

United States International Trade Commission

U.S. Market Conditions for Certain Wool Articles in 2002-04

Investigation No. 332-449
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September 2004



U.S. International Trade Commission

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NOTICE

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ABSTRACT

Following receipt of a request from the United States Trade Representative (USTR) on December 30, 2002, the U.S. International Trade Commission instituted investigation No. 332-449, *U.S. Market Conditions for Certain Wool Articles in 2002-04*, under section 332(g) of the Tariff Act of 1930 (19 U.S.C. 1332(g)) on January 24, 2003. As requested by USTR, the Commission, in this second and final report, is providing information for 2003 and first quarter 2004 on U.S. market conditions, including domestic demand, supply, and production for men's and boys' worsted wool suits, suit-type jackets, and trousers; worsted wool fabrics and yarns used in the manufacture of such clothing; and wool fibers used in the manufacture of such fabrics and yarn.

U.S. demand for men's and boys' worsted wool tailored clothing showed signs of improvement in the latter half of 2003 and first quarter of 2004. The increased demand was concentrated in fine-micron tailored clothing, reflecting a shift in consumer tastes to higher end fabrics. U.S. production of the tailored clothing declined during 2001-03 and imports increased, continuing to supply most of the tailored clothing market. The Commission estimated that the U.S. market for worsted wool fabrics used in the production of men's tailored clothing in the United States decreased from 2002 to 2003, reflecting the decline in domestic production of men's tailored clothing. Many U.S. tailored clothing manufacturers purchase domestic worsted wool fabrics for offshore production, particularly in Mexico, Colombia, and Caribbean Basin countries, as these countries benefit from competitive labor costs, proximity to the United States, and duty-free access under preferential trade agreements. U.S. tailored clothing manufacturers contend that style, quality, value, small lot sizes, and delivery times are the most competitive factors in the U.S. market. Consequently, the clothing manufacturers are unlikely to increase purchasing from domestic fabric suppliers and are likely to continue to purchase a diversity of fabrics from different mills worldwide.

Contents

	<i>Page</i>
Abstract	i
Executive summary	vii
Chapter 1: Introduction	1-1
Purpose and scope	1-1
Legislative background	1-2
Information sources	1-5
Product coverage and organization of report	1-5
Chapter 2: U.S. market conditions for men's and boys' worsted wool tailored clothing	2-1
Market overview and consumption	2-1
U.S. Industry	2-2
Restructuring and consolidation	2-2
Production	2-4
U.S. imports	2-6
Chapter 3: U.S. market conditions for certain worsted wool fabrics	3-1
U.S. market for worsted wool fabrics	3-1
U.S. imports	3-3
U.S. worsted wool fabric industry	3-6
Burlington Industries	3-7
Warren Corp.	3-7
Cleyne & Tinker International Inc.	3-8
Victor Forstmann, Inc.	3-9
Chapter 4: Prices of domestic and imported worsted wool fabrics	4-1
Price comparisons and trends	4-1
Factors affecting prices	4-2
Exchange rates	4-3

Contents—Continued

Page

Chapter 4: Prices of domestic and imported worsted wool fabrics—Continued

Factors affecting prices—Continued	
Transportation costs	4-4
Raw materials	4-5
Effects of the tariff-rate quotas	4-6
Pricing methods	4-6

Chapter 5: Ability of domestic fabric producers to meet the needs of domestic clothing manufacturers

5-1

In terms of quantity	5-1
In terms of market demands for clothing	5-2

Chapter 6: Lost sales and revenues

6-1

Lost sales and revenues by U.S. producers of worsted wool fabrics	6-1
Lost sales and revenues by U.S. tailored clothing manufacturers	6-1

Chapter 7: U.S. market conditions for wool fibers and yarns

7-1

Wool fibers	7-1
Worsted wool yarns	7-3

Appendixes

A. Request letter from the United States Trade Representative and Federal Register Notice	A-1
B. Relevant HTS Chapter 99 headings	B-1
C. List of witnesses appearing at the Commission's hearing on March 25, 2004	C-1
D. Position of interested parties	D-1
E. Exchange rate trends for selected countries	E-1

Contents—Continued

Page

Tables

1-1.	U.S. TRQ in-quota, over-quota (NTR), and NAFTA rates of duty on worsted wool fabrics and NTR and NAFTA rates of duty on men's and boys' worsted wool sport coats, 2004	1-3
1-2.	Summary of major benefits for U.S. yarn and fabric producers and U.S. tailored clothing manufacturers as provided for in Title V of the Trade and Development Act of 2000 and the Trade Act of 2002	1-4
2-1.	Men's and boys' wool suits, sport coats, and trousers: U.S. production, imports for consumption, exports of domestic merchandise, and apparent consumption, 1999-2003, Jan.-Mar. 2003, and Jan.-Mar. 2004	2-3
2-2.	Men's and boys' worsted wool suits, sport coats, and trousers: U.S. production, by micron counts, 2001, 2003, Jan.-Mar. 2003, and Jan.-Mar. 2004	2-5
2-3.	Men's and boys' wool suits, sport coats, and trousers: U.S. imports for consumption, by principal sources, 1999-2003, Jan.-Mar. 2003, and Jan.-Mar. 2004	2-9
2-4.	Men's and boys' wool suits, sport coats, and trousers: U.S. imports for consumption, 18.5 microns or less, by principal sources, 2002-03, Jan.-Mar. 2003, and Jan.-Mar. 2004	2-9
2-5.	Men's and boys' wool suits, sport coats, and trousers: U.S. imports for consumption, greater than 18.5 microns, by principal sources, 2002-03, Jan.-Mar. 2003, and Jan.-Mar. 2004	2-10
3-1.	Worsted wool fabrics for use in U.S. production of men's and boys' tailored clothing (the subject fabrics): Estimated size of U.S. production, imports, and market, 2001-03	3-2
3-2.	Worsted wool fabrics: U.S. capacity and production for all end uses and for U.S.-made men's and boys' tailored clothing, by company, 2002, 2003, Jan.-Mar. 2003, and Jan.-Mar. 2004	3-3
3-3.	Worsted wool fabrics used in the production of men's and boys' tailored clothing: U.S. production, including exports and fabrics used in offshore assembly operations and excluding exports and fabrics used in offshore assembly operations, and share of U.S. fabric production used in offshore tailored clothing production, by company, 2003	3-3
3-4.	Worsted wool fabrics for U.S. production of men's and boys' tailored clothing: U.S. production, total and by company, 2002, 2003, Jan.-Mar. 2003, and Jan.-Mar. 2004	3-3
3-5.	Worsted wool fabrics: U.S. imports for consumption, by principal sources, 1999-2003, Jan.-Mar. 2003, and Jan.-Mar. 2004	3-4
3-6.	Worsted wool fabrics: U.S. imports for consumption, by micron counts and by principal sources, 2001-03, Jan.-Mar. 2003, and Jan.-Mar. 2004	3-5
4-1.	Worsted wool fabrics: Sales and purchases of domestic and imported fabrics by types, 2003	4-2

Contents—Continued

Page

Tables—Continued

4-2. Worsted wool fabrics: Weighted-average selling and purchase prices for domestic and imported fabrics, by types, 2003, Jan.-Mar. 2003, and Jan.-Mar. 2004	4-3
4-3. Overall appreciation or depreciation amounts for currencies of selected countries relative to the U.S. dollar	4-4
4-4. U.S. imports of worsted wool fabrics: Transportation costs, as measured by the share of the customs value accounted for by insurance and freight, by fabrics and by selected countries, for the 12-month periods ending March 2003 and March 2004	4-5
6-1. Lost sales and revenue allegations of producers of worsted wool fabrics	6-1
7-1. Wool: U.S. production, imports, and mill consumption, by end uses, 2002-03, Jan.-Mar. 2003, and Jan.-Mar. 2004	7-2
7-2. U.S. and Australian wool prices: Grades 60s and 64s, 1999-2003	7-3
7-3. Combed wool yarns used by U.S. producers of worsted wool fabrics for men's and boys' tailored clothing: Estimates of U.S. production for internal consumption, purchases of domestic and imported yarns, net changes in inventory, and apparent U.S. consumption, 2002-03, Jan.-Mar. 2003, and Jan.-Mar. 2004	7-3
7-4. U.S. producers' inventories of combed wool yarns for internal use, 2002-03, Jan.-Mar. 2003, and Jan.-Mar. 2004	7-4

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U.S. Market Conditions for Certain Wool Articles in 2002-04

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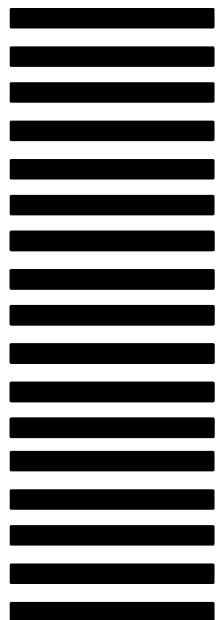
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EXECUTIVE SUMMARY

Following receipt of a request from the United States Trade Representative (USTR) on December 30, 2002, the U.S. International Trade Commission (Commission) instituted investigation No. 332-449, *U.S. Market Conditions for Certain Wool Articles in 2002-04*, under section 332(g) of the Tariff Act of 1930 (19 U.S.C. 1332(g)) on January 24, 2003. The request followed enactment of the Trade Act of 2002, which extended Title V of the Trade and Development Act of 2000 (“Imports of Certain Wool Articles”) for two more years, through December 31, 2005.¹ In part, Title V temporarily reduced tariffs on U.S. imports of worsted wool fabrics used in domestic production of men’s and boys’ tailored clothing and required the President to monitor U.S. market conditions.²

As requested by USTR, the Commission is providing information on U.S. market conditions for men’s worsted wool suits, sport coats, and trousers; worsted wool fabrics used in such clothing; and inputs used in such fabrics. This final report provides the requested data for 2003 and the first quarter of 2004.

Findings

U.S. Market Conditions for Men’s Tailored Clothing

U.S. demand for men’s and boys’ worsted wool tailored clothing showed signs of improvement in the latter half of 2003 and the first quarter of 2004, reflecting general improvement in the U.S. economy and a return to more formal suiting by some employers and consumers. The increased demand for men’s wool tailored clothing was concentrated in fine-micron tailored clothing, reflecting a shift in consumer tastes to higher end fabrics. Most tailored garments made domestically sell in the medium to high end of the retail market. In 2003, the estimated U.S. market for fine-micron fabrics increased, while the U.S. market for coarse-micron fabrics declined significantly from 2001 levels. As in previous years, imports accounted for most of the U.S. tailored clothing market.

The U.S. industry producing men’s and boys’ worsted wool clothing declined in terms of production, employment, and number of firms during 2001-03. U.S. production of men’s worsted wool tailored clothing declined by 27 percent during 2001-03, with a notable shift in production from coarse-micron garments to fine-micron garments. The decline in U.S. tailored clothing production reflects the growing use of offshore production by the U.S. tailored clothing companies. The offshore operations are located in Latin American and Caribbean countries that benefit from competitive labor costs and proximity to the United States as well as duty-free access to the U.S. apparel market under the North America Free Trade Agreement (NAFTA), the United States-Caribbean Basin Trade Partnership Act (CBTPA), and the Andean Trade Promotion and Drug Eradication Act (ATPDEA).

¹ Public Law 106-200, May 18, 2000, 114 Stat. 299, wool provisions at sec. 501 *et seq.*, and Public Law 107-210, Aug. 6, 2002, 116 Stat. 933, wool provisions at sec. 5101 *et seq.*

² See chapter 1 of this report for detailed information on the wool provisions.

U.S. Market Conditions for Certain Worsted Wool Fabrics

The U.S. market for worsted wool fabrics used in the production of men's and boys' tailored clothing in the United States (the subject fabrics) declined during 2002-03 as both U.S. production and imports of the subject fabrics declined during the period. Most of the decline in the U.S. market occurred in imports of coarse-micron worsted wool fabrics. The market for fine-micron fabrics remained relatively unchanged from 2002 to 2003. Although U.S. production of the subject worsted wool fabrics decreased as a result of declines in U.S. production of men's tailored clothing, U.S. production of worsted wool fabrics for all end uses increased in 2003 from the 2002 level. This increase is attributed to U.S. tailored clothing producers' purchases of the subject fabrics for use in offshore production, which reentered the U.S. market under the provisions of NAFTA, CBTPA, and ATPDEA.

Fabric Prices

Prices of U.S.-produced worsted wool fabrics were higher in fine-micron counts but lower in coarse-micron counts than comparable imported fabrics during the period of investigation. Despite the decline of the dollar against the euro during the period, many U.S. tailored clothing manufacturers continued to purchase large quantities of fabrics from Italy because of their high quality, distinctive designs, colors, and styling.

Ability of Domestic Fabric Producers to Meet the Needs of Domestic Clothing Manufacturers

U.S. worsted wool fabric producers continued to supply only a small share, 10 percent, of the fabric requirements for U.S. men's tailored clothing production in the United States in 2003, even though the U.S. fabric producers have the capacity to meet the quantitative needs of the domestic manufacturers of men's tailored clothing. The tailored clothing manufacturers contend that style, quality, value, small lot sizes, and delivery times are the most competitive factors in the U.S. market for the subject fabrics. The critical importance of these factors suggest that it is unlikely that U.S. tailored clothing manufacturers producing domestically will significantly increase their purchases of U.S.-made worsted wool fabrics in the near-term. U.S. production of men's worsted wool suits are sold in the medium to high end of the retail market and only two U.S. fabric producers, *** make significant quantities of worsted wool fabrics (e.g., fine-micron fabrics) intended for these market segments. Consequently, U.S. tailored clothing manufacturers are likely to continue to purchase a diversity of fabrics from different mills worldwide to ensure product differentiation, spread any financial risk, and minimize dependence on any one supplier.

Lost Sales and Revenues

Three of the four U.S. fabric producers stated that they lost sales during the period of investigation as a result of imports of worsted wool fabrics benefitting from temporary duty reductions under Title V of the Trade and Development Act of 2000. All four fabrics producers asserted that they lost revenues because of the temporary duty reductions. Two of 17 U.S. tailored clothing manufacturers reported lost sales or revenues during the period as a result of their inability to purchase adequate supplies of the domestic subject fabrics on a cost-competitive basis.

U.S. Market Conditions for Wool Fibers and Yarns

U.S. wool production continued to decline in 2003, decreasing by 8 percent from the 2002 level. U.S. imports of raw wool declined by 15 percent during this period.

U.S. consumption of worsted wool yarns used by U.S. worsted wool fabric producers increased by *** percent from 2002 to 2003 and increased further in the first quarter of 2004 over the level in the corresponding period of 2003. According to data derived from the Commission questionnaires, the increase in U.S. consumption and production of wool yarns reflects the increase in production of worsted wool fabrics for all end uses, including men's tailored clothing produced offshore.

CHAPTER 1

INTRODUCTION

Purpose and Scope

Following receipt of a request from the United States Trade Representative (USTR) on December 30, 2002, the U.S. International Trade Commission (Commission) instituted investigation No. 332-449, *U.S. Market Conditions for Certain Wool Articles in 2002-04*, under section 332(g) of the Tariff Act of 1930 (19 U.S.C. 1332(g)) on January 24, 2003.¹ As requested by the USTR, the Commission is providing information on U.S. market conditions, including domestic demand, supply, and production for men's and boys' worsted wool suits, suit-type jackets, and trousers; worsted wool fabrics and yarn used in the manufacture of such clothing; and wool fibers used in the manufacture of such fabrics and yarn. Also as requested by the USTR, the Commission is providing, to the extent possible, data and information on:

- (1) increases or decreases in sales and production of the subject domestically produced worsted wool fabrics;
- (2) increases or decreases in domestic production and consumption of the subject apparel items;
- (3) the ability of domestic producers of the subject worsted wool fabrics to meet the needs of domestic manufacturers of the subject apparel items in terms of quantity and ability to meet market demands for the apparel items;
- (4) sales of the subject worsted wool fabrics lost by domestic manufacturers to imports benefitting from the temporary duty reductions on certain worsted wool fabrics under the tariff-rate quotas in headings 9902.51.11 and 9902.51.12 of the Harmonized Tariff Schedule of the United States (HTS);
- (5) loss of sales by domestic manufacturers of the subject apparel articles related to the inability to purchase adequate supplies of the subject worsted wool fabrics on a cost-competitive basis; and
- (6) the price per square meter of imported and domestically produced worsted wool fabrics.

As requested by the USTR, the Commission submitted the first report under this investigation in September 2003. The USTR requested that this second and final report under this investigation, providing data for 2003 and year-to-date 2003-04, be submitted by September 15, 2004.

¹ Copies of the USTR request letter, deadline contraction, and the Commission's notice of institution, published in the *Federal Register* (68 F.R. 5652) on Feb. 4, 2003, are provided in appendix A.

Legislative Background

Title V of the Trade and Development Act of 2000 (TDA 2000) reduced tariffs on limited quantities of imported worsted wool fabrics used by U.S. manufacturers of men's tailored clothing and suspended tariffs on imports of fine-micron wool yarns, fibers, and tops used by U.S. producers of worsted wool fabrics and yarns for 3 years beginning on January 1, 2001.² Title V of the TDA 2000 requires that the President monitor U.S. market conditions, including domestic demand, domestic supply, and increases in domestic production for men's and boy's worsted wool suits, suit-type jackets, and trousers; worsted wool fabric and yarn used in the manufacture of such clothing; and wool fibers used in the manufacture of such fabrics and yarn. The Trade Act of 2002,³ enacted on August 6, 2002, amended Title V to extend the tariff measures for two more years, through December 31, 2005, and to grant additional tariff relief on the fabrics, as discussed below.

Title V established two tariff-rate quotas (TRQs) to implement the temporary duty reductions on imports of worsted wool fabrics containing 85 percent or more by weight of wool and certified by the importer as suitable for use in men's suits, suit-type jackets, and trousers.⁴ HTS headings 9902.51.11 and 9902.51.12 cover worsted wool fabrics having an average fiber diameter greater than 18.5 microns (coarse-micron fabrics) and those having an average fiber diameter of 18.5 microns or less (fine-micron fabrics), respectively.⁵ In 2004, the TRQ for coarse-micron fabrics (as amended by Section 5102 of the Trade Act of 2002), permits 4.5 million square meters equivalent (SMEs) to enter at 17.5 percent ad valorem, the same duty rate that is assessed on imports of men's and boys' wool suit-type jackets, thereby temporarily removing a "tariff inversion" in which the duty had been higher on the fabric than on clothing made from such fabric (table 1-1).⁶ The TRQ for fine-micron fabrics in 2004 allows 3.5 million SMEs to enter free of duty (the same rate applied by Canada on its imports of finer worsted wool fabrics).⁷ These quantities apply for 2005 unless the President determines that a change is

² Title V was enacted on May 18, 2000, and implemented by Presidential Proclamation 7383 of Dec. 1, 2000. The proclamation was published in the *Federal Register* on Dec. 6, 2000 (65 F.R. 76551).

³ Public Law 107-210, Aug. 6, 2002, 116 Stat. 933; wool provisions are at Sec. 5101 *et seq.*

⁴ Under a TRQ, the United States usually applies a lower tariff rate to imports of an article up to a particular amount, known as the in-quota quantity, and another higher rate to any imports in excess of that amount.

⁵ Appendix B contains a copy of relevant pages of HTS chapter 99 for headings 9902.51.11 and 9902.51.12 (the TRQs for worsted wool fabrics), as well as the temporary duty suspensions for imports of fine-micron wool yarns, fibers, and tops used by U.S. producers of worsted wool fabrics and yarns (headings 9902.51.13 and 9902.51.14).

⁶ The duty rate for such fabrics was subject to the same staged reductions as the United States provides under the Uruguay Round Agreements Act for men's and boys' wool suit-type jackets (HTS subheading 6203.31.00). That rate is 17.5 percent ad valorem (the final scheduled staged duty rate), as of Jan. 1, 2004.

⁷ Title V authorizes the President to (1) reduce the applicable tariffs on covered fabrics to take into account any staged reductions in the U.S. tariff rate on men's and boys' wool suit-type jackets and the Canadian tariff rate on fine-micron worsted wool fabric that serve as benchmark rates and (2) modify the TRQ in-quota quantities, subject to a review of U.S. market conditions, but by not more than 1.0 million SMEs in any of the three years. Canada eliminated its most-favored-nation duty rate on selected fine-micron fabrics used in tailored clothing in 2001. (See U.S. Department of Commerce, "Notice of Reduction of Canadian . . . Duty for Certain Worsted Wool Fabrics," *Federal Register* (67 F.R. 18863), Apr. 17, 2002). The United States reduced its duty rate on fine-micron fabrics to zero with the implementation of the Trade Act of 2002).

**Table 1-1
U.S. TRQ in-quota, over-quota (NTR), and NAFTA rates of duty on worsted wool fabrics and
NTR and NAFTA rates of duty on men's and boys' worsted wool sport coats, 2004**

Item	In-quota ad valorem rate	NTR ad valorem rate	NAFTA rate ¹
Worsted wool fabrics having an average fiber diameter--			
18.5 microns or less ²	Free	25.0%	Free
Greater than 18.5 microns ³	17.5% ⁴	25.0%	Free
Men's and boys' worsted wool sport coats	(5)	17.5%	Free

¹ Rates apply on proper importer claim as to originating goods under HTS general note 12.

² Covers fabrics classified in HTS subheadings 5112.11.30 and 5112.19.60.

³ Covers fabrics classified in HTS subheadings 5112.11.60 and 5112.19.95.

⁴ The 17.5 percent ad valorem duty rate on coarse-micron fabrics corresponds to the tariff level for men's and boys' worsted wool sport coats, thereby temporarily removing a tariff inversion in which the duty had been higher on the fabric than on garments made from such fabric.

⁵ Not applicable.

Source: Harmonized Tariff Schedule of the United States (2004).

appropriate and so provides by proclamation, as provided for under section 504(b)(3) of the TDA 2000. Imports in excess of the TRQ in-quota quantities are subject to the normal trade relations (NTR) duty rate of 25 percent ad valorem.

Title V of the TDA 2000, as amended by the Trade Act of 2002, not only provided tariff relief on worsted wool fabrics as described above, but also provided additional tariff relief and other benefits for U.S. yarn and fabric producers and benefits for U.S. tailored clothing manufacturers (table 1-2). Specifically, the act suspended tariffs on fine-micron wool yarns, fibers, and tops used by U.S. producers of worsted wool fabrics and yarns through December 31, 2005. It authorized payments to the U.S. textile and clothing firms for each of the calendar years 2000-05.⁸ The act also provided for the establishment of the Wool Research, Development, and Promotion Trust Fund, up to \$2.25 million annually, to assist wool producers to improve the quality of the wool produced in the United States, and in the development and promotion of U.S. wool.

Legislation (H.R. 4287) introduced in the 108th Congress would extend and enhance the benefits received by U.S. fabric producers and tailored clothing manufacturers to 2010.⁹ For tailored clothing manufacturers, the bill would increase the TRQ trigger quantities to 5.5 million SMEs for coarse-micron fabrics and 5 million SMEs for fine-micron fabrics in 2005. For producers of worsted wool fabrics, the bill would establish a new TRQ for up to 2 million SMEs

⁸ According to the National Textile Association (NTA), during 2002 and 2003, garment manufacturers benefitted from the duty reductions and suspension at a level of three or four to one compared to yarn and fabric manufacturers. Karl Spilhaus, President, National Textile Association, testimony before the Commission, Mar. 25, 2004, p. 4.

⁹ H.R. 4287, "Wool Suit and Textile Trade Extension Act of 2004," a bill to amend the Harmonized Tariff Schedule of the United States on imports of certain wool products, was introduced into the House of Representatives, on May 5, 2004, by Congressman Houghton.

Table 1-2
Summary of major benefits for U.S. yarn and fabric producers and U.S. tailored clothing manufacturers as provided for in Title V of the Trade and Development Act of 2000 and the Trade Act of 2002

Provision	Benefits to yarn and fabric producers	Benefits to clothing manufacturers
Temporary reduction or suspension of tariffs on certain fabrics, yarns, and fibers through December 31, 2005	Suspends tariffs on fine-micron wool fibers, tops, and yarns ¹	Suspends TRQ in-quota tariff on 3.5 million SMEs of fine-micron worsted wool fabrics and reduces TRQ in-quota tariff on coarse-micron fabrics of 4.5 million SMEs to 17.5 percent ad valorem. NTR duty rate on the fabrics is 25.1 percent ad valorem as of 2004.
	Estimated duty savings in 2003: \$3 million	Estimated duty savings in 2003: \$13 million
Payments ² for calendar years 1999-2005	Payments of up to \$2.25 million annually to producers of worsted wool fabrics of imported wool yarn (as a group) and wool yarn of imported fibers or tops.	Manufacturers of tailored clothing of imported worsted wool fabrics (as a group) eligible to receive up to \$53.0 million over 5 years. Amount paid to each company prorated based on duties paid on such fabrics in 1999.

¹ NTR duty rates range from 18.7¢ per clean kg to 6.5¢ per kg plus 5.3 percent ad valorem for fibers and tops; and 6 percent ad valorem for yarns.

² Under TDA 2000, the payments were referred to as “duty refunds.”

annually of fine-micron fabrics intended for use in men’s and boys’ tailored clothing. The legislation would no longer provide the option of increasing the TRQs, as is allowed under the current law. In addition, the rate of duty on coarse-micron fabrics under the TRQ would be reduced to 10 percent ad valorem rather than be tied to the rate of duty on worsted wool suit-type jackets. The bill would also provide for the establishment of a trust fund for domestic producers of fine-micron and coarse-micron fabrics for use in men’s tailored clothing. The trust fund would allocate a total of \$2.67 million annually to the producers of coarse-micron and fine-micron fabrics from 2005 through 2010. The trust fund would be allocated based on each producer’s share of domestic production of the subject fabrics during 1999-2001, and is intended to promote domestic employment in the industry.¹⁰

Separate but related legislation included in Section 2005 of the Miscellaneous Trade and Technical Corrections Act of 2004 (H.R. 1047 and S. 671)¹¹ would establish a wool trust fund for U.S. producers of worsted wool fabrics used in the manufacture of men’s tailored clothing. The trust fund would consist of a total of \$32 million, with \$16 million to be paid at once and divided

¹⁰ Section 2C4 of H.R. 4287. The Secretary of Commerce currently has the authority to allocate a total of \$2.67 million of the trust fund annually to men’s tailored clothing manufacturers for the same period of time.

¹¹ As of August 31, 2004, the Senate incorporated S. 671 into H.R. 1047 and passed H.R. 1047. H.R. 1047 is currently in Conference Committee.

evenly between both the producers of coarse-micron and fine-micron fabrics, based on each producer's level of production during 1999-2001.

Information Sources

The data and analysis presented in this report for 2003 and Jan.-Mar. 2004 draw on market and industry information collected by the Commission from questionnaires, a public hearing on March 25, 2004, written submissions from interested parties, literature reviews, and Commission staff telephone interviews with representatives of U.S. producers of worsted wool fabrics and yarns and U.S. manufacturers and retailers of men's and boys' worsted wool tailored clothing.¹²

The Commission sent producer questionnaires to four firms that have produced or have the capability to produce the subject fabrics since January 1, 2003. All four firms reported that they produced the fabrics during the period covered by the report. The Commission sent purchaser questionnaires to 31 firms that reportedly purchased the subject fabric during the period. The Commission received questionnaire responses from 16 firms stating that they purchased the subject fabrics; 2 firms responded that they did not purchase the subject fabrics; 2 firms responded that they ceased purchasing the fabric, and 1 firm had gone out of business. In addition to questionnaire responses, 5 firms reported to staff during telephone interviews that they purchased the subject fabrics. ***¹³

Product Coverage and Organization of Report

The fabrics covered by this investigation are worsted wool fabrics containing 85 percent or more by weight of wool and certified by the importer as suitable for use in men's and boys' suits, suit-type jackets (sport coats), and trousers.¹⁴ For purposes of this report, the fabrics are divided into "fine-micron fabrics," in which the wool fibers are of an average diameter of 18.5 microns or less (the lower the number, the finer the fiber), and "coarse-micron fabrics," in which the average fiber diameter is greater than 18.5 microns. The term "men's tailored clothing" includes worsted wool suits, sport coats, and trousers for men as well as boys (consistent with the coverage of pertinent provisions of the HTS). The term "sport coats" refers to suit-type jackets (the term used in the legislation). Men's and boys' commercial uniforms manufactured domestically using the subject fabrics are also covered in this investigation. Tailored clothing that is cut in the United States but assembled offshore is not part of this investigation.

¹² A list of individuals who appeared at the hearing is in appendix C, and the views of interested parties are summarized in appendix D of this report.

¹³ These responses represented approximately *** percent of the total quantity of fabric purchases reported by all respondents for 2003.

¹⁴ Most wool tailored clothing is made from worsted fabric (a tightly woven fabric with a smooth, hard surface made from worsted yarn containing long wool fibers that have been carded and combed). However, significant quantities of sport coats are made from woolen fabric (a loosely woven fabric with a fuzzy or napped surface made from fuzzy, loosely twisted yarn containing short wool fibers that have been carded but not combed).

Chapter 2 of this report discusses the U.S. market conditions for men's and boys' worsted wool tailored clothing and includes data on U.S. consumption, production, and imports. Chapter 3 contains information on the U.S. market conditions for certain worsted wool fabrics, including U.S. production and import data as well as information on the four U.S. producers, of the subject fabrics. Chapter 4 provides price data for domestic and imported worsted wool fabrics and a discussion of the factors affecting those prices. Chapter 5 discusses quantity and market demands affecting the ability of domestic fabric producers to meet the needs of domestic clothing manufacturers. Chapter 6 provides lost sales and revenue allegations by U.S. producers of worsted wool fabrics and U.S. tailored clothing manufacturers. Chapter 7 discusses the U.S. market for wool fibers and worsted wool yarns.

CHAPTER 2

U.S. MARKET CONDITIONS FOR MEN'S AND BOYS' WORSTED WOOL TAILORED CLOTHING

The U.S. industry manufacturing men's and boys' worsted wool tailored clothing declined in terms of production, employment, and number of firms during 2001-03. These declines reflected a decrease in consumer demand for such goods and a shift in production by U.S. firms to Mexico and other lower cost countries in Central and South America that have preferential access to the U.S. market. Trade sources report that domestic tailored clothing production may rise in 2004, following a pickup in demand for such goods that began in late 2003. Most tailored garments made domestically sell in the medium to high end of the retail market. In 2003, the U.S. market for fine-micron fabrics increased while the U.S. market for coarse-micron fabrics declined from 2001 levels. Imports supplied most of the U.S. tailored clothing market and consisted mainly of coarse-micron garments.

Market Overview and Consumption

U.S. demand for men's worsted wool tailored clothing showed signs of improvement during the period covered by the report, particularly in the latter half of 2003 and the first quarter of 2004. General economic improvement in the United States combined with a return to more formal suiting by some employers and consumers positively affected the overall market for men's tailored clothing.¹ The increase in demand for men's wool tailored clothing during the period was concentrated in fine-micron tailored clothing. Industry and trade sources reported a shift in consumer tastes to finer, more luxurious fabrics.² The growth in demand for wool tailored clothing is expected to continue during the remainder of 2004, particularly in fine-micron wool clothing, as consumers are unlikely to return to coarse-micron clothing once they have purchased and worn suits, sport coats, and trousers made from the finer quality fabrics.³ Consumer demand for such upscale products is partially met by the domestic industry, which is concentrated in the production of suits selling in the medium to high end of the retail market.⁴ U.S. production of low end wool tailored garments has increasingly moved offshore to low-cost manufacturing locations. According to responses to the Commission's purchasers' questionnaires, 49 percent of U.S. production of suits by U.S. tailored clothing manufacturers consisted of suits selling at retail price points of \$400 to \$699; 36 percent of their suit production consisted of suits selling at retail of \$700 and above; and 15 percent consisted of suits selling at less than \$400.

¹ Transcript of hearing, pp. 16-17 and 26-27; and Form 10-K filed with the U.S. Securities and Exchange Commission by Jos. A. Bank Clothiers, Inc., Apr. 15, 2004, and Hartmarx Corp., Feb. 25, 2004.

² Transcript of hearing, pp. 50-51; and Jos. A. Bank Clothiers, Inc., Form 10-K, Apr. 15, 2004.

³ ***, and transcript of hearing, pp. 25-27 and 29.

⁴ For purposes of this report, "low end" refers to tailored clothing comparable to men's tailored suits that sell at retail for less than \$400 each; "medium end" refers to tailored clothing comparable to suits that sell from \$400 to \$699; and "high end" refers to tailored clothing comparable to suits that sell at \$700 or more.

Data on apparent U.S. consumption of men's wool tailored clothing are presented in table 2-1; the data are based on official U.S. statistics that include a broader array of garments than those covered by Title V of the Trade and Development Act of 2000 and, therefore, should only be used as a guide for assessing market trends.⁵ Following lower levels in 2001 and 2002, apparent U.S. consumption of men's wool tailored clothing partially recovered in 2003, rising by 6 percent from 99.6 million SMEs⁶ in 2002 to 105.3 million SMEs in 2003. The increase in consumption in 2003 was accounted for by imports, which rose by 8 percent to 83.7 million SMEs. U.S. production of such clothing fell by 6 percent to 22.8 million SMEs.

The increase in U.S. consumption of men's wool tailored clothing in 2003 reflected a significant rebound in consumption of suits and sport coats, which increased by a respective 18 percent and 15 percent. Growth in both categories was driven primarily by gains in imports. Consumption of wool trousers declined by 8 percent in 2003, following consecutive increases during 1999-2002. This decline reflected a 19-percent drop in production in 2003 as well as decreased imports. As in previous years, imports accounted for most of the U.S. market for men's tailored clothing in 2003; the import share was 82 percent for suits, 86 percent for sport coats, and 73 percent for trousers.

Data for the first quarter of 2004 show that apparent U.S. consumption of wool suits increased slightly over the same period in 2003, while consumption of wool sport coats and trousers both declined. Imports accounted for all the growth in wool suit consumption and all the decline in wool sport coat consumption. The decline in wool trouser consumption reflected decreases in both domestic production and imports.

U.S. Industry

Restructuring and Consolidation

The available data indicate that the U.S. industry producing men's tailored clothing, including the subject worsted wool garments, continued to decline in size in 2003. The number

⁵ Official statistics overstate the size of the U.S. market for men's worsted wool clothing in terms of the market conditions being monitored under Title V of the Trade and Development Act of 2000. First, data on production include garments that are cut in the United States but sewn offshore and re-imported as finished apparel. Second, import and export data include garments not covered by the Act (e.g., those containing more than 50 percent wool by weight but less than 85 percent). Finally, along with the subject garments of worsted wool fabric, the data include clothing made from woolen fabric, which is not covered by the Act.

⁶ In order to derive a single consumption figure for all men's and boys' worsted wool tailored clothing, the consumption data presented in table 2-1 were converted from units into SMEs based on the following values: one suit equals 5.3 SMEs, one sport coat equals 3.1 SMEs, and one pair of trousers equals 2.6 SMEs.

Table 2-1

Men's and boys' wool suits, sport coats, and trousers: U.S. production, imports for consumption, exports of domestic merchandise, and apparent consumption, 1999-2003, Jan.-Mar. 2003, and Jan.-Mar. 2004

Item and period	U.S.	U.S.	U.S.	Apparent	Ratio of
	production	imports ²	exports ³	U.S. consumption	imports to consumption
	-----1,000 units-----				Percent
Suits:					
1999	1,928	6,185	57	8,056	77
2000	1,792	6,221	40	7,973	78
2001	1,731	5,123	26	6,828	75
2002	1,123	5,513	9	6,627	83
2003	1,401	6,455	8	7,848	82
Jan.-Mar.--					
2003	339	1,797	2	2,134	84
2004 ¹	318	1,855	10	2,163	86
Sport coats:					
1999	2,231	4,810	326	6,715	72
2000	2,131	5,646	990	6,787	83
2001	1,682	5,416	708	6,390	85
2002	1,041	5,411	326	6,126	88
2003	1,053	6,079	88	7,044	86
Jan.-Mar.--					
2003	249	1,298	9	1,538	84
2004 ¹	285	1,010	3	1,292	78
Trousers:					
1999	4,068	8,018	466	11,620	69
2000	5,002	11,139	353	15,788	71
2001	5,276	11,191	302	16,165	69
2002	5,776	12,123	395	17,504	69
2003	4,662	11,782	325	16,119	73
Jan.-Mar.--					
2003	1,279	2,931	77	4,133	71
2004 ¹	914	2,716	27	3,603	75

¹ Production data for January-March 2004 were estimated on the basis of the percentage change in production reported by tailored clothing manufacturers in their responses to Commission questionnaires for January-March of 2003 and 2004, and applying those changes to U.S. Census Bureau data for January-March 2003.

² Import data are based on HTS statistical reporting numbers 6203.11.2000, 6203.11.6000, 6203.11.9000, 6203.31.0010, 6203.31.5010, and 6203.31.9010 (suits); 6203.21.0015, 6203.21.3015, 6203.21.9015, 6203.31.0020, 6203.31.5020, and 6203.31.9020 (sport coats); and 6203.21.0020, 6203.21.3020, 6203.21.9020, 6203.41.1210, 6203.41.1220, 6203.41.1510, 6203.41.1520, 6203.41.1810, and 6203.41.1820 (trousers). Imports of trousers were reduced by a quantity equal to the quantity of suit-type jackets imported under HTS 6203.31.0010, 6203.31.5010, and 6203.31.9010 (suit-type jackets imported as parts of suits that do not meet the requirements for tariff classification as suits; for example, the outer shells of the suit-type jackets do not contain the required four or more panels; see note 3(a) of HTS chapter 62 for a complete definition of suits).

³ Export data are based on HTS subheadings 6203.11.00 (suits), 6203.31.00 (sport coats), and 6203.41.00 (trousers).

Note.—Official statistics of the U.S. Department of Commerce, which were used to develop the data on apparent U.S. consumption (production plus imports minus exports), overstate the total size of the U.S. market for men's worsted wool tailored clothing in terms of the market conditions being monitored under Title V of the Trade and Development Act of 2000. First, production data include garments that are cut in the United States, exported for sewing, and imported as finished apparel. Second, import and export data include garments not covered by the Act (e.g., those comprising more than 50 percent wool by weight but less than 85 percent). Finally, the data include clothing made from woolen fabric, which is not covered by the Act, along with the subject garments of worsted wool fabric.

Source: Compiled from official statistics of the U.S. Department of Commerce, except as noted.

of manufacturing establishments in the industry totaled an estimated 180 in 2003.⁷ U.S. Bureau of Labor Statistics data indicate that total employment in men's cut-and-sew apparel manufacturing in 2003 declined by 16 percent from the 2002 level. The decline in this sector, which encompasses a greater number of establishments and employees than the men's worsted wool tailored clothing sector, can be considered reasonably indicative of trends in the industry.

U.S. tailored clothing manufacturers responding to the Commission's questionnaire indicated that the industry is continuing to downsize its U.S. production. ***. Additional information indicates that clothing manufacturers continue to increase their offshore production or global outsourcing of tailored clothing.⁸ *** and several fabric producers report that they ship a majority of their output, particularly coarse-micron fabrics, to offshore assembly operations (see chapter 3 for more information on domestic fabric producers' shipments to offshore producers of men's tailored clothing).

The U.S. tailored clothing industry comprises one large firm, a few medium-sized producers, and several smaller companies. The largest U.S. manufacturer of men's tailored clothing, Hartmarx Corp., accounted for *** percent of the total quantity of U.S. production of worsted wool suits, *** percent of worsted wool sport coats, and *** percent of worsted wool trousers in 2003. The medium-sized producers, *** accounted for a combined *** percent of worsted wool suit production, *** percent of worsted wool sport coat production, and *** percent of worsted wool trouser production.

Production

According to data received in response to Commission questionnaires, U.S. production of men's worsted wool tailored clothing totaled roughly 8.1 million SMEs in 2003, representing a decrease of 27 percent from that in 2001 (table 2-2).⁹ The decline in total U.S. output of men's worsted wool tailored clothing during 2001-03 reflected a substantial decrease in production of worsted wool trousers and sport coats of 58 percent and 46 percent, respectively. Suit production was comparatively stable, declining by less than 0.5 percent during the period. The 2001-03 data show a notable shift in production from coarse-micron to fine-micron garments. U.S. production of fine-micron tailored clothing in 2003 grew by 26 percent over the 2001 level, while output of

⁷ The estimate of the number of tailored clothing manufacturers may be overstated. The above number is based on figures for 2001, the last year for which official data on the number of industry establishments were available, and was adjusted to reflect the approximate number of producers known to have ceased operations in the United States since 2001. As information on larger companies is more readily available, this estimate likely does not capture the number of small firms that may have exited the industry during the period covered by this report.

⁸ ***

⁹ Data on production of worsted wool clothing for 2001 were compiled from responses to purchaser questionnaires used in the preparation of *Certain Wool Articles: Second Annual Report on U.S. Market Conditions*, Inv. No. 332-427, USITC publication 3544, Sept. 2002. The Commission did not use questionnaires to obtain 2002 production figures for its subsequent report, *U.S. Market Conditions for Certain Wool Articles in 2002-03*, Inv. No. 332-449, USITC publication 3641, Sept. 2003, but rather estimated production based on information obtained through telephone interviews with certain major domestic tailored clothing manufacturers. As a result, available production data for 2001 are most comparable with the data for 2003 obtained in the current investigation, and are thus used here in comparison to best reflect trends in men's worsted wool tailored clothing production.

Table 2-2
Men's and boys' worsted wool suits, sport coats, and trousers: U.S. production, by micron counts, 2001, 2003, Jan.-Mar. 2003, and Jan.-Mar. 2004

(1,000 units)

Item	2001	2003	Jan.-Mar.--	
			2003	2004
Suits	1,022	1,020	276	271
18.5 microns or less	***	***	***	***
Greater than 18.5 microns	***	***	***	***
Sport coats	817	439	117	137
18.5 microns or less	***	***	***	***
Greater than 18.5 microns	***	***	***	***
Trousers	1,255	527	161	115
18.5 microns or less	***	***	***	***
Greater than 18.5 microns	***	***	***	***

Source: Compiled from data submitted by U.S. tailored clothing manufacturers in response to Commission questionnaires. Data for 2002 used by the Commission in previous reports are not directly comparable, and are therefore omitted from the table. Such data were based on estimates from a smaller number of companies than were surveyed during the current investigation.

coarse-micron tailored clothing decreased by 51 percent. However, production of both fine-micron and coarse-micron trousers fell during the period; the former declined by a far narrower margin and likely reflected the absolute steep decline in total trouser production rather than incongruence with the broader trend.

Anecdotal information suggests that changes in production during 2002-03 support the above 2-year trends. While official data show that domestic consumption rose during 2002-03, U.S. tailored clothing manufacturers report a decline in the overall market for their goods for this period.¹⁰ At the same time, certain U.S. manufacturers report increases in output during 2002-03 in narrower segments of the market, particularly suit production.¹¹ Manufacturers also report an increase in the production of fine-micron garments in 2003 over 2002 levels, reflecting the longer term trend noted above. According to industry representatives, these changes reflect a marginal return to classic suiting in the workplace, as well as consumer preferences for finer quality fabrics. Similarly, manufacturers that reported increased output in 2003 primarily or exclusively produce men's tailored clothing for the high end of the retail market, whereas many of the companies that reported static or decreased output produce suits priced in the medium to low end of the retail market.¹² This corresponds to a reported increase in consumer demand for upscale apparel and a probable shift in U.S. production of low-end tailored clothing to offshore locations.

Despite reports from industry sources that the retail market for tailored clothing is gaining strength in 2004, production data compiled from questionnaire responses for the first quarter of 2004 show a 4-percent decline in the production of men's worsted wool tailored clothing from the first-quarter 2003 level. The ebb in production largely reflects declines in suit

¹⁰ ***

¹¹ Responses to Commission questionnaires; and ***

¹² Responses to Commission questionnaires.

and trouser output, as the production of sport coats rose by 17 percent in the period. Nonetheless, the shift towards fine-micron garments continued in the first quarter of 2004, with production of fine-micron suits, sport coats, and trousers up by 9 percent, and coarse-micron tailored clothing production down by 11 percent as compared with the first quarter of 2003. Industry sources suggest that the discrepancy between the rebounding 2004 market and lower first quarter production figures (as well as decreased imports) may partially be explained by some clothing manufacturers selling off inventory early this year. According to a U.S. industry source, production data for the remainder of 2004 may better reflect the reported upturn.¹³

U.S. Imports

U.S. imports of men's wool suits, sport coats, and trousers collectively totaled 83.7 million SMEs in 2003, representing an increase of 8 percent, or 6.2 million SMEs, over the 2002 level (table 2-3).¹⁴ This increase reflected greater imports of suits and sport coats, which rose by an aggregate 7.1 million SMEs and more than offset the small decline in trouser imports of 0.9 million SMEs. Between 1999 and 2003, total imports of men's wool tailored clothing rose almost without interruption, by 22 percent or 15.1 million SMEs. In the first quarter of 2004, imports of men's wool tailored clothing were down by 5 percent (or 1.1 million SMEs) from those in the corresponding period of 2003, as the decline in imports of sport coats and trousers more than offset the increase in suit imports.

The primary foreign suppliers of men's wool tailored clothing by SMEs in 2003 were the NAFTA partners Mexico and Canada, which together accounted for 34 percent of total imports. Imports of qualifying goods from Mexico and Canada are eligible to enter free of duty under NAFTA. Italy, which is renowned as a source of high-quality tailored garments made from superior fabrics, was the third-largest supplier, accounting for 14 percent of total imports. An additional 13 percent of U.S. imports of men's wool tailored clothing came from Caribbean Basin and Andean countries that are eligible for trade preferences under the CBTPA or the ATPDEA.¹⁵ In addition to preferential access to the U.S. market, the Caribbean Basin and Andean countries benefit from low-cost labor and proximity to the United States, making them attractive locations for offshore production by U.S. tailored clothing manufacturers. Imports of men's wool tailored clothing from other developing countries increased in prominence, with imports from countries such as Vietnam, South Africa, Turkey, and India growing individually by 100 percent or more during 1999-2003.

U.S. imports of men's wool tailored clothing consist mostly of coarse-micron garments, which accounted for 86 percent of total imports by quantity in 2003; fine-micron garments accounted for the remaining 14 percent. These percentages remained essentially unchanged from

¹³ ***

¹⁴ In order to discuss the quantity of U.S. imports of men's and boys' wool suits, sport coats, and trousers collectively, the quantity of imports, in terms of units, in tables 2-3, 2-4, and 2-5, were converted to SMEs as follows: one suit equals 5.3 SMEs, one sport coat equals 3.1 SMEs, and one pair of trousers equals 2.6 SMEs.

¹⁵ Under CBTPA, U.S. firms no longer need to cut fabrics into garment parts to qualify for trade preference on finished garments.

Table 2-3
Men's and boys' wool suits, sport coats, and trousers: U.S. imports for consumption, by principal sources, 1999-2003, Jan.-Mar. 2003, and Jan.-Mar. 2004

(1,000 units)

Item and source	1999	2000	2001	2002	2003	Jan.-Mar.--	
						2003	2004
Suits:							
Canada	1,307	1,024	883	936	1,273	354	359
Mexico	1,195	1,293	989	1,075	1,180	332	303
Italy	1,187	1,200	1,125	1,112	1,110	341	284
Korea	306	344	184	288	376	150	116
India	146	170	168	231	360	93	95
Colombia	99	111	138	157	260	52	83
Poland	190	169	138	211	224	64	29
Vietnam	0	2	0	2	145	22	120
China	123	125	104	151	134	60	33
All other	1,632	1,785	1,394	1,350	1,393	330	434
Total	6,185	6,221	5,123	5,513	6,455	1,797	1,855
Sport coats:							
Mexico	446	532	826	871	1,030	199	191
Canada	563	732	681	748	828	162	165
Colombia	598	737	594	497	617	155	150
Italy	552	553	562	458	417	111	87
South Africa	54	70	127	300	320	34	7
Dominican Republic	452	441	439	367	309	40	49
China	221	231	152	240	262	74	46
Poland	134	107	156	174	197	52	36
Korea	116	162	131	130	191	28	18
All other	1,674	2,082	1,749	1,626	1,907	445	262
Total	4,810	5,646	5,416	5,411	6,079	1,298	1,010
Trousers:							
Mexico	1,320	1,652	1,992	1,952	2,194	586	446
Italy	1,584	1,869	2,056	2,128	1,868	567	365
Canada	1,284	1,698	1,589	1,928	1,658	388	525
China	821	825	561	826	824	229	160
Colombia	495	551	456	668	753	241	331
India	145	436	886	761	734	131	97
Turkey	6	36	235	190	405	52	77
Dominican Republic	582	826	900	600	390	92	84
Korea	332	422	323	362	343	88	132
All other	1,449	2,825	2,191	2,707	2,613	558	2,217
Total	8,018	11,139	11,191	12,123	11,782	2,931	2,716

Note.—Import data are based on trade reported under HTS statistical reporting numbers 6203.11.2000, 6203.11.6000, 6203.11.9000, 6203.31.0010, 6203.31.5010, and 6203.31.9010 (suits); 6203.21.0015, 6203.21.3015, 6203.21.9015, 6203.31.0020, 6203.31.5020, and 6203.31.9020 (sport coats); and 6203.21.0020, 6203.21.3020, 6203.21.9020, 6203.41.1210, 6203.41.1220, 6203.41.1510, 6203.41.1520, 6203.41.1810, and 6203.41.1820 (trousers). Imports of the trousers were reduced by a quantity equal to the quantity of suit-type jackets imported under HTS 6203.31.0010, 6203.31.5010, and 6203.31.9010 (suit-type jackets imported as parts of suits that do not meet the requirements for tariff classification as suits; for example, the outer shells of the suit-type jackets do not contain the required four or more panels; see note 3(a) to HTS chapter 62 for a complete definition of suits).

Source: Compiled from official statistics of the U.S. Department of Commerce.

the previous year when imports of coarse-micron and fine-micron garments accounted for 87 percent and 13 percent, respectively. During the first quarter of 2004, the share of total imports of men's wool tailored clothing accounted for by fine-micron garments was 16 percent, up from 13 percent during the first quarter of 2003.

Suits represented the largest import category for men's wool tailored clothing in 2003, accounting for 41 percent (or 34.2 million SMEs) of total imports. Canada, Mexico, and Italy were the top sources for men's wool suits. Mexico remained the primary source for fine-micron suits (table 2-4), while Canada displaced Italy as the major supplier of coarse-micron suits in 2003 (table 2-5). Imports of both coarse-micron and fine-micron suits rose in 2003, with imports of coarse-micron suits up by 14 percent and imports of fine-micron suits up by 34 percent over their respective 2002 levels.

Imports of wool sport coats also increased in 2003 (by 12 percent), with Mexico as the major supplier of both coarse-micron and fine-micron sport coats. Imports of coarse-micron sport coats from Mexico rose by 9 percent during 2002-03, while imports of fine-micron sport coats from Mexico increased by a notable 91 percent. Other major suppliers of fine-micron sport coats were Colombia and Italy. The second and third largest suppliers of coarse-micron sport coats in 2003 were Canada and Colombia, respectively.

In contrast to growth in imports of suits and sport coats, there was a slight decline in imports of men's wool trousers of 3 percent in 2003. Imports of coarse-micron trousers declined by 2 percent during 2002-03; they largely originated in Mexico, Italy, and Canada. Imports of fine-micron trousers decreased by 9 percent and were primarily supplied by Canada and Mexico, with Turkey emerging as the third-largest supplier in 2003.

Table 2-4

Men's and boys' wool suits, sport coats, and trousers: U.S. imports for consumption, 18.5 microns or less, by principal sources, 2002-03, Jan.-Mar. 2003, and Jan.-Mar. 2004

(1,000 units)

Item and source	2002	2003	Jan.-Mar.--	
			2003	2004
Suits:				
Mexico	428	642	194	190
Italy	79	113	41	33
Canada	87	62	19	16
Indonesia	57	59	15	18
India	6	58	0	45
All other	142	139	44	74
Total	799	1,072	314	376
Sport coats:				
Mexico	100	191	42	60
Colombia	87	119	21	57
Italy	102	116	19	32
Tunisia	52	105	27	23
Dominican Republic	51	100	18	18
All other	596	575	132	81
Total	987	1,207	259	270
Trousers:				
Canada	403	219	35	74
Mexico	138	153	24	20
Turkey	(¹)	137	(¹)	34
Italy	124	97	10	16
Thailand	126	79	0	0
All other	² 189	210	² 25	29
Total	978	894	91	174

¹ Because of discrepancies in official U.S. trade statistics, imports from Turkey cannot be accurately calculated.

² Figure may be overstated because of discrepancies with respect to official import statistics for Turkey.

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 2-5

Men's and boys' wool suits, sport coats, and trousers: U.S. imports for consumption, greater than 18.5 microns, by principal sources, 2002-03, Jan.-Mar. 2003, and Jan.-Mar. 2004

(1,000 units)

Item and source	2002	2003	Jan.-Mar.--	
			2003	2004
Suits:				
Canada	849	1,211	334	343
Italy	1,032	997	300	251
Mexico	648	538	138	112
Korea	253	360	145	93
India	225	302	93	50
All other	1,707	1,974	474	630
Total	4,714	5,383	1,484	1,479
Sport coats:				
Mexico	771	839	157	131
Canada	714	774	148	150
Colombia	410	498	134	93
Italy	356	301	91	55
China	222	245	63	45
All other	1,951	2,215	446	265
Total	4,423	4,872	1,040	740
Trousers:				
Mexico	1,814	2,041	562	426
Italy	2,004	1,771	557	348
Canada	1,525	1,440	353	451
China	818	819	225	160
Colombia	645	752	241	331
All other	4,339	4,065	902	826
Total	11,145	10,888	2,840	2,542

Source: Compiled from official statistics of the U.S. Department of Commerce.

CHAPTER 3

U.S. MARKET CONDITIONS FOR CERTAIN WORSTED WOOL FABRICS

The U.S. market for worsted wool fabrics used in the production of men's and boys' tailored clothing in the United States (the subject fabrics) declined during 2002-03 as both U.S. production and imports of such fabrics declined during the period. Most of the decline in the market occurred in coarse-micron worsted wool fabrics as imports of these fabrics decreased significantly. The market for fine-micron fabrics remained approximately the same in 2003 as in 2002. The decrease in the market for the subject worsted wool fabrics occurred as domestic production of men's tailored clothing declined. However, U.S. production of worsted wool fabrics for all end uses, including men's tailored clothing, increased in 2003 from the 2002 level, because U.S. tailored clothing producers increased their purchases for offshore production for the U.S. market under the NAFTA, CBTPA, and ATPDEA.¹

U.S. Market for Worsted Wool Fabrics

The Commission estimates that the size of the U.S. market for worsted wool fabrics used in the production of men's and boys' tailored clothing in the United States declined from 12.5 million square meters in 2002 to *** million square meters in 2003 (table 3-1). The decline in demand for such fabrics reflects the ongoing decrease in U.S. production of men's tailored clothing, as discussed in chapter 2 of this report. Many U.S. tailored clothing manufacturers purchasing domestic worsted wool fabrics export them to countries that benefit from preferential access to the U.S. apparel market under NAFTA, CBTPA, and ATPDEA for cutting and sewing, and then import the finished goods into the United States free of duty under these programs. Imports continued to supply most of the U.S. market for the subject fabrics (approximately *** percent in 2003).²

The decline in the U.S. market for the subject fabrics in 2003 occurred mostly in coarse-micron fabrics, demand for which fell to an estimated *** million square meters from an estimated *** million square meters in 2002 (table 3-1). The decline in the market for coarse-micron fabrics was accounted for almost entirely by imports; U.S. production of coarse-micron fabrics remained stable at an estimated *** million square meters. As noted in chapter 2 of this report, the decline in U.S. production of men's worsted wool tailored clothing during 2001-03

¹ The countries covered by these trade agreements are: Mexico (NAFTA), Colombia (ATPDEA), and the Caribbean Basin countries (CBTPA).

² The import estimates for the subject fabrics are lower than official U.S. import statistics for the fabrics, as presented in tables 3-5 and 3-6 of this chapter, because official statistics include, in addition to the subject fabrics, fabrics used in such applications as women's apparel.

Table 3-1
Worsted wool fabrics for use in U.S. production of men's and boys' tailored clothing (the subject fabrics): Estimated size of U.S. production, imports, and market, 2001-03¹

(Million square meters)

Item and year	Production ²	Imports ³	U.S. market ⁴
Total:			
2001	***	***	13.0-14.0
2002	***	***	12.5
2003	***	***	***
18.5 microns or less:			
2001	***	***	***
2002	***	***	***
2003	***	***	***
Greater than 18.5 microns:			
2001	***	***	***
2002	***	***	***
2003	***	***	***

¹ Includes only that fabric for use in the domestic production of men's and boys' tailored clothing.

² Estimated production is based on domestic production of worsted wool fabrics for use in U.S. production of men's and boys' tailored clothing, minus direct exports by domestic fabric producers. The production estimates for 2001 and 2002 are somewhat overstated because an unknown, but believed to be small, portion of these fabrics were used in garments assembled under offshore production operations. Production estimates for 2003 are believed to include only a minimal amount of fabrics used in garments assembled in offshore production operations. ³ Estimated imports represent the residual, or the difference between the estimate for the total market and the estimate for domestic production.

⁴ U.S. market data for 2002 were estimated by the Commission based on information obtained from U.S. tailored clothing manufacturers in telephone interviews and e-mail correspondence during 2003.

Source: Data for 2001 were estimated by the Commission based on questionnaire responses and telephone interviews of industry representatives conducted during 2001-02, and U.S. Customs Service data. Data for 2002 were estimated by the Commission based on telephone interviews and e-mail correspondence with industry representatives conducted primarily during 2003. Data for 2003 were estimated by the Commission based on questionnaire responses and telephone interviews of industry representatives conducted during 2004.

occurred entirely with respect to garments of coarse-micron fabrics. The U.S. market for fine-micron fabrics in 2003 remained relatively unchanged from the 2002 level at *** million square meters, as a *** increase in imports of *** million square meters offset a *** in domestic production of *** million square meters.

U.S. production capacity for worsted wool fabrics for all end uses (e.g., men's tailored clothing as well as women's clothing and athletic caps) totaled an estimated *** million square meters³ in 2003, down from *** million square meters in 2002 (table 3-2). Of this total capacity, U.S. production of worsted wool fabrics for all end uses, including the subject fabrics, totaled an estimated *** million square meters in 2003. Although approximately *** of this production was intended for men's tailored clothing in 2003, only a *** of the fabrics (an estimated *** million square meters) was used in the manufacture of men's tailored clothing in the United

³ Data do not include ***.

States. The remainder of the U.S.-produced worsted wool fabrics intended for men's tailored clothing was shipped offshore for foreign production (table 3-3).⁴

Table 3-2

Worsted wool fabrics: U.S. capacity and production for all end uses and for U.S.-made men's and boys' tailored clothing, by company, 2002, 2003, Jan.-Mar. 2003, and Jan.-Mar. 2004

* * * * *

Table 3-3

Worsted wool fabrics used in the production of men's and boys' tailored clothing: U.S. production, including exports and fabrics used in offshore assembly operations, and excluding exports and fabrics used in offshore assembly operations, and share of U.S. fabric production used in offshore tailored clothing production, by company, 2003

* * * * *

U.S. production of worsted wool fabrics for all end uses, including production of men's tailored clothing in the United States and offshore, rose by an estimated *** percent in 2003 from the 2002 level, whereas U.S. production of worsted wool fabrics for use in the manufacture of men's tailored clothing in the United States fell by *** percent (table 3-4). This divergent trend in worsted wool fabric production largely reflected the increased use of offshore production in NAFTA, CBTPA, and ATPDEA countries by U.S. tailored clothing manufacturers, as discussed in chapter 2 of this report. In the first quarter of 2004, U.S. production of all worsted wool fabrics fell by an estimated *** percent from the level in the same period in 2003 (table 3-2), compared with a decline of *** percent in U.S. production of worsted wool fabrics for use in the manufacture of men's tailored clothing in the United States (table 3-4).

Table 3-4

Worsted wool fabrics for U.S. production of men's and boys' tailored clothing: U.S. production, total and by company, 2002, 2003, Jan.-Mar. 2003, and Jan.-Mar. 2004

* * * * *

U.S. Imports

U.S. imports of all types of worsted wool fabrics, including the subject fabrics, rose by less than 1 percent in 2003 from the level in 2002 to 15.3 million square meters (table 3-5). A small increase in imports of fine-micron fabrics offset a small decrease in those of coarse-micron fabrics (table 3-6). U.S. imports of all worsted wool fabrics declined by 23 percent in the first

⁴ According to questionnaire responses by ***.

Table 3-5
Worsted wool fabrics:¹ U.S. imports for consumption, by principal sources, 1999-2003,
Jan.-Mar. 2003, and Jan.-Mar. 2004

(1,000 square meters)

Source and item	1999	2000	2001	2002	2003	Jan.-Mar. --	
						2003	2004
Italy	5,215	4,849	4,450	5,155	6,288	1,400	1,161
Mexico	3,035	5,252	5,251	3,077	2,813	837	299
Canada	1,303	2,158	2,067	2,006	1,419	488	264
Korea	1,994	1,453	1,406	1,358	1,138	342	436
China	862	514	393	315	657	137	150
India	1,360	1,301	1,175	687	621	225	103
United Kingdom	516	520	491	438	424	80	77
Uruguay	804	634	471	289	413	80	107
Israel	1,012	1,002	614	532	357	135	89
Turkey	710	847	519	199	350	58	106
Brazil	807	851	487	203	252	25	57
Germany	812	864	519	332	170	41	98
Peru	312	361	199	110	77	15	14
South Africa	81	52	131	42	72	22	30
Chile	94	182	98	36	59	10	16
All other	920	939	907	420	202	43	37
Total	19,837	21,780	19,177	15,199	15,312	3,937	3,042
Imports receiving duty-free treatment under:							
NAFTA	4,299	7,373	7,305	5,074	4,188	1,322	558
U.S.-Israel FTA	1,012	1,000	575	532	357	135	89
Total duty-free imports	5,310	8,372	7,880	5,606	4,545	1,456	646

¹ Includes imports of worsted wool fabrics classified in HTS subheadings 5112.11.20, 5112.11.30, 5112.11.60, 5112.19.60, 5112.19.90, and 5112.19.95.

Note.—Figures may not add to totals shown because of rounding.

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 3-6
Worsted wool fabrics: U.S. imports for consumption, by micron counts and by principal sources, 2001-03, Jan.-Mar. 2003, and Jan.-Mar. 2004

(1,000 square meters)

Item and source	2001	2002	2003	Jan.-Mar.--	
				2003	2004
Worsted wool fabrics, 18.5 microns or less:					
Italy	1,394	2,720	2,227	823	545
Korea	304	123	534	216	176
Mexico	712	322	275	69	28
United Kingdom	191	185	258	44	44
China	218	99	222	14	92
Turkey	187	77	120	11	16
Uruguay	111	27	73	35	(¹)
Brazil	154	3	66	2	15
India	118	64	41	10	16
All other	671	203	151	42	62
Total	4,059	3,823	3,967	1,267	995
Worsted wool fabrics, greater than 18.5 microns:					
Italy	3,056	2,435	4,061	578	616
Mexico	4,539	2,755	2,538	768	271
Canada	2,007	1,998	1,379	488	218
Korea	1,102	1,235	604	126	260
India	1,057	623	580	215	87
China	175	216	435	122	58
Uruguay	360	262	340	45	106
Israel	447	475	334	119	80
Turkey	332	122	229	47	90
All other	2,043	1,256	842	163	262
Total	15,118	11,376	11,344	2,670	2,047
Total worsted fabrics	19,177	15,199	15,312	3,937	3,042

¹ Less than 500 square meters.

Note.—Figures may not add to totals shown because of rounding.

Source: Compiled from official statistics of the U.S. Department of Commerce.

quarter of 2004 compared with the level in the first quarter of 2003, with declines in both fine-micron and coarse-micron fabrics.

U.S. imports from Italy, by far the largest foreign supplier of imports of all worsted wool fabrics, accounted for 40 percent of the total quantity of imports in 2003. U.S. imports of all worsted wool fabrics from Italy in 2003 rose by 22 percent over the 2002 level. The increase in imports from Italy in 2003 consisted entirely of coarse-micron fabrics, which increased by 67 percent to 4.1 million square meters, or 36 percent of total U.S. imports of coarse-micron fabrics (table 3-6). U.S. imports of fine-micron fabrics from Italy declined by 18 percent to 2.2 million square meters, or 56 percent of total U.S. imports of such fabrics in 2003. The increase in U.S.

imports of all worsted wool fabrics from Italy in 2003 occurred despite the strength of the euro against the U.S. dollar, which effectively reduced the price competitiveness of the Italian fabrics in the U.S. market.

Italy's competitiveness largely reflects the ability of Italian mills to produce a wide range and variety of high-quality fine micron and coarse-micron fabrics and to market them in small lot sizes (as small as 50 linear meters).

U.S. imports of all worsted wool fabrics receiving duty-free treatment under NAFTA and the U.S.-Israel Free Trade Agreement declined by 19 percent in 2003 from the 2002 level (table 3-5).⁵ Most of these imports entered free of duty under NAFTA, with the imports from Mexico declining by 9 percent and those from Canada declining by 29 percent (table 3-5). The imports from these countries continued to fall in the first quarter of 2004, by 58 percent from the year-earlier period; imports from Mexico fell by 64 percent and those from Canada fell by 46 percent. Coarse-micron fabrics accounted for most U.S. worsted wool fabric imports from the NAFTA countries, and also accounted for most of the decline in the 2003 through March 2004 period (table 3-6). Mexico's share of the U.S. import market for all worsted wool fabrics fell from 20 percent in 2002 to 18 percent in 2003, while Canada's share decreased from 13 percent to 9 percent. U.S. imports of fine-micron fabrics from Mexico have declined steadily since at least 2001. Industry sources reported that production of men's tailored clothing in Mexico is increasing, and more U.S. men's tailored clothing manufacturers are using offshore production operations in Mexico.

Korea replaced Mexico as the second-largest U.S. foreign supplier of fine-micron worsted wool fabrics in 2003, as its shipments increased by more than 300 percent to 534,000 square meters. However, imports of coarse-micron fabrics from Korea in 2003 declined by almost one-half from the 2002 level. Imports of all worsted wool fabrics from China in 2003 increased by 109 percent over the 2002 level to 657,000 square meters, making China a distant fifth among the top suppliers (table 3-5). China supplied both fine-micron and coarse-micron fabrics to the U.S. market during the period. U.S. imports of these fabrics from Korea and China are constrained by quotas. When the quotas end on January 1, 2005, it is likely that imports of the fabrics from these two countries could increase considerably.

U.S. Worsted Wool Fabric Industry⁶

The U.S. worsted wool fabric industry in 2003 and the first quarter of 2004 consisted of the Warren Corp., Stafford Springs, CT; Burlington Industries (WorldWide), Greensboro, NC; Cleyn & Tinker International, Inc., Malone, NY; and Victor Forstmann, Inc., Dublin, GA. The industry underwent significant changes in its production mix during the period, responding to the

⁵ Duty-free imports of all worsted wool fabrics from Israel entering under the U.S.-Israel Free Trade Agreement have declined steadily since at least 1999, reaching only 357,000 square meters in 2003. These imports from Israel dropped further to 89,000 square meters in the first quarter of 2004, compared with 135,000 square meters in the same period of 2003.

⁶ Unless otherwise indicated, information in this section is based on questionnaire responses by the U.S. fabric producers and telephone interviews and e-mail correspondence with these producers.

needs of its tailored clothing customers, who moved significant quantities of production offshore. Total U.S. production capacity for worsted wool fabrics for all end uses continued to decline to an estimated *** million square meters in 2003,⁷ from an estimated *** million square meters in 2002 reflecting Burlington's shift of some of its worsted wool yarn and fabric operations from the United States to Mexico (table 3-2). The majority (roughly *** percent) of the reported capacity remained idle in 2003, when the textile industry produced just *** million square meters of worsted wool fabrics for all end uses.

During 2003, the tariff rate quotas (TRQs) for coarse-micron and fine-micron fabrics had fill rates of 77.2 percent and by 77.8 percent, respectively. These lower than 100-percent fill rates do not indicate that all companies did not fully utilize the TRQs. The TRQs are allocated on a company by company basis and some companies fully utilized their quotas while others did not.

Burlington Industries

Burlington Industries (Burlington) filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code in November 2001. As part of its reorganization, Burlington significantly reduced its domestic production of the subject fabrics and moved all of its production of fine-micron fabrics to Mexico. Burlington currently produces only coarse-micron worsted wool fabrics domestically. The company emerged from bankruptcy on November 11, 2003, when it was purchased by the WL Ross Group. The WL Ross Group subsequently purchased Cone Mills, a U.S. fabric producer that had also been in Chapter 11 bankruptcy proceedings, and merged the two textile firms into a new textile company, the International Textile Group (ITG), with reported combined sales of \$900 million. Burlington stated that the restructure of its debt and production capacity has allowed it to better serve its customers.

Burlington reported that its U.S. production capacity for worsted wool fabrics for all end uses, including the subject fabrics, totaled an estimated *** million square meters in 2003. The firm stated that ***. The firm indicated that ***.⁸ Burlington stated that ***.

Burlington's production of worsted wool fabrics for all end uses, including the subject fabrics, *** square meters from the 2002 level (table 3-2). ***. Burlington's production of the subject worsted wool fabrics was estimated to account for approximately *** percent of its production of worsted wool fabrics for all end uses or *** square meters in 2003 and to have *** from the 2002 level.

Burlington noted that as of January 1, 2003, ***.⁹

Warren Corp.

Warren Corp. (Warren), owned by Loro Piana of Italy, is the largest U.S. producer of the subject fabrics, *** (table 3-2). Warren continues to be the primary U.S. producer of fine-

⁷ The production capacity figure does not include capacity of an estimated ***.

⁸ ***

⁹ ***

micron fabrics for domestic production of men's tailored clothing in the United States. Warren reported that *** percent of its U.S. production of worsted wool fabrics in 2003 was used in men's tailored clothing.¹⁰ Warren traditionally sold fine-micron fabrics to customers that produce men's tailored clothing domestically for the medium to high end of the retail market. However, Warren stated that ***. As a result of the changes in customer base, Warren estimated that *** percent of its subject fabrics in 2003 were intended for suits selling in the high end of the U.S. retail market (\$700 or more per suit), compared with *** percent in 2001.¹¹ Approximately *** percent of Warren's subject fabrics during 2003 were intended for suits selling in the medium end (\$400 to \$699), and *** percent were intended for suits selling in the low end (less than \$400 per suit). Warren stated that ***¹² ***.

Warren's production of worsted wool fabrics for all end uses, including the subject fabrics, increased by approximately *** percent to *** million square meters in 2003 from the level in 2002, and is *** in the first quarter of 2004 from the level in the same period of 2003 (table 3-2). In 2003, an estimated *** square meters of Warren's production was sold to firms that manufacture men's tailored clothing domestically. This amount was *** percent, in terms of square meters, from worsted wool fabric production for domestic production of men's tailored clothing in 2002 and ***. Although Warren's production of the subject fabrics ***.

Cleyn & Tinker International Inc.

Cleyn & Tinker International, Inc. (Cleyn & Tinker) is a Canadian-based firm that manufactures worsted wool fabrics at its plant in Malone, NY, accounting for approximately *** percent, or *** square meters of total U.S. production of fine-micron worsted wool fabrics for domestic use in 2003, compared with *** percent for Warren. Cleyn & Tinker also produces coarse-micron fabrics, mostly for use in commercial uniforms, tuxedos, and other tailored clothing marketed in the *** of the market. In 2003, Cleyn & Tinker estimated that *** percent of its U.S. production of the subject fabrics was intended for suits selling in the medium end of the retail market (\$400 to \$699), *** percent was intended for suits selling in the low end (less than \$400 per suit); and *** percent was intended for suits selling in the high end (\$700 or more per suit).

Cleyn & Tinker's production of worsted wool fabrics for all uses, including the subject fabrics, *** square meters in 2003 from the level in 2002, and *** in the first quarter of 2004 from the level in the corresponding period of 2003 (table 3-2).¹³ Cleyn & Tinker stated that ***.¹⁴

Of Cleyn & Tinker's U.S. production of worsted wool fabrics for all end uses in 2003, an estimated *** percent, or *** square meters, was sold to companies that manufacture men's tailored clothing domestically. *** Cleyn & Tinker's production of worsted wool fabrics for

¹⁰ Response of Warren Corp. to the Commission questionnaire.

¹¹ USITC, *Certain Wool Articles: Second Annual Report on U.S. Market Conditions*, Inv. No. 332-427, USITC publication 3544, Sept. 2002, p. 3-11.

¹² Response of Warren Corp. to the Commission questionnaire.

¹³ ***

¹⁴ ***

companies that manufacture men's tailored clothing domestically *** in 2003 from the level in 2002, ***.

Victor Forstmann, Inc.

Victor Forstmann (Forstmann) ***, after producing *** of worsted wool fabrics in 2002. Forstmann's production of the subject fabrics totaled approximately *** square meters in 2003 and consisted *** fabrics. Production of the subject fabrics accounted for *** percent of Forstmann's total capacity to produce all worsted wool fabrics in 2003 and for *** percent of its capacity in the first quarter of 2004. ***.

CHAPTER 4

PRICES OF DOMESTIC AND IMPORTED WORSTED WOOL FABRICS¹

Prices for U.S. produced worsted wool fabrics were higher for fine-micron counts but lower for coarse-micron counts than comparable imported fabrics. Despite the decline of the dollar versus the euro, many U.S. tailored clothing manufacturers continued to purchase large quantities of high quality Italian fabrics.

Price Comparisons and Trends²

The data shown in table 4-1 for each specified fabric represent the total volume of sales reported by the mills for 2003, which were used to construct the average selling prices, and the total volume of purchases and direct imports reported by the clothing manufacturers for 2003, which were used to construct the average purchase prices. The price data are limited by several factors. First, the reported purchases of both domestic and imported fabrics were mostly accounted for by mid-range to high-end clothing manufacturers, which tend to purchase higher quality, more expensive fabric. This trend may cause differences between domestic selling prices, which generally cover a broader range of fabrics, and purchase prices. Second, prices may also vary by fabric style, weight, quality, weave construction, and the more detailed micron level of the wool, factors not distinguished in the data categories. Table 4-1 shows that purchases of domestic fabrics are much lower than sales of domestic fabrics, due to domestic fabric producers shipping most production overseas (as discussed in chapter 3). For this reason, this chapter will focus on comparing the purchase prices of domestic fabrics with the purchase prices of direct imports.

¹ Unless otherwise noted, information in this chapter is based on responses to Commission questionnaires sent to U.S. fabric producers (mills) and U.S. tailored clothing manufacturers that purchase and import worsted wool fabric.

² The Commission sent questionnaires to U.S. fabric producers requesting quarterly data on the total quantity and value of their shipments (sales) of the specified fabrics to unrelated U.S. customers (the clothing manufacturers). Similarly, the questionnaire sent to the U.S. tailored clothing manufacturers requested quarterly data on the total quantity and value of their purchases and direct imports of the specified fabrics for their own use. The sales data of the fabric producers were used to construct weighted average “selling prices,” and the purchase and direct import data of the clothing manufacturers were used to construct weighted average “purchase prices.” These data were collected in terms of linear yards and transformed into square meters by assuming that the fabric is woven in pieces 60 inches wide. Using this factor, one yard is equal to approximately 1.3935 square meters. Quarterly data were requested for the period January-March 2003 and January-March 2004, as well as full-year data for 2003. Because prices for worsted wool fabric can vary greatly owing to differences in the average micron level, price data were requested for fine-micron and coarse-micron fabrics separately.

Table 4-1
Worsted wool fabrics: Sales and purchases of domestic and imported fabrics, by types, 2003

(In square meters)

Product	Purchases of domestic fabric	Direct imports ¹	Purchases of imported fabric ¹	Sales of domestic fabric
18.5 microns or less	***	***	***	***
Greater than 18.5 microns	***	***	***	***

¹ Commission questionnaires asked purchasers to separate their purchases by U.S. fabric, direct imports, and other purchases. While questionnaires requested that firms report the source of their purchases of "other" fabrics, few did. Most who did indicated that such fabrics were, as expected, from import sources. The purchases of "other," presumably non-U.S., fabrics are reported here as "purchases of imported fabric."

Source: Compiled from data submitted in response to Commission questionnaires.

As reported by purchasers during January-March 2004, domestic fine-micron fabrics were priced higher than imports, and domestic coarse-micron fabrics were priced lower than imports, as shown in table 4-2. The average purchase price of domestic fine-micron fabrics was much higher than that for directly imported fabrics during the period covered by this report. In January-March 2004, the average purchase price per square meter for the domestic fabric was ***, compared with *** for directly imported fabrics. For coarse-micron fabrics, the clothing manufacturers' data show that the average purchase price of coarse-micron fabric made domestically was *** per square meter, which was lower than that for similar imported fabric (***). These results are generally consistent with the more detailed pricing data collected in previous reports, with the exception of some seller data from before 2001, in which some domestic coarse-micron fabrics had selling prices higher than imported coarse-micron fabrics.

Subject to previously discussed data limitations, the pricing data show similar trends of increasing prices for fine-micron and coarse-micron fabrics (table 4-2). From January-March 2003 to January-March 2004, purchase prices for domestic fine-micron fabrics rose by *** percent, purchase prices for directly imported fine-micron fabrics rose by *** percent, and purchase prices for other fine-micron fabrics rose by *** percent. Over that same period, purchase prices for domestic coarse-micron fabrics rose by *** percent, purchase prices for directly imported coarse-micron fabrics rose by *** percent, and purchase prices for other coarse-micron fabrics rose by *** percent. Possible reasons for the rising prices are discussed below.

Factors Affecting Prices

Prices of worsted wool fabrics are affected by changes in consumer demand for men's tailored clothing, which are discussed in chapter 2 of this report, as well as by changes in exchange rates of major exporting countries, transportation costs, raw material costs, and the changes in the TRQs.

Table 4-2
Worsted wool fabrics: Weighted-average selling and purchase prices for domestic and imported fabrics, by types,¹ 2003, Jan.-Mar. 2003, and Jan.-Mar. 2004

(Per square meter)

Product	Purchases of domestic fabric	Direct imports ²	Purchases of imported fabric ²	Sales of domestic fabric
2003:				
18.5 microns or less	***	***	***	***
Greater than 18.5 microns	***	***	***	***
Jan.-Mar. 2003:				
18.5 microns or less	***	***	***	***
Greater than 18.5 microns	***	***	***	***
Jan.-Mar. 2004:				
18.5 microns or less	***	***	***	***
Greater than 18.5 microns	***	***	***	***

¹ Weighted average selling and purchase prices for both domestic and imported fabric are f.o.b. U.S. point of shipment. Weighted average purchase prices for direct imports do not include U.S.-inland transportation costs for delivery.

² Commission questionnaires asked purchasers to separate their purchases by U.S. fabric, direct imports, and other purchases. While questionnaires requested that firms report the source of their purchases of “other” fabrics, few did. Most who did indicated that such fabrics were, as expected, from import sources. The purchases of “other,” presumably non-U.S., fabrics, are reported here as “purchases of imported fabric.”

Source: Compiled from data submitted in response to Commission questionnaires.

Exchange Rates

Currency depreciations of major exporting countries against the U.S. dollar reduce the price competitiveness of domestic fabrics relative to imports, while currency appreciations increase domestic fabrics’ price competitiveness. Most major wool fabric exporting countries’ currencies have appreciated against the dollar between January-March 2003 and January-March 2004. Graphs of exchange rate trends for the countries in table 4-3 can be found in appendix E.

Most of the tailored clothing manufacturers that responded to Commission questionnaires described prices for their worsted wool fabrics purchases as rising due to the recent decline of the dollar against the euro. Eleven tailored clothing manufacturers reported that they observed an increase in the price they paid for fine-micron fabric because of the dollar’s decline against the euro. Eight of the eleven stated that they had observed a similar increase in the price they paid for coarse-micron fabric because of the dollar’s decline against the euro, although *** stated that prices of coarse-micron fabric had remained the same. *** stated that Asian prices of both fine-micron and coarse-micron fabric had remained the same. *** stated that prices of fine-micron fabrics imported from Europe had seen “significant” increases from mid-2003 through March 2004 due to the dollar’s decline against the euro and British pound. It added that prices of domestic fine-micron fabrics had dropped from 2002 to 2003, and had not changed much since then.

Table 4-3
Overall appreciation or depreciation amounts for currencies of selected countries relative to the U.S. dollar¹

Country	(Percent)			
	Nominal exchange rate--		Real exchange rate--	
	Currency appreciation	Currency depreciation	Currency appreciation	Currency depreciation
Brazil	20.6		22.7	
Canada	14.6		8.8	
China	0.0	0.0		
Euro	16.5		13.6	
India	5.6		8.3	
Israel	8.2		7.8	
Korea	2.6		3.9	
Mexico		1.5	2.4	
Turkey	14.1		31.4	
United Kingdom	14.7		13.7	

¹ Changes in exchange rates are measured for the period Jan. 2003--Mar. 2004, although real changes in exchange rates may be calculated as changes from Jan.-2003 to Feb. 2004. A real exchange rate is not available for China.

Source: International Monetary Fund, *International Financial Statistics*, April 2004, May 2004.

Hartz & Company stated that it always uses Italian fabric because of its design and color, and that price increases in Italian fabric would not cause it to shift to other foreign suppliers. The firm said that its Italian suppliers had told it that higher Italian fabric prices were entirely due to the euro's recent appreciation. However, the firm added that while it had not yet raised its own suit prices for the current fall season, it would be compelled to do so for the coming spring season because of higher fabric prices.³

The NTA, which represents U.S. fabric producers, stated that continued strength in the euro could have a significant effect on competition in the U.S. fabric market, especially for high-end fabric producers like Warren that compete with expensive Italian fabric. However, it also did not see such changes evident in prices yet.⁴

Transportation Costs

Petroleum prices were stable during 2003 and early 2004, although they began to rise in the second quarter of 2004. From April 2003 through March 2004, transportation costs for worsted wool fabrics imported into the United States showed a modest decrease from the previous Commission report, although results varied by country and type of fabric. Transportation costs remain a small part of imported wool fabric costs (table 4-4).

³ Transcript of hearing pp. 29-30 and 72.

⁴ Transcript of hearing pp. 31-32.

Table 4-4

U.S. imports of worsted wool fabrics: Transportation costs, as measured by the share of the customs value accounted for by insurance and freight, by fabrics and by selected countries, for the 12-month periods ending March 2003 and March 2004

(Percent)

Type and country	12-month period ending--	
	March 2003	March 2004
Coarse-micron fabrics, all countries	3.2	3.9
Italy	4.6	4.7
Mexico	0.8	0.8
Canada	0.3	1.0
Korea	4.7	2.9
United Kingdom	8.3	8.2
Fine-micron fabrics, all countries	3.8	4.0
Italy	3.3	3.7
United Kingdom	6.9	5.6
Korea	2.2	3.7
Mexico	2.3	2.5
Canada	0.3	1.6
All wool fabrics from all countries	3.4	3.9

Source: Compiled from official statistics of the U.S. Department of Commerce.

Raw Materials

Wool in the form of worsted yarn is the major raw material in worsted wool fabrics, accounting for 30 to 35 percent of the selling price of the fabric.⁵ Fabric producers can either spin their own worsted yarn or purchase it.

Fabric producers generally described raw material prices as rising even as their own prices remained constant. *** stated that their raw material and other costs had increased, but that they had been unable to raise their selling prices because of competition from imported fabrics. *** said it had been unable to raise its fabric prices even as wool prices rose “dramatically,” but that when wool prices did begin to fall, prices of fabric from China and India began to fall significantly.

Few tailored clothing manufacturers mentioned raw material prices as a factor in price trends for the worsted wool fabrics that they purchase. *** reported a slight increase in prices of both fine-micron and coarse-micron fabric due to rising wool prices, but *** stated that wool prices were not a factor in the rising prices of fine-micron fabrics.

⁵ Moreover, the cost of wool yarn can account for as much as 50 percent of the fabric price. Pier Luigi Loro Piana, President, Warren Corp., transcript of year 1 hearing, pp. 185 and 186.

Effects of the Tariff-Rate Quotas

Reductions in U.S. duties on worsted wool fabrics covered by the TRQs may also affect the prices of worsted wool fabric. Such a reduction in duties on imports of fabric under the TRQs may lower prices and increase sales of dutiable fabric. The degree to which prices fall and sales increase depends on how much purchasers of imported fabrics in the U.S. market respond to price changes, how much market power foreign fabric mills can exert in the U.S. market, expected and actual demand for dutiable fabric, and TRQ allocations for individual tailored clothing manufacturers.⁶

The Tailored Clothing Association (TCA)⁷ overwhelmingly support an increase in TRQ allocations for both fine- and coarse-micron fabrics.⁸ They predicted potential benefits such as maintaining or improving competitive position relative to foreign competitors, increasing profits, expanding product lines, improving planning of season lines with the knowledge that fabric would be available, and increasing production and sales. In addition, the TCA stated that it favored changes in the legislation before next year so that orders can be placed with consideration of the six-to-eight month period before goods are sold to retailers.⁹

The NTA has stated that the proposed amendments to Title V of the Trade and Development Act of 2000 would be damaging to U.S. fabric producers, but that the proposed wool fabric trust fund will partially offset the losses incurred by an increase in TRQ levels.¹⁰

Pricing Methods

U.S. producers reported varying methods for determining their selling prices for worsted wool fabrics. ***.

U.S. producers reported different responses from recent movement in the price of wool fabrics. ***.

⁶ It should also be noted that because importers can choose to enter each shipment under either the in-quota or the over-quota category, importers may tend to enter higher priced fabric within the TRQ and their lower priced fabric at the over-quota higher duty rate.

⁷ See appendix D for details on the membership of the TCA.

⁸ Transcript of hearing, pp. 80-81.

⁹ Transcript of hearing, p. 64.

¹⁰ Transcript of hearing, pp. 21-22. See chapter 1 for additional information on the TRQs and proposed legislation.

CHAPTER 5

ABILITY OF DOMESTIC FABRIC PRODUCERS TO MEET THE NEEDS OF DOMESTIC CLOTHING MANUFACTURERS

Information available to the Commission¹ indicates that U.S. producers of worsted wool fabrics continue to supply only a small share of worsted wool fabrics used by U.S. tailored clothing manufacturers in the production of men's and boys' tailored clothing in the United States (the subject fabrics). As discussed in chapter 3 of this report, although the U.S. fabric producers have excess production capacity for worsted wool fabrics, they supplied just 10 percent of the total quantity of the subject fabrics used by the tailored clothing manufacturers in 2003. As noted in past Commission reports on wool articles, the critical importance of other (non-capacity) factors suggest that it is unlikely that there will be significant increases in purchases of domestic fabrics by clothing manufacturers that cut and sew garments in the United States. The clothing manufacturers contend that they need to be able to purchase small quantities of quality fabrics in a wide range of styles at competitive prices. Product quality, fashion, and differentiation are critical selling determinants in the medium to high end of the domestic retail market in which they sell their goods. *** make significant quantities of worsted wool fabrics (fine-micron fabrics) intended for tailored clothing sold in the medium to high end of the retail market. Because no one mill in the United States or abroad can design or make the range of fabrics necessary to ensure product differentiation, U.S. clothing manufacturers will likely continue to purchase a diversity of fabrics from different mills worldwide, particularly to spread financial risk and minimize their dependence on any one supplier.

In Terms of Quantity

According to data submitted by U.S. producers of worsted wool fabrics in response to Commission questionnaires, it appears that the U.S. worsted wool fabric industry has the production capacity to meet the quantity needs of the U.S. market for men's tailored clothing. However, the producers reported that they used some of this capacity to produce fabrics for other apparel items such as women's tailored garments and athletic caps. The U.S. worsted wool fabric industry reported total production capacity of approximately *** million SMEs, which exceeded the size of the U.S. men's tailored clothing market of approximately *** million SMEs in 2003 (see table 3-1 in chapter 3). However, U.S. production of worsted wool fabrics for use in domestic production of men's tailored clothing totaled only *** million SMEs in 2003,

¹ Information was obtained from responses to Commission questionnaires by U.S. worsted wool fabric producers and U.S. manufacturers of men's tailored clothing, and from telephone interviews and e-mail correspondence with industry representatives.

representing only *** percent of total U.S. production of worsted wool fabrics for all end uses of *** million SMEs in 2003.

In Terms of Market Demands for Clothing

U.S. tailored clothing manufacturers indicated in their questionnaire responses that style, quality, value, small lot sizes, and delivery times are the most important competitive factors in the U.S. market for the subject fabrics and that U.S. producers of such fabrics generally cannot meet these requirements.² U.S. tailored clothing manufacturers reported that during 2003, approximately 85 percent of their combined U.S. production of men's worsted wool suits was sold in the medium to high end of the retail market.³ By comparison, U.S. worsted wool fabric producers reported that approximately 45 percent of their fabric production was used to produce men's worsted wool suits sold in the medium to high end of the retail market. Many of the clothing manufacturers stated that the fabric producers offer only a limited number of fabric styles, especially for suits sold in the high end of the market; cannot offer quality comparable to the imported fabrics at competitive prices; and do not show flexibility in meeting the tailored clothing producers' needs in terms of lot sizes.

***. The other U.S. tailored clothing manufacturers responding to the Commission questionnaire reported that the U.S. fabric producers were not able to meet the specified competitive factors in 2003. ***.

U.S. fabric producers stated that they are attempting to compete with imports in several ways, depending on the types of worsted wool fabrics produced and the markets served by each company.⁴ Warren indicated that it is ***. Cleyn & Tinker stated that it is ***. Burlington indicated that it is ***.⁵ Burlington stated that ***. Burlington asserted that ***.⁶ In this area, Burlington said it is ***.

² For a detailed explanation of the elements affecting the ability of U.S. fabric producers to meet the needs of U.S. tailored clothing manufacturers, see U.S. International Trade Commission, *Certain Wool Articles: Second Annual Report on U.S. Market Conditions*, Inv. No. 332-427, USITC publication 3544, Sept. 2002, ch. 5.

³ Information in the rest of this paragraph is based on responses to Commission questionnaires. The tailored clothing respondents are estimated to account for *** percent of U.S. production of tailored clothing in 2003.

⁴ Unless otherwise indicated, information in the remainder of this section is based on questionnaire responses by U.S. producers of the subject fabrics and telephone interviews and e-mail correspondence with these producers.

⁵ ***

⁶ ***

CHAPTER 6

LOST SALES AND REVENUES

U.S. producers of worsted wool fabrics stated that they had lost sales or revenues as a result of imports of such fabrics benefitting from temporary duty reductions under the TRQs during the period January 1, 2003 through March 31, 2004. Two U.S. tailored clothing manufacturers also stated that they had lost sales or revenues owing to their inability to purchase adequate supplies of such fabrics on a cost-competitive basis.

Lost Sales and Revenues by U.S. Producers of Worsted Wool Fabrics

Three of the four U.S. producers of worsted wool fabrics that responded to Commission questionnaires stated that they had lost sales because of imports of worsted wool fabrics benefitting from temporary duty reductions under the TRQs, but only one producer provided specific information regarding lost sales. Warren Corp. reported that *** (table 6-1). Forstmann stated that ***.

Table 6-1
Lost sales and revenues allegations of producers of worsted wool fabrics

* * * * *

All four U.S. worsted wool fabric producers stated that they had lost revenues due to TRQs benefitting imports. Warren *** (table 6-1). Burlington reported that ***. Burlington further stated that ***.¹ Forstmann stated that ***. Cleyn & Tinker stated that ***.

Lost Sales and Revenues by U.S. Tailored Clothing Manufacturers

Two of the 17 tailored clothing manufacturers responding to Commission questionnaires reported lost sales or revenues during the period January 1, 2003-March 31, 2004, because of their inability to purchase adequate supplies of worsted wool fabrics on a cost-competitive basis. ***. No company reported that it had rolled back announced price increases to avoid lost sales during the specified period.

¹ ***

CHAPTER 7

U.S. MARKET CONDITIONS FOR WOOL FIBERS AND YARNS

It is estimated that U.S. mill consumption of wool for the subject products continued to decline in 2003, reflecting declines in the U.S. production and purchases of yarns by producers of worsted wool fabrics. Worsted wool yarn consumption increased during January-March 2004 reflecting increased production of all worsted wool fabrics. Worsted wool yarn production also increased as a result of several industry factors, including ***.

Wool Fibers

U.S. wool production decreased for the fourteenth straight year in 2003 to 9.1 million kilograms (kg) (clean content), down by about 8 percent from 2002 (table 7-1). Data are no longer published by the U.S. Census Bureau for U.S. mill consumption of raw wool both at the aggregate level and for worsted apparel of a kind covered by this Commission report.¹ However, it is believed that U.S. mill consumption of wool for the subject yarns and fabrics continued to decline in 2003, based on declines in U.S. production and purchases of yarns by U.S. producers of worsted wool fabrics. U.S. raw wool imports fell to 9.4 million kg in 2003, or by 15 percent from the 2002 level. About 22 percent of U.S. imports of raw wool in 2003 consisted of fibers having an average diameter of 25 microns or less, suitable for use in worsted fabrics (down from 38 percent in 2002). Australia was the principal supplier, accounting for 79 percent of such imports.

The U.S. Department of Agriculture reports that the average price paid per pound for all grades of U.S. wool increased by 36 percent from \$0.53 in 2002 to \$0.72 in 2003.² Prices for U.S. and Australian 60s grade and 64s grade wool (apparel-grade wool) also rose significantly from year-earlier levels (table 7-2). The increase in wool prices in 2002 and 2003 largely reflected strong demand for raw wool in textile manufacturing centers, such as China, at a time when wool stocks in Australia and other producing countries were relatively low as a result of a reduction in world wool production. The NTA stated that the increase in wool prices stemmed from the reduction in wool capacity in Australia and that there likely will be more price volatility for wool, depending on demand and “on how China plays.”³ In its questionnaire response, Victor Forstmann reported that ***. In addition, Victor Forstmann reported that ***.

¹ U.S. Census Bureau stopped reporting total wool consumption use and data on consumption of wool for apparel for the worsted system beginning in the third quarter of 2002 to avoid disclosure of information pertaining to individual companies. See U.S. Census Bureau, *Consumption on the Woolen System and Worsted Combing: 2003 Summary*, MQ313D(03)-5, issued June 2004. Data on consumption of wool for apparel for the woolen system are still publicly available.

² Greasy basis, includes marketing charges for commissions, coring, and grading. USDA, NASS, *Sheep and Goats*, Jan. 30, 2004, p. 3.

³ Transcript of hearing, p. 72.

Table 7-1**Wool: U.S. production, imports, and mill consumption, by end uses, 2002-03, Jan.-Mar. 2003, and Jan.-Mar. 2004***(1,000 kilograms, clean content)*

Item	2002	2003	Jan.-Mar.--	
			2003	2004
Production	9,896	9,128	(¹)	(¹)
Imports:				
25 microns or less ²	4,193	2,049	725	686
All other	6,962	7,399	2,766	1,545
Total imports	11,155	9,447	3,491	2,231
Mill consumption:				
Worsted apparel	8,122	(³)	(³)	(³)
Woolen apparel	8,214	5,439	1,467	1,701
Total apparel	16,336	(³)	(³)	(³)
Carpet	3,126	2,729	849	931
Total U.S. wool consumption	19,462	(³)	(³)	(³)

¹ Not available.

² Represents wool finer than 58s (equivalent to average fiber diameters of 24.94 microns or less). According to the USDA, imports of such fine wool include all imports under HTS statistical reporting numbers 5101.11.6060, 5101.19.6060, 5101.21.4060, and 5101.29.4060, and 50 percent of those under HTS subheadings 5101.21.70, 5101.29.70, 5101.30.40.00, and 5101.30.70; the remaining 50 percent of imports under these subheadings are included in "other."

³ Data on fibers consumed by worsted apparel mills and total U.S. wool consumption are no longer disclosed by the U.S. Census Bureau because of confidentiality concerns.

Note.—Figures may not add to totals shown because of rounding.

Source: Data on production derived from statistics of the U.S. Department of Agriculture (USDA), National Agricultural Statistics Service (NASS), *Sheep and Goats*, Jan. 31, 2004; data on mill consumption derived from statistics of the U.S. Census Bureau, Current Industrial Reports, *Consumption on the Woolen System and Worsted Combing: First Quarter 2004*, found at <http://www.census.gov/industry/1/mq313d041.pdf>, retrieved June 7, 2004. Import data compiled from official statistics of the U.S. Department of Commerce.

Table 7-2
U.S. and Australian wool prices:¹ Grades 60s and 64s, 1999-2003

(U.S. dollars per pound, clean)

Type	1999	2000	2001	2002	2003
United States:					
Grade 60s	0.85	0.75	0.91	1.41	2.08
Grade 64s	1.10	1.08	1.21	1.90	2.41
Australian:					
Grade 60s	1.36	1.37	1.60	2.63	3.02
Grade 64s	1.48	1.50	1.66	2.68	3.14

¹ Although current data are not available for U.S. production of wool fibers by micron count, wool fibers having an average diameter of 18 to 19 microns reportedly account for less than 0.5 percent of total U.S. wool production. The 60s grade wool has an average fiber diameter of 23.50 to 24.94 microns and the 64s grade wool has an average fiber diameter of 20.60 to 22.04 microns. Prices for these wool grades are reported by USDA and these wools met the criteria for fibers used in the manufacture of fabrics and yarn for the production of men's worsted wool tailored clothing, which are the subject of this investigation.

Source: 1999-2002 data from USDA, ERS, *Cotton and Wool Situation and Outlook Yearbook/CWS-2003/November 2003*, appendix table 34 (Shorn wool prices: U.S. farm price, Australian offering prices, and graded territory shorn wool prices, 1978-2002); 2003 data from USDA, ERS, *Cotton and Wool Situation and Outlook*, monthly issues, 2003-04.

Worsted Wool Yarns

Based on data derived from Commission questionnaires, U.S. consumption of worsted wool yarns used in domestic production of worsted wool fabrics for men's and boys' tailored clothing increased by *** percent from *** million kg in 2002 to *** million kg in 2003 (table 7-3). It is likely that consumption of these yarns used in the domestic manufacture of men's and boys' tailored suits is overstated as an unknown portion of these yarns are used in the production of worsted wool fabrics for all end uses, including tailored clothing produced offshore and women's and girls' tailored clothing. The dominance of the coarse-micron yarn in the consumption data reflects the higher incidence of these yarns woven into fabrics that are shipped offshore.

Table 7-3
Combed wool yarns used by U.S. producers of worsted wool fabrics for men's and boys' tailored clothing:¹ Estimates of U.S. production for internal consumption, purchases of domestic and imported yarns, net changes in inventory, and apparent U.S. consumption 2002-03, Jan.-Mar. 2003, and Jan.-Mar. 2004

* * * * *

The Commission questionnaire data show an increase in apparent consumption of worsted wool yarn despite a decline in subject fabric production from 2002 to 2003. The increase in apparent consumption is attributable to several factors:

(1) ***,⁴

(2) ***,⁵ and

(3) ***,⁶ ***,⁷ ***,⁸

Most of the yarn consumed was coarse-micron yarn, which accounted for *** percent of the total in 2002 and *** percent in 2003; fine-micron yarn accounted for the remainder in each of the years. During January-March 2004, U.S. consumption of worsted wool yarns increased by *** percent from the corresponding period in 2003 to *** kg.

U.S. production of worsted wool yarns used in the manufacture of worsted wool fabrics for men's and boys' tailored clothing increased by *** percent from 2002 to 2003, and it was up by *** percent during January-March 2004 from the corresponding period in 2003. U.S. production was accounted for ***. Another U.S. fabric producer, ***. Of the four U.S. producers responding to the Commission's questionnaire, ***, ***⁹

***¹⁰ ***¹¹

U.S. industry inventories of worsted wool yarns *** during 2002-03 (table 7-4). However, during January-March 2004, the industry experienced an increase in its worsted wool yarn inventories. ***

Table 7-4
U.S. producers' inventories of combed wool yarns for internal use, 2002-03, Jan.-Mar. 2003, and Jan.-Mar. 2004

* * * * *

⁴ Response to Commission questionnaires and ***.

⁵ ***

⁶ Response to Commission questionnaires.

⁷ ***

⁸ ***

⁹ ***

¹⁰ ***

¹¹ ***

Appendix A
Request Letter From the United States Trade
Representative and Federal Register Notice

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

The Honorable Deanna Tanner Okun
Chairman
United States International Trade Commission
500 E Street, SW
Washington, D.C. 20436

DOCKET NUMBER 2283 DEC 23 2002
Office of the Secretary Int'l Trade Commission

Dear Chairman Okun:

DOCKET

On August 6, 2002, the President signed the Trade Act of 2002 (the Act). Section 5102 of the Act amends headings 9902.51.11 and 9902.51.12 of the Harmonized Tariff Schedule of the United States (HTS) to extend the temporary reductions of tariffs and the tariff-rate quotas (TRQs) in those headings for imports of certain worsted wool fabric, certified by the importer as suitable for use in men's or boys' suits, suit-type jackets, and trousers. The TRQs will now be in effect through December 31, 2005. The President may modify the TRQ limits provided for in HTS headings 9902.51.11 and 9902.51.12, subject to his consideration of certain market conditions. Section 504 of the Trade and Development Act of 2000 specifies that the President shall monitor U.S. market conditions, including domestic demand, domestic supply, and increases in domestic production for men's and boys' worsted wool suits, suit-type jackets, and trousers; worsted wool fabric and yarn used in the manufacture of such clothing; and wool fibers used in the manufacture of such fabrics and yarn. In Proclamation 7383 (Dec. 1, 2000), the President delegated to the United States Trade Representative (USTR) the authority to monitor these market conditions.

By letter dated January 19, 2001, under authority delegated by the President, the USTR requested that the United States International Trade Commission (the Commission) initiate an investigation under section 332(g) of the Tariff Act of 1930, as amended (19 U.S.C. 1332(g)), for the purpose of monitoring U.S. market conditions for the subject wool products. The Commission published its final report in that investigation in September 2002. Under authority delegated by the President, I request that the Commission initiate a new investigation under section 332(g), for the purpose of monitoring U.S. market conditions for the subject wool products. In addition to the data identified above, I would like the Commission to provide, to the extent practicable, data on:

- (1) increases or decreases in sales and production of the subject domestically-produced worsted wool fabrics;
- (2) increases or decreases in domestic production and consumption of the subject apparel items;
- (3) the ability of domestic producers of the subject worsted wool fabrics to meet the needs of domestic manufacturers of the subject apparel items in terms of quantity and ability to meet market demands for the apparel items;
- (4) sales of the subject worsted wool fabrics lost by domestic manufacturers to imports benefitting from the temporary duty reductions on certain worsted wool

- fabrics under HTS headings 9902.51.11 and 9902.51.12;
- (5) loss of sales by domestic manufacturers of the subject apparel items related to the inability to purchase adequate supplies of the subject worsted wool fabrics on a cost competitive basis; and
 - (6) the price per square meter of imports and domestic sales of the subject worsted wool fabrics.

I appreciate that quantitative data on all of the above factors may not be readily available and request that in such instances the information be in qualitative form.

The Commission should submit two confidential reports to the USTR under this investigation. Given resource constraints of the Commission, the first report should provide, to the extent information is publicly available or is available from discussions with representatives of trade and industry, an update of U.S. market conditions for the subject wool products and a summary of any major changes with respect to the above factors, for the year 2002, year-to-date 2003 and comparable year-to-date 2002, and should be submitted by October 27, 2003. The second report, providing data for the year 2003, year-to-date 2004 and comparable year-to-date 2003, should be submitted by October 25, 2004. The Commission should issue, as soon as possible thereafter, public versions of the reports with any business confidential information deleted.

I great appreciate the Commission's assistance in this matter.

Sincerely,



Robert B. Zoellick

antidumping duties in this investigation and parties in opposition to the imposition of such duties will each be collectively allocated one hour within which to make an oral presentation at the conference. A nonparty who has testimony that may aid the Commission's deliberations may request permission to present a short statement at the conference.

Written Submissions

As provided in sections 201.8 and 207.15 of the Commission's rules, any person may submit to the Commission on or before February 3, 2004, a written brief containing information and arguments pertinent to the subject matter of the investigation. Parties may file written testimony in connection with their presentation at the conference no later than three days before the conference. If briefs or written testimony contain BPI, they must conform with the requirements of sections 201.6, 207.3, and 207.7 of the Commission's rules. The Commission's rules do not authorize filing of submissions with the Secretary by facsimile or electronic means, except to the extent permitted by section 201.8 of the Commission's rules, as amended, 67 FR 68036 (November 8, 2002).

In accordance with sections 201.16(c) and 207.3 of the rules, each document filed by a party to the investigation must be served on all other parties to the investigation (as identified by either the public or BPI service list), and a certificate of service must be timely filed. The Secretary will not accept a document for filing without a certificate of service.

Authority: This investigation is being conducted under authority of title VII of the Tariff Act of 1930; this notice is published pursuant to section 207.12 of the Commission's rules.

Issued: January 9, 2004.

By order of the Commission.

Marilyn R. Abbott,

Secretary to the Commission.

[FR Doc. 04-809 Filed 1-13-04; 8:45 am]

BILLING CODE 7020-02-P

INTERNATIONAL TRADE COMMISSION

[Investigation No. 332-449]

Market Conditions for Certain Wool Articles in 2002-04

AGENCY: International Trade Commission.

ACTION: Notice of second report, scheduling of public hearing, and request for public comments.

EFFECTIVE DATE: December 19, 2003.

SUMMARY: The Commission has announced the schedule for its second (and final) report on investigation No. 332-449, U.S. Market Conditions for Certain Wool Articles in 2002-04, instituted under section 332(g) of the Tariff Act of 1930 (19 U.S.C. 1332(g)) on January 24, 2003, at the request of the United States Trade Representative (USTR).

FOR FURTHER INFORMATION CONTACT: For general information, contact Jackie W. Jones (202-205-3466; jones@usitc.gov) of the Office of Industries; for information on legal aspects, contact William Gearhart (202-205-3091; wgearhart@usitc.gov) of the Office of the General Counsel. The media should contact Margaret O'Laughlin, Public Affairs Officer (202-205-1819). Hearing impaired individuals may obtain information on this matter by contacting the Commission's 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. General information about the Commission may be obtained by accessing its Internet server (<http://www.usitc.gov>). The public record for this investigation may be viewed on the Commission's electronic docket (EDIS) at <http://edis.usitc.gov>.

Background: As requested by the USTR, the Commission will provide information for 2003 and year-to-date 2003-04 on U.S. market conditions, including domestic demand, domestic supply, and domestic production for men's and boys' worsted wool suits, suit-type jackets, and trousers; worsted wool fabrics and yarn used in the manufacture of such clothing; and wool fibers used in the manufacture of such fabrics and yarn. Also, as requested by the USTR, the Commission will provide, to the extent possible, data on:

(1) Increases or decreases in sales and production of the subject domestically-produced worsted wool fabrics;

(2) Increases or decreases in domestic production and consumption of the subject apparel items;

(3) The ability of domestic producers of the subject worsted wool fabrics to meet the needs of domestic manufacturers of the subject apparel items in terms of quantity and ability to meet market demands for the apparel items;

(4) Sales of the subject worsted wool fabrics lost by domestic manufacturers to imports benefiting from the temporary duty reductions on certain worsted wool fabrics under the tariff-

rate quotas (TRQs) provided for in headings 9902.51.11 and 9902.51.12 of the Harmonized Tariff Schedule of the United States (HTS);

(5) Loss of sales by domestic manufacturers of the subject apparel items related to the inability to purchase adequate supplies of the subject worsted wool fabrics on a cost competitive basis; and

(6) The price per square meter of imports and domestic sales of the subject worsted wool fabrics.

The USTR requested that the Commission submit the information in a confidential report by September 15, 2004. The USTR requested that the Commission issue a public version of the report as soon as possible thereafter, with any confidential business information deleted. The Commission's first report on this investigation was submitted to the USTR in October 2003.

Public Hearing: A public hearing in connection with the investigation will be held at the U.S. International Trade Commission Building, 500 E Street, SW., Washington, DC, beginning at 9:30 a.m. on March 25, 2004. Requests to appear at the public hearing should be filed with the Secretary, no later than 5:15 p.m., March 9, 2004, in accordance with the requirements in the "Submissions" section below. In the event that, as of the close of business on March 9, 2004, no witnesses are scheduled to appear at the hearing, the hearing will be canceled. Any person interested in attending the hearing as an observer or non-participant may call the Secretary (202-205-2000) after March 9, 2004, to determine whether the hearing will be held.

Statements and Briefs: In lieu of or in addition to participating in the hearing, interested parties are invited to submit written statements or briefs concerning the investigation in accordance with the requirements in the "Submissions" section below. Any prehearing briefs or statements should be filed not later than 5:15 p.m., March 11, 2004; the deadline for filing post-hearing briefs or statements is 5:15 p.m., April 11, 2004. To be assured of consideration by the Commission, written statements relating to the Commission's second report on this investigation should be submitted to the Commission at the earliest practical date and should be received no later than the close of business on April 11, 2004.

Written Submissions: All written submissions including requests to appear at the hearing, statements, and briefs should be addressed to the Secretary, United States International Trade Commission, 500 E Street, SW., Washington, DC 20436. All written

submissions must conform with the provisions of § 201.8 of the Commission's Rules of Practice and Procedure (19 CFR 201.8); any submissions that contain confidential business information must also conform with the requirements of § 201.6 of the Commission's Rules of Practice and Procedure (19 CFR 201.6). Section 201.8 of the rules require that a signed original (or a 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 information must be deleted. Section 201.6 of the rules require that the cover of the document and the individual pages be clearly marked as to whether they are the "confidential" or "nonconfidential" version, and that the confidential business information be clearly identified by means of brackets.

The Commission's rules do not authorize filing submissions with the Secretary by facsimile or electronic means, except to the extent permitted by § 201.8 of the Commission's Rules (19 CFR 201.8) (see Handbook for Electronic Filing Procedures, ftp://ftp.usitc.gov/pub/reports/electronic_filing_handbook.pdf). Persons with questions regarding electronic filing should contact the Secretary (202-205-2000 or edis@usitc.gov).

All written submissions, except for confidential business information, will be made available for inspection by interested parties. Accordingly, any confidential information received by the Commission in these investigations and used in preparing the report will not be published in a manner that would reveal the operations of the firm supplying the information.

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 on this matter 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

Tariffs, imports, wool, fabric, and suits.

Issued: January 8, 2004.

By order of the Commission.
Marilyn R. Abbott,
Secretary.
 [FR Doc. 04-810 Filed 1-13-04; 8:45 am]
 BILLING CODE 7020-02-P

DEPARTMENT OF JUSTICE

Drug Enforcement Administration

Manufacturer of Controlled Substances; Notice of Registration

By Notice dated August 19, 2003, and published in the *Federal Register* on September 2, 2003, (68 FR 52224), Bristol Myers Squibb Pharma Company, 1000 Stewart Avenue, Garden City, New York 11530, made application by renewal to the Drug Enforcement Administration for registration as a bulk manufacturer of Oxycodone (9143), a basic class of controlled substance listed in Schedule II.

The firm plans to manufacture the controlled substance to make finished products.

No comments or objections have been received. DEA has considered the factors in Title 21, United States Code, section 823(a) and determined that the registration of Bristol Myers Squibb Pharma Company to manufacture the listed controlled substance is consistent with the public interest at this time. DEA has investigated Bristol Myers Squibb Pharma Company to ensure that the company's registration is consistent with the public interest. This investigation has included inspection and testing of the company's physical security systems, verification of the company's compliance with state and local laws, and a review of the company's background and history. Therefore, pursuant to 21 U.S.C. 823 and 28 CFR 0.100 and 0.104, the Deputy Assistant Administrator, Office of Diversion Control, hereby orders that the application submitted by the above firm for registration as a bulk manufacturer of the basic class of controlled substance listed is granted.

Dated: December 8, 2003.
Laura M. Nagel,
Deputy Assistant Administrator, Office of Diversion Control, Drug Enforcement Administration.
 [FR Doc. 04-721 Filed 1-13-04; 8:45 am]

BILLING CODE 4410-09-M

DEPARTMENT OF JUSTICE

Office of Justice Programs

Agency Information Collection Activities: Proposed Collection; Comments Requested

ACTION: 30-Day Notice of Information Collection Under Review: Juvenile Accountability Incentive Block Grant (JAIBG) Program.

The Department of Justice (DOJ), Office of Justice Programs (OJP) 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 68, Number 129, page 40296 on July 7, 2003, allowing for a 60 day comment period.

The purpose of this notice is to allow for an additional 30 days for public comment until February 13, 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:

(1) 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;

(2) 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;

(3) Enhance the quality, utility, and clarity of the information to be collected; and

(4) Minimize the burden of the collection of information on those who are to respond, including through the use of appropriate automated,

Appendix B
Relevant HTS Chapter 99 Headings

Harmonized Tariff Schedule of the United States (2004) -- Supplement 1

Annotated for Statistical Reporting Purposes

XXII
99-II-26

Heading/ Subheading	Stat. Suf- fix	Article Description	Unit of Quantity	Rates of Duty			Effective Period
				1		2	
				General	Special		
9902.39.08	1/	Micro-porous, ultrafine, spherical forms of polyamide-6, polyamide-12, and polyamide-6,12 powders (CAS No. 25038-54-4, 25038-74-8, and 25191-04-1) (provided for in subheading 3908.10.00)	1/	Free	No change	No change	On or before 12/31/2003
9902.39.12	1/	Dodecanedioic acid, polymer with 4,4'-methylenebis(2-methylcyclohexanamine) (CAS No. 163800-66-6) (provided for in subheading 3908.90.70)	1/	Free	No change	No change	On or before 12/31/2001
9902.39.15	1/	Aqueous dispersions of poly(3,4-ethylenedioxythiophene) poly(styrenesulfonate) (cationic) (CAS No. 155090-83-8) (provided for in subheading 3911.90.25)	1/	Free	No change	No change	On or before 12/31/2003
9902.39.30	1/	Ion-exchange resin, comprising a copolymer of 2-propenenitrile with diethenylbenzene, ethenylethylbenzene and 1,7-octadiene, hydrolyzed (CAS No. 130353-60-5) (provided for in subheading 3914.00.60)	1/	Free	No change	No change	On or before 12/31/2003
9902.39.31	1/	Ion-exchange resin, comprising a copolymer of 2-propenenitrile with 1,2,4-triethylenylcyclohexane, hydrolyzed (CAS No. 109961-42-4) (provided for in subheading 3914.00.60)	1/	Free	No change	No change	On or before 12/31/2003
9902.39.32	1/	Ion-exchange resin, comprising a copolymer of 2-propenenitrile with diethenylbenzene, hydrolyzed (CAS No. 135832-76-7) (provided for in subheading 3914.00.60)	1/	Free	No change	No change	On or before 12/31/2003
9902.51.11	1/	Fabrics, of worsted wool, with average fiber diameters greater than 18.5 micron, all the foregoing certified by the importer as suitable for use in making suits, suit-type jackets, or trousers (provided for in subheading 5111.11.70, 5111.19.60, 5112.11.60, or 5112.19.95)	1/	17.5% 2/	No change	No change	On or before 12/31/2005
9902.51.12	1/	Fabrics, of worsted wool, with average fiber diameters of 18.5 micron or less, all the foregoing certified by the importer as suitable for use in making suits, suit-type jackets, or trousers (provided for in subheading 5111.11.70, 5111.19.60, 5112.11.30, or 5112.19.60)	1/	Free	No change	No change	On or before 12/31/2005
9902.51.13	1/	Yarn, of combed wool, not put up for retail sale, containing 85 percent or more by weight of wool, formed with wool fibers having average diameters of 18.5 micron or less (provided for in subheading 5107.10.30)	1/	Free	No change	No change	On or before 12/31/2005
9902.51.14	1/	Wool fiber, waste, garnetted stock, combed wool, or wool top, having average fiber diameters of 18.5 micron or less (provided for in subheading 5101.11, 5101.19, 5101.21, 5101.29, 5101.30, 5103.10, 5103.20, 5104.00, 5105.21, or 5105.29)	1/	Free	No change	No change	On or before 12/31/2005

1/ See chapter 99 statistical note 1.

2/ Any staged rate reduction proclaimed for subheading 6203.31.00 shall also apply to subheading 9902.51.11. See Pub. L. 106-200.

Note: The shaded areas indicate that the provisions have expired.

Appendix C
List of Witnesses Appearing at the
Commission's Hearing on March 25, 2004

CALENDAR OF PUBLIC HEARING

Those listed below appeared as witnesses at the United States International Trade Commission's hearing:

Subject: U.S. Market Conditions for Certain Wool Articles in 2002-04
Inv. No.: 332-449
Date and Time: March 25, 2004 - 9:30 a.m.

Sessions were held in connection with this investigation in the Main Hearing Room (room 101), 500 E Street, S.W., Washington, D.C.

ORGANIZATION AND WITNESS:

Williams & Jensen
Washington, D.C.
on behalf of

The Tailored Clothing Association

Walter B.D. "Duffy" Hickey, Jr., Chairman,
Hickey-Freeman; *and* President, The
Tailored Clothing Association

Keith Melrose, Vice President, Hartz & Company

David A. Starr) – OF COUNSEL

National Textile Association
Boston, Massachusetts

Karl Spilhaus, President, National Textile
Association

Augustine Tantillo, Consultant, SRG Associates
(on behalf of National Textile Association)

-END-

Appendix D
Position of Interested Parties

POSITION OF INTERESTED PARTIES¹

Representatives of the U.S. Tailored Clothing Industry and Its Workers

- Hickey-Freeman Co., Inc. and the Tailored Clothing Association (TCA)² stated that the current duty relief program that is set to expire at the end of 2005 should be extended. Since the current policy has been in place, only one major suit manufacturer has closed, a major retail chain has returned some production to the United States, and domestic production of tailored wool suits increased by almost 20 percent from 2002 to the first nine months of 2003. Prior to the current policy, the tailored clothing industry faced a trade policy that resulted in its competitors moving operations offshore or to Canada or to reduce production, higher duties on imported fabrics than on finished suits, 30 percent duties on fabric when there is a lack of supply of fabrics, and a large penalty tax on manufacturers that keep production operations in the United States.
- Hartz & Co.³ stated that if the duty relief program is not extended, much of what remains of the domestic industry will shut down. The industry has faced declines for several reasons, including “casual Fridays” and “casual business attire,” but the primary concern is the duties on fabrics. As consumer tastes and demand shifted to finer fabrics, more creative patterns, and greater variety, U.S. mills did not respond; additionally, the passage of NAFTA provided tariff concessions for wool suits while fabric imports were subject to a 30 percent duty. In 1999, Burlington cancelled Hartz’s Spring 2000 line of fabrics leaving the company with no alternative but to import fabric. As a result, Hartz purchased fabric from Loro Piana’s plant in Connecticut. The wool relief program, according to Hartz, allowed the company to survive and later become a customer of U.S. fabric makers.

¹ On Mar. 25, 2004, the Commission held a public hearing in connection with this investigation (see appendix C for a list of witnesses). In addition to the public hearing, interested parties were provided the opportunity to submit written comments to the Commission.

² Walter B.D. Hickey, Jr., Chairman, Hickey-Freeman Co., Inc., and president, Tailored Clothing Association offered testimony before the Commission on Mar. 25, 2004. Hickey-Freeman, a manufacturer of men’s and boy’s worsted wool suits, sport coats, and trousers, is a subsidiary of Hartmark Corp., which is the largest publically traded men’s apparel company, and the TCA is a trade association of tailored clothing manufacturers formed for the purpose of reversing government trade policies that it feels have adversely impacted the industry.

³ Keith Melrose, senior vice president and director of merchandising, Hartz & Co., offered testimony before the Commission on Mar. 25, 2004. Hartz & Co. is a U.S. producer of men’s suits, sport coats, and trousers with facilities in Frederick, MD and Broadway, VA. Hartz & Co.’s products sell under a variety of labels and range from the middle price range to the beginning of the higher price range.

- Hugo Boss USA, Inc.⁴ stated that without the continuation of tariff relief, the company will face increased supply costs that will jeopardize the continuation of its U.S. production of men’s suits. The “Made in the U.S.A.” label is of high value to the company but, if it were to again face the prohibitive surcharge of 25 percent on worsted wool fabric imported to make suits in its Cleveland facility, the economic conditions could result in the discontinuation of production.
- The Union of Needletrades, Industrial and Textile Employees (UNITE)⁵ stated that it supports a five-year extension of the wool duty relief program but with certain modifications, as follows:
 - (1) reduce the duty rate under the TRQ for coarser-micron fabric from 17.5 percent to 10 percent and increase the TRQ quantity on such fabric from 4.5 million square meters to 5.5 million square meters;
 - (2) increase the TRQ quantity for the higher grade fabrics from 3.5 million square meters to 5 million square meters;
 - (3) add a TRQ for higher grade fabrics for the benefit of U.S. textile mills that import fabric, subject to a 2 million square meter limitation;
 - (4) terminate the authority of U.S. tailored clothing manufacturers to petition the Secretary of Commerce for additional relief;
 - (5) allocate an additional \$2.666 million for grants to U.S. textile facilities that compete in coarser fabric production with an identical program for those U.S. facilities that compete in higher end fabric production; and
 - (6) amend the Wool Labeling Act of 1939 to include the standards for labeling wool products with the term “super” as set forth in the International Wool Textile Organization in order to prevent the import and sale of mislabeled goods.

⁴ William H. Scott, Executive Vice President, Hugo Boss USA, Inc. provided a written statement to the Commission. Hugo Boss is a German-based clothing manufacturer with worldwide sales and operations. Hugo Boss has a manufacturing facility in Cleveland, OH.

⁵ UNITE provided a written statement to the Commission. UNITE was formed by the merger of two of the oldest unions in the United States, the International Ladies' Garment Workers' Union (ILGWU) and the Amalgamated Clothing and Textile Workers Union (ACTWU). UNITE members work in apparel, textile and related industries; in industrial laundries; in distribution and retail; in auto parts and auto supply; and in many other industries in the United States and Canada.

Representatives of the U.S. Worsted Wool Fabric Industry

- The National Textile Association (NTA)⁶ stated that it is working closely with representatives of U.S. tailored clothing manufacturers on a compromise regarding the TRQ program that represents a balance of concessions and benefits for the parties involved. The NTA stated that the proposed amendments to Title V of the Trade and Development Act of 2000 will hurt the U.S. textile industry by extending the duration of the TRQs while increasing the quantity of fabric eligible to enter duty-free or at reduced rates. Although there are provisions that counterbalance the harm to the U.S. textile industry, the compromise supported by the NTA would establish a wool fabric trust fund, similar to the wool fiber trust fund already provided for in Title V that would offset losses resulting from the TRQ program.

⁶ Karl Spilhaus, President, National Textile Association (NTA), offered testimony before the Commission on Mar. 25, 2004. The NTA, the successor organization to the Northern Textile Association, consists of 150 members with textile production facilities in the United States that process wool fiber, spin worsted wool yarn, and weave worsted wool fabrics for men's and boys' tailored clothing. NTA members producing worsted wool fabrics are: Burlington Industries, Inc., Cleyn & Tinker, Inc., Victor Forstmann, Inc., and Warren Corp. NTA members that spin woolen or worsted wool yarn or weave woolen or worsted wool fabrics are: Crescent Woolen Mills, Hanora Spinning, Inc., Jagger Brothers, Pendleton Woolen Mills, and Woolrich, Inc.

Appendix E
Exchange Rate Trends for Selected Countries

Figure E-1
Real and nominal exchange rates from selected wool-importing countries, January 2003-March 2004

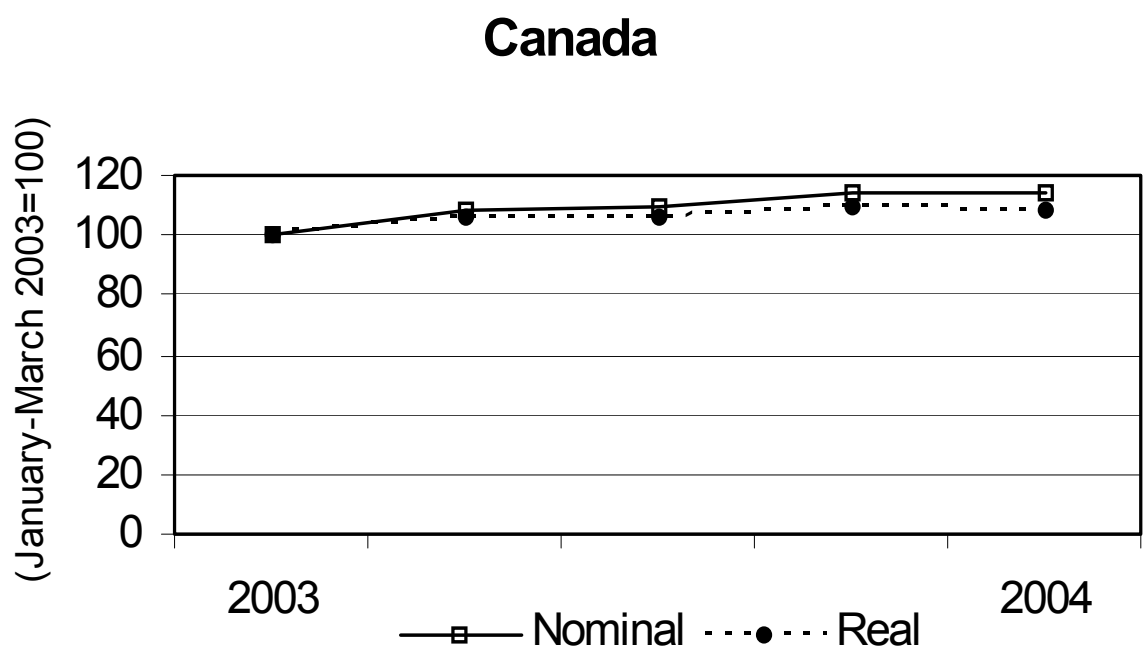
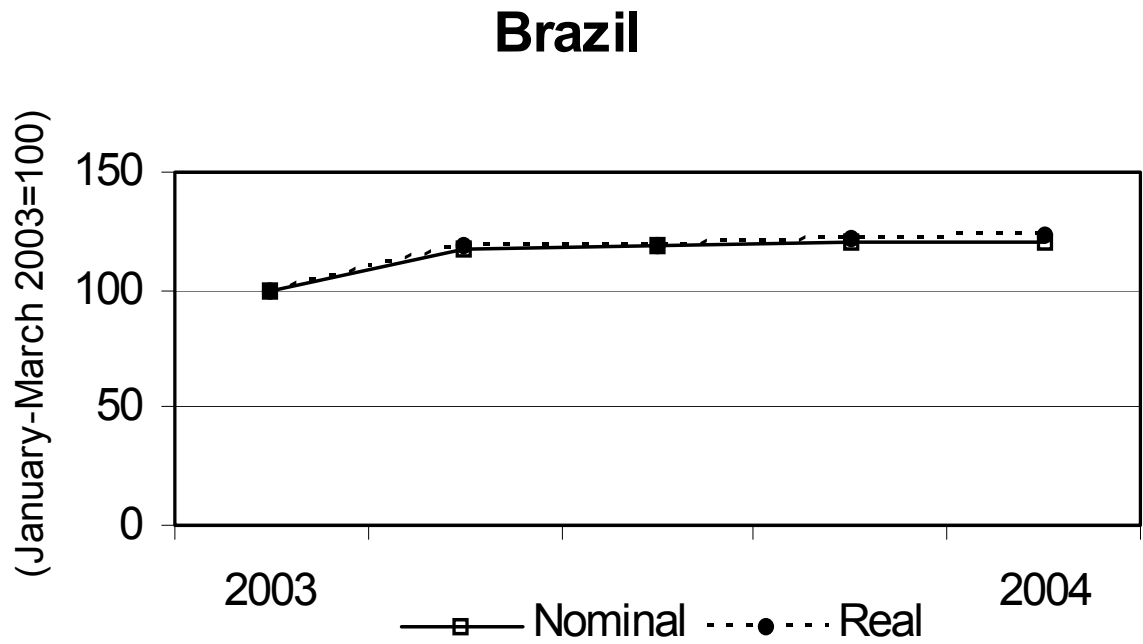


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Figure E-1--cont.
Real and nominal exchange rates from selected wool-importing countries, January 2003-March 2004

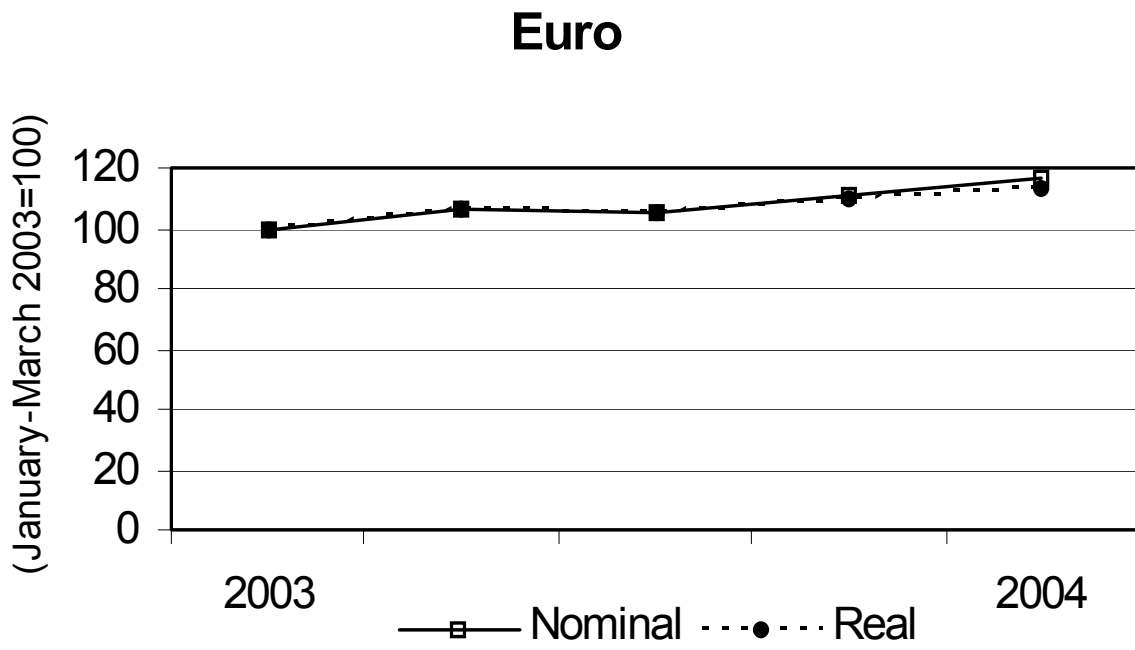
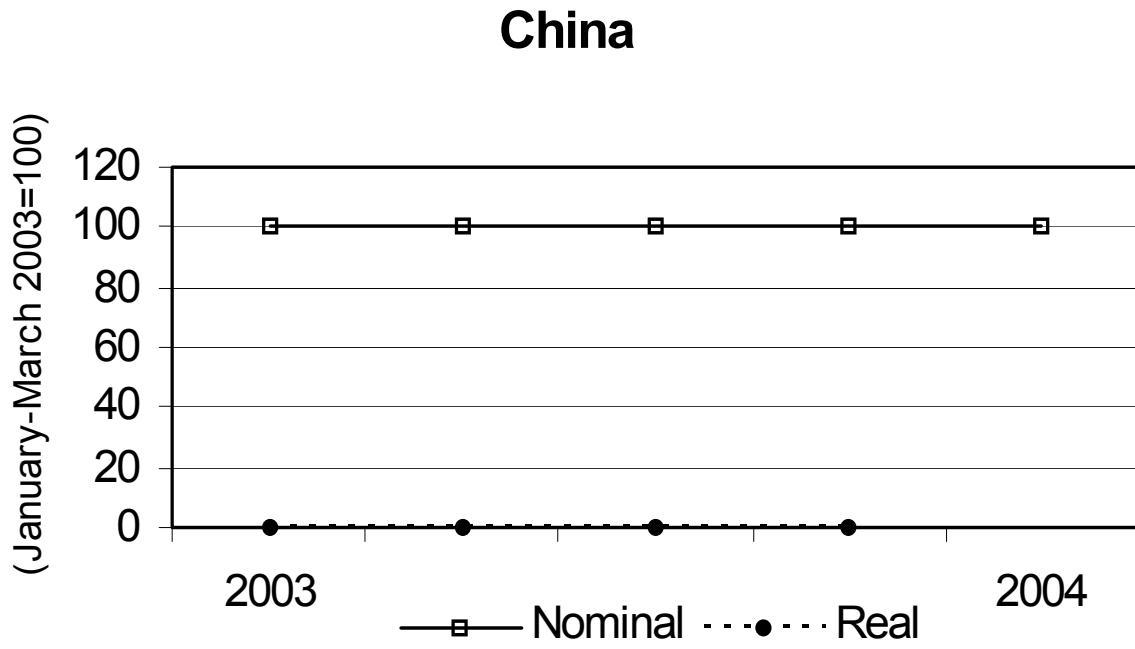


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Figure E-1--cont.
Real and nominal exchange rates from selected wool-importing countries, January 2003-March 2004

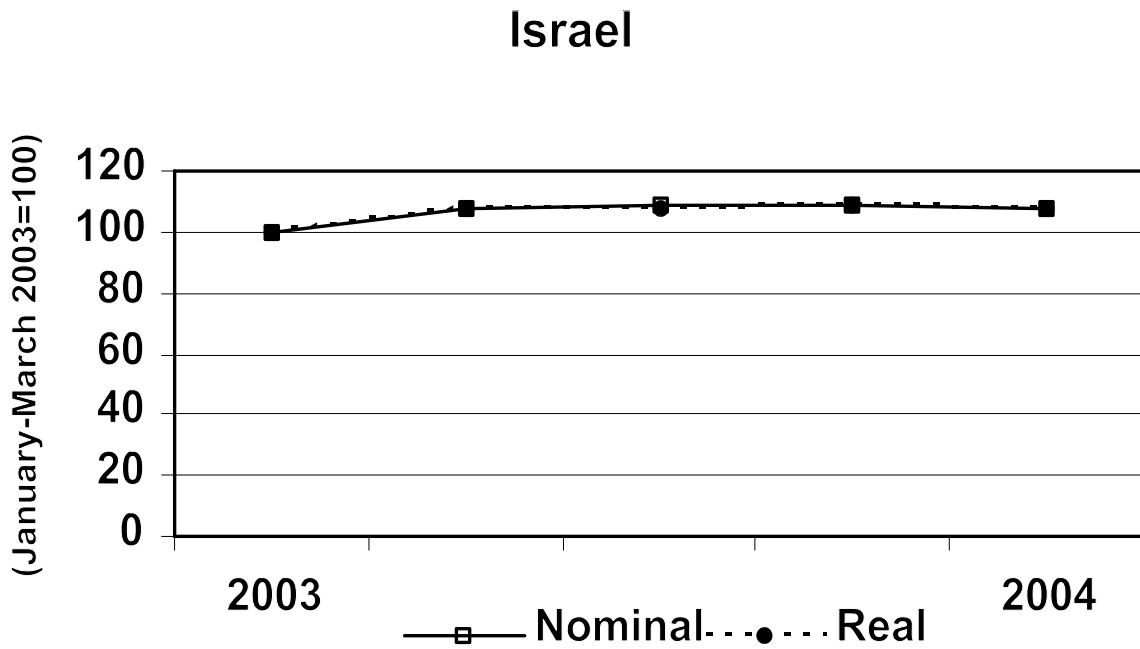
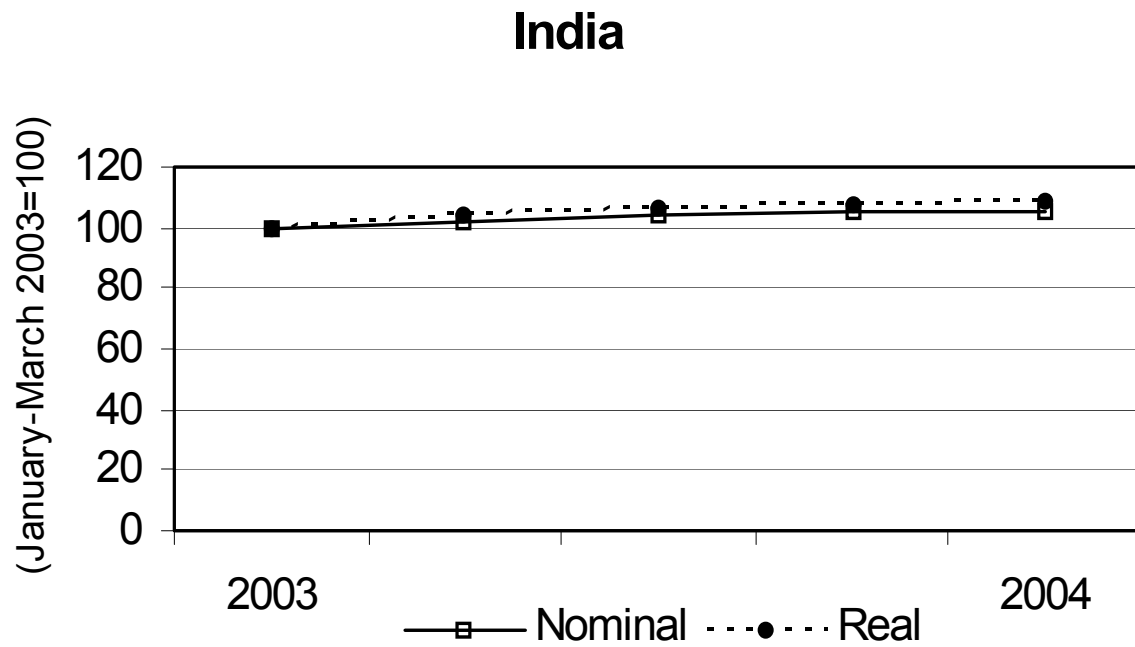
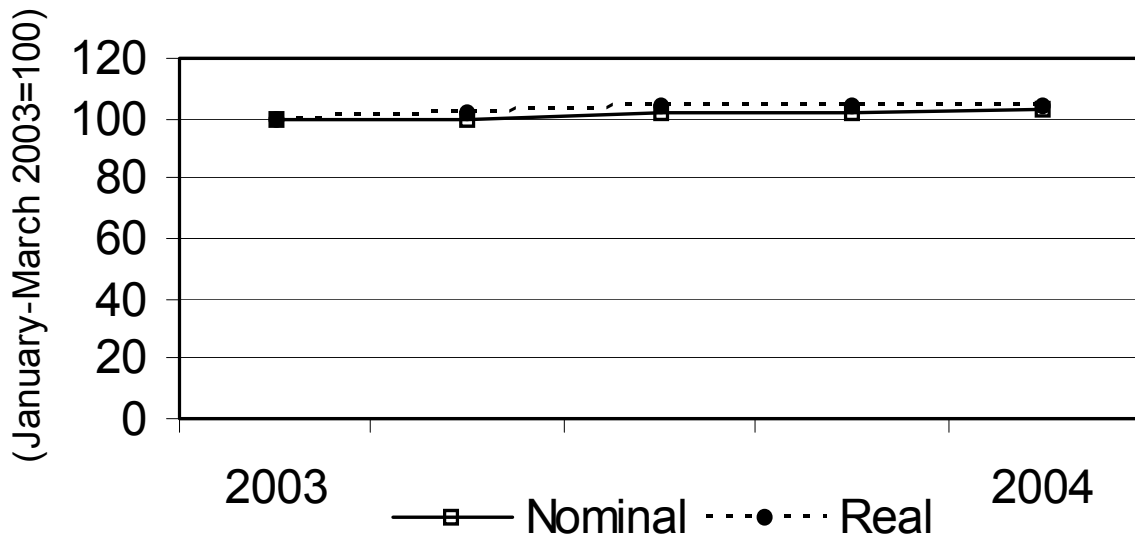


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Figure E-1--cont.

Korea



Mexico

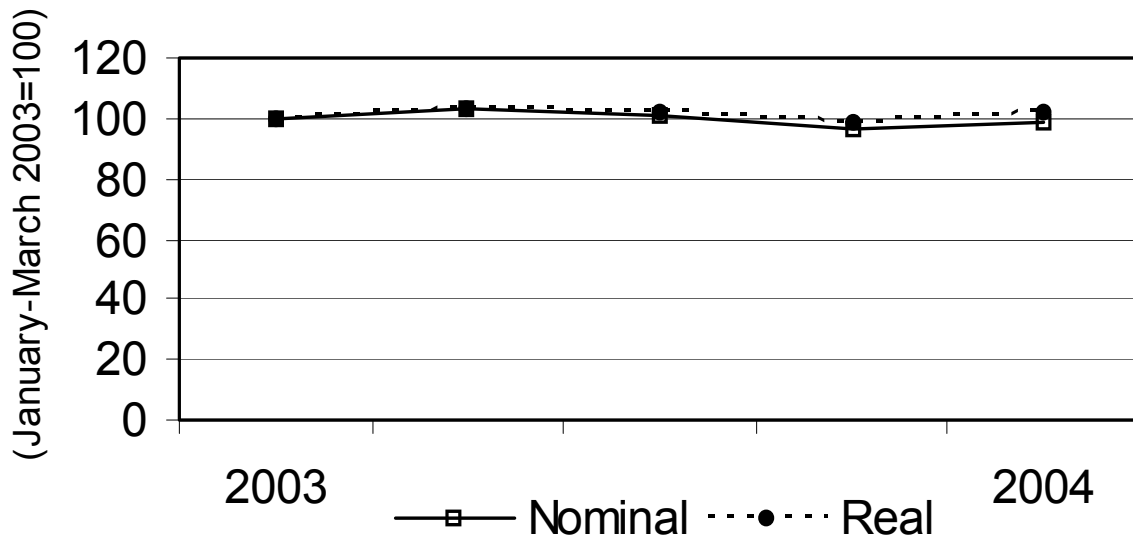
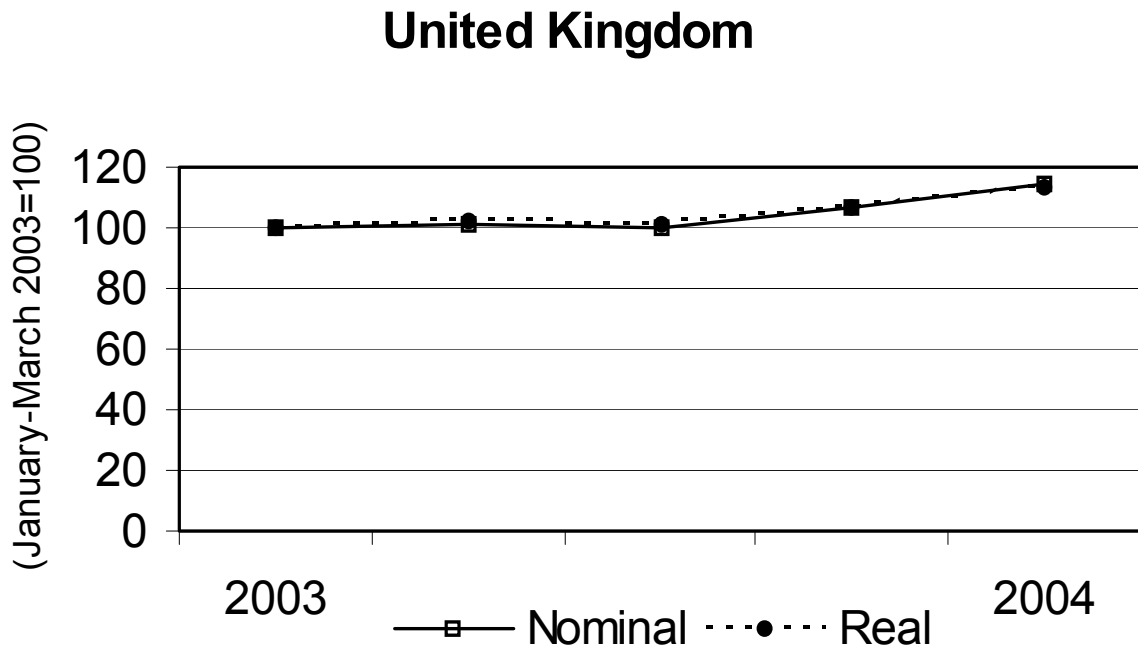
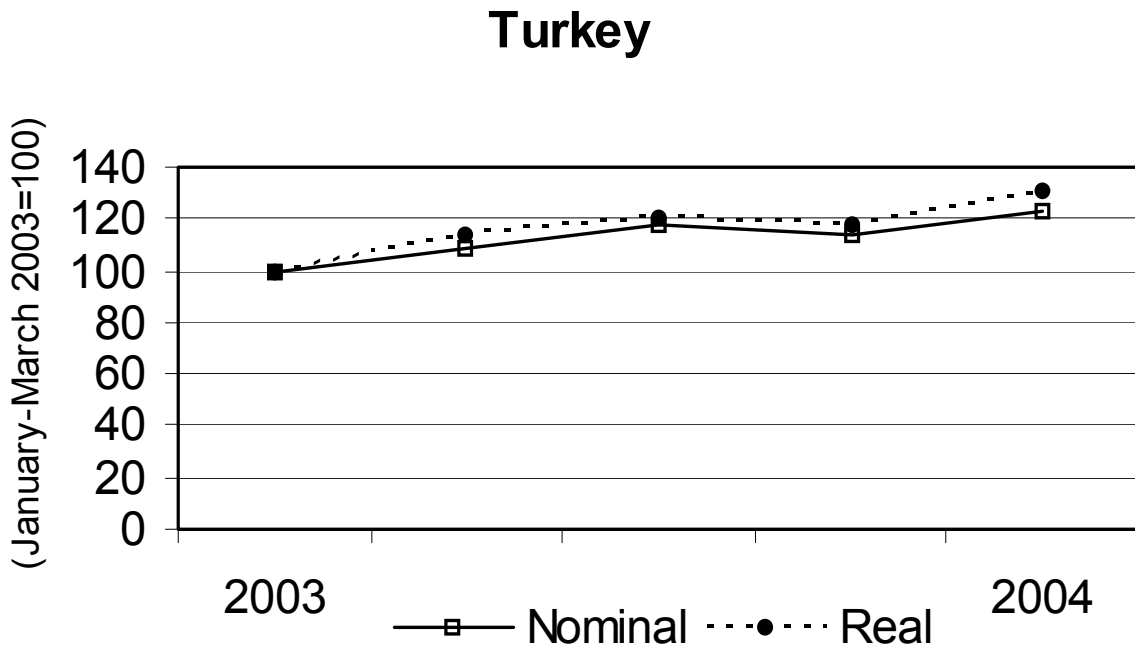


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Figure E-1--cont.
 Real and nominal exchange rates from selected wool-importing countries, January 2003-March 2004



Source: International Monetary Fund, *International Monetary Statistics*, April and May 2004.