(The following supplemental statement was received by the committee:)

Additional Statement of the Floor Covering Group of the American Importers Association

The recent testimony of the Floor Covering Group of the American Importers Association dealt only with the reasons why quotas should not be imposed on foreign rugs and carpets. Included within the Floor Covering Group, however, are the principal United States importers of tubular braided rugs. H.R. 6959 proposes to increase almost threefold the U.S. tariff on these rugs. We are opposed to this bill and would therefore like to offer a short summary of our reasons for believing that this tariff increase would not serve the national interest.

The purpose of H.R. 6959 is to change the tariff schedules so as to classify tubular rugs in the same category as true braided rugs in the Tariff Schedules of the United States. The effect of this reclassification would be to increase the tariff from approximately 15 percent ad valorem to 42.5 percent ad valorem. There is no technical or practical reason for such a change. Tubular braided rugs are entirely different in construction and market price from true braided rugs. True braided rugs are made by braiding strips of fabrics and sewing the resultant braid into an oval shape.

Tubular braided rugs are made by an entirely different process: a machine wraps multicolored threads around shredded fiber material and thus produces a long tube with a core of fiber material and a covering of threads. This tube is then sewn into an oval shape to produce the finished rug. This process does not involve braiding and thus the tubular braided rugs have quite properly been held by the U.S. customs courts as distinct from the true braided rugs for tariff classification purposes. The only thing the two types of rugs have in common is their oval shape.

True braided rugs normally sell at a price ranging from $150 to $200 for a rug of approximately 9 feet by 12 feet. A tubular braided rug of the same size commonly sells for $30 to $70. It is obvious that there is no possibility of significant competition between these two types of rugs and that customers preferring one of them will do so for reasons which will not lead them to consider the other as an alternative.

For these reasons, the U.S. manufacturers of true braided rugs will not benefit from an increase in the tariff on tubular braided rugs.

To the extent that support for H.R. 6959 comes from U.S. manufacturers of tubular braided rugs, we believe that the proposal also lacks any sound justification. Our belief is based on the following reasons:

1. On a production cost basis, no reason exists which would prevent domestic manufacturers of tubular braided rugs from competing effectively with their foreign counterparts. Although direct labor costs are somewhat lower abroad, the labor component in the manufacture of tubular braids is not substantial. Any cost saving resulting from wage payments are more than offset by other charges incurred in bringing these rugs to the American market. For example, foreign producers and domestic importers must add to their direct production costs the following charges:

Indirect labor costs resulting from high fringe benefits and retirement payments;

Ocean freight payments amounting to between 15 and 30 percent of production costs and marine insurance costs which add several more percentage points to production costs; and

The current United States tariff rate.

When these additional expenses are coupled with basic manufacturing charges, all foreign cost savings have more than vanished. In fact, with these additional costs, foreign tubular braided rugs are able to compete with domestic goods only because of superior purchasing and designing methods, and because of a willingness by foreign manufacturers and importers to accept a reduced profit ratio on each sale.

2. Thus, it is clear that on a production cost basis, the granting of new benefits to domestic braided rug manufacturers through a tariff increase is not justifiable. New import restrictions will only enable those domestic producers of tubular braided rugs who have failed to modernize their production facilities to maintain a share of the rug market. In this guise, the tariff increase serves