UNITED STATES INTERNATIONAL TRADE COMMISSION

COMMERCIAL AVAILABILITY OF APPAREL INPUTS : APPAREL OF CERTAIN COTTON VELVET FABRICS

Investigation No. 332-450-004

May 2003

Commercial Availability of Apparel Inputs (2003): Effect of Providing Preferential Treatment to Apparel from Sub-Saharan African, Caribbean Basin, and Andean Countries

U.S. International Trade Commission Investigation No. 332-450-004

Products	**Apparel of Certain Cotton Velvet Fabrics**
Requesting Parties	**Crystal Apparel Ltd., Hong Kong** **Sinotex Mauritius Ltd., Mauritius**
Date of Commission Report: USTR **Public**	**May 20, 2003** **May 2003**
Commission Contact	**Cynthia Trainor (202-205-3354); *trainor@usitc.gov***

NOTICE
THIS REPORT IS A PUBLIC VERSION OF THE REPORT SUBMITTED TO USTR ON MAY 20, 2003. 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 U.S. imports of apparel made in eligible AGOA countries from certain cotton velvet fabrics, regardless of the source of the fabrics, likely would have some adverse effect on U.S. yarn spinners, producers of velvet fabrics, and firms making competitive garments domestically, and their workers. The proposed preferential treatment likely would benefit U.S. apparel firms making garments in the eligible countries, and their U.S.-based workers. U.S. consumers likely would benefit from some of the duty savings resulting from the proposed preferential treatment.

Background

On January 28, 2003, following receipt of a request from the United States Trade Representative (USTR), the Commission instituted investigation No. 332-450, *Commercial Availability of Apparel Inputs (2003): Effect of Providing Preferential Treatment to Apparel from Sub-Saharan African, Caribbean Basin, and Andean Countries*, under section 332(g) of the Tariff Act of 1930 (19 U.S.C. 1332(g)) to provide advice regarding the probable economic effect of granting preferential treatment for apparel made from fabrics or yarns that are the subject of petitions filed by interested parties in 2003 with the Committee for the Implementation of Textile Agreements (CITA) under the "commercial availability" provisions of the African Growth and Opportunity Act (AGOA), the United States-Caribbean Basin Trade Partnership Act (CBTPA), and the Andean Trade Promotion and Drug Eradication Act (ATPDEA, Division D of the Trade Act of 2002).[1]

The Commission's advice in this report concerns a petition received by CITA on April 7, 2003, alleging that certain cotton velvet fabrics cannot be supplied by the domestic industry in commercial quantities in a timely manner and requesting that the President proclaim preferential treatment for apparel made in eligible AGOA beneficiary countries from such fabrics, regardless of the source of the 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 implemented, the reasons for such

[1] For more information on the investigation, see the Commission's notice of investigation published in the *Federal Register* of February 4, 2003 (68 F.R. 5651) and its website at *www.usitc.gov/332s/shortsup/shortsupintro.htm*.

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 velvet fabrics named in the petition are classified in subheading 5801.25.00 of the Harmonized Tariff Schedule of the United States (HTS), which provides for woven cotton fabrics having a cut warp pile. Velvet is a cut warp-pile fabric in which the cut fibrous ends of yarn create a surface "pile" that gives the fabric its rich appearance and soft texture. According to the petition, the subject fabrics are dyed, wholly of cotton or 97-98 percent cotton and 2-3 percent spandex, and used to make "special occasion" garments such as jackets, pants, dresses, and skirts, classifiable in HTS chapter 62 (apparel, not knitted or crocheted). The 2003 column 1-general rates of duty on such garments range from 8.2 percent to 16.7 percent ad valorem. The petitioner, Crystal Apparel, reported that it cuts and sews the fabrics in China and Mauritius and will need more than 1 million yards (923,077 meters) for the 2003 fall/winter season to be supplied within 4 to 6 weeks of fabric sample review and approval.

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

The segments of the U.S. textile and apparel sector that may be affected by the proposed preferential treatment are yarn spinners, fabric mills, and apparel producers.

Yarn spinners

Parkdale Mills, Inc., Gastonia, NC, stated that it is the largest consumer of raw cotton and the largest independently owned yarn spinner in the United States, ***.[3]

R.L. Stowe Mills, Inc., Belmont, NC, said it employs 900 workers and makes yarn for domestic velvet production by Asheville Velour Inc. and J.B. Martin Co. R.L. Stowe said its sales of cotton yarn ***.[4]

Fabric mills

The only known U.S. producers of cotton velvet fabrics for apparel applications are Asheville Velour Inc., Asheville, NC; J.B. Martin Co., Batesburg-Leesville, SC; and A. Wimpfheimer & Bros., Inc., Blackstone, VA. Asheville Velour ***.[5]

A. Wimpfheimer & Bros. ***.[6]

J.B. Martin Co. ***.[7]

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[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] ***, telephone interview by Commission staff, May 1, 2003, and John Smeak, Jr., President, Parkdale Sales Co., written submission to the Commission, May 9, 2003.

[4] D. Harding Stowe, President and CEO, R.L. Stowe Mills, Inc., telephone interview by Commission staff, May 8, 2003, and written submission to the Commission, May 13, 2003.

[5] William Trienekens, Chairman of the Board, Asheville Velour Inc., telephone interview by Commission staff, May 1, 2003, and Paul Flay, Treasurer, Asheville Velour Inc., written submission to the Commission, May 2, 2003.

[6] ***, telephone interview by Commission staff, May 15, 2003.

[7] Loic de Kertanguy, President, J.B. Martin Co., telephone interviews by Commission staff, Apr. 29 and May 15, 2003, and written submission to the Commission, Apr. 30, 2003.

U.S. apparel companies and retailers

Crystal Apparel makes apparel in AGOA countries from the subject fabrics *** which stated that it is impractical to use U.S. fabrics in AGOA countries because of the long "lead times" associated with shipping the fabrics to sub-Saharan Africa. Crystal Apparel is a "full package" supplier of apparel made from the subject fabrics, whereby it buys the fabrics, subject to customer approval, and cuts and sews them in AGOA countries. ***.[8] *** stated that although it generally sources most of its own fabrics, especially those that carry over for more than one season, it buys velvet garments as full package goods because of their seasonal nature (for fall or holiday delivery).[9]

***, stated that Crystal Apparel is its full package supplier of seasonal velvet apparel and that Crystal Apparel decides where to source the velvet fabrics. *** stated that the subject fabrics cost more in the United States than in many other countries, which, along with long lead times and costs associated with shipping U.S. fabrics to AGOA countries, discourages the use of U.S. fabrics in AGOA apparel production.[10]

JCPenney Purchasing Corp., Dallas, TX, stated that the subject fabrics are made in the United States in limited quantities and, thus, are not widely available in commercial quantities. The firm said the velvet fabrics made by Asheville Velour in the United States do not meet AGOA requirements because the producer does not have any domestic capacity to dye and finish the fabrics. JCPenney also said it believes that only one mill in the United States (J.B. Martin Co.) claims to produce the subject fabrics. However, JCPenney said J.B. Martin's production capability for the subject fabrics of 1 million yards for the fall/winter season does not meet the petitioner's requirement for velvet fabrics "in excess of 1 million yards," much less meet the needs of other U.S. apparel companies and retailers.[11]

Views of interested parties

The Commission received a written statement in support of the petition from the JCPenney Purchasing Corp., Dallas, TX, which said its sales of articles made from velvet fabrics totaled $10.8 million in 2002. The firm stated that because the U.S. textile industry cannot meet the needs of the petitioners, failure to grant the petition would result in lost business opportunities for AGOA beneficiary countries, with the sourcing of the garments likely to be from Asia, and increased costs for U.S. consumers. According to JCPenney, a velvet garment sourced from an AGOA beneficiary country likely would cost $9.54 and sell at retail for $26, compared with a cost of $12 and a retail price of $32 for the same garment sourced from China subject to duties and quotas.[12]

The Commission also received written statements from Asheville Velour Inc., J.B.Martin Co., Parkdale Mills Inc., R.L Stowe Mills Inc., and the American Yarn Spinners Association, Inc., all of which expressed opposition to the proposed preferential treatment. Asheville Velour stated that it has the capability to weave fabrics in the United States of the type specified in the petition, entirely from U.S. yarns, in commercial quantities and on a timely basis. Asheville Velour stated that as the firm currently has no dyeing and finishing capability, its woven fabrics are shipped to *** its parent company in Granby, Quebec, for dyeing and finishing. Asheville Velour said that the proposed preferential treatment would have a serious detrimental impact on its business and, in turn, impact the business of its U.S. yarn suppliers and their U.S. cotton suppliers. The firm further stated that to grant the petition could ultimately mean the loss of a significant number of textile jobs in a region of the country already hard hit by competition from low-cost foreign suppliers.

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[8] ***, telephone interview by Commission staff, May 9, 2003.

[9] ***, telephone interview by Commission staff, May 7, 2003.

[10] ***, telephone interview by Commission staff, May 8, 2003.

[11] Tami Wolfe, Vice President of Product Development, JCPenney Purchasing Corp., written submission to the Commission, May 9, 2003.

[12] Ibid.

J.B. Martin Co., a U.S. velvet producer for more than 100 years, stated that the proposed preferential treatment would have a negative economic impact on the firm, factory, and community. The firm further states that it has been supplying the U.S. market with "lightweight dyed warp pile velvet" as stated in the petition for 50 years, and currently produces for the U.S. market two light- to medium-weight 100 percent combed cotton qualities: 8550 Juliet at 264 grams per square meter and 8552 Juliet Stretch at 282 grams per square meter. According to J.B. Martin, the firm has the capability and capacity to quickly produce commercial quantities of the subject fabrics on available excess loom capacity.

Parkdale Mills stated that the proposed preferential treatment would be detrimental to its business and a significant threat to continuation of its operations as they are today.[13] R.L. Stowe Mills, a yarn spinner with 900 employees and operations in North Carolina and Tennessee, stated that it is a long-term supplier of cotton yarns to Asheville Velour and J.B. Martin Co., the two largest U.S. producers of cotton velvet fabrics. The firm stated that its yarn sales to these two fabric companies has declined in recent years, largely reflecting weak sales volumes of these companies. According to R.L. Stowe, with a high unemployment rate in Gaston County (an average of 7.6 percent in 2002) and plant closings, the company has difficulty retaining employees due to employees' desire to work in a more stable environment. R.L. Stowe Mills indicated that it has the capacity to make cotton yarns for use in the production of the subject fabrics.[14]

The American Yarn Spinners Association, Inc. (AYSA) stated that it was its understanding that Asheville Velour made the subject fabrics and that the U.S. industry is able to supply the subject fabrics in commercial quantities in a timely manner. AYSA further stated that to approve this petition would have a detrimental impact on the U.S. textile industry and the thousands of people employed by the textile mills in various facets of velvet production.[15]

Probable economic effect advice[16]

The Commission's analysis shows that granting duty-free and quota-free treatment to U.S. imports of apparel made in eligible AGOA beneficiary countries from the subject fabrics, regardless of the source of the fabrics, likely would have some adverse effect on U.S. yarn spinners and U.S. producers of velvet fabrics, and on their workers. ***. The expected increase in U.S. apparel imports made in eligible AGOA beneficiary countries from the subject fabrics likely would displace demand for U.S. velvet fabrics as well as some imports of competitive apparel, and there could be a slight adverse effect on U.S. firms making competitive garments domestically.

The proposed preferential treatment likely would benefit U.S. and other apparel firms making garments in eligible AGOA beneficiary countries from the subject fabrics by increasing the supply of velvet fabrics, particularly lower priced velvet fabrics. U.S. consumers of apparel made from the subject fabrics would benefit from the proposed preferential treatment to the extent that importers pass on some of the duty savings to retail consumers in today's highly competitive market for velvet apparel.

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[13] John Smeak, Jr., President, Parkdale Sales Co., written submission to the Commission, May 9, 2003.

[14] D. Harding Stowe, President and CEO, R.L. Stowe Mills, Inc., written submission to the Commission, May 9, 2003.

[15] Michael Hubbard, Executive Vice President, AYSA, Gastonia, NC, written submission to the Commission, May 12, 2003.

[16] The Commission's advice is based on information currently available to the Commission.