



August 15, 2006

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

RE: S. 3240 -- Legislation to Clarify the Tariff Treatment of Textile Parts of Seats and other Furniture

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. 3240 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. 3240 clarifies the tariff treatment of cut pieces of fabric for use as furniture upholstery to ensure they are properly classified as a textile product. Currently, cut pieces of fabric are classified as furniture parts under headings 9401 or 9403 of the Harmonized Tariff Schedule of the U.S. These cut pieces of fabric enter the U.S. duty-free, in contrast to the duty on fabric in roll form, which range from 7 to 17 percent depending on fabric type. S. 3240 helps equalize this treatment by establishing a reasonable definition of textile furniture parts based on substantial transformation.

NCTO member companies, including yarn and fabric manufacturers, are being harmed under the current Customs regime for classifying these fabrics. As a result, we strongly support S. 3240 and strongly encourage you to ensure the inclusion of this legislation 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, reading "Cass Johnson", followed by a vertical red line.

Cass Johnson
President
cjohnson@ncto.org

August 15, 2006

Senate Finance Committee
Attention: MTB
219 Dirksen Senate Office Building
Washington, DC 20510

Gentlemen:

As you may know, City Furniture employs approximately 1,560 men and women in Fort Lauderdale, Florida. I want to alert you to legislation pending in the Finance Committee that could undermine our efforts to keep domestic furniture production viable.

S. 3240, sponsored by Sen. Chafee (R-RI) would reclassify cut-and-sewn upholstery fabrics into a more costly tariff category, a change supported by some domestic textile interests. While we sympathize with the challenges that the textile industry has faced, we do not believe higher tariffs are the answer. Indeed, they would represent a tax on one of the most important components of upholstered furniture, and would critically injure our own competitiveness.

I respectfully urge you to oppose such a change in policy. I would appreciate hearing your views on this critical matter for my industry.

Sincerely,

CITY FURNITURE

Keith Koenig
President

Ashley Furniture Industries, Inc.
One Ashley Way
Arcadia, WI 54612
phone - 608-323-3377
facsimile - 608-323-6121
e-mail address: twanek@ashleyfurniture.com

August 28, 2006

Via Electronic Mail to
mtb2006@finance-rep.senate.gov

Senate Finance Committee
United States Senate
219 Dirksen Senate Office Building
Washington, DC, 20510

Attention: MTB

RE: S. 3240, regarding increasing tariffs on cut-and-sewn upholstery fabric kits

Greetings:

Ashley Furniture Industries, Inc. ("Ashley"), is a furniture manufacturer with manufacturing and distribution facilities in California, Florida, Mississippi, Pennsylvania, and Wisconsin. Ashley's manufacturing and distribution facilities employ approximately 10,000 people in the United States. Ashley, though the use of domestic suppliers, subcontractors, and retail furniture stores licensed to operate as "Ashley Furniture HomeStores", also supports thousands of additional jobs in the United States. I want to alert you to legislation pending before the Finance Committee that, if passed, will undermine Ashley's efforts to keep domestic furniture production viable.

S. 3240, sponsored by Sen. Chafee, would reclassify cut-and-sewn upholstery fabrics into a more costly tariff category, a change supported by some domestic textile interests. While we sympathize with the challenges that the textile industry has faced, we do not believe higher tariffs are the answer and we oppose this legislation. S. 3240 will have a devastating effect on American furniture manufacturers, their employees, and all of the businesses throughout the country whose existence is dependent on furniture manufacturing in the United States. Indeed, the increased tariffs would represent a tax on one of the most important components of upholstered furniture, and will jeopardize the continuation of furniture manufacturing in the United States.

I urge you to oppose the passage of S. 3240 and this change in policy. I would appreciate hearing your views on this critical matter for the American furniture manufacturing industry.

Sincerely,

ASHLEY FURNITURE INDUSTRIES, INC.

Todd R. Wanek
President & C.E.O.

cc: U.S. Department of Commerce, Assistant General Counsels for Legislation and Regulation:
Steve Escobar (sEscobar@doc.gov) (via e-mail only)
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AMTAC

American Manufacturing Trade Action Coalition

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August 14, 2006

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

Dear Mr. Chairman:

This letter is in response to the July 11, 2006 Senate Finance Committee request for written comments on miscellaneous tariff measures. Specifically, I am writing in support of S. 3240, a bill to amend the Harmonized Tariff Schedule of the United States to clarify the tariff treatment of textile parts of seats and other furniture.

AMTAC represents over 200 domestic manufacturing companies in the textile, apparel, furniture, machine tool, steel products, plastics and other industry sectors. Our members collectively employ over 35,000 American workers with well-paying manufacturing jobs.

Currently, cut pieces of fabric for use as furniture upholstery are classified as furniture parts under headings 9401 or 9403 of the U.S. Harmonized Tariff Schedule. They are duty-free, in contrast to the duty on fabric in roll form, which ranges from 7 to 17 percent depending on fabric type.

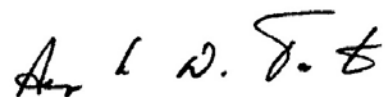
This duty circumvention is severely damaging to U.S. upholstery fabric manufacturers. In 2005 the U.S. imported \$1.2 billion in textile parts for chairs and other furniture, of which \$811 million were of Mexican origin (for automobile seats) and \$336 million were of Chinese origin (for home furnishings). While it is not possible to calculate the exact loss in tariff revenue to the U.S. treasury due to this duty circumvention, it is likely several tens of millions of dollars annually.

The tariff schedule does not define what operations must be performed on fabric to transform it into furniture parts. Currently U.S. Customs and Border Protection classifies fabric as a furniture part even if it has undergone the very minimal further processing of cutting. We believe that the mere cutting of fabric should not be considered a transforming operation for classification in HTSUS headings 9401 and 9403.

S.3240 establishes a more reasonable definition of textile furniture parts based on substantial transformation.

In conclusion, we strongly encourage you to include S. 3240 in the miscellaneous tariff bill being prepared by the Senate Finance Committee. Thank you for your attention to our concerns in this matter.

Sincerely,



Augustine D. Tantillo
Executive Director



**Comments of the American Home Furnishings Alliance (AHFA)
Opposing S. 3240, a Bill to Alter the Tariff Classification of
Cut-and-Sewn Upholstery Fabrics**

The American Home Furnishings Alliance (AHFA) represents manufacturers and importers of residential furnishings and decorative accessories, as well as the companies who supply components used in these products. AHFA companies participate in a highly-competitive market characterized by ever-changing style preferences, margin pressure from retailers, and the tendency of consumers to postpone purchases if their expectations of value are not met.

For some years, domestic furniture producers have sourced cut-and-sewn “kits” of upholstery covers from overseas. This practice, appropriate for leather and some high-volume fabrics, often supplements machine-cutting and hand-sewing of smaller-batch covers in the furniture plant itself. The resulting efficiencies have allowed domestic upholstered furniture production and employment to remain vigorous. While domestic production of wood furniture has declined to less than half of U.S. sales, domestic upholstered furniture production still represents 80 percent of sales.

Under current law, cut-and-sewn fabrics and leathers used in upholstered furniture are classified for tariff purposes as “furniture parts.” Section XI of the Harmonized Tariff Schedule of the U.S. (HTSUS), which deals with textiles, specifically notes that textile treatment does not extend to furniture, mattresses or parts thereof. Instead, such pieces are covered by Chapter 94 (furniture; bedding; mattresses...and similar stuffed furnishings) and more specifically in category 9401 (seats whether or not convertible into beds, and parts thereof) and 9403 (other furniture and parts thereof).

This is consistent with a general theme of customs law to recognize value-added transformations as giving rise to fundamentally different products. This principle is embodied in concepts such as “substantial transformation” and “tariff shift” that help establish the identity and origin of consumer products, which are increasingly

composed of parts sourced from different nations. Textiles processed into cut-and-sewn kits are longer suitable for use in draperies or comforters. They have been configured into dimensional pieces designed specifically to cover upholstery frames and cushioning. Clearly, they have been transformed into a new entity most appropriately classified in close connection to upholstered furniture.

S. 3240 would prevent classification of cut-and-sewn fabrics as furniture parts (categories 9401 and 9403) unless they are permanently attached to the upholstery frame and cushioning. This change in tariff status sought by S. 3240 is significant because most furniture products and components enjoy duty-free treatment, while significant tariffs and other restrictions are applied to imported textiles.

For a measure characterized by proponents as helping domestic manufacturing, this change would have two perverse results. It would effectively tax furniture producers for streamlining their manufacturing processes in order to remain competitive. It would likewise encourage the sourcing of finished upholstered furniture from abroad, because the tariffs associated with fabric would not apply once it is attached to the seating piece.

U.S. law already provides a mechanism for modifying the classification of particular products. Under the Omnibus Trade and Competitiveness Act of 1988 ("OTCA"), the Department of Commerce may make such modification on its own or under recommendation from the U.S. International Trade Commission (ITC).¹ Such changes are intended to help the system adapt to changing patterns of "actual use" of the product.² In the present case, a reclassification would seem to run counter to the well-established use of cut-and-sewn fabrics as furniture components. This may explain why the textile industry has appealed to Congress to impose this change.

Our members are sympathetic to the challenges faced by the domestic textile industry in recent years. Many have close relationships with their textile industry peers, and indeed, some companies operate in both lines of business. However, AFHA does not believe that higher tariffs are the solution. In fact, the added costs imposed on upholstered furniture producers would undercut their efforts to remain competitive and to continue producing in the United States.

We respectfully urge the committee to reject S. 3240 and any similar proposals.

¹ 19 U.S.C. §§ 3004, 3006.

² CFR §§ 10.131 to 10.139.

GRUNFELD, DESIDERIO, LEBOWITZ, SILVERMAN & KLESTADT LLP

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August 10, 2006

By Email (mtb2006@finance-rep.senate.gov)

United States Senate

Senate Finance Committee,

219 Dirksen Senate Office Building

Washington, DC, 20510

Attention: MTB - Miscellaneous Tariff Bill

Re: Opposition to Senate Bill Number 3240 - To amend the Harmonized
Tariff Schedule of the United States to clarify the tariff treatment of textile
parts of seats and other furniture.

Our Reference: 4896-56(1)I

Honorable Senators:

On behalf of our clients, American Signature Inc., 1800 Moler Rd., Columbus OH 43207, and Kroehler Furniture Manufacturing Company Inc., 1800 Conover Blvd. E, Conover NC 28613, we hereby register their opposition to Senate Bill 3240 and request that it not be included in any miscellaneous tariff bill. As discussed below, Senate Bill 3240 is highly controversial as it seeks to increase duties, violates existing bilateral and multilateral commitments of the United States, and disadvantages U.S. producers of upholstered furniture who utilize these imported components rather than import complete upholstered furniture.

On July 11, 2006, the Senate Finance Committee called for comments on this and other bills by August 15, 2006. As stated in that notice "[t]hese individual miscellaneous tariff measures must meet certain guidelines before they are eligible for inclusion in an omnibus miscellaneous tariff bill that will be considered by the Committee." Generally, these miscellaneous tariff measures are to be non-controversial.

I. ABOUT AMERICAN SIGNATURE, INC.

American Signature Inc. is a privately held designer, manufacturer, and retailer of home furniture and furnishings, headquartered in Columbus, Ohio. Kroehler Furniture Manufacturing Company Inc., is a manufacturer and seller of furniture wholly owned by American Signature, with manufacturing operations in North Carolina. In the past ten years, Kroehler has spent over \$9.5 million in capital improvements and increased full and part-time employment by approximately 77% or 170 people.

Founded in 1948 under the name Value City Furniture, American Signature has become one of the most respected names in the furniture industry. These companies employ approximately 5,600 employees in nineteen states¹ and operate 125 retail stores under the Value City Furniture and American Signature name. They employ highly skilled U.S. labor in its three state-of-the-art furniture and bedding manufacturing plants located in Parkersburg, West Virginia, Albany Georgia, and Conover, North Carolina. These operations utilize significant U.S.-sourced materials and components along with the textile components that are the subject of the proposed legislation.

In addition, American Signature operates four warehouses/distribution centers (Ohio, Virginia, Georgia, and Indiana) and owns a fleet of trucks that distribute deliver the furniture.

II. EXECUTIVE SUMMARY

Senate Bill Numbered 3240 (Exhibit A) introduced purports to “clarify the tariff treatment of textile parts of seats and other furniture,” by adding an “Additional U.S. Note” to Chapter 94, Harmonized Tariff Schedule of the United States (“HTSUS”). This new note will require that “articles of cotton or other textile fibers, but not of leather, shall be classified as parts of seats or other furniture only if they have been both cut and sewn to shape and have been permanently attached to furniture framing parts or sections.”

S. 3240 should not be included in the MTB because:

1. The bill would substantially change - not clarify - the existing state of the law.
2. The bill also constitutes a breach of a number of United States bilateral and multilateral agreements.

¹ Retail stores are located in Delaware, Florida, Georgia, Illinois, Indiana, Kentucky, Maryland, Michigan, Missouri, North Carolina, New Jersey, New York, Ohio, Pennsylvania, South Carolina, Tennessee, Virginia, West Virginia, and Wisconsin.

3. The bill would impose a new tax on American furniture manufacturers, increase production costs, and impede their ability of American manufacturers to compete with imports of finished furniture.

III. DISCUSSION

A. SUMMARY OF THE LEGISLATION

1. The items subject to S. 3240 are component parts of furniture composed of textile material. As imported into the United States, this merchandise generally consists of pieces of fabric that have been cut to size and shape and dedicated for use as a furniture component part. In most cases, the fabric components have also been sewn together and assembled (i.e., into chair, sofa, love seat or ottoman covers). The components are used in the manufacturing of upholstered furniture by U.S. workers in U.S. factories.

2. These cut components currently are classified in one of several tariff subheadings, in Chapter 94, HTSUS, as parts of furniture. For example, Customs classifies “parts of seats, of textile material, cut to shape” are in Subheading 9401.90.50.20, HTSUS, while it classifies parts of other furniture, except seats, “of cotton, cut to shape,” in Subheading 9403.90.80.50, HTSUS, all of which enter the United States duty-free.

3. If enacted, the classification of these furniture components will change from HTSUS 9401.90 (duty free) to be classified under Chapter 63 of the HTSUS and subject to a duty of 7% or more. In addition, this change in classification will change the applicable rule of origin under a number of free trade agreements also and deny benefits negotiated under these agreements.

B. S. 3240 CREATES CONTROVERSY AND CONFUSION

1. The classification of these cut textile components in Chapter 94, HTSUS, has never been subject to any ambiguity or controversy since the United States and other World Trade Organization members implemented the current tariff system in 1989.² Contemporaneously with the enactment of the HTSUS, Customs Headquarters in Washington D.C., in HQ 081335 of April 24, 1989, Customs definitively ruled that these components are properly classified under the HTSUS under HTSUS heading 9401.90. Customs Headquarters in

² Section 1204 of Public Law 100-418, the Omnibus Trade and Competitiveness Act of 1988, enacted the Harmonized Tariff Schedule of the United States.

Washington D.C. recognized that these cut components were properly classified in Chapter 94, HTSUS, in ruling letter HQ 081335, dated April 24, 1989 (contemporaneously with the enactment of the HTSUS). This decision expressly held that “fabric pieces composed of textile which are cut to size to be sewn and upholstered into furniture” are classified in Chapter 94, HTSUS. This 1989 ruling was reaffirmed in rulings issued in 1990 (HQ 085609 (February 2, 1990)), 1998 (NY C84369 (February 17, 1998)), 1999 (PD E86455 (September 3, 1999)), 2000 (NY G83319 (October 17, 2000)),³ 2005 (NY R02680 (October 19, 2005)) and 2006 (NY R03490 (April 3, 2006)). In fact, this interpretation pre-dates the enactment of the HTSUS and was the interpretation under the predecessor Tariff Schedules of the United States (TSUS) in effect since the 1930’s. *See* ORR Ruling 418-69 (November 10, 1969).⁴ Thus, this legislation will if enacted, S. 3240 would overturn Customs’ near 40-year interpretation of the scope of Chapter 94, HTSUS. (A compendium of these rulings is being provided for reference).

3. The proposed new Note to Chapter 94, HTSUS, is inconsistent with Section XI, Note 1(s)), HTSUS - a Note that was enacted as part of the international tariff nomenclature upon which the HTSUS is based. That note specifically excludes furniture components from classifications in Section XI that includes Chapter 63 – including the provision for made-up textile articles in Chapter 63. If enacted, S. 3240 would create a situation in which long established basic principles of tariff classification would be disregarded and a change to international agreements would be enacted unilaterally by the United States, without consulting our trading partners. Thus, in overturning HQ 081335 and its progeny, S. 3240 would reject the classification of articles that have been uniformly classified as furniture parts since 1989 and would result in the United States unilaterally modifying the international tariff nomenclature.

C. S. 3240 RESULTS IN AN IMPERMISSIBLE INCREASE IN DUTY

1. All imported products classified in Headings 9401 – 9403, HTSUS, including the cut components subject to S. 3240, currently are entitled to unconditional duty free entry from all countries with which the United States has normal trade relations (that is, all countries except Cuba and North Korea). If S. 3240 is enacted, cut components presumably will be classified in

³ This ruling was issued to the predecessor company of American Signature, Inc. - Value City Furniture.

⁴ This legislation will also affect the classification of automobile and aircraft seat components that are also classified under this provision. As a result, automobile and aircraft manufacturers and their suppliers will be adversely affected by this provision.

an HTSUS subheading in Section XI, HTSUS (textile and textile articles), and will be subject to duty of 7% or more. Thus, by reclassifying cut components in a dutiable subheading, the United States would be effectively breaching our agreement to eliminate duty on all articles of furniture and parts of articles of furniture.

2. The United States agreed to eliminate duty on furniture and furniture parts classified in Headings 9401 – 9403, HTSUS, during the Uruguay Round of trade negotiations that culminated in the Uruguay Round Agreements Act of 1994.⁵ Among the products upon which the United States agreed to eliminate duties at that time were the cut components subject to S. 3240. The United States in these agreements has “bound” the duty rates applicable to imported products at the agreed levels. The most recent of these agreements was again the Marrakesh Protocol to the General Agreement on Tariffs and Trade 1994 that was adopted into U.S. law. Any duty increase would thus violate these international multi-lateral trade agreements.

3. Assessing duty on these cut components would send a signal to our trading partners that they could act with impunity in ignoring their Uruguay Round agreements to eliminate and reduce duty on a wide variety of products, including significant American exports. Alternatively, our trading partners could decide to retaliate against the United States for this clear breach of our treaty obligations.

IV. S. 3240 WILL VIOLATE OBLIGATIONS UNDER A NUMBER OF FREE TRADE AGREEMENTS.

1. The United States has entered into or is in the process of negotiating approximately 26 regional free trade agreements. These agreements include specific provisions, similar to the Uruguay Round agreements, that commit the United States to not unilaterally increase tariffs vis-à-vis our trading partners similar to the Uruguay Round agreements. As a result, this proposed legislation would violate those agreements.

2. In addition, the proposed legislation will unilaterally increase duties, change the applicable rules of origin for these items, and remove the benefits committed to under these agreements. Many of the free trade agreements utilize rules of origin that determine duty-preference eligibility that are specifically based upon the classification of the imported product.

⁵ Pub. L. 103-465, 108 Stat. 4809 (1994).

These agreements include the North American Free Trade Agreement (Canada/Mexico),⁶ Caribbean Basin Trade Partnership Act (Barbados, Belize, Costa Rica, Dominican Republic, Guyana, Haiti, Jamaica, Panama, Saint Lucia, Trinidad and Tobago),⁷ Chile,⁸ Singapore,⁹ Australia,¹⁰ Morocco,¹¹ Bahrain,¹² and the Central America Free Trade Agreement (El Salvador, Honduras, Nicaragua, Costa Rica, Dominican Republic, Guatemala).¹³ This legislation would move the classification of these components from Chapter 94 (furniture and furniture components) to provisions in Chapter 63 (Other made up textile articles). These trade agreements also provide different rules of origin for goods classified for example in Section XI (including Chapters 61-63) than those that apply to these products when classified in Chapter 94 of the HTSUS. Our free trade partners are to will be adversely effected by this legislation. However, and more importantly, the United States will violate the agreements made with these countries.

V. S. 3240 IS CONTRARY TO THE INTERESTS OF AMERICAN MANUFACTURERS, WORKERS, AND CONSUMERS.

1. The cut components subject to S. 3240 are imported by American furniture manufacturers to be used in the manufacture of furniture in the United States. Several of these manufacturers were the recipients of the rulings supplied in the accompanying compendium. Based on the long-standing interpretation, these manufacturers and others have made investments and commitments in the countries of production and have established their operations based on the long-standing classification of these items.¹⁴ These investments will be severely adversely affected by this change.

2. Assessing duty on cut component imports would constitute a direct tax on these American producers, making it even more difficult for them to compete with imports of finished

⁶ Pub. L. 103-182, 107 Stat 2057 (Dec. 8, 1993).

⁷ Title II, Trade and Development Act of 2000, Pub. L. 106-200, 114 Stat. 251 (May 18, 2000).

⁸ Pub. L. 108-77; 117 Stat. 909 (Sept. 3, 2003).

⁹ Pub. L. 108-78; 117 Stat. 948 (Sept. 3, 2003).

¹⁰ Pub. L. 108-286, 118 Stat 919 (August 3, 2004).

¹¹ Pub. L. 108-302, 118 Stat 1103 (August 17, 2004).

¹² Pub. L. 109-169, 119 Stat 3581 (January 11, 2006).

¹³ Pub. L. 109-53, 119 Stat 462 (August 2, 2005).

¹⁴ American Signature likewise has invested in NAFTA/Mexico and China operations that will be significantly adversely affected by this legislation.

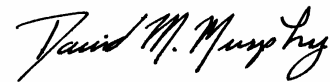
furniture. Imported complete upholstered furniture enters the United States duty free (HTSUS 9401.61.20). Thus, imported complete upholstered furniture will be treated more favorable than component parts to be used in U.S. manufacturing operations. As a result, this bill will disadvantage the U.S. Companies seeking to retain manufacturing of the upholstered furniture in the United States by using these imported components rather than shifting the manufacture of the finished product overseas. Clearly, American furniture manufacturers, their employees, and customers (American consumers) will be adversely affected by the loss of upholstery jobs and higher prices to the American consumer.

We appreciate the opportunity to provide this information for your consideration. Based on these above comments, it is self evident that Senate Bill 3240 is controversial, seeks to increase duties, and violates a number of pre-existing international agreements. The result of the bill will be to increase costs of U.S. producers like American Signature, Kroehler and others making them less competitive. As a result, we urge that Senate Bill 3240 not be considered as part of any miscellaneous tariff legislation.

Of course, if you have any questions or need additional information, please contact us.

Sincerely,

GRUNFELD, DESIDERIO, LEBOWITZ,
SILVERMAN & KLESTADT LLP

A handwritten signature in black ink, reading "David M. Murphy". The signature is written in a cursive, flowing style.

David M. Murphy

Attachments

EXHIBIT A

To amend the Harmonized Tariff Schedule of the United States to clarify the tariff treatment of textile parts of seats and other furniture.
(Introduced in Senate)

S 3240 IS

109th CONGRESS
2d Session
S. 3240

To amend the Harmonized Tariff Schedule of the United States to clarify the tariff treatment of textile parts of seats and other furniture.

IN THE SENATE OF THE UNITED STATES
May 25, 2006

Mr. CHAFEE (for himself and Mr. REED) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Harmonized Tariff Schedule of the United States to clarify the tariff treatment of textile parts of seats and other furniture.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. CLARIFICATION OF TARIFF TREATMENT OF TEXTILE PARTS OF SEATS AND OTHER FURNITURE.

(a) AMENDMENT TO THE HARMONIZED TARIFF SCHEDULE- The Notes to chapter 94 of the Harmonized Tariff Schedule of the United States are amended by adding at the end the following Additional U.S. Note:

` ADDITIONAL U.S. NOTE

` 1. For purposes of headings 9401 and 9403, articles of cotton or other textile fibers, but not of leather, shall be classified as parts of seats or other furniture only if they have been both cut and sewn to shape and have been permanently attached to furniture framing parts or sections.'.

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

FACT SHEET

OBJECTION TO PROPOSED TEMPORARY DUTY SUSPENSION, REDUCTION OR OTHER MISCELLANEOUS TARIFF PROVISION

Identification of Bill

House/Senate Bill Number(s): S. 3240
House/Senate Sponsor: Mr. CHAFEE (for himself and Mr. REED)
Product Name: Textile Parts Of Seats and Other Furniture.
Type of Bill: Amendment of Harmonized Tariff System classification of textile parts of seats and other furniture.

Product Information

The products consist of fabric that has been cut to size and shape for a particular sofa, seat of chair. In many cases, the fabric components are also sewn together and assembled with other components to comprise a shell of upholstered furniture. In the United States, U.S. employees of upholstered furniture manufacturers (including American Signature, through Kroehler Manufacturing Co.) use these components together with wood, upholstery, etc. to produce complete upholstered furniture in North Carolina and elsewhere in the United States.

Impact

The bill seeks to change the classification of certain fabric components for furniture from duty free to dutiable at 7% or more. As a result, finished upholstered furniture (which enters duty free) would have a duty preference over parts used by U.S. manufacturers. In addition, The proposed change would change the rule of origin applicable to the products from Mexico and other countries. As a result, these products, which have been duty-free, would become subject to duties of up to 7% or more and violate various trade agreements. The bill has the potential to incite the relocation of upholstered furniture jobs overseas, increase U.S. furniture manufacturer's costs, and result in increased costs to American consumers

In addition, American Signature relied upon Customs consistent treatment of these items in making significant investment in facilities in Mexico and China. If enacted, the bill would render these investment lost.

Contact Information

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Title: Attorney for American Signature Inc./Kroehler Manufacturing Company Inc.
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(617) 542-8220 (617) 542-2199 fax

July 28, 2006

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

**National Textile Association Statement Regarding Miscellaneous
Tariff Measures Introduced in the Senate During the 109th Congress**

Dear Mr. Chairman:

I write in response to the July 11, 2006, Senate Finance Committee solicitation of statements regarding miscellaneous tariff measures introduced in the Senate during the 109th Congress.

The National Textile Association is the nation's oldest and largest organization representing the fabric-making industry in the U.S. Our members knit, weave, dye, print, and finish fabric in the U.S., as well as supply the fabric industry with fibers, yarns, and other products and services.

From the list published at <http://finance.senate.gov/sitepages/2006MTB.htm> we have identified three bills that we must oppose as harmful to the interest of domestic producers we represent.

NTA opposes S.738 a bill to provide relief for the cotton shirt industry. We have communicated our concerns to a representative of the U.S. cotton shirt industry and he agreed to changes to the bill to make it acceptable to NTA. Those changes resulted in the filing of a new bill, S.3344 to which NTA has no objection.

NTA opposes S.1954 the *Insular Possessions Act of 2005*.

This bill would amend the requirements for duty-free treatment of goods shipped to the U.S. from insular possessions of the U.S. by lowering, from 50 percent to 30 percent, the percentage of the total value of a good which must originate in the insular possession or the U.S. This change is of great interest to U.S. textile producers because the Commonwealth of the Northern Mariana Islands (CNMI) is one of the beneficiaries of the insular possessions duty-free provision, being a

major shipper (79 million square meters worth in 2005) of apparel articles to the U.S.

In addition to duty-free status, the CNMI enjoys an extremely privileged trading relationship with the U.S. Apparel articles assembled in the CNMI may, legally, be marked "Made in the U.S.A." notwithstanding that the CNMI is exempt from the U.S. minimum wage. Furthermore, exemption from U.S. immigration laws, combined with the CNMI's own liberal guest worker program means that most of the apparel jobs in the CNMI are not even held by citizens of the CNMI.

Allowing more foreign content in goods entered duty-free from insular possessions will create an incentive for manufacturers to reduce insular possession/U.S. content in favor of cheap inputs from foreign countries. Among these foreign beneficiaries is, undoubtedly, China. U.S. imports of certain textile and apparel articles of Chinese origin are limited, through the year 2008, under a bilateral agreement between the U.S. and China. S.1954 would create a loop-hole for Chinese-origin goods to enter the U.S., via the CNMI, in circumvention of the hard-won U.S.-China bilateral agreement.

NTA opposes S.3642 a bill to temporarily suspend the duty on knitted or crocheted fabrics of cotton, printed. The NTA member companies who indicate that they manufacture cotton knit fabrics in the U.S. are

Alamac American Knits LLC

Beverly Knits, Inc.

Contempora Fabrics

Domestic Fabrics

Fab Industries, Inc.

Safer Textile Processing

From the list published at <http://finance.senate.gov/sitepages/2006MTB.htm> we have identified the follow bills that we support, the passage of which would be beneficial to the domestic producers we represent, or to which we have no objection:

NTA supports S.982 a bill to suspend the duty on certain rayon staple fibers. To the best of our knowledge and believe there is no domestic source for rayon.

NTA supports S.2328 a bill to extend through 2009 the existing duty suspension on certain synthetic filament yarns.

NTA supports S.2329 a bill to extend through 2009 the existing duty suspension on certain filament yarns.

NTA supports S.3022
NTA supports S.3023
NTA supports S.3024
NTA supports S.3025
NTA supports S.3026
NTA supports S.3027
NTA supports S.3028
NTA supports S.3029



These bills are suspension (or extend existing suspensions) of duty on certain fibers, yarns, and fabrics of fine animal hair such as cashmere, camel hair, and vicuna. These fibers are not commercially produced in the U.S. and the domestic producers of yarns and fabrics of fine animal hair support the duty suspension.

NTA supports S.3051

NTA supports S.3052

NTA supports S.3053

NTA supports S.3054

NTA supports S.3217. To the best of our knowledge and belief there is no domestic source for this rayon.

NTA supports S.3227 To the best of our knowledge and belief there is no domestic source for this rayon.

NTA supports S.3232.
NTA supports S.3233.



These bills extend and modify duty suspensions on wool products, wool research fund, and wool duty refunds, programs that have been in force since 2000 and which, taken together have provided significant relieve to the domestic wool textile and apparel industry.

NTA supports S.3240 a bill to clarify the tariff treatment of textile parts of seats and other furniture.

Cut pieces of fabric for use as furniture upholstery are classified as furniture parts under headings 9401 or 9403 of the Harmonized Tariff Schedule of the U.S. They are duty-free, in contrast to the duty on fabric in roll form, which range from 7 to 17 percent depending on fabric type.

This duty circumvention is severely damaging to U.S. upholstery fabric manufacturers. In 2005 the U.S. imported \$1.2 billion in textile parts for chairs and other furniture, of which \$811 million were of Mexican origin (for automobile seats) and \$336 million were of Chinese origin (for home

furnishings). While it is not possible to calculate precisely the loss in tariff revenue to the U.S. treasury due to this duty circumvention, it is undoubtedly several tens of millions of dollars annually.

The tariff schedule does not define what operations must be performed on fabric to transform it into furniture parts. Currently U.S. Customs and Border Protection classifies fabric as a furniture part even if it has undergone the very minimal further processing of cutting. We believe that the mere cutting of fabric should not be considered transforming operation for classification in HTSUS headings 9401 and 9403.

The design of this bill is to establish a reasonable definition of textile furniture parts based on substantial transformation. The National Textile Association endorses this effort. In addition, Senator Elizabeth Dole and Senator Rick Santorum have joined Senator Chafee in efforts to challenge this misclassification.

The NTA Upholstery Fabrics Committee, at the meeting held on Tuesday, April 11, 2006

VOTED to endorse the efforts of Senator Lincoln Chafee of Rhode Island to correct the misclassification of upholstery fabric as furniture parts and to contact their members of Congress and urge them to support Senator Chafee's efforts. The members of the Upholstery Fabrics Committee reiterated that misclassification of upholstery fabrics is a major issues which is seriously damaging U.S. producers of upholstery fabrics.

The NTA Board of Government, meeting later the same day, likewise

VOTED to support efforts to correct the misclassification of upholstery fabrics. Noting the seriousness of the issue, as emphasized by the members of the Upholstery Fabrics Committee, the NTA Board of Government directed the staff to exert the utmost energies in pushing for a legislative or administrative correction to the problem of misclassification of upholstery fabrics.

NTA supports S.3252

NTA supports S.3264

NTA supports S.3265

NTA supports S.3266

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To the best of our knowledge and belief there is no domestic source for this rayon.

NTA has no objection to S.3344 a bill to provide relief for the cotton shirt industry. This is an alternative version of S.738; NTA opposes S.738.

NTA supports S.3395. To the best of our knowledge and belief there is no domestic source for this rayon.

NTA supports S.3434.

NTA supports S.3435.

NTA supports S.3436.

NTA supports S. 3645. To the best of our knowledge and belief there is no domestic source for this rayon.

Finally, from the list published at <http://finance.senate.gov/sitepages/2006MTB.htm> we have identified additional bills that may be of interest to domestic U.S. textile producers but regarding which we are not making comments at this time. We may be filing additional comments before the August 15th deadline. Our silence at this time regarding the following bills should not be taken as an indication of domestic industry assent.

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|--------|--------|--------|--------|
| S.541 | S.3102 | S.3236 | S.3402 |
| S.2647 | S.3103 | S.3241 | S.3403 |
| S.2648 | S.3105 | S.3242 | S.3479 |
| S.3070 | S.3110 | S.3362 | S.3493 |
| S.3071 | S.3123 | S.3393 | S.3494 |
| S.3097 | S.3125 | S.3394 | S.3556 |
| S.3098 | S.3126 | S.3396 | S.3641 |
| S.3099 | S.3127 | S.3397 | S.3643 |
| S.3100 | S.3150 | S.3400 | S.3644 |
| S.3101 | S.3164 | S.3401 | |

Thank you for your consideration of these comments.

Sincerely yours,

David Trumbull
Director, Member Services