MANUFACTURED IN AMERICA—BUT NOT “MADE IN USA”?

HOW THE FEDERAL TRADE COMMISSION BANNED PRECIOUS METALS PRODUCTS MANUFACTURED IN THE UNITED STATES FROM BEING LABELED “MADE IN U.S.A.”

Respectfully Submitted By: RICHLINE GROUP, INC.

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- Richline Group is the United States’ foremost jewelry manufacturer, distributor and marketer, selling thousands of retailers and jewelry outlets in the US and throughout the world. We have been a wholly-owned subsidiary of Berkshire Hathaway Inc. since 2007. From alloy production to the creation of internationally recognized consumer jewelry brands, Richline is a worldwide, vertically-integrated presence in the global jewelry supply chain.
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MANUFACTURED IN AMERICA—BUT NOT “MADE IN USA”

Executive Summary

American consumers prefer to buy products made in America, even if the cost is somewhat higher. But jewelry and precious metals manufacturing jobs are being forced offshore at an alarming rate. One reason is regulations that favor imports from other countries. As the precious metals industry loses jobs, it also loses the pride, skills and craftsmanship we need to compete.

At the root of the problem is an outdated standard for labeling a product “Made in USA.” In a controversial decision made 20 years ago, the Federal Trade Commission (FTC) determined that, to be labeled “Made in USA,” a product must be produced “all or virtually all” in America. While that sounds innocuous, the standard is technically impossible for precious metals products to achieve. It defies common sense and penalizes US employers.

- First, the “all or virtually all” standard is outdated, rendered obsolete by globalization. It is far more restrictive than the rules of origin in other countries.
- Second, it has been destructive to American manufacturers and has placed them at a severe competitive disadvantage. American jobs are being lost as a result.
- Third, it flies in the face of United States laws and treaties. FTC is alone among our federal agencies in applying the “all or virtually all” standard.

There is a solution already in place. It is clear, convincing, and protects American consumers from deceptive practices. Congress paved the way with a more sensible approach by enacting the American Reconstruction and Reinvestment Act of 2009 (“ARRA”). Under the ARRA’s implementing regulations, a product is considered American made if it is substantially transformed in the U.S.A. “Substantial transformation” occurs when there is a change in the character or use of a good or component. A fabricated product is “substantially transformed” if:

- There is a change in the physical and/or chemical properties or
characteristics designed to alter the functionality of the good.

✓ The manufacturing or processing operation result(ed) in a change of product(s) with one use into a product with a different use.

✓ The manufacturing or processing operation result(ed) in the narrowing of the range of possible uses of a multi-use product. (For instance, refined gold can be used in many applications; a gold ring has only one use.)

The Buy American Act Amendments in the ARRA recognize that a manufactured product is unique because of the creativity, technical proficiency, and production skill of the manufacturer.

Precious metals raw materials\(^1\) used to manufacture products have standard, identical specifications throughout the world. They are fungible commodities. They move freely between countries. The country in which a product's "character or use" is changed should determine the product's origin; not the source of a product's commodity raw materials. The origin of precious metals is defined internationally as the country in which they were last refined, irrespective of the country from which scrap or mine materials were collected. The FTC's standard is the exception.

Both American metals refiners (that produce bullion) and product manufacturers (that produce finished goods), should be able to apply the "Made in USA" label if they meet the "substantial transformation" standard. Refined precious metals are commodities, but they are also products whose character has been changed by conversion of raw materials (scrap and mine materials), which have no use until they have been transformed and purified. The refining process to transform refining materials from an impure state to useable purified bullion is multi-staged and technically complex, involving thermal reduction and chemical separation. Fabricating the bullion into jewelry and an array of precious metals products requires subsequent design and manufacturing steps,

"Substantial transformation" is the standard employed under the Buy American Act in the ARRA—already part of our laws. It is the standard Federal agencies use to determine that steel and iron are American made. It is a practical international standard, applied by countries competing against the United States and (with the exception of FTC) by United States Government. It is the standard used by the United States Customs Service and under U.S. trade agreements. And it is the standard applied by the Department of Defense and all the other Federal agencies.

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\(^1\) Primarily cast bullion (bars), "grain" of high purity or uncast metal in the form of "sponge." See p.10.
We urge Congress to mandate that the substantial transformation standard should be applied by the FTC as it is for all other federal agencies under the Buy American Amendments in the ARRA.

MANUFACTURED IN AMERICA—BUT NOT “MADE IN USA”?  

Introduction

Given the choice between an American-made product and one made abroad, Americans prefer the United States product. American-made goods have a reputation of quality, dependability, safety, and reliability.

• According to a July 2015 Consumer Reports survey, 77% of Americans would rather buy an American-made product than one that is imported.  

• A 2013 survey by Boston Consulting Group’s Center for Consumer and Customer Insights found not only that about 80% of Americans are willing to pay more for products labeled “Made in USA,” but about 60% of Chinese consumers are also willing to pay more for products labeled “Made in USA.” More than 50% of the Chinese survey respondents said they prefer to purchase an American-made good as opposed to a Chinese-made good of equal price and quality.  

Despite consumer preference, the precious metals industry has been blocked by the Federal Trade Commission’s (FTC) outdated and restrictive definition of what constitutes domestic United States origin. Today, many manufacturers of precious metals products find it advantageous to export and pay transportation costs and foreign tariffs on American goods rather than sell them in America with a “generic” country of origin.

FTC’s Standard for “Made in USA”

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Similar results in AP-GFK Poll, March 2016, Conducted by GFK Public Affairs Corporate Communications for Associated Press. p. 11
One of the FTC’s roles is to protect consumers from deceptive product claims and labeling. The FTC has enforcement power to prevent misleading claims, among them claims as to country of origin.

“All or Virtually All”— In 1997, the FTC adopted the “all or virtually all” standard to determine if a product can be designated “Made in USA.” The standard requires that virtually all of a product’s components must be from the United States and that the product’s final assembly or processing must take place in the U.S. In addition, all processing must be in the United States and all manufacturing costs must be incurred in the United States. The product must meet a “de minimis” threshold of foreign content to conform to consumer expectations for a product labeled “Made in USA.”

One consideration is how far removed the foreign content is from the finished product.

The FTC has ruled that products containing raw materials of indeterminate origin are barred from applying the “Made in USA” label if there is a chance that some small part of the content might have originated outside the United States—even fungible commodities produced throughout the world.

“Substantial Transformation”— Globalization has rendered the “all or virtually all” standard obsolete. This was true well before 1997 when it was adopted but has become apparent in the last twenty years as the trend toward globalization has accelerated. The criteria below determine whether substantial transformation has taken place:

Was there a change in character or use of the good or the components in America? (These questions are asked about the finished good as a whole, not about each individual component)

a. Was there a change in the physical and/or chemical properties or characteristics designed to alter the functionality of the good?

b. Did the manufacturing or processing operation result in a change of a

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product(s) with one use into a product with a different use?

c. Did the manufacturing or processing operation result in the narrowing of the range of possible uses of a multi-use product? 6

*Other countries—particularly those competing with the United States—have adopted the “substantial transformation,” placing the United States at a severe competitive disadvantage.*

**United States Manufacturers at a Disadvantage**

The FTC’s country of origin standards place United States precious metals manufacturers at a severe disadvantage. American consumers prefer to buy jewelry manufactured in the United States. However, the “all or virtually all” standard has created a restrictive and disruptive effect on American manufacturers. The table below shows the country of origin standards required by key international organizations and by countries competing against the United States jewelry manufacturers:

<table>
<thead>
<tr>
<th>Country of Origin/Substantial Transformation</th>
<th>Organizations and Standards</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States Customs</td>
<td>Last country transformed with distinct name, character, use</td>
</tr>
<tr>
<td>World Trade Organization</td>
<td>Last country transformed with distinct name, character, use</td>
</tr>
<tr>
<td>World Customs Organization</td>
<td>Last country transformed with distinct name, character, use</td>
</tr>
<tr>
<td>European Union</td>
<td>Last country transformed with distinct name, character, use</td>
</tr>
<tr>
<td>China</td>
<td>30% of product from country of origin</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>25% of product from country of origin</td>
</tr>
<tr>
<td>Thailand</td>
<td>50% of product from country of origin</td>
</tr>
<tr>
<td>South Korea</td>
<td>35% of the value added from the country of origin</td>
</tr>
<tr>
<td>Turkey</td>
<td>Last country transformed with distinct name, character, use</td>
</tr>
<tr>
<td>Federal Trade Commission</td>
<td>All or Virtually All</td>
</tr>
</tbody>
</table>

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“Made in USA” in the Precious Metals Industry

The FTC standard precludes precious metals products from being labeled “Made in USA.” In its explanation of how to comply with its “all or virtually all” standard, the FTC used this example:

If the gold in a gold ring is imported, an unqualified “Made in USA” claim for the ring is deceptive. That’s because of the significant value the gold is likely to represent relative to the finished product, and because the gold – an integral component – is only one step back from the finished article. 7

The example is replete with errors and reflects a fundamental lack of understanding of the precious metals business—and of all businesses using recycled metals—steel and ferrous metals; copper, lead, tin, zinc and nonferrous metals.

Gold is (overwhelmingly) expensive—in its example, FTC disqualified the gold ring from using the “Made in USA” label because the gold value is high relative to the value of the ring. However, in nearly all applications where gold content is a significant proportion of a product’s weight, the high value of gold will overwhelm the price of all the other components combined. In fact, in wholesale transactions, precious metals products are often priced in two parts: the metals price and the fabrication charge. This avoids distorting the value added with the item’s commodity content.

The price of a commodity, including precious metals, has nothing to do with its origin. For other products, the relative cost of imported components might be a valid determinant of a product’s origin. But the component cost criterion excludes nearly all precious metals products.

Gold refining and fabrication—FTC’s assertion that the gold is not substantially transformed in the United States and that the gold in the ring is “only one step back from the finished article” is profoundly incorrect.

The refining stage of precious metals and the fabrication stage of precious metals products are separate. Each requires extensive transformation. The two stages should be considered independently in determining the “Made in USA” designation.

1. Metals in commodity form that are refined in the United States should be allowed to be called “Made in U.S.A.” irrespective of where the refining materials (scrap or mine material) originated.

2. Items fabricated in the United States should be labeled: “Made in U.S.A.” irrespective of where the refined bullion in commodity form originated.

Below are the details to support these requests.

1. **Refining:** The country of origin for precious metals in commodity form should be where refining materials—mine materials and scrap—were last refined, irrespective of the source of the refining materials. This position is supported by the nature of precious metals; by the refining process; by United States and international laws and treaties; and by all the United States Federal Government Agencies concerned with the rules of origin (with the single exception of the FTC).

The source of gold in refined metal or in fabricated products is irrelevant in determining country of origin. Gold has been mined for 5000 years, and 90% of all the gold ever mined is said to exist today. It is too valuable to discard so it is recycled—over and over again, all over the world. Roughly 40% to 50% of refined gold comes from scrap and the balance from mined material.

Without refining, precious metals scrap and mine materials cannot be used in a finished product. They are raw materials suitable only for recycling and purification.

- Scrap is from products that have reached the end of their useful life. It might be old jewelry, coins no longer in circulation, spent catalyst and solutions or dental materials.
- Mining materials might be ore, concentrate, doré or slag.
In nearly all cases, mine material and scrap are comingled in the refining process. Once refined, mined gold is indistinguishable from recycled gold. It moves freely all over the world. So, the gold in FTC’s ring example might have been from a mine in any continent in the world, from scrap collected by a dealer, or from Cleopatra’s necklace. *The source of the gold molecules does not matter; the country of origin is where the metal is refined.*

Before gold from a mine or from scrap can be used in any product, they must first be refined to a level of purity suitable for their end use. For instance:

- The purity of Government gold reserves held in Fort Knox is 99.5%, sufficient for use as a store of value and as a medium of exchange.
- Jewelry manufacturers require gold of 99.95% to 99.99% purity for alloying and fabrication.
- Electronics manufacturers might need a minimum purity of 99.999% to assure conductivity.

For the electronics manufacturer, the gold in Fort Knox would be considered scrap that requires further refining into a new, useable product. *So, the country of origin is the last location in which refining took place.*

Precious metals refining materials are never just “one step away” from a final product, and precious metals products seldom just one step away from refined metal. Precious metals refining is a complex, multi-stage combination of physical and chemical processes. Scrap and mining materials undergo preparatory concentration that involves weighing, sorting, blending, thermal reduction and repeated sampling and analysis. Often these steps are done by a number of companies in different countries. After it is concentrated to a grade in the high 90% range, material can be refined by chemical separation and converted to a form suitable for fabrication. The specialized technologies required to refine some materials can require a number of refiners to bring material to a level of purity suitable for end use.
Once refined, precious metals are cast into a form in which they can be used. The form with which we are most familiar is gold or silver bars, cast in different sizes and dimensions. Another form is grain—small beads readily measured in small precise quantities. Where subsequent fabrication requires chemical dissolution, the metal is used prior to casting in a form called “sponge.” These raw material forms have multiple applications.

In sum, refining materials—mine material and metals scrap—become a new product after being refined, and the country of origin is the last country in which the precious metal is refined. This applies to all metals—precious, nonferrous and ferrous. Metal refined in the United States should be considered “Made in USA” irrespective of where the refining materials come from.

2. Fabrication: Precious metals manufacturers use refined gold to fabricate their products.

- Metal in raw material form must be further processed and transformed into a final product to be used. \(^8\)

- The final products—jewelry, catalytic compounds, mill products such as wire and sheet, sputtering targets, dental alloys, pharmaceuticals, chemicals, electronics components, and many others—all have different uses with different names and applications narrower than the range of uses of the raw material.

- Precious metal in one product cannot be used in another. The metal contained must first be purified and refined before it can be used for re-fabrication.

Fabricated products are new, separate and different from refined precious metal in raw material form. So, irrespective of where the pure metal raw material was refined, United States manufacturers should be able to label their fabricated products “Made in USA.”

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\(^8\) The one exception is large investment bars, which are commonly held in cast form. Investment bars have no use except as a store of value and as a medium of exchange.
FTC says the gold ring in its example is “only one step back from the finished article.”

That is incorrect: precious metals products require numerous technically complex steps before they are suitable for use. The ring in FTC’s example probably went through the following fabrication steps:

- A refined gold bar was melted and poured into casting grain.
- Then grain was alloyed with silver, copper and other metals for correct karatage,9 hardness, tensile strength and color.10
- The alloy was sampled and chemically analyzed for the primary elements and frequently for impurities to make certain the alloy complies with EU and certain United States laws.
- The granular gold-based alloy was introduced into a melting unit, then poured into a vacuum chamber to form the rough cast ring.
- The rough cast ring was cleaned, ground, polished, sized and carefully inspected for defects.

In sum, the refined gold bar and the manufactured ring are each new and separate products.

- If precious metals are refined in the United States, it is “Made in USA,” even if the origin of the scrap or mine material from which it is refined is foreign.
- Even if the ring is manufactured from a gold bar refined in another country, a manufacturer in the United States should be able to label it “Made in USA.”

**Laws and Treaties Confirm “Substantial Transformation”**

United States laws and treaties confirmed by Congress uniformly recognize and apply the substantial transformation standard, as do the Federal agencies responsible for trade and commerce. The FTC position is an outlier; it should be harmonized with American law and practice.

Our laws recognize and confirm that the country of origin of refined metals is the country in which they are refined, irrespective of the source of scrap or mine material from which the metal is refined. For instance:

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9 The grading increments commonly used are: 22 karat=91.67% “pure”; 18k=75%; 14k=58.33%; 10k=41.67%. United States plumb laws permit 0.7% variation from the standard.
10 People generally think of gold as having its characteristic yellow color. By adding trace elements, gold can have tones of green, red, black and other colors. White gold must meet the same karat standards as yellow gold.
• The Department of Commerce and the United States Trade Representative adhere to the U.S. Customs Service definition of domestic origin for scrap:

> Even if all the metal contained in scrap is originally mined in other countries, and even if the scrap is imported from a foreign source, if it is collected in the U.S. to upgrade into raw material, its origin when it is upgraded becomes the United States.\(^\text{11}\)

• The Buy American Act of 1933 specifies that:

> …scrap generated, collected and prepared for processing in the United States is “domestic end product.”\(^\text{12}\)

• The American Recovery and Reinvestment Act (ARRA) of 2009, which amends the Buy America Act, states:

> In the case of a manufactured good that consists in whole or in part of materials from another country (that) has been substantially transformed in the United States into a new and different manufactured good distinct from the materials from which it was transformed, there is no requirement with regard to the origin of components in manufactured goods or products as long as the manufacture of the goods occurs in the United States.\(^\text{13}\)

The ARRA specifies the rule of origin for refining materials as well as manufactured goods. It requires Government agencies to buy steel made in the United States for government funded construction projects. The standard of origin is for the steel to have been “melted and poured” in the United States. The legislation requires no certification as to the origin of the scrap.

**The Way Forward: Conclusion**

The FTC’s “All or Virtually All” requirement for a product to be labeled “Made in USA” is punitive and outdated. Globalization has passed it by long ago. The standard causes American jobs to be lost to other countries and has restrictive, distorting and disruptive effects on international trade.

**The United States needs a single, consistent United States rule of origin to serve both industry and consumers.**

\(^{11}\) Code of Federal Regulations, Title 19-Customs Duties, paragraph 102.1-(9)(ii)

\(^{12}\) Buy American Act. 1933, 41 USC, Chapter 83, Federal Acquisition Regulations. 25.003 Definitions.

\(^{13}\) American Recovery and Reinvestment Act, 2009, Section 1605 (a) Definitions
We, respectfully, urge Congress to mandate that the substantial transformation standard should be applied by the FTC, as it is by all other federal agencies under the Buy American Amendments in the ARRA.

**Endorsers**

We are grateful for the support and endorsement of:

Chemistry Council of New Jersey

Industry Council for Tangible Assets

International Precious Metals Institute

Institute of Scrap Recycling Industries

Jewelers of America

Jewelers’ Vigilance Committee

Manufacturing Jewelers and Suppliers of America: 40 international member companies that have a combined total of 4,911 employees, estimated more than 1,450 U.S.-based companies that (estimated) employ a total of more than 65,000 workers

Precious Metals Association of America

Ethical Metalsmiths
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Federal Regulations Code, Title q9-Customs Duties, paragraph 102.1-(9)(ii)


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