

UNITED STATES TARIFF COMMISSION

**FABRICS CONTAINING WOOL
AND OTHER FIBERS**

**Report to the Ways and Means Committee
of the U. S. House of Representatives
on Investigation No. 332-52
Under Section 332 of the
Tariff Act of 1930**



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INTRODUCTION

In response to a request on November 10, 1966, from the Chairman, Committee on Ways and Means, House of Representatives, the U.S. Tariff Commission reports herein the results of its study to assist the Committee in its consideration of problems concerning the U.S. tariff treatment of fabrics containing wool and other textile materials. 1/

The occasion for the Committee's request arose from its discussion of H.R. 18017, 2/ 89th Congress, a bill to amend the Tariff Schedules of the United States (TSUS) as they apply to certain fabrics containing wool and silk. As stated, the bill was designed to close a "loophole" in the tariff schedules. In the course of the discussion certain problems emerged which, it was thought, should be studied. The problems mentioned in the Committee's request were:

(1) whether enactment of the proposed legislation would involve a violation of international obligations and require the United States to pay compensation; (2) the fact that the U.S. duty on low-priced woolen fabrics is something over 100 percent; (3) whether a restructuring of the duty rates on woolen mixtures would be a better solution to the "loophole" problem than piecemeal legislation each time a "loophole" is discovered; and (4) whether a study might disclose a method to deal with the "loophole" of concern in H.R. 18017, as well as prevent other "loopholes" that might develop in the future. The

1/ The Committee's request is reproduced in appendix A.

2/ Reintroduced as H.R. 2299, 90th Cong., on Jan. 16, 1967.

Committee suggested that these and any other problems that might come to light should be treated in the study.

The Committee requested the Secretaries of State, Labor, and Commerce and the Special Representative for Trade Negotiations to participate in this study and furnish assistance, information, comments, and recommendations that would suggest solutions to the problems outlined. Those agencies worked closely with the Commission, and their suggestions were taken into account in the preparation of this report; the Tariff Commission, however, takes full responsibility for the material presented herein.

Notice of the Commission's investigation was issued on November 15, 1966, and published in the Federal Register of November 18, 1966 (30 F.R. 14707). In its notice, the Commission stated that it would consider all written submissions received from interested parties by December 5, 1966. No public hearing was held. Information in this report was obtained by the Commission from its files, from other agencies of the United States Government, from written submissions of interested parties, and through field visits and interviews by members of the Commission's staff with various producers and importers.

THE PROBLEM

The problem under consideration arises in substantial part from the U.S. public policy which sustains the domestic price of wool at a level considerably above that in the world market. The price disparity necessitates duties on wool products that are generally higher

than those on other textile products, giving rise to tariff disparities which are basic to "loophole" problems.

The principal fabrics concerned in this study are low-priced woven apparel fabrics (valued not over \$2 per pound) that are made preponderantly of reprocessed or reused wool. The rates of duty on such fabrics in chief value of wool are considerably higher than those on other fabrics in the textile schedule--a circumstance that has resulted in successive shifts of imports to duty classifications in which the rates are lower. In recent years such rate avoidance has been accomplished mainly by blending, with the reprocessed or reused wool fibers, just enough more expensive fibers (flax, rabbit hair, or silk) to make such fibers the component of chief value.

Two of the rate-avoidance practices, involving woven fabrics containing over 17 percent of wool by weight but in chief value of flax, or of rabbit hair, have been eliminated by Congressional action. The Committee now seeks methods by which the present "loophole," involving woven fabrics containing over 17 percent of wool by weight but in chief value of silk may be dealt with and by which resort to future "loopholes" might be prevented.

Origin of the Problem and Actions Taken in Connection Therewith

Before August 31, 1963, when the TSUS became effective, 1/ broadwoven fabrics wholly or in chief value of wool were dutiable under paragraphs 1108 and 1109(a) of the Tariff Act of 1930. Most fabrics valued not over \$1.25 per pound were dutiable at 50 cents

1/ The TSUS replaced the tariff schedules originally included in the Tariff Act of 1930, as modified.

per pound plus 50 percent ad valorem, and those valued over \$1.25 but not over \$2 per pound were dutiable at 50 cents per pound plus 55 percent ad valorem. Pursuant to a bilateral trade agreement with the United Kingdom those rates were reduced to 50 cents per pound plus 37.5 percent ad valorem, effective January 1, 1939; they were further reduced to 37.5 cents per pound plus 25 percent ad valorem pursuant to the General Agreement on Tariffs and Trade, effective January 1, 1948. In making the latter reduction, the United States reserved the right to increase the ad valorem part of the rate to 45 percent under certain conditions--e.g., an increase in the ratio of imports to domestic production. These conditions were deemed to be met in 1956; hence, a tariff quota system beginning October 1 of that year was provided. ^{1/} Quotas were set each year during 1957-60; for most imports in excess of those quotas the ad valorem component of the compound duty was 45 percent ad valorem.

During the 4 full years (1957-60) when the tariff quota system was in operation, annual imports of woven wool fabrics nearly doubled, largely because of increased imports from Italy, which rose from 2.4 million linear yards in 1957 to 16.9 million linear yards in 1960. Over the period the average value per pound of the imports from Italy decreased from \$4.07 to \$1.45. In 1960, the last year during which the quota system was in operation, nearly two-thirds of the imports from Italy entered at the over-quota rate of 37.5 cents per pound plus 45 percent ad valorem.

^{1/} The conditions referred to and the operation of the tariff quota are treated in more detail in the section on basic information.

Because the tariff quota system was found to be unsatisfactory, the concession on woven wool fabrics was renegotiated in 1960. As a result, the quota system was replaced, effective January 1, 1961, by new rates of duty, which, for the most part, were substantially higher than those that had been imposed previously. For most lower-priced fabrics, the new rate was set at \$1.135 per pound but not to exceed 37.5 cents per pound plus 60 percent ad valorem. The latter rate applied to fabrics valued not over \$1.26-2/3 per pound; this rate was equivalent to an average of 103 percent ad valorem on the imports in 1960. The former rate applied to fabrics valued over \$1.26-2/3 but not over \$2 per pound; it was equivalent to an average of 79 percent ad valorem on the 1960 imports.

Under the original schedules of the Tariff Act of 1930, nearly all imported woven fabrics containing wool were in chief weight, as well as in chief value, of wool. Paragraph 1122 provided for the exceptions. Under the provisions of this paragraph, a fabric containing 17 percent or more of wool by weight but not in chief value thereof was constructively separated into "two" fabrics--the wool part being dutiable as if it were a wool fabric and the other part being dutiable as if it were a separate fabric of the nonwool fibers. Imports under this paragraph became large in 1958-60, when the above-mentioned tariff quota system was in operation, and consisted principally of low-priced wool-and-rayon mixed fabrics from Italy. After the high rate of duty was established, effective January 1, 1961, such imports decreased substantially. The provisions of paragraph 1122 were not continued in the TSUS.

The aforementioned increase in the rates of duty on low-priced woollens in 1961 was followed by successive shifts of imports to channels (duty classifications) in which the rates were lower. The first of these involved wool fabrics imported into the Virgin Islands and shipped to the mainland of the United States duty-free, after having been showerproofed and their price increased, as articles which did not contain foreign materials in excess of 50 percent of their value. Such shipments to the customs territory of the United States were restricted by legislation, approved March 29, 1963; a tax of 65 cents per linear yard was imposed on woolen goods manufactured or processed in the Virgin Islands in excess of a quantity (determined by the Governor) "consistent with the protection of the economic stability and commercial relations of the Virgin Islands." 1/

The next rate-avoidance effort involved the importation of wool fabric as fabric in part of braid, dutiable under paragraph 1529(a) at 42.5 percent ad valorem. This avenue was closed, effective August 31, 1963, by the TSUS.

When the provisions of paragraph 1122 were superseded by the provisions of the TSUS, new ways of avoiding the wool fabric duty were discovered. Congress has dealt successively with these. During 1964-65, large quantities of fabrics containing a high percentage of reprocessed wool by weight but in chief value of flax

1/ Act No. 971 (Bill No. 1869) ch. 9, title 33 of the Virgin Islands Code.

were imported at a 10-percent rate of duty. These imports were discontinued after the passage of P.L. 89-241, effective December 7, 1965, which provided for such fabrics a duty rate of 30 cents per pound plus 45 percent ad valorem.

In the last half of 1965 and the first half of 1966 substantial quantities of fabrics made preponderantly of reprocessed wool, but in chief value of rabbit hair, were imported. After P.L. 89-405 established a rate of 30 cents per pound plus 50 percent ad valorem on these fabrics, effective June 19, 1966, imports ceased.

The latest avenue employed by importers to avoid the high rate of duty on low-priced wool fabrics has been the importation of woven fabrics in chief value of silk, but having a high wool content, at a duty rate of 35 percent ad valorem. H.R. 18017, which was introduced to close this avenue, provided a rate of duty on such fabrics of 30 cents per pound plus 50 percent ad valorem.

At the present time, the rates of duty on the fabrics with which this investigation is primarily concerned--i.e., broadwoven fabrics, valued not over \$2 per pound, containing over 17 percent of wool by

weight, provided for in part 3 of schedule 3 of the TSUS--are as follows:

<u>TSUS item</u>	<u>Abridged description</u>	<u>Rate of duty</u>
	Wholly or in chief value of wool:	
336.50	Valued not over \$1.26-2/3 per pound-	37.5¢ per lb. plus 60% ad val.
336.55	Valued over \$1.26-2/3 but not over \$2 per pound-----	\$1.135 per lb.
335.55	In chief value of vegetable fibers (except cotton)-----	30¢ per lb. plus 45% ad val.
	In chief value of cotton:	
332.10	Containing wool, whether or not containing silk or man-made fibers, or both, but not con- taining other fibers-----	30% ad val.
332.40	Other-----	20% ad val.
	In chief value of silk:	
337.50	Not jacquard-figured-----	35% ad val.
337.55	Jacquard-figured-----	37.5% ad val.
338.10	In chief value of man-made fibers-----	30¢ per lb. plus 50% ad val.
339.05	In chief value of miscellaneous textile materials (other than wool, vegetable fibers, silk, or man-made fibers)---	30¢ per lb. plus 50% ad val.

Character of the Trade Involved

Fabrics embodying substantial quantities of reprocessed and re-used wool fibers have been marketed regularly in the United States for decades. They compete primarily with low-priced woolen fabrics and only remotely with quality woolen fabrics. For many years the trend in the U.S. annual consumption of fabrics made of reprocessed and reused wool has been downward.

The consumption of such fabrics has varied widely from year to year. Style considerations, reflecting the popular mode, appear to have been the principal determinant of such annual variations. This importance of style is highlighted by the fact that in 1965, when imports exceeded those in other recent years, U.S. producers' sales of these fabrics also achieved a high level. The large imports in 1965 consisted predominantly of meltons, the demand for which in that year appears to have exceeded the capacity of domestic producers.

Over the years, the imported fabrics containing significant quantities of reprocessed and reused wool have supplied the same end uses as those supplied by comparable fabrics of domestic production. In recent years, however, the imported fabrics have consisted largely of mediumweight fabrics, whereas those manufactured by domestic producers have consisted largely of heavyweight fabrics.

During the past 5 years, imported low-priced fabrics embodying significant quantities of reprocessed or reused wool have supplied two-fifths of the fabrics of that type consumed in the United States. During the same period, such imported fabrics accounted for about a fourth of the U.S. imports and for less than 4 percent of the U.S. consumption of all woven apparel fabrics of wool.

As indicated earlier, the recent successive actions designed to prevent rate avoidance have restricted imports of fabrics made in substantial part from reprocessed and reused wool. Imports of such

fabrics in recent years have been as follows (in thousands of linear yards):

1962-----	13,750
1963-----	11,031
1964-----	5,030
1965-----	14,959
1966-----	9,113

The impact of the above-mentioned Congressional actions, however, is only partly manifest by the figure reported for 1966. Indeed, the great bulk of the imports shown for 1966 consisted of types for which the rate avoidance feature is no longer available. The first Congressional action dealing with the alleged loophole problem became effective in December 1965. Since then, imports of fabrics containing reprocessed and reused wool, but in chief value of flax or ramie, have been negligible. Since June 1966, imports of such fabrics in chief value of rabbit hair have been negligible. Currently, only such fabrics in chief value of silk are entering in significant quantities, but at a level materially below the aggregate of imports containing reprocessed or reused wool that entered annually before the Congress initiated the actions indicated.

Currently, at least nine U.S. concerns produce fabrics predominantly of reprocessed or reused wool. Several of them are engaged either exclusively or principally in such production.

Sales of domestically-produced fabrics embodying substantial quantities of reprocessed and reused wool fibers averaged higher in 1965-66 than they did in 1962-63. The prices received by U.S. producers of meltons (the principal fabric) averaged some 10 percent higher in 1965-66 than in 1962-63.

THE COMMISSION'S SUGGESTIONS

A "loophole" is said to exist in the tariff structure when an importer is able to have a product normally dutiable at a given rate modified or manipulated without significant change in its commercial status so as to avail himself of a lower rate of duty. ^{1/} The

1/ The Commission in the 1955 Tariff Classification Study-Interim Report (reproduced in the Tariff Classification Study-Submitting Report of November 15, 1960, page 54) referred to tariff "loopholes" as follows:

It is axiomatic in customs jurisprudence that an importer may have his goods so fashioned as to bring them within the scope of the duty-rate description most favorable to him. This principle is necessary and desirable, but has led to the exploitation, by ingenious importers, of inherent defects in the basic tariff structure. The defects may be in statutory duty-rate descriptions, or may have resulted from the modifications thereof proclaimed by the President. In either case, the exploitation of the defects by importers has resulted in understandable complaints from domestic producers.

The problem arises when an importer (or foreign producer) discovers a way to avoid the protective incidence of a particular duty-rate description--generally by a "manipulation" of his goods. The manipulation, which is usually a simple operation, is sufficient to change the tariff status of the imported goods to the importer's benefit, but is not sufficient to remove such goods from direct competition with the domestic goods "protected" by the duty-rate description avoided by the "manipulation."

While in individual cases such legal "evasions" of higher rates might be corrected, they are difficult to anticipate and their complete elimination by revision of individual classification provisions is not possible under any tariff structure with as many duty-rate provisions as are necessary for the U.S. tariff. The problem, however, might be susceptible of solution in large measure by adoption of a rule which would preclude changes in classification by reason of processing or other "manipulation" which has no commercial significance.

low-priced fabrics here considered, in chief weight of reprocessed or reused wool, are made with just enough silk for them to become dutiable at the lower rate on fabrics in chief value of silk.

Because of the disparities between the rates on similar products of different textile fibers, and the classification based on fiber component of chief value, numerous "loophole" possibilities are present in the tariff rates on textile products. That is not to say, however, that they all are being or will be exploited, or that they all can be closed.

The Committee requested the Tariff Commission to suggest not only "possible ways of solving the current problem" but also ways of "avoiding the necessity of having to legislate on 'loopholes' in the future by trying to anticipate and avoid" their occurrence "in this textile area." The Commission suggests that the "loophole" problem in the provisions of the TSUS could be lessened by amendment of the TSUS to provide--

1. that a component material whose incorporation in an article is without commercial significance shall not be considered in determining the component of chief value of the article, 1/ or
2. that a "chief-weight" concept be substituted for the "chief-value" concept in a selected portion of the textile provisions of the TSUS.

The first alternative is designed to prevent use of a component material for the purpose of changing the dutiable status of an article.

1/ Commissioner Sutton does not subscribe to this suggestion. See statement of his views beginning on page 17.

Under this suggestion, for example, if the customs officers should find that low-priced wool fabrics were in chief value of silk and that the silk was used for the purpose of avoiding the higher duty on fabrics in chief value of wool, the silk would be disregarded in determining the component of chief value. The suggested change would discourage the exploitation of "loopholes" not only in the rates on fabrics containing wool, but on all articles dutiable on the basis of component of chief value. From the standpoint of possible compensation liability, it reflects what should be a universally acceptable principle, that freedom of opportunity for rate avoidance by means of artful manipulations that produce no commercially significant change in an article is not a guarantee included in tariff rate commitments of contracting parties to trade agreements. It thus does not invite the claim for compensation by contracting parties to trade agreements in which concessions by the United States may be said to have been impaired. A change from chief-value concept to chief-weight concept, on the other hand, is a substantive change in tariff-classification language that could result in rate increases unrelated to "loophole" considerations. Such an approach might, therefore, provide a plausible basis for a claim for compensation.

The second alternative--the adoption of the chief weight concept in the part of the textile provisions affected--would preclude small quantities of relatively high-value components from controlling product classification; rather, control of classification would be governed by

the type of textile fiber which predominated by weight in the article. "Loopholes" of the character involved in H.R. 18017 would be obviated. Weight classifications would also be consistent with international and industry practices and with the labeling requirements of the Wool Products Labeling Act of 1939 (15 U.S.C. 68-68j; 54 Stat. 1128).

The substitution of chief weight for chief value in the textile provisions on a broad basis is not feasible--owing to the absence of relevant data for determining the potential effect of such approach on present classification practices. However, without disturbing classifications elsewhere, a headnote in part 3 of schedule 3 of the TSUS could state that the provisions therein for broadwoven fabrics in chief value of wool shall also apply to broadwoven fabrics in chief weight of wool whether or not in chief value thereof. Such an amendment would close not only the current "loophole" with respect to broadwoven fabrics with wool-silk blends but also the possible "loophole" with respect to fabrics with wool-cotton blends. Such an amendment would also permit the repeal of the earlier statutory provisions effecting "piecemeal" correction of the earlier "loopholes."

Of the two suggested alternatives, the Commission believes (Commissioner Sutton dissenting) that alternative one is the preferred. It offers a solution that deals directly and exclusively with true rate-avoidance practices wherever the chief-value concept is employed in the TSUS; it would allow for judicial review of customs administrative

actions; 1/ and it would be least likely to subject the United States to compensation liability.

The Committee requested the Commission to consider the representation that the basic problem appears to arise from the fact that "our duty on low-priced woollens is something over 100 percent" in ad valorem equivalent. In making its suggestions, the Commission is not expressing an opinion as to what, if any, action might be taken with respect to the rate levels currently reflected in the TSUS. Whether any such rates should be adjusted either upward or downward is a policy matter vested in the Congress or in the President pursuant to delegated authority. Under either of the Commission's suggestions, if no change is made in the rates, certain wool-and-silk fabrics now dutiable at 35 percent ad valorem as silk fabrics would become dutiable at the rate applicable to low-priced fabrics in chief value of wool (\$1.135 per pound, but not over 37.5 cents per pound plus 60 percent ad valorem). This is the type of treatment favored by the domestic industry.

If the Committee wishes to give consideration to a rate level based upon the economic impact of the imports, economic and market data in other sections of this report may be useful in this regard. This approach is favored by the importers, who contend that rates substantially below the present levels for chiefly wool fabrics would not result in

1/ Judicial review would not only be available to importers desiring to contest an administrative decision, but also to domestic producers who believed that an avoidance practice existed which the customs authorities denied.

serious injury. The domestic industry contends that the present rates are necessary protection.

In dealing with the rate question, the Committee may wish to take into account certain historical considerations. For the domestic industry the points of reference are the current rates in the TSUS, which were established in 1961 following the abolishment of the tariff quotas and the operation of paragraph 1122 prior to its elimination in 1963 by the adoption of the TSUS. For the importers, the points of reference are the rates prior to 1956 before the tariff quota and the rates under the tariff quota from 1956 through 1960. Importers focus upon the increase in 1961 to the present high level of duties, which, they contend, was not justified.

In addition to the "loophole" problem with respect to broadwoven fabrics in part 3 of schedule 3 of the TSUS, it is recognized that possible "loopholes" may exist in other parts of schedule 3, particularly in part 4, covering laminated fabrics and other fabrics of special construction, and in part 6, covering wearing apparel and accessories. Avoidance of duties on low-priced woollens by importation of fabrics of special construction or of wearing apparel in parts 4 and 6 apparently is not now a factor and can not be anticipated.

VIEWS OF COMMISSIONER SUTTON

I do not concur with the first suggestion made by my colleagues. In my opinion, this suggestion offers little toward solving the "loophole" problem at hand. The vital issue in the "loophole" situation is whether the "manipulation"--i.e., the addition of the designated nonwool fiber components--is sufficient to change the tariff status of the fabrics to the importer's benefit, but not sufficient to remove such fabrics from direct competition with the domestic fabrics protected by the duty-rate description thus avoided.

The suggestion, ambiguously worded, might be construed merely to be an expression of the de minimis rule--a rule already embodied in general headnote 9(f) of the TSUS. I question the necessity and the validity of encumbering the "chief value" concept with a specious de minimis rule. Implicitly, the concept of chief value, as used for many years in the United States tariff, bespeaks of a quantum of a component in excess of de minimis. The quantities of nonwool fibers involved in the fabrics in question, and as they make up the chief value thereof, are necessarily in excess of de minimis. The aforementioned first suggestion, an indirect approach, superimposes patchwork on the "chief value" concept--a concept which for the fabrics in question has demonstrated its unreliability.

Even if the first suggestion made by my colleagues would permit classification of the particular fabrics in question as fabrics in chief

value of wool, 1/ I would nevertheless be unable to agree that the suggestion merits consideration ahead of the second suggestion--viz., that the "chief weight" concept be utilized to accomplish the desired objective. The first alternative would impose on customs officers the burden of determining, with respect to each shipment of fabrics and other affected articles, on a case-by-case basis, the competitive impact of such imports on domestic articles. This "solution" would introduce into the tariff not only for the fabrics in question but also for all other composite articles dutiable according to chief value, a rule requiring that customs officers probe into the U.S. trade to determine the competitive status of imports in our markets. The enforcement of such a rule by customs officers, on a wide-scale basis as proposed, is likely to have an unsettling effect on rate classifications and on the U.S. import community. In other provisions of the tariff, 2/ such a rule has been the subject of strenuous objections by importers and by contracting parties to the GATT. Notwithstanding the burden thus imposed on customs officers, the final determination in disputed cases would necessarily have to await judicial review by the courts.

With respect to the "loophole" problem presently before the Commission, the adoption of the "chief weight" concept as suggested is certain and predictable in its results; it imposes little burden on customs officers and is less likely to raise questions for the courts.

1/ Under items 336.50 and 336.55 of the TSUS.

2/ E.g., where the American-selling-price basis of valuation is applicable to benzenoid chemicals.

Moreover, as indicated elsewhere in the report, 1/ the adoption of the "chief weight" concept for the broadwoven wool fabrics in question is a positive step toward sound nomenclature consistent with domestic and international practice and with the requirements of the Wool Products Labeling Act.

1/ See pp. 13-14, and see also Tariff Classification Study--Submitting Report of November 15, 1960, p. 13, where the Commission commented as follows:

One notable exception to this attempt to avoid the "chief value" concept in the proposed classification study should be mentioned. The increased importance of blended textile fibers raises a serious problem of product description, a matter which was touched on briefly in the testimony adduced at the public hearing in connection with proposed schedule 3. From the point of view of practical customs administration and industry practice, it would be most desirable if descriptions based on component material of chief value with its confusion and uncertainties could be abandoned in favor of descriptions based on the relative quantities by weight of the various textile fibers used in textile products. However, this change has not been incorporated generally in the textile provisions of the proposed schedules, both because the implications thereof would be so far reaching in view of the great range and diversity of rates involved and because of the total absence of data showing the probable effect thereof. It is believed that conversion to a weight basis can be better made at some future date after the proposed revisions have been in effect for a while, since the systematic provision for textile fibers and textile products in proposed schedule 3 will furnish a much better statistical base regarding imports for conducting such a study than now exists.

INTERNATIONAL OBLIGATIONS OF THE UNITED STATES

Virtually all the rates of duty in the textile provisions of the TSUS reflect concessions granted by the United States in the General Agreement on Tariffs and Trade (GATT). Insofar as the provisions of part 3 of the TSUS relating to broadwoven fabrics, valued not over \$2 per pound, which are in chief value or in chief weight of wool are concerned, the prevailing tariff concessions under the GATT are principally concessions of benefit to the European Economic Community (EEC). Nearly all imports have been the product of Italy, a member of the EEC. So long as these concessions remain in force, any legislation increasing the rates of duty on the fabrics in question would be in violation of our GATT commitments. Whether the enactment of such legislation would involve the necessity for the payment by the United States of compensation to the EEC or other contracting parties to the GATT is a question which must be resolved by international negotiations, which are the responsibility of the Executive Branch.

BASIC INFORMATION

Description and Uses

The principal fabrics concerned in this investigation are low-priced fabrics (valued not over \$2 per pound) containing over 17 percent of wool by weight. Imported fabrics of this type, on a linear yard basis, are estimated to have represented 15 to 35 percent of the total imports and 3 to 5 percent of the consumption of all woven apparel fabrics of wool during 1962-65. The wool used in them is generally reprocessed or reused wool.

Reprocessed wool is fiber that has been reclaimed from woven or felted wool products which have not been utilized in any way by the ultimate consumer. These products include scraps (clippings) of fabric accumulated from the cutting table (pieces left over after the pattern has been cut) and mill ends. Reused wool is fiber that has been reclaimed from wool products that have been spun, woven, knitted, or felted and have been used by the ultimate consumer. These products include rags, used clothing, and other worn wool products. Most of the domestic users of such materials buy rags and clippings and reduce them to a fibrous state on their own machinery. Reprocessed wool or reused wool can usually be produced or obtained at a cost of one-tenth that of scoured wool. These reclaimed materials generally consist of short fibers and are blended with 5 to 20 percent of other fibers, particularly nylon, to give added strength.

Fabrics containing reprocessed or reused wool are used in heavy woolens, for overcoats, casual coats and jackets, and in mediumweight woolens, for children's wear, sportswear, women's skirts and slacks, and men's sport coats. Warm, serviceable, and attractive fabrics, in many styles and designs, are manufactured from the reclaimed fibers, but the words "reprocessed" or "reused" wool on the garment label generally confine their use to the less expensive articles of apparel. Although reused wool is often superior to reprocessed wool as a textile material, consumer prejudice against it is relatively pronounced, and producers of menswear generally will not buy fabrics containing this material.

U.S. Tariff

Imports of most woven fabrics wholly of wool or in chief value thereof are dutiable at compound rates, consisting of specific rates (in cents per pound) and ad valorem rates. The specific rates were designed to compensate the domestic manufacturer for the higher price paid by him for raw wool by reason of the specific duty on imports of that material. It was, of course, impossible to do so for every wool fabric produced by every manufacturer under all conditions of the wool market. The compensatory rates were made high enough to offset the most extreme competitive disadvantages entailed, in a substantial number of cases, by the duty on raw wool. They were often over-compensatory, particularly on fabrics containing substantial quantities of fibers other than new wool. The ad valorem rates of duty on woven

wool fabrics were designed to protect the domestic manufacturer against lower manufacturing costs by his foreign competitors. The degree of protection varied, of course, with the fluctuations in raw material prices and in conversion costs here and abroad.

Specific rates

Nearly all woven wool apparel fabrics were formerly dutiable under paragraphs 1108 and 1109(a) of the old schedules of the Tariff Act of 1930. The specific rate in the two paragraphs was 50 cents per pound except on fabrics (in paragraph 1108) with warp of cotton or other vegetable fiber and weighing not over 4 ounces per square yard, on which it was 40 cents per pound. Pursuant to the trade agreement with the United Kingdom, effective January 1, 1939, the specific rate was reduced from 50 cents to 40 cents per pound in paragraph 1109(a) on wool fabrics valued not over 80 cents per pound. The reduction accompanied a reduction in the duties on wool wastes and recovered fibers.^{1/} Pursuant to the General Agreement on Tariffs and Trade (GATT), both the specific rates and the wool rates on which they were based were reduced, effective January 1, 1948. On wool fabrics with warp of cotton or other vegetable fiber in paragraph 1108, the specific rate became 30 cents per pound, and on all other fabrics in paragraphs 1108 and 1109(a) it became 37½ cents per pound. These rates were continued in the Tariff Schedules of the United States (TSUS), effective August 31, 1963.

^{1/} The duties on wool waste materials were further reduced pursuant to the GATT (Geneva), effective January 1, 1948, and in the GATT (Torquay), June 6, 1951.

Ad valorem rates

In the Tariff Act of 1930, under paragraph 1108 of the original tariff schedules, the ad valorem rates on the cotton-warp wool fabrics were set at 50 percent if valued not over \$1 per pound, 55 percent if valued over \$1 but not over \$1.50 per pound, and 60 percent if valued over \$1.50 per pound. The ad valorem rates on the other fabrics in paragraph 1108 and on those in paragraph 1109(a) were established at 50 percent on fabrics valued not over \$1.25 per pound, at 55 percent on those valued over \$1.25 but not over \$2 per pound, and at 60 percent on those valued over \$2 per pound. These rates were reduced by various amounts as a result of concessions granted by the United States in bilateral trade agreements and in the GATT. Pursuant to the GATT, the ad valorem rates were reduced to 25 percent, effective January 1, 1948, regardless of the value of the fabric. In making this reduction, however, the United States reserved the right to increase the ad valorem rate under certain conditions, which are discussed below.

Tariff quota

The concession made by the United States on woven wool fabrics under paragraphs 1108 and 1109(a) of Part I, Schedule XX (Geneva) of the GATT was accompanied by the following note (the so-called Geneva reservation):

The United States reserves the right to increase the ad valorem part of the rate applicable to any of the fabrics provided for in item 1108 and 1109(a) of this Part to 45 per centum ad valorem on any of such fabrics which are entered in any calendar year in excess of an aggregate quantity by weight of 5 per centum of the average annual production of similar fabrics in the United States during the 3 immediately preceding calendar years.

This reservation was invoked on September 28, 1956, by a Presidential

Proclamation (No. 3160, T.D. 54212) increasing the ad valorem portion of the rate to 45 percent on the entries in excess of 3.5 million pounds in the period from October 1 to December 31, 1956. The 45 percent rate was established on entries in excess of a quota of 14 million pounds in the calendar year 1957, of 14.2 million pounds in 1958, and of 13.5 million pounds in 1959 and 1960. The ad valorem rate on entries in excess of the quota was reduced from 45 percent to 30 percent, beginning in 1958, on certain handwoven fabrics and on certain fabrics to be used in the manufacture of religious apparel and, beginning in 1959, on certain fabrics (up to the amount of 350 thousand pounds a year) valued over \$6.50 per pound.

Aggregate imports of woven wool fabrics exceeded the quota and a growing proportion of the total became subject to the higher rates of duty in each year from 1957 through 1960. In 1957, the first full year of the quota, it was filled on July 25. It was filled on July 1 in 1958; on May 18 in 1959; and on March 4 in 1960.

Renegotiation

The changes in import duty when the quota was opened and closed, and the concentration of imports under the quota in the opening months of the year, were disturbing to the trade. The concession on woven wool fabrics in paragraphs 1108 and 1109(a) was therefore renegotiated. Preparatory to the renegotiation, the Tariff Commission was requested by the President, on October 22, 1959, to make a "peril point" investigation and report with respect to the fabrics in question.^{1/} The "peril-point" rates determined by the Commission were and remain confidential. However, if as a result of that investigation, rates under the

^{1/} Under sec. 3 of the Trade Agreements Extension Act of 1951.

tariff quota system had not been high enough to prevent serious injury to the domestic industry producing like or directly competitive articles, the Commission would have been required, under legislation then effective, promptly to institute an investigation under section 7 of the Trade Agreements Extension Act of 1951, as amended. Since no such investigation was instituted, it is evident that no "peril-point" rates exceeding the rates under the tariff quota system were determined.

After negotiation with the interested foreign governments, the tariff quota system was replaced by new ad valorem rates of duty, effective January 1, 1961 (Presidential Proclamation No. 3387, December 28, 1960).^{1/} The specific rates were not changed. For most fabrics valued over \$2 per pound the new rate was set at $37\frac{1}{2}$ cents per pound plus 38 percent ad valorem. For most lower-priced fabrics the new rate was set at \$1.135 per pound but not over $37\frac{1}{2}$ cents per pound plus 60 percent ad valorem. Such fabrics valued not over $\$1.26\frac{2}{3}$ per pound thus became dutiable at $37\frac{1}{2}$ cents per pound plus 60 percent ad valorem, and those valued over $\$1.26\frac{2}{3}$ per pound but not over \$2 per pound became dutiable at \$1.135 per pound. These rates were incorporated in the TSUS.

For the great bulk of the imports, the rates established by the Presidential proclamation were substantially higher than the rates they replaced, as shown, based on imports in 1960, by the calculated ad valorem equivalents, as follows:

^{1/} If any such rates had been lower than the "peril-point" rates determined by the Commission, the President would have so advised the Congress, as was then required by law. No such advice was given.

Value per pound--	At rates applicable in--			1961
	1960			
	Within quota	Over quota	Average	
	Percent	Percent	Percent	
Not over \$1.25 per pound ^{1/} ----	64.8	89.3	81.9	103.0
Over \$1.25, not over \$2				
per pound ^{1/} -----	51.3	70.9	63.0	79.4
Over \$2 per pound-----	35.0	53.9	43.1	47.8
Average-----	45.7	74.8	62.1	75.2

^{1/} Beginning January 1, 1961, the brackets became "Valued not over \$1.26-2/3 per pound" and "Valued over \$1.26-2/3 but not over \$2 per pound".

Provisions for fabrics containing wool mixed with other fibers prior to September 1963 (paragraph 1122)

Paragraph 1122 of the original schedules of the Tariff Act of 1930 provided as follows:

Fabrics (except printing-machine cylinder lapping in chief value of flax), in the piece or otherwise, containing 17 per centum or more in weight of wool, but not in chief value thereof, and whether or not more specifically provided for, shall be dutiable as follows:
That proportion of the amount of the duty on the fabric, computed under this schedule, which the amount of wool bears to the entire weight, plus that proportion of the amount of the duty on the fabric, computed as if this paragraph had not been enacted, which the weight of the component materials other than wool bears to the entire weight.

Using as an example a woven fabric in chief value of silk containing 80 percent of wool by weight, valued not over \$1.25 per pound, the method of calculating the rate of duty under paragraph 1122 would have been as follows:

The rate of duty on woven wool fabrics valued not over \$1.25 per pound in paragraph 1109(a) was 37.5 cents per pound plus 60 percent ad valorem, 80 percent of each component of which is 30 cents per pound plus 48 percent ad valorem. The rate of duty applicable to silk-mixed

fabrics under paragraph 1205 was 23 percent ad valorem, 20 percent of which is 4.6 percent ad valorem. Aggregating the amounts computed under each of the two paragraphs, the total duty on the fabric would have been 30 cents per pound plus 52.6 percent ad valorem.

Imports dutiable under paragraph 1122 in 1956-57--and in 1961-62--consisted chiefly of high-priced fabrics of virgin wool and silk, but in 1958-1960, when they were many times as large, they consisted chiefly of low-priced fabrics of reprocessed or reused wool and man-made fibers.

In the TSUS, effective August 31, 1963, the provisions of paragraph 1122 were superseded by fixed rates on certain fabrics containing over 17 percent of wool by weight, according to the fiber of chief value. The new rates reflected those on imports of the same description in the preceding period. On silk fabrics, they thus reflected the rates on high-priced fabrics, and not on the low-priced fabrics later imported. For the fabrics in chief value of silk the duties were set at 35 percent ad valorem if not jacquard-figured (item 337.50), and at 37.5 percent ad valorem if jacquard-figured (item 337.55). For the fabrics containing over 17 percent of wool by weight and in chief value of man-made fibers duties were established at 30 cents per pound plus 50 percent ad valorem if valued not over \$2 per pound (TSUS item 338.10), and at 30 cents per pound plus 30 percent ad valorem if valued over \$2 per pound (item 338.15). Woven fabrics in chief value of cotton containing wool (no specified amount), whether or not containing silk or man-made fibers, but not containing other fibers, were made dutiable at 30 percent ad valorem (item 332.10). Other woven fabrics in chief value of cotton containing wool were dutiable at 20 percent ad valorem (item 332.40). No separate duty provisions were made in the TSUS for woven fabrics con-

taining wool but in chief value of fibers other than silk, man-made fibers, or cotton. Such fabrics became dutiable under the provisions for the fiber component in chief value.

U.S. Consumption

Apparent consumption of low-priced woven apparel fabrics in which reprocessed or reused wool was the major fiber component, during the period 1962-September 1966, in thousands of linear yards, is estimated to have been as follows:

Year	: Sales by U.S.:	Imports	: Total
	: producers 1/:		
1962-----	: 16,800	: 13,750	: 30,550
1963-----	: 13,100	: 11,031	: 24,131
1964-----	: 13,700	: 5,030	: 18,730
1965-----	: 18,400	: 14,959	: 33,359
1966: Jan.-Sept.-----	: 13,000	: 8,640	: 21,640

1/ Estimated from data supplied by domestic producers.

During the period, consumption ranged from 19 million linear yards in 1964 to 33 million linear yards in 1965; and was 22 million linear yards in January-September 1966. The consumption in 1965 was larger than for several years, principally as the result of an increased demand for bench warmers, ski parkas, stadium coats, and like garments in which fabrics (principally meltons) containing reprocessed or reused wool were used. The indicated consumption in 1966, although above the annual average in 1962-64, was less than in 1965.

U.S. Producers

According to information furnished the Tariff Commission, there were 12 U.S. concerns in the beginning of 1966 manufacturing low-priced

woven apparel fabrics in which reprocessed or reused wool was the principal fiber by weight. Three of these concerns are reported to have closed down before the end of the year. Nearly all of the concerns were located in small communities of the New England States. Most of them employed less than 300 workers each; total employment probably did not exceed 2,500 in 1966.

Ten concerns, whose production is estimated to have represented 90 percent or more of the U.S. output of the subject fabrics in 1966, submitted data on their operations. In 5 of them reprocessed or reused wool fabrics were the sole or the principal articles of manufacture, and in the other 5 the proportion of such fabrics to the total varied from 25 to 42 percent, based on sales in 1966.

U.S. Sales

Sales of fabrics containing reprocessed or reused wool by the 10 U.S. producers from whom data were obtained are given below:

1962-----	\$24,398,000
1963-----	18,978,000
1964-----	19,493,000
1965-----	28,717,000
1966: Jan.-Sept.-----	22,852,000

During 1962-65, sales ranged from about \$19 million in 1963 to \$29 million in 1965; sales in 1966 through September were \$23 million. In late fall of 1966 a considerable quantity of low-priced woolens was reported to be still in the hands of manufacturing concerns, converters, importers, and apparel manufacturers. On an individual basis, sales by 7 of the 10 concerns were higher in 1965 than in 1962, and sales by 9 of them were higher in 1965 than in 1964.

Most of the domestic sales have consisted of heavy fabrics (plain colors and fancies), exceeding 20 ounces per linear yard. These are used in a wide variety of outer apparel for men, women, and children. The lighter fabrics are used for sportswear and casual clothing, including women's skirts and slacks, and men's sports coats. A growing proportion of the lighter fabrics are laminated with polyurethane or bonded with tricot acetate fabrics to give warmth with a minimum increase in weight.

U.S. Imports

Imports of low-priced fabrics (valued not over \$2 per pound) containing over 17 percent of wool by weight increased from a small quantity in earlier years to 17 million linear yards, valued at \$14 million in 1960. They declined in 1961, following the increase in duty, but they recovered substantially in the next several years (table 1, appendix B).

In 1962-66 the imports ranged from 5 million to 15 million linear yards a year and accounted for 25 percent to 45 percent of the U.S. consumption of low-priced woven fabrics containing reprocessed or reused wool. The largest imports for the period took place in 1965, which was the year of largest domestic production. Imports in 1966 were substantially less (both in amount and in relation to consumption) than in 1965.

Composition

Italy is the source of nearly all imports of low-priced fabrics (valued not over \$2 per pound) containing over 17 percent of wool by

weight. The Italian fabrics usually contain 70 percent to 85 percent by weight of reprocessed or reused wool and the remainder of flax, rabbit hair, silk, or man-made fibers. The Italian mills are large users of wool rags, exports of which to Italy from the United States usually amount to over 70 million pounds, valued at \$6 million, annually. Italian producers, particularly in the Prato area, are expert in manufacturing attractive and serviceable fabrics from fibers recovered from such materials. The low-priced fabrics imported into the United States are generally described as containing reprocessed wool.

The imports from Italy, unlike the domestic fabrics containing reprocessed or reused wool, generally consist of mediumweight fabrics (weighing 12 to 16 ounces per linear yard). In the initial years of large importation most of them were flannels. In later years they were mostly of medium weights woven in 2 or more colors. In 1965, however, when the imports were larger than for several years, they consisted principally of solid color meltons, weighing over 20 ounces per linear yard. These were standard fabrics, the demand for which in 1965 exceeded the ability of the domestic mills to supply. In the summer and fall of 1966, when a substantial inventory of solid color meltons remained, the imports of such fabrics declined. During that period imports consisted largely of mediumweight fancies.

With changes in customs treatment, imports of low-priced woollens have shifted, as shown in table 1. Through 1961 (despite the increase of duty in January of that year) the imports entered under paragraph 1109(a) of the Tariff Act as fabrics in chief value of wool, or under paragraph 1122 as mixtures containing over 17 percent of wool by weight. In 1962

and 1963, most of them entered either (1) under paragraph 1529(a) of the Tariff Act of 1930 as articles in part of braid, or (2) duty-free (after shower-proofing and increase in price) as products of the Virgin Islands, or (3) as fabrics in chief value of wool. In 1964 and 1965 most of them entered in TSUS item 335.90 as fabrics in chief value of flax and in 1966 most of them entered in TSUS item 339.00 as fabrics in chief value of rabbit hair until June, after which most of them entered in TSUS item 337.50 as fabrics in chief value of silk.

Fabrics wholly or in chief value of wool

Imports of fabrics wholly or in chief value of wool, valued not over \$2 per pound, rose from 400 thousand linear yards in 1954 to 14 million linear yards in 1960 (table 1). A large increase occurred in 1958-60 in spite of the fact that the tariff quota was in operation during that period. Imports declined after the duty increase in 1961, when the ad valorem equivalent of the duty often exceeded 100 percent, particularly on the fabrics valued not over \$1.26-2/3 per pound. Imports amounted to 600 thousand linear yards in 1965, and 440 thousand linear yards in 1966.

Fabrics containing wool mixed with other fibers (paragraph 1122)

Imports of fabrics containing 17 percent or more wool by weight but not in chief value thereof, dutiable under the provisions of paragraph 1122, became large in 1958-60, following the imposition (in October 1956) of a tariff quota on fabrics in chief value of wool, but they decreased substantially in 1961 and 1962, when the tariff quota had been removed and higher duties on low-priced fabrics in this category resulted from the higher duties on low-priced fabrics in chief value of wool. The imports dutiable under the provisions of paragraph 1122 are shown, for

1956-62, in the following tabulation:

Year	Quantity		Value 1,000 dollars	Unit value Per pound
	1,000 pounds	1,000 linear yards		
1956-----	336	1/	1,205	\$3.59
1957-----	448	1/	1,494	3.34
1958-----	1,620	1,694	1,879	1.16
1959-----	4,109	4,155	4,011	.98
1960-----	2,591	2,732	2,893	1.12
1961-----	351	543	1,240	3.53
1962-----	493	766	1,707	3.46

1/ Not available.

Between 1958 and 1960, when the quantity was large, the imports in this category were predominantly from Italy and consisted of low-priced fabrics with a high content of reused or reprocessed wool. Paragraph 1122 was superseded by other provisions on August 31, 1963, when the TSUS became effective.

Wool fabrics in part of braid

After the rate of duty on low-priced woolens was increased, the importers began to seek ways of avoiding its high incidence. In the latter part of 1961 they began to bring in wool fabrics, with braid attached to the edge (selvedge), as articles in part of braid, dutiable under paragraph 1529(a) at 42.5 percent ad valorem. It is estimated that 1.8 million linear yards of such fabrics were imported in 1962 before the Bureau of Customs ruled that they were properly classifiable as woven fabrics of wool in paragraphs 1108 and 1109(a), depending on weight and value. This ruling was upset by a court decision and an unknown but substantial quantity that had been entered under protest during the last half of 1962 had to be reclassified as fabrics

in part of braid. Imports in this category during January-August 1963 are estimated to have been about 4.8 million linear yards (table 1). When the TSUS became effective, a change in the classification and definition of fabrics in part of braid caused the fabrics to be included as wool fabrics dutiable at the rates applicable to items 336.50, 336.55, or 336.60 according to their value per pound.

Wool fabric imports through the Virgin Islands

Beginning in February 1962 very substantial quantities of wool fabrics entered the customs territory of the United States from the Virgin Islands. These were low-priced Italian fabrics in chief value of wool that underwent a showerproofing process in the Islands and then were shipped to the United States mainland duty-free as products of the Islands. Imports of such fabrics were 6.4 million linear yards in 1962. In 1963, after having received views of interested parties, including U.S. Government agencies, the Government of the Virgin Islands established a system of production quotas which resulted in a considerable reduction in the shipments of such fabrics to the mainland. A total of approximately 5.0 million linear yards entered in 1963; .6 million linear yards in 1964; .8 million linear yards in 1965; and 1.9 million linear yards in 1966 (table 1).

Fabrics in chief value of flax and ramie

In early 1964, imports from Italy of low-priced fabrics containing wool began to enter under item 335.90 of the TSUS at a duty rate of 10 percent ad valorem. These fabrics contained a high content (as much as 85 percent in some instances) of reprocessed wool blended with just enough flax or ramie, mostly flax, to make them in chief value

of the vegetable fiber. They were essentially wool fabrics in character and were used for the same purposes as were the fabrics in chief value of wool. Such imports were 3.1 million linear yards in 1964 and 12 million linear yards in 1965 (table 1).

A new TSUS item (335.55) was set up in the vegetable fiber fabric schedule by the Tariff Schedules Technical Amendments Act of 1965 (P.L. 89-241) which applied to fabrics in chief value of vegetable fibers (except cotton) containing over 17 percent of wool by weight a duty rate of 30 cents per pound plus 45 percent ad valorem; it became effective December 7, 1965. Imports under the new item have been insignificant: none were reported from Italy in 1966.

Fabrics in chief value of rabbit hair

In mid-1965, while H.R. 7969 (which later became the Tariff Schedules Technical Amendments Act of 1965) was under consideration by the Congress, the importers, anticipating its passage, began to bring in fabrics from Italy containing a high content of reprocessed wool blended with just enough rabbit hair to make that the fiber in chief value. The fabrics came in under item 339.00 (woven fabrics of textile materials other than vegetable, wool, silk, or man-made fibers) at a rate of duty of 17.5 percent ad valorem. Imports of such fabrics were an estimated 1.4 million linear yards in 1965 and 4.7 million linear yards in January-June 1966 (table 1).

Section 1(b) of P.L. 89-405 set up a new TSUS item (339.05) which provided a duty rate of 30 cents per pound plus 50 percent ad valorem on woven fabrics in chief value of textile materials other than vegetable, wool, silk, or man-made fibers containing over 17 percent of wool by weight. After the effective date of the legislation (June 19,

1966) imports of such fabrics became negligible.

Fabrics in chief value of silk

In July 1965 substantial imports of woven fabrics in chief value of silk, with a high content of reprocessed wool, began to enter under item 337.50 at a rate of duty of 35 percent ad valorem. Imports of these fabrics in 1965 were 139 thousand linear yards, valued at about \$124 thousand (table 2). In 1966 they rose to a peak in August of 398 thousand linear yards a month, and then declined irregularly to 121 thousand linear yards a month by December. In 1966 they amounted to 2 million linear yards, valued at \$1.7 million. Most of the imports through August were mediumweight fabrics averaging not over 16 ounces per linear yard, but in September-November, a substantial portion was melton types weighing over 20 ounces per linear yard. In December most were mediumweights.

The fabrics containing over 17 percent of wool and in chief value of silk were the subject of H.R. 18017, which if enacted, would have established a rate of 30 cents per pound plus 50 percent ad valorem on such fabrics valued not over \$2 per pound, the same rate that was established by P.L. 89-405 on fabrics in chief value of textile materials other than vegetable, wool, silk, or man-made fibers containing over 17 percent of wool by weight.

The ad valorem equivalent of various rates of duty on the wool-silk fabrics, based on the average unit value of 82 cents per pound in 1966, would have been as follows:

<u>Type</u>	<u>Rate of duty</u>	<u>Ad valorem equivalent (Percent)</u>
If in chief value of wool-----	37.5¢ per lb. + 60% ad val.	105.7
If the provisions of paragraph 1122 were in effect and assuming 80 percent wool and 20 percent silk-----	30¢ per lb. + 52.6% ad val.	89.1
If H.R. 18017 had been enacted-----	30¢ per lb. + 50% ad val.	86.6

Prices

Producers' prices

U.S. producers' list prices on July 1 for meltons increased from an average of \$1.76 per linear yard in 1962-64 to \$1.90 in 1965 and \$2.00 in 1966. The increase for meltons was accompanied by a small increase in producers' prices on July 1 for other fabrics containing reprocessed or reused wool, as shown per linear yard in the following tabulation:

	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>
Meltons-----	\$1.77	\$1.76	\$1.76	\$1.90	\$2.00
Other fabrics-----	1.72	1.69	1.63	1.67	1.78

The increase in prices after 1964 was accompanied by a more than proportionate increase in the average unit value of producers' sales for fabrics made from reprocessed or reused wool. The average unit value of their sales was \$1.61 in 1962 and 1963, and \$1.50 in 1964; it increased to \$1.73 in 1965 and \$1.96 in January-September 1966.

Importers' prices

From 1961 to 1966, with shifts in the composition, there was an increase in the average unit value of imports of low-priced fabrics

containing over 17 percent of wool by weight. This is shown, on the basis of value in the exporting country, in the following tabulation:

<u>Year</u>	<u>Unit value per linear yard</u> ^{1/}
1961	\$0.82
1962	.84
1963	.92
1964	.89
1965	.99
1966	1.13

^{1/} Exclusive of shipments received (after showerproofing) as products of the Virgin Islands, the unit value of which averaged \$1.30 a linear yard during the period.

An increase in 1965 and in the first 9 months of 1966 reflected the large proportion of fabrics in chief value of rabbit fur, the unit value of which was \$1.11 per linear yard in 1965 and \$1.21 per linear yard in 1966.

On the fabrics in chief value of silk, the unit value of imports in 1966 was \$0.82 per linear yard, and the landed cost after freight and insurance (8 cents) and duty (29 cents) averaged \$1.19 per linear yard.

Importers' list prices as of July 1 for meltons averaged \$1.65 per linear yard in 1965 and were substantially lower than the average (\$1.90) for prices by U.S. producers. Unlike the average by producers, the average list price by importers for meltons in 1966, at \$1.45 per linear yard, was lower than in 1965. Importers' quotations in both periods were for fabrics in chief value of flax or of rabbit hair, which were sold from inventory in July 1966. No importers' quotations were available on meltons in chief value of silk, any imports of which, through September 1966, were small.

Importers' list prices as of July 1 for low-priced woolens other than meltons averaged \$1.48 per linear yard in 1965 and \$1.42 per linear

yard in 1966. The fabrics of silk were generally higher priced than those of flax, although not so high priced as those of rabbit hair. The quotations were predominantly on mediumweight fabrics, for which there were few quotations by domestic producers.

APPENDIX A

EIGHTY-NINTH CONGRESS

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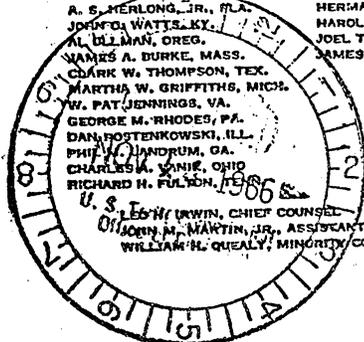
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COMMITTEE ON WAYS AND MEANS

HOUSE OF REPRESENTATIVES

WASHINGTON, D.C.

November 10, 1966



The Honorable Paul Kaplowitz
 Chairman, United States Tariff Commission
 Washington 25, D. C.

My dear Mr. Chairman:

The Committee on Ways and Means in executive session on October 14, 1966, discussed H. R. 18017, introduced by Mr. Burke of Massachusetts, which bill would amend the Tariff Schedules of the United States with respect to the rates of duty on certain fabrics containing wool and silk. This bill was introduced by Mr. Burke to close a "loophole" in the present tariff schedules.

During the discussion of this bill, it was pointed out by some of the representatives from the interested departments and agencies that it might be desirable to have an interagency study of the subject matter involved in Mr. Burke's bill. It was stated that enactment of this legislation would involve a violation of our international obligations and might likely require that we pay compensation; that the basic problem appears to arise from the fact that our duty on low-priced woollens is something over 100 percent; that the interagency study might well consider the rate structure in this area to see whether or not a restructuring of the rates on these woolen mixtures would be a better solution of the problem involved in the present bill than having individual legislation each time an alleged loophole is discovered; and that such a study should concern itself not only with the current alleged loophole but also see if potential loopholes which might develop in the future can be avoided by an overall proposal or proposals which would anticipate such problems.

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The above-mentioned problems which it appears should be considered in connection with legislation along these lines are not intended to be complete listings of the problems which it may be desirable to look into. The Committee had only a very brief discussion of this legislation, and I have simply set forth above some of the points that were raised during this brief discussion.

You are well aware of the fact that the problem of "loopholes" in this and related areas has been dealt with in this Congress in Public Laws 89-241 and 89-405 dealing with wool and flax blends and wool and rabbit fur. We are now faced with the current problem involving fabrics containing wool and silk. Our main concern is that your study suggest to us possible ways of solving the current problem and avoiding the necessity of having to legislate on "loopholes" in the future by trying to anticipate and avoid the occurrence of "loopholes" in the future in this textile area.

It was the Committee's decision that the responsibility for this study be vested in the Tariff Commission. It was also decided the Secretaries of State, Labor and Commerce and the Special Representative for Trade Negotiations should participate in this study and furnish any assistance, information, comments and recommendations which they may have in their possession which would be helpful in suggesting to us possible solutions to these problems to the Tariff Commission and that the Tariff Commission's report would reflect this information and these views and recommendations. In addition to the Tariff Commission, I am writing this same letter to the Secretaries of State, Commerce and Labor and to the Special Representative for Trade Negotiations.

The Committee, of course, would expect that any necessary assistance, information, facts and statistics would be secured from any other interested department or agency. It was decided that this study should be submitted by January 10, 1967, the convening of the new Congress.

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It would be my plan to have all the interested agencies and departments present in our Committee sessions when the Committee discusses the study which will be submitted to us by the Tariff Commission. As you know, this is the usual practice of our Committee when we consider any legislative proposals. This procedure enables us to get a cross section of views, comments and recommendations from all interested departments and agencies for our guidance in considering legislative proposals.

Sincerely yours,



Wilbur D. Mills
Chairman

WDM/is

APPENDIX B

Tables

Table 1.--Woven fabrics containing over 17 percent of wool by weight, valued not over \$2 per pound: Estimated U.S. imports for consumption, 1954-66

Year	Chief value of wool			Paragraph	Chief value of--			Total
	In part of braid	Virgin Islands/	Other		Flax-ramie	Rabbit fur	Silk	
	Quantity (1,000 linear yards)							
1954	-	-	400	-	-	-	-	400
1955	-	-	900	-	-	-	-	900
1956	-	-	1,360	-	-	-	-	1,360
1957	-	-	1,420	-	-	-	-	1,420
1958	-	-	2,500	1,580	-	-	-	4,080
1959	-	-	9,320	3,820	-	-	-	13,140
1960	-	-	14,280	2,360	-	-	-	16,640
1961	130	-	4,830	130	-	-	-	5,090
1962	2/ 1,750	6,360	5,520	120	-	-	-	13,750
1963	4,840	4,960	1,230	1	-	-	-	11,031
1964	-	620	1,310	-	3,100	-	-	5,030
1965	-	840	600	-	12,000	139	-	14,959
1966	-	1,940	440	-	-	4,730	2,003	9,113
	Value (1,000 dollars)							
1954	-	-	832	-	-	-	-	832
1955	-	-	1,771	-	-	-	-	1,771
1956	-	-	2,438	-	-	-	-	2,438
1957	-	-	2,405	-	-	-	-	2,405
1958	-	-	3,421	1,489	-	-	-	4,910
1959	-	-	9,829	2,979	-	-	-	12,808
1960	-	-	12,477	1,781	-	-	-	14,258
1961	98	-	3,901	164	-	-	-	4,163
1962	2/ 1,369	8,616	4,707	167	-	-	-	14,859
1963	3,785	6,019	1,784	1	-	-	-	11,589
1964	-	677	1,418	-	2,511	-	-	4,606
1965	-	1,240	835	-	11,500	124	-	15,230
1966	-	3,066	755	-	-	5,732	1,654	11,207

1/ Based on general imports.
 2/ January-June only. In the last half of 1962 an unknown but substantial quantity of imports were reportedly entered under protest at the regular woven wool fabric rates. Data on such imports are included in the table in the column headed "Chief value of wool - other". See text.

Table 2.--Woven fabrics, in chief value of silk, containing over 17 percent of wool by weight, not Jacquard-figured, valued not over \$2 per pound: U.S. imports for consumption from Italy, by months, July-December 1965 and January-December 1966

Year and month	Quantity		Value	Unit value		Average weight per linear yard Ounces
	Pounds	Linear yards ¹ / _{yard}		Per pound	Per linear yard	
1965:						
July	40,007	46,680	\$37,888	\$0.95	\$0.81	13.7
August	40,082	47,400	44,685	1.11	.94	13.5
September	11,308	10,160	13,583	1.20	1.34	17.8
October	2,533	3,230	2,093	.83	.65	12.5
November	14,144	17,070	12,885	.91	.75	13.3
December	12,355	14,820	12,366	1.00	.83	13.3
Total, July-December	120,429	139,360	123,500	1.03	.89	13.8
1966:						
January	1,534	1,830	1,295	0.84	.71	13.4
February	41,120	38,970	31,811	.77	.82	16.9
March	199,337	244,900	165,102	.83	.67	13.0
April	148,110	174,040	128,282	.87	.74	13.6
May	136,645	143,830	121,941	.89	.85	15.2
June	180,283	167,930	143,060	.79	.85	17.2
July	340,825	324,240	286,048	.84	.88	16.8
August	418,768	397,650	360,916	.86	.91	16.8
September	208,363	186,230	165,547	.79	.89	17.9
October	88,022	77,630	72,410	.82	.93	18.1
November	156,528	124,890	96,574	.62	.77	20.1
December	101,349	121,340	81,092	.80	.67	13.4
Total, January-December	2,020,884	2,003,480	1,654,078	.82	.83	16.1

¹ Converted from square yards on the basis of a 60-inch linear yard.

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

