

UNITED STATES INTERNATIONAL TRADE COMMISSION

**COMMERCIAL AVAILABILITY OF APPAREL INPUTS (2004):
EFFECT OF PROVIDING PREFERENTIAL TREATMENT TO
APPAREL OF CERTAIN YARN OF MICRO MODAL® FIBERS
FROM ELIGIBLE CARIBBEAN BASIN, ANDEAN, AND
SUB-SAHARAN AFRICAN COUNTRIES**

Investigation No. 332-458-025

February 2005



Commercial Availability of Apparel Inputs (2004): Effect of Providing Preferential Treatment to Apparel from Sub-Saharan African, Caribbean Basin, and Andean Countries

U.S. International Trade Commission Investigation No. 332-458-025

Products	Apparel of Certain Yarn of Micro Modal® Fiber
Requesting Parties	Texollini, Inc., Long Beach, CA
Date of Commission Report USTR Public	February 7, 2005 February 2005
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NOTICE

THIS REPORT IS A PUBLIC VERSION OF THE REPORT SUBMITTED TO USTR ON FEBRUARY 7, 2005. ALL CONFIDENTIAL INFORMATION HAS BEEN REMOVED AND REPLACED WITH ASTERISKS (***)

Summary of Findings

The Commission's analysis indicates that granting duty-free and quota-free treatment to U.S. imports of certain women's and girls' apparel made in eligible Caribbean Basin, Andean, and Sub-Saharan African countries from certain ring-spun yarns made of micro modal® fibers, regardless of the source of the yarns, would likely have no adverse effect on U.S. fiber, yarn, fabric, or apparel producers and their workers.¹ There is no known domestic production of the subject yarns or of fabric knitted from these yarns. The sole producer of micro modal® fibers, a firm located in Austria, allocates most of its fibers to its larger, European market. Several U.S. yarn spinners claim that they could produce the subject yarn if the fibers were available. The petitioner asserts that no yarns can be considered substitutable for the subject yarns. Although a U.S. yarn spinner of open-end spun yarns of micro modal® fibers contends that its yarns are substitutable for the subject yarns, it appears that the open-end spun yarns are not substitutable because ring-spun yarns are more expensive, take longer to produce, are stronger, have a softer, smoother hand, and can be spun in much finer yarn counts. The petitioner is the only known U.S. knitter that plans to produce fabric from the subject yarn. The proposed action would likely benefit U.S. firms making women's apparel in eligible countries from knit fabric made from the subject yarn, and their U.S.-based workers, as well as U.S. consumers.

Background

On February 2, 2004, following receipt of a request from the United States Trade Representative (USTR), the Commission instituted investigation No. 332-458, *Commercial Availability of Apparel Inputs (2004): 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)). This investigation

¹ In connection with a petition filed in June 2003 on behalf of Ge-Ray Fabrics, Inc., CITA determined that certain ring-spun single yarns, made of micro modal fiber and U.S. pima cotton, cannot be supplied by the domestic industry in commercial quantities in a timely manner. CITA's decision appeared in the *Federal Register* of October 30, 2003 (68 F.R. 61792). The U.S. International Trade Commission conducted its review of the fabrics in its report, "Apparel of Certain Yarn of Micro Modal Fiber/Cotton," investigation No. 332-450-006, July 2003.

provides 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 2004 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).²

The Commission's advice in this report relates to a petition received by CITA on December 27, 2004, alleging that certain ring-spun single yarns, made of micro modal® fibers, cannot be supplied by the domestic industry in commercial quantities in a timely manner. The petitioner requests that the President proclaim preferential treatment for apparel made in eligible CBTPA, AGOA, and ATPDEA beneficiary countries from such yarns, regardless of the source of the yarns.³

Discussion of the product

The petition filed by Texollini, Inc. (Texollini), Long Beach, CA, a vertically integrated knitting mill that provides fabric development, knitting, dyeing, finishing, fabric print design and printing capabilities to its customers,⁴ describes the subject yarns as ring-spun single yarns of "yarn counts" of 30⁵ and higher which are made of micro modal® fibers.⁶ According to Texollini, and as stated in a petition filed with CITA by another firm in June 2003,⁷ modal® is a "variant of rayon fiber" in which the cellulose used to make the modal fiber undergoes a higher degree of polymerization than that for viscose rayon. Micro modal® fiber is modal fiber of extreme fineness - - the individual fibers are of 0.9 denier or finer.⁸ The petitioner asserts that micro modal® fiber has markedly different characteristics from other types of viscose rayon. Particularly important is the micro modal® fiber's strength when wet. Unlike ordinary rayon, micro modal® fiber can be subjected to a variety of dyeing and processes requiring water and can be laundered frequently without fading. Consequently, micro modal® fabric is more versatile than fabric made from ordinary rayon.

The petition states that the subject yarns are classified in subheading 5510.11.00 of the Harmonized Tariff Schedule of the United States (HTS), which provides for single yarn (other than sewing thread), of artificial

² For more information on the investigation, see the Commission's notice of investigation published in the *Federal Register* of Feb. 9, 2004 (69 F.R. 6003) and consult the Commission's website at http://www.usitc.gov/ind_econ_ana/research_ana/pres_cong/332/short_supply/shortsupintro.htm.

³ The President may proclaim such action if (1) he determines that the subject fabric or yarn cannot be supplied by the domestic industry in commercial quantities in a timely manner; (2) he has obtained advice from the Commission and the appropriate advisory committee; (3) he has submitted a report, within 60 calendar days after the request, to the House Committee on Ways and Means and the Senate Committee on Finance, that sets forth the action proposed, the reasons for such action, and advice obtained; (4) a period of 60 calendar days, beginning with the day on which he has met the requirements of (3), has expired; and (5) he has consulted with such committees on the proposed action during the 60-day period referred to in (3). 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. The President authorized CITA and USTR to submit the required report to the Congress.

⁴ TextileWeb, "Product Showcase - Knitting - Texollini, Inc.," found at <http://www.textileweb.com>, retrieved Jan. 7, 2005.

⁵ The yarn count indicates the number of 840 yarn lengths in a pound of yarn. The higher the number, the finer the yarn.

⁶ The yarns named in the current petition are identical to the yarns designated by CITA in a previous determination except that the yarns in the current petition contain no cotton fiber and are made in a range of higher yarn counts.

⁷ The yarns named in the June 2003 petition filed with CITA on behalf of Ge-Ray Fabrics, Inc., were certain ring-spun single yarn of English yarn counts 30 and 50, containing 50 percent or more, but less than 85 percent, by weight of 0.9 denier or finer micro modal fiber, mixed solely with U.S. origin extra long pima cotton, classified in HTS subheading 5510.30.00. The yarns named in the petition filed by Texollini are classified in HTS subheading 5510.11.00. The key difference between the two yarns is that the yarns named in the Texollini petition do not contain any cotton.

⁸ The petitioner supplied two sets of product samples: 1) yarn of yarn counts 30, 40, and 50; and 2) fabrics knitted from yarn of yarn counts 30, 40, and 50.

fibers, containing 85 percent or more by weight of artificial staple fibers, not put up for retail sale.⁹ The yarns will be used by the petitioner to knit fabric for use in women's and girls' knitted blouses, shirts, lingerie, and underwear, which are classified in HTS chapter 61 (apparel, knitted or crocheted) and subject to general rates of duty ranging from 6 percent to 32 percent ad valorem.¹⁰

The petitioner and various industry sources (discussed in the industry section) state that fabrics made of micro modal® yarn have a soft, luxurious hand,¹¹ and a graceful drape that make them especially suited for lingerie, underwear, and other light knit fabric apparel products. Other key features of fabrics made from the subject yarns include their ability to retain strength when wet, to exhibit little shrinkage, and to remain soft, silky, bright, and colorful after numerous washings. Trade sources report that the subject yarns tend to be in a high price range, averaging roughly \$4.00 per pound. The petition states that there currently is no satisfactory substitute for micro modal® fibers in Texollini's intended apparel applications.

Discussion of affected U.S. industries, workers, and consumers¹²

Fiber producers

The only known producer of micro modal® fibers is a European firm, Lenzing AG (Austria), which reportedly sells most of its production to its larger, European market and allocates a smaller amount to buyers in the United States.¹³ Commission staff contacted the American Fiber Manufacturers Association and two U.S. fiber producers to confirm the absence of production of micro modal® fibers in the United States. An association official stated that the organization is neutral on the petition because "micro modal® fibers are not produced in the United States."¹⁴ The sole U.S. producer of viscose, Liberty Fibers, confirmed that it does not produce modal fibers, but manufactures rayon primarily for nonwoven¹⁵ applications.¹⁶ Information about Lenzing production capacity for micro modal® fibers is not readily available.¹⁷ An official for Lenzing in the Americas, a subsidiary of the Austrian company, stated that "no one is ring spinning the subject yarn in the United States."¹⁸

⁹ Data on U.S. imports of the subject yarns are not available because the yarns are grouped with other related artificial staple fiber yarns in HTS subheading 5510.11.00.

¹⁰ Separate data on U.S. imports of apparel made from the subject yarns are not available because, for tariff and statistical reporting purposes, the apparel articles are grouped with other related apparel articles.

¹¹ "Hand" refers to the tactile qualities of a fabric, e.g., softness, firmness, elasticity, fineness, resilience, and other qualities perceived by touch.

¹² In general, the manufacturing process for women's and girls' apparel made from the subject yarn is (1) the micro modal fibers are ring spun into yarns, (2) the yarns are knitted into fabrics, (3) the fabrics are printed, dyed, and cut into components, and (4) the components are sewn into finished garments.

¹³ According to Lenzing, the market for micro modal® fibers is much larger in Europe than in the United States; the U.S. market for these fibers was considered limited. See U.S. International Trade Commission, "Apparel of Certain Yarn of Micro Modal Fiber/Cotton," investigation No. 332-450-006, July 17, 2003.

¹⁴ Paul O'Day, President, American Fiber Manufacturers Association, telephone interview with Commission staff, Jan. 12, 2005.

¹⁵ Nonwoven applications refers to an assembly of textile fibers held together by mechanical interlocking in a random web or mat, by fusing of the fibers, or by bonding with a cementing medium such as starch, glue, casein, rubber, latex, etc.

¹⁶ Craig Barker, President, Liberty Fibers, telephone interview with Commission staff, Jan. 13, 2005.

¹⁷ ***, Jan. 12, 2005.

¹⁸ ***, Jan. 12, 2005.

Yarn producers

Commission staff contacted the National Council of Textile Organizations (NCTO),¹⁹ several U.S. yarn spinners identified by industry representatives as possible sources of the subject yarns, the yarn spinners contacted by the petitioner about the subject yarns, and a U.S. yarn spinner that produces open-end spun yarn of micro modal® fiber. Currently, there are no known U.S. firms that produce ring-spun yarn of micro modal® fibers.

Commission staff contacted officials at Carolina Mills, a spinner of a full range of yarns of artificial, synthetic, and cotton fibers. One of the officials stated that although the firm does not manufacture ring-spun yarn of micro modal® fibers, it is currently producing open-end spun yarn of micro modal® fibers for use in apparel fabrics that are being sold to ***.²⁰ ***. Carolina Mills has the capacity to produce *** and has a *** turnaround time for orders. ***

A representative of *** contends that ring-spun yarn is stronger than open-end spun yarn, but asserted that the washability of fabrics from both yarns is the same. In comparing open-end spun and ring-spun yarns of micro modal® fiber, a representative of *** stated that open-end spun yarns of micro modal® fibers cost 30-35 cents less per pound, have a maximum yarn count of 30, are weaker, raspier, and have a harsher hand.²¹

An official of Buhler Quality Yarns, a U.S. spinner of cotton yarns and an importer of artificial yarns, stated that the company ***.²² The U.S. Buhler official noted that sourcing the micro modal® fibers is a challenge because Lenzing allocates most of its production of micro modal® fibers to European and Asian customers.²³ He also noted that spinning the subject yarns is difficult, requiring expertise and experience. The U.S. Buhler official stated that the subject yarns are priced at about \$4.00 per pound, including freight and duties.²⁴ ***.²⁵ ***²⁶

Officials of R.L. Stowe Mills, Inc., a domestic producer of ring-spun and other yarns, stated that the firm has the equipment, expertise, willingness, and interest to spin the subject yarn, but cannot because Lenzing allocates most of its production of micro modal® fibers to European and Asian customers.²⁷ The R.L. Stowe representatives stated that the firm ***.

Commission staff contacted Avondale Mills whose representative stated that ***.²⁸ ***.

An official of National Spinning Co. stated ***.²⁹ ***.

An official of Swift Spinning stated that the firm currently produces ***.³⁰ ***.

¹⁹ The NCTO represents the entire textile sector - - the fiber, yarn, fabric, and supplier industries. This organization absorbed the American Yarn Spinners Association, the former national trade association representing the sales yarn manufacturing industry.

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²¹ ***

²² ***, telephone interview with Commission staff, Jan. 12, 2005.

²³ ***, telephone interview with Commission staff, Jan. 12, 2005.

²⁴ The price of the yarns fluctuates daily based on the value of the Euro. ***, telephone interview with Commission staff, Jan. 12, 2005.

²⁵ ***

²⁶ ***, telephone interview with Commission staff, Jan. 12, 2005.

²⁷ ***, telephone interview with Commission staff, Jan. 13, 2005.

²⁸ ***, telephone interview with Commission staff, Jan. 14, 2005.

²⁹ ***, telephone interview with Commission staff, Jan. 14, 2005.

³⁰ ***, telephone interview with Commission staff, Jan. 12, 2005.

Texollini indicated that it ***.³¹ ***.

Texollini asserts in its petition that other yarns that are supplied by U.S. industry in commercial quantities in a timely manner are not substitutable for the subject yarns. In addition to the qualities previously discussed in the product description section of this report, Texollini states that ring-spun yarns of micro modal® fibers are more versatile than other micro-denier rayon fibers. It furthermore notes that other yarns, such as those made of micro polynosic³² fibers or lyocell,³³ are inferior because they are subject to fibrillation which occurs when minute elements of a fiber become separated and cause discoloration, especially on creases and folded seams. In addition, Texollini asserts that yarns of these other fibers do not take dyes as readily or evenly as those made of micro modal® fibers. Texollini also expressed its position that ***.³⁴ ***.³⁵

Texollini acknowledged that ***.

Fabric and Apparel Producers³⁶

The petitioner was the only U.S. firm identified as producing or planning to produce knitted fabric from the subject yarns for use in certain women's apparel.³⁷ In its petition, Texollini asserts that it will use the yarn to produce circular-knit fabric in the United States and will perform all dyeing, printing, and finishing of the fabric in the United States. It does not plan to produce knit-to-shape apparel or knit-to-shape components of apparel or produce any fabric outside the United States. A Texollini representative stated that the firm plans to sell fabric of the subject yarn to ***.³⁸ Texollini's customers will use the fabric to produce women's apparel articles eligible for CBTPA, AGOA, and ATPDEA treatment. A Texollini official said he believes that ***. In its petition, Texollini states that the apparel made from the subject yarn will range from moderately-priced products to better, high-fashion women's wear. Texollini believes that the garments its customers will market will be part of new product lines.

Views of interested parties

NCTO filed a written submission with the Commission and noted that Carolina Mills is the only U.S. yarn spinner with a position on the subject fiber. NCTO also stated that Carolina Mills claims that it has sold open-end micro-modal® yarn of yarn count 30 to Texollini in the past, and that it is willing and able to provide this yarn in the future. NCTO further stated that given the intended use for the subject yarn, it believes that open-end micro-modal® yarn of yarn count 30 is, in fact, a substitutable product for ring spun yarn of the same fiber. The submission also stated that given the lack of availability of micro-modal® fiber, NCTO is not aware of any U.S. companies able to produce the subject yarn of yarn counts 40 and 50.

³¹ ***

³² Polynosic fiber is a high-wet-modulus rayon staple having a microfibrillar structure of rayon.

³³ Lyocell is a solvent spun cellulosic fiber.

³⁴ ***

³⁵ ***

³⁶ Except for the apparel companies identified by the petitioner in a confidential email, information on apparel producers planning to make garments out of the knit fabric to be produced by Texollini was not readily available.

³⁷ Commission staff contacted NCTO whose representative stated that it had no knowledge of other knitters that are currently producing or planning to produce knit fabric from the subject yarn.

³⁸ ***

Probable economic effect advice³⁹

The Commission's analysis indicates that granting duty-free and quota-free treatment to U.S. imports of certain women's and girls' apparel made in eligible CBTPA, ATPDEA, or AGOA beneficiary countries from the subject yarns, regardless of the source of such yarns, would likely have no adverse effect on a U.S. domestic industry or its workers, because there currently is no known domestic production of micro modal® fibers or yarns and knitted fabrics from such fibers. Whereas U.S. yarn spinners appear to have the capability, expertise, and willingness to produce the subject yarns, imminent domestic production of the subject yarns is unlikely because of limited access to micro modal® fibers.

Central to determining the impact that granting the current petition might have on a U.S. domestic industry is the issue of substitutability of open-end spun yarns of micro modal® fibers for ring-spun yarns of same. Although Carolina Mills produces *** of open-end spun yarn per month and states that it believes that open-end micro-modal® yarn of yarn count 30 "is, in fact, a substitutable product for ring spun yarn of the same fiber," information available to Commission staff suggests that open-end yarn spinning and ring spinning are distinctive production processes that differ in terms of cost, time, product features and, often, in product applications. Ring-spun yarns are sold for at least 30-35 cents more per pound, take longer to produce, are stronger, have a softer, smoother hand, and can be spun in much finer grades, thus making them especially suited for higher end lingerie, underwear, and lightweight women's garments. However, even if ring-spun and open-end spun yarns of micro modal® fibers were substitutable, ***. Given the highly limited access that U.S. buyers have to micro modal® fibers, Carolina Mills could have difficulty in increasing its purchases of these fibers to meet Texollini's demand.

The proposed preferential treatment would also likely have no adverse impact on the U.S. apparel industry because imports already supply a significant share of the domestic market for women's and girls' knitted blouses, shirts, lingerie, and underwear. Furthermore, the production of the garments from the subject yarns will likely target a higher-end segment of the U.S. apparel market, and the expected increase in imports of garments made in eligible CBTPA, AGOA, and ATPDEA countries from fabric made from the subject yarns would, at most, possibly displace a small level of other imported garments or simply slightly increase the overall level of U.S. apparel imports. The proposed preferential treatment would also likely benefit U.S. consumers of women's and girls' knitted blouses and shirts, lingerie, and underwear made from the subject yarns to the extent that importers pass on some of the duty savings to retail consumers and also to the extent that they take advantage of a new product line made available to them.

³⁹ The Commission's advice is based on information currently available to the Commission.