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 LEGISLATION[1]

Bill no., sponsor, and sponsor's state: S. 1289 (105th Congress), Senator Allard (CO).

Companion bill: H.R. 2336 (105th Congress), Representative Hefley (CO).

Title as introduced: To temporarily decrease the duty on certain industrial nylon fabrics.

Summary of bill:[2]

The bill would reduce the column 1-general rate of duty on industrial nylon fabrics used in making industrial and automotive power transmission and timing belts, if entered on or before December 31, 2000. The 1998 duty rate of 15.6 percent ad valorem would be reduced to 6.7 percent ad valorem.

Effective date: The 15th day after enactment.

Retroactive effect: None.

Statement of purpose:

Senator Allard, sponsor of the legislation, stated:

> I am introducing this legislation to lessen a financial burden on American companies. I am pleased that my colleague from Colorado, Senator Campbell is joining me as an original cosponsor. For approximately 20 years, various U.S. manufacturers have been paying substantial tariffs on a product that is not produced in this country... .My legislation would significantly reduce the tariff on this particular product from 16 to 6.7 percent. This product is an industrial nylon fabric used in the manufacture of automotive timing belts. United States companies that use this product in their manufacturing processes have no choice but to import it since it has not been produced domestically since the mid-1970s. There is no domestic industry to harm by lowering this tariff, consumers will clearly benefit, and many domestic industries will benefit by becoming more competitive.[3]

[1] Industry analyst: Laura Rodriguez-Archila (205-3499); attorney: Jan Summers (205-2605).

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

[3] *Congressional Record*, October 9, 1997, p. S10797.

Product description and uses:

Industrial nylon fabrics: The woven fabrics covered by the bill are used in making industrial and automotive power transmission and timing belts. The specialized process used to manufacture the fabrics gives them unique properties. These fabrics are woven with two nylon-based filament yarns, one with exceptionally high unidirectional elasticity, the other without elasticity. The resulting fabrics, which trade sources report weigh more than 170 g/m^2 (and are therefore classified in HTS subheading 5407.41.00), conform easily around the rubber teeth of timing and transmission V-belts, function as a reinforcing backbone for the belts, and enhance the belts' durability. The elasticity of the fabrics also increases the belts' heat resistance so they can withstand the substantial temperature fluctuations that occur under automotive hoods.

The fabrics are sold to power transmission and timing belt manufacturers in rolls averaging 40-43 inches in width and varying in length according to specifications. The belt manufacturers claim that the unique elasticity of the fabrics also facilitates the adhesion of polymers that occurs during the elaborate finishing process they conduct to prepare the fabric for belt production. No suitable substitutes or competing products are believed to exist.

Tariff treatment:[4]

Product	HTS subheading	Col. 1-general rate of duty
Woven fabrics of synthetic filament yarn, including woven fabrics obtained from materials of heading 5404, containing 85 percent or more by weight of filaments of nylon or other polyamides, unbleached or bleached............................	5407.41.00	15.6% ad valorem

Structure of domestic industry (including competing products):

Industrial nylon fabrics: The subject fabrics have not been produced in the United States for at least 15 years, according to importers and a previous U.S. manufacturer of the fabrics.

[4] See appendix B for column 1-special and column 2 duty rates.

However, a large U.S. manufacturer of textile mill products reportedly expects to begin commercial production of the fabrics in 1998.

The U.S. firm that manufactured the fabrics in the past states that it has retained the expertise and equipment required for production. It asserts that manufacturing of the fabrics in question could begin within three months of an approved purchase order, if prospective U.S. buyers were willing to make purchase commitments. The firm claims that it ceased production 15 years ago primarily because it could not compete on price with fabrics imported from the United Kingdom, given the substantially lower value of the British pound against the U.S. dollar at that time. Losing its major customers to British competition, the volume of the U.S. manufacturer's business shrank to 10 percent of previous levels, thereby making continued production unprofitable.

Because of the inconvenience and costs associated with buying the fabric solely from overseas suppliers, in 1997 five or six U.S. buyers of the fabric asked a large U.S. textile manufacturer to produce the fabric. Plans were initiated and production reportedly will begin in 1998 after the textile manufacturer has evaluated customer feedback on fabric samples. Claiming that it expects to have a competitive advantage over imported goods by offering a package that includes both manufacturing and finishing of the fabrics, the U.S. manufacturer estimates the U.S. market for the fabric to be about $4 million annually. U.S. automotive manufacturers' preference for chains over timing belts continues to limit the size of the market for these fabrics in the United States. In Europe where timing belts are more commonly used in automobiles, the market is larger, estimated at about $10 million annually. The U.S. manufacturer states that it also plans to export its industrial nylon fabrics.

Private-sector views:

From January 26 to February 9, 1998, the Commission contacted four textile trade associations, two manufacturers, and six importers.[5] Two associations, one importer, and one manufacturer submitted comments on the bill, which are attached in appendix C. The other organizations contacted had not submitted written comments as of the date of the preparation of this report.

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[5] Marcia Rounsaville, Government Affairs, Industrial Fabrics Association International, Washington, DC;. Duncan Christake, Itochu International Inc., New York, NY; Doug Acker, Habasit Belting, Inc., Chamblee, GA; Diane Blamer, Second Chance Body Armour, Central Lake, MI; Dan Virtue, Engineer, Industrial Timing Belt Development, Dayco, Dayton, OH; Laura Jones, USA-ITA, New York, NY; Paul Schaurer; Gates Rubber Co., Denver, CO; Tom Hogan, Engineer, and Peter Thornton, President, Stern & Stern Industries, New York, NY; Isabel Jasinowski, VP, Government Relations, Goodyear Tire, Washington, DC; Luther Anderson, Specialty Industrial Business and Kathi Dutilh, Government Affairs, Milliken & Co., LaGrange, GA, and Washington, DC; and Paul T. O'Day, President, American Fiber Manufacturers Association, Washington, DC.

U.S. consumption:

Industrial nylon fabrics:	1994	1995	1996
	------------- (Million dollars)-------------		
U.S. production........................	0	0	0
U.S. imports............................	([1])	([1])	([1])
U.S. exports............................	0	0	0
Apparent U.S. consumption.....	([1])	([1])	([1])

[1]Before 1998, imports supplied all of the domestic market, but separate import data are not available on industrial nylon fabric used in making automotive and industrial power transmission and timing belts. According to the U.S. textile manufacturer that expects to begin commercial production of the fabric in 1998, the size of the domestic market for the fabric is an estimated $4 million a year.

Principal import sources: United Kingdom, Canada, and Japan, in order of importance
Principal export markets: None.

Effect on customs revenue:[6]

Future (1998-2000) effect: The effect of the proposed duty suspension would be limited in part by staged reductions in the general duty rates scheduled under the Uruguay Round GATT concessions, and the 1998 figure is an estimate covering the full year. Based on 1996 dutiable imports of $4.7 million and MFN rates of 15.6% for 1998; 15.3% for 1999; and 15.0% for 2000,[7] the estimated annual loss of customs revenues would be as follows:

Product	Estimated average annual revenue loss		
	1998	1999	2000
	---(thousand dollars)--		
Industrial nylon fabrics	416	402	388

Retroactive effect: None.

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

[7] Canadian imports, which all entered free of duty under the NAFTA, amounted to an additional $3 million in 1996.

Technical comments:

Although the length of the proposed article description suggests an effort to craft a narrow duty suspension, Customs officials have indicated that the term "suitable for" would likely make the provision difficult to administer.[8] Imports under HTS subheading 5407.41.00 of industrial nylon fabric "suitable for" but not specifically used to manufacture automotive and industrial transmission and timing belts, such as nylon fabrics used to manufacture bulletproof vests, would also be eligible for the proposed duty reduction. Moreover, as drafted the provision would cover fabric of any weight, despite indications by the importers that the particular woven fabric for timing belts weighs more than 170 grams per square meter. It is therefore sugggested that "weighing more than 170 g/m^2" be inserted immediately after "Woven fabric" (before the first comma). If the provision is still considered too broad, in that it would apply to fabrics suitable for making goods other than timing belts, the words "suitable for making industrial and automotive power transmission and timing belts..." could be replaced by the expression "certified by the importer as intended for making industrial and automotive power transmission and timing belts"; we defer to Customs on the administrability of such language.

We note that the description as drafted would cover fabrics containing 75 percent or more by weight of the named filaments, rather than the 85 percent specified by subheading 5407.41.00. Unless this is a typographical error--and if so, it should be corrected--one or more additional HTS provisions may need to be added to the chapter 99 provision, so that the fabric containing from 75 percent to 85 percent of the named filaments could be covered by the duty reduction.

[8] Alan Tytelman and George Barth, National Import Specialists, U.S. Customs Service, conversations with USITC staff, January 26 and February 6, 1998.

APPENDIX A

TARIFF AND TRADE AGREEMENT TERMS

In the **<u>Harmonized Tariff Schedule of the United States</u>** (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 <u>Tariff Schedules of the United States</u> (TSUS) effective January 1, 1989.

Duty rates in the **<u>general</u>** 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 **<u>column 2</u>**. 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 **<u>special</u>** 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 **<u>Generalized System of Preferences</u>** (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 **<u>Caribbean Basin Economic Recovery Act</u>** (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 **<u>United States-Israel Free Trade Area Implementation Act</u>** 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 **<u>Andean Trade Preference Act</u>** (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 **<u>North American Free Trade Agreement</u>**, 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

S. 1289

To temporarily decrease the duty on certain industrial nylon fabrics.

IN THE SENATE OF THE UNITED STATES

OCTOBER 9, 1997

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

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A BILL

To temporarily decrease the duty on certain industrial nylon fabrics.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. CERTAIN INDUSTRIAL NYLON FABRICS.

(a) IN GENERAL.—Subchapter II of chapter 99 of the Harmonized Tariff Schedule of the United States is amended by inserting in numerical sequence the following new subheading:

"	9902.54.07	Woven fabric, suitable for making industrial and automotive power transmission and timing belts, containing 75% or more, by weight, of filaments of polyamides or aromatic polyamides, scoured and heat set and of any weight and having warp or fill stretch properties greater than 75% at break (provided for in subheading 5407.41.00)	6.7%	No change	No change	On or before 12/31/00	".

(b) EFFECTIVE DATE.—The amendment made by this section applies to articles entered, or withdrawn from warehouse for consumption, on or after the 15th day after the date of the enactment of this Act.

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