

March 27, 1998

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, DC 20436

MEMORANDUM TO THE COMMITTEE ON WAYS AND MEANS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES ON PROPOSED TARIFF LEGISLATION¹

Bill no., sponsor, and sponsor's state: H.R. 2899 (105th Congress), Representative James Maloney (CN)
and Representative Shays (CN)

Companion bill: None.

Title as introduced: To amend the Harmonized Tariff Schedule of the United States to provide for reduced duty treatment for certain fully assembled bicycle wheels.

Summary of bill:²

The bill would amend chapter 87 of the Harmonized Tariff Schedule of the United States (HTS) by adding a new subheading at the six-digit level of the nomenclature structure. The new provision is intended to reduce the general rate of duty for fully assembled bicycle wheels with carbon fiber spokes.

Effective date: The 15th day after enactment.

Retroactive effect: None.

Statement of purpose:

No statement concerning the bill was published in the *Congressional Record* by the sponsor. Staff in the sponsor's office provided information concerning the proposed legislation.³ According to the staff member, the bill would create a new subheading under heading 8714 of the HTS to allow for the importation of a new and innovatively designed bicycle wheel, which currently has no specific classification. The production process for bicycle wheels with carbon fiber spokes, rim, and hub flange involves permanently attaching the different components together. However, because of the nomenclature structure, these assembled wheels reportedly must be classified under various tariff provisions with different duty rates: subheading 8714.99.80, other bicycle parts, with a duty rate of 10 percent ad valorem; 8714.92.10, wheel rims, 5.2 percent ad valorem; and 8714.93.70.60, free-wheel sprocket-wheels, with a duty rate of free. The bill reportedly is intended to allow Spinergy Inc. to recapture duties and fees paid to Customs as a result of the Customs's re-classification of its bicycle wheels with rim, carbon fiber spokes, and hub flange assembled in one piece.

¹ Industry analyst: Josephine Spalding (202-205-3498); attorney : Jan Summers (202-205-2605).

² See appendix A for definitions of tariff and trade agreement terms.

³ Brian Miller, Legislative Assistant, Congressman Maloney, Feb. 13, 1998.

Product description and uses:

A bicycle wheel with carbon fiber⁴ spokes has from 5 to 8 flat, aerodynamically shaped spokes that are from 2 inches to 5 inches wide and are attached to an inner rim of carbon fiber. The carbon fiber inner rim and spoke assembly is then fitted and joined to an outer rim of aluminum.⁵ In contrast, a traditional high-performance bicycle wheel has a metal alloy rim with 32 to 58 stainless steel wire spokes.⁶ Wheels with carbon fiber spokes are used by either professional athletes or highly dedicated sports enthusiasts seeking to participate or qualify in touring or timed events such as the Olympics, triathlons, or the Tour de France. Prices for high-performance wheels typically begin at \$400 and can exceed \$10,000, with the lightest and more aerodynamic wheels having the highest cost.

Tariff treatment:⁷

<u>Product</u> ⁸	<u>HTS subheading</u>	<u>Col. 1-general rate of duty</u>
Parts and accessories of vehicles of heading 8712 (mainly bicycles):		
Other nonenumerated parts.....	8714.99.80	10%

Structure of domestic industry (including competing products):

High-performance bicycle

wheels with carbon fiber spokes: One U.S. firm manufactures bicycle wheels with carbon fiber spokes. This company employs 20 people and produces no other type of high-performance bicycle wheels. However, it does manufacture high-performance wheelchair wheels.

Other high-performance

bicycle wheels:

Eleven U.S. companies manufacture other types of carbon fiber wheels or high-performance bicycle wheels of metal alloys. These companies employ close to 220 people and generally specialize in the production of one or more of the following 3 types of wheels:

- 1) Deep carbon-fiber rim, with aluminum hub and stainless steel spokes;⁹
- 2) Solid carbon-fiber disk bicycle wheel with aluminum rim and hub; or
- 3) Aluminum rim and hubbed wheel with stainless steel spokes.¹⁰

⁴ Carbon fiber is used because it is lighter than aluminum.

⁵ The bicycle tire is fitted to the aluminum outer rim.

⁶ Air traveling through the spokes are a major source of drag.

⁷ See appendix B for column 1-special and column 2 duty rates.

⁸ See technical comments.

⁹ A deep rim is concave. This shortens the distance between the rim and the hub. A stronger and deeper hub allows the manufacturer to use fewer and shorter spokes and reduce drag.

¹⁰ Certain producers use metal alloys (aluminum, magnesium, and titanium) in the production of rims, spokes, and hubs.

Of these 11 manufacturers, four firms--Cannondale, Trek, Raleigh, and GT/Rightway--supply independent bicycle distributors (IBDs). IBDs offer high-priced bicycles, including the wheels, for independent bicycle shops.¹¹ The remaining U.S. companies specialize in high-performance wheels for custom bikes, bicycle upgrades, and the after-market.

Private-sector views:

The Commission contacted two domestic companies that produce high-performance carbon fiber wheels.¹² These companies submitted comments on the bill, which are included in appendix C. The Commission contacted eight additional companies that domestically produce or import high-performance carbon fiber wheels and/or metal alloy wheels,¹³ as well as two trade associations.¹⁴ Written comments submitted as of the date of preparation of this report are included in appendix C.

U.S. consumption:

	1994	1995	1996
	----- (Million dollars)-----		
U.S. production ¹	(²)	(²)	(²)
U.S. imports.....	(²)	(²)	(²)
U.S. exports.....	(²)	(²)	(²)
Apparent U.S. consumption....	(²)	(²)	(²)

Principal import sources: France, Italy, and Mexico.

Principal export markets: Not available.

¹Based on telephone interviews with industry representatives in February 1998, estimates of the number of fully assembled high-performance bicycle wheels produced in the United States in 1996 ranged between 90,000-110,000 wheels.

²Not available.

¹¹ IBDs manufacture high-performance wheels in-house or source them from U.S. or foreign suppliers. Based on telephone interviews in Feb. 1998, the principal foreign sources of high-performance wheels are Corima (France), Mavic (France), DiaCompe (Italy), and International Assembly Specialists (IAS); the latter is Spinerger's contract assembly operation in Mexico.

¹² Andy Ording, Vice President, ZIPP Speed Weaponry, Feb. 12, 1998 (submission dated Feb. 16); and Sun Metal Products, Robert M. Piecuch, Feb. 10, 1998 (submission dated Feb. 19).

¹³ Todd Cruzinger, Specialized Bicycle Components, Feb. 18, 1998; Jackson Lynch, Director, Legislative Affairs, Trek, Feb. 18, 1998; Brian Smith, Cannondale, Feb. 18, 1998; and Mike Haynes, GT-Bicycles/Rightway, Feb. 19, 1998; Steve and Ann Hed, Hed, Feb. 19, 1998 (submission dated Jan. 23); Steve Smith, Logic/Quintin, Feb. 10, 1998; Kirk Jones, President, Spin Composite Bicycle Wheels Division of Innovations in Composites, Feb. 17, 1998 (submissions dated Jan. 28 and Feb. 18); and Brad Thorne, Dia-Compe USA/Cane Creek Cycling Components, Feb. 6, 1998 (submission dated Feb. 20).

¹⁴ Mike Kershow, Bicycle Manufacturers Association, Feb. 12, 1998; Jay Townley, Director, Bicycle Council, Feb. 18, 1998.

Effect on customs revenue:¹⁵

Future (1998-2000) effect:¹⁶

1998	[\$5,000,000 x 8.5%] = \$425,000
1999	[\$7,500,000 x 8.5%] = \$637,500

Retroactive effect: None.

Technical comments:

As drafted, this bill would create a new six-digit provision 8714.97.00¹⁷ in the HTS, with a general tariff rate of 1.5 percent ad valorem for the subject complete bicycle wheels. However, the United States is not legally authorized to make such a unilateral change at this level of the nomenclature structure under the International Convention on the Harmonized Commodity Description and Coding System (HS) of the World Customs Organization. The Convention sets forth the 4- and 6-digit tariff and statistical nomenclature and related legal notes comprising the HS, and requires member countries to use these provisions as numbered and without changes. However, a new 8-digit tariff rate line could be created subordinate to HS subheading 8714.99, where complete bicycle wheels are currently classified,¹⁸ without modifying the international system at the 6-digit level, and existing subheading 8714.99.80 should be redesignated to reflect its changed product coverage. The language in square brackets below is provided for reference only and would not be included in the bill; only the portion in and including the double quotation marks would be used as a substitute for the present proposed tariff line. Thus, subsection (a) would be amended to read as follows:

(a) Chapter 87 of the Harmonized Tariff Schedule of the United States is amended by redesignating subheading 8714.99.80 as 8714.99.95 and by inserting in numerical sequence the following new subheading, with its article description at the same level of indentation as the article description of subheading 8714.99.60:

	[Parts and accessories of heading			
	8712 (principally bicycles):]			
	[Other:]			
	[Other:]			
“8714.99.75	Bicycle wheels each comprising an			
	outer rim of aluminum, an inner rim			
	of carbon fibers, carbon-fiber spokes			
	and a hub flange, whether or not			
	incorporating a freewheel or free			
	hub.....	1.5%	Free (A+,CA,E,	30%”
			IL,J,MX)	

¹⁵ Actual revenue loss may be understated in the event of a significant increase in imports over the duty suspension period.

¹⁶ Level of U.S. imports for 1998 and 1999 are based on telephone interviews during February 1998.

¹⁷ A provision ending in 0's, such as the hypothetical 1111.00.00 or 1111.11.00, represents an international-level nomenclature category that is not subdivided for domestic rate of duty purposes.

¹⁸ Complete bicycle wheels are currently classified under HTS subheading 8714.99.60.

The proposed provision would attempt to make the article description more consistent with those of other tariff provisions, and would avoid the need to decide if a particular part is a “rear” on. We would note that the new provision would cover the complete assembly or an unassembled or disassembled “kit.” Further, contrary to the information provided by the sponsor’s staff (as noted above), the bill does not provide for retroactive duty refunds, upon importer request; if such treatment is desired, a separate subsection to that effect could be added.

Consideration of international obligations:

As drafted, the bill’s addition of a six-digit subheading in the tariff schedule would be contrary to U.S. obligations under the HS Convention, as noted above.

APPENDIX A

TARIFF AND TRADE AGREEMENT TERMS

In the **Harmonized Tariff Schedule of the United States** (HTS), chapters 1 through 97 cover all goods in trade and incorporate in the tariff nomenclature the internationally adopted Harmonized Commodity Description and Coding System through the 6-digit level of product description. Subordinate 8-digit product subdivisions, either enacted by Congress or proclaimed by the President, allow more narrowly applicable duty rates; 10-digit administrative statistical reporting numbers provide data of national interest. Chapters 98 and 99 contain special U.S. classifications and temporary rate provisions, respectively. The HTS replaced the **Tariff Schedules of the United States** (TSUS) effective January 1, 1989.

Duty rates in the **general** subcolumn of HTS column 1 are most-favored-nation (MFN) rates, many of which have been eliminated or are being reduced as concessions resulting from the Uruguay Round of Multilateral Trade Negotiations. Column 1-general duty rates apply to all countries except those enumerated in HTS general note 3(b) (Afghanistan, Cuba, Laos, North Korea, and Vietnam), which are subject to the statutory rates set forth in **column 2**. Specified goods from designated MFN-eligible countries may be eligible for reduced rates of duty or for duty-free entry under one or more preferential tariff programs. Such tariff treatment is set forth in the **special** subcolumn of HTS rate of duty column 1 or in the general notes. If eligibility for special tariff rates is not claimed or established, goods are dutiable at column 1-general rates. The HTS does not enumerate those countries as to which a total or partial embargo has been declared.

The **Generalized System of Preferences** (GSP) affords nonreciprocal tariff preferences to developing countries to aid their economic development and to diversify and expand their production and exports. The U.S. GSP, enacted in title V of the Trade Act of 1974 for 10 years and extended several times thereafter, applies to merchandise imported on or after January 1, 1976 and before the close of June 30, 1998. Indicated by the symbol "A", "A*", or "A+" in the special subcolumn, the GSP provides duty-free entry to eligible articles the product of and imported directly from designated beneficiary developing countries, as set forth in general note 4 to the HTS.

The **Caribbean Basin Economic Recovery Act** (CBERA) affords nonreciprocal tariff preferences to developing countries in the Caribbean Basin area to aid their economic development and to diversify and expand their production and exports. The CBERA, enacted in title II of Public Law 98-67, implemented by Presidential Proclamation 5133 of November 30, 1983, and amended by the Customs and Trade Act of 1990, applies to merchandise entered, or withdrawn from warehouse for consumption, on or after January 1, 1984. Indicated by the symbol "E" or "E*" in the special subcolumn, the CBERA provides duty-free entry to eligible articles, and reduced-duty treatment to certain other articles, which are the product of and imported directly from designated countries, as set forth in general note 7 to the HTS.

Free rates of duty in the special subcolumn followed by the symbol "IL" are applicable to products of Israel under the **United States-Israel Free Trade Area Implementation Act** of 1985 (IFTA), as provided in general note 8 to the HTS.

Preferential nonreciprocal duty-free or reduced-duty treatment in the special subcolumn followed by the symbol "J" or "J*" in parentheses is afforded to eligible articles the product of designated beneficiary countries under the **Andean Trade Preference Act** (ATPA), enacted as title II of Public Law 102-182 and implemented by Presidential Proclamation 6455 of July 2, 1992 (effective July 22, 1992), as set forth in general note 11 to the HTS.

Preferential or free rates of duty in the special subcolumn followed by the symbol "CA" are applicable to eligible goods of Canada, and rates followed by the symbol "MX" are applicable to eligible goods of Mexico, under the **North American Free Trade Agreement**, as provided in general note 12 to the HTS and implemented effective January 1, 1994 by Presidential Proclamation 6641 of December 15, 1993. Goods must originate in the NAFTA region under rules set forth in general note 12(t) and meet other requirements of the note and applicable regulations.

Other special tariff treatment applies to particular **products of insular possessions** (general note 3(a)(iv)), **products of the West Bank and Gaza Strip** (general note 3(a)(v)), goods covered by the **Automotive Products Trade Act** (APTA) (general note 5) and the **Agreement on Trade in Civil Aircraft** (ATCA) (general note 6), **articles imported from freely associated states** (general note 10), **pharmaceutical products** (general note 13), and **intermediate chemicals for dyes** (general note 14).

The **General Agreement on Tariffs and Trade 1994** (GATT 1994), pursuant to the Agreement Establishing the World Trade Organization, is based upon the earlier GATT 1947 (61 Stat. (pt. 5) A58; 8 UST (pt. 2) 1786) as the primary multilateral system of disciplines and principles governing international trade. Signatories' obligations under both the 1994 and 1947 agreements focus upon most-favored-nation treatment, the maintenance of scheduled concession rates of duty, and national treatment for imported products; the GATT also provides the legal framework for customs valuation standards, "escape clause" (emergency) actions, antidumping and countervailing duties, dispute settlement, and other measures. The results of the Uruguay Round of multilateral tariff negotiations are set forth by way of separate schedules of concessions for each participating contracting party, with the U.S. schedule designated as Schedule XX.

Pursuant to the **Agreement on Textiles and Clothing** (ATC) of the GATT 1994, member countries are phasing out restrictions on imports under the prior "Arrangement Regarding International Trade in Textiles" (known as the **Multifiber Arrangement** (MFA)). Under the MFA, which was a departure from GATT 1947 provisions, importing and exporting countries negotiated bilateral agreements limiting textile and apparel shipments, and importing countries could take unilateral action in the absence or violation of an agreement. Quantitative limits had been established on imported textiles and apparel of cotton, other vegetable fibers, wool, man-made fibers or silk blends in an effort to prevent or limit market disruption in the importing countries. The ATC establishes notification and safeguard procedures, along with other rules concerning the customs treatment of textile and apparel shipments, and calls for the eventual complete integration of this sector into the GATT 1994 over a ten-year period, or by Jan. 1, 2005.

Rev. 8/12/97

APPENDIX B

**SELECTED PORTIONS OF THE
HARMONIZED TARIFF SCHEDULE OF THE UNITED STATES**

(Appendix not included in the electronic version of this report.)

APPENDIX C

OTHER ATTACHMENTS

(Appendix not included in the electronic version of this report.)

105TH CONGRESS
1ST SESSION

H. R. 2899

To amend the Harmonized Tariff Schedule of the United States to provide for reduced duty treatment for certain fully assembled bicycle wheels.

IN THE HOUSE OF REPRESENTATIVES

NOVEMBER 7, 1997

Mr. MALONEY of Connecticut (for himself and Mr. SHAYS) introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Harmonized Tariff Schedule of the United States to provide for reduced duty treatment for certain fully assembled bicycle wheels.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. DUTY TREATMENT OF FULLY ASSEMBLED BI-**
4 **CYCLE WHEELS.**

5 (a) IN GENERAL.—Chapter 87 of the Harmonized
6 Tariff Schedule of the United States is amended by insert-
7 ing in numerical sequence the following new subheading,
8 with the article description for subheading 8714.97.00

1 having the same degree of indentation as the article de-
 2 scription for subheading 8714.99:

“	8714.97.00	Bicycle wheel assemblies consisting of rim, carbon-fiber spokes, and hub flange assembled in 1 piece, or the above plus a rear freewheel/free hub	1.5%	Free (A, CA, E, IL, J, MX)	30%	”.
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3 (b) **EFFECTIVE DATE.**—The amendment made by
 4 this section applies to goods entered, or withdrawn from
 5 warehouse for consumption, on or after the 15th day after
 6 the date of the enactment of this Act.

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