



August 15, 2006

The Honorable Charles Grassley
Chairman, Senate Finance Committee
219 Dirksen Office Building
Washington, DC 20510

RE: S. 3556 -- Legislation to Clarify the Rule of Origin for Certain Window Blinds and Shades

Dear Mr. Chairman:

On behalf of the National Council of Textile Organization's (NCTO) and our member companies, I am writing to let you know of our **strong support** for the inclusion of S. 3556 in the proposed miscellaneous tariff bill currently being developed by the Senate Finance Committee.

NCTO is a not-for-profit trade association established to represent the entire spectrum of the United States textile sector, from fibers to yarns to fabrics to finished products, as well as suppliers in the textile machinery, chemical and other such sectors which have a stake in the prosperity and survival of the U.S. textile sector. Our headquarters are in Washington, D.C., and we also maintain an office in Gastonia, NC.

S. 3556 clarifies the rule of origin requirements for certain textile blinds and shades imported from China and subjected to quota restrictions as a result of the U.S.-China textile bilateral agreement. A misconstrued interpretation in the Customs rules of origin is allowing circumvention of the quota on textile window blinds and shades covered under the textile and apparel agreement negotiated between the U.S. and China last November. The current interpretation nullifies the intended benefits of the agreement for U.S. manufacturers of window blinds and shades.

Under the current rule of origin interpretation by Customs, the country of origin of finished textile window shades is NOT China, if the initial, flat fabric is made outside China, even if 80-90 percent of the value of the finished shade is added in multiple, complex manufacturing steps in China. Unless this loophole is corrected quickly, U.S. textile blinds manufacturers will lose the benefit of the quota agreement, as the agreement will be in effect only for a short period (expires at the end of 2008).

Unlike the other products covered under this rule of origin interpretation, including sheets and towels, the textile blinds and shades at issue here are not simple flat fabric on a roller. Most imported shades are "cellular" or "honeycomb" design which use fabric that is folded, pleated and glued into complex shapes, then attached to metal or plastic rails with a system of cords to raise and lower the shade. As a result, a clarification is needed stating that for textile window blinds and shades covered under the U.S.-China textile bilateral agreement, the country rule of origin is where the most value-added processing occurs.

In closing, we strongly encourage you to ensure the inclusion of S. 3556 in any miscellaneous trade bill or other relevant legislation considered by the Senate.

Thank you for your consideration of these comments and concerns.

Sincerely,

A handwritten signature in black ink, appearing to read "Cass Johnson", is written over a thin vertical red line.

Cass Johnson
President
cjohnson@ncto.org

HunterDouglas

August 15, 2006

Via e-mail to mtb2006@finance-rep.senate.gov

Senator Chuck Grassley
Chairman
Committee on Senate Finance
U.S. Senate
219 Dirksen Senate Office Building
Washington, D.C. 20510-6200
Fax: 202-228-0554

Attn: Claudia Bridgeford

Re: S.3556 (MTB)

Dear Chairman Grassley:

On behalf of Hunter Douglas Window Fashions, I am writing to express our strong support for S.3556 and to urge the Committee to include this bill in any miscellaneous tariff legislation it considers. These comments are submitted in response to the Committee's request, dated July 11, 2006. S.3556 was introduced by Senator Jim DeMint and is cosponsored by Senator Robert Byrd.

Hunter Douglas Window Fashions is the leading manufacturer of custom window coverings in North America. Hunter Douglas manufactures high quality, innovative window coverings for homeowners, including Duette® honeycomb shades, an energy-efficient cellular design developed in 1985 in response to the energy crisis. Hunter Douglas is headquartered in Upper Saddle River, New Jersey, with more than 7,400 employees at its various production and support facilities in 19 states across America.

S.3556 is urgently needed to prevent circumvention of the U.S.-China quota on textile window shades and blinds, which was included in the Memorandum of Understanding ("MOU") that was negotiated with China in November 2005. It is important that this amendment be adopted as soon as possible to secure meaningful enforcement of this agreement. Due to circumvention permitted under existing law, Hunter Douglas already has lost the benefits of the agreement for much of this year and the agreement is in effect only two more years.

S.3556 Is Essential to Prevent Circumvention of the U.S. - China Textile Agreement

S.3556 would close a loophole in the U.S. law on import rules of origin that seriously undermines the quota on textile window shades and blinds from China. The MOU was intended to provide relief from increasing imports of textile window treatments from China, especially cellular window shades.

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Unfortunately, a loophole in current U.S. law is facilitating evasion of the agreement, to the detriment of Hunter Douglas, its employees and the employees of its assemblers/customers. After the quota on Chinese textile products took effect on January 1, 2006, several importers requested and obtained country of origin rulings from U.S. Customs, which had the effect of exempting window shades and blinds from the Chinese quota, even though the overwhelming proportion of the value was added and the manufacturing operations occurred in China. The rulings stated that, pursuant to an exception under existing law, the country of origin for textile window shades was based on the flat fabric used to make the shades (rather than on the usual rule, which defines country of origin for imported goods according to the country in which the most important manufacturing process occurs). This loophole allows Chinese manufacturers to purchase fabric in another country (Taiwan, for example), manufacture complex, cellular window shades in China (imparting approximately 70-80% Chinese value), and then ship the finished merchandise to the United States under the description "Product of Taiwan." This leads to complete circumvention of the quota on Chinese textile window shades and blinds.

Legislative Change Is Necessary To Close The Loophole Under Existing Law

Textile window shades and blinds of synthetic fibers are classified in tariff subheadings 6303.12.0010 and 6303.92.2030 of the Harmonized Tariff Schedule of the United States, depending on whether or not the fabric was knitted or crocheted. Section 334 of the Uruguay Round Agreements Act, at 19 U.S.C. § 3592, states that the country of origin of textile products manufactured in more than one country generally should be the country in which the most important assembly or manufacturing process occurs. However, the statute provides an exception for a few specified tariff numbers, including products classified in tariff headings 6301-6306. This exception states that, "as appropriate," the analysis should follow the origin rules for products manufactured in a single country. One of the single country rules states that the country of origin should be the site where the fabric is formed. Thus, U.S. Customs interprets the exception language to mean that all finished products classified in tariff headings 6301-6303, including complex cellular window shades, should carry the country of origin where the initial fabric was formed, regardless of any manufacturing process that follows.

This exception makes sense for most of the flat, fabric-like products in headings 6301-6306, such as bed sheets, tablecloths, curtains, bedspreads, tarpaulins and sails for boats. However, such an analysis is completely inappropriate for textile window shades and blinds which start with flat fabric, but then undergo significant manufacturing operations in China. These manufacturing operations typically involve folding and gluing the fabric into complex geometric shapes, as well as the attachment of head rails, bottom rails and cord systems, making the final product incomparable and utterly distinct from flat, fabric-like products.

S.3556 Is Consistent With Congressional Objectives Under Existing Law

S.3556 is entirely consistent with Congress' stated objectives when Section 3592 was passed. As the Senate Report noted "[f]or products that are assembled in more than one country, section 334(b) provides that the product will be deemed to originate in the country in which the 'most important' assembly or manufacturing process occurs. If origin cannot be determined on that basis, then origin will be determined by the last country in which important assembly or manufacturing occurs. The assembly rule of origin will not apply to certain products, including:

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specifically identified products for which an assembly rule is not appropriate.” S. Rep. 103-412.¹ While the assembly rule is not appropriate for the flat products described above, it is appropriate for textile window shades and blinds.

S.3556 will remove textile window shades and blinds from the exception category and return them to the standard rule for determining country of origin, that is, the site of the most significant manufacturing operation will once again control for these products. S.3556 is narrowly drawn and will end the loophole by changing Section 3592 only as it applies to textile window shades and blinds.

Conclusion

Determining country of origin based on the place of manufacture, rather than the source of the flat fabric component, is the most appropriate rule for complex, cellular window shades and blinds which gain 70-80% of their value from the manufacturing process. Accordingly, this bill would rectify the current loophole in Section 334 of the Uruguay Round Agreements Act. Since the quota will be in effect only until the end of 2008, a legislative revision is needed urgently in order to allow Hunter Douglas, its employees and the employees of its assemblers/customers to have the benefit of the textile agreement during its limited lifespan.

For all the reasons above, we urge the Committee to include S.3556 in any miscellaneous tariff packages it considers and thereby correct an anomaly in the law on rules of origin that seriously undermines enforcement of the quota on textile window shades and blinds from China.

Hunter Douglas appreciates this opportunity to submit its views. Hunter Douglas would be happy to answer any questions or to assist the Committee in any way.

Sincerely,

Christopher G. Outlaw
Vice President and General Counsel - Manufacturing

¹ Similarly, the House Report explains, “the new regulations required by section 334, to be based largely on a country-of-assembly rule of origin, will reflect the important rule of assembly in the manufacture of apparel, reduce circumvention of quota limits through outward processing, and help to reduce transshipments by providing greater certainty and uniformity in the application of origin rules.” H.R. Rep. No. 103-826(I).