

April 16, 1998

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, DC 20436

MEMORANDUM TO THE COMMITTEE ON FINANCE OF THE UNITED STATES
SENATE ON PROPOSED TARIFF LEGISLATION¹

Bill No., sponsor, and sponsor's state: S. 1288 (105th Congress), Senator Torricelli (NJ).

Companion bill: None.²

Title as introduced:

To amend the Harmonized Tariff Schedule of the United States to provide duty-free treatment for certain in-line skates.

Summary of bill:³

The bill amends the Harmonized Tariff Schedule of the United States by providing duty-free treatment to imports of sports footwear with textile uppers classifiable under *HTS* subheading 6404.11.90, including skating boots for use in the manufacture of in-line skates. The 1998 column 1 duty rate for such footwear is 20 percent ad valorem.

Effective date: 15th day after enactment

Retroactive effect: None

Statement of purpose:

No formal statement concerning the bill was published in the *Congressional Record* by the sponsor at the time the bill was introduced. Staff in the sponsor's office stated that the bill was introduced on

¹ Industry analyst : Sundar A. Shetty (205-3486); attorney: Leo Webb (205-2599).

² S. 1101 (105th Congress), introduced by Senator Jeffords (VT) and Senator Leahy (VT), would amend the *Harmonized Tariff Schedule of the United States* by creating a new subheading 6404.11.10 specifically for ski-boots, cross-country ski footwear, and snowboard boots with outsoles of rubber or plastics and textile uppers, and applying the same duty rates as those for ski footwear with leather uppers. Currently, ski boots and snowboard boots with textile uppers are dutiable under subheading 6404.11.90 at 20% ad valorem. The ski footwear with leather uppers are dutiable under subheading 6403.12.60 at 2 percent.

³ See appendix A for definitions of tariff and trade agreement terms.

behalf of V-Formation, Inc., Lincoln Park, NJ.⁴ Staff further stated that the purpose of the bill is to correct the unfair tariff treatment borne by U.S. producers of in-line skates, who must import the skating boots with textile uppers for use in the production of in-line skates because the boots themselves are not produced in the United States. The duty for these boots is 20 percent ad valorem. By contrast, imports of such boots with skates attached enter free of duty under *HTS* subheading 9506.70, thereby giving importers of that product a competitive advantage over U.S. producers of in-line skates.

Product description and uses:

Sports footwear: The products covered by the bill include all sports footwear. Made with textile uppers and outer soles of rubber or plastics, valued over \$12 a pair, they include skating boots for use in the production of in-line skates, ski boots and snowboard boots, and other athletic footwear such as tennis shoes, basketball shoes, gym shoes, and training shoes. Related products that are not covered by the bill include completely assembled skates, such as in-line, ice, or roller skates, which enter duty-free under *HTS* subheading 9506.70.

Tariff treatment:⁵

<u>Product</u>	<u>HTS subheading</u>	<u>Col. 1-general rate of duty</u>
Sports footwear.....	6404.11.90	20% ad val.

Structure of domestic industry (including competing products):

Sports footwear: Sports footwear covered by the bill are mostly produced in establishments classified in industry SIC 3021, Rubber and Plastics Footwear. The rubber and plastics footwear industry consists of approximately 40 to 50 establishments employing about 6,800 people. These establishments produce primarily fabric upper footwear having rubber or plastics soles vulcanized, injection molded, or cemented to fabric uppers, and rubber and plastics protective footwear. Imports represent about 80 percent of the U.S. rubber footwear market. Most products manufactured in this industry are casual, jogging or athletic-type shoes and are used primarily for athletic

⁴ Mr. Michael Merola, legislative assistant, telephone interview with USITC staff, March 17, 1998. During the interview, Mr. Merola indicated that contrary to the intention of the sponsor to limit duty benefits to skating boots with textile uppers used in-line skates, the bill as introduced (S. 1288) covers a broad range of sports footwear with textile uppers. He said that a new bill will be introduced in the Congress that would replace S. 1288 and cover only skating boots with textile uppers.

⁵ See appendix B for column 1-special and column 2 duty rates.

events or leisure activities. Production and imports of skating boots with textile uppers is believed to be negligible.⁶

⁶ Theodore Ellenis, Executive Vice President, V-Formation, Inc., Lincoln Park, NJ, telephone interview with USITC staff, March 18, 1998.

Competing products: The articles covered by the bill compete with sports footwear having leather or vinyl uppers, which are produced in establishments classified in industry SIC 314, Footwear, Except Rubber. The competing imports are classifiable under various subheadings of the *HTS* heading 6402, other footwear with outer soles and uppers of rubber or plastics, and heading 6403, footwear with outer soles of rubber, plastics, leather or composition leather and uppers of leather.

Private sector views:

Richard Kaplan of the law firm of Lamb & Lerch, New York, representing a number of U.S. footwear producers and Mitchell Cooper of the Rubber and Plastics Footwear Manufacturers Association, Washington, DC, were contacted by the Commission for their views on this legislation.⁷ The Commission also contacted V-Formation, Inc., on whose behalf the bill reportedly was introduced, and the only firm known to import skating boots.⁸ No written comments had been received as of the date of preparation of this report.

U.S. consumption:

Sports footwear:	<u>1995</u>	<u>1996</u>	<u>1997</u>
	------(Million dollars)-----		
U.S. production ¹	150	158	145
U.S. imports.....	299	449	623
U.S. exports ¹	34	25	31
Apparent U.S. consumption	415	582	737

¹Estimated by USITC staff.

Principal import sources: China, Indonesia, Thailand, and Korea
 Principal export markets: Japan, South Africa, Mexico, and Panama

⁷ Telephone interview with USITC staff, March 11 & 17, 1998.

⁸ Theodore Ellenis, Executive Vice President, V-Formation, Inc., Lincoln Park, NJ, telephone interview with USITC staff, March 18, 1998.

Effect on customs revenue:⁹

Future (1998-2000) effect:

<u>Product</u>	Estimated Average Annual <u>Revenue Loss</u>		
	<u>1998</u>	<u>1999</u>	<u>2000</u>
	------(Million dollars)-----		
Sports footwear.....	130	140	150

Retroactive effect: None

Technical comments:

The title of the bill describes the proposed duty-free treatment as being intended for certain in-line skates. However, the bill as introduced would strike out the 20% duty and insert "Free" for all sports footwear classifiable under *HTS* subheading 6404.11.90, which covers a wide range of sport footwear besides skating boots used in the manufacture of in-line skates.

⁹ The revenue loss/gain calculation presented in this section does not account for the effect that reduction of duty rates resulting from the proposed legislation might have on the volume of sales and prices of the goods covered.

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.)

105TH CONGRESS
1ST SESSION

S. 1288

To amend the Harmonized Tariff Schedule of the United States to provide duty-free treatment for certain in-line skates.

IN THE SENATE OF THE UNITED STATES

OCTOBER 9, 1997

Mr. TORRICELLI (for himself and Mr. LAUTENBERG) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Harmonized Tariff Schedule of the United States to provide duty-free treatment for certain in-line skates.

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-FREE TREATMENT FOR IN-LINE SKATES.**

4 (a) IN GENERAL.—Subheading 6404.11.90 of the
5 Harmonized Tariff Schedule of the United States is
6 amended by striking “20%” and inserting “Free”.

7 (b) EFFECTIVE DATE.—The amendment made by
8 this section shall apply to goods entered, or withdrawn

- 1 from warehouse for consumption, on or after the date that
- 2 is 15 days after the date of enactment of this Act.

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