JMC

ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE MEETING

October 12, 1976
8:30 a.m.
Roosevelt Room

AGENDA

1.	Report of Task Force on Productivity	CEA
2.	Maritime Policy	Labor
3.	Shoe Industry Monitoring Report	CIEP

NON-RUBBER FOOTWEAR INDUSTRY

STATUS REPORT

BACKGROUND

On April 16, President Ford determined that adjustment assistance for the firms and workers in the non-rubber footwear industry and for communities where shoe plants were located was the appropriate action to take in response to the affirmative finding of injury by the U.S. International Trade Commission (USITC) on the escape clause petition filed by that industry. President Ford also directed STR to monitor imports and other economic conditions of the non-rubber footwear industry and report appropriate recommendations to him. He also directed the Secretaries of Commerce and Labor to give expedited consideration to applications for adjustment assistance.

Among other reasons cited for this decision, President Ford noted the recent increases in production and employment the industry was experiencing plus the buildup in order backlogs and the rise in the number of plant reopenings then occurring. Reaction by the petitioners to this announcement was generally negative and quite skeptical regarding its potential effectiveness. In the intervening months both industry and Congressional spokesmen have maintained pressures for a reconsideration of this decision. These pressures intensified recently in the face of industry claims of a deteriorating situation for the domestic industry and continuing increases in import levels and import penetration. On September 22 the Economic Policy Board (EPB) requested the Council on International Economic Policy (CIEP) to chair an interagency group to investigate this matter and to report on the following points:

1. Current status of the non-rubber footwear industry.

2. Current status of the adjustment assistance program.

3. Status report on the Administration's monitoring system.

The Senate Finance Committee on September 24--by letter to the USITC--requested the USITC to reopen the non-rubber footwear industry case. On October 5 the USITC ordered that the case be reopened.

STATUS OF THE NON-RUBBER FOOTWEAR INDUSTRY

Domestic production of non-rubber footwear has been in a downward trend since the record levels of 1968. On a shorter term basis production did turn up in mid-1975 in response to the overall economic recovery. It continued this rise through March of this year, touching 44.4 million pairs.* In the intervening months to July, monthly production averaged about 40 million pairs. In July, however, production fell off sharply to 31 million pairs. Production did rise to 36.8 million pairs in August. However, the July decline was greater than seasonal while the August upturn in production appeared to be less than seasonal.

Imports, which have been on an upward path since the early 1960's, hit 307.5 million pairs in 1973. Over the past two years--on a monthly basis--imports hit a high of 42.3 million pairs in March 1976. In the following four months imports dropped to between 30-32 million pairs per month. In August they rose to 34.5 million pairs. The import penetration ratio has been well above 40 percent this year, hitting just under 50 percent in July and 48 percent in August.

On a year-to-year basis domestic production, employment and imports are up in 1976 as compared with 1975. Through August domestic production was up 18 percent and imports 37 percent. Domestic employment through July, the latest date for which data are available, was up 8 percent. Taiwan, which accounted for more than one-third of U.S. imports of non-rubber footwear in volume terms in 1975, has continued to expand its share of the U.S. market. Its imports, mostly of low-value vinyl footwear, were up 77 percent through the first seven months of this year as compared with the comparable 1975 period. Imports from Korea, mostly men's leather athletic shoes, were also up sharply. Those from Brazil rose 20 percent. Imports from Spain were virtually unchanged from last year while those from Italy actually declined by 20 percent.

Retail sales, especially for lower and medium priced footwear, have been sluggish recently with some concern voiced regarding the possibility of excessive inventory buildups. Spokesmen for domestic producers, workers, and importers indicate the likelihood of production slowdowns and import moderation through the balance of 1976. Some of these slowdowns can be attributed to the faster-than-normal pace of production and imports in late 1975 and early

*All production and import data are not seasonally adjusted.

1976 anticipatory of a Presidential decision that would impose some form of import relief through higher tariffs or quotas in response to the escape clause petition. Subsequent to this decision some orders for domestic production may have been cancelled.

In sum, it is quite probable that there will be a slowdown in the pace of new supply (production plus imports) through the rest of the year as compared with the first eight months of 1976. However, the allocation of this slowdown between domestic production and imports cannot be determined with any certainty at this time.

STATUS OF ADJUSTMENT ASSISTANCE PROGRAM

Under the Trade Act of 1974 adjustment assistance is available to firms, communities and workers. The Economic Development Administration (EDA) in the Department of Commerce administers the program for firms and communities while the Department of Labor handles assistance for workers. Under the EDA program firms may receive financial assistance in the form of direct loans, loan guarantees, and technical assistance. Communities that are eligible may receive the full range of EDA's program tools, which, in addition to the above, also includes public works grants and loans and planning grants. Department of Labor programs include trade readjustment allowances, training, and job search and relocation allowances. Both Departments established outreach programs to reach potential applicants in response to the President's request.

Firms

Since the April 16 Presidential decision seven firms have submitted petitions for certification of eligibility to apply for adjustment assistance. Six have been certified as eligible for assistance, three of whom had applied prior to April 16. No funds have been approved as yet for the recently certified firms. Over the one and a half year life of this program 17 firms have been certified and three have actually received assistance. This assistance has ranged between $700,000 and $1,000,000 per firm and has been used for working capital and asset acquisition purposes. Under the terms of its statute EDA can grant such assistance only to those firms who can be expected to repay the loans. Similarly, the Trade Act requires EDA to charge some three basis points above the prime rate. Non-rubber footwear manufacturers are generally not eligible for assistance under the regular EDA programs because of the "excess capacity" provisions of that agency's statute.

Communities

Under the Trade Act, to become eligible for assistance a community must demonstrate that increased imports of articles like or directly competitive with those produced by area firms, or the transfer of area firms (or subdivisions thereof) to foreign countries, contributed importantly to declines in total production, or sales, and employment of all firms in the community. In practice, this has been virtually impossible to demonstrate. Therefore, no communities have been able to participate in this program. EDA has therefore been encouraging all communities with import-related problems to utilize its regular programs.

Workers

From April 16 through August 31, 1976, 45 petitions, affecting 7200 workers, have been received. Five petitions (840 workers) have been certified while another five (545 workers) petitions have been denied. These figures reflect an increase of 45 percent in the number of petitions and 11 percent in the number of workers affected over the comparable period in 1975. Thus far, worker benefits from the overall program, including workers in the non-rubber footwear industry, have primarily taken the form of trade readjustment allowances, which are supplements to worker unemployment payments.

STATUS OF MONITORING SYSTEMS

An interagency task force was set up in May under the chairmanship of STR. It was composed of representatives from USITC and the Departments of Labor and Commerce. After considerable discussion, the task force agreed that data on production, employment and imports already being collected would be sufficient for its purposes. It was also agreed that the monitoring report would be prepared monthly and would consist of a series of tables showing monthly, quarterly, and annual data and comparisons. To date the monthly tables have been updated four times. The monthly report is available about six to seven weeks after the close of the reporting month. All reports have been submitted to STR.

Attachments (A thru D)

October 6, 1976

ATT.

A

HARRY F. BYRD, JR., VA.
GAYLORD NELSON, WIS.
WALTER F. MONDALE, MINN.
MIKE GRAVEL, ALASKA
LLOYD BENTSEN, TEX.
WILLIAM D. HATHAWAY, MAINE
FLOYD K. HASKELL, COLO.
CLIFFORD P. HANSEN, WYO.
ROBERT J. DOLE, KANS.
BOB PACKWOOD, OREG.
WILLIAM V. ROTH, JR., DEL.
BILL BROCK, TENN.

MICHAEL STERN, STAFF DIRECTOR
DONALD V. MOOREHEAD, CHIEF MINORITY COUNSEL

United States Senate

ATTACHMENT A

COMMITTEE ON FINANCE
WASHINGTON, D.C. 20510

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September 24, 1976

RECEIVED
SEP 28 1976
OFFICE OF
THE CHAIRMAN

#415
Office of the
Secretary
Int'l. Trade Commission

Mr. Will E. Leonard
Chairman, International
Trade Commission
Eighth and E Streets, NW
Washington, D. C. 20436

Dear Mr. Chairman:

Enclosed with this letter is a resolution adopted by the Committee on Finance on September 22, 1976, directing the Commission to make an investigation into footwear imports under section 201 of the Trade Act of 1974.

If you have any questions about this resolution, please contact Bob Best on the Finance Committee staff.

With every good wish, I am

Sincerely,

Russell B. Long
Chairman

enclosure

94th Congress
2nd Session

RESOLUTION
COMMITTEE ON FINANCE
SEPTEMBER 22, 1976

Resolved by the Committee on Finance of the United States Senate, That (a) pursuant to section 201 (b) (1) of the Trade Act of 1974, the United States International Trade Commission shall promptly make an investigation to determine whether footwear is being imported into the United States in such increased quantities as to be a substantial cause, or threat thereof, of serious injury to the domestic industry producing an article like or directly competitive with the imported footwear. For purposes of this resolution, the term "footwear" means articles classified under items 700.05 through 700.85, inclusive (except items 700.51, 700.52, 700.53 and 700.60), of the Tariff Schedules of the United States (19 U.S.C. 1202).

(b) It is the sense of the Committee that changed circumstances, including increasing imports and rapidly deteriorating economic conditions in the domestic footwear industry, constitute good cause, within the meaning of section 201 (e) of such Act, to commence an investigation.

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B

ATTACHMENT B

CURRENT CONDITIONS IN THE U.S. NON-RUBBER FOOTWEAR INDUSTRY

Since April, the domestic non-rubber footwear industry has been experiencing a slowdown in production. In spite of this slowdown, however, through the first eight months of 1976 production was about 18 percent ahead of last year's record low. Domestic production peaked in March at 44.4 million pairs, declined through July to 31.0 million pairs and rose to 36.8 million pairs in August. Conversely, employment had been improving consistently through June. However, it declined sharply in July (by 9700 workers). Nevertheless, in July total employment, at 168,000 workers, was some 5 percent above last year's July level. The average employment rate for the industry through the first seven months of the year was estimated at 10.6 percent compared with 14 percent for the comparable period last year.

Imports in the first eight months of 1976 were 37 percent higher in volume than in the comparable period of 1975.1/ They amounted to some 262.2 million pairs, valued at about $978 million. Monthly imports peaked at 42.3 million pairs in March and declined to the 30 to 32 million level in the next four months. In August imports moved back up to 34.5 million pairs.

In terms of quantity, Taiwan is the leading supplier of footwear imports, having surpassed Italy in 1972. Italy is the leading supplier in value terms. The principal sources of non-rubber footwear imports in 1975 were Taiwan (35%), Italy (18%), Spain (13%), Brazil (9%), and Korea (5%).

A regional breakdown of import data is available only through July. Imports from Taiwan in the January-July period amounted to some 97 million pairs, 77 percent above the comparable period last year. Imports from Italy totaled 30.9 million pairs (down 20 percent); Spain, 23.8 million pairs (up 2 percent); Brazil, 18.3 million pairs (up 20 percent); and Korea, 22.6 million pairs (up 253 percent).

The major increases in non-rubber shoe imports have come from Taiwan (up more than 40 million pairs) and from Korea (up about

1/ In addition to large retailers that import directly from foreign sources, imports are entered by wholesalers, discounters and small retailers, trading companies, and by some of the larger, diversified manufacturing companies. The latter account for somewhat more than one-third of total U.S. footwear imports.

16 million pairs). The imports from Taiwan still consist largely of low-value vinyl footwear for women. The bulk of imports from Korea consist of men's leather athletic shoes.

Imports from Italy and Spain are principally leather dress casual footwear, but include footwear of vinyl and other materials. The imports from Italy, which have been declining in quantity since 1971, are composed of a variety of price lines. In recent years, there has been a reduction inthe lower-end merchandise, predominantly ladies sandals. Imports from Spain are largely in medium price lines.

Imports from Brazil, a relative newcomer, are nearly all leather dress and casual footwear, mostly in the medium and low price range, but the cost of Brazilian footwear has been increasing.

Women's shoes make up 80 percent of the imports from Italy; 60 percent from Spain, and 90 percent from Brazil.

Imports from Spain and Brazil have been subject to countervailing duties since October 1974 but at low rates.

A number of smaller supplying countries, such as Uruguay, Yugoslavia, Romania, Poland, Greece, and India, also experienced a growth in their exports to the United States.

Over the May 1 to September 18 period, retail sales, in value terms, were up only 3 percent and it is understood that retailers have imposed rigorous buying controls to avoid excessive inventory buildups. These data do not distinguish between domestic and imported shoes. Sales of lower-end and medium priced footwear reportedly are flat, but sales of better quality merchandise are improving in both men's and women's lines. There is a strong consumer demand for dress shoes and better boots priced at $40 and above, particularly for women's boots, most of which are imported.

A variety of soundings were taken with industry spokesmen. One, a survey of ten well-known manufacturers (including the four largest),[2] conducted by the American Footwear Industry Association, indicates that orders in September are down, compared to last year.

2/It is estimated that these ten companies account for 30 percent of the value of industry shipments.

For some of the smaller firms, the decline ranged from 25 to 50 percent; for the larger manufacturers the declines were in the 10 to 20 percent range. Several firms indicated they are working fewer hours to avoid layoffs. Others are operating with reduced workforces.

Recent reports from manufacturers at trade shows and trade press reports indicate that the volume of new orders is considerably lower than anticipated earlier in the year, and that production is expected to decline this fall. It also has been noted that a large number of buyers were traveling to Europe and South America.

Spokesmen for the two unions involved with the industry, the United Shoe Workers and the Boot and Shoe Workers, confirmed these softer conditions. In telephone discussions both union leaders stated that company officials have strongly resisted any wage increases in their current contract negotiations. The manufacturers indicated a growing inability to compete with imports if their costs rise due to higher wages. Manufacturers also noted a slowdown in orders in recent months. In another telephone discussion, a representative of the Footwear Division of the American Importers Association also stated there has been a slowdown in new import orders, beginning around May, with some order cancellations also being reported.

Finally, an informal Department of Commerce tabulation reported that for the January through June period this year, eight shoe plants ceased operations, while 21 plants started operations. (Commerce Department field offices are checking the list of openings and closings.) Most of the openings took place early in the year, however.

Explanation of Recent Industry Performance

One possible explanation for the recent pattern of domestic production (i.e., the slowdown following the improvements that started in mid-1975) may be found in the footwear escape clause case. When the USITC investigation began in August 1975, retailers placed more orders with domestic manufacturers, fearing a possible loss of supply if imports were to be restricted. During the same period other importers engaged in hedge buying to beat the possible import quotas. After the President's decision in April, rejecting import quotas as a remedy for injury to the domestic industry, retailers again changed their mix of supply sources--increasing the import side. This is evidenced by the relative stability and high levels of imports since March. On the other hand, the generally longer lag time between placement of orders and arrival of shipments could account for the continuing strength in imports in the face of a softening in current demand.

Another explanation for this behavior is that 1976 has been an extraordinary year for footwear. New supply (production plus imports), or apparent consumption, in the first half of the year was running at an annual rate of about 880 million pairs. Both production and imports shared in this increase, with production up 24 percent and imports up 37 percent over the previous year. 1975 was a poor year for domestic production but a relatively strong one for imports. Nevertheless, it does not appear probable that the rate at which new supply has been growing can be sustained over the balance of the year. At its current pace, apparent consumption would be at its highest level in history, some 7 percent above the record year of 1968. To achieve this, there would have to be a reversal of the down trend in per capita consumption which has prevailed since 1968. The decline in per capita consumption has been more than sufficient to offset the rise in total population.

The higher rate of consumption in the first half of 1976 can also be attributed to the relatively low consumption levels in 1975 and 1974. In 1975 retailers reportedly drew down their inventories where possible, deferring purchases to 1976 when inventories again were rebuilt. Although official data are lacking, shoe inventories at the retail level reportedly were at their lowest levels in mid-1975. Beginning in May 1976, retail sales began to lag while the supply pipelines began filling up.

Short Run Future Prospects

A more realistic rate of apparent consumption (or new supply) for all of 1976 would be around the 800 million pair level. This was the level that prevailed in the 1970-73 period and is above the depressed levels in 1974 and 1975. Thus, in the second half of 1976, a scaling down of purchases can be expected with reductions in the levels of both domestic production and imports. The major unknown is the allocation of this decline between domestic and foreign products. Two possible scenarios, which place the major burden on domestic producers, are sketched out below. Both assume a 800-million pair level of new supply for all of 1976. First, if the import/consumption ratio for the year is 44 percent (the ratio for the first seven months of 1976), then imports would end the year with a record level of nearly 355 million pairs (up 23 percent over last year) and domestic production would end the year at about 450 million pairs (up 4 percent over last year). Second, if imports maintain their current pace of 30 million pairs per month, which means that domestic production bears the brunt of reduced consumption, then production would end the year at roughly 425 million pairs and record-high imports would account for 47 percent of the U.S. market. Other scenarios, which place more of the burden on imports, could be posited. However, since domestic orders do appear to be more easily cancellable than orders for imported merchandise and since only four months remain this year, reported import flows are less likely to be affected by the assumed cutbacks than are domestic orders.

Conclusion

Prospects for the non-rubber footwear industry for the remainder of the year are not bright and, if the domestic segment of the industry bears a disproportionate share of the expected decline in new supply, the year may end with a near record low level of production.

October 6, 1976

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ATTACHMENT C

ADJUSTMENT ASSISTANCE FOR THE U.S. NON-RUBBER FOOTWEAR INDUSTRY

On April 16, 1976, President Ford called for adjustment assistance to help the U.S. footwear industry to adjust to foreign competition and directed the Secretaries of Commerce and Labor to give expeditious consideration to any petitions for adjustment assistance filed by firms, communities, and workers hurt by imported footwear.

Assistance to Firms

Under the program of trade adjustment assistance for firms authorized by the Trade Act of 1974, administered by the Economic Development Administration (EDA) in the Department of Commerce, 17 footwear firms have been certified eligible to apply for assistance, and so far three have received financial assistance: (1) a working capital loan of $1 million; (2) an $880,000 fixed asset and working capital loan; and (3) a working capital loan of $700,000. Two other certified footwear firms have their applications for assistance under review by EDA. Several others are developing their recovery plans, including one firm that has received technical assistance to help prepare its adjustment proposal.

A firm may be certified eligible to apply for adjustment assistance by petitioning the Department of Commerce and demonstrating that increasing imports have contributed importantly to declines in its sales or production, or both, and total or partial separation, or the threat thereof, of its workers.

Following the President's request, the Department of Commerce on May 15 mailed a notice about the trade adjustment assistance program to 589 U.S. footwear companies. Since the date of the President's directive, 47 identifiable footwear firms or their representatives have requested additional information about the program and copies of the petition forms. In addition, seven footwear firms have submitted petitions for certification and six firms have been certified. Two petitions were withdrawn prior to a determination, and two are in process.

Firms which have been certified eligible may then apply for technical or financial assistance. The Commerce Department may provide up to 75 percent of the cost of technical assistance to develop a recovery plan, help implement it or both. Financial assistance may be provided in the form of direct loans not to exceed $1 million, loan guarantees not to exceed $3 million or a combination not to exceed $4 million.

Financial assistance may be used for working capital or for acquisition of fixed assets. While the law allows for loan maturities up to 25 years, in practice the working capital loans usually mature in 5 to 7 years; fixed asset loans in from 12 to 17 years. Interest rates are devised by formula provided in the Trade Act. Current rates are 9 3/4 percent for direct loans and a ceiling of 10 1/2 percent on loan guarantees.

Community Assistance

Communities which qualify for adjustment assistance under the Act become eligible essentially, for all forms of assistance available to areas under EDA's enabling legislation. A community, identified within the law as a political subdivision of a state, may qualify for adjustment assistance if it can show that within its area a significant number or proportion of workers have or may become totally or partially unemployed; that sales and/or production of firms (including subdivisions) have declined, and that imports of articles which are like or directly competitive with those produced by firms within the area were an important cause of the identified losses. There is nothing within this language which allows a community to consider only firms and employment within a specific industry.

These criteria all but eliminate, from eligibility, any community that has a diversified economy and a significant number of firms. As an example Lawrence, Haverhill and Amesbury, are all towns within Essex County, Massachusetts, with a long history of shoe production. Each of these towns has experienced losses of firms and employment within the industry. However, official readily available data upon which a petition might be based are available only for the county as a whole and not for the individual subdivisions, and although county data reveal a decline in employment in the leather footwear industry of nearly 3,000 workers between 1970 and 1973 and a of loss over 40 percent of their plants total covered employment increased during this period. Using such data, these communities cannot show the first of the necessary criteria, e.g. a decline or threatened decline in area employment. Inability to rely on official data places on a petitioning community the time consuming and costly burden of surveying firms within a smaller area. Should a community determine to undertake such a survey, it does not have the legal authority to require response from surveyed firms.

Because of the practical inability of most communities to qualify under the criteria of the Trade Act, EDA has established a policy of encouraging each community with import-related adjustment problems to utilize the EDA-administered program which can respond most fully to its adjustment needs in a timely fashion. Many footwear dependent communities are in areas already designated by EDA and are eligible for assistance under EDA's other programs pursuant to the Public Works and Economic Development Act of 1965 (PWEDA), as amended. Moreover, EDA's Title IX program is available to assist communities either in or outside designated areas. This program provides considerable flexibility to areas either experiencing or threatened with employment declines.

Communities are accordingly encouraged to consult with the appropriate EDA regional office. Communities located in designated areas, and those not in designated areas but having eligible economic adjustment problems, will be apprised of the existing programs under PWEDA and the prospects for obtaining assistance under them. Following an exploration of these programs, a community may decide to apply for PWEDA benefits directly or it may determine that its interests will best be served by petitioning for a Certification of Eligibility for Adjustment Assistance under the Trade Act.

To date, one community that has been identified as having economic problems related to shoe imports is seeking a technical assistance grant under Title III of PWEDA to develop a community recovery plan.

Worker Assistance

To comply with the April 16 Presidential directive to the Secretary of Labor to expedite adjustment assistance petitions by shoe workers, the Department of Labor established an outreach program. This program has accelerated the petitioning process involving shoe workers through action by the Department to assist workers in filing petitions. Essentially, the Department makes direct contact with shoe workers' unions, individual workers and shoe firms troubled by imports to assist in the filing of petitions.

Petitions Filed

Since the April 16 directive, the Department has received a total of 45 petitions for adjustment assistance involving 7,198 shoe workers. As of August 31, 1976, five of these petitions had been certified (838 shoe workers) and five denied (543 shoe workers). Thirty-four petitions involving 5,617 shoe workers are pending. One petition involving 200 shoe workers was terminated before a final determination was made by the Department.

The number of petitions from shoe workers filed during the current period 1/ represents a 45 percent increase over the same period a year ago. The number of shoe workers who petitioned in the period represents an 11 percent increase over the same period last year. These increases do reflect the Department's efforts to expedite petitions under the outreach program.

During the same period last year, 31 petitions were filed involving 6,474 shoe workers. Of this total 24 petitions were certified involving 5,163 shoe workers. Seven were denied for some 1,311 shoe workers.

Because of the lag between the filing of a petition and determination as to its certification the proportion of petitions certified and denied cannot be accurately compared to last year's performance at this time. All pending petitions are still in process of being completed within the 60-day time frame permitted under the law.

Certification Criteria

The Trade Act of 1974 specifies that workers may be certified eligible to apply for adjustment assistance benefits if increased imports have contributed importantly to the total or partial separation, or threat of total or partial separation, of a significant number or proportion of workers of a firm or subdivision of a firm and to the absolute decline of sales or production of the firm or subdivision.

1/ April 16 through August 31, 1976

Worker Benefits

The worker adjustment assistance program provides a range of benefits to workers who have been certified as eligible to receive adjustment assistance. These include trade readjustment allowances (TRA) which compensate displaced workers for up to 70 percent of their previous weekly wage; training and related services as testing, counseling, placement and supportive services; and job search and relocation allowances. Certified workers have a basic two-year period in which they must file for benefits.

Benefits are generally provided up to a maximum of 52 weeks. However, workers 60 years of age and older at separation may receive up to 26 additional weeks of TRA in order to complete training, providing they made application for such training within 180 days of the date they became eligible to apply for adjustment assistance or the date their benefits became effective, whichever is later.

Cost of Program

There is no readily available data with respect to the cost of adjustment assistance benefits to shoe workers alone. Under the trade adjustment assistance provisions to the 1974 Trade Act, as of July 31, 1976 the total cost of the program, involving all industries, was $88 million. 161,286 workers, in all industries, had been certified as eligible for benefits. Among the number of persons certified, 72 had been approved for job search allowances, 38 for job relocation allowances, and 745 persons had been referred for training. Because workers may apply for benefits for a basic period of two years after being certified it is too early to know exactly how many persons will ultimately avail themselves of these particular benefits.

September 30, 1976

Summary of Shoe Worker Trade
Adjustment Assistance Cases

April 16 - August 31, 1976

	Number	Estimated No. of workers
Petitions certified	5	838
Petitions denied	5	543
Petitions in process	34	5,617
Terminations	1	200
Totals	45	7,198

April 16 - August 31, 1976

Petitions certified	24	5,163
Petitions denied	7	1,311
Petitions in process	-	-
Terminations	-	-
Totals	45	6,474

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Monitoring Footwear Production, Employment and Imports

Pursuant to the President's instruction to the Special Trade Representative to monitor U.S. footwear trade, an interagency task force was convened in May, 1976, to establish the mechanism for assembling and reporting data on a periodic schedule and to determine the information which should be included in the reports. The task force held three meetings in early May during which there was extensive discussion of the data on U.S. footwear production, employment and imports which were already being regularly collected by various agencies of the government, the adequacy and shortcomings of the data (particularly data on current production and employment) as reliable indicators in a monitoring system, and the feasibility of collecting additional information not currently reported. The consensus of the task force was (a) that the statistical reports which would be compiled should be kept relatively simple and at aggregate, not detailed, levels in order to highlight changes in production, employment and the overall import penetration ratio, and (b) that it was not practical to conduct special industry surveys to obtain information not currently collected by the government because of the large number of producers in the industry, the additional burden which this would impose on firms already making a number of periodic statistical reports to government agencies, the length of time required to get a system of surveys in operation, and the resources which would be required.

The task force concluded that surveillance of important developments and trends in trade in footwear would be adequately accomplished by compiling for the Special Trade Representative periodic statistical tables basically comparing the quantities of production and imports and giving data on employment. Monthly tables would be prepared at a total aggregate level for all footwear. These would be supplemented quarterly with additional detail on type of footwear and supplying countries for imports. The tables were to be prepared by U.S. International Trade Commission staff using data regularly compiled and published by the Bureau of the Census and the Department of Labor. The data required for the report were to be supplied to the USITC on an expedited basis earlier than they normally become available through regular publication. Information, such as prices and costs, would not be included because it could be obtained only by special surveys. Developments in production, employment and imports would be readily apparent from the statistical tables, rendering unnecessary any textual statement. The tables are described below.

Statistical Tables for Monitoring Footwear Trade 1/

Monthly

Table 1 compares current (1976) monthly production, imports, apparent consumption, ratio of imports to consumption, employment (all employees and production workers), and the unemployment rate with the

1/ Examples of the most recent tables are attached.

corresponding month in the previous year (1975) and also shows January-to-date information for the current year and the previous year. The table is prepared each month as soon as data become available.

Quarterly

Two tables, prepared quarterly, give January-to-date (March, June, September, December) comparisons between current year and previous year performance.

Table 3 provides January-to-date data, by type of footwear, on current U.S. production, imports, consumption, and the ratio of imports to consumption, compared with the corresponding period for the previous year.

Table 5 provides data on imports, by principal supplying countries, for the current year compared with the previous year.

Annually

Historical tables covering the period 1968 to the present, presenting annual data corresponding to the monthly and quarterly data in tables 1, 3, and 5 are to be compiled at the close of each year.

Table 2 presents annual data on U.S. footwear production, imports, exports, apparent consumption, ratio of imports to consumption, employment (all employees and production workers), and the unemployment rate.

Table 4 presents annual data, by type of footwear, on U.S. production, imports, consumption, and the ratio of imports to consumption.

Table 6 presents annual data, by principal supplying countries, on U.S. imports.

The first set of 6 tables were circulated in early June showing annual data for 1968-75, data for the first quarter of 1975 and 1976, and monthly data for January-March, 1975 and 1976. Since then the monthly table has been updated 5 times, carrying the data through August. The quarterly tables 3 and 5 comparing the first half of 1975 and 1976 have just become available. The monthly report is available 6 to 7 weeks after the close of the reporting month. Quarterly reports should be available within 8 weeks after the close of each quarter.

Table 1.--Nonrubber footwear: U.S. production, imports for consumption, apparent consumption, average number of employees, total and production workers, and unemployment rate, January-August 1975 and January-August 1976

Item	Production			Imports			Apparent Consumption			Ratio of imports to consumption		All Employees			Production workers			Unemployment rate 1/	
	1975	1976	Increase or decrease (-)	1975	1976	Increase	1975	1976	Increase	1975	1976	1975	1976	Increase	1975	1976	Increase	1975	1976
	1,000 pairs	1,000 pairs	Percent	1,000 pairs	1,000 pairs	Percent	1,000 pairs	1,000 pairs	Percent	Percent	Percent	Thousands	Thousands	Percent	Thousands	Thousands	Percent	Percent	Percent
January	32,676	38,970	19	27,511	32,200	17	60,187	71,170	18	46	45	166.2	171.1	3.0	143.6	149.8	4.3	11.0	10.7
February	31,177	37,981	22	24,483	29,238	19	55,660	67,219	21	44	44	161.2	172.6	7.1	138.4	151.1	9.2	17.7	16.2
March	31,576	44,361	41	27,856	42,300	52	59,432	86,661	46	47	49	155.7	172.9	11.0	133.6	151.4	13.3	15.8	7.4
April	32,768	41,575	27	23,911	32,362	35	56,679	73,937	30	42	44	156.7	174.7	11.5	135.0	152.9	13.3	15.0	7.1
May	32,684	40,748	25	19,036	30,106	58	51,720	70,854	37	37	43	159.5	176.8	10.8	138.3	155.3	12.3	13.4	8.5
June	34,083	39,118	15	20,675	30,858	49	54,758	69,976	28	38	44	164.7	177.4	7.7	143.5	155.9	8.6	13.5	12.5
July	32,192	31,034	-4	25,293	30,596	21	57,485	61,630	7	44	50	159.1	167.7	5.4	138.2	147.9	7.0	11.9	12.1
August	36,170	36,809	2	22,749	34,549	52	58,919	71,349	21	39	48	164.8	2/	2/	143.6	2/	2/	13.9	9.5
Total or average	263,326	310,596	18	191,514	262,200	37	454,840	572,796	26	42	46	-	-	-	-	-	-	-	-
Monthly average	32,916	38,824	18	23,939	32,775	37	56,843	71,600	26	42	46	161.0	2/	2/	139.3	2/	2/	14.0	10.5

1/ For the leather and leather products industry (SIC 31). Approximately two-thirds of the workers in the leather and leather industry are nonrubber footwear workers.

2/ Not available.

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

U.S. International Trade Commission
October 1976

Table 2.--Nonrubber footwear: U.S. production, imports for consumption, exports of domestic merchandise, apparent consumption, average number of employees, total and production workers, and unemployment rate, 1968-75

Year	Production	Imports	Exports	Apparent consumption	Ratio of imports to consumption	Average number of employees		Unemployment rate 1/
						All persons	Production workers	
	Million pairs	Million pairs	Million pairs	Million pairs	Percent	Thousands	Thousands	Percent
1968	642.4	181.5	2.4	821.5	22	233.4	204.1	4.0
1969	577.0	202.2	2.3	776.9	26	226.3	197.1	4.6
1970	562.3	241.7	2.2	801.8	30	213.6	185.5	6.9
1971	535.8	268.6	2.1	802.3	33	200.6	173.6	8.0
1972	526.7	296.7	2.3	821.1	36	198.1	172.2	7.2
1973	490.0	307.5	3.6	793.9	39	189.1	164.3	6.1
1974	453.0	266.4	4.0	715.4	37	178.1	154.3	7.5
1975	413.1	287.8	4.6	696.3	41	163.0	141.4	13.3

1/ For the leather and leather products industry (SIC 31). Approximately two-thirds of the workers in the leather and leather products industry are nonrubber footwear workers.

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

Note.--Data on imports of so-called disposable paper slippers from Mexico, which were entered in substantial quantities beginning in 1973, have been excluded from this table. Such imports amounted to an estimated 32 million pairs in 1975. Data on zoris have also been excluded from this table; such imports amounted to 20 million pairs in 1975.

U.S. International Trade Commission
October 1976

Table 3.--Nonrubber footwear: U.S. production, imports for consumption, and apparent consumption, by types, January-June 1975 and January-June 1976

(Quantity figures in millions of pairs)

Item	January-June-- 1975	January-June-- 1976	Percentage increase or decrease (-)
Athletic:			
Production	4	5	25
Imports	8	16	100
Consumption	12	21	75
Ratio (percent) of imports to consumption	67	76	13
Work:			
Production	13	14	8
Imports	1	2	100
Consumption	14	16	14
Ratio (percent) of imports to consumption	7	13	86
Other:			
For women and misses:			
Production	76	102	57
Imports	98	123	26
Consumption	174	225	38
Ratio (percent) of imports to consumption	56	55	-2
For men, youths, and boys:			
Production	48	56	17
Imports	27	42	56
Consumption	75	98	31
Ratio (percent) of imports to consumption	36	43	19
For children and infants:			
Production	22	27	23
Imports	10	14	40
Consumption	32	41	28
Ratio (percent) of imports to consumption	31	34	10

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

Note.--Data on slippers are not reported above since comparable production and import data are not available.

U.S. International Trade Commission
October 1976

Table 4.--Nonrubber footwear: U.S. production, imports for consumption, and apparent consumption, by types, 1968-75

(Quantity figures in millions of pairs)

Item	1968	1969	1970	1971	1972	1973	1974	1975
Athletic:								
Production	8	9	9	8	9	10	10	8
Imports	2	2	4	5	6	6	8	17
Consumption	10	11	13	13	15	16	18	25
Ratio (percent) of imports to consumption	20	18	31	38	40	38	44	68
Work:								
Production 1/	36	35	38	38	35	29	27	25
Imports	2	2	2	2	2	3	3	2
Consumption	38	37	40	40	37	32	30	27
Ratio (percent) of imports to consumption	5	5	5	5	5	9	10	7
Other:								
For women and misses:								
Production	317	266	253	232	218	197	183	167
Imports	133	140	166	181	199	210	183	191
Consumption	450	406	419	413	417	407	366	358
Ratio (percent) of imports to consumption	30	34	40	44	48	52	50	53
For men, youths, and boys:								
Production	114	105	106	102	115	112	101	95
Imports	31	38	48	57	62	63	53	60
Consumption	145	143	154	159	177	175	154	155
Ratio (percent) of imports to consumption	21	27	31	36	35	36	34	39
For children and infants:								
Production	60	56	55	54	50	49	44	43
Imports	14	19	21	22	27	26	19	19
Consumption	74	75	76	76	77	75	63	62
Ratio (percent) of imports to consumption	19	25	28	29	35	35	30	31

1/ The data reported for years prior to 1973 include all work shoes, regardless of ankle height; data for 1973 and subsequent years include only such shoes of ankle height or higher. In 1972, production of work shoes less than 6 inches high amounted to 8 million pairs.

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

Note.--Data on slippers are not reported above since comparable production and import data are not available.

U.S. International Trade Commission
October 1976

Table 5.--Nonrubber footwear: U.S. imports for consumption, by principal sources, January-June 1975 and January-June 1976

Source	January-June-- 1975	January-June-- 1976	Percentage of increase or decrease (-)
	Quantity (1,000 pairs)		
European Economic Community	38,287	30,871	-19
Italy	34,433	27,529	-20
Republic of China (Taiwan)	46,011	84,635	84
Spain	19,612	20,370	4
Brazil	12,898	15,992	24
Republic of Korea	4,610	18,643	304
Greece	2,204	2,536	15
France	2,022	1,698	-16
Yugoslavia	1,492	1,674	12
Mexico	3,364	3,721	11
Poland	1,393	2,790	100
Canada	697	922	32
India	2,845	3,758	32
Romania	1,035	1,743	68
West Germany	988	688	-30
Uruguay	325	948	192
Ireland	398	389	-2
United Kingdom	351	369	5
Austria	516	601	17
Japan	1,908	2,132	12
Switzerland	121	151	25
Hong Kong	3,180	2,846	-11
All other	3,069	2,946	-4
Total	143,472	197,081	37
	Value (1,000 dollars)		
European Economic Community	217,817	190,902	-12
Italy	179,411	158,977	-11
Republic of China (Taiwan)	66,178	135,289	104
Spain	110,884	113,624	3
Brazil	52,703	73,851	40
Republic of Korea	16,514	70,769	329
Greece	11,920	15,853	33
France	19,215	15,214	-21
Yugoslavia	13,238	14,944	13
Mexico	10,701	12,424	16
Poland	4,970	10,206	105
Canada	6,334	8,107	28
India	4,524	7,587	68
Romania	3,390	7,341	117
West Germany	10,065	6,953	-31
Uruguay	1,618	4,790	196
Ireland	4,668	4,543	-3
United Kingdom	3,813	4,062	7
Austria	3,260	3,748	15
Japan	3,351	3,568	7
Switzerland	3,098	3,351	8
Hong Kong	2,063	2,900	41
All other	15,113	14,725	-3
Total	547,031	692,826	27

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

U.S. International Trade Commission
September 1976

Table 6.--Nonrubber footwear: U.S. imports for consumption, by principal sources, 1968-75

Source	1968	1969	1970	1971	1972	1973	1974	1975
	Quantity (1,000 pairs)							
Italy	59,284	61,084	80,679	77,847	79,698	76,853	62,603	54,443
Spain	14,268	20,728	21,245	31,221	39,254	36,805	35,033	38,412
Republic of China (Taiwan)	16,353	25,896	42,046	64,786	91,253	111,703	88,284	103,443
Brazil	23	377	2,410	8,146	11,809	19,528	21,324	26,467
Republic of Korea	908	880	1,920	3,296	7,950	7,173	9,202	15,960
France	2,632	2,521	3,101	2,886	2,957	2,742	2,965	3,808
Yugoslavia	133	185	297	540	1,232	965	1,784	2,959
Greece	83	228	480	778	1,581	2,381	3,238	3,936
Mexico	2,489	2,450	3,964	3,538	4,044	6,664	4,145	5,477
Canada	1,732	1,979	2,527	2,196	2,272	2,665	2,534	2,037
West Germany	964	1,944	2,806	2,452	2,666	1,795	1,668	1,550
Poland	5	85	341	613	1,065	1,349	1,677	3,061
Austria	152	199	270	364	1,374	3,108	2,746	1,553
Romania	740	601	585	682	1,068	2,467	2,817	2,288
Ireland	86	168	337	391	444	676	785	702
United Kingdom	2,785	3,145	2,773	2,326	1,603	1,064	896	687
Japan	68,937	66,785	59,843	51,415	27,544	9,166	5,855	4,276
Switzerland	535	604	564	614	559	406	363	299
India	1,924	2,096	2,926	3,029	3,547	2,762	2,924	3,900
Czechoslavia	2,036	2,622	1,791	1,605	1,928	1,343	841	1,059
Argentina	15	59	56	284	463	3,875	5,328	994
Colombia	1/	1	36	285	545	740	1,164	1,007
Hong Kong	2,951	4,323	5,516	6,003	6,814	6,647	5,580	5,943
All other	2,457	3,248	5,143	3,328	5,033	4,672	2,667	3,503
Total	181,492	202,208	241,656	268,625	296,703	307,549	266,423	287,764
	Value (1,000 dollars)							
Italy	157,376	197,130	263,992	285,151	337,262	360,685	323,547	330,275
Spain	47,635	73,467	78,051	125,276	171,431	189,175	192,807	226,213
Republic of China (Taiwan)	8,369	14,250	28,712	50,355	79,326	116,587	129,468	157,338
Brazil	209	1,191	6,126	23,438	41,806	81,260	88,696	120,655
Republic of Korea	1,207	1,225	2,935	6,055	13,413	16,816	23,499	52,899
France	8,099	9,420	14,681	16,306	17,803	21,930	23,912	36,024
Yugoslavia	625	1,100	2,107	4,113	8,272	7,769	13,699	26,426
Greece	636	2,042	3,471	5,137	8,959	13,863	18,306	22,882
Mexico	4,321	5,182	8,487	9,585	9,791	13,352	20,007	21,792
Canada	5,216	6,877	10,434	10,007	11,377	15,850	15,313	16,974
West Germany	6,610	11,007	16,044	16,921	19,306	17,478	15,390	15,497
Poland	4	174	1,070	1,441	2,665	4,306	5,804	11,199
Austria	2,890	3,701	4,253	4,073	7,689	16,595	13,159	9,574
Romania	1,409	1,349	1,231	1,803	2,862	8,640	11,329	8,128
Ireland	529	1,107	2,537	2,996	3,857	6,297	8,154	8,125
United Kingdom	16,176	20,836	19,478	17,622	13,581	9,893	9,053	7,970
Japan	49,424	57,314	60,221	64,490	40,824	12,957	7,420	7,386
Switzerland	7,109	8,291	8,718	8,988	9,316	7,699	6,737	7,052
India	2,014	2,108	2,938	3,190	3,845	3,090	3,922	6,548
Czechoslavia	4,260	5,730	4,410	4,420	5,148	5,208	4,233	5,669
Argentina	107	221	219	1,040	2,054	16,719	23,681	5,258
Colombia	3	7	103	1,019	1,921	2,864	4,871	4,943
Hong Kong	2,084	2,776	3,989	4,963	4,774	4,658	5,027	4,817
All other	6,388	9,465	15,144	9,993	17,724	21,793	12,633	18,756
Total	332,700	435,970	559,351	678,382	835,006	975,484	980,667	1,132,400

1/ Less than 500 pairs.

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

Note.- Data on imports of so-called disposable paper slippers from Mexico, which were entered in substantial quantities beginning in 1973, have been excluded from this table. Such imports amounted to 32 million pairs in 1975. Data on zoris have been excluded from this table; such imports amounted to 20 million pairs in 1975.

U.S. International Trade Commission
June 1976

U. S. DEPARTMENT OF LABOR
OFFICE OF THE SECRETARY
WASHINGTON

October 5, 1976

MEMORANDUM FOR THE EXECUTIVE COMMITTEE
ECONOMIC POLICY BOARD

FROM: W. J. USERY, JR.

SUBJECT: Key Policy Statements and Initiatives in Draft Propeller Club Speech

As you may recall at an earlier EPB session, I suggested that we use my talk to the Propeller Club as the vehicle for some Administration maritime initiatives. A draft of that speech was circulated to you earlier this week for your comments. So as to better focus Thursday's discussion, I have excerpted those paragraphs containing key policy statements or initiatives.

Page No.	Paragraph No.	Subject
8	3	ALASKAN OIL Let me say here and now that I have been assured that when ships are used to transport Alaskan oil, those ships will bear only one flag--and that flag will be the flag of the United States of America.
9	3-6	CARGO PREFERENCE - PL 480 TITLE I SHIPMENTS Until it (our shipping industry) has regained its health, we might wish to review present government programs that have an impact on the dry-bulk fleet. Programs under Public Law 480, for example. This, I know, is a tender spot. So I want to be both careful and precise.

Page No.	Paragraph No.	Subject
		It seems to me we might consider bringing some temporary relief to the dry-bulk fleet by expanding the amount of Title I shipments--shipments of agricultural commodities to friendly governments--that are made available to the American-flag fleet. Our fleet now carries, by law, half of this cargo. An increase to even 75 percent would bring new life to as many as six ships, and employment to as many as 500 U.S. seafarers.
10	1	CARGO PREFERENCE - AID SHIPMENTS We might consider, too, increasing the amount of cargo allotted to American-flag carriers under the AID program. While not significant in scope, the act of placing more of this government-sponsored cargo on U.S. ships would be another sign that the government really does intend to support the American-flag fleet.
11	4	U.S./SOVIET GRAIN AGREEMENTS The State Department has told me that it is deeply concerned, and that it is making a concerted effort to convince the Soviet Union that a deal is a deal--that a 33 percent minimum is an absolute floor--and that we will insist that the terms of that agreement be abided by fully and in good faith.
12	3-5	SOVIET UNDERCUTTING CONFERENCE SHIPPING RATES A nagging worldwide problem that has been heightened by the Soviet fleet lies in the field of cost cutting.

Page No.	Paragraph No.	Subject
		They simply have not abided by the Conference Rates that have been negotiated by the major shipping nations in order to preserve a balance of oceangoing trade. I know that the State Department and Commerce are making every effort to convince the Soviets that while they are welcome to participate in the family of nations that ply the ocean routes, this welcome is contingent on playing by the same rules.

THE WHITE HOUSE

WASHINGTON

October 11, 1976

MEMORANDUM FOR THE ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE

FROM: L. WILLIAM SEIDMAN LWS

SUBJECT: Monthly Trade Policy Status Report

The monthly trade policy status report, prepared by Ambassador Dent, is attached. It reviews the current status of a wide range of trade issues.

Attachment

THE SPECIAL REPRESENTATIVE FOR
TRADE NEGOTIATIONS
WASHINGTON

20506

LIMITED OFFICIAL USE

October 8, 1976

MEMORANDUM FOR Honorable L. William Seidman
Assistant to the President for Economic Affairs

FROM Ambassador Frederick B. Dent (Signed) F.B.D.

SUBJECT International Trade Review

I am enclosing herewith a review of international trade issues as of October 8, 1976 which you may wish to distribute to the Executive Committee of the EPB. This report contains a wrapup of the issues which developed in the waning days of the Congress and outlines the timeframe against which the various decisions will be reached.

Please let me know if you desire any additional information on these issues.

Enclosure

LIMITED OFFICIAL USE

INTERNATIONAL TRADE REVIEW

During the past month in the face of the impending Congressional adjournment and the national elections, a number of urgent trade problems arose which were largely resolved without the adoption at this time of new import restrictions. The Congress has requested the USITC to reopen its import relief investigation of footwear. Similarly, the Congress directed an escape clause investigation of sugar imports.

The President asked the USITC to reopen its escape clause case on mushroom imports and asked that consideration of the sugar case be expedited.

A combined company and union escape clause case was filed with respect to imports of color television sets from Japan.

All of these USITC decisions will be due in late March or early April 1977 depending upon the specific date when the Commission undertakes to open the various cases. This schedule will dictate Presidential decisions with respect to any possible USITC recommendations in late May or early June.

These decisions will be coming at a time which generally coincides with the date of a possible ministerial meeting to provide the political impetus for a successful conclusion of the MTN in 1977. STR is developing recommendations for an initiative designed to give momentum to the commitment to a 1977 completion date for the MTN which will be the background against which these Presidential decisions would be made late next Spring.

The footwear case will have particularly important implications, since Finance Committee Chairman Russell Long has made it clear that he wants to use that case to test the President's challenge of the constitutionality of the Congressional override provision. Should the ITC recommend import relief for the footwear industry, and should the President reject such a recommendation, Chairman Long is likely to argue that an override of the President's decision is needed not only on the merits of the case, but also as a vehicle to challenge the President's position on the constitutionality of the Congressional override in the courts.

Another major trade problem remains due to the unsuccessful negotiation and legislative efforts to close a loophole in the U.S. beef import program. This problem has been exacerbated by low cattle prices. The Meat Act requires the Secretary of Agriculture to provide quarterly estimates of meat imports and it is possible that the next estimate within the next few days could trigger meat quotas. Such action would be contrary to U.S. agreements and our GATT obligations.

US-EC trade relations in recent months have shown a tendency towards abrasiveness. The central source of difficulty has been the continuing differences over current agricultural trade issues as well as the handling of them in the MTN. U.S. Administration officials have made sincere efforts to reassure the EC about our trade intentions, but the uncertainties attendant to the U.S. election and the January 1st changes in the composition of the EC Commission make long-term accommodations difficult. A workable understanding on agricultural issues will have to be achieved early in 1977 to improve US/EC trade relations and to assure the successful conclusion of the MTN in 1977.

The most critical issue in US/EC trade relations at the moment is achieving a resolution of the cognac/poultry issue which has been under discussion for a year. Domestic U.S. poultry interests believe their patience has been sorely tried and a resolution must be achieved this month.

Steel continues to be a possible US-EC issue of contention, with the U.S. industry filing of a Trade Act section 301 complaint with STR earlier this week against the Japan voluntary restraint agreement.

US/Japan trade relations have been stable in recent months with cooperation demonstrated in dealing with several sensitive issues such as:

--the adverse impact of Japanese standards on U.S. exports of citrus and automobiles;

--the concern by the U.S. leather industry about the combined effect of Japanese import restrictions on leather products and large-scale Japanese purchases of U.S. hides; and

--a large increase in the import penetration of Japanese color television sets in the U.S. market.

Underlying these specific commodity issues has been a growing concern over the estimated $6 1/2 billion deficit in U.S. bilateral trade with Japan this year. Earlier presumptions that this trend was due to a more rapid pickup in the U.S. economy must be re-examined in the failure of a narrowing trend to develop as we enter into the fourth quarter of 1976. The situation would be considerably improved if Japan takes steps to reflect its healthy trade position in its handling of bilateral trade issues (and its positions in the MTN) on a more forthcoming basis.

Anticipating the possibility that the combination of the Japanese trade surplus and a relatively tough stance on individual commodity issues will focus U.S. attention and frustration on this issue, STR is organizing an interagency effort to develop an analysis of US/Japanese trade.

Confronted with the uncertainty created by elections in a number of countries and by the impending changes in the membership of the EC Commission, MTN progress has been confined to the technical level on a number of issues including the question of a tariff formula, the creation of a GATT reform group, and a negotiation of tropical product offers. At a senior political level, U.S. efforts have been concentrated on developing a consensus for a successful conclusion of the negotiations in 1977 and a possibility of a ministerial-level meeting in March 1977 to demonstrate the political will and commitment to achieve this goal. Considerable support for such efforts has developed, but a firm decision is yet to be worked out.

Detailed information regarding current international trade issues is appended hereto.

October 8, 1976

ITC VOTING PROCEDURES

The Tax Reform Act contains a provision dealing with changed ITC voting procedures. This provision was designed to help assure that there is a USITC finding of remedy, largely for purposes of the Congressional override in escape clause (Section 201) cases.

Under the 1974 Trade Act, Congress can override the President in an escape clause case, whenever the President decides to turn down a recommendation by a majority of the ITC Commission. When only three Commissioners support the recommendation, either because of a split 3:3 vote, or a divided 3:2:1 vote, the President's decision is not subject to an override. The occurrence of a divided vote in a number of politically sensitive cases recently has led to a desire by the Congress to change the definition of what constitutes an ITC recommendation subject to override.

The Tax Reform Act provides that a plurality of three Commissioners will constitute a decision of the Commission for the purpose of the Congressional override provision in Sections 202 and 203 of the Trade Act of 1974. When there is a 3:3 tie, the Congress may choose either recommendation for purposes of an override.

FOOTWEAR INVESTIGATION

The Senate Finance Committee has adopted a resolution calling for a new investigation of footwear imports by the International Trade Commission. The USITC must sent its recommendation to the President by March 28, 1977. This Congressional request for a new investigation stems in part from a dissatisfaction with the President's decision earlier this year to turn down a recommendation by the International TRade Commission for import relief. The Congress was also motivated by a desire to challenge the President's position on the unconstitutionality of the Congressional override provision in Sections 202 and 203 of the 1974 Trade Act.

The International Trade Commission completed a previous safeguard investigation in February of this year which led to a finding of injury and recommendations by five of the six Commissioners for import relief. The President, however, turned down the industry's request for import relief ordering expedited adjustment assistance instead.

COLOR TELEVISION RECEIVING SETS FROM JAPAN

The ITC has received two separate petitions to investigate imports of color TV sets.

201 Investigation - On September 22, 1976, the Committee for the Preservation of Color TV (a group of manufacturers and unions) requested the ITC to investigate, under Section 201 of the Trade Act of 1974, whether color TVs are being imported in such significant amounts as to cause injury or threat of injury to domestic producers. The investigation has not yet been instituted by the USITC.

337/603 Investigation - On January 15, 1976, GTE Sylvania Incorporated and Philco Consumer Electronics Corporation requested the ITC to investigate, under Section 337 of the Tariff Act, whether unfair methods of competition were being used in the importation of color TVs from Japan. Shortly thereafter, the ITC, on its own motion, instituted a preliminary investigation under Section 603 of the Trade Act to determine whether the 337 complaint should be expanded.

The allegation of unfair methods of competition are broadly based. Questions of dumping and government subsidies as well as antitrust violations have been raised. However, the Administration has urged the International Trade Commission to confine its investigation to allegations of practices that are clearly outside the scope of the Antidumping Act, 1921, and the countervailing duty law (Section 303 of the Tariff Act of 1930, as amended).

MUSHROOMS

As a result of the doubling of canned mushroom imports during June, July and August following his May 19th decision favoring adjustment assistance, the President requested the USITC on September 20th to open an escape clause case to determine whether canned mushrooms are causing injury or threat of injury to domestic producers.

The President also directed the STR to obtain assurances from major exporters to the U.S. market that shipments for the balance of the crop year would not disrupt the U.S. mushroom market. Ambassador Yeutter successfully obtained these assurances from the Republics of China and Korea.

The USITC initiated the case on October 5th and consequently must render its report no later than 6 months from that date.

SUGAR

Falling sugar prices in 1976 led to two actions affecting trade in sugar.

USITC Investigation. On September 15, the Senate Finance Committee asked the U.S. International Trade Commission to begin an investigation under Section 201 of the Trade Act of 1974 of whether sugar is being imported in such significant amounts to create injury or threat of injury to domestic producers. On September 21, the President expressed support for the Finance Committee's request, asking the USITC to expedite the "escape clause" investigation.

Tripling of Sugar Duty Rates. At the same time, the President issued a Proclamation raising the import duty rate for raw sugar from .6625¢/lb. to 1.9875¢/lb., a three-fold increase. He stated, however, that his tripling of the sugar duty rates was not intended to prejudge the conclusions of the USITC investigation, and that it would be reexamined after that investigation was completed.

DEVALUATION OF MEXICAN PESO

The Mexican Government has devalued the Mexican peso by 58% vis-a-vis the dollar. To cushion the domestic price adjustment to this drastic realignment of the exchange rate, the Mexican Government took a number of measures, including an average 9-20 percent reduction of import duties, and the imposition of export taxes on a broad range of exports. These measures, along with domestic stabilization measures, have been taken to strengthen the Mexican economy by making exports more competitive in world markets, and Mexican vacations more attractive to tourists.

President-elect Lopez-Portillo stated during recent talks in Washington that his longer-term policies will be designed to strengthen Mexico economically and that accomplishment of this objective will undoubtedly depend on improvement in U.S.-Mexico relations.

MEAT

The Meat Import Act requires imposition of import quotas on meat under certain economic conditions. To preclude the triggering of these quotas, the U.S. has negotiated voluntary restraint agreements with its trading partners.

Processed meat has not been covered by the Meat Import Act or the voluntary restraint agreements. Until recently, this potential loophole did not lead to a major circumvention of the controls. In recent months, however, substantial quantities of Australian meat have been minimally processed in the foreign trade zone of Mayaguez, Puerto Rico and shippped to the United States.

Attempts to renegotiate agreements with the Australians to take account of imports from foreign trade zones have failed, as have attempts by Secretary Butz and the Foreign Trade Zone Board to clamp down on foreign trade zone imports by changing existing regulations. Unless a satisfactory agreement can be worked out on this matter, it may become necessary for the President to trigger quotas in the near future.

U.S. IMPORT DUTY ON BRANDY AND EC RESTRICTIONS ON POULTRY IMPORTS

On July 16, 1974, the United States provisionally restored the trade agreement rates for a two-year period on imported brandy valued between $9 and $17 per gallon. Such brandy, and several other products, had, since 1963, been subject to retaliatory U.S. import duties arising from the so-called "Chicken War" dispute between the United States and the EC over EC poultry restrictions. The 1974 duty reduction was a unilateral gesture of good will on the part of the United States aimed at encouraging the resolution of outstanding trade disputes between the United States and the EC, including the removal of unreasonable EC import restrictions on U.S. poultry exports. The United States had hoped that the EC would reciprocate by improving access for U.S. poultry exports, particularly turkey parts. However, the two-year period has expired and the EC has not yet taken any action.

The EC has scheduled a special meeting of its Poultry Management Committee for October 8. The United States hopes that the EC will take action to reduce its poultry levies at this meeting. If no EC poultry concessions are forthcoming, the United States plans to revert to the retaliatory brandy duties.

CONSTITUTIONALITY OF CONGRESSIONAL OVERRIDES

The implementation of the 1974 Trade Act has become embroiled in a constitutional issue involving the respective powers of the Congress and the President. The issue concerns the constitutionality of so-called override provisions. Under one of these provisions, a decision of the President not to grant import relief (or to grant relief other than that recommended by the U.S. International Trade Commission) can be overriden by a concurrent resolution, with the result that the USITC recommended remedy takes effect.

In late August, in the report to the Congress of the President's decision to turn down the import relief that had been recommended for the honey industry, a statement was included that any Congressional vote to override the decision in this case could have no effect, because such action was unconstitutional. This has sparked a hot reaction from the Senate Finance Committee which considers this a unilateral repeal of half the Trade Act, undoing a compact that had been reached on the administration of the trade laws.

The constitutionality of override provisions is being tested in the courts in a case involving the Federal Election Campaign Act. In the case of Clark v. Valeo, which has been argued before the U.S. Circuit Court of Appeals, Ramsey Clark is challenging the constitutionality of an override provision in the Federal Election Campaign law. Should overrides be struck down, Congress may redraft the affected Trade Act provisions, and possible others, thereby injecting some uncertainty into the statutory framework for trade policy.

The court's decision in Clark v. Valeo is likely to be restricted to the facts of that particular case, which may leave the broader issue undecided. In a move to take up the President's constitutional challenge more directly, the Senate Finance Committee asked the USITC to reopen its escape clause investigation of footwear imports. The Committee expects history to repeat itself, with the USITC recommending relief and the President turning it down, giving the Congress an opportunity to override in a politically sensitive case, and test the Trade Act's provisions directly.

JAPAN CITRUS FRUIT ISSUE

U.S. exports of citrus fruits have been denied entry into Japan as a result of Japanese health regulations on the use of fungicides, including OPP (orthophenylphenol) and TBZ (thiabendazole), which are widely used in the U.S. and have been approved by Codex Alimentarius, an international standards body of which both the U.S. and Japan are members.

At the request of the United States, the Japanese initiated a three-tier testing program in March 1976 to determine the effects of OPP and TBZ. The tests for OPP have yielded favorable results which are to be presented to the Ministry of Health in mid-October. Testing of TBZ is still underway.

We are hopeful for prompt approval of OPP and TBZ. In the case of OPP, such approval should be feasible before the end of the year.

JAPANESE AUTOMOBILE STANDARDS

Certain procedures related to the administration of Japanese safety and environmental automobile standards have had a substantially adverse impact on the sales of U.S. automobiles in Japan. The United States has requested Japanese authorities to modify these procedures to remove a present bias against U.S. automobile imports.

The United States has requested short-term modifications that would speed the clearance process for 1977 U.S. models. This could be followed by resolution of technical issues which stand in the way of a longer-term solution. The target is to work out such a longer-term solution before the 1978 model year begins.

Should these discussions between the two governments fail to resolve the standards issue, the Motor Vehicle Manufacturers Association may file a complaint against Japanese restrictions under Section 301 of the Trade Act of 1974.

WATCHES

The Ways and Means Committee of the House of Representatives has requested the USITC to institute an investigation under Section 332(g) of the Tariff Act to determine the probable economic effect of increasing tariffs on both conventional and non-conventional watches, i.e., those not having a balance wheel and hairspring.

The USITC shall submit a written report on this investigation to the Committee on Ways and Means not later than March 31, 1977.

This investigation is designed for fact finding and not for a recommendation for alleviation of an injury, or threat of injury.

SPECIALTY STEEL

Specialty steel import quotas were put into effect on June 14, 1976. Through the first three months, 50,000 tons (34 percent) were entered against a 12-month quota of 147,000 tons. Two quotas have been filled -- sheet and strip from "other countries" and plate from the EEC. The domestic specialty steel industry showed some signs of improvement during the first half of 1976, though the recovery has not yet spread to all segments of the industry. Large numbers of workers are still laid off and capacity utilization rates continue below normal.

A problem has arisen in the administration of the specialty steel quotas for alloy tool steel. When the agreement with Japan was negotiated, Customs assumed that bearing steel was not included in any items covered by the agreement. However, U.S. Customs officials responsible for monitoring imports of items covered by the OMA have been treating bearing steel as a sub-category of tool steel which is covered by the OMA. As a result of this mixup, the agreed ceiling for tool steel imports from Japan has been reached prematurely. Similar problems have arisen with respect to the quotas that have been imposed on imports of specialty steel from Sweden and Europe.

The problems created by the classification of bearing steel have been remedied for the next two months in the case of Japan by an amendment of the OMA. Further action may have to be considered to deal with problems faced by Sweden and the EC. The ITC will be asked to advise the President on the economic effects of excluding bearing steel from import relief.

ANTI-BOYCOTT PROVISIONS OF TAX REFORM ACT

Sections 1061-1604, 1066 and 1067 of the Tax Reform Act of 1976 as agreed to by the House-Senate Conference contain provisions denying to any taxpayer who agrees to participate in or cooperate with an international boycott based on race, nationality, or religion, the benefits of the foreign tax credit, deferral of earnings of foreign subsidiaries, and the DISC.

It is expected that the provisions of the Conference agreement will be administered in the normal course of tax audits. However, the taxpayer will be required to make a report if he has conducted operations in a country (or with the government, a company, or a national of a country) which is on a list to be maintained and published by the Secretary of the Treasury of countries requiring participation in or cooperation with an international boycott, or in any other country which the taxpayer has reason to believe requires such participation or cooperation.

STATUS OF 301 COMPLAINTS AGAINST EC

1. Egg Albumen (Doc. No. 301-3)

On August 7, 1975, Seymour Foods, Inc., filed a petition with STR, alleging unfair trade practices by the European Community against United States commerce in egg albumen (various levies on imports). The petition was published in the Federal Register of August 18. No request for a hearing was filed in this case. The final date for submission of views by interested parties was fixed for October 3. Immediately thereafter the Section 301 Committee proceeded with its review of this case and with preparations for intensive discussions between STR and the European Community on the issues raised in the complaint. These consultations are still in progress.

2. Canned Fruits and Vegetables (Doc. No. 301-4)

On September 22, 1975, the National Canners Association filed a Section 301 petition with STR, alleging unfair trade practices with regard to import restrictions established by the European Community on canned fruits, juices, and vegetables. The system includes an import licensing system enforced by surety deposits, and minimum import prices on tomato concentrates. The petition was published in the Federal Register for September 29, and public hearings were held on November 17, as requested by the petitioner. The Section 301 Committee then proceeded with its review of the case, leading to consultations which were held on March 29 with the European Community under Article 23(1) of the General Agreement on Tariffs and Trade (GATT). These consultations did not result in a satisfactory resolution of this matter and the issue has been referred to the GATT under the dispute settlement provisions of Article 23(2).

3. Barley Malt (Doc. No. 301-5)

On November 13, 1975, the Great Western Malting Company filed a petition with STR alleging unfair trade practices by the European Community, causing the loss of the Japanese market for U.S. malt due to the Community's subsidization of malt exports to Japan and other third countries. The petition was published in the Federal Register for November 21 and no request for a public hearing was made. The Section 301 Committee is presently reviewing the case and analyzing the facts involved. On September 15 at the GATT Council Meeting the U.S. requested consultations under Article 22. Consultations will begin after 45 days have elapsed.

4. Wheat Flour (Doc. No. 301-6)

On December 1, 1975, STR received a petition from the Millers' National Federation alleging that exports of wheat flour to third country markets are adversely affected by export subsidies paid on EC wheat flour. The petition was published in the Federal Register for December 8 and hearings were held on January 28, 1976. At the GATT Council Meeting on September 15, the U.S. requested consultations under Article 22. Consultations will begin after 45 days have elapsed.

5. <u>EC Soybean Restrictions</u> (Doc. No. 301-8)

On March 30, 1976, the National Soybean Processors Association and the American Soybean Association filed a petition with STR alleging unfair trade practices by the European Community in the form of restrictions on American soybean trade. The restrictions arise from a scheme the Community has implemented, requiring the incorporation (or mixing) of non-fat dry milk in livestock feed. This will displace an equivalent quantity of other protein substances including soybean, soybean cake and meal. The petition was published in the Federal Register for April 12. Hearings were requested and originally scheduled for May 11. At the request of the petitioner, they were postponed to May 20 and then to June 22 on which date they were held. Consultations with the European Community were initiated on April 2 under GATT Article 23(1). Agreement has been reached under Article 23(2) to form panels at the GATT on this matter, and members are currently being chosen. The EC member states voted on October 5, 1976 to terminate the complained of practices.

6. <u>Value-Added Sugar</u> (Doc. No. 301-7)

On March 30, 1976, the National Canners Association filed a petition with STR alleging that the variable levy assessed on added sugars in canned fruits and juices imported into the Community constitutes an unjustifiable and unreasonable import restriction and impairs the value of U.S. GATT bindings. The petition was published in the Federal Register for April 12. No request for a public hearing was filed. The facts of the case are presently under review and preliminary discussions have been held with the EC.

7. <u>EC-Japanese Steel Arrangement</u>

On October 6, 1976, the American Iron and Steel Institute filed a petition with STR alleging that the European Coal and Steel Community and the Japanese Ministry of International Trade and Industry have entered into a bilateral agreement restraining Japanese exports to EC nations in violation of GATT commitments and the impairment of the value of trade commitments made to the U.S. The complainants seek appropriate relief and compensation for the burden sustained.

PENDING ESCAPE CLAUSE CASES

Product	Status	Presidential Action or Due Date*
Plant hangers	USITC report due 12/22/76	approx Feb. 20, 1977
Sugar	USITC report due 3/17/77	approx May 16, 1977
Footwear	USITC report due 3/28/77 but has been expedited and earlier report expected. Date for hearing set 12/7/76	depends on date of report
Mushrooms	USITC report due 3/20/77 but has been expedited and earlier report expected. Date for hearing set 11/11/76	depends on date of report
Color TV receiving sets	Requests for investigation received on 9/22/76. Not yet instituted.	

* Presidential determination must be made within 60 days after the USITC report is received by the President.

LIMITED OFFICIAL USE

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Antidumping Actions
Cases Initiated CY 1976

PRODUCT	COUNTRY	INITIATED	TENTATIVE	FINAL	INJURY	IMPORT VALUE ($Millions)
Automobile body dies	Japan	02-26-76	T/D 09-02-76			$1.8*
Digital scales	Japan	03-31-76				CY'75 $2.5
Clear sheet glass	Romania	04-08-76 4/				CY'75 $2.8
Swimming pools	Japan	04-21-76				$4.5*
Multi-metal Lithographic plates	Mexico	04-27-76		Term.06-29-76	No 05-27-76	CY'75 $0.2
Monosodium glutamate	Korea	05014076				CY'75 $0.8
Pressure sensitive plastic tape	Italy	05-14-76				CY'75 $2.5
Steel drum plugs	Japan	06-11-76				CY'75 $0.01
Pressure sensitive plastic tape	W. Germany	9-30-76				CY'75 $4.6
Parts for paving equipment	Canada	10-04-76				CY'75 $2.0

4/Three month extension announced 8-30-76.

* Does not represent any calendar period, but represents an estimate of the amount required to fulfill contract.

**Imports of the subject product are dutiable under a basket provision of the TSUSA, imports from Japan are believed to amount to at least $4.5 million annually.

LIMITED OFFICIAL USE

COUNTERVAILING DUTY ACTIONS
Cases Initiated CY 1976

PRODUCT	COUNTRY	INITIATED	TENTATIVE DECISION	FINAL ORDER	IMPORT VALUE ($ Millions)
Vitamin K	Spain	01-26-76	Affirm. 05-13-76		CY'74 $0.015
Boneless beef	E.C.	04-01-76	Affirm. 04-01-76	Affirm.04-23-76	CY'75 3.6
Scissors	Brazil	04-06-76	Affirm. 09-09-76		CY'75 1.2
Bicycles	Taiwan	06-01-76			CY'75 10.9
Cotton yarn	Brazil	06-01-76			CY'75 2.5
Nuts, bolts & cap screws	Japan	06-11-76			CY'75 133.6
Handbags	Korea	07-08-76			CY'75 28.6
Handbags	ROC (Taiwan)	07-08-76			CY'75 17.0
Certain fish	Canada	07-27-76	Affirm. 10-04-76		CY'75 3.2
Unwrought zinc	Spain	08-02-76			CY'75 18.0