

UNITED STATES INTERNATIONAL TRADE COMMISSION

**APPAREL INPUTS IN “SHORT SUPPLY”: MEN’S SUITS AND SUIT JACKETS OF
CERTAIN WORSTED WOOL FABRICS**

Investigation No. 332-436-005

September 2002



Apparel Inputs in “Short Supply” (2002): Effect of Providing Preferential Treatment to Apparel Imported from Sub-Saharan African and Caribbean Basin Countries

U.S. International Trade Commission Investigation No. 332-436-005

Products	Men’s suits and suit jackets of certain worsted wool fabrics
Requesting Party	Oxford Industries, Inc., Atlanta, GA
Date of Commission Report: USTR Public	September 9, 2002 September 2002
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NOTICE

THIS REPORT IS A PUBLIC VERSION OF THE REPORT SUBMITTED TO USTR ON SEPTEMBER 9, 2002. ALL CONFIDENTIAL INFORMATION HAS BEEN REMOVED AND REPLACED WITH ASTERISKS (***)

Summary of Findings

The Commission’s analysis shows that granting duty-free and quota-free treatment to men’s suits and suit jackets made in eligible Caribbean Basin countries from certain worsted wool fabrics, regardless of the source of the fabrics, likely would have some adverse effect on U.S. producers of the fabrics, and their workers. The proposed trade preferences likely would have a negligible effect on U.S. producers of yarn used in the manufacture of the fabrics, but it likely would benefit U.S. firms making the garments in the Caribbean Basin, their U.S.-based workers, and U.S. consumers.

Background

On January 17, 2002, following receipt of a request from the United States Trade Representative (USTR), the Commission instituted investigation No. 332-436, *Apparel Inputs in “Short Supply” (2002): Effect of Providing Preferential Treatment to Apparel Imported from Sub-Saharan African and Caribbean Basin Countries*, under section 332(g) of the Tariff Act of 1930 (19 U.S.C. 1332(g)) to provide advice during 2002 in connection with petitions filed by interested parties under the “short supply” provisions of the African Growth and Opportunity Act (AGOA) and the United States-Caribbean Basin Trade Partnership Act (CBTPA).¹

The Commission’s advice in this report concerns a petition received by the Committee for the Implementation of Textile Agreements (CITA) on July 19, 2002, alleging that certain worsted wool fabrics cannot be supplied by the domestic industry in commercial quantities in a timely manner and requesting that the President proclaim preferential treatment for certain men’s apparel made in eligible CBTPA countries from these fabrics. The President is required to submit a report to the House Committee on Ways and Means and the Senate Committee on Finance that sets forth the action proposed to be

¹ For more information on the investigation, see the Commission’s notice of investigation published in the *Federal Register* on January 25, 2002 (67 F.R. 3733), and its website at www.usitc.gov/332s/shortsup/shortsupintro.htm.

proclaimed, the reasons for such action, and the advice obtained from the Commission and the appropriate advisory committee within 60 days after a request is received from an interested party.²

Brief discussion of the product

The fabrics named in the petition are classified in subheading 5112.19.95 of the Harmonized Tariff Schedule of the United States (HTS), a residual or “basket” provision for woven fabrics of combed wool or fine animal hair, containing 85 percent or more by weight of wool or fine animal hair, weighing more than 200 grams per square meter, and of yarns having an average fiber diameter greater than 18.5 microns (the higher the fiber diameter number, the coarser, or thicker, the fiber). The 2002 general rate of duty on such “coarse-micron” fabrics is 27.2 percent ad valorem.³ The fabrics are for use in the production of men’s suits and suit-type jackets for suits, dutiable in 2002 under subheading 6203.11.90 at 10.6 cents per kilogram plus 18.2 percent ad valorem (ad valorem equivalent of 18.9 percent), and subheading 6203.31.90 at 18.4 percent ad valorem, respectively.⁴ In addition to tariffs, quotas apply to imports of such garments made in several CBTPA beneficiary countries.⁵

The petition filed by Oxford Industries states that the fabrics are for use in the manufacture of men’s suits and “suit separates,” in which the suit jacket and pants are displayed and priced separately at retail, but are made from identical fabric and are intended to be worn as a suit.⁶ In order for the finished articles to match up as a suit, the fabric used must be made with a high degree of color consistency, because there is no way to ensure that the jacket and pants will be cut from the same roll of fabric or even in the same plant. The petition states that “the only way to achieve such [color] consistency in the manufacture of wool fabrics is through the dyeing of the wool in the fiber stage (known as stock- or top-dyeing).”⁷ The petition further states that, following recent actions by Burlington Industries to reduce its U.S. production base for apparel fabrics, “top-dyed 100% worsted wool woven fabrics are not available in the domestic market in commercial quantities” (see below for more information on Burlington).

The subject top-dyed fabrics are made wholly of combed wool that is processed into yarns on the worsted system and, hence, are known as worsted wool fabrics. The production of such fabrics can be divided into three broad stages: (1) preparing the fibers for spinning, (2) spinning the fibers into yarns, and (3) weaving the yarns into fabrics. In the first stage, the fibers undergo (a) scouring to remove impurities from the fibers; (b) carding to disentangle the fibers, yielding wool in the form of a loose, untwisted, rope-like “sliver;” and (c) combing to remove the shorter fibers and further align the longer ones, producing a

² In Executive Order No. 13191, the President delegated to CITA the authority to determine whether particular fabrics or yarns cannot be supplied by the domestic industry in commercial quantities in a timely manner. He authorized CITA and USTR to submit the required report to the Congress.

³ The Trade and Development Act of 2000, as amended by the Trade Act of 2002, created tariff-rate quotas (TRQs) for the purpose of reducing import tariffs on worsted wool fabrics for use in men’s and boys’ tailored clothing for 5 years through 2005. Under the TRQ that includes the subject fabrics, the tariff rate for 2002 is 18.4 percent ad valorem on the first 3.5 million square meter equivalents and 27.2 percent ad valorem on imports over that amount. For more information, see U.S. International Trade Commission, *Certain Wool Articles: First Annual Report on U.S. Market Conditions* (investigation No. 332-427), publication 3454, Sept. 2001, and *Certain Wool Articles: Second Annual Report on U.S. Market Conditions* (investigation No. 332-427), (scheduled for publication in Sept. 2002); and HTS subchapter II of chapter 99.

⁴ The suit-type jackets are imported as parts of suits that do not meet the requirements for tariff classification as suits (e.g., the outer shells of the jackets do not contain the required four or more panels). The petition does not cover certain sets of garments classified as suits—namely, morning dress, evening dress, and dinner jacket suits.

⁵ The designated CBTPA beneficiary countries subject to U.S. quotas on men’s and boys’ wool suits are Costa Rica, the Dominican Republic, and Guatemala, which filled 44, 90, and 93 percent of their respective quotas for 2001. These countries are eligible to ship such suits under preferential quotas (guaranteed access levels), provided the suits are made from fabric formed and cut in the United States.

⁶ In its 2001 annual report, Oxford Industries said it has manufacturing and sourcing operations in over 40 countries. The firm markets a wide range of apparel, including Nautica® and Oscar de la Renta® suits. It recently signed a licensing agreement with Levi Strauss & Co. to market a Slates line of tailored clothing, including suit separates.

⁷ In the fiber stage, wool can be dyed in the form of loose fibers (or “stock”) for spinning on the woolen system (stock dyeing) or after the fibers are combed into top for spinning on the worsted system (top dyeing).

smoother, more uniform sliver known as “top.” The top is then spun into worsted wool yarns (second stage), followed by weaving of the yarns into worsted wool fabrics (third stage).

Although textile articles can be dyed at the fiber, yarn, fabric, or garment stage, the subject fabrics are made from wool that is dyed in the fiber stage in the form of top. Fiber dyeing results in the highest level of dye penetration, and fibers tend to take up the dye evenly.⁸ Producers of certain fabrics prefer fiber dyeing because “this process yields better results when the desired effect is (1) a subtle blending of colors known as a *mélange* or (2) to achieve a high degree of [color] consistency over a very large run of fabric weaving.”⁹ It is for the latter reason that the top-dyed fabrics are used by Oxford Industries in the manufacture of men’s suit separates. In addition, it is for this color consistency that top-dyed fabrics generally are used to make U.S. military uniforms.¹⁰

Brief discussion of affected U.S. industries, workers, and consumers

Segments of U.S. industry that might be affected by the proposed preferential treatment (i.e., producers of certain wool top, yarn, fabric, and tailored clothing) are examined below.

Wool top

The only significant U.S. producer of combed wool top is believed to be Chargeurs Wool USA (formerly Prouvost USA, Inc.), Jamestown, SC.¹¹ The firm, a subsidiary of Chargeurs Wool of France, makes and sells wool top in the undyed form. ***. The only firms in the United States that have, or plan to have, the capability to dye wool top are several integrated fabric producers; however, these firms do not sell dyed top on the open market but use it internally in the production of worsted wool yarn. There are no known independent yarn spinners or “commission dyers” in the United States that dye wool top.

Yarn

U.S. production of top-dyed yarns used in the manufacture of the subject fabrics for men’s suits and suit separates is believed to be very small.¹² Of the three major independent spinners of worsted wool yarns for apparel fabrics (Hanora Spinning Inc., Woonsocket, RI; Jagger Brothers Inc., Springvale, ME, and Kent Manufacturing Co., Pickens, GA), ***, ***

⁸ Phyllis G. Tortora and Billie J. Collier, *Understanding Textiles*, 5th ed. (Upper Saddle River, NJ: Simon & Schuster, 1997), pp. 415-416.

⁹ Karl Spilhaus, President, Northern Textile Association, Boston, MA, written submission to CITA, Aug. 16, 2002.

¹⁰ Top-dyed, worsted wool fabrics are made in the United States in significant quantities for use in the manufacture of U.S. military uniforms. The “Berry Amendment,” enacted as Title IX of Public Law 102-396, as amended, requires U.S. military procurement of uniforms, among other goods, to be manufactured in the United States from U.S.-produced components.

¹¹ Eric Durand, Commercial Manager, Chargeurs Wool USA, telephone interview by Commission staff, Aug. 20, 2002.

¹² Information in this section is from Walter Mercier, Vice President, Manufacturing, and Francis Lareau, Production Manager, Hanora Spinning Inc.; Scott A. Grey, Sales Manager, Jagger Brothers Inc.; and William C. Bagwell, Chief Operating Officer, Kent Manufacturing Co., telephone and e-mail correspondence with Commission staff, Aug.-Sept. 2002.

Fabric

The principal U.S. producers of worsted wool fabrics for men's tailored clothing are Burlington Industries, Inc., Greensboro, NC; Cleyn & Tinker, Inc., Malone, NY; Forstmann Co., Dublin, GA; and Warren Corp., Stafford Springs, CT. ***

Burlington filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code in November 2001.¹³ As part of its reorganization plan, Burlington significantly downsized its U.S. manufacturing base for apparel fabrics. ***

Cleyn & Tinker, Inc. (CTI), a Canadian-based fabric producer, makes worsted wool fabrics at its division in Malone, NY.¹⁴ The firm said it makes CBTPA-eligible worsted wool fabrics (i.e., fabrics made in the United States from U.S. yarns), ***. ***

Warren Corp., an affiliate of Loro Piana & C.s.p.a. of Italy, said it has expanded its production of the subject fabrics in recent years.¹⁵ The firm said it has substantial unused capacity to make the subject fabrics (50 percent of its capacity is now idle), despite offering fabrics in a wide range of styles and designs. It also said that its workforce is fully trained and capable of making the subject fabrics. ***

The Forstmann Co., an integrated producer of woolen and worsted fabrics, stated that it has substantial unused capacity in which to make the subject fabrics.¹⁶ It makes woolen yarns, but not worsted yarns, which it purchases from outside vendors. The firm said it has the capability to dye at the fiber (stock dyeing), yarn, and fabric stages, and has invested recently to develop the capacity to do top dyeing. ***

Apparel

Three large U.S. producers of men's tailored clothing, Hartmarx Corp., The Tom James Co., and Hartz & Co., along with Hugo Boss, a German-based firm with production in the United States, ***.¹⁷ Two clothing firms (Bayer Clothing Group, Inc., New York, NY, and Fabian Couture Group International, Lyndhurst, NJ) stated that the subject fabrics are in short supply in the United States.

Bayer Clothing Group stated that Burlington had been its largest, and only domestic, supplier of the subject fabrics.¹⁸ Bayer said there is no viable domestic substitute available to make the fabrics in commercial quantities and meet demand and color match requirements. It stated that maintaining color consistency over an extended period of time requires that top dyeing, spinning, and weaving be conducted within a vertically integrated mill and that the use of inputs from multiple sources is unacceptable.

¹³ Information on Burlington is from its press release, "Burlington to Reposition Apparel Fabrics Group," Jan. 10, 2002, and Ross Haymes, Burlington Industries, telephone and e-mail correspondence with Commission staff, Aug. 2002.

¹⁴ Information on CTI is from Jonathan Hurstfield-Meyer, President, Quebec, Canada, telephone and e-mail correspondence with Commission staff, Aug. 23, 2002.

¹⁵ Lisa A. Cornish, Vice President of Finance and Administration, Warren Corp., written submission forwarded by e-mail to Commission staff, Aug. 21, 2002, and telephone interviews by Commission staff, Aug. 2002.

¹⁶ Mike Jump, Supply Chain & Project Director, Victor Forstmann Inc., dba The Forstmann Co., written submission forwarded by e-mail to Commission staff, Aug. 21, 2002, and telephone interviews by Commission staff, Aug. 2002.

¹⁷ Andy Zarr, Hartmarx Corp.; Keith Melrose, Senior Vice President and Director of Marketing, Hartz & Co.; Michelle Joyce, Hugo Boss Cleveland, Inc.; and Gordon Denny, Tom James Co., telephone interviews by Commission staff, Aug. 2002.

¹⁸ Information on Bayer Clothing Group is from Robert I. Bayer, President, written statement to the Commission, Aug. 15, 2002, and Philip Looby, Chief Operating Officer, telephone interview by Commission staff, Aug. 16, 2002.

Fabian Couture Group International makes formalwear (e.g., tuxedos) under such labels as Calvin Klein and Geoffrey Beene.¹⁹ ***²⁰ ***

Views of interested parties

The Commission received written submissions in support of the petition from Burlington Industries, the American Apparel and Footwear Association (AAFA), and Bayer Clothing Group, and in opposition from the American Textile Manufacturers Institute (ATMI), Forstmann Co., and Warren Corp.²¹ AAFA, a national association whose members include U.S. producers of men's tailored clothing, stated that the assertions made by the petitioner reflect those that have been made on several occasions by other AAFA firms seeking to purchase U.S.-made worsted wool fabrics. It stated that AAFA firms repeatedly encounter difficulties sourcing such fabrics from U.S. mills in terms of styles and varieties. Bayer Clothing Group stated that the subject fabrics are in short supply in the domestic market, and that there is no viable U.S. substitute to make the fabrics in commercial quantities and meet demand and color match requirements. Bayer stated that the short supply situation is further complicated by high seasonal demand, which requires a peak fabric delivery capacity of three or more times the average monthly demand. According to Bayer, CTI is the only U.S. fabric producer having capacity to make the subject fabrics eligible for CBTPA, but its U.S. production capacity for such fabrics is extremely small.

Regarding the opposition statements, ATMI, an industry association whose members include U.S. producers of worsted wool yarn and fabric, stated that although the subject fabric is likely not being made in the United States, it can be produced. ATMI said the potential for fraud is great because it is very difficult to determine whether garments are made from top-dyed or piece-dyed (dyed in fabric form) fabrics. Warren Corp. also expressed concern about this Customs enforcement issue. In addition, Warren Corp. said it makes the subject fabrics and has substantial unused capacity in which to make them. Forstmann stated that it produces the type of fabric that Oxford Industries needs for its production in the Caribbean Basin and that it would be unfair to allow Oxford to use foreign fabric. Forstmann said it recently invested to develop the capacity to top dye wool and that this top-dyeing capability will enable it to supply top-dyed fabrics in partnership with its U.S. yarn suppliers.

Probable economic effect advice²²

The Commission's analysis shows that granting duty-free and quota-free treatment to men's suits and suit-type jackets for suits made in designated CBTPA beneficiary countries from the subject fabrics, regardless of the source of the fabrics, likely would have some adverse effect on U.S. producers of the fabrics, as well as their workers. ***. However, given recent steps by Burlington Industries to downsize its U.S. production base for apparel fabrics, it is uncertain whether U.S. producers of the subject fabrics have sufficient capacity to supply the fabrics in the quantities and range of styles required by Oxford Industries and other tailored clothing firms assembling men's suits and suit jackets under the CBTPA program.

The proposed preferential treatment likely would have a negligible effect on U.S. producers of yarns for use in the manufacture of the subject fabrics, and their workers, because U.S. production of such yarn is believed to be very small. The proposed trade preferences likely would benefit U.S. and other firms that

¹⁹ Information on Fabian is from Daniel Cohen, Vice President, telephone interview by Commission staff, Aug. 21, 2002.
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²¹ Submissions are from John D. Englar, Senior Vice President, Burlington Industries, Greensboro, NC; Stephen Lamar, Senior Vice President, AAFA, Arlington, VA; Robert I. Bayer, President, Bayer Clothing Group, New York, NY; Charles V. Bremer, Vice President, International Trade, ATMI; Mike Jump, Supply Chain & Project Director, Forstmann Co.; and Lisa A. Cornish, Vice President of Finance and Administration, Warren Corp., Aug. 2002.

²² The Commission's advice is based on information currently available to the Commission.

make men's clothing under the CBTPA program from the subject fabrics, and their workers. The expected increase in imports of such clothing from eligible CBTPA countries likely would displace imports of similar apparel from other countries rather than U.S. production of men's tailored clothing, which generally sells in the upper range of the U.S. market.

U.S. consumers of apparel articles made from the subject fabrics would likely benefit from the proposed preferential treatment because importers and retailers are likely to pass through some of the duty savings to consumers in today's highly competitive retail apparel market.