, in 1997, a typical price for 150 denier acetate yarn was about \$█/lb. At the low point in 2004, some producers were selling this yarn at \$█/lb - a significant decline of █%. Today a typical market price for 150 denier AY is about \$█/lb. The demand for AY has stabilized from the 2002-2004 period, with the █ market providing a steady stream of demand.

D. Celanese Exits Mexican Production Market

An industry changing event was Celanese's announcement in October 2004 of its intent to exit the AY market by closing both the Mexico (Celmex) and Narrows, VA plants in 2005. Both plants had an estimated capacity of █ M lbs/yr each. According to GAMA¹ shipments data, industry capacity utilization ranged from █% from 2000-2004. Therefore, the output from the Celmex and Narrows plants would have been about █ million pounds per year each. However, almost all of this production (plus an estimated working inventory of at least █ million pounds) was sold at very low prices. We estimate that when Celanese decided to close their two remaining plants, they were losing at least \$█M per year on their AY business. The Celmex plant was officially closed in March 2005 and the Narrows plant was officially closed in May 2005. All inventories were sold at the time of closing.²

¹ GAMA is the Global Acetate Manufacturers Association. This organization tracks global trends and members report capacity and shipments and capacity utilization. GAMA compiles the data and reports information back to GAMA members. All major producers are or have been members of GAMA.

² Sources include newspapers, GAMA statistics, customers and other market intelligence.

In addition to the economics of operating significantly below capacity, it is believed that Celanese's decision to close their two AY plants was also driven by the lack of available raw material (pulp) to support both their acetate tow (a profitable business) and their acetate yarn business (an unprofitable business). The lack of pulp was driven by the closing of a large International Paper pulp mill in Natchez, MS, from which Celanese bought significant quantities. A specialized grade of dissolving wood pulp is needed to make AY, and this pulp is only available from a few mills worldwide. Once Celanese's supply of pulp was eliminated, it is believed that they could not purchase enough pulp from new suppliers to supply both their acetate tow business and their acetate yarn business. (Eastman had made a strategic decision to develop technology to be able to use pulp materials from various pulp suppliers. Consequently, the closing of the International Paper plant did not constrict Eastman's business since we could use pulp from many of the remaining suppliers.)³

Table 1 - Worldwide Capacity & Demand for Acetate Yarn (redacted) is based on GAMA and market intelligence, and shows a retrospective and prospective look at demand and capacity in the acetate yarn industry. Demand was essentially flat for the 3 years preceding Celanese's exit.

E Industry Capacity Today

The capacity decrease in 2005 tightened the market and allowed capacity utilizations to increase for the entire industry. GAMA estimates that in 2005-2006, the industry capacity utilization increased from █████% to █████%. Capacity is difficult to measure precisely because it is dependent on the denier mix. The finer the denier, the lower the volume that can be produced with a fixed equipment base. As customer product requests change, the denier mix changes, and hence the capacity changes. The capacities listed below are the capacities reported by each producer for their particular product and denier mix.

Table 2 - Estimated Capacity by AY Producer (redacted) shows that Acetate Yarn producers today have a estimated global capacity of █████ M lbs. (Source- GAMA plus market intelligence).

III. EASTMAN CHEMICAL: AN OVERVIEW OF THE COMPANY

A. General Overview of the Company's Leadership Role in the AY Industry

Eastman is a long time global leader in the AY industry due to its sound business strategy that has been carefully designed to address the fast moving and competitive economic environment in this industry. Eastman has met the challenges of this market and excelled due to its attention to customer needs around the world and in North America and its significant (greater

³ The sources of the information provided in this paragraph include: various newspaper reports, GAMA statistics, customers and other market intelligence.

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than \$█M since 1997) investment in unique and cutting edge fully integrated production methods and technologies. In short, Eastman's strategy in the AY industry has been innovative and structured to meet the needs of the market as that market has evolved. For this reason, Eastman is not only the only producer of AY in North America, but also the only AY producer who makes its own raw material, acetate flake. █

█ Eastman believes that our vertical raw material position, in addition to extensive investments in the infrastructure of the business, make Eastman the lowest cost AY producer in the world.

B. Eastman Acetate Yarn Products

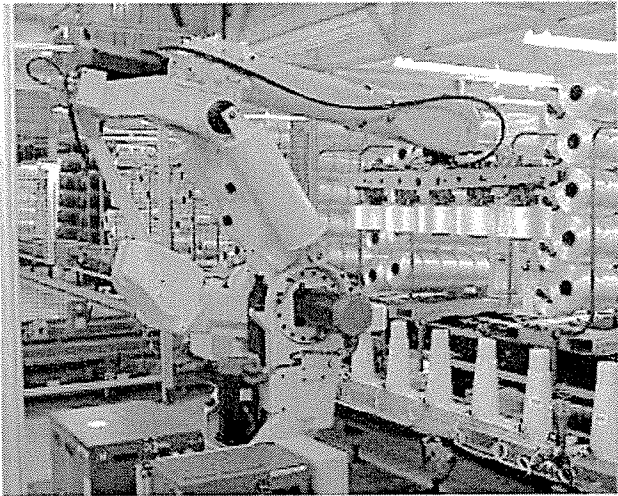
Eastman AY products are uniquely designed for optimum manufacturing performance on textile equipment (weaving or knitting) that produces fabrics for specific end use applications. Since the mid 1990's Eastman customers in NAFTA countries, as well as non-NAFTA countries, have found Eastman acetate yarn to be well suited for their equipment to make fabrics for these end use applications.

In light of the economics of the AY market, Eastman's strategy has been based on a rational and fundamentally sound approach to meeting customer needs through a combination of investment in efficiencies and the promotion of sound pricing strategies that has allowed additional investment in technological innovation that also benefits customers. Through Eastman's pursuit of this "virtuous cycle" business strategy not only has Eastman succeeded, but it has excelled in the face of the competition and helped ensure the production of AY in North America. What follows is a more detailed look at this industry and Eastman's story within the AY industry and its ability to supply in a timely manner customers within North America and around the world.

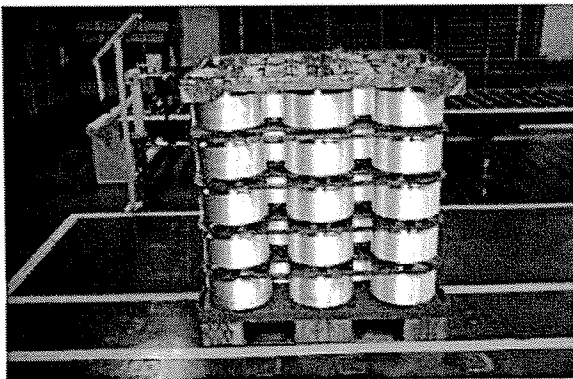
C. Eastman's investment (economic and environmental aspects)

1. General Overview

Eastman has invested over \$█M since the early 1990's in the AY business on process improvement equipment which has allowed us to be the global low cost producer in AY. One of our investments was for a robotic packing system that handles our yarn from the time it is doffed from the spinning machine to the time it is packed (see pictures below). This system allowed us to significantly lower our manufacturing cost structure. Yarn packed via robotic packing is also shipped in recyclable traypacks which significantly reduce cardboard land fill waste as well as tree usage for cardboard.



Robotic Packing of Eastman Acetate Yarn.



Eco-friendly recyclable packing materials for Eastman Acetate Yarn

Additionally, AY is made from wood pulp cultivated from environmentally managed soft wood forests. See www.acetateworld.com for more info on wood pulp forests. Eastman has invested millions of dollars in environmental protection systems. For example, our state of the art above ground waste water treatment system has received numerous awards for environmental stewardship. Eastman has also invested millions of dollars on electrostatic air purification systems on all coal fired boilers to reduce emissions well below EPA requirements. Most importantly, Eastman invested \$■M in a new spinning machine in 2005 to increase production in response to Celanese exit from the market.

2. Coal Gasification- A Key Technology to Eastman Acetate Yarn Competitiveness

“Coal Gasification” is another area in Eastman’s investment strategy that has contributed to its prominence in the AY market. Key raw materials used to make Eastman Acetate Yarn are produced using a unique technology called coal gasification. This technology, developed in 1983, has helped Eastman reduce its dependence on imported oil feedstock products when making the hundreds of chemicals, fibers, and plastics in its product line.

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Coal Gasification is an extremely versatile and clean process for converting a wide variety of carbon-containing feedstocks into a synthesis gas ("syngas"), composed primarily of carbon monoxide and hydrogen. The syngas is then converted into acetic anhydride and acetic acid, two key raw materials used to make Eastman acetate flake, which is the raw material for acetate yarn. Eastman was a pioneer in commercializing the first U.S. chemicals from coal facility in 1983. Eastman received Chemical Engineering magazine's Kirkpatrick Award for Engineering Excellence for recognition of its "chemicals from coal" facility in Kingsport, Tennessee and the facility has been designated an American Chemical Society National Historic Chemical Landmark.⁴

D. Overview of Eastman's Capacity to Produce Acetate Yarn and its Ability to Supply AY in a Timely Manner

As a result of the significant investment that Eastman has made in its production process, it is the global leader in production efficiency within this industry, has the ability to easily increase capacity as necessary, and is more than capable of supplying customers across North America and the world. Also, global price competition means that there is essentially no significant difference in market prices around the world.

Today, the global demand for AY is approximately [REDACTED] million lbs (based on GAMA data 2005). GAMA estimates the size of the Americas market (North America, Central America and South America) to be [REDACTED] million lbs per year. Since there is less than [REDACTED] million pounds of demand in Central and South America, Eastman has the capacity today to produce approximately [REDACTED] of AY per year depending on product mix, which is more than enough to satisfy the entire NAFTA demand.

Eastman has the ability to make minor processing changes to raise capacity by [REDACTED] within [REDACTED] days in order to meet increased demand. This amounts to an annual increase of [REDACTED] M lbs/yr. Additionally, Eastman has the capacity to add an additional [REDACTED] M lbs /yr in approximately [REDACTED] months time provided the demand was demonstrated to actually exist. These two changes combined would add [REDACTED] M lbs capacity for a total of [REDACTED] M lbs. This is [REDACTED] M lbs above Eastman's current sales of [REDACTED] M lbs.

The vast majority ([REDACTED]%) of Eastman's AY customers pre-order the products -- namely that they order the product well in advance of the expected delivery date. Moreover, because Eastman carries an inventory of approximately [REDACTED] M lbs of standard items (equivalent to [REDACTED] weeks production), it can satisfy the demand for AY in a timely manner for "one-off" or non-regular

⁴ Because of such technical manufacturing innovations and good environmental stewardship, Eastman has an enviable environmental track record. As an example, Eastman's Kingsport, Tennessee, plant site has received the Kentucky-Tennessee Water Environment Association Operations Excellence Award for ten years in a row and for 12 of the last 13 years. Eastman won this award more than any other industrial or municipal wastewater treatment plant in the two-state region. See also http://www.eastman.com/Company/Gasification/Info_Center.htm.

customers who do not pre-order. Most orders can be received and shipped immediately, or in a matter of days. In light of the fact that most shipments are pre-ordered and given that Eastman can raise capacity by a large amount within a given timeframe, the company can clearly meet anticipated growth in AY demand for standard customers.

E. The Mexican Market

With the exit of Celanese, Eastman has efficiently met the demands of the Mexican customer base. In fact, Eastman's largest customer, [REDACTED], is a customer gained in Mexico after Celanese's departure. In 2004, Mexico sales of [REDACTED] M lbs represented [REDACTED] of Eastman's sales. Today, the Mexican market represents [REDACTED] of Eastman sales. Table 3 shows that Eastman has been able to dramatically increase sales to Mexico after the exit of Celanese. In fact, NAFTA countries represent [REDACTED] (a significant portion) of Eastman's business today.

Table 3 - Eastman Shipments to the Americas (redacted)

Table 4 estimates the Celanese shipments from 2003-2005. Eastman has estimated what it believes the Celanese shipments to be based on its own proprietary data and a formula that it developed. [REDACTED]

[REDACTED] This information also provides the basis for the estimated Celmex shipments in Table 5. Table 5 provides an estimate of the Mexican market using data from Table 4 and the Mexico import/export statistics.

Table 4 - Estimated Celanese Shipments Worldwide (redacted)

Table 5 - Estimated Size of the Mexican Market (redacted)

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Normally, the volume shipped to Mexico would represent the size of the Mexican market. However, in this case, the close of the Celmex plant inflates the data. The Celmex plant closed in March 2005 and all inventory was sold. As stated previously, when Celanese exited the market in 2004-2005, we estimated they had a normal working inventory of at least [REDACTED] M lbs of AY in Mexico. Since it was exiting the AY market, Celanese had no need for any of their old inventory which was sold to the market at very low prices. These shipments inflate the size of the Mexican market.

[REDACTED] (This redacted paragraph includes confidential business information regarding the proposed sale of a competitor's production plant.)

However, even if this peak demand of [REDACTED] M lbs actually existed, Eastman could supply the entire demand. Since Eastman is currently supplying [REDACTED] M lbs to Mexico, an additional [REDACTED] M lbs would be needed from Eastman to reach a hypothetical demand of [REDACTED] M lbs in Mexico. Eastman currently has [REDACTED] M lbs excess capacity ([REDACTED] M lb capacity – [REDACTED] M lb sales) and could increase a total of [REDACTED] M lbs in [REDACTED] months. This would give Eastman a capacity of [REDACTED] M lbs, of which [REDACTED] M lbs would be available for increased demand. Therefore, Eastman would have more than an adequate supply for a peak demand of [REDACTED] M lbs in Mexico.

Customer Affirmations

We have attached as an Appendix a confidential letter from Eastman customer [REDACTED], attesting that they have received ample supplies of acetate in a timely manner.

Conclusion

There should be no question that Eastman can and does supply in a timely manner customers throughout North America and the world with high quality AY at very competitive prices. Accordingly, there should be no basis for a change in NAFTA's rules of origin to allow for non-North American AY to benefit from the NAFTA tariff provisions.

Furthermore, Eastman has designed and implemented an astute business strategy as a producer in the AY market that has led it to leadership status in the market. It has invested over \$[REDACTED] million in AY capacity in its Tennessee operations and ensured that its marketing and distribution systems operate effectively so that Eastman meets the needs of its customers in

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North America and around the world. Eastman employs over [REDACTED] people in its AY production facilities in Tennessee. These facilities are the most efficient and innovation driven integrated production facilities of AY in the world. Eastman, as a company, has been honored repeatedly with national quality, environmental stewardship and “best management” awards. Eastman was the first and only recipient of the chemical industry to be honored with the prestigious Malcolm Baldrige National Quality Award. Eastman strongly supports the NAFTA and respectfully requests that no changes be made to its rules of origin as they relate to acetate yarn. As Eastman has shown, there is plenty of capacity to supply commercial quantities of acetate yarn in a timely manner in North America. Therefore, the request to change the rules is without merit.