

United States International Trade Commission

**Certain
Textile Articles:
Probable Effect of
Modification of NAFTA
Rules of Origin for Goods
of Canada and Mexico
(Sanitary Articles and
Nonwoven Wipes) and for
Goods of Canada
(Chenille Fabrics)**

Investigation No. NAFTA-103-018

USITC Publication 3926

June 2007



U.S. International Trade Commission

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Certain Textile Articles: Probable Effect of Modification of NAFTA Rules of Origin for Goods of Canada and Mexico (Sanitary Articles and Nonwoven Wipes) and for Goods of Canada (Chenille Fabrics)

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Publication 3926

June 2007

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NOTICE

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ABSTRACT

This report contains the Commission's advice concerning the probable effect on U.S. trade under the North American Free Trade Agreement (NAFTA), on total U.S. trade, and on domestic producers of proposed modifications to rules of origin in NAFTA for (1) sanitary towels or tampons and nonwoven wipes of viscose rayon staple fibers that are goods of the United States, Canada, and Mexico, and (2) chenille fabrics of acrylic staple fibers that are goods of the United States and Canada. On the basis of its analysis, the Commission advises that the proposed modifications will likely have little or no effect on U.S. trade under NAFTA, on total U.S. trade, and on domestic fiber producers, but will benefit domestic producers of the specified textile articles. There is no known U.S. production of either viscose rayon staple fibers or acrylic staple fibers. The proposed modifications also will likely benefit U.S. consumers to the extent that the specified textile articles become more available in the U.S. market and duty-rate reductions are passed on to consumers.

CONTENTS

	<i>Page</i>
Abstract	i
Executive Summary	v
Part 1: Certain Sanitary Articles and Nonwoven Wipes: Probable Effect of Modification of NAFTA Rules of Origin for Goods of Canada and Mexico	1-1
Certain sanitary articles	1-1
Product description	1-2
U.S. trade and industry and market conditions	1-2
Views of interested parties	1-4
Probable effect of proposed action on U.S. trade under NAFTA, total U.S. trade, and on domestic producers of affected product	1-4
Nonwoven wipes	1-6
Product description	1-6
U.S. trade and industry and market conditions	1-7
Views of interested parties	1-9
Probable effect of proposed action on U.S. trade under NAFTA, total U.S. trade, and on domestic producers of affected product	1-10
Part 2: Chenille Fabrics: Probable Effect of Modification of NAFTA Rules of Origin for Goods of Canada	2-1
Chenille fabrics	2-1
Product description	2-2
U.S. trade and industry and market conditions	2-3
Fiber producers	2-3
Vertically integrated producers	2-4
Spinning mills	2-6
Specialty yarn mills	2-7
Chenille fabric mills	2-7
Upholstered furniture producers	2-8
Views of interested parties	2-8
Probable effect of proposed action on U.S. trade under NAFTA, total U.S. trade, and on domestic producers of the affected product	2-9

CONTENTS—Continued

	<i>Page</i>
Table	
1. Summary of advice concerning modifications to the NAFTA rules of origin for sanitary towels or tampons and nonwoven wipes of viscose rayon staple fibers that are goods of the United States, Canada, and Mexico	vii
2. Summary of advice concerning modifications to the NAFTA rules of origin for chenille fabrics of acrylic staple fibers that are goods of the United States and Canada	ix

Appendices

A. Request letter from the United States Trade Representative	A-1
B. <i>Federal Register</i> notice	B-1

EXECUTIVE SUMMARY

This report responds to a request from the United States Trade Representative (USTR) for advice concerning the probable effect on U.S. trade under the North American Free Trade Agreement (NAFTA), on total U.S. trade, and on domestic producers of proposed modifications to the NAFTA rules of origin for (1) sanitary towels or tampons and nonwoven wipes of viscose rayon staple fibers that are goods of the United States, Canada, and Mexico, and (2) chenille fabrics of acrylic staple fibers that are goods of the United States and Canada.¹ On the basis of its analysis, the Commission advises that the proposed modifications will likely have little or no effect on U.S. trade under NAFTA, on total U.S. trade, and on domestic fiber producers, but will benefit domestic producers of sanitary towels or tampons and nonwoven wipes of viscose rayon staple fibers and domestic producers of chenille fabrics of acrylic staple fibers. A summary of the Commission's advice concerning the probable effect of the proposed modifications appears in table 1 (sanitary towels or tampons and nonwoven wipes) and table 2 (chenille fabrics) at the end of this executive summary.

Any increase in either U.S. trade under NAFTA or total U.S. trade as a result of the proposed modifications will likely be small in value terms. The proposed modifications will likely have little or no effect on domestic fiber producers because there is no known U.S. production of either viscose rayon staple fibers or acrylic staple fibers. The proposed modifications will likely benefit domestic producers of the subject textile articles because the proposed modifications will make their goods more competitive in Canada (sanitary towels or tampons, nonwoven wipes, and chenille fabrics) and Mexico (sanitary towels or tampons and nonwoven wipes), by allowing U.S. goods produced from non-NAFTA fibers to be considered NAFTA-originating goods and to qualify for NAFTA duty-free treatment when imported into those countries. The proposed modifications also will likely benefit U.S. consumers to the extent that the subject textile articles become more available in the U.S. market and duty rate reductions are passed on to consumers.

The proposed modifications to the NAFTA rules of origin for sanitary towels or tampons classified in subheading 5601.10 of the Harmonized Tariff Schedule of the United States (HTS) and nonwoven wipes classified in HTS subheadings 5603.91-5603.94 that are made from viscose rayon staple fibers classified in HTS subheading 5504.10 would apply to goods of all three NAFTA parties (the United States, Canada, and Mexico) and would allow the articles to be made from viscose rayon staple fibers formed outside North America ("non-originating" fibers) and still qualify for NAFTA preferences. The proposed modification to the NAFTA rule of origin for chenille fabrics classified in HTS subheading 5801.36 that are made of acrylic staple fibers classified in HTS subheading 5503.30 would apply to goods of the United States and Canada and would allow the fabrics to be made from non-originating acrylic staple fibers and still qualify for NAFTA preferences. In her request letter, the USTR states that the proposed modifications are the result of determinations that North American

¹ The Commission received the request on April 17, 2007; the USTR asked that the Commission provide its advice by June 15, 2007. The USTR request letter appears in appendix A of this report; the Commission's notice of investigation, published in the *Federal Register* of May 22, 2007 (72 F.R. 28711) appears in appendix B.

producers are not able to produce viscose rayon staple fibers and that U.S. and Canadian producers are not able to produce acrylic staple fibers in commercial quantities in a timely manner.²

The Commission conducted a qualitative analysis to assess the effect that the proposed modifications to the NAFTA rules of origin for the subject textile articles would have, if implemented, on U.S. trade under NAFTA, total U.S. trade, and domestic production for the affected articles. The Commission's qualitative assessment is based on the best available information, including available data and information on U.S. trade and production for the affected articles, information pertaining to market conditions for the affected articles (e.g., industry structure, production, product uses, and trade flows), information obtained from interested parties, including producers of the affected articles, and the Commission's own expertise.

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

TABLE 1. Summary of advice concerning modifications to the NAFTA rules of origin for sanitary towels or tampons and nonwoven wipes of viscose rayon staple fibers that are goods of the United States, Canada, and Mexico

HTS No.	Existing rule ^a	Proposed rule	Probable effect advice	Nature of modification and effect explanation
5601.10 5601.21 through 5601.30 5602 5603.11 through 5603.14	A change to any other good of heading 5601 from any other chapter, except from headings 5106 through 5113, 5204 through 5212, 5307 through 5308, or 5310 through 5311, or chapters 54 through 55.	A change to subheading 5601.10 from any other chapter, except from headings 5106 through 5113, 5204 through 5212, 5307 through 5308, or 5310 through 5311, or chapter 54, headings 5501 through 5503, subheading 5504.90, or headings 5505 through 5516; or A change to subheadings 5601.21 through 5601.30 from any other chapter, except from headings 5106 through 5113, 5204 through 5212, 5307 through 5308, or 5310 through 5311, or chapters 54 through 55. (Change in formatting only - no change in content) A change to heading 5602 from any other chapter, except from headings 5106 through 5113, 5204 through 5212, 5307 through 5308, or 5310 through 5311, or chapters 54 through 55. (Change in formatting only - no change in content) A change to subheadings 5603.11 through 5603.14 from any other chapter, except from headings 5106 through 5113, 5204 through 5212, 5307 through 5308, or 5310 through 5311, or chapters 54 through 55.	U.S. total trade: Imports: Small Exports: Small U.S. trade under NAFTA: Imports: Small Exports: Small U.S. production: Small	<i>Modification:</i> The proposed rule change is liberalizing because it would allow sanitary towels or tampons made from viscose rayon staple fibers formed outside North America to qualify as originating goods. <i>Effect:</i> Any increase in U.S. NAFTA trade or total U.S. trade as a result of the proposed modifications would be small in value terms. It would have little or no effect on U.S. fiber producers, as there is no domestic production of viscose rayon staple fibers. It would benefit U.S. producers of the sanitary articles by enabling them to use non-originating rayon staple fibers in products traded among the three NAFTA parties. It also would benefit U.S. consumers to the extent that the sanitary articles become more available in the U.S. market and duty rate reductions are passed on to consumers.
See footnote at end of table.				

TABLE 2. Summary of advice concerning modifications to the NAFTA rules of origin for chenille fabrics of acrylic staple fibers that are goods of the United States and Canada

HTS No.	Existing rule ^a	Proposed rule	Probable effect advice	Nature of modification and effect explanation
5801.36	A change to headings 5801 through 5811 from any other chapter, except from headings 5106 through 5113, 5204 through 5212, 5307 through 5308, or 5310 through 5311, or chapters 54 through 55.	A change to subheading 5801.36 from any other chapter, except from headings 5106 through 5113, 5204 through 5212, 5307 through 5308, or 5310 through 5311, chapter 54, heading 5501 through subheading 5503.20, or subheadings 5503.40 through heading 5516.	<p>U.S. total trade: Imports: Small Exports: Small</p> <p>U.S. trade under NAFTA: Imports: Small Exports: Small</p> <p>U.S. production: Small</p>	<p><i>Modification:</i> The proposed rule change is liberalizing because it would allow chenille fabrics made from acrylic staple fibers formed outside North America to qualify as originating goods.</p> <p><i>Effect:</i> Any increase in U.S. NAFTA trade or total U.S. trade as a result of the proposed modifications would be small in value terms. It would have little or no effect on U.S. fiber producers, as there is no domestic production of acrylic staple fibers. It would benefit U.S. producers of the chenille fabrics by enabling them to use non-originating rayon staple fibers in products traded among the three NAFTA parties. It also would benefit U.S. consumers to the extent that the duty rate reductions are passed on to consumers.</p>
<p>^a The current NAFTA rules of origin applicable to U.S. imports of goods of Canada and Mexico were taken from general note 12 of the 2007 HTS. General note 12 reflects the rules of origin as specified in Annex 401 of the NAFTA. The proposed rules would, if incorporated in general note 12, have slight, non-substantive modifications and formatting changes; the existing rules cover a group of headings whose rules would be substantively unchanged.</p>				

PART 1

Certain Sanitary Articles and Nonwoven Wipes: Probable Effect of Modification of NAFTA Rules of Origin for Goods of Canada and Mexico

Certain Sanitary Articles

This section contains the Commission’s advice concerning the probable effect on U.S. trade under the North American Free Trade Agreement (NAFTA), on total U.S. trade, and on domestic producers of a proposed modification to the NAFTA rule of origin for sanitary towels (feminine napkins and pantliners) or tampons classified in HTS subheading 5601.10 and made in the United States, Canada, or Mexico of viscose rayon staple fibers classified in HTS subheading 5504.10 (“rayon fibers”). The proposed modification would allow such articles to be made of rayon fibers formed outside North America (“non-originating” fibers) and still be considered NAFTA-originating goods and qualify for NAFTA duty-free treatment when imported into the United States, Canada, or Mexico. Under the current NAFTA rules, the sanitary articles must be made from fibers formed in North America to be “originating” and qualify for NAFTA preferences.³ In her request letter, the USTR states that the proposed modification is the result of determinations that North American producers are not able to produce rayon fiber in commercial quantities in a timely manner.⁴

The proposed NAFTA rule change for the sanitary articles was negotiated by the three NAFTA parties following receipt of a petition by the Committee for the Implementation of Textile Agreements (CITA) from Johnson & Johnson Consumer Products Co. on December 19, 2005.⁵ In its petition to CITA, the firm alleged that “straight”⁶ rayon fibers cannot be supplied by the domestic industry in commercial quantities in a timely manner and requested

³ The current NAFTA rule of origin for sanitary towels or tampons, except those of tri-lobal rayon fibers, requires that all non-originating inputs be classified in HTS chapters other than chapters 54 through 55 and HTS headings other than headings 5106 through 5113, 5204 through 5212, 5307 through 5308, or 5310 through 5311. The sanitary articles of non-originating rayon fibers cannot meet the NAFTA rule of origin, as the fibers are provided for in HTS chapter 55 and are not produced in North America. See table 1 for the current and proposed language of the NAFTA rule of origin for the sanitary articles.

⁴ See the USTR request letter to the Commission in appendix A of this report.

⁵ See CITA notice published in the *Federal Register* of January 11, 2006 (71 F.R. 1734).

⁶ As opposed to “tri-lobal” viscose rayon staple fibers. Effective July 1, 2005, the United States and Canada modified the NAFTA rule of origin for sanitary towels and tampons classified in HTS subheading 5601.10, to allow such articles made in the United States or Canada to contain non-originating tri-lobal rayon fiber (38 mm, 3.3 decitex) classified in subheading 5504.10 and still be considered an originating good and qualify for NAFTA preferences when imported into the United States or Canada. Presidential Proclamation 7912 implemented the U.S. rule change (see *Federal Register* of June 30, 2005 (70 F.R. 37978)).

that the NAFTA rule of origin for the articles be modified to allow the use of non-originating rayon fibers.

Product description

The subject articles are classified in HTS subheading 5601.10.20, which provides for sanitary towels and tampons, diapers and diaper liners for babies and similar sanitary articles, of wadding, of textile fibers other than cotton. The United States maintains a normal trade relations (NTR) duty rate of 6.3 percent ad valorem on imports of such goods. Canada and Mexico maintain most-favored-nation (MFN) duty rates of 12 percent and 10 percent ad valorem, respectively. Rayon fibers are classified in HTS subheading 5504.10.00, which covers viscose rayon staple fibers, not carded, combed or otherwise processed for spinning.⁷ The U.S. NTR duty rate on imports of rayon fibers is 4.3 percent ad valorem; however, it has been reduced to 3.4 percent ad valorem for imports entered on or before December 13, 2009.⁸ The MFN duty rates for rayon fibers are free for imports into Canada and Mexico.

Rayon fibers used in the manufacture of the sanitary articles are derived from wood pulp cellulose. Johnson & Johnson uses the fibers in the production of tampons, which are constructed with absorbent cores that are made from straight rayon fibers or blends of straight and tri-lobal rayon fibers.⁹ These rayon fibers are the critical material component in fluid absorption, the key characteristic of tampons. According to INDA, the Association of the Nonwoven Fabrics Industry,¹⁰ rayon fiber is a key raw material component of tampons, but its use in sanitary towels is small.

U.S. trade and industry and market conditions

The U.S. retail market for sanitary towels and tampons totaled about \$3.0 billion in 2006 and is expected to grow slowly to an estimated \$3.2 billion in 2011, according to INDA.¹¹ U.S. producers supply almost the entire domestic market for these articles. The domestic market for tampons totaled \$1.1 billion in 2006 and is expected to grow by about 0.5 percent per year through 2011. For sanitary towels, the market totaled \$1.9 billion in 2006 and is expected to reach an estimated \$2.1 billion in 2011.

⁷ Rayon staple fibers are made by cutting filaments into shorter lengths (e.g., a few inches in length).

⁸ The temporary duty reduction, effective January 3, 2007, was provided for in the Tax Relief and Health Care Act of 2006, Public Law 109-432, 120 Stat. 2922, passed December 20, 2006 (see heading 9902.25.59 of subchapter II of HTS chapter 99). A temporary duty suspension applies to imports of viscose rayon staple fibers classified in subheading 5504.10.00, measuring 1.67 to 16.67 decitex and having a fiber length each measuring 20 mm or more but not over 150 mm, entered on or before December 31, 2009 (see heading 9902.23.33 of subchapter II of HTS chapter 99).

⁹ Ralph H. Sheppard, Meeks & Sheppard, Fairfield, CT, counsel to Johnson & Johnson, written submission to the Commission, May 16, 2007.

¹⁰ Ian Butler, Director of Market Research & Statistics, INDA, Cary, NC, e-mail to the Commission, May 16, 2007.

¹¹ Data in the paragraph are from Ian Butler, INDA, e-mail to the Commission, May 16, 2007.

In September 2005, Liberty Fibers Corp., Lowland, TN, the sole North American producer of the subject rayon fibers, ceased all manufacturing operations and is now in liquidation.¹² As a result, U.S. imports of rayon fibers used in the manufacture of sanitary articles and nonwoven wipes discussed in the following section and classified in HTS subheading 5504.10.00 have increased significantly since the closure of Liberty Fibers in 2005, as has their price. Imports in 2006 rose by 44 percent over 2005 to \$109 million, and are up 77 percent in the first quarter of 2007, compared with the first quarter of 2006, to \$37 million. The major suppliers in the 2007 period were Austria, China, Finland, and Germany, each with shipments of \$6-7 million. A recent trade report stated that the price of rayon fiber rose by more than 20 percent in 2006.¹³

Johnson & Johnson imports tampons into the United States from Canada.¹⁴ A company representative said the firm purchased rayon fibers from Liberty Fibers. Johnson & Johnson now uses rayon fibers made in the European Union in the production of tampons in Canada. Because the tampons being imported into the United States from Canada contain non-originating rayon fibers, they do not qualify for duty-free entry under the NAFTA and are now subject to the U.S. NTR duty rate of 6.3 percent ad valorem. The proposed NAFTA rule change would allow the tampons to be made of non-originating rayon fibers (e.g., rayon fibers made in the European Union) and still be considered an originating good and qualify for NAFTA preferences.

Aside from Johnson & Johnson, other U.S. firms involved in the production of the sanitary articles include Procter & Gamble, Playtex Products, Kimberly-Clark Corp., and First Quality Corp.¹⁵ Procter & Gamble, Playtex, and Kimberly-Clark produce and market sanitary articles under widely known brand-names, while First Quality is a producer of private label goods. According to a representative of Procter & Gamble, the firm employs about 700 workers (***) in the production of the sanitary articles at its plant in Auburn, ME.¹⁶ The Procter & Gamble official stated that research and development programs undertaken by global fiber producers in collaboration with U.S. producers of sanitary articles have led to the creation of new fibers (e.g., tri-lobal rayon staple fibers) and that the proposed NAFTA rule change for the sanitary articles would apply to any new rayon fiber developed in the future. A recent trade report noted that manufacturers of hygiene products in North America are “looking for innovation in the form of process improvements and raw material reductions to trim costs while maintaining performance.”¹⁷

¹² Tom Montgomery, Liberty Fibers, telephone interview conducted by the Commission, May 4, 2007. He said the firm filed a petition for reorganization under chapter 11 of the U.S. Bankruptcy Code on September 29, 2005, and that the Bankruptcy Court converted the case to a chapter 7 liquidation proceeding in November 2005. The firm had been a subsidiary of Lenzing AG of Austria, which, in November 2003, sold its remaining share in the firm (see Lenzing press release, “The Lenzing Group Withdraws from US Minority Holding Lenzing Fibers Corporation,” November 24, 2003).

¹³ INDA, “Vision News: Consumer Products E-Report,” vol. 6, No. 1, February 1, 2007.

¹⁴ Except as noted, information in the paragraph is from Ralph H. Sheppard, Meeks & Sheppard, counsel to Johnson & Johnson, written submission to the Commission, May 16, 2007.

¹⁵ The Commission contacted William Stammer, Associate General Counsel, Playtex Products, May 4, 2007; Dick Kimberly, Kimberly Consulting, on behalf of Kimberly-Clark Corp., May 8, 2007; and Jim Peterson, First Quality Corp., May 14, 2007. ***

¹⁶ Information on Procter & Gamble is from R. Scott Miller, Director of Government Relations for the firm, telephone interview conducted by the Commission, May 4, 2007.

¹⁷ Karen Bitz McIntyre, “The Hygiene Market: A Tale of Two Cities,” *Nonwovens Industry*, December 2006 (www.nonwovens-industry.com, accessed May 6, 2007).

U.S. imports of all sanitary articles classified in HTS subheading 5601.10.20 totaled \$24 million in 2006, down from \$51 million in 2002. The decline mainly reflected smaller imports from Canada, whose shipments fell from \$50 million to \$14 million. U.S. trade sources said they know of no reason for the decline in imports from Canada and believe that the decline occurred in imports of articles other than the sanitary towels or tampons. ***¹⁸ U.S. exports of all sanitary articles classified in HTS subheading 5601.10 rose from \$25 million in 2002 to \$38 million in 2006; most of the exports (\$32 million in 2006) went to Canada.

Views of interested parties

The Commission received a written submission from Johnson & Johnson, which stated that the proposed NAFTA rule change “is in the spirit of preserving NAFTA activity and benefits where there is no NAFTA supply of critical components, in this case ‘straight’ rayon fibers.”¹⁹ The firm said the proposed rule change would help to ensure that production of rayon tampons remains viable within the NAFTA territory and that U.S. consumers would benefit from the cost savings generated by the savings associated with the NAFTA preference.

Probable effect of proposed action on U.S. trade under NAFTA, total U.S. trade, and on domestic producers of affected product²⁰

The Commission’s analysis indicates that the proposed modification to the NAFTA rule of origin for sanitary towels and tampons of rayon fibers will likely have little or no effect on U.S. trade under NAFTA, on total U.S. trade, and on domestic fiber producers, but will benefit domestic producers of sanitary towels and tampons of rayon fibers. Any increase in either U.S. trade under NAFTA or total U.S. trade as a result of the proposed modification will likely be small in value terms. The proposed NAFTA rule change will likely have little or no effect on domestic fiber producers, because there is no known U.S. production of rayon fibers. The proposed modification will likely benefit domestic producers of the sanitary articles because it will make their goods more competitive in Canada and Mexico, by allowing U.S. goods produced from non-originating rayon fibers (fibers formed outside North America) to be considered NAFTA-originating goods and to qualify for NAFTA duty-free treatment when imported into these countries. Canada is the largest U.S. trading partner for the sanitary articles. The extent to which U.S. imports and exports of the sanitary articles might increase would depend on the extent to which the proposed NAFTA rule change spurs new production of the sanitary articles in Canada, Mexico, and the United States. U.S. consumers will likely benefit from any additional duty rate reductions on U.S. imports of the sanitary articles from Canada and Mexico.

¹⁸ ***

¹⁹ Ralph H. Sheppard, Meeks & Sheppard, Fairfield, CT, counsel to Johnson & Johnson, written submission to the Commission, May 16, 2007.

²⁰ The Commission’s advice is based on information currently available to the Commission.

Nonwoven Wipes

This section contains the Commission's advice concerning the probable effect on U.S. trade under NAFTA, on total U.S. trade, and on domestic producers of a proposed modification to the NAFTA rule of origin for nonwoven wipes classified in HTS subheadings 5603.91-5603.94 and made in the United States, Canada, or Mexico of viscose rayon staple fibers classified in HTS subheading 5504.10 ("rayon fibers"). The proposed modification would allow such wipes to be made of rayon fibers formed outside North America ("non-originating" fibers) and still be considered a NAFTA-originating good and qualify for NAFTA duty-free treatment when imported into the United States, Canada, or Mexico. Under the current NAFTA rules, the wipes must be made from fibers formed in North America to be "originating" and qualify for NAFTA preferences.²¹ In her request letter, the USTR states that the proposed modification is the result of determinations that North American producers are not able to produce rayon fiber in commercial quantities in a timely manner.²²

The proposed NAFTA rule change for the nonwoven wipes was negotiated by the three NAFTA parties following receipt of a petition by the Committee for the Implementation of Textile Agreements (CITA) from the Polymer Group, Inc. (PGI), Charlotte, NC, on October 28, 2005.²³ In its petition to CITA, PGI alleged that rayon fibers cannot be supplied by the domestic industry in commercial quantities in a timely manner and requested that the NAFTA rule of origin for the wipes be modified to allow the use of non-originating rayon fibers.

Product description

The subject wipes are cleaning cloths classified in HTS subheadings 5603.91-5603.94, which provides for nonwovens, whether or not impregnated, coated, covered or laminated, other than of manmade filaments, depending on product weight.²⁴ These goods are among the few textile articles that can enter the United States free of duty from countries eligible for U.S. normal trade relations (NTR) rates of duty. Canada and Mexico maintain most-favored-nation (MFN) duty rates of 14 percent and 15 percent ad valorem, respectively. Rayon fibers are classified in HTS subheading 5504.10, which covers viscose rayon staple fibers, not carded, combed or otherwise processed for spinning.²⁵ The U.S. NTR duty rate on imports

²¹ The current NAFTA rule of origin for the nonwoven wipes requires that all non-originating inputs be classified in HTS chapters other than chapters 54 through 55 and HTS headings other than headings 5106 through 5113, 5204 through 5212, 5307 through 5308, or 5310 through 5311. The nonwoven wipes of non-originating rayon fibers cannot meet the NAFTA rule of origin, as the fibers are provided for in HTS chapter 55 and are not produced in North America. See table 1 for the current and proposed language of the NAFTA rule of origin for the nonwoven wipes.

²² See the USTR request letter to the Commission in appendix A of this report.

²³ See CITA notice published in the *Federal Register* of December 8, 2005 (70 F.R. 72993).

²⁴ The wipes can be prepackaged and cut in squares or rectangles, but cannot be impregnated, coated or covered with substances or preparations (e.g., perfumes of chapter 33, soaps of heading 3401, polishes of heading 3405, or fabric softeners of heading 3809) where the textile material is present merely as a carrying medium (see note 1(a) of HTS chapter 56).

²⁵ Rayon staple fibers are made by cutting filaments into shorter lengths (e.g., a few inches in length).

of rayon fibers is 4.3 percent ad valorem; however, it has been reduced to 3.4 percent ad valorem for imports entered on or before December 31, 2009.²⁶ The MFN rates for rayon fibers are free for imports into Canada and Mexico.

A representative of PGI (the petitioner) said the firm is mainly interested in effecting a change for the subject wipes imported into Canada from the United States.²⁷ As noted above, the subject wipes can enter the United States free of duty from any country eligible for U.S. NTR duty rates.²⁸ The wipes no longer qualify for duty-free entry into Canada under NAFTA because they contain non-originating rayon fibers and, therefore, are subject to the Canadian MFN duty rate of 14 percent ad valorem. The proposed NAFTA rule change would allow nonwoven wipes made of non-originating rayon fibers to be considered an originating good and qualify for NAFTA duty-free treatment when imported into Canada.

Nonwoven fabrics are sheets or webs of randomly oriented, mechanically bonded textile fibers. Rayon fibers used in the production of nonwoven wipes are artificial fibers derived from wood pulp cellulose. According to PGI, the manufacture of nonwoven substrate material is complex and capital intensive and requires skilled and trained workers to operate.²⁹ The conversion of substrates into consumer goods, while less capital intensive, can be complex and also requires skilled workers with high-speed operations and chemical additive capabilities.

U.S. trade and industry and market conditions

The market for nonwoven wipes in North America (the United States and Canada) grew by 5 to 5.5 percent between 2001 and 2006 to \$3.7 billion at wholesale, according to INDA, the Association of the Nonwoven Fabrics Industry.³⁰ U.S. producers supply most of the market, which consists of consumer or household wipes, with sales of \$2.8 billion in 2006, and industrial and institutional wipes, with sales of \$870 million. A key market for PGI's nonwoven wipes is the food service sector. According to INDA, the North American market for such nonwoven wipes totaled \$110 million in 2006 and is expected to reach \$145 million in 2011.³¹

²⁶ The temporary duty reduction, effective January 3, 2007, was provided for in the Tax Relief and Health Care Act of 2006, Public Law 109-432, 120 Stat. 2922, passed December 20, 2006 (see heading 9902.25.59 of subchapter II of HTS chapter 99).

²⁷ Jason M. Waite, Alston & Bird LLP, counsel to PGI, telephone interview conducted by the Commission, May 3, 2007.

²⁸ The only countries ineligible for U.S. NTR rates of duty are North Korea and Cuba.

²⁹ Jason M. Waite, Alston & Bird LLP, counsel to PGI, written submission to the Commission, May 16, 2007.

³⁰ Data in the paragraph are from Ian Butler, Director of Market Research & Statistics, INDA, Cary, NC, e-mail to the Commission, May 16, 2007, and telephone interview conducted by the Commission, May 17, 2007.

³¹ Data for rayon nonwoven wipes are not separately reported in U.S. trade statistics. For all nonwoven goods classified in HTS subheadings 5603.91-5603.94, U.S. imports totaled \$232 million and U.S. exports totaled \$479 million in 2006. The major import sources were Japan (\$57 million), Germany (\$30 million), and Canada (\$27 million); the major export markets were Mexico (\$119 million), China (\$95 million), and Canada (\$56 million).

INDA data show that North American production of food-service nonwoven wipes in 2006 used 9,000 to 11,000 tons of fibers, about half of which consisted of rayon fibers or Tencel®, a brand-name for lyocell, an artificial fiber first manufactured in the early 1990s by Accordis of Germany. The Tencel® name is now owned by Lenzing AG of Austria, the world's largest producer of cellulosic fibers. The firm's U.S. subsidiary, Lenzing Fibers, produces Tencel® in Axis (Mobile), AL.³² According to Lenzing officials, although lyocell and rayon are derived from wood pulp cellulose, lyocell is stronger (rayon loses as much as 50 percent of its strength when wet, compared with just 15 percent for lyocell) and more absorbent. However, because lyocell is bulkier than rayon, firms normally using rayon in nonwovens production would either adjust their equipment to process lyocell or maintain separate production lines for lyocell and rayon goods. An industry source stated that "the challenges in running Tencel®, not to mention its limited availability, make it a wholly inadequate substitute" for rayon in nonwoven wipes.³³ ***

Recent trade reports noted that the growth in the market for nonwoven wipes has slowed and that the onset of new production capacity has led to "a market focused strongly on price."³⁴ A representative of PGI stated that competition in the nonwoven wipes market is substantial, both at the fabric substrate level and at the consumer product level, and that imports of fiber, nonwoven substrates, and finished packaged goods play a role in the market. He said the market contains both nationally recognized brands and private labels in all segments and that the presence of private labels in many applications indicates that pricing is sensitive. He said that quality, service, and brand awareness contribute to the success of individual firms and products.³⁵

PGI is a leading world producer of nonwoven products with production facilities in North Carolina, Arkansas, New Jersey, and Virginia.³⁶ It purchased rayon fibers from Liberty Fibers Corp., Lowland, TN, the sole North American producer of the fibers. However, in September 2005, Liberty Fibers ceased all manufacturing operations and is now in liquidation.³⁷ PGI now uses non-originating rayon fibers, resulting in a loss of NAFTA duty-

³² Information on Lenzing Fibers is from Bob Keene and Steve Jones, director of sales, Lenzing Fibers, Axis, AL, telephone interview conducted by the Commission, May 17, 2007, and e-mail to the Commission, May 18, 2007.

³³ ***

³⁴ Karen Bitz McIntyre, editor, *Nonwovens Industry*, "Spunlace Market Report," March 2006, and "Household Wipes: Searching for the Next Swifter," February 2007, www.nonwovens-industry.com (accessed May 6, 2007).

³⁵ Jason M. Waite, Alston & Bird LLP, counsel to PGI, written submission to the Commission, May 16, 2007.

³⁶ Except as noted, information in the paragraph on PGI is from Jason M. Waite, Alston & Bird LLP, counsel to PGI, written submission to the Commission, May 16, 2007.

³⁷ Tom Montgomery, Liberty Fibers, telephone interview by Commission staff, May 4, 2007. He stated that the firm filed a petition for reorganization under chapter 11 of the U.S. Bankruptcy Code on September 29, 2005, and that the Bankruptcy Court converted the case to a chapter 7 liquidation proceeding in November 2005. Liberty Fibers had been a subsidiary of Lenzing AG of Austria. On November 21, 2003, Lenzing sold its remaining share in the firm to the firm's majority shareholder (see Lenzing press release, "The Lenzing Group Withdraws from US Minority Holding Lenzing Fibers Corporation," November 24, 2003).

free treatment for its rayon nonwoven wipes imported into Canada, which are now dutiable at 14 percent ad valorem.³⁸

U.S. imports of rayon fibers used in the manufacture of both nonwoven wipes and sanitary articles discussed in the previous section and classified in HTS subheading 5504.10.00 have increased significantly since the closure of Liberty Fibers in 2005, as has their price. Imports in 2006 rose by 44 percent over 2005 to \$109 million, and are up 77 percent in the first quarter of 2007, compared with the first quarter of 2006, to \$37 million. The major sources in the 2007 period were Austria, China, Finland, and Germany, each with shipments of \$6-7 million. A recent trade report noted that the price of rayon fibers rose by more than 20 percent in 2006.³⁹

U.S. industry sources contacted by Commission staff, aside from INDA and PGI, include Johnson & Johnson Consumer Products Group, Procter & Gamble, and Kimberly-Clark Corp.⁴⁰ A representative of Johnson & Johnson said the firm imports nonwoven wipes into the United States from Canada.⁴¹ The firm usually makes the wipes from nonwoven fabrics of rayon fibers; it does not use Tencel® in wipes for the domestic market. ***

Views of interested parties

The Commission received a written submission from the petitioner, Polymer Group, Inc., which states that the proposed NAFTA rule change for the subject nonwoven wipes will once again allow U.S. producers to make NAFTA-qualifying rayon nonwoven wipes for the Canadian market.⁴² PGI states that it is currently impossible to produce NAFTA-qualifying rayon nonwoven wipes, because there no longer is any North American production of rayon fibers. Under the current NAFTA rule of origin, U.S. producers of wipes face significantly increased costs in shipping U.S.-origin rayon nonwoven goods to the Canadian market, as well as the Mexican market. The unavailability of rayon fibers in North America eliminates any NAFTA advantage for U.S. producers and, thus, presents opportunity for Asian suppliers of wipes to the Canadian market. It is expected that this will have a negative impact on domestic producers and total U.S. trade if NAFTA-qualifying opportunities are not restored. PGI contends that the current situation also unfairly favors Canadian producers because the U.S. NTR duty rate for nonwoven products is free. As such, Canadian producers of nonwoven materials currently have duty-free access to both the U.S. and Canadian markets. PGI states that the proposed NAFTA rule change will allow U.S. producers to compete favorably in the \$270 million Canadian market for rayon nonwoven wipes and, therefore, restore, preserve, and allow for the continued expansion of U.S. trade in the subject articles.

³⁸ The proposed NAFTA rule change would allow the nonwoven wipes to be made of non-originating rayon fibers and still be considered an originating good and qualify for NAFTA preferences.

³⁹ INDA, "Vision News: Consumer Products E-Report," vol. 6, No. 1, February 1, 2007.

⁴⁰ The Commission contacted Dick Kimberly, Kimberly Consulting, on behalf of Kimberly-Clark Corp., on May 8, 2007. ***

⁴¹ Shmuel Dabi, Johnson & Johnson Consumer Products Group, telephone interview conducted by the Commission, May 22, 2007.

⁴² Jason M. Waite, Alston & Bird LLP, counsel to PGI, written submission to the Commission, May 16, 2007.

Probable effect of proposed action on U.S. trade under NAFTA, total U.S. trade, and on domestic producers of affected product⁴³

The Commission's analysis indicates that the proposed modification to the NAFTA rule of origin for nonwoven wipes of rayon fibers will likely have little or no effect on U.S. trade under NAFTA, on total U.S. trade, and on domestic fiber producers, but will benefit domestic producers of nonwoven wipes of rayon fibers. Any increase in either U.S. trade under NAFTA or total U.S. trade as a result of the proposed modification will likely be small in value terms.

The proposed NAFTA rule change will likely have little or no effect on domestic fiber producers, because there is no known U.S. commercial production of rayon fibers. The proposed modification will likely benefit domestic producers of the subject nonwoven wipes because it will make their goods more competitive in Canada and Mexico, by allowing U.S. goods produced from non-originating rayon fibers (fibers formed outside North America) to be considered NAFTA-originating goods and to qualify for NAFTA duty-free treatment when imported into Canada and Mexico, major markets for U.S. exports of nonwoven articles.⁴⁴ The extent to which U.S. exports of rayon nonwoven wipes might increase would depend on the extent to which the NAFTA rule change spurs new production of the subject nonwoven wipes in the United States. U.S. consumers already benefit from duty-free treatment on U.S. imports of rayon nonwoven wipes.

⁴³ The Commission's advice is based on information currently available to the Commission.

⁴⁴ Data for rayon nonwoven wipes are not separately reported in U.S. trade statistics. Of the \$479 million in U.S. exports of all nonwoven goods classified in HTS subheadings 5603.91-5603.94 in 2006, about 37 percent went to Mexico (\$119 million) and Canada (\$56 million).

PART 2

Chenille Fabrics: Probable Effect of Modification of NAFTA Rules of Origin for Goods of Canada

Chenille Fabrics

Part 2 contains the Commission's advice concerning the probable effect on U.S. trade under NAFTA, on total U.S. trade, and on domestic producers of a proposed modification to the NAFTA rule of origin for chenille fabrics classified in HTS subheading 5801.36 and made in the United States or Canada of acrylic staple fibers classified in HTS subheading 5503.30. The proposed modification would allow such fabrics to be made of acrylic staple fibers formed outside North America ("non-originating" fibers) and still be considered NAFTA-originating goods and qualify for NAFTA duty-free treatment when imported into the United States or Canada. Under the current NAFTA rules, the fabrics must be made from fibers formed in North America to be "originating" and qualify for NAFTA preferences.⁴⁵ In her request letter, the USTR states that the proposed modification is the result of determinations that U.S. and Canadian producers are not able to produce the acrylic fibers in commercial quantities in a timely manner.⁴⁶

The proposed NAFTA rule change for chenille fabrics was negotiated by the United States and Canada following receipt of a petition by the Committee for the Implementation of Textile Agreements (CITA) from Quaker Fabric Corp., Fall River, MA (Quaker), on October 24, 2005.⁴⁷ In its petition to CITA, Quaker alleged that acrylic staple fibers cannot be supplied by the domestic industry in commercial quantities in a timely manner and requested that the NAFTA rule of origin for chenille fabrics be modified to allow the use of non-originating acrylic staple fibers.

Product description

Chenille fabrics are classified in HTS subheading 5801.36.00, which provides for chenille fabrics of manmade fibers. The United States maintains a normal trade relations (NTR) rate of duty of 9.8 percent ad valorem on imports of the chenille fabrics. Canada maintains a

⁴⁵ The current NAFTA rule of origin for the chenille fabrics requires that all non-originating inputs be classified in HTS chapters other than chapters 54 through 55 and HTS headings other than headings 5106 through 5113, 5204 through 5212, 5307 through 5308, or 5310 through 5311. Chenille fabrics of non-originating acrylic staple fibers cannot meet the NAFTA rule of origin, as the fibers are provided for in HTS chapter 55 and are not produced in the United States or Canada. See table 1 for the current and proposed language of the NAFTA rule of origin for the chenille fabrics.

⁴⁶ See the USTR request letter to the Commission in appendix A of this report.

⁴⁷ See CITA notice published in the *Federal Register* of December 8, 2005 (70 F.R. 72994).

most-favored-nation (MFN) duty rate of 14 percent ad valorem. Acrylic fibers are classified in HTS subheading 5503.30.00, which covers acrylic or modacrylic staple fibers, not carded, combed or otherwise processed for spinning.⁴⁸ The U.S. NTR duty rate on imports of such fibers is 4.3 percent ad valorem; however, it has been reduced to 3.7 percent ad valorem for imports entered on or before December 31, 2009.⁴⁹ Canada's MFN duty rate for the acrylic fibers is free.

Quaker produces chenille fabrics for use in residential upholstered furniture.⁵⁰ The fabric is a soft, velvet-like material made from chenille yarn, a soft pile yarn which, according to a trade source, can be difficult to make.⁵¹ The yarn can be either solution dyed (color is added to the fiber-forming solution prior to extrusion of the fiber), gel-dyed (color is added after extrusion of the fiber but before the fiber has been spun into yarn), or packaged dyed (color is added after the fiber has been spun into yarn). Compared with gel-dyed and packaged-dyed yarn, solution-dyed yarn is more resistant to fading and the degrading effects of sunlight because the color is an integral part of the fiber. As such, solution-dyed yarn can be used in indoor or outdoor furniture fabric, while gel-dyed and packaged-dyed yarn is used primarily in indoor furniture fabric. The use of solution-dyed yarn enables furniture producers to provide the styling typically found in indoor furniture fabric and the performance properties (color fastness) found in outdoor furniture fabric.⁵²

A recent survey of retailers selling upholstered furniture indicated that chenille fabrics represent an estimated 25 percent of upholstered furniture sales and that the fabrics are popular in furniture retailing "at upper and middle price points."⁵³ Trade sources state that acrylic spun yarns are a key component of chenille upholstery fabrics and that there is "no adequate" substitute for such yarns in upholstery fabrics at this time. They stated that the use of acrylic chenille yarns in upholstery fabrics enables furniture makers to achieve aesthetics (e.g., appearance, styling and a "soft buttery feel") and performance properties (e.g., resistance to seam slippage, pilling, and abrasion) at certain price points that cannot be easily achieved using chenille yarns of other fibers.⁵⁴

⁴⁸ Acrylic staple fibers are made by cutting filaments into shorter lengths (e.g., a few inches in length).

⁴⁹ The temporary duty reduction, effective January 3, 2007, was provided for in the Tax Relief and Health Care Act of 2006, Public Law 109-432, 120 Stat. 2922, passed December 20, 2006 (see heading 9902.25.62 of subchapter II of HTS chapter 99).

⁵⁰ The use of chenille fabrics in U.S. apparel production is believed to be negligible. As such, this report will focus on the use of chenille fabrics as upholstery fabrics.

⁵¹ The Chenille International Manufacturers Association states that chenille yarn consists of short lengths of spun pile yarn that are held together by two ends of highly twisted core yarn. Chenille yarn is made on a machine designed to bring the pile yarns and core yarns together. The pile yarns are wrapped around a caliper, through which a blade passes to cut the pile yarns into short lengths. The core yarns are pressed onto the short lengths with a rotating metal wheel. The resulting yarn is then fed onto a ring twisting take-up mechanism. In the twisting process, the two ends of core yarn twist and trap the short ends of pile between the core yarns (see www.chenillecima.org (accessed May 4, 2007)).

⁵² Steve Ellington, president, Glen Raven Global Custom Fabrics, e-mail to the Commission, May 24, 2007.

⁵³ "Contemporary Rules Roost in Upholstery," *Furniture/Today*, November 20, 2006, p. 25 (from Kay Anderson, Director of Market Research, Reed Retail Group, and a member of survey team, e-mail to the Commission, June 1, 2007).

⁵⁴ Except as noted, information in the paragraph is from telephone interviews conducted by the Commission with Roger Berkley, president, Weave Corp., May 23, 2007; Carole Sloan, senior editor, *Furniture/Today*, June 1, 2007; and Kenneth M. Ludwig, senior vice president, Culp, Inc., June 4, 2007.

U.S. trade and industry and market conditions

A trade source estimates that the domestic market for upholstery fabrics, including the subject chenille fabrics, totals about \$1.6 billion annually and that imports in both roll form and “cut and sewn kits” supply about 60 percent of the market, though the import share could be as high as 75 percent.⁵⁵ The cut and sewn kits are partially assembled furniture covers designed to be placed on specific furniture frames of U.S. furniture makers, thereby enabling U.S. furniture makers to reduce costs by moving a larger portion of the labor component of production to low-cost countries.⁵⁶ Information available to the Commission suggests that, in the past five years, there has been a significant decrease in domestic production and a significant increase in imports of the subject chenille fabrics, particularly those from China, following the liberalization of U.S. textile trade in 2005.⁵⁷ From 2002 to 2006, imports of chenille fabrics classified in HTS subheading 5801.36.00 (which does not distinguish between the subject acrylic chenille fabrics and other manmade-fiber chenille fabrics) rose by 270 percent to \$112 million, with imports from China growing by almost eightfold to \$72 million, or 64 percent of the total.

The remainder of this section summarizes industry conditions for U.S. producers of chenille goods and their inputs. For ease of discussion, the producers are divided into six groups: (1) fiber producers; (2) vertically integrated firms, which spin fibers into yarns or process purchased yarns into chenille yarns, weave yarns into fabrics, and market the fabrics; (3) spinning mills, which spin fibers into yarns for sale in the open market; (4) specialty yarn mills, which process yarns into chenille yarns; (5) weaving mills, which weave chenille yarns into chenille fabrics and market the fabrics; and (6) upholstered furniture producers, the major market for the fabrics.

Fiber producers

Industry sources state that acrylic staple fibers are no longer produced in the United States.⁵⁸ The last two producers of acrylic staple fibers, Solutia Inc., St. Louis, MO, and Sterling Fibers Inc., Pace, FL, ceased production of the fibers in 2005.⁵⁹ As a result, U.S. imports of acrylic staple fibers have increased from \$54 million in 2004 to \$106 million in 2006. The main suppliers in 2006 were Turkey (\$31 million), Germany (\$29 million), and Mexico

⁵⁵ Quaker Fabric Corp., Form 10-K filed with the U.S. Securities and Exchange Commission, March 30, 2007, pp. 3 and 26.

⁵⁶ Culp, Inc., Form 10-K filed with the U.S. Securities and Exchange Commission, July 26, 2006, pp. 5, 7, and 10.

⁵⁷ The World Trade Organization (WTO) Agreement on Textiles and Clothing obligated the United States, the European Union, and Canada to phase out their import quotas on textiles and apparel from WTO member countries over 10 years ending on January 1, 2005.

⁵⁸ Frank Horn, president, Fiber Economics Bureau (a unit of the American Fiber Manufacturers Association), and Michael Hubbard, National Council of Textile Organizations, telephone interviews conducted by the Commission, May 2007.

⁵⁹ Dan Jenkins, Solutia, and Jim Hagerott, president, Sterling Fibers, telephone interviews conducted by the Commission, May 2007. The Sterling Fibers official said the firm makes acrylic fibers for industrial uses (e.g., friction materials), but the fibers are too short (1/4 inch in length or less) to be used in textile applications.

(\$15 million). An industry source said there is one producer of acrylic staple fibers in Mexico (Kaltex Fibers S.A. de C.V.).⁶⁰ ***⁶¹ ***⁶²

Vertically integrated producers

Two large vertically integrated producers of upholstery fabrics, Quaker Fabric Corp. (the petitioner), Fall River, MA, and Culp, Inc., High Point, NC, have each consolidated and reduced their U.S. upholstery fabric operations significantly in recent years, and now import a significant and growing share of their upholstery fabrics. Quaker is a leading supplier of woven upholstery fabrics for residential furniture with total net sales of \$152 million in fiscal 2006 (ended December 30, 2006), down from \$365 million in fiscal 2002.⁶³ It currently employs about 900 people in its U.S. operations, down from about 2,800 in early 2003. Quaker considers itself to be the largest producer of upholstery fabrics in North America and the world's largest producer of chenille yarns, most of which are used in the production of its fabrics. Chenille fabrics represent a significant (***) portion of Quaker's domestic production of upholstery fabrics. In its petition to CITA, Quaker states that it uses acrylic staple fibers in about 70 percent of its fabrics. Quaker currently uses non-NAFTA acrylic staple fibers, ***, and contracts with third-party mills in the United States to spin the fibers into yarns (Quaker does not make the yarns). Quaker processes the yarns into chenille yarns and weaves the yarns into upholstery fabrics in its domestic facilities.

***⁶⁴ ***

In January 2006, Quaker entered into an agreement with a fabric mill in China to make upholstery fabrics to Quaker's specifications.⁶⁵ Quaker imports the fabrics into the United States for sale to its furniture manufacturing customers. ***

Culp is a leading supplier of upholstery fabrics for residential and commercial furniture.⁶⁶ Its sales of U.S.-made upholstery fabrics decreased from \$196 million in fiscal 2004 to \$108 million in fiscal 2006 (ended April 30, 2006), while its sales of imported upholstery fabrics increased from \$16 million to \$59 million. A Culp official said that the divergent trend in sales continued in fiscal 2007 and that sales of imported fabrics now exceed U.S. fabric sales.

⁶⁰ The Mexican fiber producer, Celulosa Y Derivados S.A. de C.V. ("Cydsa") ceased production of acrylic staple fibers in early 2006, according to Thomas J. Scanlon, president, Benchmarks, Inc., counsel to Cydsa, telephone interview conducted by the Commission, June 5, 2007.

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⁶³ Information on Quaker is from Duncan Whitehead, vice president, Quaker Fabric Corp., telephone interview conducted by the Commission, June 8, 2007; Form 10-K filed with the U.S. Securities and Exchange Commission, March 30, 2007, and back issues; and a news release, "Corporate Profile," April 19, 2007, www.corporate-ir.net (accessed May 31, 2007).

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⁶⁶ Information on Culp is from Kenneth M. Ludwig, senior vice president, and Ameet Shah, customs compliance manager, telephone interviews conducted by the Commission, June 4 and 12, 2007, and its filings with the U.S. Securities and Exchange Commission, Form 10-K, July 26, 2006, and Form S-3, April 2, 2007; and news releases, "Culp Announces Revised U.S. Upholstery Fabrics Manufacturing Strategy," December 14, 2006, and "Culp Announces Third Quarter Fiscal 2007 Results," March 7, 2007, <http://phx.corporate-ir.net> (accessed May 4, 2007).

The number of employees in the firm's U.S. upholstery-fabric manufacturing operations declined from 2,614 in fiscal 2002 to 659 in fiscal 2006. A Culp official stated that, in early 2007, Culp closed all its U.S. fabric weaving operations and now uses contract weavers in the United States and its facilities in China to produce upholstery fabrics for its furniture manufacturing customers. Culp's facilities in China employed more than 300 workers in fiscal 2006. *** Culp recently expanded its China operations to make cut and sewn kits for furniture manufacturing customers in the United States and elsewhere.

Glen Raven Custom Fabrics LLC, Glen Raven, NC, is a vertically integrated producer of fabrics marketed under Sunbrella® and other labels for residential upholstery, marine, and automotive uses.⁶⁷ A company official said that the firm uses acrylic chenille yarns in a small share of its fabrics and that it markets the chenille fabrics to producers of residential indoor and outdoor furniture. The yarns are made of solution-dyed acrylic staple fibers and are processed into chenille yarns by specialty yarn mills on a commission (value-added) basis. The firm produces yarns mainly for captive use. *** According to the Glen Raven official, consideration should be given "for NAFTA relief for all products using solution dyed acrylic fiber," rather than just for the chenille fabrics.

Spinning mills

Mills identified by industry sources as producers of acrylic spun yarn include Brodnax Mills, Brodnax VA; National Spinning Co., Washington, NC; Patrick Yarn Mills, Inc., Kings Mountain, NC; Pharr Yarns, McAdenville, NC; and Shuford Yarn Mills, LLC, Hickory, NC. Information from these mills indicates that National Spinning and Shuford Yarn Mills make acrylic yarns for upholstery fabrics,⁶⁸ while the other firms do not make such yarns. ***.⁶⁹

National Spinning is a leading U.S. supplier of acrylic sales yarns (yarns for sale in the open market) and, according to its Web site, operates two of the world's most modern and efficient dyehouses for dyeing yarns.⁷⁰ ***

A representative of Shuford Yarn Mills said the firm produces and sells undyed acrylic spun yarns for upholstery fabrics.⁷¹ He stated that acrylic staple fibers are a key component of the firm's product line, representing *** percent of the firm's fiber consumption; polyester and cotton account for the remainder. The Shuford official said the firm operates two plants, employs *** workers, ***. ***

⁶⁷ Information on Glen Raven is from Steve Ellington, president, Glen Raven Global Custom Fabrics, telephone interview conducted by the Commission, May 15, 2007, and e-mail to the Commission, May 24, 2007.

⁶⁸ Jim Chesnutt, president, National Spinning Co., and Allen Barwick, president, Shuford Yarn Mills, telephone interviews conducted by the Commission, May 7-8, 2007.

⁶⁹ Telephone interviews conducted by the Commission with Bill Carstarphen, senior vice president, Pharr Yarns; Gilbert Patrick, Patrick Yarn Mills; and David Kerr, owner and president, Brodnax Mills, May 7-8, 2007.

⁷⁰ Jim Chesnutt, president, National Spinning Co., telephone interview conducted by the Commission, May 7, 2007, and the firm's Web site, www.natspin.com (accessed May 7, 2007).

⁷¹ Allen Barwick, president, Shuford Yarn Mills, telephone interview conducted by the Commission, May 8, 2007.

Specialty yarn mills

Mills that process yarns into chenille or other specialty yarns include Advanced Yarn Technologies (AYT), Greene County, NY; Amilon, LLC (DBA Lonfil America), Wallace, NC; Kennetex Inc., Kennett Square, PA; and Dillan Chenille Inc., Martinsville, VA.⁷² These mills tend to be small, family-owned firms that have the equipment and know-how to process yarns into specialty yarns. The mills do not manufacture yarns. They buy yarns in the open market (domestic and imported) or process yarns owned by other firms on a commission (value-added) basis. The mills carry little or no yarn inventory because the yarns are made to customer specifications. Chenille yarns of acrylic staple fibers represent a small share of the yarns processed by most of these mills.

Chenille fabric mills

U.S. mills weaving the subject chenille upholstery fabrics include Quaker and Glen Raven Custom Fabrics (see above), and Sunbury Textile Mills, Sunbury, PA. Sunbury makes decorative fabrics and performance fabrics for upholstered furniture, marine, and automotive uses.⁷³ Sunbury produces and markets such fabrics under the Sunbrella® label pursuant to a licensing agreement with Glen Raven, which created the colorfast solution-dyed yarns. A representative of Sunbury said his firm makes chenille fabrics from purchased chenille yarns of solution-dyed acrylic staple fibers. ***

Other mills identified by industry sources as producers of the subject chenille fabrics include Copland Industries, Burlington, NC; Joan Fabrics Corp., Tyngsboro, MA; Shuford Mills, Hickory, NC; and Weave Corp., Hackensack, NJ. Joan Fabrics filed for reorganization under chapter 11 of the United States Bankruptcy Code in April 2007.⁷⁴ Representatives of Copland Industries, Shuford Mills, and Weave Corp. said that their respective firms currently do not make the subject fabrics.⁷⁵ ***

Upholstered furniture producers

U.S. producers of upholstered furniture face growing competition from imports, particularly from China. From 2002 to 2006, imports of upholstered furniture rose by 78 percent to \$2.7 billion, with imports from China rising by 340 percent to \$1.7 billion, or 60 percent of the total. Official U.S. statistics show that U.S. producers' shipments of upholstered residential

⁷² Information in this section is from Daniel Gangi, AYT; John Dickerson, controller, Amilon, LLC; Amy Seiler, director of marketing and sales, Kennetex Inc.; and Pepe Diaz-LLaneza, Dillan Chenille Inc., telephone interviews conducted by the Commission, May 2007.

⁷³ Information on Sunbury Textile Mills is from Hank Truslow Jr., vice president, telephone interview conducted by the Commission, May 8, 2007, and its Web site, sunburytextiles.com (accessed May 4, 2007).

⁷⁴ "Joan Fabrics Files for Chapter 11," *Furniture World*, April 11, 2007, www.furninfo.com (accessed May 8, 2007).

⁷⁵ Information on the firms is from telephone interviews conducted by the Commission with James R. Copland III, president, Copland Industries; Becky Lane, Shuford Mills; and Roger Berkley, president, Weave Corp., May 2007. ***

furniture decreased from \$10.2 billion in 2002 to about \$9.5 billion in 2004, and then increased to \$9.9 billion in 2005.⁷⁶ A trade source estimated that shipments rose by 4.8 percent in 2006.⁷⁷ The share of the domestic market for upholstered furniture accounted for by imports rose from 14 percent in 2002 to an estimated 23 percent in 2006 (based on landed duty-paid value). Employment in the U.S. upholstered industry declined continuously from 91,200 workers in 2002 to 80,900 workers in 2006.⁷⁸

Views of interested parties

The Commission did not receive any written comments concerning the subject chenille fabrics.

Probable effect of proposed action on U.S. trade under NAFTA, total U.S. trade, and on domestic producers of affected product⁷⁹

The Commission's analysis indicates that the proposed modification to the NAFTA rule of origin for chenille fabrics of acrylic staple fibers that are goods of Canada will likely have little or no effect on U.S. trade under NAFTA, on total U.S. trade, and on domestic fiber producers, but will likely benefit domestic producers of the subject chenille fabrics. Any increase in either U.S. trade under NAFTA or total U.S. trade as a result of the proposed modification will likely be small in value terms.

The proposed NAFTA rule change will likely have little or no effect on domestic fiber producers, because there is no known U.S. production of acrylic staple fibers and there are no other types of fibers that are substitutable for acrylic staple fibers in the manufacture of chenille upholstery fabrics in terms of aesthetics, performance properties, and required price points. The proposed rule change will likely benefit domestic producers of the subject chenille fabrics because it will make their fabrics more competitive in Canada by allowing the fabrics produced from non-originating acrylic staple fibers (fibers formed outside North America) to be considered NAFTA-originating goods and to qualify for NAFTA duty-free treatment when imported into Canada, the major market for U.S. exports of the fabrics.⁸⁰ The extent to which U.S. imports and exports of the subject chenille fabrics might increase will

⁷⁶ Data are for residential upholstered furniture classified in code 337121 of the North American Industry Classification System (NAICS). Import data are from the USITC DataWeb (accessed May 4, 2007); shipments data are from the U.S. Census Bureau, *Annual Survey of Manufactures: Value of Product Shipments*, 2005, table 1 (NAICS code 337121).

⁷⁷ W.W. Jerry Epperson, Jr., Managing Director, Mann, Armistead & Epperson, Ltd., Richmond, VA, "The Furnishing Digest Newsletter," Spring 2007 Market Issue, and Jackie Hirschhaut, vice president of public relations and marketing, American Home Furnishings Alliance, "2007 Home Furnishings Industry Overview," e-mail to the Commission, May 30, 2007.

⁷⁸ U.S. Department of Labor, Bureau of Labor Statistics, "Employment, Hours, and Earnings from the Current Employment Statistics Survey (National)," series CEU3133712101, www.bls.gov (accessed June 4, 2007).

⁷⁹ The Commission's advice is based on information currently available to the Commission.

⁸⁰ For chenille fabrics classified in HTS subheading 5801.36.00, which does not distinguish between the subject acrylic chenille fabrics and other manmade-fiber chenille fabrics, U.S. exports in 2006 totaled \$19.9 million, of which 48 percent, or \$9.6 million, went to Canada.

depend on the extent to which the proposed NAFTA rule change spurs new production of the subject fabrics in the United States and Canada. This will likely be especially important because competition with Asian suppliers, particularly China, has increased since the elimination of U.S. import quotas on textiles in 2005. U.S. consumers will likely benefit from any additional duty rate reductions on U.S. imports of the chenille fabrics from Canada.⁸¹

⁸¹ U.S. imports of chenille fabrics classified in HTS subheading 5801.36.00 and made in Canada were negligible during the period from 2002 to 2006.

APPENDIX A

Request letter from the United States Trade Representative

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

The Honorable Daniel R. Pearson
Chairman
U.S. International Trade Commission
500 E St., SW
Washington, DC 20436

DOCKET NUMBER 2542
Office of the Secretary Int'l Trade Commission

APR 16 2007

2007 APR 17 PM 4: 56

RECEIVED
OFFICE OF THE SECRETARY
U.S. INT'L TRADE COMM.

Dear Chairman Pearson:

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

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

Our negotiators have recently reached agreement in principle with representatives of the governments of Canada and Mexico on modifications to the NAFTA rules of origin, which are reflected in part I of the attached document. These changes are the result of determinations that North American producers are not able to produce viscose rayon staple fiber in commercial quantities in a timely manner. In addition, our negotiators have recently reached agreement in principle with representatives of the government of Canada, which are reflected in part II of the attached document. These changes are the result of determinations that U.S. and Canadian producers are not able to produce certain acrylic fibers in commercial quantities in a timely manner.

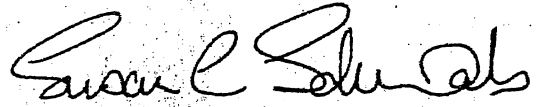
Under authority delegated by the President, and pursuant to section 103 of the Act, I request that the Commission provide advice on the probable effect of the modifications reflected in the enclosed proposals on U.S. trade under the NAFTA, total U.S. trade, and on domestic producers of the affected articles.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

The Honorable Daniel R. Pearson

Page 2

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

Sincerely,

A handwritten signature in cursive script, appearing to read "Susan C. Schwab".

Susan C. Schwab

Enclosure

Enclosure
April 9, 2007

NORTH AMERICAN FREE TRADE AGREEMENT
Textiles and Apparel Goods - Availability of Supply
Proposed Amendments to Annex 401 and Annex 300 - B

Part I:

Sanitary Towels or Tampons; Non-Woven Wipes

Chapter 56, 5601.10, 5603.91-5603.94: Delete heading 56.01 and 56.02-56.05 and the rules of origin applicable thereto and replace with the following:

- | | |
|-----------------|---|
| 5601.10 | A change to subheading 5601.10 from any other chapter, except from heading 51.06 through 51.13, 52.04 through 52.12, 53.07 through 53.08 or 53.10 through 53.11, Chapter 54, heading 55.01 through 55.03, subheading 5504.90 or heading 55.05 through 55.16. |
| 5601.21-5601.30 | A change to subheading 5601.21 through 5601.30 from any other chapter, except from heading 51.06 through 51.13, 52.04 through 52.12, 53.07 through 53.08 or 53.10 through 53.11 or Chapter 54 through 55. |
| 56.02 | A change to heading 56.02 from any other chapter, except from heading 51.06 through 51.13, 52.04 through 52.12, 53.07 through 53.08 or 53.10 through 53.11 or Chapter 54 through 55. |
| 5603.11-5603.14 | A change to subheading 5603.11 through 5603.14 from any other chapter, except from heading 51.06 through 51.13, 52.04 through 52.12, 53.07 through 53.08 or 53.10 through 53.11 or Chapter 54 through 55. |
| 5603.91-5603.94 | A change to non-woven wipes of subheading 5603.91 through 5603.94 from any other chapter, except from heading 51.06 through 51.13, 52.04 through 52.12, 53.07 through 53.08 or 53.10 through 53.11, Chapter 54, heading 55.01 through 55.03, subheading 5504.90 or heading 55.05 through 55.16; or

A change to any other good of subheading 5603.91 through 5603.94 from any other chapter, except from heading 51.06 through 51.13, 52.04 through 52.12, 53.07 through 53.08 or 53.10 through 53.11 or Chapter 54 through 55. |

56.04-56.05

A change to heading 56.04 through 56.05 from any other chapter, except from heading 51.06 through 51.13, 52.04 through 52.12, 53.07 through 53.08 or 53.10 through 53.11 or Chapter 54 through 55.

Part II:

Certain Chenille Fabrics

To add the following rules to Chapter 58:

A change to subheading 5801.36 from any other chapter, except from headings 5106 through 5113, 5204 through 5212, 5307 through 5308 or 5310 through 5311, chapter 54, heading 5501 through subheading 5503.20, or subheading 5503.40 through heading 5516.

APPENDIX B
Federal Register Notice

compliance with applicable environmental and cultural resource laws, is available for review at the BLM, Rock Springs Field Office at the address stated above, telephone: 307-352-0334.

On May 22, 2007, the above described land will be segregated from all other forms of appropriation under the public land laws, including the general mining laws, except for lease or conveyance under the R&PP Act and leasing under the mineral leasing laws.

Interested parties may submit written comments regarding the proposed lease or conveyance or classification of the land for a Senior Citizen Center to the Field Manager, BLM Rock Springs Field Office, at the address stated above. Comments must be received by July 6, 2007.

Classification Comments: Interested parties may submit comments involving the suitability of the land for a Senior Citizen Center. Comments on the classification are restricted to whether the land is physically suited for the proposal, whether the use will maximize the future use or uses of the land, whether the use is consistent with local planning and zoning, or if the use is consistent with State and Federal programs.

Application Comments: Interested parties may submit comments regarding the specific use proposed in the application and Plan of Development, whether the BLM followed proper administrative procedures in reaching the decision; or any other factor not directly related to the suitability of the land for a Senior Citizen Center.

Confidentiality of Comments: Before including your address, phone number, e-mail address, or other personal identifying information in your comments, you should be aware that your entire comment—including your personal identifying information—may be made publicly available at any time. While you can ask us in your comment to withhold your personal identifying information from public review, we cannot guarantee that we will be able to do so.

Any adverse comments will be reviewed by the State Director, who may sustain, vacate, or modify this realty action. In the absence of any adverse comments, the classification will become effective July 23, 2007.

(Authority: 43 CFR part 2741)

Michael R. Holbert,
Field Manager.

[FR Doc. E7-9844 Filed 5-21-07; 8:45 am]

BILLING CODE 4310-22-P

INTERNATIONAL TRADE COMMISSION

[Investigation No. NAFTA-103-018]

Certain Textile Articles: Probable Effect of Modification of NAFTA Rules of Origin for Goods of Canada and Mexico (Sanitary Articles and Nonwoven Wipes) and for Goods of Canada (Chenille Fabrics)

AGENCY: United States International Trade Commission.

ACTION: Institution of investigation and request for written submissions; extension of date for written submissions.

SUMMARY: Following receipt of a request on April 17, 2007, from the United States Trade Representative (USTR) under authority delegated by the President and pursuant to section 103 of the North American Free Trade Agreement (NAFTA) Implementation Act (19 U.S.C. 3313), the Commission instituted investigation No. NAFTA-103-018, Certain Textile Articles: Probable Effect of Modification of NAFTA Rules of Origin for Goods of Canada and Mexico (Sanitary Articles and Nonwoven Wipes) and for Goods of Canada (Chenille Fabrics).

DATES: May 16, 2007: Original deadline for filing written submissions.

May 29, 2007: Extended deadline for filing written submissions.

June 15, 2007: Transmittal of Commission report to the USTR.

ADDRESSES: All Commission offices, including the Commission's hearing rooms, are located in the United States International Trade Commission Building, 500 E Street, SW., Washington, DC. All written submissions should be addressed to the Secretary, United States International Trade Commission, 500 E Street, SW., Washington, DC 20436. The public record for this investigation may be viewed on the Commission's electronic docket (EDIS) at <http://edis.usitc.gov>.

FOR FURTHER INFORMATION CONTACT: Dennis Rapkins, Office of Industries (202-205-3406; dennis.rapkins@usitc.gov). For information on legal aspects, contact William Gearhart of the Office of the General Counsel (202-205-3091; william.gearhart@usitc.gov). The media should contact Margaret O'Laughlin, Office of External Relations (202-205-1819; margaret.oloughlin@usitc.gov). Hearing-impaired individuals may obtain information on this matter by contacting the Commission's TDD terminal at 202-205-1810. General information concerning the Commission

may also be obtained by accessing its Internet server (<http://www.usitc.gov>). 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.

Background: The Commission issued an earlier version of this notice on May 3, 2007, and sent copies to parties believed to have an interest in the matter. The notice requested that parties with an interest in the matter file any written submissions by May 16, 2007. However, due to a technical error, the notice was not published in the **Federal Register**. In view of that error, the Commission has extended to the close of business May 29, 2007, the due date for filing any written submissions. Parties that have already filed submissions may amend or supplement such submissions, provided they do so on or before the close of business May 29, 2007, and in the manner provided for below.

Annex 300-B, Chapter 4, and Annex 401 of the NAFTA contain the rules of origin for textiles and apparel for application of the tariff provisions of the NAFTA. These rules are set forth for the United States in general note 12 to the Harmonized Tariff Schedule (HTS). According to the USTR's letter, U.S. negotiators have recently reached agreements in principle with representatives of the Governments of Canada and Mexico concerning proposed modifications to the NAFTA rules of origin for certain sanitary articles and nonwoven wipes, and the Government of Canada only concerning a proposed modification to the NAFTA rule of origin for certain chenille fabrics. If implemented, the proposed rules changes would apply only to U.S. imports from and U.S. exports to the NAFTA parties in agreement with the rules changes. Section 202(q) of the North American Free Trade Agreement Implementation Act (the Act) authorizes the President, subject to the consultation and layover requirements of section 103 of the Act, to proclaim such modifications to the rules of origin as are necessary to implement an agreement with one or more of the NAFTA countries pursuant to paragraph 2 of section 7 of Annex 300-B of the Agreement. One of the requirements of section 103 of the Act is that the President obtain advice regarding the proposed actions from the Commission.

The USTR requested that the Commission provide advice on the probable effect of the proposed modifications of the NAFTA rules of origin for the specified articles on U.S. trade under the NAFTA, on total U.S.

trade, and on domestic producers of the affected articles. As requested, the Commission will provide its advice to the USTR by June 15, 2007, and will issue a public version of its report shortly thereafter, with any confidential business information deleted.

The goods of Canada and Mexico covered by this investigation, as presented in part I of the attachment to the USTR's letter, are sanitary towels or tampons classified in HTS subheading 5601.10 and nonwoven wipes classified in HTS subheadings 5603.91-5603.94 that are made from viscose rayon staple fibers of HTS subheading 5504.10. The goods of Canada only that are covered by this investigation, as presented in part II of the USTR's attachment, are chenille fabrics classified in HTS subheading 5801.36 and made from acrylic fibers classified in HTS subheading 5503.30. The USTR's letter and attachment can be viewed on the Commission's Internet server at <http://www.usitc.gov/edis.htm>. The current NAFTA rules of origin applicable to U.S. imports can be found in general note 12 of the 2007 HTS (see "General Notes" link at <http://www.usitc.gov/tata/hts/bychapter/index.htm>).

Written Submissions: No public hearing is planned. However, interested parties are invited to submit written statements concerning the matters to be addressed by the Commission in its report on this investigation. Submissions should be addressed to the Secretary to the Commission. To be assured of consideration by the Commission, written statements related to the investigation should be submitted to the Commission at the earliest practical date and should be received no later than the close of business on May 29, 2007. All written submissions must conform with the provisions of section 201.8 of the Commission's Rules of Practice and Procedure (19 CFR 201.8). Section 201.8 of the rules requires that a signed original (or copy designated as an original) and fourteen (14) copies of each document be filed. In the event that confidential treatment of the document is requested, at least four (4) additional copies must be filed, in which the confidential business information must be deleted (see the following paragraph for further information regarding confidential business information). The Commission's rules authorize filing submissions with the Secretary by facsimile or electronic means only to the extent permitted by section 201.8 of the rules (see Handbook for Electronic Filing Procedures, http://www.usitc.gov/secretary/fed_reg_notices/rules/documents/handbook_on_electronic_filing.pdf).

Persons with questions regarding electronic filing should contact the Secretary (202-205-2000 or edis@usitc.gov).

Any submissions that contain confidential business information must also conform with the requirements of section 201.6 of the Commission's Rules of Practice and Procedure (19 CFR 201.6). Section 201.6 of the rules requires 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. All written submissions, except for confidential business information, will be made available in the Office of the Secretary to the Commission for inspection by interested parties.

The Commission may include some or all of the confidential business information submitted in the course of this investigation in the report it sends to the USTR and the President. However, the Commission will not publish such confidential business information in the public version of its report in a manner that would reveal the operations of the firm supplying the information.

Issued: May 18, 2007.

By order of the Commission.

Marilyn R. Abbott,

Secretary to the Commission.

[FR Doc. E7-9894 Filed 5-21-07; 8:45 am]

BILLING CODE 7020-02-P

DEPARTMENT OF JUSTICE

[OMB Number 1103-0018]

Justice Management Division; Agency Information Collection Activities

ACTION: 30-Day Notice of Information Collection Under Review: Extension of Previously Approved Collection, Department of Justice Procurement Blanket Clearance.

The Department of Justice, Justice Management Division, will be submitting 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 72, Number 52, page 12831) on March 19, 2007 allowing for a 60 day public comment period.

The purpose of this notice is to allow an additional 30 days for public comments. Comments are encouraged and will be accepted until June 21, 2007. This process is conducted in accordance with 5 CFR 3120.10.

Written comments and/or suggestions regarding the items contained in this notice, especially regarding 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 on 202-395-7285.

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

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

Overview of this information collection:

- Type of Information Collection:* Extension of a currently approved collection.
- Title of the Form/Collection:* Department of Justice Procurement Blanket Clearance.
- The Agency form number, if any, and the applicable component of the Department of Justice sponsoring the collection: Form Number:* None.
- Sponsor:* Justice Management Division.
- Affected public who will be asked or required to respond, as well as a brief abstract. Primary:* Commercial organizations and individuals who voluntarily submit offers and bids to compete for contract awards to provide supplies and services