

**The original documents are located in Box 11, folder “Economy - Trade Iron Blue Pigments” of the Philip Buchen Files at the Gerald R. Ford Presidential Library.**

### **Copyright Notice**

The copyright law of the United States (Title 17, United States Code) governs the making of photocopies or other reproductions of copyrighted material. Gerald R. Ford donated to the United States of America his copyrights in all of his unpublished writings in National Archives collections. Works prepared by U.S. Government employees as part of their official duties are in the public domain. The copyrights to materials written by other individuals or organizations are presumed to remain with them. If you think any of the information displayed in the PDF is subject to a valid copyright claim, please contact the Gerald R. Ford Presidential Library.

*Economy*

THE WHITE HOUSE  
WASHINGTON

May 21, 1976

MEMORANDUM FOR:

ED SCHMULTS

FROM:

BOBBIE KILBERG

*Bobbie*

I have reviewed the attached memorandum but do not have either an economic or trade-related expertise. However, I think the most persuasive argument is made in favor of no import relief for the industry combined with expeditious consideration of worker adjustment assistance petitions.

Since you do have some economic and trade knowledge, I thought you might want to review this before Phil sends it back to Seidman. A draft memo to Seidman is also attached.

Attachments

*Seidman*  
*no memo*



THE WHITE HOUSE

WASHINGTON

May 21, 1976

MEMORANDUM FOR: BILL SEIDMAN

THROUGH: PHIL BUCHEN *Bobbie*

FROM: BOBBIE KILBERG

SUBJECT: Escape Clause Case: Ferricyanide and Ferrocyanide (Iron Blue) Pigment

The Counsel's Office has reviewed the attached memorandum and finds the arguments in favor of the following option to be the most persuasive:

No import relief remedy to the industry combined with expeditious consideration of worker adjustment assistance petitions.

Attachment



THE WHITE HOUSE

WASHINGTON

May 19, 1976

MEMORANDUM FOR: PHILIP BUCHEN ✓  
JAMES M. CANNON  
MAX FRIEDERSDORF  
JOHN O. MARSH  
BRENT SCOWCROFT

FROM: L. WILLIAM SEIDMAN

SUBJECT: Escape Clause Case: Ferricyanide and  
Ferrocyanide (Iron Blue) Pigments

A memorandum from Ambassador Dent on "Escape Clause Case: Ferricyanide and Ferrocyanide (Iron Blue) Pigments" is attached.

I would appreciate your comments and recommendations on this memorandum by c.o.b. Friday, May 21, 1976.

Support the recommendation of Ambassador Dent  
and the Inter-Agency Trade Organization

Edward Schnults

5/21/76

Attachments



THE SPECIAL REPRESENTATIVE FOR  
TRADE NEGOTIATIONS  
WASHINGTON

LIMITED OFFICIAL USE

17 MAY 1976

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Recommendations in the Iron Blue Pigments  
Escape Clause Case

On April 2, 1976 the U.S. International Trade Commission (USITC) reported to you its findings that ferricyanide and ferrocyanide (iron blue) pigments are being imported in such increased quantities as to be a substantial cause of serious injury or the threat thereof, to the domestic industry producing such pigments. One Commissioner found no injury; two found injury; and three found a threat of injury.

The five Commissioners finding in the affirmative were unanimous in recommending that the current duty of 2.7 cents per pound, or about three percent ad valorem, be raised for a five year period. For the first year, an additional duty of 18 percent ad valorem was recommended; in each of the four years thereafter the supplementary duty would decline by three percentage points and it would terminate at the end of the fifth year.

If you do not proclaim the remedy recommended by the Commission, your decision will be subject to Congressional override. The statutory deadline for your decision is June 1, 1976.

Senator Robert Byrd (W. Va.) has expressed interest in the case, and Congressman Robert Mollohan (W. Va.) submitted testimony on behalf of the petitioners at the USITC hearings.

This case has been considered in the interagency trade organization in accordance with section 242(b)(2) of the Trade Expansion Act of 1962, as amended. All agencies recommend that, for reasons of trade policy, you grant no remedy to the industry. However, should you decide that some remedy is advisable, it is recommended that you provide (a) expeditious consideration of worker adjustment assistance petitions or (b) a three year tariff rate quota of 3 million pounds, with an

LIMITED OFFICIAL USE



LIMITED OFFICIAL USE

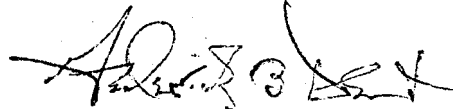
- 2 -

over-quota rate of 8 cents per pound. I support the interagency recommendation that you provide no remedy in this case; however, if a remedy is deemed necessary, I believe it should be confined to expeditious consideration of adjustment for workers.

Decision:

- A. No remedy \_\_\_\_\_
- B. Adjustment assistance for workers; no other remedy \_\_\_\_\_
- C. Tariff rate quota for three years (3 million pounds, 8 cents over-quota duty) \_\_\_\_\_

For your information, I am attaching a copy of the report on this case prepared by the Trade Policy Staff Committee. Also attached for use if you accept the above recommendation that no remedy be provided are: (1) a draft press release announcing your decision, (2) a draft decision memorandum which would be published in the Federal Register; and (3) a draft report to the Congress explaining your decision and why it differs from the USITC recommendation; and draft letters transmitting that report. Should you determine that a remedy is needed, revised attachments will be prepared.



Frederick B. Dent

Attachments



# TRADE POLICY STAFF COMMITTEE

## ACTION RECORD

DATE: May 14, 1976  
DOCUMENT: 76-26  
SUBJECT: Iron Blue Pigments

SUBMITTED BY: Task Force

### ATTENDANCE:

Agency

STR Allen H. Garland, Chairman; Doris Whitnack

Agriculture James Benson

Commerce Ann Garcia, Joe Payne

Defense Joseph Darling

Interior Howard Andersen

ITC John Boyd, George Deyman, Robert Shaffer

Labor David Parker, Rick Schulman

State William Clark

Treasury Robert Standard

CIEP Wilbur Monroe

OMB Steve Farrar

NSC Tim Deal

### COMMITTEE DECISION:

Paper approved.

### COMMITTEE COMMENT:



17  
Carolyn Frank  
Secretary

LIMITED OFFICIAL USE

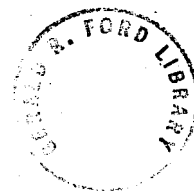
PROBLEM

The U.S. International Trade Commission (USITC) on April 2 sent to the President its findings and recommendations in regard to an escape clause petition on tariff item 473.28 covering ferricyanide and ferrocyanide pigments (hereinafter called iron blue pigments). Three Commissioners found that imports are a substantial cause of a threat of serious injury to the domestic industry; two Commissioners found that imports were a substantial cause of serious injury; and one Commissioner determined that increased imports were not a cause of injury or threat thereof.

The five Commissioners finding in the affirmative were unanimous in their recommendation for a remedy. In addition to the current 2.7 cents per pound duty, they recommended for the first year, an additional duty of 18 percent; for the second year, 15 percent; for the third year, 12 percent; for the fourth year, 9 percent; and for the fifth year, 6 percent. If the President does not proclaim this remedy, his decision will be subject to Congressional override.

The interagency trade organization must make a recommendation to the President through the Special Representative for Trade Negotiations on this case. The President must act by June 1 and, in accordance with established procedures, the interagency recommendation should move to the President at least two weeks before that date.

LIMITED OFFICIAL USE





RECOMMENDATIONS

1. That the President determine that import relief is not in the national interest.

2. If the President considers that a remedy should be granted, it is recommended that he provide (a) expedited consideration for worker adjustment assistance petitions or (b) a tariff rate quota of 3 million pounds, with over quota rates of duty at the statutory level of 8 cents per pound for three years.

BACKGROUND

Product

Iron blue pigments are forms of ferric ammonium ferrocyanide, which is a blue, inorganic chemical. The pigments are fine powders which are principally used to impart color to inks, carbon papers, plastics and paints.

The different end-use applications require different product grades, which vary in particle size, shade, texture, oil absorption, and other characteristics. Each of the different product grades may be produced with the same equipment and labor force, and may be marketed in a similar manner.

All of the product grades of iron blue pigments imported in significant quantities are also produced by domestic firms. The imports are interchangeable with and comparable in quality to the U.S. product. By far the most important grades are the milori blues, which accounted for about 91 percent of domestic shipments and 95 percent of imports in 1975. Within the various grades domestic firms, however, produce some additional types which are not imported.



Uses

The principal use of iron blue pigments is in the production of publication gravure and flexographic inks. Gravure inks are used in advertising supplements, merchandising catalogs, and magazines for which high color quality is not essential. Flexographic inks are used to print flexible product packages, such as cellophane grocery wrapping, bread wrappers, and some cardboard packages. Other uses of iron blue pigments are in the production of one-time-use blue carbon paper, plastic trash bags (green plastic bags derive their color from a mixture of iron blue and chrome yellow pigments), and paints. Although iron blue pigments continue to be used in certain paints, the importance of this market declined sharply during the 1950s and early 1960s when phthalocyanine blue pigments largely displaced iron blue pigments in the production of paint for automobiles.

Changes in the end-use market for shipments by U.S. firms from 1972 to 1975 are shown below:

| End-use market | Percent distribution |       |
|----------------|----------------------|-------|
|                | 1972                 | 1975  |
| Printing ink   | 38.5                 | 43.9  |
| Carbon paper   | 24.5                 | 23.3  |
| Coatings       | 18.9                 | 10.9  |
| Plastics       | 5.1                  | 11.0  |
| Other          | 13.0                 | 10.9  |
| Total          | 100.0                | 100.0 |

1/ Owing to incomplete data, shipments by Borden, Inc., and Harshaw Chemical Co. are not included. These companies accounted for 6.5 percent (in terms of quantity) of shipments of U.S.-produced iron blue pigments in 1975.



The Industry

Four domestic firms produce iron blue pigments in plants located in West Virginia, Ohio, New York, and Kentucky. All of these companies produce a wide variety of products, and the pigments involved in this case constitute a very small share of their total sales in 1975 as indicated below:

| Company               | Total sales        | Shipments of iron blue pigments |
|-----------------------|--------------------|---------------------------------|
|                       | -----millions----- |                                 |
| American Cyanamid Co. | \$1,930            | \$3.0                           |
| Borden, Inc.          | 3,367              | .2                              |
| Harshaw Chemical      | 149                | .2                              |
| Hercules, Inc.        | 1,413              | 2.6                             |

Source: Compiled from U.S. producers' responses to questionnaires of the U.S. International Trade Commission.

American Cyanimid and Hercules accounted for about 94 percent of U.S. production in 1975, compared with 70 percent in 1970. Both firms are vertically integrated and produce basic raw materials from which iron blue pigment is made. Borden produces iron blue pigments and also imports for captive consumption in its printing ink division. Harshaw produces only one grade of the pigment but imports other grades for resale in the United States.

Four companies discontinued production of iron blue pigments during the past decade.<sup>1/</sup> Data for three of the companies show that they accounted for about 16 percent of total production in 1970.

<sup>1/</sup> Chemetron Corp., Michigan, 1973; Hilton-Davis Chemical Co., Ohio, 1972; H. Kohnstamm & Co., Inc., New Jersey; 1970; Reichhold Chemical Co., New York, 1971.



All of the companies have continued manufacturing other pigments and chemicals since terminating production of iron blue pigments and one imports iron blue pigments for resale.

Production

U.S. production of iron blue pigments after peaking in 1968 declined and ranged from 10.1 million and 10.8 million pounds from 1970-74. The two firms that account for the bulk of domestic production increased their output during this period as other U.S. firms left the market. With the business slowdown of late 1974 and 1975, output was cut back 37 percent to 6.6 million pounds in 1975.

Capacity

U.S. producers' theoretical capacity (3 shifts - 7 day week)<sup>1/</sup> to produce iron blue pigments decreased from 19.5 million pounds in 1969-70 to 12.4 million pounds in 1975. On the basis of actual number of shifts and days worked, however, capacity in 1975 was 11.6 million pounds, a drop of only 400,000 pounds from 1969. Four companies have discontinued production, as noted above and one producer reduced available capacity by about 1 million pounds. However, the two largest producers, who accounted for about 87 percent of total U.S. capacity in 1975, increased capacity by a total of 3.4 million pounds during the period. Utilization was as follows:

---

1/ For Hercules - 2 shift-6 day week



|      | <u>Based on theoretical<br/>capacity</u> | <u>Based on actual shifts<br/>and days worked</u> |
|------|--|---|
| 1969 | 59.7%                                    | 97.1%   |
| 1970 | 53.2                                     | 86.1  |
| 1971 | 74.7                                     | 96.3  |
| 1972 | 67.0                                     | 84.6  |
| 1973 | 75.6                                     | 88.4  |
| 1974 | 75.1                                     | 87.2  |
| 1975 | 53.6                                     | 57.0  |

Employment

A study by the Department of Labor shows changes in the average number of iron blue pigment production and related employees as follows:

|            |            |
|------------|------------|
| 1970 - 151 | 1973 - 131 |
| 1971 - 151 | 1974 - 137 |
| 1972 - 133 | 1975 - 102 |

Average hourly wages in 1975 were \$6.59. This represents an increase of 54 percent, or an average rate of 9.1 percent over the 1970-75 period.

Data submitted to the USITC, which differ somewhat from the Labor study, show an increase in productivity from 1971 through 1974, followed by a sharp drop in 1975, as is common in periods of recession.

With regard to the next 12 months, the Department of Labor indicates that, depending on the extent of economic recovery, the more highly skilled employees producing iron blue pigment may be reabsorbed into the existing pigments workforce.



Prices and Costs

Prices for domestically produced iron blue pigments increased by 41 percent from 1971 through 1975. This increase was less than the wholesale price increases for chemicals and allied products and for all industrial commodities during the same period.

Data obtained by the Commission indicate that prices of imported iron blue pigments have consistently been lower than those of the domestic product. While price is a very important consideration in buyers' selection of a supplier, U.S. producers have throughout the period covered by the USITC sold at prices higher than those of imports due at least in part to their ability to supply quickly in most periods, to provision of technical services to customers, and to the wider range of grades they stock.

The average net delivered selling price received by importers for iron blue pigments in 1971 was 52 cents per pound, compared with 64 cents per pound received by two major domestic producers. In 1975, imports averaged 79 cents per pound, compared with 90 cents per pound for the domestic pigments. For a representative type of iron blue pigment, data reported by the Commission indicate that the net delivered selling price of imports from 1971-75 was 12 to 19 percent below the price of the domestic pigment. Price ranges of imported iron blue pigments have also tended to be wider than price ranges of the domestically produced pigments.

Both domestic and import prices are currently well above their 1975 averages. The domestic selling price is about \$1.05 per pound. Imports from the EC are selling for about \$0.96 per pound.



and from Japan \$.94/.95 (effective May 17, 1976); weighted on the basis of the 1973-75 trade data, the average selling price of imports is about \$.954 per pound. Under the remedy recommended by the USITC for the first year, an 18 percent additional duty, if fully passed on, would raise the prices of imports to above the domestic price, e.g. to \$1.11 in the case of imports from the EC and to \$1.06 for imports from Japan.

Producers testified that costs have risen faster than prices. For American Cyanamid the increase in unit cost of goods sold from 1971-75 was 41 percent and for Hercules, was 103 percent on the basis of profit and loss data submitted to the Commission. In the case of American Cyanamid, virtually all of the increase occurred in 1975. For Hercules costs rose each year through 1974 and then took a particularly large jump upward in 1975. Substantial cost increases occurred in raw materials, energy, and environmental protection; rising labor costs were of less significance.

#### Inventories

U.S. producers' inventories peaked in 1972 and dropped each year thereafter -- both in absolute amount and in relation to sales. The record low of 319,000 pounds, or 4.8 percent of sales, in 1975 reflects a drawdown of 304,000 pounds despite the decline in demand. Importers' inventories increased each year from 1971 through 1974, both absolutely and relative to sales, but in 1975 were 401,000 pounds (12.2 percent of sales), which was below the 1972 level and reflects drawdowns of 699,000 pounds during the year.



Tariff Treatment

The duty on tariff item 473.28, which was 3.4 cents prior to the Kennedy Round, has been 2.7 cents per pound since January 1, 1969. The duty is bound to the EC. With price increases, the ad valorem equivalent of the duty has declined significantly and in 1975 averaged 4.4 percent (on imports from Japan 5.1 percent, the UK 4.0 percent and Germany 3.9 percent).

Imports

Imports of iron blue pigments from 1968-75, in thousands of pounds were:

|      |       |      |       |
|------|-------|------|-------|
| 1968 | 1,157 | 1972 | 4,322 |
| 1969 | 1,566 | 1973 | 5,260 |
| 1970 | 2,102 | 1974 | 5,133 |
| 1971 | 2,681 | 1975 | 2,916 |

The United Kingdom was the principal supplier until 1971. Japan entered the U.S. market in 1968-69 and became the principal supplier in 1971-72 but was surpassed in 1973-75 by the combined total of imports from the United Kingdom and West Germany. While imports from all sources dropped sharply in 1975, by far the largest decline was shown by the EC -- 51 percent as compared with a 26 percent drop for Japan. (Table 1).

Imports by U.S. producers were small through 1974 but rose in 1975 after the smallest U.S. firm discontinued much of its domestic production and contracted for imports from the UK.

Exports

U.S. producers' exports of iron blue pigments increased from 210,000 pounds, valued at \$136,000, in 1971 to 355,000





Table 1.--Iron blue pigments: U.S. imports for consumption, by principal sources, 1965-75

| Source                        | 1965   | 1966   | 1967   | 1968   | 1969   | 1970   | 1971   | 1972   | 1973   | 1974   | 1975   |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Quantity (1,000 pounds)       |        |        |        |        |        |        |        |        |        |        |        |
| United Kingdom--              | 600    | 825    | 605    | 739    | 759    | 1,090  | 931    | 803    | 1,328  | 1,958  | 1,255  |
| Japan-----                    | -      | -      | -      | 29     | 327    | 728    | 1,367  | 2,226  | 2,094  | 1,737  | 1,285  |
| West Germany----              | 40     | 23     | 28     | 68     | 130    | 10     | 80     | 862    | 1,344  | 1,273  | 329    |
| Poland-----                   | 15     | 11     | 100    | 142    | 209    | 171    | 260    | 309    | 240    | 55     | 44     |
| All other coun-<br>tries----- | 173    | 209    | 205    | 179    | 140    | 104    | 43     | 122    | 253    | 110    | 2      |
| Total-----                    | 829    | 1,068  | 937    | 1,157  | 1,566  | 2,102  | 2,681  | 4,322  | 5,260  | 5,133  | 2,916  |
| Value (1,000 dollars)         |        |        |        |        |        |        |        |        |        |        |        |
| United Kingdom--              | 271    | 381    | 281    | 352    | 368    | 531    | 449    | 400    | 680    | 1,074  | 850    |
| Japan-----                    | -      | -      | -      | 9      | 99     | 238    | 457    | 843    | 865    | 881    | 686    |
| West Germany----              | 15     | 9      | 11     | 28     | 53     | 5      | 36     | 264    | 512    | 629    | 226    |
| Poland-----                   | 4      | 3      | 32     | 44     | 64     | 53     | 79     | 100    | 91     | 37     | 23     |
| All other coun-<br>tries----- | 68     | 82     | 80     | 70     | 36     | 45     | 18     | 44     | 63     | 58     | 2      |
| Total-----                    | 357    | 475    | 404    | 503    | 619    | 871    | 1,039  | 1,651  | 2,210  | 2,679  | 1,786  |
| Unit value (per pound)        |        |        |        |        |        |        |        |        |        |        |        |
| United Kingdom--              | \$0.45 | \$0.46 | \$0.46 | \$0.48 | \$0.48 | \$0.49 | \$0.48 | \$0.50 | \$0.51 | \$0.55 | \$0.68 |
| Japan-----                    | -      | -      | -      | .31    | .31    | .33    | .33    | .38    | .41    | .51    | .53    |
| West Germany----              | .38    | .39    | .39    | .41    | .41    | .50    | .45    | .31    | .38    | .49    | .69    |
| Poland-----                   | .27    | .27    | .32    | .31    | .31    | .31    | .30    | .32    | .38    | .67    | .52    |
| All other coun-<br>tries----- | .39    | .39    | .39    | .39    | .26    | .43    | .42    | .36    | .25    | .53    | .84    |
| Average-----                  | .43    | .44    | .43    | .43    | .40    | .41    | .39    | .38    | .42    | .52    | .61    |

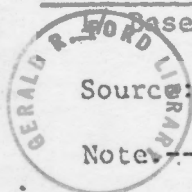
Based on unrounded data.

Source: Compiled from official statistics of the U.S. Department of Commerce.

Note:--Because of rounding, figures may not add to totals shown.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE



pounds, valued at \$227,000 in 1972, but then decreased steadily to 45,000 pounds, valued at \$58,000, in 1975. The major market for exports of U.S.-produced iron blue pigments during the 1971-75 period was Italy. The principal reasons for the decline of U.S. exports of iron blue pigments were (1) a major U.S. exporter of iron blue pigments stopped its production of such pigments in 1973, and (2) foreign demand for U.S.-produced iron blue pigments declined in 1975, probably because of depressed economic conditions abroad.

Consumption and the Share of the Market Taken by Imports

Consumption rose almost steadily through 1974 but fell sharply in 1975. The share of the market accounted for by imports rose significantly from 1968 through 1973 but dropped in 1974-75:

|           |            |
|-----------|------------|
| 1968 - 9% | 1972 - 32% |
| 1969 - 12 | 1973 - 34  |
| 1970 - 16 | 1974 - 33  |
| 1971 - 21 | 1975 - 30  |

Production, trade, and consumption data are summarized in Table 2.

Profit and Loss Experience

The Commission received financial data for three companies which accounted for about 92 percent of U.S. production in 1974. The profit (or loss) on iron blue pigment operations varies significantly by years and by companies (Table 3). The USITC requested more detailed information on the costs reported, but the firms were not able to supply such material.



TABLE 1

-Iron blue pigments: U.S. producers' shipments, imports for consumption, exports of domestic merchandise, and apparent consumption, 1968-75

| Year      | U.S. producers' shipments | Imports                | Exports                | Apparent consumption   | Ratio of imports to consumption |
|-----------|---------------------------|------------------------|------------------------|------------------------|---------------------------------|
|           | <u>1,000</u><br>pounds    | <u>1,000</u><br>pounds | <u>1,000</u><br>pounds | <u>1,000</u><br>pounds | Percent                         |
| 1968----- | 11,262                    | 1,157                  | <u>1/</u>              | 12,419                 | 9                               |
| 1969----- | 11,142                    | 1,566                  | <u>1/</u>              | 12,708                 | 12                              |
| 1970----- | 10,926                    | 2,102                  | <u>1/</u>              | 13,028                 | 16                              |
| 1971----- | 10,088                    | 2,681                  | 210                    | 12,559                 | 21                              |
| 1972----- | 9,360                     | 4,322                  | 355                    | 13,327                 | 32                              |
| 1973----- | 10,274                    | 5,260                  | 193                    | 15,341                 | 34                              |
| 1974----- | 10,784                    | 5,133                  | 138                    | 15,779                 | 33                              |
| 1975----- | <u>2/</u> 6,701           | 2,916                  | 45                     | 9,572                  | 30                              |

1/ Not available. Exports are believed to have been small.

2/ Compiled from responses by U.S. producers to questionnaires of the U.S. International Trade Commission. Data for Harshaw Chemical Co. are based on 11 months.

Source: Compiled from official statistics of the U.S. Department of Commerce, except as noted.



Table 3.--Iron blue pigments: Profit-and-loss experience of 3 U.S. producers on their iron blue pigment operations, 1971-75 1/

| Year and company           | Net sales     | Cost of goods sold | Gross profit or (loss) | General, selling, and administrative expenses | Net operating profit or (loss) | Other (expense), net | Net profit or (loss) before taxes | Ratio of net operating profit or (loss) to net sales | Ratio of net profit or (loss) to net sales |
|----------------------------|---------------|--------------------|------------------------|---|--------------------------------|----------------------|-----------------------------------|--|--|
|                            | 1,000 dollars | 1,000 dollars      | 1,000 dollars          | 1,000 dollars                                 | 1,000 dollars                  | 1,000 dollars        | 1,000 dollars                     | Percent  | Percent                                    |
| <b>1971</b>                |               |                    |                        |   |                                |                      |                                   |  |  |
| American Cyanamid Co-----  | 1,992         | 1,953              | 59                     | 261   | (202)                          | (75)                 | (277)                             | (10.1)   | (13.9)                                     |
| Harshaw Chemical Co-----   | 817           | 737                | 80                     | 59  | 21                             | (15)                 | 6                                 | 2.6  | 0.7  |
| Hercules, Inc-----         | 1,820         | 1,268              | 552                    | 364   | 188                            | -                    | 188                               | 10.3   | 10.3                                       |
| Total or ratio-----        | 4,629         | 3,938              | 691                    | 684   | 7                              | (90)                 | (83)                              | .2   | (1.8)                                      |
| <b>1972</b>                |               |                    |                        |   |                                |                      |                                   |  |  |
| American Cyanamid Co-----  | 2,176         | 1,832              | 344                    | 342   | 2                              | (9)                  | (7)                               | .1   | (.3)                                       |
| Harshaw Chemical Co-----   | 733           | 724                | 9                      | 46  | (37)                           | (12)                 | (49)                              | (5.0)  | (6.7)                                      |
| Hercules, Inc-----         | 2,117         | 1,694              | 423                    | 423   | 2/                             | -                    | 2/                                | 2/   | 2/   |
| Total or ratio-----        | 5,026         | 4,250              | 776                    | 811   | (35)                           | (21)                 | (56)                              | (.7)   | (1.1)                                      |
| <b>1973</b>                |               |                    |                        |   |                                |                      |                                   |  |  |
| American Cyanamid Co-----  | 2,618         | 2,173              | 445                    | 364   | 81                             | (26)                 | 55                                | 3.1  | 2.1  |
| Harshaw Chemical Co-----   | 894           | 774                | 120                    | 52  | 68                             | (16)                 | 52                                | 7.6  | 5.8  |
| Hercules, Inc-----         | 2,656         | 2,403              | 253                    | 531   | (278)                          | -                    | (278)                             | (10.5)   | (10.5)                                     |
| Total or ratio-----        | 6,168         | 5,350              | 818                    | 947   | (129)                          | (42)                 | (171)                             | (2.1)  | (2.8)                                      |
| <b>1974</b>                |               |                    |                        |   |                                |                      |                                   |  |  |
| American Cyanamid Co-----  | 3,759         | 2,901              | 858                    | 420   | 438                            | (71)                 | 367                               | 11.7   | 9.8  |
| Harshaw Chemical Co. ---   | 759           | 746                | 13                     | 45  | (32)                           | (9)                  | (41)                              | (4.2)  | (5.4)                                      |
| Hercules, Inc-----         | 3,098         | 2,586              | 512                    | 620   | (108)                          | -                    | (108)                             | (3.5)  | (3.5)                                      |
| Total or ratio-----        | 7,616         | 6,233              | 1,383                  | 1,085   | 298                            | (80)                 | 218                               | 3.9  | 2.9  |
| <b>1975</b>                |               |                    |                        |   |                                |                      |                                   |  |  |
| American Cyanamid Co. 3/-- | 3,020         | 3,003              | 17                     | 510   | (425)                          | (21)                 | (414)                             | (16.3)   | (17.0)                                     |
| Harshaw Chemical Co. ---   | 228           | 385                | (157)                  | 18  | (175)                          | (6)                  | (181)                             | (76.8)   | (79.4)                                     |
| Hercules Inc. 3/-----      | 2,232         | 2,604              | (372)                  | 446   | (818)                          | -                    | (818)                             | (36.7)   | (36.7)                                     |
| Total or ratio-----        | 5,480         | 5,992              | (512)                  | 974   | (1,486)                        | (27)                 | (1,513)                           | (27.1)   | (27.6)                                     |

1/ The accounting year for American Cyanamid Co., Harshaw Chemical Co., and Hercules, Inc., ended Dec. 31.

2/ Company reportedly broke even (no profit or loss).

3/ Data for 1975 are based on actual figures for 11 months (January-November) and estimated figures for 1 month (December).

Source: Compiled from data submitted to the U.S. International Trade Commission by 3 U.S. producers.



Section 202(c) Considerations

In determining whether to provide import relief and what method and amount to provide in an escape clause case, the President is required by section 202(c) of the Trade Act to take into account all relevant considerations, including nine which are specified in the Act.

1. Information and advice from the Secretary of Labor on adjustment assistance

Since April 3, 1975, the effective date of the adjustment assistance program, the Department of Labor has not received any petitions for certification of eligibility to apply for worker adjustment assistance from the industry producing iron blue pigments covered by the USITC investigation. The Department has received a petition (TA-W-555) for certification of eligibility from the Technical Services Group of American Cyanamid. These employees are primarily engaged in the provision of customer services to purchasers of organic dyes and pigments, and are only to a slight extent engaged in providing services to users of inorganic iron blue pigments. The application for certification of eligibility was denied on April 12, 1976.

Over the next twelve months as many as 36 former employees in the industry may apply for certification of eligibility to apply for adjustment assistance. It is not known how many might be able to qualify.

These workers are located in West Virginia (12), New York (20), and Kentucky (4). Local January unemployment rates were 9 percent in the county and over 10 percent in the nearest city for the West Virginia workers, 15 percent in the county where



the New York workers are located, and 10 percent in the county where the Kentucky workers are located. Since most workers have no more than a high school education and have skills not easily transferable to other industries, their immediate employment prospects in other industries are not good.

The Comprehensive Employment and Training Act (CETA) programs in the impacted areas would have some difficulty in meeting the needs of the displaced workers. The actual enrollments in these programs are in excess of planned or expected levels, indicating that few if any vacancies currently exist.

2. Information and advice from the Secretary of Commerce on adjustment assistance

The Department of Commerce reported that none of the four firms in the iron blue pigments industry has petitioned the Department of Commerce for certification for adjustment assistance. Although each case would have to be judged on its own merits, it is unlikely that any of these firms could qualify for certification. The blue pigments industry did not experience significant employment declines from 1970 to 1974 and had only a negligible 1970-74 production decline, but overall employment and production trends for the entire operations of the four firms are unknown. For certification purposes, the Department of Commerce usually considers all products of multi-product firms and all operations of related firms in evaluating employment, sales, and production changes. All four firms derive 3 percent or less of total sales from iron blue pigment, and it is unlikely that any declines for this product would be responsible for an

overall decline in a firm's sales or production. Regarding 1975, the employment and production declines by the industry were substantial but were due primarily to the recession, not imports.

3. Probable effectiveness of import relief, industry efforts to adjust, etc.

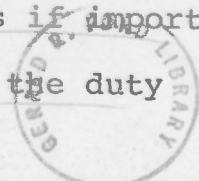
The Commission reported that the industry has made a substantial effort to compete with imports through the introduction of new and improved products, elimination of unprofitable items, and measures to improve production and reduce costs.

R and D expenditures per year averaged \$168,960 in 1971-75 and in 1975 the ratio to sales rose to 3.1 percent. Except for 1975, when recession led to decline in output per man hour, productivity rose in part as a result of producers' expenditures for new equipment and building improvements totaling \$1,732,000 over the five-year period.

Import relief would enable domestic producers to raise prices, which they claim have been held down to unprofitable levels by import competition. While higher prices might cause some loss of sales (e.g., through a shift to other colors in plastic trash bags), technically substitutable pigments are not competitive with iron blue in its principal uses, at present or anticipated price differentials.

4. Effect of import relief on consumers

The Commission remedy was specifically designed to raise the price of imports and would therefore add to inflationary pressures. However, iron blue pigment represents a small part of the cost of the articles in which it is incorporated. Thus if import relief were followed by a price increase equivalent to the duty



increase, the impact at the consumer level would not be great. While two large multi-product firms account for 94 percent of domestic output, competition from foreign suppliers would continue to limit the extent of price increases which would follow the implementation of import relief.

5. Effect on U.S. international economic interests

Implementation of the tariff increases recommended by the Commission would adversely affect the international economic interests of the United States. Such new protection would be criticized by our trading partners as inconsistent with the Tokyo Declaration, the OECD pledge, and the spirit of Rambouillet. On all of these occasions the United States has supported greater international cooperation in developing a more open and fairer international trading system and has agreed that governments should resist protectionism or other inward looking policies in their programs to stimulate their domestic economic activity.

Import relief would also entitle Japan and the EC to claim compensatory tariff reductions of equal trade value on products imported by the United States. In the absence of such compensation, the important suppliers could retaliate by increasing their restrictions on products of export interest to the United States.

6. Impact on U.S. industries and firms as a result of possible compensation

There are various ways of calculating a compensation bill. Under one illustrative basis (imports from major suppliers over the past three years and the average amount of tariff increase), the U.S. could face claims for a reduction of 12 percentage points





on about \$2.1 million of products in which Japan and the EC have a trade interest.

Agreement could presumably be reached on a compensation package of the above magnitude which would not have a direct adverse impact on U.S. producers of the products in the package. However, such compensatory tariff reductions (together with the mandatory exclusion of iron blue pigment) would reduce the concessions the United States could offer in the MTN, thereby cutting into the benefits which could otherwise be obtained from other countries for U.S. exports.

7. Geographic concentration of imports marketed in the U.S.

There is no geographic concentration of imports and this is not a factor affecting the question of injury in this case.

8. Extent to which the United States is a focal point for other countries' exports by reason of foreign trade restraints

There is no evidence that trade restraints by other countries have caused foreign producers to focus their sales efforts on the U.S. market.

9. Economic and social costs if import relief were not provided

Costs to taxpayers and communities would be minimal if import relief were not provided. Iron blue pigments account for a small fraction of the total sales and employment of the firms involved. Improving conditions in the U.S. economy, reduces the likelihood of cutbacks of iron blue pigment production but if such cutbacks were to occur, they would probably be accompanied by a shift of the plant space and some of the equipment to the production of other products made by the firms involved. Good



prospects for economic recovery and the anticipated revival of demand in 1976 make unlikely any significant reduction in the work force of about 100 production and related employees.

Whether the workers who were laid off in 1975 can qualify for adjustment assistance would not be affected by a decision with regard to import relief.

10. Industry concentration

The two multiproduct, vertically integrated corporations that stand to benefit the most from import relief already accounted for 94 percent of U.S. production in 1975. Cyanamid and Hercules have had the advantage of producing the principal raw materials used in the production of iron blue in their other chemical operations. In fact, one raw material used in the production of iron blue is a waste product that Cyanamid generates in the production of a plastic. The four smaller firms which left the industry purchased key raw materials from Cyanamid or imported them.

This vertical integration and other economies of scale have made the larger companies increasingly more competitive. This same pattern of concentration has occurred in Japan and Western Europe, where a number of producers have left the industry since 1970.

American Cyanamid and Hercules have increased their production and their share of the market during the 1970's. American Cyanamid and Hercules are the 107th and 133rd largest companies in the U.S. in terms of sales.



1. Proclaim the Tariff Increases Recommended by the USITC.

Considerations:

1. Since this remedy is acceptable to the industry, there would be no pressure for Congressional override.

2. The largest firm reported a ratio of net operating profit to net sales of 11.7 percent on iron blue pigment in 1974 and the only other large producer has had problems on its operations as a whole in recent years. In both cases, iron blue pigment is under 0.2 percent of total sales.

3. In 1973-74, firms accounting for most of U.S. production were operating at or near capacity, and in 1974 the petitioner testified that shortages existed. Imports were thus needed to meet U.S. requirements except in 1975. With regard to 1975, the downturn in consumption was characterized in petitioner's testimony as "the temporary effect of the recession". Recovery from the recession is now well underway and warrants the expectation that demand will increase to prior levels or higher. In response to Commissioner Ablondi's question as to estimated consumption in 1976, assuming conditions return to normal, American Cyanamid estimated 15.5 to 16 million pounds. Consumption in 1974 was 15.8 million pounds.

4. Companies with the resources of American Cyanamid and Hercules could finance the cost reduction improvements needed to improve their competitiveness without a high level of tariff relief on a minor product line.



5. Employment by the petitioners was stable in 1972-74 and the 1975 decline should be reversed with the recovery of the economy. The injury already suffered by the 36 workers laid-off in 1975 would not be remedied by import relief but redress would be available through adjustment assistance if the workers meet the legal criteria.

6. The industry is already dominated by two large, vertically integrated firms. Higher tariffs would probably not cause additional domestic firms to begin (or resume) production and, by restricting imports, would limit the principal competition remaining in the domestic market.

7. The ad valorem rates proposed by the USITC would have a more serious impact on European suppliers than on the Japanese.

8. The Commission's first year remedy based on average 1975 prices, was calculated to add 11 cents per pound, on the average, to the selling price of imported iron blue pigments. Foreign suppliers have raised their selling prices substantially and the average is now 16 cents above the 1975 average.

9. The question of whether or not imports have prevented the industry from operating at a reasonable level of profit is of major importance. However, firms did not supply profit and loss data in sufficient detail to permit analysis of their apportionment of costs among their numerous products and they informed the USITC that they were not able to provide the break-

LIMITED OFFICIAL USE



down of operating costs which the Commission had requested. Lack of such data, in the context of other evidence in the case (see Option 2 considerations below) undermines the case for a finding of injury and for providing import relief.

10. U.S. international economic interests would be adversely affected. The EC and Japan could claim compensatory U.S. tariff reductions on U.S. imports and if agreement were not reached, could retaliate by raising their restrictions against U.S. exports. In either event, import relief would strengthen the hand of those groups abroad who are putting strong pressure on their governments to increase protection against import competition.

11. Although iron blue pigment prices have very minor influence on the wholesale price index, a decision calculated to raise prices works against Administration efforts to contain inflation.

2. Give No Relief

Considerations

1. Since the ITC recommended import relief by a 5 to 1 majority, the Congress would have the authority to override by a majority vote of both Houses if this option were selected. While the two major producers would be very critical of this remedy, the minor fraction of their total sales that is involved raises questions as to how much effort they would devote to securing an override.

2. Three of the five Commissioners who found affirmatively



on injury found only a threat of injury. Since the economy has moved out of recession and continuing improvement is anticipated, the demand for iron blue pigment should also recover. Under such circumstances, the tariff increases proposed by the Commission are not warranted.

3. The ITC finding that the "substantial cause" criterion of the Trade Act is met is open to question because:

- (a) The two largest producers, which accounted for 94 percent of U.S. production in 1975, actually increased their output from 1970-74.
- (b) The industry was producing at or near capacity in 1973-74; the drop in utilization of capacity in 1975 was the result of recession, not imports, whose share of domestic consumption declined.
- (c) Profit and loss data submitted to the ITC by the industry are inadequate to substantiate a finding of injury in the companies' iron blue operations. If the overall profitability of the two firms, American Cyanamid and Hercules, are examined, they both achieved increasing profits through the 1970's until the recession year 1975.
- (d) Imports have declined since 1973, relatively and absolutely.
- (e) Employment remained/<sup>quite</sup> steady from 1972 until 1975, when 36 workers were laid off.

LIMITED OFFICIAL USE



4. Although firms currently producing iron blue have increased their capacity by 3.4 million pounds since 1970, they do not have the capacity to meet the anticipated recovery of demand for iron blue pigments in 1976. Imports will be needed to make up the shortfall.

5. The U.S. industry is highly concentrated. Import relief would diminish the remaining competition provided by imports.

6. If the U.S. provides import relief on this bound item, it would be subject to claims by Japan and the EEC for compensatory tariff reductions on products of equal value imported by the U.S. or the retaliation by these countries against U.S. exports. Thus other U.S. industries would have to pay for the import relief.

7. Your decision not to provide relief to the industry would not prevent laid-off workers from obtaining adjustment assistance if they meet the criteria for such assistance under Title II, Chapter 2 of the Trade Act of 1974.

8. This option would not add to inflationary pressures.

3. Provide No Import Relief but Direct the Secretary of Labor to Give Expeditious Consideration to Worker Petitions for Adjustment Assistance

Considerations

1. The considerations set forth under Option 2 also apply to this option.

2. In view of the findings by five USITC Commissioners that the industry was seriously injured or threatened with such injury, the Congress and the public might consider that some



remedy should have been provided. Even those who accept the argument the large firms in the industry do not need relief may feel that the President should provide a remedy for workers who were laid off.

3. The public relations benefits of this option would entail no new costs, since the workers involved can petition for adjustment assistance regardless of the President's action in this case.

4. Proclaim a Three Year Tariff Rate Quota of 3 Million Pounds with an Over Quota Rate of 8 Cents Per Pound

Considerations

1. Would be consistent with a 5-1 affirmative finding on injury and hence less subject to override than a remedy that provided no import relief.

2. Represents middle ground between the high protection remedies proposed by the ITC and the petitioner and the position of those who consider that the facts do not justify import relief (see Option 2 above).

3. The two alternative remedies suggested by the petitioner envisaged imports of 2-3 million pounds at current tariff rates, tacitly recognizing that such a level of imports is necessary (as a minimum) to satisfy consumption in non-recession years. Three years should be sufficient for the industry to make cost-reduction improvements and adjust to foreign competition.

4. The progress in recovery of the economy and prospects for higher demand for iron blue pigments, together with significant price increases in 1976, weakens or removes the arguments that the industry is threatened with injury and in view of the



outlook, an over-quota rate higher than the statutory rate is not defensible.

5. Workers laid off in 1976 have access to adjustment assistance if their unemployment was due to imports. With the economy recovering from recession, future prospects are for stable or increasing employment.

6. While any tariff increase adds to inflationary pressures, the impact of this TRQ on consumers would be small.

7. Any import relief would have an adverse impact on U.S. relations with its trading partners but a TRQ would be somewhat less damaging than the USITC remedy.

8. Import relief would probably require the United States to give compensatory tariff reductions on products of trade interest to the EC and Japan or to face retaliation against U.S. exports.



President Rejects Import Relief for Iron Blue Pigments On  
Grounds of National Economic Interest

Import relief for domestic producers of ferricyanide and ferrocyanide (iron blue) pigments is not in the national economic interest of the United States, President Ford has determined, according to Ambassador Frederick B. Dent, the President's Special Representative for Trade Negotiations.

Increased tariffs had been recommended on April 2, 1976, by the U.S. International Trade Commission as a result of its investigation of a petition for import relief filed last fall by the American Cyanamid Co. Two of the six Commissioners found serious injury to the domestic industry caused substantially by imports, three found the threat of such injury, and one found no injury.

Since the period covered by the USITC report, the domestic economy has made significant progress toward recovery from the recession. Demand for iron blue pigment has risen this year, and with inventories drawn down, the capacity of the U.S. industry is not sufficient to supply anticipated consumption in 1976.

The share of imports of these pigments in domestic consumption has declined over the last two years.

Employment in the domestic industry remained steady at an average of 134 workers from 1972-74. As production declined in 1975, about 36 workers were laid off. With output now rising,



employment should also recover. Also, adjustment assistance is available under the Trade Act of 1974 to workers if imports have contributed importantly to their unemployment.

Prices of domestic iron blue pigments have risen significantly, with the current average 15 percent or more above that reported by the USITC for 1975. Import prices have risen even more sharply. The increased tariff protection recommended by the USITC would result in further substantial price increases at a time when curbing inflation is a priority objective of national economic policy.

The bulk of domestic iron pigments production is accounted for by two large multi-product firms whose overall operations in recent years showed growing profits except during the 1975 recession. Iron blue pigments account for under 0.2 percent their total of sales. With the resources available to such large producers, they should be able to finance any investment necessary to improve their competitive position vis-a-vis imports without tariff relief.

The Trade Act of 1974 requires that the President consider the effect of increased import restraints on the international economic interests of the United States. Since the tariff on iron blue pigments is bound in a trade agreement, the United States would face claims from the European Economic Community and Japan for duty reductions on other products of equal trade value. If agreement were not reached on such compensatory reductions, retaliatory duty increases could be levied against U.S. exports.



DRAFT DECISION MEMORANDUM

MEMORANDUM FOR

THE SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS  
SUBJECT: Determination Under Section 202(a) of the Trade Act; Iron Blue Pigment

Pursuant to Section 202(b)(1) of the Trade Act of 1974 (P.L. 93-618, 88 Stat. 1978), I have determined the action I will take with respect to the report of the United States International Trade Commission (USITC) dated April 2, 1976, concerning the results of its investigation of a petition for import relief filed by American Cyanamid Co. on behalf of the domestic industry producing ferricyanide and ferrocyanide (iron blue) pigments provided for in item 473.28 of the Tariff Schedules of the United States.

After considering all relevant aspects of the case, including those set forth in Section 202(c) of the Trade Act of 1974, I have determined that provision of import relief is not in the national economic interest of the United States.

Since the period covered by the USITC report, the domestic economy has made very significant progress toward recovery from the recession. Demand for iron blue pigments has risen this year and with inventories drawn down, the capacity of the U.S. industry is not sufficient to supply anticipated consumption in 1976.

In the year of peak import penetration, 1973, imports were necessary to supply domestic demand. Since that time, imports have declined, both in absolute amounts and as a share of domestic consumption.

Employment remained steady at about 135 workers from 1972-74. As production declined sharply in 1975, about 36 workers were laid off. With output now rising, employment should also recover. However, adjustment assistance is available under the Trade Act of 1974 to workers if imports have contributed importantly to their unemployment.

Prices of domestic iron blue pigments have risen significantly, with the current average 15 percent or more above that reported by the USITC for 1975. Import prices have risen even more sharply. The increased tariff protection recommended by the USITC would result in further substantial price increases at a time when curbing inflation is a priority objective of national economic policy.



The great bulk of domestic iron blue pigments production is accounted for by two large multiproduct firms whose overall operations in recent years showed growing profits except in the 1975 recession. Iron blue pigments account for under 0.2 percent of total sales. With the resources available to such large producers, they should be able to finance any investment necessary to improve their competitive position vis-a-vis imports without tariff relief.

The Trade Act of 1974 requires that the President consider the effect of increased import restraints on the international economic interests of the United States. Since the tariff on iron blue pigments is bound in a trade agreement, the United States would face claims from the European Economic Community and Japan for duty reductions on other products of equal trade value. If agreement were not reached on such compensatory reductions, retaliatory duty increases could be levied against U.S. exports.

This determination is to be published in the Federal Register.

Signature



THE SPECIAL REPRESENTATIVE FOR  
TRADE NEGOTIATIONS  
WASHINGTON

DRAFT LETTER SUBMITTING PRESIDENTIAL REPORT

Dear Mr. Speaker:

In accordance with Section 203(b)(2) of the Trade Act of 1974, enclosed is a report to the Congress setting forth my determination that import relief for the U.S. industry producing ferricyanide and ferrocyanide pigments is not in the national economic interest, and explaining the reasons for my decision.

The Honorable Carl Albert  
Speaker of the U.S. House of  
Representatives  
Washington, D. C. 20515

Enclosure



THE SPECIAL REPRESENTATIVE FOR  
TRADE NEGOTIATIONS  
WASHINGTON

DRAFT LETTER SUBMITTING PRESIDENTIAL REPORT

Dear Mr. President:

In accordance with Section 203(b)(2) of the Trade Act of 1974, enclosed is a report to the Congress setting forth my determination that import relief for the U.S. industry producing ferricyanide and ferrocyanide pigments is not in the national economic interest, and explaining the reasons for my decision.

The Honorable Nelson A. Rockefeller  
President of the Senate  
Washington, D. C. 20510

Enclosure



Tariff Treatment of Ferricyanide and  
Ferrocyanide Pigments

On April 2 the United States International Trade Commission (USITC) reported to me its findings and recommendations on a petition for import relief filed under section 201 of the Trade Act of 1974 by the domestic industry producing ferricyanide and ferrocyanide (iron blue) pigments. In that report, the Commission recommended that tariff protection be increased for a period of 5 years.

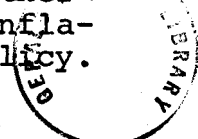
After reviewing the report of the Commission and taking into account other relevant considerations, I have determined that the provision of relief in this case is not in the national interest. I am accordingly transmitting this report informing the Congress of my determination and the reasons therefore, as required by section 203(b)(2) of the Trade Act.

Since the period covered by the USITC report, the domestic economy has made very significant progress toward recovery from the recession. Demand for iron blue pigments has risen this year and with inventories drawn down, the capacity of the U.S. industry is not sufficient to supply anticipated consumption in 1976.

In the year of peak import penetration, 1973, imports were necessary to supply domestic demand. Since that time, imports have declined, both in absolute amounts and as a share of domestic consumption.

Employment remained steady at about 135 workers from 1972-74. As production declined sharply in 1975, about 36 workers were laid off. With output now rising, employment should also recover. However, adjustment assistance is available under the Trade Act of 1974 to workers if imports have contributed importantly to their unemployment.

Prices of domestic iron blue pigments have risen significantly, with the current average 15 percent or more above that reported by the USITC for 1975. Import prices have risen even more sharply. The increased tariff protection recommended by the USITC would result in further substantial price increases at a time when curbing inflation is a priority objective of national economic policy.





The great bulk of domestic iron blue pigments production is accounted for by two large multiproduct firms whose overall operations in recent years showed growing profits except in the 1975 recession. Iron blue pigments account for under 0.2 percent of total sales. With the resources available to such large producers, they should be able to finance any investment necessary to improve their competitive position vis-a-vis imports without tariff relief.

The Trade Act of 1974 requires that the President consider the effect of increased import restraints on the international economic interests of the United States. Since the tariff on iron blue pigments is bound in a trade agreement, the United States would face claims from the European Economic Community and Japan for duty reductions on other products of equal trade value. If agreement were not reached on such compensatory reductions, retaliatory duty increases could be levied against U.S. exports.

