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U.S. TARIFF COMMISSION

CERTAIN WOOL FABRICS

**Report to the President on Investigation
No. 332-58 Under Section 332(g) of the
Tariff Act of 1930**



TC Publication 275

**Washington, D. C.
December 1968**

UNITED STATES TARIFF COMMISSION

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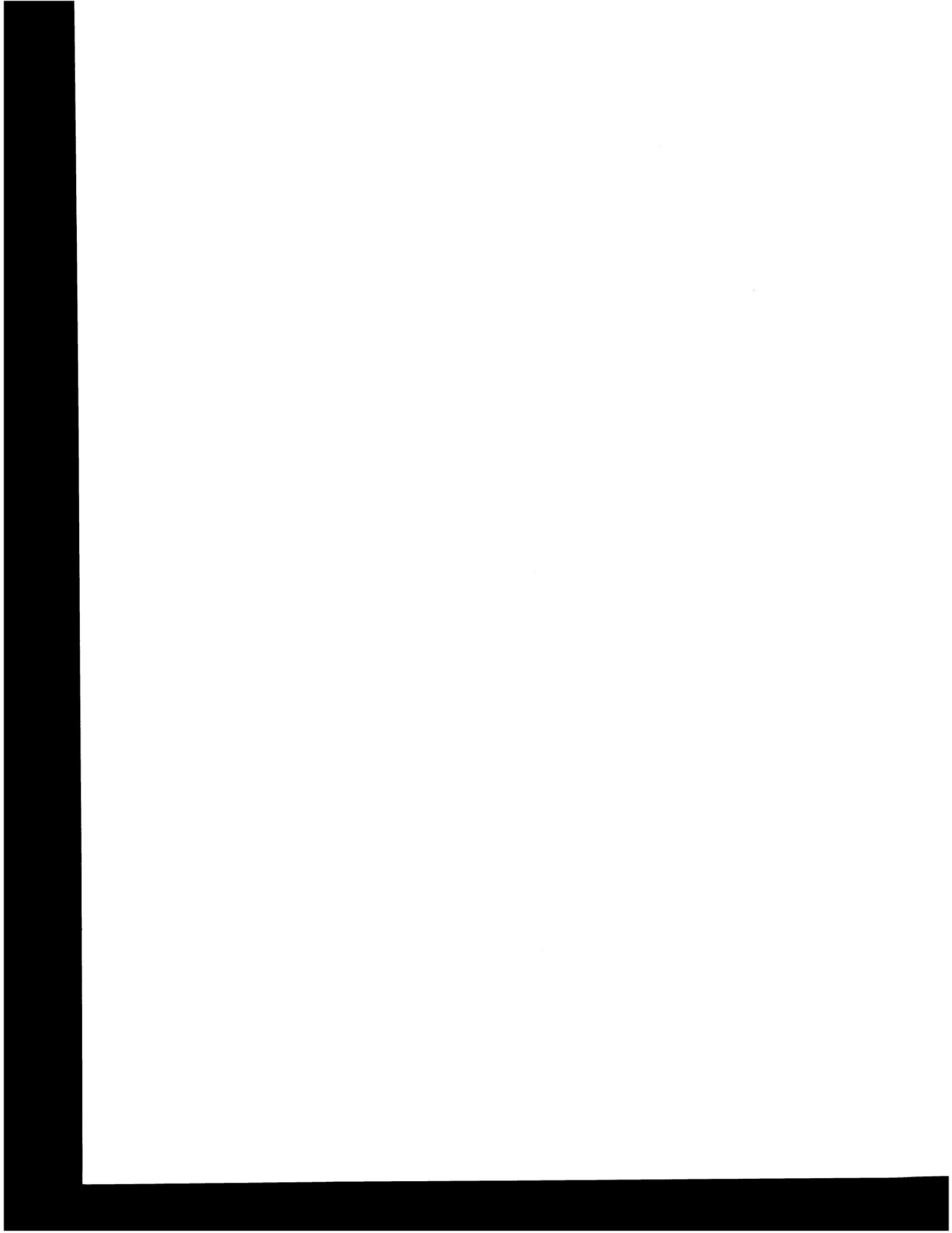
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REPORT TO THE PRESIDENT

U.S. Tariff Commission
December 31, 1968

To the President:

In accordance with the request contained in your letter of October 24, 1968, the U.S. Tariff Commission reports herein the results of its investigation on fabrics in chief weight of reused or reprocessed wool. Chairman Mills of the House Ways and Means Committee informed the Commission by letter on October 30, 1968, that he wished to join in your request to the Commission for this investigation. 1/

In your letter, you requested that the Commission undertake a study and report back to you by December 31, 1968, with regard to the probable effect of the chief weight test, as prescribed by Public Law 90-638, on imports of fabrics in chief weight, whether or not in chief value, of wool. You also requested that the Commission advise you of "the simple ad valorem tariff rate or rates in column 1 of the Tariff Schedules of the United States which would permit fabrics of, in chief weight of, reprocessed or reused wool provided for in parts 3 and 4 of schedule 3 of such Tariff Schedules to enter the United States without causing or threatening serious injury to the domestic industry producing like or directly competitive articles." 2/

1/ The letters from the President and from the Chairman of the Ways and Means Committee are reproduced in appendix A.

2/ A statement made by the President in connection with his signing of H.R. 653, which became Public Law 90-638, and with his request for the investigation is also reproduced in appendix A.

The investigation (No. 332-58) was conducted by the Commission under the authority of section 332 of the Tariff Act of 1930 (19 U.S.C. 1332). Notice of the institution of the investigation and of a public hearing to be held in connection therewith was issued on October 28, 1968, and published in the Federal Register (33 F.R. 16046). The public hearing was held November 10, 1968; all interested parties were afforded opportunity to be present, to produce evidence, and to be heard. Information in this report, in addition to that obtained at the hearing and from written submissions of interested parties, was obtained from the Commission's files, through fieldwork by members of the Commission's staff, and from responses to questionnaires sent to domestic producers and importers.

Some domestic producers have failed to provide pertinent information requested by the Commission. One concern failed to furnish a breakdown of expenses. In addition, one concern has refused to supply any profit-and-loss data; the Commission has requested the Department of Justice to seek a court order directing that it do so. Still another concern has repeatedly assured the Commission that it will supply such information but had failed to do so as of the date of this report. Together these three firms accounted in 1967 for somewhat less than two-thirds of total sales of the fabrics here under consideration. For the industry as a whole, therefore, the Commission has been unable to determine what portion of expense is attributable to factory cost and what portion to administration and selling. The Commission is continuing to seek this information. If it appears to alter this report in any material respect, a supplemental report will be submitted.

Introduction

Section 2 of Public Law 90-638, which became effective December 24, 1968, amends schedule 3 of the Tariff Schedules of the United States (TSUS) by adding to the headnotes for that schedule a new headnote 7 which has the effect of enlarging the provisions in parts 3 and 4 of schedule 3 for fabrics in chief value of wool so as to make each of these provisions (other than for fabrics valued over \$2 per pound, provided for in TSUS item 337.50) also apply to fabrics in chief weight of wool.

The law also amends the following TSUS items in part 4 of schedule 3 by increasing the rates in Rate of Duty column numbered 1 from "32% ad val." to "37.5¢ per lb. + 32% ad val.", and the rates of duty in column numbered 2 from "50% ad val." to "50¢ per lb. + 50% ad val.":

<u>TSUS item</u>	<u>Article</u>
355.70	Woven or knit fabrics (except pile or tufted fabrics), of wool, coated or filled with rubber or plastics material or laminated with sheet rubber or plastics
356.30	Woven or knit fabrics (except pile or tufted fabrics), coated or filled, of wool, not specially provided for
359.30	Textile fabrics, including laminated fabrics, of wool, not specially provided for

Imports of fabrics in chief weight of reused or reprocessed wool under each of these items have been negligible or nil. Under P.L. 90-638, however, all of such fabrics which are in chief value of other fibers, and which were formerly dutiable at substantially lower rates under other TSUS items, are now dutiable as fabrics "of wool" at the rate of 37.5 cents per pound plus 32 percent ad valorem prescribed for the above-listed items.

Public Law 90-638 provides that the column 1 rates applicable to imports of the affected fabrics are deemed as having been proclaimed by the President as being required or appropriate to carry out foreign-trade agreements of the United States. Thus industries, firms, and workers engaged in the production of articles like or directly competitive with the imported fabrics here considered remain eligible to petition for tariff adjustment or other adjustment assistance under Title III of the Trade Expansion Act of 1962.

The purpose of Public Law 90-638 is to close so-called loopholes in the tariff schedules affecting the duty status of low-priced woven fabrics that are made preponderantly of reused or reprocessed wool. 1/ The rates of duty on such fabrics if in chief value of wool are considerably higher than those on other fabrics in the textile schedules--a circumstance that has resulted in successive shifts of imports to duty classifications in which the rates are lower. In recent years these shifts have been accomplished mainly by blending, with the reused or reprocessed wool fiber, just enough more expensive fiber (e.g., cotton, flax, rabbit hair, or silk) to make that fiber the component of chief value.

1/ 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 articles. Reprocessed wool is fiber that has been reclaimed from woven or felted 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.

In March 1967 the Tariff Commission, in response to a request dated November 10, 1966, from the Chairman of the Committee on Ways and Means, House of Representatives, submitted a report of the results of a 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/ In this report, the Commission, in response to the Committee's request, suggested (page 12) that the "loophole" problems in the provisions of the TSUS could be lessened by an 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, 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 Commission (Commissioner Sutton dissenting) expressed the belief that the first alternative is the preferred one. Commissioner Sutton, on the other hand, expressed the opinion that the second alternative offered the better solution to the problem. Public Law 90-638 is based upon the second alternative.

1/ U.S. Tariff Commission, *Fabrics Containing Wool and Other Fibers*, TC Publication 197, 1967. Copies are attached.

STATEMENT OF THE COMMISSION 1/

Probable Effect of P.L. 90-638 on U.S. Imports

The chief weight test in Public Law 90-638, making fabrics in chief weight of wool dutiable as if they were in chief value thereof, will result in higher rates of duty on nearly all low-priced woollens (not over \$2 a pound). The law, which became effective Dec. 24, 1968, is too recent for its effect to be observed. The conclusions drawn here are based on market conditions at the time of its enactment.

In the first nine months of 1968, imports were 13.4 million linear yards valued at \$14.2 million, and accounted for 57 percent of U.S. consumption of woven apparel fabrics containing reused or reprocessed wool. They entered at a weighted average duty of 22 percent ad valorem. Under the new law, the average rate would have been 84 percent ad valorem. The imported fabrics have heretofore commanded substantially lower prices than the corresponding domestic fabrics. Under the new law, the landed duty-paid cost of such fabrics would generally be higher than the selling price of the corresponding domestic fabric, and the amount of imports would be drastically reduced.

The imports consist of heavy fabrics (18 to 24 ounces a linear yard) and mediumweight fabrics (12 to 16 ounces). Two-thirds are not laminated and the rest are laminated or backed with polyurethane foam, acetate tricot, or cotton scrim before importation.

1/ A separate statement by Vice Chairman Sutton appears beginning on page 15. Commissioners Leonard and Newsom did not participate.

When not laminated, a representative heavy fabric is purchased abroad at an average cost of 75 cents or \$1.05 a linear yard, depending on the color and construction (table 1). It was formerly landed at an average landed duty-paid cost of \$1.06 and \$1.33 and was sold by the importer after trucking, warehousing, factoring, and other costs at \$1.28 or \$1.65 a yard, or about 50 cents less than the price of the corresponding domestic fabric. Under Public Law 90-638 the landed duty-paid cost before trucking, warehousing, factoring, etc., becomes \$1.80 or \$2.28 a yard and is higher than the selling price of the domestic fabric. The imported fabric generally compares unfavorably with the domestic in quality, and in promptness and dependability of deliveries. At a higher landed duty-paid cost than the list price of the domestic fabric, therefore, little of it is likely to be sold.

The mediumweight fabrics (not laminated) are purchased abroad at an average price of 57 cents a yard. Their average duty-paid cost (table 2) was formerly 75 cents a yard, and their selling price, after trucking, warehousing and other expense, about \$1.00 per yard. Under the new rates of duty, the average duty-paid cost becomes \$1.28 a yard and the indicated selling price \$1.60. Domestic production of fabrics of the same description is relatively small. The imported mediumweight fabrics, however, after being laminated here, are competitive with the heavier domestic fabrics. At the new rates of duty, they will remain so, although to a more limited degree than formerly.

Wool fabrics are laminated (generally on contract for the buyer's account) at an added cost of 30 cents to 60 cents a yard. The cost of laminating in the United States is not much greater than that abroad, and, for reasons of quality and convenience, there is strong preference for having the work done here. Most of the imported fabric is accordingly laminated in the United States, in spite of the incentive afforded by the difference in duty for lamination abroad. ^{1/} The imports already laminated consist chiefly of mediumweight fabric (12 to 16 ounces per linear yard) laminated to acetate tricot, for ladies' dresses and skirts, and heavy (19-ounce) fabric laminated to foam, for outerwear. The landed cost for representative items in the two categories, as shown in table 2, is \$1.32 or \$1.42 a linear yard at the former rates of duty, and \$1.96 or \$2.02 a yard under Public Law 90-638. Although the landed cost under the new law is near the average price (\$1.74 or \$2.14 a yard) for the heavy domestic fabric, the selling price after the importer's mark-up (generally 20 to 25 percent) will hardly be competitive.

The higher rate of duty on imports will have its principal effect on meltons, a heavy felted fabric (20 ounces and over per linear yard) largely dependent on wool for texture, warmth, and serviceability. According to the trade, a satisfactory melton cannot be made with less than 50 percent wool. Meltons are estimated to account for 40 percent

^{1/} The laminated fabric was generally dutiable at 10 percent, 12 percent, or 15.5 percent ad valorem, and the nonlaminated at 19 percent or 31 percent ad valorem, depending on the fiber of chief value.

of the imports of the fabrics here under consideration. The U.S. production, most of it by a single mill, accounts for perhaps half the production of all the fabrics here under consideration. Meltons are used in bench warmers, CPO shirts, and other outerwear sold at retail for \$8.95 to \$19.95 apiece. Somewhat over 1 yard is required for a CPO shirt, and 1-3/4 to 2-1/4 yards for a bench warmer or coat. At existing prices, substitution of the domestic for imported fabric would entail a difference in the cost of 50 cents to \$1 per garment, and a difference in the selling price at retail of \$1 to \$2. The increase would tend to encourage the importation of garments made from these fabrics which are generally dutiable at lower rates than the fabrics themselves.

On fabrics other than meltons, the higher rates of duty may be followed by the shift to imports of like fabrics in chief weight of acrylic and in chief value of flax, silk, or rabbit hair. Substantial quantities of those fabrics, in lighter weights, are already being imported for use in low-priced apparel for women and children, where they compete more or less directly with fabrics of wool.

Beginning in February 1962 very substantial quantities of low-priced woolen fabrics of Italian origin were shipped from the Virgin Islands to the United States mainland after undergoing a showerproofing process and a doubling in value. By virtue of these operations, the fabrics were accorded duty-free treatment as products of an Island possession. In 1963 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. The quota in most years since 1963 has not been filled. The basic quota for 1968 was 1.8 million linear yards, supplemented by a substantial carry over from the previous year. As a result of the new law, which makes the direct importation more costly than before, the quota is likely to be filled in every year.

Ad Valorem Tariff Rate That Would Permit Imports of Fabrics in
Chief Weight of Reprocessed or Reused Wool Without Causing
or Threatening Serious Injury to the Domestic Industry

The Commission was requested by the President to report to him the simple ad valorem rate or rates which would permit fabrics in chief weight of reprocessed or reused wool to enter without causing or threatening serious injury to the domestic industry producing like or directly competitive articles. In his statement upon signing the bill which became P.L. 90-638, the President expressed concern that it would "cut off legitimate trade", and indicated a desire to be informed of the rate or rates which "would provide a reasonable degree of tariff protection" for the domestic industry, but would not be "too harsh a remedy." *

*FOOTNOTE BY COMMISSIONER CLUBB:--In my judgment the Commission has misinterpreted the President's request. The President's letter requests the Commission to "report . . . the simple ad valorem tariff rate . . . which would permit [the imports under investigation] . . . to enter the United States without causing or threatening serious injury to the domestic industry producing like or directly competitive articles." (See President's letter quoted in appendix A.) "Serious injury" is a term of art, with roots in both legislation and past determinations of the Commission. Instead of trying to determine the "serious injury" level as requested by the President's letter, however, the Commission has chosen to respond to a White House press release which requests it to determine a rate which will provide "a reasonable degree of protection", while Vice Chairman Sutton makes clear that the serious injury he finds is not necessarily related to that required by the escape clause or peril point statutes and decisions.

This industry was not seriously injured by imports when the lower rates of duty were in effect in 1968, and does not need an increase to 55%, as recommended by the Commission, in order to prevent serious injury in the future. The Commission has avoided the serious injury question, however, by responding to the press release rather than the strict terms of the President's letter. Accordingly, the Commission's recommendation of 55% does not reflect its determination of the rate "which would permit (imports) . . . to enter . . . without causing or threatening serious injury to the domestic industry," but rather, it reflects the Commission's judgment of "a reasonable degree of tariff protection" under the circumstances. The 55% rate lies somewhere between the lower rates in effect

As shown later in this report, sales and profits of the concerns manufacturing apparel fabrics of reprocessed or reused wool declined from 1965 to 1968 (through September). Imports, on the other hand, after declining in 1966 and 1967, increased in the first nine months of 1968, when they became a larger proportion of consumption than in any full year to date. A reasonable degree of tariff protection, under all the circumstances, implies that imports would have to be prevented from increasing above, and would perhaps have to be reduced somewhat below, their 1968 level.

The imported fabric must be priced below the domestic fabric in order to be sold. On heavy fabrics, to which the domestic production is largely confined, the difference which actually prevailed in 1968 between the average selling price of the imported fabric (at former tariff rates, as shown in table 1) and the average list price of the domestic fabric was 45 to 50 cents a yard. The foregoing difference reflected, among other factors, differences in quality, availability of re-orders, and promptness and certainty of delivery. The difference in quality will be at least partially removed, as the new law removes the incentive formerly provided by the duty for blending flax, silk, or other more expensive fibers with reprocessed or

Footnote by Commissioner Clubb--Continued

before December 1968, and the high rates enacted by Congress for the future. Moreover, as suggested by the Commission, it can be expected to hold imports to about the 1968 volume. Accordingly, it may represent a reasonable suggestion for a compromise.

However, it has no relationship to the serious injury level, (which probably would be lower than the rates in effect prior to December, 1968) and, accordingly, I have grave doubts that it is responsive to the President's request.

reused wool. The difference in availability of re-orders and in the promptness and certainty of delivery, however, will remain. These factors are important, as cutters are not accustomed to carry large inventories of fabrics, the success of a particular style is not easy to foresee, and re-orders from abroad, unlike those from a domestic mill, are subject to the uncertainties of shipping and can hardly be obtained within the season. On balance, it is our judgment that a minimum price spread of 5 to 10 percent between the domestic and the imported fabric should be allowed, if the imports are not to be sharply curtailed.

Instead of selling at an average list price of about \$1.50 a yard, as in 1968, the imported fabric, at 90 percent of the price of the domestic (\$1.98 - table 1), would then have to be sold for \$1.78 a yard. After allowance for an importers' average margin (22.5 percent in 1968) to cover warehousing, trucking, factoring, and other costs the fabric would have a landed cost of \$1.45 a yard. Given the average foreign value (93 cents) and freight (8 cents) in 1968, the duty which would accomplish this result is 44 cents a yard, or 47 percent ad valorem. Based on the above data, an allowance of 5 percent (instead of 10 percent) below the selling price of the domestic would require a duty on the imported of 56 percent ad valorem, and an allowance of 7.5 percent, a duty of 52 percent ad valorem. A simple rate of 55 percent ad valorem on the heavy fabrics (18 ounces and over a yard) would therefore be reasonably protective of the domestic industry.

Although few mediumweight fabrics (less than 16 ounces a yard) of reprocessed or reused wool are manufactured in the United States, imports of this description, when laminated after importation, are competitive with the heavier domestic fabrics. They should therefore be dutiable at the same rate. The fabrics imported already laminated should be dutiable at that rate to avoid the incentive (under P.L. 90-638, as under earlier legislation) for lamination abroad rather than in the United States.

STATEMENT OF VICE CHAIRMAN SUTTON

Introduction

In theory, the chief-weight test enacted in Public Law 90-638 changes the scope of each of the numerous chief-value provisions ^{1/} for textile fabrics in parts 3 and 4 of schedule 3 of the TSUS. It enlarges those provisions for fabrics in chief value of wool to include fabrics in chief weight of wool when they are not also in chief value thereof; and it narrows the other provisions which otherwise would have embraced such fabrics on the basis of their chief value. The provisions for fabrics of wool generally have higher rates of duty than the provisions for fabrics of other fibers. As a result, the effect of the legislation is to increase the rates of duty on the chief-weight-of-wool fabrics affected.

In terms of known import trade, the higher rates to be applied under the new chief-weight test are those in part 3 (items 336.50 and 336.55) relating to broadwoven fabrics, valued not over \$2 per pound, in chief value or in chief weight of wool, and those in part 4 (items 355.70 and 359.30) relating to foam-to-fabric and fabric-to-fabric laminates, respectively, in chief value or in chief weight of wool. Virtually all such fabrics have been fabrics made in Prato, Italy, from reused and reprocessed wool, but beginning in 1961 imported into the

^{1/} Except for fabrics, valued over \$2 per pound, in chief value of silk (item 337.50) which are specifically excluded from the chief-weight test.

United States in greatest part by means of various rate "avoidance" practices involving the use of braid on the selvages, processing in the Virgin Islands, or relatively small amounts of various nonwool fibers. Each of these practices consisted of a form of product manipulation designed solely for the purpose of avoiding the substantially higher U.S. rates of duty for fabrics of wool.

Probable Effect of the Chief-Weight Test
on U.S. Imports

The key provisions for consideration in this study are those for broadwoven fabrics of wool in items 336.50 and 336.55 of part 3. These broadwoven fabrics from Italy not only have been imported in large volume in the past, but also have been the principal constituent in the foam-backed and fabric-backed laminates also imported in large volume from Italy. Of secondary importance are the provisions of items 355.70 and 359.30 for such laminates. The apparent absence of imports of fabrics made in chief weight of reused or reprocessed wool under other provisions in parts 3 and 4 of schedule 3 precludes any meaningful analysis or treatment of these provisions in this study.

Broadwoven Fabrics of Wool--Items 336.50 and 336.55

The import trade in broadwoven wool fabrics from Italy is a phenomenon of comparatively recent origin, having begun in 1957. The success of these fabrics in the U.S. market was almost instantaneous. The large volume of imports of such fabrics in the early years, 1957-60, under the provisions for fabrics of wool in paragraphs 1108 and 1109(a) of the

former tariff schedules, prompted the U.S. trade agreement negotiators-- in the process of eliminating the tariff-rate quota system effective January 1, 1961--to establish for these fabrics rates of duty higher than those which had previously been in effect under such paragraphs. The purpose of these negotiations, insofar as the Prato-type fabrics was concerned, was to lessen substantially the impact of the imports of these low-cost fabrics on the domestic production of comparable, but higher-cost, fabrics.

The rates negotiated in 1960 are still in effect today under items 336.50 and 336.55. In practice, however, such rates were rarely applied. Rate-avoidance practices were quickly developed and have persisted with only minor setbacks until December 24, 1968, the effective date of Public Law 90-638. The substantially lower duties resulting from such avoidance practices have intensified the competitive impact of these fabrics in the U.S. market. If, as is expected, the chief-weight test of Public Law 90-638 closes these "loopholes" and thereby terminates these rate-avoidance practices, it is my judgment that the rates in items 336.50 and 336.55-- i.e., the rates established by trade agreement negotiations in 1960-- will, as originally intended, curtail imports of broadwoven fabrics of wool from Italy.

Precisely how much the chief-weight test will curtail the imports in question cannot be foreseen at this time. The paucity of available information concerning the foreign costs of production and the imponderable variables of the U.S. product demand make the determination a

highly speculative undertaking. The exceptional talents of the Italian workers and their capacity to recover fibers and process them into fabrics at very low cost have never been fully tested by U.S. rates of duty. Any future imports of comparable fabrics--like their domestic counterparts--should contain correspondingly more wool for the reason that the incentive to manipulate is eliminated; and also such imported fabrics should be cheaper to produce owing to the elimination of the added costs of product manipulation.

To the extent that imports under items 336.50 and 336.55 are in fact curtailed by the chief-weight test, there will be without doubt a strong added incentive for the foreign producers to find other U.S. outlets for their products such as one or more of the following apparent possibilities:

(a) further concentration on the production of fabric laminates of wool for entry under the lower U.S. rates of duty in items 355.70 and 359.30;

(b) exploitation to the maximum permissible extent the fabric-processing "loophole" in the Virgin Islands;

(c) promotion of the further use abroad of their wool fabrics in the production of wearing apparel and other made-up textile articles for export to the United States and for which the U.S. rates of duty are generally significantly lower and less restrictive than those on the fabrics themselves; and

(d) development of fabrics of other types using fiber blends containing recovered wool in amounts less than chief value or chief weight, such fabrics being subject to the lower U.S. rates of duty applicable to fabrics in chief value and in chief weight of nonwool fibers.

Foam- and Fabric-Backed Laminated Fabrics--
Items 355.70 and 359.30

The relationship of the broadwoven fabrics of wool in items 336.50 and 336.55 of part 3 of schedule 3 to the laminated fabrics in items 355.70 and 359.30 of part 4 was recognized by the Congress. This relationship led the Congress, in Public Law 90-638, to change the rates for the laminated fabrics of wool in each of these latter items from "32% ad val." to "37.5¢ per lb. + 32% ad val." The compound rates of duty thus enacted are typical in form to those generally employed in the TSUS for fabricated products of wool, but are less in their protective incidence than those applicable to broadwoven fabrics of wool under items 336.50 and 336.55.

Although the costs of the laminating processes and materials are known to add substantially to the total costs of producing the foreign-made laminates, such total costs are not known in sufficient detail to permit them to be assessed, together with comparable domestic costs and with the variables of U.S. product demand, with any reasonable degree of certitude for the purpose of anticipating the probable effect of the U.S. rates of duty on imports. Despite these shortcomings of relevant information, I am of the view that these laminates, whether in chief value or in chief weight of wool, will continue to be imported in significant quantities under items 355.70 and 359.30.

"Peril-Point" Rates of Duty for U.S. Imports

The Commission is asked for advice with respect to the "simple ad valorem tariff rate or rates" which would permit the fabrics in question "to enter the United States without causing or threatening serious injury to the domestic industry producing like or directly competitive articles".

The quoted language approximates, in part, substantive language in section 301 of the Trade Expansion Act of 1962 relating to tariff adjustment for domestic industries suffering serious injury from increased imports. The language of the request is also used in a context suggestive of the "peril-point" procedures of section 3 of the Trade Agreements Extension Act of 1951 which were employed in advance of anticipated trade-agreement negotiations. The absence of any references to statutory provisions for industry relief, or of directives to "apply" their specific criteria in effect, leads me to the view that the Commission is expected to use its own discretion and best judgment, without regard to such provisions, in arriving at "peril-point" rates of duty.

In my opinion, the domestic industry producing fabrics from reused or reprocessed wool has been seriously injured by the imports of Italian fabrics made from such fibers, and, in particular, by the large volume of "loophole" fabrics imported over the protracted period from 1961 through 1968. The negotiated rates of 1960 and subsequent piecemeal "loophole" solutions through legislation and local action in the Virgin Islands have provided only short-lived, ineffective relief.

It will be noted that record imports of low-value wool fabrics from Italy were admitted in 1960, the bulk of them at the then over-quota tariff rate of 37.5 cents per pound plus 45 percent ad valorem--a rate just 15 percent ad valorem less than the higher of the two rates negotiated in 1960 and presently reflected in items 336.50 and 336.55, respectively. These two rates--which were carefully considered by U.S. negotiators before adoption in 1960, and which, apparently for economic reasons, were excepted from reduction in the Kennedy Round trade agreement in 1967--have never had a fair test. No data presently before the Commission leads me to conclude that these rate decisions of our trade-agreement negotiators were incorrect. In my judgment, the current rates of duty in items 336.50 and 336.55 are the "peril-point" rates of duty needed to prevent imports from causing or threatening serious injury to the domestic industry producing broadwoven fabrics of reused or reprocessed wool.

Since, as previously stated, the broadwoven fabrics of wool are the principal constituents of the laminated fabrics which have been imported, it can be argued with some persuasion that the rates in items 355.70 and 359.30 should be approximately the same. Also, I have indicated my belief that the higher rates for items 336.50 and 336.55 will probably bring a greater concentration on the foreign production of the laminated fabrics in question, and that such laminates will continue to be imported in significant quantities. On balance, however, I am unable to conclude that the lower rates on the laminates will, in and of themselves, permit future imports thereof in such quantities and under

such conditions as to cause or threaten serious injury to the domestic industry. In my judgment, the current rates of duty in items 355.70 and 359.30 are also the "peril-point" rates of duty for the laminated fabrics in question.

The "peril-point" rates indicated above, being the current rates of duty, are not expressed as "simple" ad valorem rates. They can be converted to their current ad valorem equivalents by computations based upon the recent trade in broadwoven fabrics in part 3 and the laminated fabrics in part 4 of schedule 3 which were in chief value or in chief weight of reused or reprocessed wool, as follows:

	<u>Percent</u>
Item 336.50:	112.9
Item 336.55:	64.4
Item 355.70:	66.7
Item 359.30:	63.3

I would caution, however, that no simple ad valorem rate accomplishes the same results as a compound rate with a specific element. Compound rates are particularly effective in the lower value brackets. In the present situation it is of course the lower value brackets that are involved. The "equivalent" ad valorem rates to be effective at the lower value end would need adjustment upward to be as effective as the compound rate, with the result that higher value products would be penalized. In addition, the use of simple ad valorem rates for the products in question would be incongruous with the current treatment afforded by legislation and negotiation to almost all fabricated products of wool.

INFORMATION OBTAINED IN THE INVESTIGATION

U.S. Consumption

U.S. consumption of low-priced apparel fabrics containing reused or reprocessed wool during the period 1964-September 1968, in thousands of linear yards, is estimated as follows:

	<u>Sales by U.S. producers 1/</u>	<u>Imports</u>	<u>Total</u>	<u>Ratio of imports to consumption (Percent)</u>
1962-----	16,800	13,750	30,550	45
1963-----	13,100	11,031	24,131	46
1964-----	14,000	5,030	19,030	26
1965-----	18,500	14,959	33,459	45
1966-----	15,900	9,173	25,073	37
1967-----	12,900	5,754	18,654	31
1968: Jan.-Sept.---	9,940	13,411	23,351	57

1/ Based on data reported by domestic firms which are believed to account for at least 90 percent of total U.S. production.

Annual consumption ranged from a high of 33 million linear yards to a low of 19 million linear yards during the period. In 1965 consumption reached its highest level in several years, but then declined sharply in 1966 and 1967, reflecting a decline in both imports and sales by U.S. producers. Based on January-September data, consumption for the year 1968 will approximate 31 million linear yards, or a gain of some 12 million yards. As indicated above, virtually all of this increase will doubtless be supplied by imports which, on the basis of January-September data, are expected to be about 12 million yards greater for all of 1968 than in 1967. Sales of domestically produced fabrics are expected to increase only marginally over the same period. Imports generally increase more than production on a rising market, and decline more than

production on a falling market. Sudden declines in imports in some years are attributable in part to governmental action in closing a "loophole", although this action has been followed, almost as soon as it occurred, by the discovery of a new "loophole."

U.S. Producers

According to information obtained during this investigation, 12 concerns in 1966 were engaged in the production of low-priced woven apparel fabrics containing reprocessed or reused wool. In 1967, 11 firms reported some production of such fabrics and in 1968, 9 firms. Thus, over the 1966-68 period, three firms ceased production of the kinds of fabrics here considered. One of these, however, continued producing other textile apparel fabrics. In addition, one concern, after discontinuing production, returned to the production of fabrics containing reprocessed or reused wool in 1967. The producers responding to the Commission's questionnaire are believed to account for at least 90 percent of the U.S. output of wool fabric of this description. A few other firms use reprocessed or reused wool fiber in non-apparel fabrics such as blankets.

All but two of the nine firms included for 1968 were located in small communities in New England. Most of them employed less than 300 workers. During 1967, total employment in plants producing fabrics containing reprocessed or reused wool averaged about 3,000 persons, nearly half of whom are believed to have been employed on products other than the apparel fabrics under consideration. Total employment at the nine firms increased from 1965 to 1966 but declined in 1967, when it was slightly less than in 1965. Wages paid to workers on all products amounted to \$12.4 million in 1967, an increase from \$11.6 million in 1965.

Fabrics containing reprocessed or reused wool accounted for most of the output of five of the nine firms in 1968. Reused and reprocessed wool accounted for 44 percent of the total fiber consumption of the nine. Other fibers consumed in substantial quantity included virgin wool, wool recovered from new knitted clips, manmade fibers, and miscellaneous wool wastes.

Inventories of fabrics containing reused or reprocessed wool held by producers at the end of 1965 amounted to less than 5 percent of annual sales. Such inventories more than doubled by the end of 1966, and although they declined slightly in 1967 they represented more than 10 percent of annual sales in that year. Later data are not available.

Sales by U.S. producers

The quantity and value of sales, partly estimated, of apparel fabrics containing reprocessed or reused wool by the known producers are shown below for the years 1966 and 1967, and the first 9 months of 1968.

	<u>Quantity</u> (1,000 linear yards)	<u>Value</u> (1,000 dollars)
1966-----	14,223	25,623
1967-----	11,613	21,094
1968 (Jan.-Sept.)--	8,947	16,925

The quantity of sales declined 18 percent from 1966 to 1967. That in 1968, based on data for the first 9 months, will be about the same as in 1967. None of the individual firms had higher sales in 1967 than in 1966.

The bulk of domestic fabrics are produced in heavier weights (18 ounces and over) and well over half are in plaids, fancies, or bright colors rather than in solid-color fabrics. A substantial part of the domestic fabrics (as well as the imported) are bonded to foam or laminated with acetate tricot or cotton backing fabric. An estimated 30 percent of output is processed in this manner, generally by commission laminators for account of the buyer.

The fabrics under consideration are used in the less expensive articles of apparel generally sold to low-income consumers. Major markets have been in women's and children's wear. Men's and boys' casual outerwear comprise almost the whole remaining market. Heavier fabrics are used in outerwear (coats and jackets) while lighter weights are used in sportswear (skirts and slacks). Domestic fabrics have encountered severe competition from imported fabrics, largely heavy weights, in the children's outerwear market. Partly as a result of this competition, domestic sales have increasingly shifted from the children's to the women's outerwear market. Domestic manufacturers have placed increasing emphasis on color and pattern in an effort to combat the imports. Many of the styles, however, are regularly copied by foreign producers.

In women's and children's wear, fabrics of acrylic fibers or blends of these fibers (especially when laminated) compete, more or less directly, with lighter weight fabrics of reprocessed or reused wool.

Fabrics for the major fall market are ordinarily delivered to cutters in greatest quantity during the preceding February-April period. Credit is often extended to the cutter by the supplier--either himself or by factoring--for periods of up to six months. Domestic fabric manufacturers have the advantage over importers in delivery, quality, and styling.

Profit-and-Loss Experience of U.S. Producers 1/

For the years 1965-67, eight concerns furnished usable profit-and-loss data in respect of all products produced in the plants in which woven fabrics containing reprocessed or reused wool were made. Usable data were obtained for seven concerns for the period 1964 through 1967. One of the concerns that supplied data for the entire period 1964-67 was not a significant producer of the fabrics herein considered, and its sales thereof were inconsequential relative to its total sales of all products. The following discussion, therefore, relates principally to seven concerns that are important producers of the fabrics under consideration and that supplied data for the years 1965-67, and to six concerns that supplied data for the years 1964-67.

In 1967, five of the seven concerns were engaged exclusively or principally in the production and sale of woven apparel fabrics containing reprocessed or reused wool; for two concerns, apparel fabrics containing such fibers accounted for a relatively small but nonetheless important part of their net sales.*** Because of the difficulty of separating costs, these two concerns were unable to provide separate financial data relating to the apparel fabrics under consideration.

In 1967, the latest full accounting year for which information is available, the combined net sales by these seven concerns of woven

1/ Asterisks in this section of the report indicate deletions of material that would disclose certain operations of individual concerns. The complete text was submitted to the President.

apparel fabrics containing reprocessed or reused wool were equivalent to about 87 percent of the total value of sales of such fabrics by the known producers. The total sales of apparel fabrics containing such fibers (\$18.3 million) was equivalent to about 70 percent of their total sales of all products (\$26.2 million).

Net sales of all products by the seven concerns amounted to \$31.2 million in 1965 (table 3). The year 1965, when the demand for low-priced woolens outran the supply, was an exceptionally good year for the industry. Net sales of all products by the seven concerns were \$29.2 million in 1966, when they were 9 percent less than in 1965, and they were \$26.2 million in 1967, when they were 16 percent less than in 1965. During the same period, their sales of apparel fabrics containing reprocessed or reused wool declined from \$23.9 million to \$18.3 million, or about 24 percent. Thus, the decline in sales of these wool fabrics (about \$5.6 million) was not significantly offset by the slight increase in sales of other products.

* * * * *

Net profits earned by the seven concerns were 62 percent lower in 1967, when they amounted to \$715,000, than in 1965, when they totaled \$1.9 million. For these, the ratio of net profits to net sales was 6.0 percent in 1965, 4.2 percent in 1966, and

2.7 percent in 1967. The ratio throughout the period was below that for textile mill products as a whole, which amounted to 7.0 percent in 1965, 6.5 percent in 1966, and 5.3 percent in 1967.

Profits among the seven concerns varied greatly over the period shown. For two of them, accounting for a large part of the value of total sales reported by the industry, the combined profit ratio was in excess of 5 percent in each of the years 1965-67. However, the profit ratio of these two concerns, like that for all manufacturing corporations and all textile mill products, declined over the period. *** One of the seven concerns reported a net operating loss in each of the years 1965-67; *** One concern reported profits in 1965 and 1966, but it experienced a substantial loss in 1967. Three other concerns barely broke even in 1967, and had a small margin of profit in 1965 and 1966.

* * * * *

The profit ratios of the two firms *** that obtained most of their income from the sale of other products was substantially lower in each of the 3 years than that of the other five. ***

As noted, usable financial data were also obtained for six concerns for each of the years 1964-67. Since these data exclude one firm that consistently showed losses in 1965-67, the average net profit position of the six is somewhat higher than that of the seven firms discussed above. * * *

Although they were all requested to do so, one concern failed to furnish a breakdown of expenses. In addition, one concern has refused to supply any profit-and-loss data; the Commission has requested the Department of Justice to seek a court order directing that it do so. Still another concern has repeatedly assured the Commission that it will supply such information but had failed to do so as of the date of this report. Together these three firms accounted in 1967 for somewhat less than two-thirds of total sales of the fabrics under consideration. For the industry as a whole, therefore, the Commission has been unable to determine what portion of expense is attributable to factory cost and what portion to administration and selling. In this regard, should additional relevant and material data be secured, the Commission will furnish supplementary information.

U.S. Imports

Trend

The imports principally affected by the enactment of P.L. 90-638 are low-priced woven apparel fabrics (valued not over \$2 per pound), whether or not laminated, in chief weight of reused or reprocessed wool but in chief value of other textile fibers. Virtually all of such imports in recent years have been from the Prato district of Italy. The Italian fabrics usually contain 60 to 85 percent by weight of reused or reprocessed wool and the remainder of cotton, silk, flax, rabbit hair, or manmade fibers.

The Italian mills consume large quantities of used wool rags, the U.S. exports of which to Italy amount to over 70 million pounds annually, valued at about \$6 million. Italian producers, particularly in the Prato area, are expert at manufacturing attractive and serviceable fabrics from fibers recovered from such materials. The Wool Products Labeling Act of 1939 requires that imports of fabrics made of fibers recovered from used wool rags be labeled as containing reused wool. Nearly all of the low-priced fabrics imported from Italy are labeled as containing reprocessed rather than reused wool. 1/

Total U.S. imports of fabrics in chief weight of reused or reprocessed wool and valued not over \$2 per pound were small until 1958, but beginning in that year they increased, and in 1960 they reached a peak of 16.6 million linear yards (table 4). During those years the imports were subject to a tariff quota, based on domestic production of wool fabrics,

1/ Although reused wool may often be superior to reprocessed wool as a textile material, consumer prejudice against it is more pronounced. It is difficult if not impossible to distinguish, even by laboratory tests, between reused and reprocessed wool in the finished fabric.

which provided a within-quota rate of 37.5 cents per pound plus 25 percent ad valorem and an over-quota rate of 37.5 cents per pound plus 45 percent ad valorem. The quota system was replaced by new and substantially higher ad valorem rates of duty, 1/ effective January 1, 1961. In 1961, the first year under the new rates, imports decreased to 5.1 million linear yards. Subsequently, the imports fluctuated considerably as methods were devised by the importers to avoid the higher rates and as successive legislation was enacted to curtail the avoidance. Imports in 1965 were about 15 million linear yards, and were large because of an unusually strong demand for heavyweight outerwear fabrics. After decreases in 1966 and 1967, imports began to increase substantially in 1968, and, partly as a result of large imports in anticipation of the increase in duty December 24, the effective date of P.L. 90-638, the total for the year may be the highest to date.

During 1960-67, imported low-priced fabrics embodying significant quantities of reused or reprocessed wool accounted for from 15 to 43 percent of the total imports of woven apparel fabrics in chief weight of wool, depending on the year. They supplied from 2 to 5 percent of the total domestic consumption of all woven apparel fabrics of wool, and from 25 to 45 percent of the domestic consumption of low-priced fabrics containing reprocessed or reused wool. In 1968, imports may supply as much as 60 percent of consumption of the low-priced fabrics.

Until very recent years the imported, unlike the domestic fabrics containing reused or reprocessed wool, consisted largely of mediumweight

1/ Fabrics valued not over \$1.26-2/3 per pound became dutiable at 37.5 cents per pound plus 60 percent ad valorem, and those valued over \$1.26-2/3 but not over \$2 per pound became dutiable at \$1.135 per pound.

fabrics (weighing less than 16 ounces per linear yard). In the initial years of large importation most of them were flannels. In 1965, however, when the imports were larger than for several years, they consisted primarily of solid color meltons, weighing over 20 ounces per linear yard, the demand for which in 1965 exceeded the ability of the domestic mills to supply. In 1966, when a substantial inventory of solid color meltons remained, the imports of such fabrics declined, and mediumweight fancies were again the principal type entered.

In 1966-68, imports of fabrics in chief value of silk but in chief weight of reused or reprocessed wool became of increasing importance, amounting to 3.3 million linear yards in January-September 1968 (table 4). Beginning in 1967, imports of fabrics in chief weight of reused or reprocessed wool but in chief value of other textile fibers, laminated to polyurethane foam or to cotton or acetate tricot fabrics, increased substantially, and in 1968 such fabrics are expected to account for more than 40 percent of the total imports of the fabrics herein considered. The laminating process imparts additional warmth and provides better dimensional stability. In some cases the cotton or acetate backing fabric is utilized as a self-lining. In 1968, imports of woven apparel fabrics in chief weight of reused or reprocessed wool but in chief value of cotton became important, and in the first 9 months of that year they exceeded 3 million linear yards.

By tariff status

Not laminated.--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 and were entered under paragraphs 1108 and 1109(a). 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 tariff quota system on wool fabrics was in operation. They consisted principally of low-priced wool-and-rayon mixed fabrics from Italy (table 4). After the high rates of duty were established, effective January 1, 1961, such imports decreased substantially. The provisions of paragraph 1122 were not continued in the TSUS.

Imports of fabrics in chief value of wool, valued not over \$2 per pound, increased several fold in 1958-60 under the quota system. At the end of that period, when they were at their peak, nearly all of the imports were from Italy and consisted of mediumweight fabrics (flannels). The average foreign unit value of the Italian fabrics was about 80 cents per linear yard and more than two-thirds of the total (9.2 million linear yards) was entered at the over-quota rate, which was equivalent to about 86 percent ad valorem.

In 1961, after the tariff quota system had been replaced by higher rates of duty, imports at the increased rates became about 5 million linear yards. They declined substantially after 1961 as wool fabrics with braid attached to the selvage, dutiable as fabrics in part of braid at 42.5 percent ad valorem, and wool fabrics free of duty from the Virgin

Islands became large. The entries from the Islands were Italian fabrics which, after having been showerproofed and doubled in value, became products of the Islands. Shipments from the Islands were later restricted, and the opportunity for importation as fabrics in part of braid was removed.

In 1964-65 imports from Italy of low-priced fabrics containing a high content of reused or reprocessed wool blended with just enough flax or ramie, mostly flax, to make them in chief value of the vegetable fiber entered in increasing volume at a duty rate of 10 percent ad valorem. These imports ceased after a higher rate (30 cents per pound plus 45 percent ad valorem) was established on them pursuant to P.L. 89-241, effective December 7, 1965.

In mid-1965 the importers, anticipating the passage of P.L. 89-241, began to bring in large quantities of fabrics from Italy principally of reused or reprocessed wool but in chief value of rabbit hair, dutiable at 17.5 percent ad valorem. Pursuant to P.L. 89-405, effective June 19, 1966, the rate for such fabrics became 30 cents per pound plus 50 percent ad valorem and the imports ceased.

Imports of fabrics containing as much as 85 percent of reused or reprocessed wool but in chief value of silk (TSUS item 337.50) began to enter the United States in 1965, and they amounted to about 2 million linear yards annually in 1966-67. The rate of duty on these fabrics was 35 percent at first and, under a concession granted by the United States in the Kennedy Round of tariff negotiations, it became 31 percent, effective January 1, 1968. Imports in January-September 1968 amounted to 3.3 million linear yards and had an average foreign unit value of 77 cents per linear yard (table 5). Pursuant to P.L. 90-638, the rate of duty on

the wool-silk blends increased from 31 percent ad valorem to 37.5 cents per pound plus 60 percent ad valorem, equivalent to 119 percent ad valorem based on imports in the first 9 months of 1968.

Imports of low-priced woven fabrics in chief value of cotton but containing substantial quantities of reused or reprocessed wool (usually 60 to 70 percent) first became significant in 1967, when their imports amounted to 576 thousand linear yards; they increased to 3.1 million linear yards in the first 9 months of 1968. The average foreign unit value of these imports in 1968 was 82 cents per linear yard. The rate of duty on such fabrics was 19 percent ad valorem in 1968. Pursuant to P.L. 90-638, it became 37.5 cents per pound plus 60 percent ad valorem, equivalent to 107 percent.

Laminated.--Imports of laminated fabrics in chief weight of wool but in chief value of other textile fibers first entered in appreciable volume in 1967, when they amounted to 2.4 million linear yards. They became 5.2 million linear yards in January-September 1968. They consisted of fabric-to-foam laminates in chief value of cotton or flax (TSUS item 355.65), amounting to 0.9 million linear yards in January-September 1968; fabric-to-fabric laminates in chief value of flax (TSUS item 359.20), amounting to 3.2 million linear yards; and fabric-to-fabric laminates in chief value of rabbit fur (TSUS item 359.20), amounting to 1.1 million linear yards (table 3). An insignificant quantity of fabric-to-fabric laminates in chief value of wool (TSUS item 359.30) was entered.

The fabric-to-foam laminates usually contain 60 to 70 percent of reused or reprocessed wool and 20 percent cotton or flax, the remainder consisting of manmade fibers. Their average foreign unit value is

estimated at \$1.15 per linear yard. Imports of these fabrics in 1968 entered at a rate of duty of 10 percent, but pursuant to P.L. 90-638, the rate became 37.5 cents per pound plus 32 percent ad valorem, equivalent to 67 percent ad valorem.

The principal type of fabric-to-fabric laminates imported is in chief value of flax but in chief weight of reused or reprocessed wool. Imports of this type amounted to 1.5 million linear yards in 1967 and became 3.2 million linear yards in January-September 1968. Their average foreign unit value in 1968 was \$1.17 per linear yard. The rate of duty on these imports in 1968 was 12 percent ad valorem. Under P.L. 90-638, it became 37.5 cents per pound plus 32 percent ad valorem, equivalent to 64 percent ad valorem.

The other type of fabric-to-fabric laminate of consequence is in chief weight of reused or reprocessed wool but in chief value of rabbit hair. Imports of this type amounted to 446 thousand linear yards in 1967 and became 1.1 million in January-September 1968; the average foreign unit value was \$1.17 per linear yard. The rate of duty in 1968 was 15.5 percent ad valorem. Under P.L. 90-638, it became 37.5 cents per pound plus 32 percent ad valorem, equivalent to 62 percent ad valorem.

Prices

The information in this section is based on data reported to the Commission by producers and importers for their leading items. Since the leading items sold by producers are nearly all heavy fabrics (18 ounces and over per linear yard), the items for which prices are shown, whether domestic or imported, are confined to fabrics of that description. They consist of dark meltons and light-colored or fancy fabrics. On the two kinds, producers' average list prices as of July 1 in 1966-68 are as follows:

	<u>1966</u>	<u>1967</u>	<u>1968</u>
Dark melton-----	\$1.86	\$1.76	\$1.74
Light-colored or fancy-----	2.18	2.16	2.14

Prices in 1966, at the beginning of the period shown, were higher than for several years. Prices in 1967 and 1968, although slightly less than in 1966, were above those in 1965 and earlier years. The average unit value of producers' sales was \$1.80 a yard in 1966, \$1.82 in 1967, and \$1.89 in 1968. Unlike producers' list prices for the above fabrics, the unit value of producers' sales of all apparel fabrics containing reprocessed or reused wool increased over the period, perhaps indicating growing success in the sale of the more expensive lines or growing firmness in the net realized price.

Producers' list prices for the meltons and the light-colored or fancy fabrics together range from \$1.55 to \$2.45 per linear yard, depending on the color and construction. Importers' list prices for the corresponding fabrics range from \$1.25 to \$1.75, or from 20 percent to 30 percent less.

Importers' list prices, unlike those quoted by producers, were constant from 1966 through 1968. At the end of the period, on July 1, 1968, the

average list price by importers for the fabrics under consideration, is shown, per linear yard, in comparison with that by producers as follows:

	<u>Dark melton</u>	<u>Light colored or fancy</u>
Producers-----	\$1.74	\$2.14
Importers-----	1.28	1.65

APPENDIX A

Letters from the President and the
Chairman of the Ways and Means Committee
of the U.S. House of Representatives
Statement of the President in con-
nection with his signing of H.R. 653

THE WHITE HOUSE
WASHINGTON

RECEIVED

OCT 25 1968

October 24, 1968

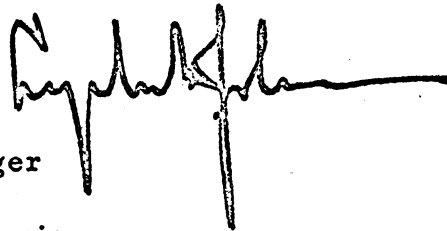
OFFICE OF THE SECRETARY

Dear Mr. Chairman:

I have today approved H.R. 653, the major provision of which stipulates that the provisions in parts 3 and 4 of schedule 3 of the Tariff Schedules of the United States for fabrics in chief value of wool shall also apply to fabrics in chief weight of wool.

However, because of reservations concerning the height of the duties imposed by this provision, I request the Tariff Commission, pursuant to section 332(g) of the Tariff Act of 1930, to conduct a study and report back to me by December 31, 1968, the probable effect of the chief weight test on imports of these fabrics and the simple ad valorem tariff rate or rates in column 1 of the Tariff Schedules of the United States which would permit fabrics of, in chief weight of, reprocessed or reused wool provided for in parts 3 and 4 of schedule 3 of such Tariff Schedules to enter the United States without causing or threatening serious injury to the domestic industry producing like or directly competitive articles.

Sincerely,



Honorable Stanley B. Metzger
Chairman
United States Tariff Commission
Washington, D. C. 20436

NINETIETH CONGRESS

WILBUR D. MILLS, ARK., CHAIRMAN

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WILLIAM H. QUEALY
MINORITY COUNSEL

JOHN M. MARTIN, JR., CHIEF COUNSEL
J. P. BAKER, ASSISTANT CHIEF COUNSEL

44

COMMITTEE ON WAYS AND MEANS

HOUSE OF REPRESENTATIVES

WASHINGTON, D.C. 20515

RECEIVED

October 25, 1968

OCT 30 1968

OFFICE OF THE SECRETARY

Honorable Stanley D. Metzger
Chairman
United States Tariff Commission
Washington, D. C.

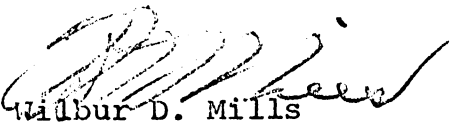
Dear Mr. Chairman:

It is my understanding that the President has approved H. R. 653, 90th Congress, which includes a provision aimed at closing a tariff loophole regarding imports of reprocessed wool fabrics or blends of such fabrics.

It is also my understanding that the President has requested the United States Tariff Commission to conduct a study under section 332(g) of the Tariff Act of 1930 and submit a report not later than December 31, 1968, as to the probable effect of the chief weight test on imports of these fabrics and also as to what ad valorem rates in column 1 of the Tariff Schedules of the United States would permit fabrics in chief weight of reprocessed or reused wool provided for in parts 3 and 4 of schedule 3 of such Tariff Schedules to enter the United States without causing or threatening serious injury to the domestic industry producing like or directly competitive articles.

I am very glad to join the President in requesting that the Tariff Commission look into these matters so that information will be developed as to the effect of the change which we have made by virtue of the provision contained in H. R. 653, and which might be useful in the event further legislative consideration of the subject should become necessary.

Sincerely yours,


Wilbur D. Mills
Chairman

WDM:jmk

There is reproduced below the President's statement made in connection with his signing of H.R. 653:

RATES OF DUTY ON WOOL

Statement by the President Upon Signing Bill Amending
Tariff Schedules, With His Letter to the Chairman of
the United States Tariff Commission.

October 25, 1968

I have signed H.R. 653, a bill which amends the tariff schedules of the United States.

This measure establishes a uniform tariff on imports of reprocessed wool fabrics or blends of such fabrics. The duty rate will be based on the chief weight of the fabric.

Duty rates on wool fabrics have been based on the rate applicable to the component having the greatest value. Consequently, importers have been able to escape the higher wool tariff by blending reprocessed wool fabrics with small amounts of high value non-wool material. The addition of these other components has been for the sole purpose of establishing a lower duty and has not altered in any way the characteristics or use of the fabric.

The Congress passed and I signed legislation in 1965 and 1966 which closed this tariff loophole on two specific components. H.R. 653 seeks a broader and more permanent solution by adopting the chief weight test. The history of "loophole" importation since the wool tariff was established in 1961 indicates that a more uniform tariff on a chief weight basis is a realistic solution.

However, I do not wish this bill to be a device to cut off legitimate trade. These imports fill a need of American consumers of modest means. While Italy--the principal supplier--sends only 20 percent of its exports of these fabrics to the United States, it is still an important item in the trade between our two nations. Elimination of this trade would also affect adversely exports to Italy of about \$6 million of wool rugs which are used in making these fabrics.

(Continued)

President's statement - continued

I fear that the Congress may have imposed too harsh a remedy. The tariff rate established by H.R. 653 will result in a high duty for these low cost fabrics. It would be most unfortunate if this tariff had the effect of stifling all imports of these products to the United States. Such a result would be contrary to our trade policies and our best interests.

Because of my concern that traditional trade should not be disrupted, I am today asking the Tariff Commission to study and report to me no later than December 31, 1968, the effect of the duty established by implementation of the chief weight test and what simple ad valorem rate or rates of duty would provide a reasonable degree of tariff protection for this U.S. domestic industry.

In the event it should be determined that a lower duty is more equitable, I shall request the Congress to take prompt action to establish the appropriate tariff rate.

I have discussed this procedure with members of both Houses of the Congress who are most concerned with this issue. They concur that congressional action on any tariff revision recommended by the Tariff Commission is proper and have agreed that any such proposal will receive fair and prompt consideration.

Let me make it clear that I have approved this bill only because an unusual problem--one which has resulted in artificial manufacturing practices by foreign manufacturers and has imposed a high degree of uncertainty on the domestic industry--has existed since 1961 under existing tariff schedules. It remains my firm view that liberal trade policies and efforts to achieve the elimination of barriers to fair trade are in the best interests of our Nation and our trading partners.

APPENDIX B
Statistical Tables

Table 1.--Woven apparel fabrics in chief weight of reprocessed or reused wool, heavy (22 ounces per linear yard): Landed cost of imported and average list price of imported and domestic, as of July 1, 1968

(Per 60-inch linear yard)				
Item	Dark melton	Light- colored or fancy	Weighted average ^{1/}	
Imported fabric:				
Foreign value-----	\$0.75	\$1.05	\$0.93	
Freight and insurance-----	.08	.08	.08	
Duty:				
At former rates-----	^{2/} .23	^{3/} .20	.23	
Under P.L. 90-638 ^{4/} -----	.97	1.15	1.08	
Landed cost:				
At former rates-----	1.06	1.33	1.24	
Under P.L. 90-638-----	1.80	2.28	2.09	
Average selling price:				
At former rates-----	1.28	1.65	1.50	
Under P.L. 90-638-----	2.17	2.83	2.59	
Domestic fabric: Average list price-	1.74	2.14	1.98	

^{1/} Weighted on the basis of estimated trade in these fabrics.

^{2/} In chief value of silk, dutiable at 31 percent ad valorem.

^{3/} In chief value of cotton, dutiable at 19 percent ad valorem.

^{4/} 37.5 cents per pound plus 60 percent ad valorem.

Table 2.--Mediumweight (13-ounce) woven apparel fabric and laminated apparel fabrics in chief weight of reprocessed or reused wool: Landed cost of imports at the former rates of duty and at the rates made effective pursuant to P.L. 90-638, as of July 1, 1968

(Per 60-inch linear yard)				
Item	13-ounce fabric (not laminated)	Laminated fabrics		
		Backed with polyurethane foam 1/	Backed with acetate tricot 2/	
Foreign value-----	\$0.57	\$1.13	\$1.16	
Freight and insurance---	.07	.08	.08	
Duty:				
At former rates-----	3/ .11	4/ .11	5/ .18	
Under P.L. 90-638-----	6/ .64	7/ .81	7/ .72	
Landed cost:				
At former rates-----	.75	1.32	1.42	
Under P.L. 90-638-----	1.28	2.02	1.96	
1/ A 19-ounce fabric in chief value of vegetable fibers. 2/ A 15-ounce fabric in chief value of rabbit hair. 3/ In chief value of cotton, dutiable at 19 percent ad valorem. 4/ 10 percent ad valorem. 5/ 15.5 percent ad valorem. 6/ 37.5 cents per pound plus 60 percent ad valorem. 7/ 37.5 cents per pound plus 32 percent ad valorem.				

Table 3.--Profit-and-loss experience on all products of the establishments in which woven fabrics containing reused or reprocessed wool were produced, 1965-67

Year	Net sales	Net operating profit	
	(1,000 dollars)	(1,000 dollars)	As a percent of net sales
1965-----	31,181	1,872	6.0
1966-----	29,223	1,240	4.2
1967-----	26,160	715	2.7

Source: Compiled from information submitted to the U.S. Tariff Commission by 7 domestic producers furnishing usable data for each of the years 1965-67.

Table 4.--Woven apparel fabrics in chief weights of reprocessed or reused wool, valued not over \$2 per pound: Estimated U.S. imports for consumption, by type, 1957-67, and January-September 1968

Item	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	Jan.-Sept. 1968 1/
	Quantity (1,000 linear yards)											
Fabrics in chief value of wool:												
In part of braid-----	-	-	-	-	130	2/ 1,750	4,840	-	-	-	-	-
Through the Virgin Islands 3/-----	-	-	-	-	-	6,360	4,960	620	840	1,920	561	1,000
Other:												
Valued not over \$1.26-2/3 per pound 1/-----	371	1,143	5,490	11,529	3,975	4,637	621	960	339	163	51	65
Valued over \$1.26-2/3 but not over \$2 per pound 1/-----	1,049	1,357	3,830	2,751	855	883	609	350	261	277	207	607
Fabrics dutiable under the provisions of paragraph 1122-----	-	1,580	3,820	2,360	130	120	1	-	-	-	-	-
Fabrics in chief value of--												
Cotton-----	-	-	-	-	-	-	-	3,100	12,000	-	576	3,110
Flax-ramie-----	-	-	-	-	-	-	-	-	139	2,003	1,971	3,316
Silk-----	-	-	-	-	-	-	-	-	1,380	4,730	-	-
Rabbit hair-----	-	-	-	-	-	-	-	-	-	-	-	-
Laminated fabrics:												
Fabric to foam, chief value of vegetable fibers-----	-	-	-	-	-	-	-	-	-	-	326	939
Fabric to fabric:												
Flax-----	-	-	-	-	-	-	-	-	-	-	1,548	3,226
Wool-----	-	-	-	-	-	-	-	-	-	80	68	72
Rabbit hair-----	-	-	-	-	-	-	-	-	-	-	446	1,076
Total-----	1,420	4,080	13,410	16,640	5,090	13,750	11,031	5,030	14,959	9,173	5,754	13,411
	Value (1,000 dollars)											
Fabrics in chief value of wool:												
In part of braid-----	-	-	-	-	98	2/ 1,369	3,785	-	-	-	-	-
Through the Virgin Islands 3/-----	-	-	-	-	-	8,616	6,019	677	1,240	3,039	948	1,600
Other:												
Valued not over \$1.26-2/3 per pound 1/-----	269	1,162	4,513	8,553	2,368	2,927	403	632	241	152	63	51
Valued over \$1.26-2/3 but not over \$2 per pound 1/-----	2,136	2,259	5,286	3,924	1,533	1,780	1,381	786	594	603	487	1,211
Fabrics dutiable under the provisions of paragraph 1122-----	-	1,489	2,979	1,781	164	167	1	-	-	-	-	-
Fabrics in chief value of--												
Cotton-----	-	-	-	-	-	-	-	2,511	11,500	-	595	2,538
Flax-ramie-----	-	-	-	-	-	-	-	-	124	1,654	1,499	2,553
Silk-----	-	-	-	-	-	-	-	-	1,531	5,732	-	-
Rabbit hair-----	-	-	-	-	-	-	-	-	-	-	-	-
Laminated fabrics:												
Fabric to foam, chief value of vegetable fibers-----	-	-	-	-	-	-	-	-	-	-	552	1,080
Fabric to fabric:												
Flax-----	-	-	-	-	-	-	-	-	-	-	1,544	3,774
Wool-----	-	-	-	-	-	-	-	-	-	89	100	144
Rabbit hair-----	-	-	-	-	-	-	-	-	-	-	556	1,258
Total-----	2,405	4,910	12,808	14,258	4,163	14,859	11,589	4,606	15,230	11,269	6,344	14,209

1/ These data include a relatively small quantity of fabrics, particularly laminated, which are not in chief weight of reused or reprocessed wool, are not apparel fabrics, or are valued over \$2 per pound.
 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 fabric rates.
 3/ Based on general imports.
 4/ Prior to Jan. 1, 1961, these brackets were "valued not over \$1.25 per pound" and "valued over \$1.25, not over \$2 per pound."

Table 5.--Woven apparel fabrics in chief weight of reused or reprocessed wool, valued not over \$2 per pound: Estimated U.S. imports for consumption, by rates of duty, January-September 1968 1/

TSUS item	Brief description	Rate of duty		Ad valorem: equivalent: of	Imports - January-September 1968			
		Effective	Effective		Quantity	Value	Unit value	3/
		Jan. 1, 1968	Jan. 1, 1969	1969 rate:				
		Cents per pound and per-cent ad valorem		Percent	1,000 pounds	1,000 dollars	Per pound	Per lin. yd.
	Woven fabrics, not laminated							
	In chief value of wool:							
336.50	Valued not over \$1.26-2/3 per lb----	37.5¢ + 60%	37.5¢ + 60%	104.1	60	51	\$0.85	\$0.79
336.55	Valued over \$1.26-2/3 but not over \$2 per lb-----	113.5¢	113.5¢	64.4	687	1,211	1.76	1.99
	Containing reused or reprocessed wool:							
	but in chief value of--							
332.40	Cotton-----	19%	37.5¢ + 60%	4/ 106.9	3,176	2,538	.80	.82
337.50 5/	Silk-----	31%	37.5¢ + 60%	1/ 119.0	4,016	2,553	.64	.77
	Laminated fabrics, containing wool or reprocessed wool:							
355.65	Fabric to foam, in chief value of vegetable fibers-----	10%	37.5¢ + 32%	66.7	1,000	1,080	1.08	1.15
	Fabric to fabric, in chief value of--							
359.20	Vegetable fibers other than cotton-----	12%	37.5¢ + 32%	64.1	3,226	3,774	1.17	1.17
359.30	Wool-----	32%	37.5¢ + 32%	55.6	90	144	1.59	1.99
359.60	Rabbit hair-----	15.5%	37.5¢ + 32%	62.1	1,009	1,258	1.25	1.17
	Total or average-----	-	-	83.9	13,264	12,411	.95	1.02

1/ Does not include woven fabrics in chief value of wool shipped from the Virgin Islands to mainland United States free of duty as products of the Islands.

2/ Duties applicable pursuant to P.L. 90-638.

3/ Based on unrounded figures.

4/ It is estimated from the unit values that all of these are valued not over \$1.26-2/3 per pound.

5/ Includes TSUSA items 337.5010 through 337.5018.

Note.--The import data in the above table include a relatively small quantity of fabrics, particularly laminated, which are not in chief weight of reused or reprocessed wool, are not apparel fabrics, or are valued over \$2 per pound.