United States International Trade Commission

Certain Textile Articles: Effect of Modifications of NAFTA Rules of Origin for Goods of Canada and Mexico (Inv. No. NAFTA-103-7) and Certain Textile Articles: Effect of Modifications of NAFTA Rules of Origin for Goods of Canada (Inv. No. NAFTA-103-8)

Final Reports on Investigation Nos. NAFTA-103-7 and NAFTA-103-8

Investigation Nos. NAFTA-103-7 and NAFTA-103-8
USITC Publication 3729
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U.S. International Trade Commission

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Investigation Nos. NAFTA-103-7 and NAFTA-103-8

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INTRODUCTION

Following receipt of two requests on August 20, 2004, from the United States Trade Representative (USTR) under authority delegated by the President and pursuant to section 103 of the North American Free Trade Agreement (NAFTA) Implementation Act (19 U.S.C. 3313),[1] the U.S. International Trade Commission (Commission) instituted investigations No. NAFTA-103-7, *Certain Textile Articles: Effect of Modifications of NAFTA Rules of Origin for Goods of Canada and Mexico*, and No. NAFTA-103-8, *Certain Textile Articles: Effect of Modifications of NAFTA Rules of Origin for Goods of Canada*. As noted in the USTR's request letters, U.S. negotiators reached agreements in principle with representatives of the governments of Canada and of Mexico concerning proposed modifications to the rules of origin for two textile articles covered by investigation No. NAFTA-103-7, and the government of Canada only concerning proposed modifications to the rules of origin for two textile articles for three textile articles covered by investigation No. NAFTA-103-8. The proposed rules changes, if implemented, would apply only to U.S. imports from and exports to the NAFTA parties in agreement with the rules changes.

As requested by the USTR, the Commission will provide advice on the probable effect of the proposed modifications of the NAFTA rules of origin for the five affected textile articles on U.S. trade under the NAFTA, on total U.S. trade, and on affected domestic producers. The Commission did not hold a public hearing in connection with these investigations but invited written submissions from the public. The data and analysis presented herein draw on these submissions, as well as market and industry information collected by the Commission from publicly available sources and telephone interviews with industry representatives.

A summary of the Commission's advice for the five textile articles is presented in table 1 for the two textile articles covered by investigation No. 103-7 and table 2 for the three textile articles covered by investigation No. 103-8. The Commission's report on the two investigations is divided into two parts. Part I contains the advice and related information for the two textile articles covered by investigation NAFTA-103-7: (1) gimped nylon yarns (heading 5606 of the Harmonized Tariff Schedule of the United States (HTS)) and (2) woven fabrics of viscose rayon filament yarns (HTS 5408). Part II contains the advice and related information for the three textile articles covered by investigation No. NAFTA-103-8: (1) yarns spun from acid-dyeable acrylic tow (HTS 5509.31), (2) fabrics woven from yarns of combed camel hair or cashmere (HTS 5112.11.60 or 5112.19.95), and (3) pile fabrics containing dry spun acrylic fibers (HTS 5801.35). Appendix A contains the request letters from the USTR and appendix B contains the Commission's notice of institution of the investigations and request for public comments.

[1] Section 202(q) of the North American Free Trade Agreement Implementation Act (the Act) authorizes the President, subject to the consultation and layover requirements of section 103 of the Act, to proclaim such modifications to the rules of origin as are necessary to implement an agreement with one or more of the NAFTA countries pursuant to paragraph 2 of section 7 of Annex 300-B of the Agreement. One of the requirements set out in section 103 of the Act is that the President obtain advice from the United States International Trade Commission.

Table 1
Investigation No. NAFTA-103-7: Summary of advice concerning modification to the NAFTA rules of origin for certain textile articles of the United States, Canada, and Mexico

HTS No.	Existing rule[1]	Proposed rule	Probable effect advice	Nature of modification and effect explanation
5606 Gimped nylon yarn	A change to headings 5601 through 5609 from any other chapter, except from headings 5106 through 5113, 5204 through 5212, 5307 through 5308 or 5310 through 5311 or chapters 54 through 55	A change to heading 5606 from flat yarns* of subheading 5402.41, or from any other chapter, except from heading 5106 through 5113, 5204 through 5212, 5307 through 5308 or 5310 through 5311 or chapter 54 through 55 *Flat yarns, for the purposes of this rule, are defined as "7 denier/5 filament, 10 denier/7 filament, or 12 denier/5 filament, all of nylon 66, untextured (flat) semi-dull yarns, multifilament, untwisted or with a twist not exceeding 50 turns per meter, of subheading 5402.41"	U.S. total trade: Imports: Negligible Exports: Negligible U.S. trade under NAFTA: Imports: Increase Exports: Increase U.S. production: Increase	*Modification:* The proposed rule change is liberalizing because it would allow gimped nylon yarn to be made from nylon filament yarn formed outside North America and still be an originating good for NAFTA purposes. *Effect:* The proposed rule change would likely have a positive effect on U.S. industry and its workers. It would benefit the U.S. industry making the subject yarn by enabling it to use non-North American inputs and have the yarn still considered an originating good for NAFTA purposes. There would be no effect on producers of the yarn inputs, as there are no known U.S. producers of nylon filament yarn. The proposed rule change would benefit North American producers of apparel made from the subject yarn by increasing the supply and availability of the subject yarn and extending NAFTA preferences to such apparel.
5408 Woven fabrics of viscose rayon filament yarns	A change to heading 5408 from any other chapter, except from headings 5106 through 5110, 5205 through 5206 or 5509 through 5510	A change to heading 5408 from filament yarns of viscose rayon of heading 5403, or from any other chapter, except from headings 5106 through 5110, 5205 through 5206 or 5509 through 5510	U.S. total trade: Imports: Increase Exports: Increase U.S. trade under NAFTA: Imports: Increase Exports: Increase U.S. production: Negligible	*Modification*: The proposed rule change is liberalizing, because it would allow woven fabrics of non-NAFTA viscose filament rayon yarns to qualify as originating goods. *Effect*: There would be no negative effect on domestic production of viscose rayon filament yarns, as there are no known North American producers. The rule change would likely result in greater U.S. trade in the subject fabric under NAFTA; however, as there is limited production of the fabric in all three countries, the increase in trade would likely be small, and the resulting effect on U.S. producers would be negligible. North American producers making apparel made from the subject fabric should benefit from lower costs and increased supply of the fabric. NAFTA preferences would also likely apply to apparel made in NAFTA countries of the subject fabric; however, there would likely be little effect on U.S. imports or exports of finished apparel. This is because the subject fabric is used in such a broad variety of products but accounts for a only small share of the market, and also because apparel using linings of viscose rayon filament fabric (the main end use for the subject fabric) already qualify for NAFTA preferences.

[1] The current NAFTA rules of origin applicable to U.S. imports of goods of Canada and Mexico were taken from general note 12 of the 2004 HTS. General note 12 reflects the rules of origin as specified in Annex 401 of the NAFTA.

Table 2
Investigation No. NAFTA-103-8: Summary of advice concerning modification to the NAFTA rules of origin for certain textile articles of the United States and Canada

HTS No.	Existing rule	Proposed rule	Probable effect advice	Nature of modification and effect explanation
5509.31 Yarn spun from acid-dyeable acrylic tow	A change to headings 5501 through 5511 from any other chapter, except from headings 5201 through 5203 or 5401 through 5405	A change to subheading 5509.31 from acid-dyeable acrylic tow of subheading 5501.30, or from any other chapter, except from headings 5201 through 5203 or 5401 through 5405	U.S. total trade: Imports: Negligible Exports: Negligible U.S. trade under NAFTA: Imports: Increase Exports: Increase U.S. production: Increase	*Modification*: The proposed rule change is liberalizing because it would allow yarn to be made from acid-dyeable acrylic tow formed outside North America and still be an originating good for NAFTA purposes. *Effect*: The proposed rule change would likely have a positive effect on U.S. producers of the subject yarn and U.S. producers using the subject yarn in the production of knitted apparel fabrics and knitted apparel. It would enable U.S. producers of the yarn to use non-North American inputs and export the yarn to Canada free of duty under NAFTA. NAFTA preferences would also likely apply to U.S. exports of knitted apparel fabrics to Canada, as well as to apparel made in the United States or Canada from the subject yarn and exported to each other's market. The U.S. and Canadian apparel producers would also benefit from increased supply and availability of the yarn.
5112.11.60 5112.19.95 Fabrics woven from yarns of combed camel hair or cashmere	A change to headings 5111 through 5113 from any heading outside that group, except from headings 5106 through 5110, 5205 through 5206, 5401 through 5404 or 5509 through 5510	A change to subheadings 5112.11.60 or 5112.19.95 from yarns of combed camel hair or combed cashmere of subheadings 5108.20.60, or from any heading outside of 5111 through 5113, except from headings 5106 through 5110, 5205 through 5206, 5401 through 5404 or 5509 through 5510	U.S. total trade: Imports: No effect Exports: Increase U.S. trade under NAFTA: Imports: No effect Exports: Increase U.S. production: Increase	*Modification*: The proposed rule change is liberalizing, because it would allow fabrics made in the United States or Canada to use non-originating combed cashmere and combed camel hair yarn, classified in HTS subheading 5108.20.60. *Effect*: The proposed rule change would likely result in significant increases in U.S. production of the subject fabrics, albeit from a relatively small base, resulting in a positive effect on the U.S. industry producing the subject fabrics and its workers. U.S. exports of the subject fabrics to Canada will also likely increase significantly. There would be no effect on U.S. imports of the subject fabric because there are no known producers of such fabrics in Canada. U.S. imports of tailored clothing from Canada using the subject U.S. fabrics would likely increase, displacing both U.S. imports from other countries and domestic production. The increase in imports of the tailored clothing would likely have a small adverse effect on the domestic tailored clothing industry and its workers.
5801.35 Pile fabrics containing dry spun acrylic fibers	A change to headings 5801 through 5811 from any other chapter, except from headings 5106 through 5113, 5204 through 5212, 5307 through 5308 or 5310 through 5311 or chapters 54 through 55.	A change to woven-warp pile fabric, cut, of subheading 5801.35, with pile of dry-spun acrylic staple fibers of subheading 5503.30, which fabric has been dyed in the piece to a single uniform color, from any other chapter, except from headings 5106 through 5113, 5204 through 5212, 5307 through 5308 or 5310 through 5311, chapter 54, headings 5501 through 5502, subheadings 5503.10 through 5503.20 or 5503.40 through 5503.90 or headings 5504 through 5515	U.S. total trade: Imports: Increase Exports: No effect U.S. trade under NAFTA: Imports: Increase Exports: No effect U.S. production: Negligible	*Modification:* The proposed rule change is liberalizing, because it would allow woven pile fabrics that contain non-originating dry-spun acrylic fibers to qualify as originating goods. *Effect:* There would be no effect on domestic production of dry-spun acrylic fibers, as there are no known U.S. producers. The rule change would have a negligible effect on U.S. producers of woven pile acrylic fabrics, because most weave fabrics from wet-spun acrylic fibers. The rule change would benefit U.S. producers of upholstery that import the subject fabrics.

[1] The current NAFTA rules of origin applicable to U.S. imports of goods of Canada and Mexico were taken from general note 12 of the 2004 HTS. General note 12 reflects the rules of origin as specified in Annex 401 of the NAFTA.

PART I

CERTAIN TEXTILE ARTICLES: EFFECT OF MODIFICATIONS OF NAFTA RULES OF ORIGIN FOR GOODS OF CANADA AND MEXICO (NAFTA-103-7)

Certain Textile Articles: Effect of Modifications of NAFTA Rules of Origin for Goods of Canada and Mexico

U.S. International Trade Commission Inv. No. NAFTA-103-7-001

Product	**Gimped nylon yarn**
Requesting Party	**Unifi, Inc., Greensboro, NC**
Commission Contact	**Vincent DeSapio (202-205-3435; vincent.desapio@usitc.gov)**

Introduction

The Commission's advice in this report relates to a proposed modification of the NAFTA rule of origin for gimped nylon yarn classified in HTS subheading 5606.00 (the "subject yarn"), to allow it to be made from non-originating nylon filament yarn of HTS subheading 5402.41 ("inputs").[1] USTR states that the proposed modification is the result of a determination that producers in North America are not able to produce the inputs in commercial quantities in a timely manner.[2] Under the current rules in the NAFTA, the subject yarn must be made from inputs formed in North America for the subject yarn to be "originating" and qualify for NAFTA preferences. The proposed change in the NAFTA rule of origin would apply to goods of all three NAFTA parties and would permit the subject yarn to be made from inputs formed outside North America ("non-originating" inputs) and still be considered an originating good and qualify for NAFTA preferences.

The proposed modification of the NAFTA rule of origin for the subject yarn is in response to a petition received by the Committee for the Implementation of Textile Agreements (CITA) from Unifi, Inc., Greensboro, NC, on September 15, 2003.[3] Unifi alleged that the inputs (nylon filament yarn of HTS 5402.41.90) used in the subject yarn cannot be supplied by North American producers in commercial quantities in a timely manner and requested that the NAFTA rule of origin for the subject yarn classified in HTS heading 5606 be modified to allow the use of non-originating inputs.

Description of the subject product

The subject gimped nylon yarn of HTS heading 5606 is a yarn around which is wrapped another yarn or filament or strip. Gimped yarn differs from twisted yarn in that the core yarn does not twist with the yarn that is wrapped around it. Industry sources note that the subject yarn is used in panty hose and, to a lesser extent, underwear waistbands, reflecting its elastomeric properties and durability. The 2004 U.S. normal trade relations (NTR) rates of duty on nylon panty hose, classified in HTS heading 6115, range from free to 16 percent ad valorem.

The subject yarn is made from nylon filament yarn classified in HTS subheading 5402.41, which provides for untextured filament single yarn of nylon or other polyamides (other than sewing thread), not put up for

[1] The current NAFTA rule of origin for the subject yarn requires that all inputs classifiable in chapter 54 be originating (i.e., made in North America). See table 1 in the "Introduction" to this report for the current and proposed rule of origin for the subject yarn.

[2] See the USTR letter of request to the Commission in appendix A of this report.

[3] See CITA notice published in the *Federal Register* of Oct. 3, 2003 (68 F.R. 57434).

retail sale, including monofilament of less than 67 decitex, untwisted or with a twist not exceeding 50 turns per meter.[4] According to the petition filed by Unifi, the inputs consist of nylon 66 untextured (flat) semi-dull yarn; multifilament, untwisted or with a twist not exceeding 50 turns per meter, in different weights and number of constituent filaments (7 denier and 5 filaments, 10 denier and 7 filaments, and 12 denier and 5 filaments),[5] classifiable in HTS subheading 5402.41.90. As noted above, the current NAFTA rule for the subject yarn requires that all inputs classifiable in HTS chapter 54 be originating (i.e., made in North America).

The U.S. NTR rate of duty on the subject yarn and the filament nylon yarn (the input) is 8 percent ad valorem. Canada also maintains a most favored nation (MFN) rate of duty of 8 percent ad valorem on both articles. The MFN duty rate for Mexico is 5 percent ad valorem on the subject yarn and 15 percent ad valorem on the input.

Discussion of U.S. trade and industry and market conditions for the subject product

The petitioner, Unifi, is a major world producer and processor of yarns. Unifi produces the subject yarn in the United States from nylon filament yarn ***. Unifi said its domestic supplier of the nylon filament yarn inputs, INVISTA (formerly DuPont), Wichita, KA, which had been the only known producer of the raw materials in North America, discontinued production of the nylon filament yarn recently because of limited demand for the item.[6] ***[7] An industry source said that Unifi is the only domestic producer of gimped nylon yarn in fine deniers and that the only other known producer of such fine-denier yarn is Worldtech, which is based in Colombia.[8]

Unifi stated that it sells the subject yarn to hosiery mills in all three NAFTA countries, including *** in Canada and *** in the United States. ***.[9] Officials of the *** mills stated that the adoption of the proposed rules change for the subject yarn would result in an increase in supply, and a decrease in price, of the yarn in the North American market.[10]

Data on U.S. trade in the subject yarn classified in HTS subheading 5606.00 or the nylon filament yarn inputs classified in HTS subheading 5402.41 are not available, because these articles are grouped with other related articles in their respective subheadings. U.S. imports entered under HTS subheading 5606.00 from Colombia, which reportedly is the only known foreign producer of the subject gimped nylon yarn in fine deniers, fluctuated widely during 2000-03; they totaled $1.5 million in 2003. U.S. imports entered under HTS statistical reporting number 5402.41.9040 ***. Total U.S. exports under HTS subheading 5606.00 to Mexico and Canada, which are markets for the subject gimped nylon yarn made by Unifi, totaled $6.6 million and $2.1 million, respectively, in 2003.

[4] Textured yarns are normally filament yarns, in which the component filaments have been crimped (i.e., a regular pattern of wrinkles has been imparted to the filaments) to create a softer look and feel.

[5] Denier is a measure of the linear density, or weight per unit length, of a yarn--that is, the weight, in grams, of 9,000 meters of yarn (the higher the number, the heavier the yarn). The conversion from denier to decitex, which is required in the HTS, is “denier x 1.1111” (decitex is the weight, in grams, of 10,000 meters of yarn). For example, the nylon filament yarn specified in the petition of 12 denier would be equivalent to about 13 decitex.

[6] An official of INVISTA *** confirmed that INVISTA no longer produces the nylon filament yarn (telephone interview by Commission staff, Aug. 30, 2004).

[7] ***, telephone interview by Commission staff, Aug. 31, 2004.

[8] ***, telephone interview by Commission staff, Oct. 6, 2004.

[9] ***, telephone interview by Commission staff, Oct. 1, 2004.

[10] ***, telephone interviews by Commission staff, Sept. 20, 2004.

Views of interested parties

The Commission received a written submission in support of the proposed rule change from the National Council of Textile Organizations (NCTO), which comprises four separate councils representing the fiber, yarn, fabric, and supplier industries.[11] The NCTO stated that it is unaware of any production of nylon filament yarn (inputs) in the United States. The NCTO also indicated that it is unaware of any North American supplier of the inputs and that because of the small volume of such yarns used in the United States, there would likely be no adverse impact on the domestic industry.

Probable effect of the proposed action on U.S. trade under the NAFTA, total U.S. trade, and on domestic producers of the affected product[12]

The Commission's analysis indicates that the proposed rule change for the subject gimped nylon yarn of HTS subheading 5606.00, made from nylon filament yarn of HTS subheading 5402.41, would likely have a positive overall effect on U.S. industry and its workers. The proposed change would not affect producers of the yarn input because there are no longer any U.S. producers of these inputs. The proposed change would benefit the U.S. industry making the subject yarn by enabling it to use non-North American inputs and have the yarn still considered an originating good for NAFTA purposes. The proposed rule change would also benefit North American producers of apparel made from the subject yarn by increasing the supply and availability of the subject originating yarn and extending NAFTA preferences to such apparel. As such, the proposed action would likely spur U.S. imports of the nylon filament yarn inputs from countries outside North America, U.S. production of the subject gimped nylon yarn made from these inputs, and U.S. exports of the subject yarn to hosiery mills in Canada and Mexico. The expected increase in U.S. trade in the subject yarn under the NAFTA would likely be small in value terms and, thus, have a negligible effect on overall U.S. trade in the subject yarn. U.S. consumers would likely benefit from additional duty savings on U.S. imports from Canada and Mexico of apparel made from the subject yarn.

[11] Information in the paragraph is from Michael S. Hubbard, Vice President of Administration, NCTO, Washington, DC, written submission to the Commission, Sept. 21, 2004, and telephone interview by Commission staff, Aug. 27, 2004.

[12] The Commission's advice is based on information currently available to the Commission.

Certain Textile Articles: Effect of Modifications of NAFTA Rules of Origin for Goods of Canada and Mexico

U.S. International Trade Commission Inv. No. NAFTA-103-7-002

Product	**Woven fabrics of viscose rayon filament yarns**
Requesting Party	**Government of Mexico**
Commission Contact	**Heidi Colby (202-205-3391; heidi.colby@usitc.gov)**

Introduction

The Commission's advice in this report relates to a proposed modification of the NAFTA rule of origin for woven fabrics of viscose rayon filament yarns classified in HTS heading 5408 (the "subject fabric") to allow it to be made from non-originating viscose rayon filament yarns classified in HTS heading 5403 ("inputs").[1] USTR states that the proposed modification is the result of a determination that producers in North America are not able to produce the inputs in commercial quantities in a timely manner.[2] Under the current rules specified in the NAFTA, the subject fabric must be made from inputs that are formed in North America for the subject fabric to be "originating" and qualify for NAFTA preferences. The proposed change in the NAFTA rule of origin would apply to goods of all three NAFTA parties and would permit the subject fabric to be made from inputs that are formed outside North America ("non-originating" inputs) and still be considered an originating good and qualify for NAFTA preferences.

The proposed modification of the NAFTA rule of origin for woven fabrics of viscose rayon filament yarn is in response to a petition received by the Committee for the Implementation of Textile Agreements (CITA) on May 14, 2003 from the Government of Mexico, filed on behalf of members of the Camara Nacional de la Inustria Textil, a Mexican textile industry association.[3] The Government of Mexico alleges that the inputs (viscose rayon filament yarns of HTS heading 5403) cannot be supplied by the North American industry in commercial quantities in a timely manner[4] and requested that the NAFTA rule of origin for the subject fabric classified in HTS heading 5408 be modified to allow the use of non-originating inputs.

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[1] The current NAFTA rule of origin for the subject fabric requires that all non-originating inputs be classified in chapters other than chapter 54 (except for yarns classified under headings 5106 through 5110, 5205 through 5206 or 5509 through 5510). As such, woven fabrics of viscose rayon filament yarns that are made with non-originating yarns cannot meet the rule of origin, as both the yarns and the completed fabric are provided for in HTS chapter 54. See table 1 in the "Introduction" to this report for the current and proposed language of the rule of origin for the subject product.

[2] See the USTR letter of request to the Commission in appendix A of this report.

[3] See CITA notice published in the *Federal Register* of June 2, 2004 (69 F.R. 31094).

[4] CITA determined that certain viscose rayon filament yarns, including those covered by the current request, cannot be supplied by the U.S. industry in commercial quantities in a timely manner under the "commercial availability" provisions of the African Growth and Opportunity Act and the United States-Caribbean Basin Trade Partnership Act in November 2001 (following a request from ICF Industries, New York, NY) and the Andean Trade Promotion and Drug Eradication Act in April 2004 (following a request from Encajes S.A., Bogota, Colombia). The CITA determinations under AGOA and CBTPA covered viscose rayon filament yarns classified in HTS subheadings 5403.31 and 5403.32; the CITA determination under the ATPDEA covered viscose rayon filament yarns of HTS subheading 5403.41. See CITA, *Federal Register*, Nov. 19, 2001 (66 F.R. 57942) and Apr. 8, 2004 (69 F.R. 18878).

Description of the subject product

The subject woven fabrics of viscose rayon filament yarns are classified under multiple subheadings of HTS heading 5408, depending on the tensile strength, weight, or finish of the fabric.[5] The 2004 NTR rates of duty on the fabrics range from free to 14.9 percent ad valorem for imports into the United States.[6] Canada maintains MFN duty rates of free to 14 percent ad valorem, and Mexican MFN rates on the subject fabric range from 10 percent to 15 percent ad valorem. The subject fabrics are used in apparel, classified in HTS chapter 62 (apparel, not knitted or crocheted), and home furnishings, classified in HTS chapter 63 (other made-up textile articles). The U.S. rates of duty on such goods range from 2.8 percent to 28.6 percent ad valorem for apparel articles and 3.2 percent to 14.9 percent ad valorem for home furnishing articles.

The yarns used to make the subject fabrics are classified in HTS heading 5803,[7] which covers artificial filament yarn (other than sewing thread), including artificial monofilament of less than 67 decitex, not put up for retail sale. The 2004 NTR rates of duty on the yarns range from 9.1 percent to 10 percent ad valorem for the United States.[8] The 2004 MFN rates for the subject inputs range from free to 8 percent ad valorem for Canada, and free to 15 percent ad valorem for Mexico.[9] The yarns used in the subject fabrics are made from viscose rayon, an artificial manmade fiber produced from cellulose materials such as wood pulp. The cellulosic materials are processed into viscose liquid and forced through perforated metal disks into an acid bath to produce long fiber strands. Because the yarn is made from natural materials, fabrics woven from viscose rayon filament yarns resemble cotton and linen fabrics in terms of softness, moisture absorbency, and breathability. The fabrics also have a smooth, silky appearance and relaxed drape. Fabrics woven from viscose rayon filament yarns are easily dyed, resist pilling and static, but tend to crease and wrinkle more than synthetic (e.g., polyester) fabrics. The subject fabric is commonly used in apparel, either as a "shell fabric" in garments such as shirts, blouses, skirts, dresses, lingerie, and slacks, or as a lining in expensive clothing such as high-end suits. The subject fabric is also used in home furnishings, including tablecloths, curtains, draperies, bed coverings, and upholstery.

There are no like substitutes for woven fabrics of viscose rayon filament yarns. Acetate fabrics can be used as an alternative to fabrics of viscose rayon filament yarns in the above-stated end uses; however, the two fabrics are not considered equivalent in terms of physical properties such as durability, comfort, static resistance, and absorbency.[10]

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[5] HTS heading 5408 covers all woven fabrics of artificial filament yarn, including woven fabrics obtained from materials of heading 5405. Woven fabrics of viscose rayon filament yarn are primarily imported under HTS statistical reporting numbers 5408.10.0000, 5408.21.0030, 5408.21.0060, 5408.22.9030, 5408.22.9060, 5408.23.1900, 5408.23.2930, 5408.23.2960, 5408.24.9010, 5408.24.9020, 5408.24.9040, and 5408.24.9050. These subheadings also cover certain fabrics woven from artificial filament yarns other than viscose rayon filament yarns (e.g., acetate, triacetate, cupro rayon, and casein fabric); however, the majority of woven fabrics of viscose rayon filament yarns enter the United States under these tariff lines. ***

[6] These rates apply specifically to the HTS subheadings listed in footnote 5.

[7] Viscose rayon filament yarns are largely classified in HTS subheadings 5403.10, 5403.20, 5403.31, 5403.32, and 5403.41.

[8] These rates apply specifically to the HTS subheadings listed in footnote 7.

[9] The majority of U.S. imports of viscose rayon filament yarn enter under HTS subheadings 5403.31 and 5403.41, for which the general rates of duty are 9.1 percent to 10 percent for the United States, free to 8 percent for Canada (with the majority likely entering under 8-digit subheadings for which the duty rate is free) and free for Mexico.

[10] In its reports to the U.S. Congress concerning the determinations in November 2001 and April 2004 that certain viscose rayon filament yarns could not be supplied by the domestic industry in commercial quantities in a timely manner, CITA noted that acetate filament yarns were not substitutable for viscose rayon filament yarns. Therefore, fabrics woven from acetate filament yarns would not be considered substitutes for fabrics woven of viscose rayon filament yarns.

Discussion of U.S. trade and industry and market conditions for the subject product

Industry sources report that there is no known production of viscose rayon filament yarns in North America; the last known North American producer of such yarns (a Mexican-based firm) reportedly ceased production several years ago.[11] Industry sources report that there is limited production of the subject woven fabrics of viscose rayon filament yarn in North America.[12] Production is concentrated among a small number of firms in each country.[13] Data on domestic or North American production of the subject fabrics are not readily available; however, industry sources indicate that the fabrics produced in the region are for use as apparel linings (e.g., in suits) and in apparel.

Data on U.S. imports and exports of the subject fabrics are not available because the fabrics are grouped with other woven fabrics of artificial filament yarns under multiple HTS subheadings. Data for a select group of HTS subheadings of heading 5408 (see footnote 5), which includes certain other fabrics not under consideration but is fairly inclusive of woven fabrics of viscose rayon filament yarns, are available but likely overstate trade in the subject product. Imports of such fabrics in 2003 totaled $30 million, of which $6.7 million entered free of duty from Canada and Mexico under NAFTA.[14] Korea was the largest U.S. supplier of such fabrics, accounting for 20 percent of total U.S. imports, followed by Italy (19 percent), Canada (11 percent), and Mexico (11 percent). U.S. exports of these fabrics in 2003 totaled $24 million, of which $5.2 million went to Canada and $9.6 million went to Mexico.

*** stated that the North American market for such fabrics is small, but the global market is considerable, with China a key supplier of both the fabrics and finished apparel. *** indicated that the rule of origin change for the subject fabrics could create more competition for ***, but that the primary competitive challenges faced by affected U.S. producers are imports from China and costs associated with environmental regulations and health insurance. ***[15]

*** supports the proposed NAFTA rule of origin change but indicated that it could negatively affect U.S. weavers of the subject fabric. In most cases, Canadian and Mexican weavers of the subject fabric pay lower duties on the imported yarns than U.S. producers. According to ***, the additional duty savings resulting from duty-free treatment for the subject fabric under the proposed NAFTA rule of origin change could result in price pressures and a potential loss of business for domestic fabric producers in the U.S. market.[16]

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[11] Michael Hubbard, Vice President of Administration, National Council of Textile Organizations, written submission to the Commission, Sept. 23, 2004; Karl Spilhaus, President, National Textile Association, written submission to the Commission, Sept. 23, 2004 ; Kathi Dultilh, Washington Representative, Milliken & Co., telephone interview with Commission staff, Sept. 21, 2004; John Vessey, President, Ames Yarn Group, e-mail correspondence to Commission staff, Sept. 27, 2004; and Elizabeth Siwicki, President, Canadian Textiles Institute, telephone interview with Commission staff, Sept. 28, 2004.

[12] There are a number of firms that use viscose rayon filament yarns but do not produce the subject fabrics. The Commission contacted several firms on record as importers of viscose rayon filament yarns; however, the majority of such firms obtain the specified yarns for use in the production of knit fabrics, blended fabrics (of which the chief weight is not of viscose rayon filament yarns), trimmings, embroidery threads, or non-textile commodities.

[13] There is reportedly only one known Canadian producer and two known Mexican producers. U.S. production is limited, as the fabric is reportedly expensive to produce, and is produced primarily in small quantities for specialty end uses. Elizabeth Siwicki, President, Canadian Textiles Institute, telephone interview with Commission staff, Sept. 28, 2004; Kathi Dultilh, Washington Representative, Milliken & Co., telephone interview with Commission staff, Sept. 21, 2004; and John Vessey, President, Ames Yarn Group, e-mail correspondence to Commission staff, Sept. 27, 2004.

[14] Nearly all imports of such fabrics entered under NAFTA, with $3.4 million in imports from Canada and $3.3 million in imports from Mexico in 2003. Only $8,717 in imports from Canada and Mexico did not enter under NAFTA provisions.

[15] ***

[16] ***

[17] stated that the proposed change to the NAFTA rules of origin to permit woven fabrics made from non-originating viscose rayon filament yarns to qualify as originating goods would likely not harm U.S. producers. While the change to the rules of origin could spur additional competition in the market, U.S. producers would only be harmed if Canadian or Mexican competitors made a superior product. Moreover, *** noted that the change to the rules of origin might, in effect, benefit U.S. fabric producers. Following the elimination of duty drawback in 2001,[18] Mexican and Canadian apparel manufacturers became liable for the import duties on U.S. rayon fabrics woven from non-NAFTA yarns. The proposed modification to the rules of origin would allow U.S. producers of woven fabrics of non-originating viscose rayon filament yarns to ship their product to Mexican or Canadian clothing manufacturers free of duty.[19] According to the Canadian Textiles Institute, the rules of origin modification would make NAFTA producers stronger in the North American market vis-à-vis non-NAFTA producers of the subject fabric.[20]

Views of interested parties

The Commission received a written submission in support of the proposed rule change from the National Council of Textile Organizations (NCTO), which comprises four separate councils representing the fiber, yarn, fabric, and supplier industries. NCTO indicated that there are no domestic producers of viscose rayon filament yarn. NCTO stated that if the NAFTA rule of origin for the subject fabric were changed to allow woven fabrics of non-NAFTA viscose rayon filament yarns to qualify as originating goods, then such fabrics should be clearly differentiated from other woven fabrics made from various artificial (cellulosic) filament yarns that are also classified in HTS heading 5408.

The Commission also received a submission from the National Textile Association (NTA), whose members include domestic yarn producers, fabric producers, and fabric dyers, printers, and finishers. NTA stated that it supports the proposed modification to the rule of origin for woven fabrics of viscose rayon filament yarns and noted that the proposed change could benefit U.S. fabric manufacturers. NTA also indicated that there is currently no known production of viscose rayon filament yarns in North America.

Probable effect of the proposed action on U.S. trade under the NAFTA, total U.S. trade, and on domestic producers of the affected product[21]

The Commission's analysis indicates that changing the rule of origin for woven fabrics of viscose rayon filament yarns to allow such fabrics to qualify as originating goods if produced from non-NAFTA yarns would have no adverse effect on U.S. yarn producers, because there is no known North American production of viscose rayon filament yarns. Modification to the rule of origin for the subject fabrics would likely have a small effect on total U.S. trade under the NAFTA, most likely affecting trade between the United States and

[17] It is uncertain and was not specified as to whether the proposed change would encompass woven fabrics of cuprammonium rayon filament yarns, which are classified under HTS heading 5408, the same broad heading for which the rule of origin change is requested. In the general notes to chapter 54 of the HTS, viscose rayon and cuprammonium rayon (cupro) are listed as two separate types of cellulosic fibers (the third being cellulose acetate).

[18] According to U.S. industry sources, elimination of duty drawback under NAFTA on January 1, 2001, negatively impacted U.S. producers. As a result of elimination, firms in Mexico's maquiladoras were no longer eligible for a refund of duties paid on non-originating inputs that had been allowed under NAFTA prior to 2001, resulting in a rise in Mexican production costs. This caused a reported 25-percent decline in U.S. textile and yarn exports to Mexico. James C. Jacobsen, Vice Chairman, Kellwood Co., on behalf of the AAFA, written submission to the Commission in connection with inv. No. TA-2104-13, *U.S.-Central America-Dominican Republic Free Trade Agreement: Potential Economywide and Selected Sectoral Effects*, Apr. 27, 2004, p. 8.

[19] ***

[20] Elizabeth Siwicki, President, Canadian Textiles Institute, telephone interview with Commission staff, Sept. 28, 2004.

[21] The Commission's advice is based on information currently available to the Commission.

Mexico. It is possible that the proposed rule of origin change could result in increased imports of the subject fabric from Mexico, which is a low cost producer compared to the United States and Canada. At the same time, the proposed rule of origin change would lower costs for fabric producers in all three countries, which could lead to greater overall demand for NAFTA-produced fabric and increased U.S. exports of the subject fabric to Mexican and Canadian garment manufacturers. In either case, the increase in terms of value would likely be relatively small, because North American production and consumption of the subject fabric in general is limited. Consequently, the effect on total U.S. trade in the subject fabric would likely be minimal.

The effect of the proposed rule change on U.S. producers of the subject fabric would be small, given that some of the potential increased imports would likely displace imports from non-NAFTA suppliers. This is likely because proximity and the resulting duty free treatment for Mexican and Canadian fabrics would make them more attractive against fabrics made in certain non-NAFTA countries.[22] The proposed change would likely affect small producers to a greater extent than larger fabric producers with more diversified operations.

The proposed modification to the NAFTA rule of origin would likely have a negligible effect on domestic apparel manufacturers using the subject fabrics. U.S. apparel manufacturers might benefit from expanded access to duty-free imports of the fabric from Mexican or Canadian sources, and possibly from lower-cost U.S. fabrics if the resulting price pressure causes U.S. weavers to lower their prices. If implemented, the proposed rule of origin change for woven fabrics of viscose rayon filament yarns would affect downstream articles (thus, allowing certain apparel made of the subject fabrics to qualify for NAFTA preferences).[23] As a result, apparel manufacturers could face increased competition from greater imports of Mexican and Canadian apparel of woven fabrics of viscose rayon filament yarns. However, any effect would likely be minimal, as the subject fabric is used in a wide variety of clothing and home textile products and likely represents a small share of the market in each particular category and a small share of domestic apparel and home textile producers' output. Moreover, pursuant to the NAFTA rules of origin for visible lining fabrics, apparel made in NAFTA countries of originating fabric and linings made from non-originating yarns are already eligible for NAFTA preferences. U.S. consumers would likely benefit from additional duty savings on U.S. imports of apparel made with the subject fabric.

[22] As noted earlier, primary U.S. suppliers of certain woven fabrics of artificial filament yarn (including the subject fabrics) are Korea and Italy, which are likely at a comparative disadvantage in terms of production and/or transportation costs vis-a-vis Mexican, Canadian, or U.S. suppliers.

[23] If a rule is changed to allow certain fabrics to be made from non-NAFTA yarns and still be considered originating goods, apparel made of those fabrics would also be considered originating, even if the apparel has a "yarn-forward" rule.

PART II

CERTAIN TEXTILE ARTICLES: EFFECT OF MODIFICATIONS OF NAFTA RULES OF ORIGIN FOR GOODS OF CANADA (NAFTA-103-8)

Certain Textile Articles: Effect of Modifications of NAFTA Rules of Origin for Goods of Canada and Mexico

U.S. International Trade Commission Inv. No. NAFTA-103-8-001

Product	**Yarn spun from acid-dyeable acrylic tow**
Requesting Party	**National Spinning Co., Inc., New York, NY**
Commission Contact	**Vincent DeSapio (202-205-3435; vincent.desapio@usitc.gov)**

Introduction

The Commission's advice in this report relates to a proposed modification of the NAFTA rule of origin for acrylic yarn classified in HTS subheading 5509.31 (the "subject yarn"), to allow it to be made from non-originating acid-dyeable acrylic tow of HTS subheading 5501.30 ("tow").[1] USTR states that the proposed modification is the result of a determination that producers in North America are not able to produce the tow in commercial quantities in a timely manner.[2] Under the current rules in the NAFTA, the subject yarn must be made from tow formed in North America for the subject yarn to be "originating" and qualify for NAFTA preferences. The proposed change in the NAFTA rule of origin would apply to goods of the United States and Canada and would permit the subject yarn to be made from tow formed outside North America ("non-originating" tow) and still be considered an originating good and qualify for NAFTA preferences.

The proposed change to the NAFTA rule of origin for the subject yarn is in response to a petition received by the Committee for the Implementation of Textile Agreements (CITA) from the National Spinning Co., Inc., New York, NY, on July 2, 2002.[3] The petitioner alleged that the tow of HTS subheading 5501.30 used in the subject yarn cannot be supplied by North American producers in commercial quantities in a timely manner and requested that the NAFTA rule of origin for the subject yarn classified in HTS subheading 5509.31 be modified to allow the use of non-originating tow.

Description of the subject product

The subject yarn is classified in HTS subheading 5509.31, which provides for single yarn (other than sewing thread) containing 85 percent or more by weight of acrylic or modacrylic staple fibers, not put up for retail sale. The acid-dyeable acrylic tow used to make the subject yarn is classified in HTS subheading 5501.30, which provides for all types of acrylic or modacrylic filament tow.[4] The U.S. normal trade relations (NTR) rates of duty on the subject yarn and the tow are 9 percent and 7.5 percent ad valorem, respectively. The Canadian most-favored-nation (MFN) rates of duty are 8 percent ad valorem for the subject yarn and free for the tow.[5]

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[1] The current NAFTA rule of origin for the subject yarn requires that all inputs classifiable in chapter 55 be originating (i.e., made in North America). See table 2 in the "Introduction" to this report for the current and proposed language of the rule of origin for the subject yarn.

[2] See the USTR letter of request to the Commission in appendix A of this report.

[3] See CITA notice published in the *Federal Register* of July 24, 2002 (67 F.R. 48448).

[4] Tow is a large group of untwisted strands or filaments, collected in loose, rope-like form, and usually held together by crimp. Tow is the form that most manufactured fiber reaches before being cut into staple fibers.

[5] As noted above, the proposed rule change will not apply to goods of Mexico.

The petitioner states that it uses the acid-dyeable acrylic tow to make the subject yarn in heather patterns.[6] The subject yarn is used in knitted apparel, particularly sweaters and socks, classified in HTS chapter 61 (apparel, knitted or crocheted). In general, the U.S. NTR rates of duty are 32 percent ad valorem for the sweaters and 14.6 percent ad valorem for the socks. The use of non-originating acrylic yarn in sweaters and socks disqualifies the garments from NAFTA preferences.

Discussion of U.S. trade and industry and market conditions for the subject product

The petitioner, National Spinning Co., headquartered in Washington, NC, stated that it is the largest producer of acrylic yarns in North America. The firm said it produces the subject yarn from acid-dyeable acrylic tow made in ***, because there are no firms in North America that can produce the tow in commercial quantities in a timely manner. An industry source stated that a firm based in Mexico (Cydsa) produces acid-dyeable acrylic tow on a prototype basis, but it has not begun commercial production of the tow.[7] INVISTA (formerly DuPont Inc.), Wichita, KS, stated that it discontinued production of the tow about 10 years ago because of limited demand for the product.[8] The only U.S. producer of acrylic fiber, Solutia Inc., headquartered in St. Louis, MO, stated that its "basic-dyeable" acrylic tow is not substitutable for the "acid-dyeable" acrylic tow used to make the subject yarn.[9]

The petitioner states that it employs more than 2,000 production workers in North Carolina and Georgia; ***. The firm said it sells the subject yarn to customers that make either knitted apparel fabrics or knitted apparel articles, particularly hosiery. One customer processes the subject yarn into knitted apparel fabrics in the United States and ships them to Canada, where the material is cut and sewn into apparel. Other customers of the petitioner include hosiery mills, ***, and sportswear firms, ***. ***

The other leading U.S. producer of acrylic yarn made from acid-dyeable acrylic tow is Amital Spinning Corp., New Bern, NC.[10] Amital said it makes long-staple acrylic yarn and dyes polyester yarn at its mills in New Bern and Wallace, NC. The firm said it makes the yarns for use in sweaters and socks, employs *** workers, and does not object to the proposed rule change for the subject yarn.

Data on U.S. trade in the subject yarn classified in HTS subheading 5509.31 or tow classified in HTS subheading 5501.30 are not available, because these articles are grouped with other related articles in their respective subheadings. Total U.S. imports entered under HTS subheading 5501.30 ***.

Views of interested parties

The Commission received a written submission in support of the proposed rule change from the National Council of Textile Organizations (NCTO), which comprises four separate councils representing the fiber, yarn, fabric, and supplier industries.[11] NCTO said it is unaware of any North American production of acid-

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[6] According to an industry source, most acrylic fiber can be described as "basic dyeable," meaning that basic or cationic dyes are used to dye the yarn. Basic dyes have an organic base, which is soluble in a simple acid. The color in a basic dye comes from its organic base. Acid-dyeable acrylic requires acid dye to impart color to the yarn. An acid dye is a salt, as is a basic dye, but the color comes from the acidic component. The normal and acid dyeable fibers can be blended and then dyed to create an acrylic heather yarn in a single dye bath. See Michael S. Hubbard, Vice President of Administration, National Council of Textile Organizations, written submission to the Commission, Sept. 21, 2004.

[7] ***, telephone interview by Commission staff, Sept. 20, 2004.

[8] ***, telephone interview by Commission staff, Aug. 30, 2004.

[9] ***, telephone interview by Commission staff, Sept. 3, 2004.

[10] ***, telephone interview by Commission staff, Oct. 5, 2004.

[11] Michael S. Hubbard, Vice President of Administration, NCTO, Washington, DC, written submission to the Commission, Sept. 21, 2004.

dyeable acrylic fiber or tow. It noted that INVISTA no longer produces acid-dyeable fiber, while Solutia, the only current U.S. producer of acrylic fiber, does not currently make acid-dyeable acrylic fiber. NCTO stated that the proposed rule change would not have an adverse effect on an industry in North America.

Probable effect of the proposed action on U.S. trade under the NAFTA, total U.S. trade, and on domestic producers of the affected product[12]

The Commission's analysis indicates that the proposed rule change for acrylic yarn of HTS subheading 5509.31, spun from acid-dyeable acrylic tow of HTS subheading 5501.30, would likely have a positive overall effect on U.S. industry and its workers, including the industry making the subject yarn and the industries using the subject yarn in the production of knitted apparel fabrics and apparel articles. The proposed action would enable U.S. producers of the subject yarn to use non-North American tow and have the yarn still considered an originating good for NAFTA purposes--that is, the producers would be able to export the subject yarn to Canada free of duty under the NAFTA. NAFTA preferences would also apply to knitted apparel fabrics made in the United States and exported to Canada, as well as to apparel articles made in the United States or Canada from the subject yarn and exported to each other's market.[13] The U.S. and Canadian apparel producers also would likely benefit from increased supply and availability of the subject yarn. As such, the proposed rule change would likely spur U.S. imports of the tow from countries outside North America, U.S. production of the subject yarn made from these inputs, and U.S. exports to Canada of the subject yarn and knitted apparel fabrics made from the subject yarn.[14] The expected increase in U.S. trade in the subject yarn under the NAFTA would likely be small in value terms and, thus, have a negligible effect on overall U.S. trade in the subject yarn. U.S. consumers would likely benefit from additional duty savings on U.S. imports from Canada of apparel made from the subject yarn.

[12] The Commission's advice is based on information currently available to the Commission.

[13] In general, the NAFTA rules of origin for apparel require that the garments be made in North America from yarns and fabrics produced in North America.

[14] As noted above, the proposed rule change does not apply to goods of Mexico.

Certain Textile Articles: Effect of Modifications of NAFTA Rules of Origin for Goods of Canada and Mexico

U.S. International Trade Commission Inv. No. NAFTA-103-8-002

Product	**Woven fabrics of combed cashmere or camel hair yarns**
Requesting Party	**Amicale Industries, Inc., New York, NY**
Commission Contact	**Kimberlie Freund (202-708-5402; kimberlie.freund@usitc.gov)**

Introduction

The Commission's advice in this report relates to a proposed modification of the NAFTA rule of origin for woven fabric of combed cashmere and camel hair yarns classified in HTS subheadings 5112.11.60 and 5112.19.95 to allow it to be made from non-originating combed cashmere and camel hair yarns of HTS subheading 5108.20.60 ("inputs"). The current NAFTA rule of origin requires that all non-originating inputs be classified in HTS headings other than 5106 through 5113, 5204 through 5212, 5307 through 5308 or 5310 through 5311, or chapters 54 through 55. As such, woven fabrics of combed cashmere or camel hair yarns that are made with non-originating yarns cannot meet the rule of origin under the NAFTA. USTR states that the proposed modification is the result of a determination that producers in North America are not able to produce the inputs in commercial quantities in a timely manner.[1] Under the current rules in the NAFTA, the subject fabric must be made from yarn formed in North America for the subject fabric to be "originating" and qualify for NAFTA preferences. The proposed change in the NAFTA rule of origin would apply to goods of the United States and Canada and would permit the subject fabric to be made from non-originating combed cashmere and combed camel hair yarn and still be considered an originating good and qualify for NAFTA preferences.[2]

The proposed modification to the rule of origin is in response to a petition received by the Committee for the Implementation of Textile Agreements (CITA) on July 12, 2002 from Amicale Industries, Inc. (New York, NY), stating that yarn of combed fine animal hair, classified in HTS subheading 5108.20.60 cannot be supplied by the NAFTA region in commercial quantities in a timely manner (see CITA, *Federal Register*, Aug. 21, 2002 (67 F.R. 54175).

In a separate matter, CITA determined in May 2002, that yarn of combed cashmere, combed cashmere blends, or combed camel hair, classified in HTS subheading 5108.20.60, cannot be supplied by the domestic industry in commercial quantities in a timely manner under the CBTPA.[3] As such, CITA designated apparel articles that are both cut and sewn in an eligible CBTPA beneficiary country from fabric woven in the United States containing the designated yarn as eligible for quota-free and duty-free treatment under the CBTPA.

[1] See the USTR letter of request to the Commission in appendix A of this report.
[2] See table 2 in the "Introduction" to this report for the current and proposed rules of origin for the subject fabric.
[3] CITA, *Federal Register*, May 28, 2002 (67 F.R. 36858).

Description of subject product

The yarns named in the petition are classified in subheading 5108.20.60, a residual or "basket" provision covering yarns of combed fine animal hair, other than Angora rabbit hair, not put up for retail sale.[4] The subject yarns include those made wholly or predominantly of combed cashmere or camel hair, such that the cashmere and camel hair predominates by weight over each other single textile fiber (generally sheep's wool). Cashmere fibers (the soft hair of the Kashmir or cashmere goat) and camel hair primarily originate in China, Mongolia, Afghanistan, and Iran. The subject yarns are made on the worsted spinning system, and hence are called "combed" or "worsted" yarns. The yarns are woven into fabrics primarily for use in the production of men's tailored clothing, particularly men's sport coats, suits, and overcoats. It is also used in women's blazers. These same yarns can also be used to produce knitted fabrics, which are not under consideration in this report.

The 2004 U.S. normal trade relations (NTR) rate of duty on the subject yarns is 4 percent ad valorem and for Canada the MFN rate of duty is 5.5 percent ad valorem.[5] The 2004 U.S. NTR rate of duty for the subject fabrics is 25 percent ad valorem; the Canadian NTR rate is either free or 14 percent ad valorem (but not to exceed Canadian $5.38 per kilogram), depending on the end-use of the fabric.[6] Tailored clothing made from fabrics of combed cashmere or camel hair yarns is classified in HTS chapter 62 (apparel, not knitted or crocheted) under provisions for apparel "of wool or fine animal hair." The 2004 U.S. NTR rate of duty on imports of men's suits and sport coats of such fabrics is 17.5 percent ad valorem.

According to Warren Corp., cashmere and camel hair fibers cost substantially more than fine wool fibers, and require a higher degree of specialized skill to process into yarn than that of wool fibers.[7] Warren Corp. indicated that yarn and fabric of camel hair and cashmere are not substitutable with other products because of the high cost of such fibers (and the garments made with such fibers). Warren indicated that fabrics made with the combed cashmere and camel hair yarns are "very luxurious" and "command a top value."[8] Also, cashmere and camel hair impart a softness and "hand" or feel to the fabric that is not imparted by wool or other fibers.[9]

Discussion of U.S. trade and industry and market conditions for the subject product

The petitioner, Amicale Industries, Inc., and Warren Corp. (Stafford Springs, CT) are the only firms known to be making the subject fabrics in the United States.[10] There are no known producers of such fabrics in Canada.[11]

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[4] Besides yarns of cashmere and camel hair, this basket may also contain hair of alpaca, vicuna, yak, rabbit (other than Angora rabbit), hare, beaver, nutria, or muskrat.

[5] The rate for yarn of fine animal hair containing 50 percent or more by weight of fine animal hair (Canadian Harmonized Tariff Schedule subheading 510820.10) is 5.5 percent ad valorem and for yarn of fine animal hair containing less than 50 percent by weight of fine animal hair (subheading 5108.20.20) the rate is 8 percent ad valorem.

[6] In the Canadian tariff schedules, fabric made with subject yarns that is intended to be used for men's sport coats is free of duty. Fabric used for other purposes is 14 percent ad valorem (not to exceed Canadian $5.38 per kilogram).

[7] Lisa Cornish, Warren Corp., telephone interview by Commission staff, Sept. 21, 2004.

[8] Lisa Cornish, Warren Corp., written submissions to the Commission, Sept 22, 2004 and Dec. 19, 2001 (the latter in connection with Investigation No.332-436-002, *Apparel Inputs in "Short Supply": Apparel of Combed Cashmere and Camel Hair Yarn*, Feb. 2002. .

[9] Lisa Cornish, Warren Corp., written submissions to the Commission, Dec. 19, 2001.

[10] David Trumbull, National Textile Association, Lisa Cornish, Warren Corp., and Boris Shlomm, Amicale Industries, telephone interviews by Commission staff, Sept. 15, 2004.

[11] Liz Siwicki, Canadian Textile Institute, and Simon Gutberg, Cleyn & Tinker International, Inc., telephone interviews by Commission staff, Sept. 28, 2004.

U.S. imports of yarn of fine animal hair, including cashmere, camel hair, and other fine animal hair fibers, totaled $4.6 million in 2003. Virtually all of the imports of the subject yarns for use in woven fabrics are from Italy.[12] Based on industry sources and U.S. Customs data, it is estimated that U.S. imports of the subject yarns totaled about *** in 2003.

Data on the level of U.S. production of the subject fabrics are not publicly available. Based on information from industry sources and U.S. trade data, the Commission estimates that domestic production totaled less than *** square meters equivalent (SMEs) in 2003. U.S. imports of fabrics made with all types of fine animal hair, including cashmere, camel hair, and other fibers that are not under consideration, totaled $68 million (11.3 million square meters) in 2003. The largest foreign suppliers that year were Italy, accounting for 39 percent ($27 million) of the fabric imports, and Mexico, accounting for 20 percent ($14 million). Data on U.S. exports of the subject fabrics are not available. U.S. exports of fabrics of combed yarns of both wool and fine animal hair totaled $28 million (6 million square meters) in 2003. Canada was the largest export market for such fabrics, accounting for 59 percent of the total value.

[13] ***[14] ***[15] *** sales of fabrics to Canada would increase if the proposed change to the rule of origin for the subject fabric is adopted.

The U.S. market for apparel made from the fabrics of combed camel hair and cashmere yarns is relatively small compared with that for worsted wool tailored clothing.[16] However, the market is reportedly growing for men's tailored clothing made with the subject fabrics, particularly sport coats.[17] Domestic production supplies a relatively small share of the U.S. men's tailored clothing market, estimated at 18 percent for suits, 14 percent for sport coats, and 27 percent for trousers.[18] Canada is a competitive supplier to the U.S. market for men's tailored clothing of wool and fine animal hair. In 2003, it supplied $268 million (67 million SMEs) of men's tailored clothing of wool and fine animal hair to the United States, ranking as the second-largest supplier to the United States in terms of both quantity and value (after Mexico and Italy, respectively). Some of these imports entered under a tariff preference level (TPL) for U.S. imports of wool clothing from Canada, in which imports up to the TPL limit may use non-originating fabric and receive preferential treatment under the NAFTA. In 2003, Canada's TPL was 5.3 million SMEs.[19]

U.S. producers of tailored clothing of the subject fabrics include Hartmarx Corporation, (including its subsidiaries Hickey-Freeman Co. Inc. and HMX Tailored); The Tom James Company; Hartz & Co.; Hugo Boss Fashions, Inc.; and John H. Daniel Company. U.S. tailored clothing firms indicated that the proposed change to the NAFTA rule of origin for the subject fabrics would likely lead to an increase in U.S. imports from Canada of clothing made from such fabrics and such clothing would compete in the domestic market with their U.S.-made tailored clothing.[20]

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[12] ***

[13] ***, telephone interview by Commission staff, Sept. 21, 2004.

[14] *** telephone interview by Commission staff, Sept. 21, 2004.

[15] ***, telephone interviews by Commission staff, Sept. 21, 2004

[16] For example, ***. ***, telephone interview by Commission staff, Sept. 21, 2004. In 2002, the Tailored Clothing Association (TCA) estimated domestic production of the clothing made with combed cashmere or camel yarns to account for about 10 percent of total men's tailored clothing production (USITC, *Apparel Inputs in "Short Supply"*, Inv. No. 332-436-002, Feb. 15, 2002). TCA stated it did not have a more up-to-date figure than that it provided to the Commission in 2002, but that the share of men's tailored clothing production using fabrics made with the subject yarns could be even higher than 10 percent, because the use of cashmere in men's tailored clothing has increased since 2002. David Starr, Counsel, TCA, telephone interview by Commission staff, Sept. 30, 2004.

[17] Information based on Commission interviews with ***, Sept. 21, 2004.

[18] USITC, *U.S. Market for Certain Wool Articles in 2002-04*, Inv. No. 332-449, Sept. 2004, p. 2-3.

[19] The United States also has a TPL with Mexico of 1.5 million SMEs. Both Canada's and Mexico's TPLs were fully utilized in 2003.

[20] Commission interviews with ***, Sept. 21, 2004 and ***, Sept. 22, 2004.

Views of Interested Parties

Warren Corp., a domestic producer of fine animal hair fabrics, indicated that it is supporting the proposed changes to the rules of origin for the fabrics of yarn of combed cashmere and combed camel hair.[21] It stated that it is not aware of any NAFTA producers of the yarns used to make the subject fabrics. Warren said that it makes fabrics from imported combed camel hair and combed cashmere yarns and that the "fabric would be more desirable to its customers if it could be considered a NAFTA fabric."

The National Textile Association (NTA), an association representing companies that produce yarn, and produce and finish fabrics in the United States, indicated that it supports the proposed change to the NAFTA rule of origin for fabrics of yarns of combed cashmere and combed camel hair.[22] It also reported that it supports extending the proposed modification to Mexico. NTA stated that to the best of its knowledge, there are no U.S. producers of combed cashmere or camel hair yarns nor are there any firms interested in making such yarns. NTA indicated that the proposed change to the rule of origin would enhance the competitiveness of Warren Corp. and "help maintain Warren's 230 jobs in Stafford Springs, CT."

The Tailored Clothing Association, representing domestic manufacturers of men's tailored clothing, including suits, sport coats, and trousers, stated that it is opposed to the proposed change to the rule of origin for fabrics.[23] TCA reported that it is strongly opposed to proposed change to the rule of origin unless the TCA members can have duty-free access to imported fabrics containing combed cashmere or camel hair yarns, or "be assured that the . . . proposed modifications to the rules of origin do not allow tailored clothing containing cashmere or camel hair to enter the United States from Canada or Mexico duty-free." TCA indicated that the proposed modification to the rules of origin "will have a dramatic adverse impact" on its "industry's capacity to preserve market share and will significantly reduce domestic employment." TCA stated that the special rules of origin in NAFTA have "decimated the U.S. tailored clothing industry" and have "allowed suits, sport coats and trousers containing non-NAFTA fabrics to enter the U.S. from Mexico and Canada duty-free." TCA stated that the remaining U.S. tailored clothing industry represents the "higher end of the price range" and that its members purchase a significant amount of fabric made from yarns of cashmere, cashmere blends, and camel hair.

The Commission received identical statements from a number of domestic producers of men's tailored clothing, including Hartmarx Corporation and its subsidiaries, Hickey-Freeman Co. Inc. and HMX Tailored, as well as from Hugo Boss Fashions, Inc., The Tom James Company, Hartz & Co., Inc, and John H. Daniel Company.[24] The companies stated their opposition to the proposed modifications to the NAFTA rules of origin for fabrics of combed cashmere and camel hair. All of the companies indicated that they produce 100-percent cashmere suits and sport coats, and 100-percent camel hair sport coats. These firms stated that, because there is little domestic production of cashmere and camel hair fabrics, they must import such fabrics and pay a 25 percent ad valorem duty on the imported fabric. The tailored clothing firms indicated that "the proposed change in the rules of origin would be to allow Canadian suit manufacturers to import duty-free into the United States suits made with a majority of non-NAFTA-sourced cashmere and camel

[21] Lisa Cornish, V.P. Finance & Administration, Warren Corp., written submission to the Commission, Sept. 23, 2004.

[22] Karl Spilhaus, President, National Textile Association, written submission to the Commission, Sept. 23, 2004.

[23] TCA indicated the letter was submitted on behalf of its member companies, including: The Tom James Company; Hugo Boss, USA; Joseph Abboud; American Fashions Inc.; Hickey-Freeman Company; Hartmarx; Hartz & Company; Hardwick Clothes, Inc.; Individualized Apparel Group; Oxxford Clothes XX; Martin Greenfield Clothiers; John H. Daniel Company; and Saint Laurie Ltd; and more than three dozen custom tailors. David Starr, Counsel, TCA, written submission to the Commission, Sept. 23, 2004.

[24] Written submissions to the Commission, Sept. 23, 2004, from Homi B. Patel, Chairman and CEO, Hartmarx Corporation; Paulette Garafalo, Group President, Hickey-Freeman Company; Richard L. Biegel, Group President, HMX Tailored; Michael Heagy, Vice-President Distribution, Hugo Boss Fashions, Inc.; Gordon Denney, The Tom James Company; and Robert M. Watson, President & Chief Executive Officer, Hartz & Company, Inc; and written submission to the Commission Jackson L. Case IV, General Counsel, John H. Daniel Company, Sept. 24, 2004.

hair." Each of the tailored clothing firms stated that the proposed modification to the rule of origin would "cause significant damage" to its company and the industry, "impacting U.S. jobs."

The Commission received a written submission from the National Council of Textile Organizations (NCTO), which comprises four separate councils representing the fiber, yarn, fabric, and supplier industries. NCTO indicated that none of its members produce yarns or fabrics of combed cashmere or camel hair.[25]

Probable effect of the proposed action on U.S. trade under the NAFTA, total U.S. trade, and on domestic producers of the affected products[26]

The Commission's analysis shows that the proposed modification of the NAFTA rule of origin for woven fabrics of combed cashmere or camel hair yarns would likely have a positive effect on the U.S. industry making the subject fabrics and its workers. The proposed change would enable the domestic industry to use non-NAFTA inputs and have the fabrics considered originating goods for NAFTA purposes. As such, the proposed change would likely result in significant increases in U.S. imports of combed cashmere and camel hair yarns used as inputs in the subject fabrics, and in U.S. production and exports of the subject fabrics. Even if there is a significant increase in U.S. production and exports of the subject fabrics, the absolute change would likely be limited, given the small base of domestic production. The proposed change would likely result in no change in U.S. imports of the subject fabrics, as there is no known production of the subject fabrics in Canada.

Some of the increase in U.S. fabric exports to Canada would likely displace Canadian imports of both dutiable and duty-free fabrics of combed cashmere or camel hair from other countries. By using U.S. "originating" fabrics in the production of apparel intended for the U.S. market, the Canadian manufacturers would have duty-free access to the U.S. market without having to use the TPL under the NAFTA for U.S. imports of clothing of wool and fine animal hair made with non-originating fabrics.

The proposed rule change would likely spur an increase in U.S. imports from Canada of tailored clothing made from the subject U.S.-produced fabrics. The size of the increase would likely depend on the extent to which the Canadian manufacturers use U.S. fabrics in place of other foreign fabrics in their tailored clothing production for the U.S. market. The expected increase in imports of tailored clothing from Canada would likely displace U.S. imports of tailored clothing from other countries, as well as domestic production of clothing using the subject fabrics. Given the above and the small base of domestic fabric production and U.S. exports to Canada, the effect on the U.S. tailored clothing industry and its workers of the increased U.S. imports of tailored clothing made with the U.S. subject fabrics would likely be small, but adverse. U.S. consumers would likely benefit from additional duty savings on U.S. imports of tailored clothing made with the subject fabrics.

[25] Michael Hubbard, Vice President of Administration, NCTO, written submission to the Commission, Sept. 23, 2004.

[26] The Commission's advice is based on information currently available to the Commission.

Certain Textile Articles: Effect of Modifications of NAFTA Rules of Origin for Goods of Canada and Mexico

U.S. International Trade Commission Inv. No. NAFTA-103-8-003

Product	**Woven pile fabrics containing dry spun acrylic fibers**
Requesting Party	**Government of Canada**
Commission Contact	**Laura Rodriguez (202-205-3499; laura.rodriguez@usitc.gov)**

Introduction

The Commission's advice in this report relates to a proposed modification to the NAFTA rule of origin for woven cut warp pile fabrics, piece-dyed, classified in HTS subheading 5801.35 (the "subject fabric"), to allow it to be made from non-originating dry-spun acrylic staple fibers of HTS subheading 5503.30 ("inputs").[1] USTR states that the proposed modification is the result of a determination that producers in North America are not able to produce the inputs in commercial quantities in a timely manner.[2] Under the current rule in the NAFTA, the subject fabric must be made from inputs formed in North America for the subject fabric to be "originating" and qualify for NAFTA preferences. The proposed change in the NAFTA rule of origin would apply to goods of the United States and Canada and would permit the subject fabric to be made from inputs formed outside North America ("non-originating" inputs) and still be considered an originating good and qualify for NAFTA preferences.

The proposed modification to the NAFTA rule of origin for warp pile fabrics is in response to a petition received by the Committee for the Implementation of Textile Agreements (CITA) from the Government of Canada, on behalf of J.L. de Ball, a Canadian manufacturer of woven pile fabrics based in Montreal, Quebec, on November 12, 2003.[3] The Government of Canada alleged that the inputs (dry-spun acrylic staple fibers of HTS subheading 5503.30) used in the subject fabric cannot be supplied by North American producers in commercial quantities in a timely manner and requested that the NAFTA rule of origin for the subject fabric classified in HTS subheading 5801.35 be modified to allow the use of non-originating inputs.

Description of the subject product

The subject fabric is classified in HTS subheading 5801.35, a provision covering woven cut warp pile fabrics of manmade fibers. Imports of the subject fabric are subject to 2004 rates of duty of 17.2 percent ad valorem in the United States and free to 14.2 percent ad valorem in Canada. The subject fabric is a cut, woven-warp pile fabric, containing dry-spun acrylic staple fibers, and dyed in the piece (i.e., dyed in fabric form). The subject fabric is used as an outer covering in the manufacture of upholstered furniture. All pile fabric is composed of at least three series of threads: the warp and weft forming the ground fabric, and a warp or weft forming the pile. The pile consists of either tufts, loops, or other erect yarns over the whole or part of the surface, generally on one side only but occasionally on both sides. The loops or tufts of pile

[1] The current NAFTA rule of origin for the subject fabric requires that all inputs classifiable in chapter 55 be originating (i.e., made in North America). See table 2 in the "Introduction" to this report for the current and proposed rule of origin for the subject yarn.

[2] See the USTR letter of request to the Commission in appendix A of this report.

[3] See CITA notice published in the *Federal Register* of June 2, 2004 (69 F.R. 31093).

fabric are held in place by the weft threads. Vertically embedded pile threads divert friction, similar to the hairs on a brush, and protect the ground fabric from strain and wear-and-tear. Pile fabrics are therefore more durable in terms of construction than flat fabrics. In cut warp pile fabrics, the pile is formed by extra warp yarns.[4] Such fabrics (e.g., velvets and plushes) are produced by raising the pile warp over wires inserted in the direction of the weft. The loops thus formed are either cut during weaving or thereafter.

The dry-spun acrylic fibers used to make the subject fabric are classified in HTS subheading 5503.30, a provision covering acrylic or modacrylic fibers, not carded, combed, or otherwise processed for spinning. Acrylic fibers are believed to account for the majority of fibers entered under this subheading.[5] The 2004 U.S. rate of duty on such fibers is 4.3 percent ad valorem. The Canadian rate of duty on these fibers is "free." Acrylic fibers are produced from acrylonitrile, a petrochemical. The acrylonitrile is usually combined with small amounts of other chemicals to improve the ability of the resulting fiber to absorb dyes. Acrylic fibers are unique among the synthetic fibers, because they have an uneven surface. Acrylic fibers are known for their exceptional "wickability," quick drying properties, washability, shape retention, and resistance to moths, oils, and chemicals. They are easily dyed to bright shades and have superior resistance to sunlight degradation. Acrylic fibers are used in apparel, including sweaters, socks, fleece wear, circular knit apparel, and sportswear, and in home furnishings, including blankets, area rugs, upholstery, luggage, awnings, and outdoor furniture.[6]

Acrylic fibers can be either dry spun or wet spun.[7] HTS subheading 5503.30 does not differentiate between dry-spun and wet-spun acrylic fibers. According to ***, the proposed modification of the NAFTA rule of origin could be difficult to administer and enforce. The official stated that it is not possible for the naked eye to distinguish between dry-spun and wet-spun fibers, nor is it clear what kind of test (such as through a magnification device) could reliably distinguish between fabrics made from dry-spun and wet-spun fibers.[8]

[9] According to Solutia, Inc., a U.S. acrylic producer, dry-spun and wet-spun acrylic fibers are "interchangeable for most applications" but differ significantly in how they are manufactured for use in upholstery.[10] The production of dry-spun acrylic fibers that is made into upholstery fabric requires highly specialized equipment known as a "star-finishing frame." The U.S. acrylic producer noted above stated that ***[11].[12]

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[4] "Woven Pile Fabrics, Other than Fabrics of heading 58.02," *Harmonized Tariff Schedule Explanatory Notes,* 2002, and Marjory L. Joseph, "Warp Pile," *Introductory Textile Science,* 1972, pp. 247-248.

[5] ***, telephone interview by Commission staff, Sept. 21, 2004.

[6] Information on the characteristics and uses of acrylic staple fibers are from "Manufacturing: Synthetic and Cellulois Fiber Formation Technology," found at *http://www.fibersource.com/f-tutor/techpag.htm*, retrieved Sept. 14, 2004; "Acrylic Fiber," found at *http://www.fibersource.com/f-tutor/acrylic.htm*, retrieved Sept. 14, 2004; and "A Quick Guide to Manufactured Fibers," found at *http://www.fibersource.com/f-tutor/q-guide.htm*, retrieved Sept. 16, 2004.

[7] Wet spinning is the oldest process used to produce acrylic fibers. It is used for fiber-forming substances that have been dissolved in a solvent. The spinnerets are submerged in a chemical bath and as the filaments emerge, they precipitate from solution and solidify. In dry spinning, solidification is achieved by evaporating the solvent in a stream of air or inert gas. The filaments do not come in contact with a precipitating liquid. See "Manufacturing: Synthetic and Cellulois Fiber Formation Technology," found at *http://www.fibersource.com/f-tutor/techpag.htm*, retrieved Sept. 14, 2004. Dry-spinning is reportedly done on highly specialized equipment that only a few fiber spinners have, in Germany and in Peru (in a German-owned facility). Michael Hubbard, NCTO, telephone interview by Commission staff, Sept. 22 and 30, 2004. According to another industry official, India is also a supplier of dry-spun acrylic fibers.

[8] ***, telephone interview by Commission staff, Sept. 21, 2004.

[9] ***, telephone interview by Commission staff, Sept. 20, 2004.

[10] ***, telephone interview by Commission staff, Sept. 16 and Oct. 6, 2004.

[11] ***

[12] ***, email to Commission staff, Oct. 1, 2004.

Discussion of U.S. trade and industry and market conditions for the subject product

There are no known producers of dry-spun acrylic fibers in North America. According to industry sources, the last known U.S. producer of dry-spun acrylic fibers was the DuPont Corp., which stopped producing such fibers more than a decade ago.[13] The National Council of Textile Organizations (NCTO), a national trade association representing the U.S. textile industry (fiber, yarn, fabric and home furnishings sectors), indicated that the only U.S. acrylic producer is Solutia Inc., which is headquartered in St. Louis, MO, and which produces wet-spun acrylic fibers.[14] Leading suppliers of dry-spun acrylic fibers are Germany, India, and Peru; there reportedly is no significant difference in prices of dry-spun fibers from these sources.[15]

J.L. de Ball reportedly is the only known North American producer of the subject fabric.[16] Most U.S. imports of the subject fabric from Canada enter duty-free under the NAFTA; however, the existing tariff preference level (TPL) on U.S. imports of woven fabrics from Canada was almost filled in 2003 and has likely limited the level of U.S. imports of the subject fabric from Canada. The U.S. market for the subject fabric is believed to be small and targeted primarily to the production of residential upholstery.[17] Total U.S. imports from Canada of cut warp-pile fabrics of manmade fibers under HTS subheading 5801.35 (which does not distinguish between the subject fabric and other cut warp-pile fabrics of manmade fibers) rose by 62 percent to $8.4 million during 1999-2003. Canada accounted for almost one-fourth of total U.S. imports of these products. Almost all U.S. imports of woven cut warp pile fabrics from Canada in 2003 entered free of duty under NAFTA. Virtually all of these fabrics were made from dry-spun acrylic and were exported to the United States for use in upholstery fabrics.[18] Other leading suppliers of warp pile fabrics entering under HTS subheading 5801.35 in 2003, in terms of value, included Belgium (16 percent), Mexico (15 percent and most of which entered duty-free under the NAFTA), and Korea (10 percent).

Views of interested parties

The Commission received a written submission from NCTO, which stated that the only U.S. producer of wet-spun acrylic fibers does not serve the upholstery fabric market that is the focus of J.L. de Ball's business. NCTO also noted that HTS subheading 5801.35 "does not differentiate between types and variants of fibers, so provision will need to be made for this to preserve the original rule of origin for warp pile fabrics using other synthetic fibers if the NAFTA rule of origin is modified for this item."

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[13] These fibers were marketed under the Orlon brand name. Colleen B. Brock, Deputy Director, Tariffs and Market Access Division, Department of Foreign Affairs and International Trade, Canada, telephone interview with Commission staff, Sept. 20, 2004; and Bill Carstarphen, Pharr Yarns, telephone interview with Commission staff, Sept. 30, 2004; and "DuPont Phaseout of Orlon," *Daily News Record*, June 12, 1990, found at *http://www.highbeamcom/library*, retrieved Sept. 27, 2004.

[14] Michael S. Hubbard, Vice President of Administration, NCTO, telephone interviews by Commission staff, Sept. 22 and Sept. 30, 2004.

[15] ***

[16] Michael S. Hubbard, Vice President of Administration, NCTO, telephone interviews by Commission staff, Sept. 22 and Sept. 30, 2004. and Mark Bass, Global Business Director of Acrylic Fibers, Solutia, telephone interview by Commission staff, Sept. 16, 2004 and Oct. 6, 2004.

[17] Michael S. Hubbard, Vice President of Administration, NCTO, and Bill Carstarphen, Senior Vice President, Apparel and Upholstery Yarn, Pharr Yarn, have noted that there is also a small market for warp pile fabric made from dry-spun acrylic fibers that is used in paintbrush rollers. Telephone interviews by Commission staff, Sept. 30, 2004.

[18] ***

Probable effect of the proposed action on U.S. trade under the NAFTA, total U.S. trade, and on domestic producers of the affected product[19]

The Commission's analysis indicates that the proposed modification of the NAFTA rule of origin for the subject fabric would likely have no adverse effect on U.S. acrylic fiber producers, because there is no known domestic production of dry-spun acrylic fibers. This assessment assumes that the proposed change to the NAFTA rule of origin would be limited to woven cut warp pile fabrics made of dry-spun acrylic fibers (see earlier discussion regarding enforcement issues). Although most U.S. imports of the subject fabric from Canada already enter free of duty, an existing TPL on U.S. imports from Canada of manmade-fiber fabrics has likely capped the level of imports of any manmade-fiber fabrics from Canada.[20] Absent this restriction, and given the importance of Canada as a supplier of the subject fabric to the United States, U.S. imports of the subject fabric from Canada would likely increase. Since U.S. production of the subject fabric is believed to be relatively limited, any increase in U.S. imports from Canada would likely displace imports from other suppliers, thereby resulting in a negligible increase in total U.S. imports of such fabrics.

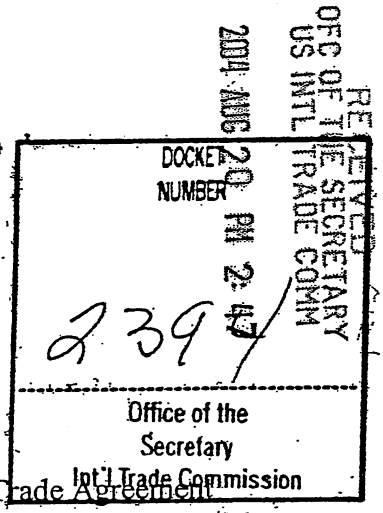
The proposed rule change may benefit U.S. producers of the subject fabric because it would allow fabric producers in the United States, as well as those in Canada, to use non-originating inputs. However, as noted above, most woven warp pile fabrics produced in the United States reportedly are made from wet-spun acrylic fibers and, thus, the benefit would be limited. The proposed rule change for the subject fabric would likely benefit U.S. upholstery producers to the extent that importers of the subject fabric from Canada pass some of the duty savings on to their upholstery customers. U.S. consumers would also likely benefit from additional duty savings on U.S. upholstery made with the subject fabrics.

[19] The Commission's advice is based on information currently available to the Commission.

[20] The TPL on U.S. imports of manmade-fiber fabrics and made-ups from Canada was 90-percent filled by year-end 2003.

APPENDIX A
REQUEST LETTERS FROM THE UNITED STATES TRADE REPRESENTATIVE

EXECUTIVE OFFICE OF THE PRESIDENT
THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON, D.C. 20508



AUG 19 2004

The Honorable Stephen Koplan
Chairman
U.S. International Trade Commission
500 E St., SW
Washington, DC 20436

Dear Chairman Koplan:

Annex 300-B, Chapter Four and Annex 401 of the North American Free Trade Agreement (NAFTA) set out rules of origin for textiles and apparel for applying the tariff provisions of the NAFTA. These rules are reflected in General Note 12 of the Harmonized Tariff Schedule of the United States (HTS).

Section 202(q) of the North American Free Trade Agreement Implementation Act (the Act) authorizes the President, subject to the consultation and layover requirements of section 103 of the Act, to proclaim such modifications to the rules of origin as are necessary to implement an agreement with one or more of the NAFTA countries pursuant to paragraph 2 of section 7 of Annex 300-B of the Agreement. One of the requirements set out in section 103 is that the President obtain advice regarding the proposed action from the U.S. International Trade Commission.

Our negotiators have recently reached agreement in principle with representatives of the governments of Canada and Mexico on modifications to the NAFTA rules of origin, which are reflected in the attached document. These changes are the result of determinations that North American producers are not able to produce certain fibers and yarns in commercial quantities in a timely manner.

Under authority delegated by the President, and pursuant to section 103 of the Act, I request that the Commission provide advice on the probable effect of the modifications reflected in the enclosed proposals on U.S. trade under the NAFTA, total U.S. trade, and on domestic producers of the affected articles. I request that the Commission provide this advice at the earliest possible date, but not later than October 19, 2004. The Commission should issue, as soon as possible thereafter, a public version of its report with any business confidential information deleted.

The Commission's assistance in this matter is greatly appreciated.

Sincerely,

Peter F. Allgeier
Acting

Enclosure for ITC Letter

1. Proposal on gimped nylon yarn:

Add the following rule to Chapter 56 of Annex 401:

5606.00	A change to subheading 5606.00 from flat yarns* of subheading 5402.41, or from any other chapter, except from heading 5106 through 5113, 5204 through 5212, 5307 through 5308 or 5310 through 5311, or Chapter 54 through 55.

Footnote.
* "Flat yarns" means, for purposes of this rule, 7 denier/5 filament, 10 denier/7 filament, or 12 denier/5 filament, all of nylon 66, untextured (flat) semi-dull yarns, multifilament, untwisted or with a twist not exceeding 50 turns per meter, of subheading 5402.41.

2. Proposal on woven fabric of viscose rayon filament yarns:

Add the following rule to Chapter 54 of Annex 401:

5408	A change to heading 5408 from filament yarns of viscose rayon of heading 5403, or from any other chapter, except from headings 5106 through 5110, 5205 through 5206 or 5509 through 5510.

EXECUTIVE OFFICE OF THE PRESIDENT
THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON, D.C. 20508

AUG 19 2004

The Honorable Stephen Koplan
Chairman
U.S. International Trade Commission
500 E St., SW
Washington, DC 20436

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Our negotiators have recently reached agreement in principle with representatives of the government of Canada on modifications to the NAFTA rules of origin, which are reflected in the attached document. These changes are the result of determinations that North American producers are not able to produce certain fibers and yarns in commercial quantities in a timely manner.

Under authority delegated by the President, and pursuant to section 103 of the Act, I request that the Commission provide advice on the probable effect of the modifications reflected in the enclosed proposals on U.S. trade under the NAFTA, total U.S. trade, and on domestic producers of the affected articles. I request that the Commission provide this advice at the earliest possible date, but not later than October 19, 2004. The Commission should issue, as soon as possible thereafter, a public version of its report with any business confidential information deleted.

The Commission's assistance in this matter is greatly appreciated.

Sincerely,

Peter F. Allgeier

Peter F. Allgeier
(Acting)

Enclosure

Enclosure to ITC Letter

Proposals of the United States under Section 7, paragraph 2 of Annex 300-B of the NAFTA:

1. Proposal on yarn spun from acid-dyeable acrylic tow:

To add the following rule to Chapter 55, Annex 401:

A change to tariff item 5509.31 from acid-dyeable acrylic tow of tariff item 5501.30, or from any other chapter, except from headings 5201 through 5203 or 5401 through 5405.

2. Proposal on fabrics woven from yarns of combed camel hair or cashmere:

To add the following rule to Chapter 51, Annex 401:

A change to tariff items 5112.11.60 or 5112.19.95 from yarns of combed camel hair or combed cashmere of tariff item 5108.20.60, or from any heading outside of 5111 through 5113, except from headings 5106 through 5110, 5205 through 5206, 5401 through 5404, or 5509 through 5510.

3. Proposal on pile fabrics containing dry spun acrylic fiber:

To add the following rule to Chapter 58, Annex 401:

A change to woven-warp pile fabric, cut, of subheading 5801.35, with pile of dry-spun acrylic staple fibers of subheading 5503.30, which fabric has been dyed in the piece to a single uniform color, from any other chapter, except from heading 51.06 through 51.13, 52.04 through 52.12, 53.07 through 53.08 or 53.10 through 53.11, Chapter 54, heading 55.01 through 55.02, subheading 5503.10 through 5503.20 or 5503.40 through 5503.90 or heading 55.04 through 55.15.

APPENDIX B
FEDERAL REGISTER NOTICE

103–7 are (1) gimped nylon yarns (HTS heading 5606) and (2) woven fabrics of viscose rayon filament yarns (HTS 5408). The goods of Canada covered by investigation No. NAFTA–103–8 are (1) yarns spun from acid-dyeable acrylic tow (HTS 5509.31), (2) fabrics woven from yarns of combed camel hair or cashmere (HTS 5112.11.60 or 5112.19.95), and (3) pile fabrics containing dry spun acrylic fibers (HTS 5801.35). Additional information concerning the articles and the proposed modifications can be obtained by accessing the electronic version of this notice at the Commission Internet site (*http://www.usitc.gov*). The current NAFTA rules of origin applicable to U.S. imports can be found in general note 12 of the 2004 HTS (*see* "General Notes" link at *http://hotdocs.usitc.gov/tariff_chapters_current/toc.htm).*

Written Submissions: No public hearing is planned. However, interested parties are invited to submit written statements concerning the matters being addressed by the Commission in these investigations. Submissions should be addressed to the Secretary, United States International Trade Commission, 500 E Street, SW., Washington, DC 20436. To be assured of consideration by the Commission, written statements related to the Commission's reports should be submitted to the Commission at the earliest practical date and should be received no later than the close of business on September 23, 2004. All written submissions must conform with the provisions of section 201.8 of the Commission's Rules of Practice and Procedure (19 CFR 201.8). Section 201.8 of the rules requires that a signed original (or copy designated as an original) and fourteen (14) copies of each document be filed. In the event that confidential treatment of the document is requested, at least four (4) additional copies must be filed, in which the confidential business information must be deleted (see the following paragraph for further information regarding confidential business information). The Commission's rules do not authorize filing submissions with the Secretary by facsimile or electronic means, except to the extent permitted by section 201.8 of the rules (*see* Handbook for Electronic Filing Procedures, *ftp://ftp.usitc/gov/pub/reports/electronic_filing_handbook.pdf*). Persons will questions regarding electronic filing should contact the Secretary (202–205–2000 or *edis@usitc.gov*).

Any submissions that contain confidential business information (CBI) must also conform with the requirements of section 201.6 of the Commission's rules (19 CFR 201.6). Section 201.6 of the rules requires that the cover of the document and the individual pages clearly be marked as to whether they are the "confidential" or "non-confidential" version, and that the CBI be clearly identified by means of brackets. All written submissions, except for CBI, will be made available for inspection by interested parties.

The Commission may include some or all of the CBI it receives in the reports it sends to the President. However, the Commission will not publish CBI in the public version of the reports in a manner that would reveal the operations of the firm supplying the information. The public version of the reports will be made available to the public on the Commission's Web site.

The public record for these investigations may be viewed on the Commission's electronic docket (EDIS) at *http://edis.usitc.gov.* Hearing impaired individuals are advised that information can be obtained by contacting our TDD terminal on 202–205–1810. Persons with mobility impairments who will need special assistance in gaining access to the Commission should contact the Office of the Secretary at 202–205–2000.

List of Subjects

NAFTA, rules of origin, textiles, apparel.

Issued: September 1, 2004.

By order of the Commission.

Marilyn R. Abbott,

Secretary to the Commission.

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DEPARTMENT OF JUSTICE

Bureau of Alcohol, Tobacco, Firearms, and Explosives

Agency Information Collection Activities: Proposed Collection; Comments Requested

ACTION: 30-Day Notice of information collection under review: application for tax exempt transfer and registration of firearm.

The Department of Justice (DOJ), Bureau of Alcohol, Tobacco, Firearms, and Explosives (ATF) has submitted the following information collection request to the Office of Management and Budget (OMB) for review and approval in accordance with the Paperwork Reduction Act of 1995. The proposed information collection is published to obtain comments from the public and affected agencies. This proposed information collection was previously published in the **Federal Register** Volume 69, Number 114, on page 33405 on June 15, 2004, allowing for a 60-day comment period.

The purpose of this notice is to allow for an additional 30 days for public comment until October 8, 2004. This process is conducted in accordance with 5 CFR 1320.10.

Written comments and/or suggestions regarding the items contained in this notice, especially the estimated public burden and associated response time, should be directed to the Office of Management and Budget, Office of Information and Regulatory Affairs, Attention Department of Justice Desk Officer, Washington, DC 20503. Additionally, comments may be submitted to OMB via facsimile to (202) 395–5806.

Written comments and suggestions from the public and affected agencies concerning the proposed collection of information are encouraged. Your comments should address one or more of the following four points:

- Evaluate whether the proposed collection of information is necessary for the proper performance of the functions of the agency, including whether the information will have practical utility;
- Evaluate the accuracy of the agencies estimate of the burden of the proposed collection of information, including the validity of the methodology and assumptions used;
- Enhance the quality, utility, and clarity of the information to be collected; and
- Minimize the burden of the collection of information on those who are to respond, including through the use of appropriate automated, electronic, mechanical, or other technological collection techniques or other forms of information technology, *e.g.*, permitting electronic submission of responses.

Overview of this Information Collection:

(1) *Type of information collection:* Extension of a currently approved collection.

(2) *Title of the form/collection:* Application For Tax Exempt Transfer and Registration of Firearm.

(3) *Agency form number, if any, and the applicable component of the Department of Justice sponsoring the collection:* Form Number: ATF F 5 (5320.5). Bureau of Alcohol, Tobacco, Firearms and Explosives.

(4) *Affected public who will be asked or required to respond, as well as a brief abstract:* Primary: Business or other for-