

June 10, 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. 3323 (105th Congress), Representative Gutknecht (MN).²

Companion bill: None.

Title as introduced: To amend the Harmonized Tariff Schedule of the United States to provide for duty-free treatment of oxidized polyacrylonitrile fibers.

Summary of bill:³

The bill would amend the Harmonized Tariff Schedule of the United States (HTS) to provide duty-free treatment to oxidized polyacrylonitrile fiber tow.⁴

Effective date: The 15th day after enactment.

Retroactive effect: None.

Statement of purpose:

The sponsor did not make a statement about the bill in the *Congressional Record*. A member of his staff stated that the purpose of the bill is to eliminate the duty on fibers used in the production of fabric for aircraft brake linings.⁵ He said that this change would allow the single U.S. firm producing the fabric, which uses all of its fabric output to produce the aircraft brake linings, to be competitive with other U.S. producers of the linings. Without the duty elimination, an official of the firm stated that it would need to purchase the fabric from European manufacturers (as do all other U.S. producers of the linings, thus reducing U.S. jobs).⁶

¹ Industry analyst: Mary Elizabeth Sweet (205-3455); attorney: Jan Summers (205-2605).

² This bill is slightly broader in scope than the sponsor's previously introduced bill, H.R. 1973, 105th Congress, which would suspend the duty on such fibers "for use in the production of aircraft brake components."

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

⁴ Tow is a large strand of continuous manmade fiber filaments without twist that are collected in loose, rope-like form.

⁵ John Boling, telephone conversation with USITC staff, Apr. 23, 1998.

⁶ Jennifer Heth, Fiberite, Winona, MN, telephone conversation with USITC staff, Apr. 28, 1998.

Product description and uses:

Oxidized polyacrylonitrile tow: The product covered by the bill is oxidized acrylic tow, a primary use of which is to produce fabric for use in aircraft brake linings. The tow, once formed, is heated to the appropriate temperature to convert it to filaments that are at least 90 percent oxidized. The oxidized tow is purchased by firms that break it into short fibers, which are then either spun into yarn used to make woven fabric or used to make a nonwoven fabric. The woven fabric is cut to the desired shape, and several layers are laminated into “preforms” to make the final brake linings.

Fiberite, Winona, MN, is the only U.S. firm that weaves the fabric to make the aircraft brake linings. Other U.S. firms making the brake linings purchase fabric from European sources.

Because safety is an important consideration with respect to aircraft brakes, the brakes must be made of materials that fit very precise specifications dictated by the aircraft producer. To qualify for approval, a supplier of the brake linings generally must complete comprehensive testing that takes from one-and-a-half to two years and can cost as much as \$2 million.⁷

Tariff treatment:⁸

<u>Product</u>	<u>HTS subheading</u>	Col. 1-general <u>rate of duty</u>
Acrylic or modacrylic filament tow.....	5501.30.00	9% ⁹

Structure of domestic industry (including competing products):

Oxidized acrylic tow: Only two firms in the United States are known to make oxidized acrylic tow; consequently, production data are considered confidential business information.¹⁰ The tow produced by one of these firms has not been qualified for use in aircraft brake linings. Domestic production of the subject oxidized acrylic tow is believed to be quite small compared with total production of acrylic fibers.¹¹

⁷Memorandum from Jennifer Heth, Fiberite, to Jon Peterson, sponsor’s staff member, May 12, 1997.

⁸See appendix B for column 1-special and column 2 duty rates.

⁹This rate of duty is being reduced in stages to a final scheduled rate of 7.5% in 2004 and thereafter.

¹⁰These are Solutia, Inc., St. Louis, MO, and Sterling, W. Paterson, NJ.

¹¹U.S. producers’ shipments of acrylic staple fibers (cut lengths from man-made filaments) and tow were 289 million pounds in 1996 and 289 million pounds in 1997. *Fiber Organon*, Fiber Economics Bureau, Washington, DC, March 1998, p. 43.

Competing product: One U.S. firm makes carbonizable rayon tow.¹² Although this is not used to produce fabrics for use in aircraft brakes, it competes with oxidized acrylic tow in certain programs of the Department of Defense and the space shuttle.

Private-sector views: The Commission contacted the U.S. firm that uses the subject fiber to produce fabric used in aircraft brake linings and the trade association representing U.S. producers of man-made fibers.¹³ Four companies and the trade association submitted comments on this bill (see appendix C).

U.S. consumption:

Oxidized polyacrylonitrile tow:	<u>1995</u>	<u>1996</u>	<u>1997</u>
	-----(\$1,000)-----		
U.S. production.....	(1)	(1)	(1)
U.S. imports (2).....	570	570	570
U.S. exports.....	(1)	(1)	(1)
Apparent U.S. consumption.....	(1)	(1)	(1)

(1) Not available.

(2) Import data are estimated by the only known importer of the subject tow.

Principal import sources: United Kingdom.

Principal export markets: None.

Effect on customs revenue:¹⁴

Future (1998-2001) effect: Customs revenue loss of \$171,000 (based on 6 months of duty suspension during 1998).

Annual imports.....	\$570,000
1998 rate of duty.....	9% ad valorem
1998 revenue loss.....	\$51,300 (or \$4,275 per month)
1999 rate of duty.....	8.8% ad valorem
1999 revenue loss.....	\$50,160
2000 rate of duty.....	8.5% ad valorem

¹²North American Corp., Elizabethton, TN.

¹³Jennifer Heth, Fiberite, telephone conversation with USITC staff, Apr. 28, 1998, and Paul O'Day, president, American Fiber Manufacturers Association, telephone conversation with USITC staff, Apr. 28 and May 4, 1998.

¹⁴Actual revenue loss may be understated if a significant increase in imports occurs during the duty suspension period.

2000 revenue loss..... \$48,450

2001 rate of duty..... 8.2% ad valorem

2001 revenue loss..... \$46,740

Retroactive effect: None.

Technical comments: None.

Consideration of international obligations: None.

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
2D SESSION

H. R. 3323

To amend the Harmonized Tariff Schedule of the United States to provide for duty-free treatment of oxidized polyacrylonitrile fibers.

IN THE HOUSE OF REPRESENTATIVES

MARCH 4, 1998

Mr. GUTKNECHT 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 duty-free treatment of oxidized polyacrylonitrile fibers.

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 CERTAIN FIBERS.**

4 (a) IN GENERAL.—Chapter 55 of the Harmonized
5 Tariff Schedule of the United States is amended by strik-
6 ing subheading 5501.30.00 and inserting the following
7 new subheadings, with the article description for sub-
8 heading 5501.30 having the same degree of indentation
9 as the article description for subheading 5501.20.00:

5501.30	Acrylic or modacrylic:	Free	Free (CA, IL,	45%	"
5501.30.10	Oxidized polyacrylonitrile fibers	9.2%	MX)	45%	"
5501.30.20	Other				

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

5 (c) STAGED RATE REDUCTION.—Any staged rate re-
6 duction that was proclaimed by the President before the
7 date of the enactment of this Act to take effect on or after
8 the date of the enactment of this Act of a rate of duty
9 set forth in subheading 5501.30.00 of the Harmonized
10 Tariff Schedule of the United States shall apply to the
11 corresponding rate of duty in subheading 5501.30.20 of
12 such Schedule (as added by subsection (a)).

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