IMPORT RELIEF TO THE DOMESTIC INDUSTRY PRODUCING CERTAIN LEATHER COATS AND JACKETS

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-SIXTH CONGRESS

SECOND SESSION

ON

S. Con. Res. 108

CONCURRENT RESOLUTION TO DISAPPROVE THE DETERMINATION OF THE PRESIDENT NOT TO PROVIDE IMPORT RELIEF FOR THE LEATHER WEARING APPAREL INDUSTRY

AUGUST 19, 1980

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IMPORT RELIEF TO THE DOMESTIC INDUSTRY PRODUCING CERTAIN LEATHER COATS AND JACKETS

TUESDAY, AUGUST 19, 1980

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
COMMITTEE ON FINANCE,
Washington, D.C.

The subcommittee met at 2:30 p.m., in room 3302, Dirksen Senate Office Building, Hon. Abraham A. Ribicoff, presiding.

Present: Senators Ribicoff, Gravel, Moynihan, Baucus, Bradley, Danforth, and Heinz.

[The press release announcing this hearing and bill S. Con. Res. 108 follow:]

Press Release #H-43

P R E S S   R E L E A S E

FOR IMMEDIATE RELEASE
August 1, 1980

UNITED STATES SENATE
COMMITTEE ON FINANCE
SUBCOMMITTEE ON INTERNATIONAL TRADE
2227 Dirksen Senate Office Building

FINANCE SUBCOMMITTEE ON INTERNATIONAL TRADE TO HOLD HEARING ON RESOLUTION TO DISAPPROVE THE PRESIDENT'S DECISION NOT TO PROVIDE IMPORT RELIEF TO THE DOMESTIC INDUSTRY PRODUCING CERTAIN LEATHER COATS AND JACKETS

The Honorable Abraham Ribicoff (D., Ct.), Chairman of the Subcommittee on International Trade of the Committee on Finance, today announced that the Subcommittee will hold a hearing on Senate Concurrent Resolution 108. S. Con. Res. 108 would disapprove the President's determination transmitted to Congress on March 26, 1980, under section 203 of Trade Act of 1974 not to provide restraints upon imports of coats and jackets of leather valued at not over $150 each as recommended by the U.S. International Trade Commission (ITC). Disapproval by the House and Senate of the President's determination would require the President to proclaim the relief the ITC recommended. The recommended relief was to impose additional rates of duty with respect to these leather coats and jackets as follows: First year, 25 percent ad valorem; second year, 20 percent ad valorem; and third year, 15 percent ad valorem. The ITC made its recommendation on January 24, 1980.

The hearing will be held beginning at 2:30 p.m., Tuesday, August 19, 1980, in Room 3302 of the Dirksen Senate Office Building.

Requests to testify.--Chairman Ribicoff stated that persons desiring to testify during this hearing must make their requests to testify in writing to Michael Stern, Staff Director, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D.C. 20510, not later than Wednesday, August 13, 1980. Persons so requesting will be notified as soon as possible after this date whether they will be scheduled to appear. If for some reason a witness is unable to appear at the time scheduled, he may file a written statement for the record in lieu of the personal appearance.

Consolidated testimony.--Chairman Ribicoff also stated that the Subcommittee urges all witnesses who have a common position or with the same general interest to consolidate their testimony and designate a single spokesman to present their common viewpoint orally to the Subcommittee. This procedure will enable the Subcommittee to receive a wider expression of views than it might otherwise obtain. Chairman Ribicoff urges very strongly that all witnesses exert a maximum effort to consolidate and coordinate their statements.

Legislative Reorganization Act.--Chairman Ribicoff observed that the Legislative Reorganization Act of 1946, as amended, and the rules of the Committee require witnesses appearing before the Committees of Congress to file in advance written statements of their proposed testimony and to limit oral presentations to brief summaries of their arguments.

Chairman Ribicoff stated that in light of this statute and the rules, and in view of the large number of persons who desire to appear before the Subcommittee in the limited time available for the hearing, all witnesses who are scheduled to testify must comply with the following rules:

(1) All witnesses must include with their written statements a one-page summary of the principal points included in the statement.

(2) The written statements must be typed on letter-size (not legal size) paper and at least 100 copies must be delivered to Room 2227, Dirksen Senate Office Building, not later than noon of the last business day before the witness is scheduled to appear.

(3) Witnesses are not to read their written statements to the Subcommittee, but are to confine their oral presentations to a summary of the points included in the statement.

(4) Not more than five minutes will be allowed for the oral summary.

Witnesses who fail to comply with these rules will forfeit their privilege to testify.

Written statements.--Persons requesting to testify who are not scheduled to make an oral presentation, and others who desire to present their views to the Subcommittee, are urged to prepare a written statement for submission and inclusion in the printed record of the hearings. Statements submitted for inclusion in the record should be typewritten, not more than 25 double-spaced pages in length and mailed with five (5) copies to Michael Stern, Staff Director, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D.C. 20510, not later than Friday, August 22, 1980.

P.R. #H-43

96TH CONGRESS
2D SESSION

S. CON. RES. 108

To disapprove the determination of the President not to provide import relief for the leather wearing apparel industry.

IN THE SENATE OF THE UNITED STATES

JULY 22 (legislative day, JUNE 12), 1980

Mr. DANFORTH (for himself, Mr. HEINZ, Mr. MOYNIHAN, Mr. EAGLETON, Mr. DURKIN, and Mr. RANDOLPH) submitted the following concurrent resolution; which was referred to the Committee on Finance

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CONCURRENT RESOLUTION

To disapprove the determination of the President not to provide import relief for the leather wearing apparel industry.

Resolved by the Senate (the House of Representatives concurring), That the Congress does not approve the action taken by, or the determination of, the President under section 203 of the Trade Act of 1974 transmitted to the Congress on March 26, 1980.

Senator RIBICOFF. The committee will come to order.

Today we will receive testimony with respect to S. Con. Res. 108, a resolution to disapprove the President's March 26, 1980, determination not to impose increased tariffs on imports of leather coats and jackets, as unanimously recommended by the International Trade Commission.

Under the import relief provisions of the Trade Act of 1974, section 203, Congress can disapprove the President's decision and require him to impose the increased tariffs recommended by the ITC if both houses adopt a concurrent resolution of disapproval of the President's decision.

The resolution has to be passed within 90 working days of the President's determination. As of today, we have consumed 71 days of this period and the 90-day period will expire in mid-September.

Congress considers the import relief provisions of the Trade Act to be an important instrument in insuring the industries and workers of the United States that their legitimate problems of imports will be dealt with in a fair and impartial way, and they will be given an opportunity to become competitive with imports.

When Congress enacted the import relief provisions it expected the recommendations from the ITC for relief to be given great weight by the President. Indeed, it was the expectation that the recommendations of the International Trade Commission would prevail unless the President, taking into account the broader consideration which the law permits him to take into account, determines that there were compelling national economic interests which must prevail over the recommended relief of the International Trade Commission.

Congress provided in the law that it can review a Presidential determination not to impose import relief recommended by the ITC, and that is the purpose of this hearing today.

Against this background, it is appropriate for the panels and witnesses before the committee to address some common issues, and I hope all of you would so address them.

For example, in deciding not to follow the recommendations of the ITC, the President cited the inflationary impact of the recommendations and his doubts as to whether import relief would enable the U.S. industry to become competitive. These are certainly issues which the witnesses and panels should address, along with any changes in conditions or circumstances which might have a bearing on whether or not the President's action should be disapproved.

The first witness is Ms. Ann Hughes, Assistant U.S. Trade Representative for Interagency Coordination, who, I understand, had the responsibility for coordinating the interagency work on the determination made by the President.

Ms. Hughes?

STATEMENT OF MS. ANN HUGHES, ASSISTANT U.S. TRADE REPRESENTATIVE FOR INTERAGENCY COORDINATION, ACCOMPANIED BY CALMAN J. COHEN, DIRECTOR, CONGRESSIONAL RELATIONS, AND TIM BENNETT, EXECUTIVE DIRECTOR, SUBCOMMITTEE ON GENERALIZED SYSTEM OF PREFERENCES FOR BILATERAL AFFAIRS, OFFICE OF THE U.S. TRADE REPRESENTATIVE

Ms. HUGHES. Thank you. With me today, on my left, is Mr. Tim Bennett, the chairman of the interagency task force responsible for preparing the report for the President; and on my right is Mr. Cohen, Director of Congressional Affairs.

I welcome this opportunity to appear before the subcommittee to express the administration's opposition to Senate Concurrent Resolution 108. The administration continues to stand firmly behind the President's March 24 decision to deny import relief to the domestic leather wearing apparel industry.

As you know, this case was sent to the President on January 24, following a 6-month investigation by the U.S. International Trade Commission, USITC, under section 201 of the Trade Act of 1974. The investigation followed a petition for import relief filed by the National Outer & Sportswear Association, the Amalgamated Clothing & Textile Workers Union, International Ladies Garment Workers Union, the United Food & Commercial Workers Union, and the Tanners Council of America, Inc.

The Commission found that the domestic industry is being seriously injured or threatened with serious injury substantially because of increased imports of leather coats and leather jackets. The current duty on these items is 6 percent ad valorem.

As a remedy, the ITC recommended the imposition for a 3-year period of the following additional duties on coats and jackets of leather valued not over $150 each: 25 percent ad valorem for the first year, 20 percent for the second year and 15 percent for the third year.

The administration does not deny that the industry suffered injury which was caused in part by imports. However, the President, basing his reasoned judgment on statutory economic considerations, concluded that import relief was inappropriate in this specific case. The projected inflationary impact of import relief and the perceived ineffectiveness of such relief as a means to promote adjustment to import competition in this particular industry were crucial factors in the President's decision.

The most compelling argument against relief was the effect it would have on our continuing fight against inflation. This was especially so in light of the fact that the March 24 decision on leather wearing apparel followed by less than 10 days the President's speech announcing renewed emphasis on the national priority to fight inflation.

The Council of Economic Advisers estimated that the relief recommended by the ITC would cost consumers an estimated $70 million to $135 million in the first year alone, depending on the extent to which tariff increases were passed on to consumers.

Further, the interagency task force which analyzed the case, including the recommendation of the ITC, determined that although the relief recommended by the Commission would create about 4,160 new jobs, it would do so at an alarming cost of $32,500 per job.

The President decided these costs were too high. And they remain too high today. Although the administration has been pleased with the lowering of the rate of inflation in recent months, the statistics released last week underline the need to constantly pursue the fight against inflation.

Although import relief for this industry by itself might not have had a substantial impact on the rate of inflation, it would have added to inflationary pressures. Inflation is a cumulative process and a price increase in one product strengthens arguments for increases in others.

The perceived ineffectiveness of relief for this industry provided added justification for the decision against relief. There was and is serious doubt that import relief itself would help the domestic industry to adjust effectively and become any more competitive with imports once relief expired. The industry offered no clear-cut adjustment plan with any prospect of achieving substantially improved competitiveness in the face of import competition.

The ITC investigation of this case revealed the substantial price difference between imported and domestic leather coats and jackets. The adjustment plans submitted by industry members to the interagency task force reviewing the case included increased marketing efforts, the cutting of overhead expense, and the possible introduction of laser cutting as a means of eliminating this differential. Those who thoroughly reviewed these plans within the administration concluded that it was questionable whether domestic manufacturers could achieve sufficient cost savings during a period of import relief to restore their international competitiveness.

The production of leather wearing apparel requires a relatively high proportion of manhours per unit, even in comparison with the production of cloth wearing apparel. Each leather coat and jacket must be cut, sewn, lined, trimmed, and finished by hand. Each piece of leather must be cut individually because of the indeterminant size or irreguar quality—because of discoloration or scars—of the hide or skin.

In the sewing phase, workers must use a much heavier and slower machine than that used to manufacture cloth garments. Even if some savings in labor costs could be implemented in this industry, the likely outcome of import relief would not be a revival of the domestic industry. Rather, it would be an increase in the price of imported articles and a shift in production from Korea and Taiwan, for example, to those countries currently enjoying even lower labor costs.

Several other important factors evolving from the interagency task force's examination of this case were considered by the President.

First, the large growth in U.S. imports of leather coats and jackets through 1978 was largely matched by a simultaneous increase in U.S. consumption; and most of this growth in consumption resulted from a demand created by the widespread introduction through imports of a more stylish and refined garment that was not, and to a large extent is still not, being supplied by domestic producers.

The truth is, imports created most of the increased market for fashionable leather coats and jackets. During this period of growth, shipments by domestic producers of men's coats and jackets, the area where 85 percent of the domestic production is concentrated, remained fairly stable. It appeared from the analysis of the task force that injury in the men's segment of the industry did not necessarily result from growth in imports on the whole but only from increasing low-priced imports in the particular market segment, volume production of basic coats and jackets, that the domestic industry heavily relies upon.

Second, the demand for leather wearing apparel is highly price sensitive. This is largely because leather coats and jackets are often considered luxury items and thus discretionary purchases; and, moreover, substitutes are readily available. The marked declines in both domestic shipments and imports in 1979, before the downturn of the economy as a whole, and 1980 resulted in large part from consumer resistance to higher prices, which resulted from escalating leather prices and reflects this price sensitivity of demand. The imposition of import relief would only raise prices more. This would further restrict the market and worsen the situation for all suppliers.

Third, the granting of import relief in this case might have had a long-term effect on U.S. export opportunities in certain large and growing markets in the Third World. The markets of developing countries have become increasingly important to U.S. exports. They now surpass the market share accounted for by all OECD countries combined.

Of the 10 leading suppliers of leather wearing apparel to the United States, 9 represent markets accounting for at least $1 billion in 1979 U.S. exports. The top suppliers—Korea, Taiwan, Argentina, Mexico, Uruguay, and Brazil—have all been gradually liberalizing their import restrictions to improve access to their markets for our products and those of other nations. We would not want to inspire a reversal of that trend.

If the President had granted import relief, a specific export loss would have been felt in U.S. exports of hides, skins, and leather. Combined, these exports totaled more than $1.23 billion in 1979, or more than five times the value of U.S. imports of leather coats and jackets that same year. Japan—a major source of tanned leather for Taiwan and Korea—Korea, Canada, Mexico, Taiwan, Hong Kong, and Uruguay were all important markets for U.S. hides and skins.

With the exception of Japan, all these countries are major sources of U.S. imports of leather coats and jackets. Although most of these leather and hide exports are used in the manufacture of footwear, a Department of Agriculture analyst estimated that restrictions on U.S. imports of leather wearing apparel would lead to a reduction in U.S. exports of hides and skins, at least $50 million to $80 million.

Another important consideration in the President's decision was the impact of import relief on our efforts to improve American access to hide and skin supplies in other countries.

The United States-Argentina Agreement on Hide Exports contains a provision under which the Government of Argentina has reserved the right to cancel the agreement if the United States grants relief for leather wearing apparel. There would be a similar direct impact on hide agreements with Brazil and Uruguay. These agreements are the result of an intensive effort by USTR over the past year to negotiate agreements with cattle-producing countries to ease their export embargoes on raw cattle hides. This effort was undertaken at the behest of the tanning, shoe, and other hide-and-leather-using industries here in the United States.

As the members of the committee may recall, U.S. cattle hide prices reached record levels last year, forcing a dramatic increase in consumer prices for leather products.

The leather products industries organized the hide action program to work for the passage of legislation to impose controls on exports of domestic hides. That legislation failed in both the Senate and the House.

The industry then turned for help to the executive branch. Although we were unable to provide an immediate solution, we undertook a longer term effort to liberalize trade in cattle hides as a permanent remedy.

Historically, with the notable exception of the United States, most of the world's cattle-producing countries have imposed embargoes on their exports of hides. Consequently, when the world has experienced shortages, foreign import demand has been concentrated on the U.S. market. This has led to dramatic increases in U.S. hide prices and dislocation in our tanning and leather-using industries.

Our efforts to liberalize the world trade in hides are intended to shift some of that foreign import demand to other markets. In this way we hope to share the burden of short supplies more fairly among a larger number of cattle-producing nations.

I am pleased to report that our efforts to liberalize hide exports have been successful. Over the past year we have had a series of difficult bilateral negotiations with the key cattle-producing countries in Latin America. We have reached agreement with Argentina, Brazil, and Uruguay on liberalization of their hide export embargoes. These agreements are not perfect but they provide the first important step forward toward liberalizing world trade in this sector.

The U.S. tanning and shoe industries have recognized the importance of these agreements. Fred Meister, president of the American Footwear Industries Association and director of the hide action program, said last October that the agreement with Argentina can be "a much needed precedent and a significant step toward greater liberalization of international trade in the hide sector."

Mr. Eugene Kilik, president of the Tanners Council of America, made a similar observation last October when he decribed the United States-Argentine agreement on hides as a first step toward reversing a trend of protectionism in the international trade of hides and leather and gives the U.S. tanning industry a fairer chance to compete for world supplies.

You may be wondering what relevance these new trade agreements have to the question of overriding the President's decision not to place additional restrictions on imports of leather wearing apparel. The fact is, the President's decision not to place additional restrictions on imports of leather wearing apparel is essential to the maintenance of the hide agreements.

Furthermore, that decision is consistent with our efforts to liberalize world trade in hides. If we were to impose additional restrictions on leather wearing apparel we would, in effect, be saying to Argentina, Brazil, and Uruguay that we intend to apply a double standard on this matter of trade policy. We will be saying that, on the one hand, we expect them to eliminate the protection they provide their leather apparel industry, while, on the other, we will take action to protect our own industry.

I submit that we cannot have it both ways. These countries have every reason to expect that we will avoid imposing additional restrictions on our imports of manufactured leather products. Although we are not specifically prohibited under these agreements from imposing such restrictions, a decision to do so could force these governments to reconsider their willingness to liberalize their exports of hides to the United States.

In short, by imposing additional restrictions on our imports of leather wearing apparel we would run the very real risk that one or more of the countries with which we have hide agreements will resume the protectionist practices.

Finally, let me say all import relief cases are difficult, since they involve jobs and the well-being of the affected firms; however, for the stated reasons the administration continues to believe import relief would be inappropriate for this industry.

This concludes my formal comments.

Senator RIBICOFF. Thank you.

Senator Heinz has another engagement and has an opening statement he would give at this time. Senator?

Senator HEINZ. Thank you very much.

I would like to ask the permission of my chairman and my colleagues if I might abbreviate to one or two sentences my opening statement and ask one or two questions, because I have to catch a plane?

Senator RIBICOFF. Without objection, the entire statement will be placed in the record.

Senator HEINZ. Mr. Chairman, I thank you and my colleagues.

[The prepared statement of Senator Heinz follows:]

PREPARED STATEMENT BY SENATOR JOHN HEINZ

Mr. Chairman, I welcome this hearing and the resolution that has made it necessary, because I believe the leather apparel case to be one of the most egregious examples of the President's failure to pursue a trade policy that fully upholds the laws that Congress has passed.

In the three and a half years since Jimmy Carter became President, the ITC has sent him 16 affirmative injury determinations with recommendations for relief. At that point, however, the process is clearly breaking down and Congress' goal of petitioners being provided timely and effective relief when they are injured is not being achieved; for in none of those 16 cases has the President acted in accordance with the ITC recommendations. If one wanted to be charitable, one could say that in two of the cases the President's decision was close to what the Commission recommended, but in all the rest his decision was effectively a rejection of their advice and a denial of relief petitioners clearly merited by reason of their injury.

In the leather apparel case, the Commission agreed unanimously that the industry was being seriously injured by imports, and it agreed unanimously on a remedy—three years of increased tariffs.

The injury case was clear. Domestic production was down sharply from 1975 to 1978 despite a near doubling in domestic consumption. Further declines in production and capacity utilization occurred in 1979. During the same 1975–78 period the value of imports increased 143 percent, and the quantity of imports rose 146 percent. This meant an increase in import penetration in terms of quantity from 62 percent in 1975 to 79 percent in 1979.

Employment has also been adversely affected. Jobs in the industry declined from 11,100 in 1974 to 5,500 in 1979, a drop of more than 50 percent. More than 3,100 of the laid-off workers have been certified for adjustment assistance.

Equally clear was the need for relief—a tariff increase to equalize the price of imports with the price of domestic products. The Commission voted unanimously for such relief, although the amount of tariff increase recommended was smaller than the industry requested.

Despite this clear cut case, and despite these unanimous findings, the President declined to approve any action at all, aside from expedited adjustment assistance, which has little or no meaning. In that regard, there is presently on the Senate calendar legislation (H.R. 1543) reported by this Committee to make the adjustment assistance program more viable, and I am working for its enactment. But to suggest at the present time that we have an effective program or that it is an adequate solution to a problem as serious as that of the leather apparel industry is simply ridiculous.

The main reason for the President's action, or rather non-action, appears to have been the need to fight inflation. While this is an argument that always sounds convincing—no one is in favor of inflation—a closer examination reveals its weakness in this situation. As is the case with other apparel items and footwear, retailers tend to take advantage of the lower wholesale price of imported goods by marking them up more than domestic goods, thus increasing their profit but minimizing any real gain to consumers. Naturally such a practice accounts for the popularity of imports with retailers and hence their increased market share, although it is difficult to show any savings to consumers or any real preference on their part for foreign goods. As a result, to simply mouth the word "inflation" as if it explains everything is to misunderstand the way this industry operates.

I cite this example of the leather apparel case at some length because it serves as an excellent example of how the 201 escape clause process has gone awry in the hands of an Administration which has neither sympathy for nor understanding of industrial trade problems.

This is not simply a question of protectionism vs. free trade. It is a question of whether we are going to even try to make GATT-sanctioned escape clause procedures work and give our industries a chance to recover. The relief provided is temporary and consistent with our international obligations. It can be implemented only after a finding of injury by the quasi-judicial independent agency we have created for that purpose, the International Trade Commission.

Unfortunately this Administration has consistently rejected or ignored the work of this Commission and in the process has jeopardized the very existence of a number of American industries. If this attitude is an example of the kind of industrial policy the Administration will soon be proposing, I shudder to think what lies in store for other import-impacted industries.

The only real solution to this unfortunate situation is to redesign the escape clause language to remove the President's authority to overrule the ITC. However, in the interest of compromise, I have introduced a more modest proposal designed to deal only with cases like this one. This legislation would simply require the President to follow the Commission's advice in those cases where it was unanimous, such as in this case. The bill also incorporates two proposals I have made previously: that the President be permitted to propose reducing or eliminating import relief he had previously provided only once each year, subject to Congressional override; and that Presidential decisions on three-year extensions of import relief that had been provided also be subject to Congressional override, just as the original decisions are now.

Frankly, Mr. President, if President Carter had administered section 201 as Congress intended, neither today's hearing or my bill would be necessary. The legislative history on this section of the Trade Act of 1974 includes the following language from the Senate report:

"With regard to the effect of relief on consumers, the Committee feels that the goals of the Employment Act of 1946 should be paramount. Unemployed persons are not happy consumers. The Executive should not confuse the effect on consumers with the effect on importers or foreign producers; they are not the same. If the choice is between (1) allowing an industry to collapse and thereby creating greater unemployment, larger Federal or state unemployment compensation payments, reduced tax revenues, and all the other costs to the economy associated with high unemployment, or (2) temporarily protecting that industry from excessive imports at some marginal cost to the consumer, then the Committee feels that the President should adopt the latter course and protect the industry and the jobs associated with that industry." (Senate Report at p. 125.)

Because the President has ignored this mandate, it is necessary that the Congress act to restore the ITC to its proper role and to reaffirm the basic fairness of our trade policy. The resolution to override the President's decision in the leather apparel case is an appropriate first step.

Senator HEINZ. First, I would like to state that I am not simply interested in this issue because we have a lot of leather apparel manufacturers in the State of Pennsylvania. To the best of my knowledge we have practically none, either none left, if we ever had any, or we have not been so favored.

So, my interest is not simply parochial but I do have a direct interest nonetheless, in that I am deeply concerned about the unfortunate precedent that is being established by the administration with respect to 201 cases. There have been some 43 investigations made under 201 since 1974; they have resulted in some 27 affirmative decisions, 16 during Jimmy Carter's Presidency and of those 16, in only two instances, to be charitable in the case of those two instances, the remedies recommended by the Commission simply have never been agreed to or implemented. The President, who takes your advice on these matters, has said "no" every time the ITC, whether it is unanimous or not, has recommended relief.

And my rhetorical question, which I hope we will get to, is, is there ever a good time or a good case for import relief as the administration sees it?

My answer to the rhetorical question, based on performance, is "No."

Now, we all appreciate the niceties of foreign policy and the importance of pleasing all kinds of special interests, and the rationalization that we are fighting inflation, and that it is necessary to do so according to this administration, even if it costs workers' jobs. Clearly there are differences in both parties on that issue. Senator Kennedy I don't think would agree with President Carter, and I certainly don't agree with President Carter on that.

Congress has established a lengthy legislative history when we amended the Trade Act of 1974 to establish the escape clause, where this committee said at least three times in the committee report, on pages 124 through 126, in the first instance that relief ought not to be denied for reasons that have nothing whatever to do with the merits of the case; that it is the committee's intent that the President provide to the maximum degree consistent with the objectives of this section, the factors he must consider under section 202(c) the relief recommended by the majority of the Commission.

And then again a third instance, the committee feels the remedy imposed should be commensurate with the injury found by the Commission.

What those three statements all have in common is that they lay the burden of accepting the recommendation at the feet of the President and say he must have very, very good reasons indeed to not take such a recommendation and to either ignore it or to modify it.

Now, because time is short, I want to abbreviate the discussion and come down to what seems to me to be the nub of the issue. The nub of the issue appears to be, as I listened to you and as I have reviewed the previous correspondence and statements, that there is a feeling that this industry cannot adjust, that it cannot over a 3-year period make the changes it needs to make to become competitive.

Is that essentially correct on the part of the administration?

Ms. HUGHES. That is correct.

Senator HEINZ. All right. Now, I mentioned there were 27 cases where the President—where the Commission recommended one thing and in each and every instance the President said, at least as to the exact recommendation, no; but there were two of those cases where the President said yes to something and those were the CB radio case and the nonelectric cookware case.

Now, those are rather interesting cases. They are interesting because in both cases the industry had virtually been eliminated from the face of the United States of America, and nobody claimed—as far as I can figure out—that adjustment was going to be made. It would just be that people would be able to get reemployed.

In the CB radio case, import penetration was over 90 percent and most of the domestic industry had ceased production when the President imposed higher duties.

In the nonelectric cookware investigation there were only two firms left producing porcelain-on-steel cookware after 1975. One ceased production in 1978, and its equipment was purchased by General Housewares Corp. The other producer, which also purchased an option to buy the plant where the porcelain-on-steel cookware was produced, argued they would start producing again at the old plant if the duties were increased.

Thus, when the President provided relief, it was to benefit an establishment which had already ceased production.

Now, I would like to know how those actions are consistent with the argument that you have been making?

Ms. HUGHES. Senator, let me begin by saying that I think your information on the number of cases is not correct. There were indeed about 41 cases, but that includes all of the cases brought under the act since 1974. Fifteen of those cases occurred during the last administration; 27 have occurred under the Carter administration. Of those 27, 10 of them were negative findings by the ITC and two are still pending. One of them was a tie vote in the ITC.

So, there were really 16 cases that you can consider were clearly affirmative cases by the ITC during this administration, and of those cases the President has granted import relief in eight cases.

Senator HEINZ. And how many of the 16 cases, if we take your figures for the moment, has the President accepted the recommendations of the ITC?

Ms. HUGHES. In none of the cases.

Senator HEINZ. That is the point.

Ms. HUGHES. But let me get to the two cases you raised.

The CB case—at the time of that decision, as you recall, this was a fad industry; it was one that had built up very rapidly; and, true, imports had taken a very large share of the market, over 90 percent. There was an expectation among the industry that they could recover a large segment of that market. The market simply fell apart after that.

There was a decision which raised the number of bands to 40, which meant that a large stock on hand of radios with smaller range had to be liquidated, and the enthusiasm of the consumers simply vanished. The demand dropped way back. None of that was anticipated at the time the case was decided.

In the case of cookware, I think this represents—while, true, it is a very small industry, with one remaining firm—this does represent, I think, what I hope will become a success story of the import relief program. This is a case where the administration was able to encourage the industry to make decisions which would lead to what we think will be their ability to withstand competition when the relief expires.

They agreed to open the new plant—the old plant, I mean—with modernization of the production line. They are having discussions on loans and guarantees with the Department of Commerce. We are hoping that through the adjustment assistance they will be able to get back on their feet. So this may very well be one where we will have success.

Senator HEINZ. Yet in leather apparel the industry has made much the same argument—that given what the Commission has recommended, they will modernize. Some of the larger manufacturers will go in for the use of lasers as a means of cutting the leather more cheaply, for example, and I won't go into what you and I have both read in the documentation before the ITC, but the same promises have been forthcoming.

It seems to me there is one difference, and that is that the President was willing to grant some kind of relief in industries where the industry had been virtually eliminated, when most firms had failed; and yet here is an industry where firms, for whatever reasons, are still holding on by their fingernails, are still surviving, are still struggling, and for some reason we give those survivors, who have stood the test of very difficult times during this massive period of increased import penetration, a higher standard to meet. We say that they are less able to survive and prosper than those that went out of business in the case of the CB radios or nonelectric cookware.

Can you explain that?

Ms. HUGHES. Yes. In the case of the cookware firm, the remaining firm in the industry did have a very strong structure; they were able to make the investments with the help of the Government in the loan guarantees that would lead to modernizing their facilities; in other words, they had the ability to come back.

In the case of leather wearing apparel, the differential between domestic prices and imported price was too large, the industry itself has told us that an increase in the tariff of 50 percent would be required in order for them to maintain their position and to make the import relief effective. A margin of that much was simply too large for the albeit rather large efforts that the industry was willing to undertake. We simply felt it couldn't be overcome and it couldn't be sustained.

Senator HEINZ. Well, Mr. Chairman, I hear what our witness has had to say. I don't find it at all convincing that the situation is any different here than it was in the two cases we have mentioned.

And I want to express my thanks to the chairman and to the members for allowing me to proceed out of order.

Senator RIBICOFF. Senator Danforth?

Senator DANFORTH. Mr. Chairman, thank you very much.

It is my understanding that the International Trade Commission has made certain formal findings; and I would like to know whether or not the administration controverts any of these findings, that between 1975 and 1978 U.S. consumption of leather apparel increased from 6.5 to 11.9 million units. Do you agree with that?

Ms. HUGHES. Yes.

Senator DANFORTH. That domestic production of leather apparel during this same period of time declined from 3.5 to 2.2 million units?

Ms. HUGHES. Are you quoting from the report itself?

Senator DANFORTH. I am reading a précis or an excerpt that was prepared by my staff. I wanted to know if you agreed with that.

Ms. HUGHES. We did not take exception with the data provided by the ITC.

Senator DANFORTH. So you would agree with that, between 1975 and 1978 domestic production of leather apparel was reduced from 3.5 to 2.2 million units?

Ms. HUGHES. Yes.

Senator DANFORTH. That the quantity of imports from 1975 to 1978 increased from 4 to 9.8 million units, or an increase of 146 percent?

Ms. HUGHES. Yes.

Senator DANFORTH. You agree with that. That between 1975 and 1978 the value of imports of leather garments increased from $131 to $318 million, or an increase of 143 percent—do you agree with that?

Ms. HUGHES. Yes.

Senator DANFORTH. And that import penetration during this period of time increased from 62 to 80 percent?

Ms. HUGHES. Yes.

Senator DANFORTH. You agree with that.

Further, that in 1978 Korea shipped 46 percent of its leather apparel exports to the United States; do you agree with that?

Ms. HUGHES. Well, I am told that we don't have that. We can't confirm that data now.

Senator DANFORTH. You can't confirm it? Do you deny it?

Ms. HUGHES. I can neither confirm nor deny it.

Senator DANFORTH. Well, the figures I have are that Korea shipped 46 percent of its leather apparel exports to the United States; Hong shipped 40 percent; Canada shipped 97 percent; Israel shipped 50 percent; Uruguay shipped 86 percent; and Argentina shipped 74 percent of its leather apparel exports to the United States.

I take it you can neither confirm nor deny it, but you don't dispute it?

Ms. HUGHES. I am informed that sounds correct.

Senator DANFORTH. Is it also fair to say that despite the fact that the United States is the largest hide and leather producer in the world and has a large leather apparel industry, the U.S. leather apparel producers have been unable to export successfully their garments to foreign markets?

Ms. HUGHES. That is true, although I am told that there is one bright spot. We have been able to sell a few garments, we think, into the European market, because of increasing interest there in the wild west style that we have.

Senator DANFORTH. All right, with that exception, would it still be a general rule in your opinion that despite the fact that the United States is the largest hide and leather producer in the world and has a large leather apparel industry, the U.S. leather apparel producers have been unable to export successfully their garments to foreign markets, would that be a good general statement?

Ms. HUGHES. That is true.

Senator DANFORTH. All right.

Now, leather garments that are imported into Canada are dutiable at 22.5 percent; is that correct?

Ms. HUGHES. We don't have that data with us at this time.

Senator DANFORTH. You don't have that?

Ms. HUGHES. We just don't have that with us today.

Senator DANFORTH. All right. The information I have is that leather garments imported into Canada are dutiable at 22.5 percent; leather garments imported into Japan are dutiable at 20.5 percent; leather garments imported into the European Community are dutiable at 7.5 percent. You don't have information to either confirm or deny that?

Ms. HUGHES. That is right.

Senator DANFORTH. Now, let me refer you to page 7 of your statement. You say:

> Another important consideration in the President's decision was the impact of import relief on our efforts to improve American access to hide and skin supplies in other countries.

You say:

> The United States-Argentina Agreement on Hide Exports contains a provision under which the Government of Argentina has reserved the right to cancel the agreement if the United States grants relief for leather wearing apparel. There would be a similar direct impact on hide agreements with Brazil and Uruguay.

And then it is my understanding that prior to entering into these agreements, Argentina did not export hides; is that correct?

Ms. HUGHES. That is correct.

Senator DANFORTH. And that Brazil and Uruguay did not export hides?

Ms. HUGHES. That is correct.

Senator DANFORTH. Now, the United States has entered into agreements with Argentina, with Brazil, and Uruguay?

Ms. HUGHES. That is the U.S. Trade Representative's Office.

Senator DANFORTH. It entered into agreements with Argentina, Brazil, and Uruguay. When were those agreements entered into?

Ms. HUGHES. Well, they were entered into with Argentina last year and with Brazil and Uruguay this year. We have an ad referendum agreement with Brazil which we are now considering—both Governments are considering whether or not to accept.

Senator DANFORTH. So the Brazil agreement has not formally been entered into; it is a negotiated agreement?

Ms. HUGHES. That is correct.

Senator DANFORTH. But the agreements with Argentina and Uruguay have been entered into?

Ms. HUGHES. Yes.

Senator DANFORTH. And those agreements provide for what with respect to the export of hides?

Ms. HUGHES. They provide for the replacement of the embargo initially with an export tax. The Argentine agreement calls for the phasing out of the tax, which is currently 25 percent. The Brazilian agreement called for the replacement of the export embargo with 36 percent export tax. The ad referendum agreement—which we have concluded and we are now considering—would lower that to 18 percent, and on the basis of that the Argentines have told us that they are prepared to continue with the agreement to completely phase out their export tax; and we have indications the Uruguayans will do the same.

Senator DANFORTH. So the effect is that previously these three countries which are cattle producing countries have had restraints on exports from their countries of hides, and that the administration has succeeded in negotiating with two of those countries and is in the process—has completed the negotiations and is in the process of trying to get agreement with a third country to remove restrictions imposed by those countries on exports from those countries of hides to the United States; is that correct?

Ms. HUGHES. That is correct.

Senator DANFORTH. And your concern, as I understand it, is that should the United States grant relief for the leather wearing apparel industry as proposed by the International Trade Commission, these three countries—Argentina, Brazil, and Uruguay—could reverse their decisions to be more liberal with respect to the export of hides, right?

Ms. HUGHES. That is correct.

Senator DANFORTH. Thank you, Mr. Chairman.

Senator RIBICOFF. Before calling on Senator Baucus, someone in the room accidently picked up a sheaf of papers belonging to the Treasury Department, and I wonder if you would look through your briefcases to see if by any chance in picking up what you considered testimony, you might have something that belongs to the Treasury Department?

Senator DANFORTH. Mr. Chairman, may I ask one other question? Who is representing the Treasury Department?

Senator RIBICOFF. Is somebody here representing the Treasury Department?

Ms. HUGHES. I am sorry, there is nobody here representing them on this issue.

Senator DANFORTH. I see. Does anybody have any information with respect to a Treasury Department finding on subsidies on exports of leather products by Uruguay?

Ms. HUGHES. No; this case was taken up before the function was shifted to the Commerce Department.

Senator DANFORTH. So nobody here knows about that?

Ms. HUGHES. No.

Senator DANFORTH. The gentleman in the back?

Mr. MAGRATH. My name is Patrick Magrath from the ITC. The Treasury Department and the ITC adjudicated that case, and the ITC found affirmatively on that case, that subsidy case from Uruguay; and if I recall, the subsidy figure was 4 percent. Is that it? I am not sure about that. The Treasury Department found that there were subsidies and the Commission found that an industry had been injured by the subsidized imports from Uruguay.

So that was an affirmative finding.

Senator DANFORTH. Do you know whether or not countervailing duties were imposed?

Mr. MAGRATH. No, that is not—as I said, I work for the ITC—it is not the ITC's bailiwick to enforce those countervailing duties. However, I had heard informally from domestic representatives of the leather apparel industry that those duties were never enforced. I can't vouch for that.

Senator DANFORTH. It is my understanding that the countervailing duties were never enforced.

Thank you, Mr. Chairman.

Senator RIBICOFF. Thank you.

Senator Baucus?

Senator BAUCUS. Thank you.

I am curious as to the reasons why the domestic finished leather apparel industry has been unsuccessful penetrating other markets and increasing its exports to other countries.

In answer to a question from Senator Danforth, you indicated that those producers have been unsuccessful. Why have they been unsuccessful?

Ms. HUGHES. I can only speculate on that. I would speculate that in the first instance that the prices of U.S. garments are quite high relative to the international price.

Senator BAUCUS. Do you know what effort they have undertaken? Has it been a major effort, or something that they have paid lip service to, but not put their heart in it? Do you know the quality and the degree of effort the companies have undertaken?

Senator RIBICOFF. I would hope, Senator, at a later time you would ask the same question of the next panel of witnesses.

Senator BAUCUS. I appreciate that. The thought occurred to me, I could probably answer that question later on.

Ms. HUGHES. No, we don't have any information on that; I am sorry.

Senator BAUCUS. Is fashion and style a factor here? As you mentioned, European countries like the western look.

Ms. HUGHES. That is a current fad over there.

Senator BAUCUS. I am wondering as to whether the other European countries just don't have much taste as to other American styles?

Ms. HUGHES. That is entirely possible. A large proportion of the American production is in the more basic type of leather jackets and coats, as opposed to the more fashion oriented and ornamented garments that are imported.

Senator BAUCUS. Do you have an estimate as to what the production in value of hides would be if this increased tariff goes into effect?

Ms. HUGHES. Yes.

Senator BAUCUS. You quoted a figure from the Department of Agriculture?

Ms. HUGHES. Yes; this was an estimate made by the Department of Agriculture of $50 to $60 million.

Senator BAUCUS. And what has the dollar value of production been of imported leather wearing apparel from 1978 to 1979 by comparison?

Somewhere I have the figures that the dollar value fell from $279 million in 1978 to $238 million in 1979, which is approximately a $50 million reduction.

Ms. HUGHES. That is the correct figure.

Senator BAUCUS. If that is the case, doesn't that suggest to you that there is some net loss to the United States, assuming one can make a comparison between historical figures for 1978 and 1979 of the finished apparel industry compared with projected loss to the hide industry in exporting hides from the United States to foreign countries, that is, $50 to $60 million, as suggested by the USTA?

Ms. HUGHES. Yes, there certainly would be a net loss in that case.

Senator BAUCUS. What other discussions have you had with other countries, in addition to the ones you mentioned? I am thinking particularly of Canada. What is the Canadian view of this proposed action?

Ms. HUGHES. The Canadians have informed us that they feel that providing import relief on leather wearing apparel would greatly damage their own interests. They sell us a quantity of leather garments, and they would be one of the principal countries that would be hurt by this other than these LDC's I have mentioned.

Senator BAUCUS. Have you gotten a written response?

Ms. HUGHES. We have received an aide memoire from the Canadian Government, asking that we oppose this action.

Senator DANFORTH. Why?

Ms. HUGHES. Because of the harm that they feel import relief given to the industry in this country would do to their sales here.

Senator BAUCUS. Are you at liberty to make that a part of the record?

Ms. HUGHES. Yes, we can make that part of the record.

[The information follows:]

Canadian Embassy Ambassade du Canada

NOTE NO. 373

The Embassy of Canada presents its compliments to the Department of State and wishes to refer to the Senate Concurrent Resolution 108 and the House Concurrent Resolution 383 to disapprove the determination of the President not to provide import relief for the leather wearing apparel industry.

The Canadian authorities wish to strongly reiterate the points made in our Note of February 20, 1980 regarding the serious impact which increased rates of duty on leather garments would have on the Canadian industry and Canadian exports to the USA market. The implementation of United States International Trade Commission recommendations would impact on a much broader range of imports than those which might be characterized as causing injury, or threat thereof, to the USA industry and could have the de facto effect of excluding imports of more exclusive high fashion wear, including those from Canada. Canadian exports of leather garments to the USA in 1979 had a value of Canadian $13.2 million, which represented 25% of the value of production of such garments in 1979.

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Canada reserves its GATT rights with respect to the increased duties which would result from implementation of the United States International Trade Commission recommendations. The Canadian authorities welcomed the President's earlier decision that "expedited adjustment assistance is the only positive action appropriate for facilitating the adjustment process of the industry" and would strongly urge the Administration to strenuously oppose the Senate and House Resolutions.

The Embassy of Canada avails itself of this opportunity to renew to the Department of State the assurances of its highest consideration.

Washington, D.C., August 4, 1980

Canadian Embassy — Ambassade du Canada

No. 74

The Embassy of Canada has the honour to refer to the Report by the United States International Trade Commission (ITC) to the President on its investigation No. TA-201-40 under Section 201 of the Trade Act of 1974: leather wearing apparel.

The ITC has determined that coats and jackets of leather (provided for in items 791.7620 and 791.7640 of the tariff schedules of USA annotated), are being imported into the USA in such increased quantities as to be a substantial cause of serious injury, or threat thereof, to the domestic industry. The Commission has recommended that, to prevent or remedy the serious injury to domestic industry, the President impose additional duties, over and above the current 6 percent rate, of 25 percent, 20 percent and 15 percent each year respectively for a period of three years on leather coats and jackets valued at not over $150 each.

The statistics cited in the ITC report do not appear to substantiate the Commission's findings that the USA leather wearing apparel industry is being injured by increased imports into the United States of leather coats and jackets in the higher price range of $75 to $150, which corresponds to values of imports from Canada.

The original petition for relief and the ITC report appear to be focused primarily on increased imports of low cost apparel. During the four year period reviewed by the ITC, imports of leather wearing apparel from Korea increased by 352 percent, accounting for approximately 36 percent of total USA imports in 1978. Imports from Latin American countries rose by 314 percent, accounting for approximately 34 percent of total USA imports. During this same period, the value of Canadian exports of leather wearing apparel to the USA decreased by 24.3 percent, while Canada's share of total USA imports decreased by 67.8 percent (falling from 11.3 to 3.5 percent share of total imports). Canadian exports of leather garments to the USA did increase in dollar terms during the first 8 months of 1979, vis-à-vis the same period in 1978. However, this was due primarily to a rapid increase in the price of leather and of fur used for trim and collars.

Canadian exports of leather wearing apparel are designed for the upper end of the USA market, appealing mainly to high fashion buyers. These products generally command high prices and compete on the basis of their excellent quality and workmanship, not on the basis of lower prices. On page A-33 of the ITC report, the inference is made that Canadian prices are as low as those of Latin American suppliers, yet this statement is not substantiated in the report. Indeed, Table 14 (page A-35), which sets out average unit values of imports during 1975 through 1979 lists all major exporting countries except Canada. The Canadian industry has advised the Canadian authorities that the export value of Canadian leather coats and jackets rarely, if ever, falls below the average unit values of USA domestic products. This advice would seem to be reflected in statements at the ITC hearings on this case by buyers from the major USA department stores who testified that Canadian produced leather wear is a high fashion item.

The Commission's Report states that its recommended remedy is designed to apply the increased rates of duty to those articles of leather wearing apparel that compete most directly with USA domestically produced articles. The statistics cited indicated that the average USA domestic price over the period 1975-79 was $57 to $75. The Canadian industry has indicated that Canadian prices rarely fall below 75 Canadian dollars (63 dollars U.S.). It is clear then that any injury suffered by the USA leather wearing apparel industry was not due to increased imports from Canada and that acceptance of the ITC recommendation and, in particular of a cut-off value of 150 dollars (USA), would have the effect of seriously impacting on Canadian exports, possibly excluding these exports from the USA market.

It should be noted that Canadian exporters of leather coats and jackets have already taken orders for the upcoming spring and fall seasons. The merchandise on these orders was priced on the assumption that the duty would be 6 percent. Any immediate increase of import duties would have serious financial effects of the Canadian garment industry. Twenty-five percent of total Canadian production goes to the USA, representing 95 percent of total Canadian exports of these items.

In the event that Administration officials recommend to the President that he decide, in response to the ITC report on this case, to take any border action affecting imports whose unit value exceeds 63 ~~75~~ USA dollars, the Canadian authorities would wish to have urgent consultations.

The Embassy avails itself of this opportunity to renew to the Department of State the assurances of its highest consideration.

Washington, D.C.
February 20, 1980

Senator BAUCUS. In the interest of time, Mr. Chairman, I will ask my questions of the other panel.

Senator RIBICOFF. Senator Moynihan, do you have any questions?

Senator MOYNIHAN. Not at this point, Mr. Chairman.

Senator RIBICOFF. Go ahead, Senator.

Senator DANFORTH. Let me prefix this by saying that if this were really a question of hide producers—namely, cattle producers, versus leather coat manufacturers—I would be in a real quandary.

The State of Missouri ranks second in the Nation in the production of calves and the State of Missouri ranks third in the Nation, I believe, in number of people employed in the leather industry.

I can remember last year when people in the leather garment industry wanted us to impose export restrictions on the sale of hides abroad and I voted against those restrictions because basically I believe in the concept of free trade and because I did not believe that it was in the interest of my cattle-producing constituents to impose such restrictions.

But I must say, I do not understand for the life of me how there can conceivably be a controversy involving cattle producers in the issue that is before us.

It would seem to me that leather garments are made from hides, whether those garments are made from hides here or in some foreign country; and it is inconceivable that more American hides would be used in the production of leather coats if the coats were produced elsewhere than in the United States; and as a matter of fact, from your own testimony, if the countries of Argentina, Brazil, and Uruguay were to repudiate agreements to liberalize exports from their countries of hides to the United States as a result of granting relief for the leather wearing apparel industry, it would seem to me that it would be in the best interests of cattle producers to get those agreements repudiated, if that is going to be the effect of it.

I don't know if it is or not. But it is absolutely beyond me how the administration has succeeded in roping the cattle industry into this act; and I might point out that it is my understanding that when the President originally made his decision not to agree with the International Trade Commission, there was no reference made at that time to any effect on sales of American hides.

Is there something peculiar about my analysis?

Ms. HUGHES. There is something peculiar about the situation. The situation is this: You have producers of leather wearing apparel in Latin America who in the past certainly have been able to keep their own hides captive at home, to make leather garments to sell in this country; and in effect, they have been subsidizing their own leather garment manufacturing, keeping their own prices down by not allowing the raw material prices to go up.

On the other hand, you have Korea and Taiwan, which rely to a very heavy degree on U.S. hides and skins, they have very little domestic production and there are very few other sources where hides and skins can be bought—so you have a situation where the cattlemen are anxious to be able to sell their hides and skins abroad everywhere in the market. They don't want to run the risk of prices going so high that action is taken to control the supply of exports from this country. Therefore, they are in favor of free trade throughout the world on hides and skins.

This way they feel that they will be able to compete because the United States has a very high quality of hides and skins. So they are not afraid of competition.

Senator DANFORTH. What percentage of leather garments made in the United States are made from domestic hides and skins?

Ms. HUGHES. I don't have that figure, but I would believe it would be the majority.

Senator DANFORTH. It would be probably very close to 100 percent, wouldn't it?

Ms. HUGHES. Yes.

Senator DANFORTH. So that if the domestic share of the leather garments that are made would be increased, wouldn't it stand to reason that the number of domestic hides and skins that were used in leather garments worldwide would also be increased?

Ms. HUGHES. Well, we don't think there would be a 1-for-1 relationship. The garments that we receive from Korea and Taiwan are made from U.S. leather; they are quite low in price. We don't think that if you restricted in some way imports from those two countries or other countries, other than cattle-producing countries, we don't think that the result would be that you would have a substitute garment on a 1-for-1 basis at home.

U.S. prices are simply too high. So the overall effect would be fewer garments sold, and therefore lesser demand for hides.

Senator RIBICOFF. Ms. Hughes, you are the Assistant U.S. Trade Representative for Interagency Coordination. What other agencies are involved in addition to yours?

Ms. HUGHES. We have the Department of State, the Departments of Commerce, the Interior, Agriculture, Labor, and Justice, as well as the Treasury Department; and we have a number of other members, representatives from the Council of Economic Advisers, the National Security Council, the International Development Cooperation Agency, and in addition we also have the International Trade Commission who serve as advisers.

Senator RIBICOFF. Now, you say that the increase of imports is due basically to the lack of competitiveness of American industry due to styling and efficiencies, and you bring out that there has been a bulge on western wear that seems to be popular in certain European countries.

Now, is there anybody in that interagency group who assumes the responsibility to help American industries to become more competitive?

Ms. HUGHES. Well, the Department of Commerce.

Senator RIBICOFF. What has the Department of Commerce done in cooperation with the leather industry, the leather clothing industry, to make them more competitive? Have they given them some help, some advice, some cooperation?

Ms. HUGHES. Yes, a number—eight firms have been certified to receive adjustment assistance.

Senator RIBICOFF. I don't mean adjustment assistance. What have you done to help them in styling and merchandising to make them more competitive? Is there anybody in any of these agencies who assumed the responsibility to help these companies improve their product so that they would be more competitive worldwide?

Ms. HUGHES. We have for the shoe industry, where we have a National Shoe Center just getting going in Philadelphia; we don't have a comparable facility for the leather wearing apparel industry.

Senator RIBICOFF. Well, what bothers most of the Senators here is that we have the feeling that through the 1974 act we would try to the fullest extent possible, where you ran into this type of situation, to assist these industries. Maybe they are backward; maybe they haven't been up with the worldwide demand for a certain type of clothing; and we would try to help them. And my feeling is that what the ITC was trying to do in this instance was to provide this 3-year period to allow efforts of the manufacturers—and also working with various agencies of the Government—to make them much more competitive.

And if the President's position prevailed, then you make it impossible during this intervening 3 years for the American industry to be competitive. Do you want to comment on that?

Ms. HUGHES. Senator, I think that the adjustment assistance that is being given these firms is aimed at making them more competitive.

Senator RIBICOFF. Well, how long have they received this adjustment assistance?

Ms. HUGHES. There are eight firms since the President's decision on March 24.

Senator RIBICOFF. Well, you don't expect that from March to August they can turn their industry around in styling and merchandising, do you?

Ms. HUGHES. I would not expect that.

Senator RIBICOFF. And don't you agree that the 3 years we are talking about is the time that they need to modernize their industry in many ways? I would hope that the next panel would address themselves to this situation and to this problem: Mr. Sheinkman of Amalgamated, Mr. Cooper of Cooper Sportswear, and Mr. Nehmer.

Now, I wonder if you would remain, Ms. Hughes? There may be some other questions that will be raised.

Gentlemen, your prepared testimony will go into the record as if read. I would like you to address yourselves to the question as to why the ITC was right and the President was wrong, and how much time you need to turn your industry around to become more competitive, and address yourselves to what you feel you need to save your industry and save your jobs.

My understanding is that much of your industry is either in Senator Moynihan's State, or is in Senator Danforth's State, who are deeply concerned, and I am concerned as a U.S. Senator who wants to insure that American industry remains competitive, remains productive and can compete throughout the world.

Now, I wonder if you would address yourselves to this problem, gentlemen?

STATEMENT OF JACOB SHEINKMAN, SECRETARY-TREASURER, AMALGAMATED CLOTHING & TEXTILE WORKERS UNION, AND ON BEHALF OF THE INTERNATIONAL LADIES' GARMENT WORKERS' UNION AND THE THE UNITED FOOD & COMMERCIAL WORKERS UNION

Mr. SHEINKMAN. Mr. Chairman, my name is Mr. Sheinkman. I am the secretary-treasurer of the Amalgamated Clothing & Textile Workers Union. Mr. Nehmer is to my left and Mr. Cooper is to the left of him. Mr. Swann is a manufacturer of Star Sportwear.

I want to make clear that while not contained in the formal statement, I am here on behalf of the International Ladies' Garment Workers' Union and the United Food & Commercial Workers Union as well. All three of us will attempt to respond to questions that have been put.

I would just like to make a couple of introductory remarks. Some of the technical answers will be provided by Mr. Nehmer and some of the industrial answers by Mr. Cooper.

I want to say at the outset that while we commend the administration for adding 8.5 million jobs since 1977, the fact remains that in this industry we have lost some 6,000 jobs, which is over half of the leather apparel industry; and as you have pointed out yourself, Mr. Chairman, most of these workers are located primarily in the large urban centers, although some work in some smaller towns in Missouri and Wisconsin.

In this particular instance, while trade adjustment assistance for the worker is provided, as I indicate in my testimony and the testimony of Mr. Simon Tennenbaum, one of the members of our union and a worker in the New York City area, who at the age of 61, after 33 years of employment in this industry, can't find a job; and I don't know what he will be retained for, except to wait until he is lucky enough to get the social security and the union pension that we are able to provide him.

What I am at a loss to understand is how some 5,000 workers are being sacrificed in the name of fighting inflation. I think it is unfortunate that the decision came down at a time when the inflation rate was running at 18 percent, and some of the advisers to the President felt that this would be a very dramatic way of stopping inflation, by throwing or sacrificing these 5,000 workers whose very hides, if I may use that expression, are at stake.

Senator RIBICOFF. That is pretty colloquial and we all understand that.

Mr. SHEINKMAN. And I want to say, too, this is an industry primarily of small employers, the backbone of our economy and the backbone of what America stands for; they need some time to breathe, an opportunity. We are ready to cooperate with them, the unions, to enable them to succeed; and they haven't had that chance. They are just overwhelmed, and one of the factors, unfortunately, is the fact that American workers can't compete with Taiwanese workers or Korean workers. The wage scales just can't be matched.

Even if we reduced our wages to that scale, the people can't live on that in the United States.

What we feel the Trade Act was was a tradeoff: Yes, encourage freer trade, but at the same time provide some import relief.

I want to indicate that there were six cases of unanimous findings of injuries since the passage of the Trade Act. This administration has provided import injury relief in at least five of these. The only case it hasn't provided for is in the leather apparel industry, and I don't believe size, and I don't believe might are the determining factors of where justice and right are applied in these United States. And I don't think the fact that 5,000 or 500,000 is to be the measure of how we apply our laws.

One of the things we face as a Nation, in my judgment, is the fact that Americans are losing faith in the credibility of what laws are for, and I believe this Congress has an opportunity by supporting this resolution to come out foursquare and to say to the American people and to the workers in this industry that "we meant what we said."

There is support. The ITC found, after extensive hearings and after 13 months, that there was injury and that the relief should be granted. If the industry asks for more relief than was asked for, that does not mean that less relief should have been granted; and I might indicate, it is common knowledge that the USTR supported the recommendations of the ITC, and in this regard I am at a loss to understand why the President found no import injury and no relief was granted, and to me this is what the basic issue is.

And as far as styling is concerned, we can compete with the styling on the $100 and $150 types of leather apparel. We can't compete with the wage rates.

The industry, as Mr. Cooper will indicate, is prepared to put in the machinery and the equipment to keep as many people working as can be working.

And I will say this to you, finally: The people who lose their jobs in this industry aren't going to become the computer operators of tomorrow. These people don't have the language skills or the learning ability. Most of these people have less than a high school education. If this country is prepared to support these people for the remaining years they have, that is one thing; but I know of no legislation that is going to support them from the time they become unemployed until the time they become eligible for social security, and this is our position, basically.

And at this point in time I think it will be helpful to hear from a person who has spent a lifetime in this industry, whose family founded a business, who is trying to do everything to keep it alive, so that that family can, and that is Mr. Cooper.

Mr. RIBICOFF. Mr. Cooper, tell us something about your industry and your problems and how you believe that in a 3-year period, if the Congress overrules the President, your industry can become competitive?

Tell us something about it.

STATEMENT OF MORTON COOPER, PRESIDENT, COOPER SPORTSWEAR, INC., PAST CHAIRMAN, NATIONAL OUTERWEAR AND SPORTSWEAR ASSOCIATION

Mr. COOPER. Well, let me tell you a little history about ourselves and about our industry.

68-939 O—80——3

I am Morton Cooper and I have been involved in our association's affairs, and fighting this battle of the imports for a little more than 3 years.

Senator RIBICOFF. Where is your company located?

Mr. COOPER. Our company is located—our main place of business, where we have two factories—is in Newark, N.J., and we have factories in Perth Amboy and in Trenton, N.J. The bulk of our manufacturing is done in the State of New Jersey. I might add that a couple of very prominent leather garment manufacturers—a company called Leather Modes and Manchester Modes, which may be familiar to the Senator—they were in the State of Connecticut, they are out of the leather coat business today. However, the industry is not dead.

For a dead industry, that the administration came here to bury today, there is a lot of resilience and a lot of interest by our competitors around the world.

Let me talk about our own company and our own history and about the problems that have occurred to small companies, to family companies, which is the largest part of this industry.

Our company, Cooper Sportswear, was founded by my father about 1914. Its origins were very, very simple. They started out as contractors and like all people in America, they tried to improve themselves, and eventually became small manufacturers.

My brother and I entered the business in the late 1930's, and except for a 3½-year stint in the armed forces—both of us happened to be in armored divisions, he in the 1st and I in the 6th Armored Divisions—we have spent our entire adult lives, and I might add, a few holidays as youngsters—getting indoctrinated into simple tasks in a factory.

As most of you know, it was not an easy path to stay in business. During the period of my father's proprietorship of the company he went through the panic of the 1920's, the depression of the 1930's, survived a tornado that destroyed an entire factory, and that was not covered by any insurance, and yet he never failed to meet a payroll on time, even if that meant taking a small diamond ring he had into Simpson's in the Bowery and pawning it over the weekend. That is a great record and something I am very proud of.

We have seen our company grow from a relatively small company, prewar, to one of the largest of the coat manufacturers in the United States; and it was no overnight success; it was adding one brick on top of another, accumulating $1 on top of another, and building the company up slowly.

From that point we reached the middle 1970's and the leather garment industry was continuing to grow. But we had an invasion, principally at that time from the Far East. I saw the thread of that then, even though the industry was growing and it didn't affect most manufacturers immediately because of the growth. But I saw decent merchandise at prices that seemed to me, even if there was no labor involved, the prices seemed to be lower than any legitimate manufacturing company could afford to market.

As this threat grew, and our industry is small, underfinanced in our capabilities of fighting this, but still fighting and struggling, and we continued with different actions; and we were successful in achieving the return of the 6-percent duty for the developing countries when it was realized that we needed the help more than they did.

We had another success—I think Senator Danforth referred to a countervailing duty action—and the administration was not able to come up with the answers, but I know for a fact there was a countervailing duty imposed against Uruguay, and to the best of our knowledge we have not been able to find out whether any, 1 penny, has ever been collected.

We have been fighting a variety of problems, but we have not given up. We do believe that we can be successful. Before somebody tried to—on the part of the administration—drag some hides out as a smokescreen, and there are no really relevant issues here; it is really a red herring; and they referred to the fact that the people in the Far East wouldn't buy our hides because the price would be too high.

Let me straighten them out. The largest raw material used in the Far East, the largest single raw material, are hides, and do you know where they come from? They are tanned in South America. The bulk of the hides from the United States go into the shoe industry.

Our own company had a work force of over 800 people. We are down to approximately 500 people, and they are not working full time.

This industry, very much like our own humble beginnings, consists of small companies. It is one of the classic examples of the American capitalistic system. If you trace the origin of these companies you will find they were started by a couple of individuals who were workers in the industry; they saved some money, scrimped together and started out. Some aspired to become larger, and were successful. However, many others failed; but they had the opportunity.

While a number of companies have gone out of business, there are many of us who are working harder than ever to improve our competitive position. Let me tell you what our own company has been doing.

Cooper Sportswear in an effort to improve its efficiency, has done the following: We have increased the design department and sales force. We installed a computer system to improve the collection of data for management analysis. These data enable us to spot trends in the market as they occur, and to make adjustment in ordering supplies and producing different styles and in targeting our sales force more effectively.

We recently, with aid from the Trade Adjustment Assistance Center of the New Jersey Economic Development Authority, hired through competitive bidding a topnotch consulting and engineering firm.

Senator RIBICOFF. In other words, the only help you have gotten has been from a State agency as to how to improve your processes and your competitiveness, but you received nothing from the Federal Government?

Mr. COOPER. As of yet, we have received nothing. We have been certified for adjustment assistance, but we haven't received any yet. But we are not waiting; we are moving ahead, because we are hopeful that we will get aid.

Senator RIBICOFF. May I ask what did New Jersey do for you? What did the New Jersey governmental authorities do for you?

Mr. COOPER. They gave us about 80 percent of $25,000; we furnished the balance, and they gave us this toward this project. This project is only the beginning of a full-time project. We picked the engineering companies to bid; we picked the four most prominent companies in the United States, and with the New Jersey Economic Adjustment Assistance Center, we picked one of the companies.

Senator RIBICOFF. Let me ask you this: The President, in turning aside the ITC recommendations, expressed his doubts as to whether import relief would enable the U.S. industry to become competitive. If the ITC recommendations were followed, how would you foresee for your company that it would improve your business?

Mr. COOPER. Well, we have started this program of surveying all of our factories, of surveying our marketing, our management. We will have firm recommendations as to what we can do to improve all of these areas—about the equipment, techniques, or any other skills necessary to improve a business.

Senator RIBICOFF. And do you think that that will take about 3 years, and you need that length of time from the ITC's recommendations?

Mr. COOPER. Well, yes. It will take 3 years, because the implementation, because they estimate the implementation of their recommendations will take at least 2 years to complete thoroughly. The implementation in itself will not give us the entire American market. If you study the statistics of the exports to the United States, you will find that it grew and it reached a certain base, and then it doubled and redoubled, because it does take time to penetrate a market.

Now, the American industry is resilient; equipment is available; new plants can spring up almost overnight. This has happened before. We even have people coming into the industry. While people are going out of the leather garment industry today, I know of a couple of companies that are going into the leather garment industry in the United States. So the industry is resilient. American ingenuity is here. If there is a market here for our product, they will find it, make it, market it and get it there.

We do need the time.

There was some mention about Canada before. They went through similar problems. They had their duty reduced to 15 percent, they increased it back to 22.5 percent and they put in quotas for a number of years until their industry could rebound. We don't sell them merchandise because there is a difference of 16 percent in duty from the United States. Their duty is 22.5 percent and ours is 6; so that is not one.

The question was asked before. We are not asleep; we are trying very hard. Last year we attended the show in West Germany, a very large show in Cologne, sponsored by the U.S. Commerce Department. That is the first time they had 10 American outerwear manufacturers, not only leather but cloth. We did do some business. It was not enough to pay our expenses but it was a start. We will be there again this year.

We have sold a small amount of leather garments to Japan. I think we have had more success than the tanning industry, which had reached a bilateral agreement with Japan to permit the growth of tanned leather from the United States into Japan. As of now they have shipped less leather to Japan than before they had the agreement.

So our industry is working hard. Those who are left, those of us who are left have not given up.

Just to fortify our own belief in our own business, our belief that we can make it go, I am past 60 and so is my brother; we have a third generation in the business. We have taken our life's savings and pledged it to the bank to insure that we have sufficient working capital to run our business. I don't think there can be any better situation where anyone can show greater faith than to put our life's accumulation on the line, and we have done that because we believe that it is possible under the right circumstances and given a 3-year state of time that we can accomplish a position for ourselves in the world market and the United States and be competitive in the world situation.

Senator RIBICOFF. Mr. Nehmer, do you want to add something?

STATEMENT OF STANLEY NEHMER, PRESIDENT, ECONOMIC CONSULTING SERVICES, INC.

Mr. NEHMER. Yes, Mr. Chairman. I am Stanley Nehmer, president of Economic Consulting Services, Inc.

We are economic consultants both to the industry and to the union.

There are several things I would like to comment further on, on the points that Mr. Cooper made.

During the time that this case was being considered by the executive branch after the report of the International Trade Commission, we were asked to do a survey; we were asked by STC to come in with very specific adjustment plans of the domestic industry: How would the import relief be used? And we did a survey of leather apparel manufacturers, and we submitted this on a business confidential basis to the executive branch.

We were told—and this is at great detail—as to the kinds of machines that would be purchased, and then specifically with regard to several companies, as to what their plans were for improving their competitiveness.

We were told after this information was received that we had met the problem, that we had answered the question, that this industry was going to be able to adjust.

We do understand as the result of that there were at least three agencies of the Government, including STR, that did recommend to the President, that import relief be provided to this industry. We were as shocked as many of those agencies when the President did not so find.

Senator RIBICOFF. Would you make those recommendations of yours a part of the record?

Mr. NEHMER. It does contain business confidential information.

Senator RIBICOFF. You can get together with the staff to make sure that anything of a confidential nature would be deleted, so that we would have the basic information.

Mr. NEHMER. Yes.

I think apropos of this also, the ITC in its recommendation of an increase in 25 percent of the duty the first year, and scaling it down the second and third years, had the statutory right, of course, to increase the tariffs up to 50 percent and for 5 years, but they said in their report that they felt that 3 years and their recommended increase in the tariff would be adequate to assist the industry in meeting its adjustment plans.

A second point I would like to comment on is the question of inflation.

The leather apparel industry is not included as an item in the Consumer Price Index. If it were included, the value of domestic consumption expenditures for leather apparel compared to total percentage consumption expenditures in the United States would be only three one-hundredths of 1 percent; and this would not even show up as a blip in the CPI if it had been included.

I think it is very important, also, to note that this is a highly competitive, a very highly competitive industry with the firms that do remain in the industry.

Today we heard something which we had never heard before from the administration, as to the reasons for the turndown of the import relief, the fact that the recommendation would create about 4,160 new jobs, Ms. Hughes said, but it would be doing so at an alarming cost of $32,500 per job.

I have not seen the details, but knowing the kind of analysis done by the Council of Economic Advisers, apparently whose advice was paramount in the President's decision on March 24, I would bet anything they did not take into consideration the savings that would otherwise not occur from payments for adjustment assistance, for unemployment compensation, for welfare, for the taxes that workers would not be paying, for the loss of revenue to the communities in Missouri and New York and New Jersey that would otherwise result.

Senator RIBICOFF. Are those the locations where this industry is presently doing business—Missouri, New York, New Jersey?

Mr. NEHMER. Yes, those are three major regions. There is production in Chicago and the west coast.

Mr. SHEINKMAN. Wisconsin, too.

Mr. NEHMER. I did want to comment on a couple of other new facts, or so-called new facts, that were brought out today on the hide exports problem.

I think we shouldn't overlook the fact that in the ITC report to the President they make it very, very clear that the price—and this is a quote from the ITC report—that "the prices of hides, skins, and tanned leather in the U.S. market are by nature volatile, as the supply of hides is determined by cyclical trends in animals slaughtered for meat and not by price and demand of the hides themselves."

Now, in the statement of Ms. Hughes she presents—and once again we don't have any of the backup—an Agriculture Department estimate that restrictions on leather wearing apparel would lead to reduction of U.S. exports of at least $50–$60 million—but I should point out if there is no domestic leather wearing apparel industry—whose total shipments were something like $225 million, 56 percent of which represents leather—the lost sales domestically of those hides, which would not go to this domestic industry, would each be in excess of that which the Agriculture Department analysis has estimated.

So that it is a question of, yes, even assuming that Agriculture's estimate was correct—and we just don't know what it is—there is a loss insofar as the domestic industry is concerned.

Ms. Hughes pointed out this import relief could adversely affect our export opportunities in certain large and growing markets in the Third World. Hong Kong and Taiwan maintain very large and flowing surpluses with the United States. Korea has, but Korea's trade with the United States is about in balance. These are facts that certainly were not brought out.

And, finally, I should point out something that was not in her testimony, that the import relief that was recommended by the ITC would not apply to any leather wearing apparel with a foreign export value of over $150. We are not talking here about the so-called high fashion leather apparel garments. These are not covered by the import relief. It is the very basic, standard production of the domestic industry, that is, really the apparel here, and for which import relief is very, very much needed.

Thank you.

Senator RIBICOFF. Senator Danforth?

Senator DANFORTH. Thank you, Mr. Chairman.

Senator Ribicoff has asked generally about the prognosis of the leather garment industry in the United States. The purpose of sections 201 and 203, as set forth quite clearly in the committee report for the Trade Act of 1974, is not to simply breathe temporary relief into a corpse, but to provide a period of time in which an industry can retool, can regroup, can get back on its feet, can regain its health, so that it can through its own efforts recapture a greater share of domestic markets and, hopefully, even foreign markets.

Bearing that in mind, if you were to receive this 3-year relief, what would be the specific effects on the industry? What would happen? What would happen to the average unit cost of production during this 3-year period of time?

Mr. COOPER. No. 1, more capital would be attracted to the American industry. With this capital, new equipment, better techniques, greater efficiency.

You don't have to be afraid that the prices will skyrocket in the United States. As I said before, it is a very resilient industry. If there is a profit available to be made in the industry, it will attract other manufacturers of fabric-type outerwear back into the leather garment industry, and there will be plenty of competition. The history of the industry shows it is a big volume and small profit ratio that is very, very similar to the food stores that do a lot of business and have a profit in pennies.

Senator DANFORTH. Your testimony, as I understand it, is that new capital would be attracted into the industry during the 3-year period of time?

Mr. COOPER. Yes.

Senator DANFORTH. What would happen to the unit cost of production?

Mr. SHEINKMAN. That deals also in the fact the new capital would be used for the introduction of new machinery to make the cost of the garment on a unit basis less; and also there is this confidence of time, I don't see why any businessman would be willing to invest in new equipment. And the union is prepared to cooperate with the industry in this regard, as we have in the past, on the introduction of any machinery to make the industry more efficient.

Mr. NEHMER. There would be a reduction in production costs accompanying larger production returns. So that those two factors in themselves are so basic to the competitiveness of this industry and almost any other industry.

Senator DANFORTH. What would happen to the real price of garments. After adjustment for inflation, but in real dollars, or in stable dollars, what would happen to the price of garments?

Mr. COOPER. Some countries will still be shipping goods into the United States. The first year of a duty of 25 percent will not negate the total sales; it will make us more competitive with the imports that are coming in today.

The manufacturers in this country will be competing with each other. So we do not foresee any tremendous unconscionable profits as some energy industries have, but a normal apparel industry profit, which is a small one and a very competitive industry.

Senator DANFORTH. Let me see if I can put it in my words. If the unit cost of production were to decline and if the effort of the industry were to become more competitive with imports, then would it not follow that the real price of American-produced garments would certainly not go skyrocketing, if you wanted it to be competitive, but it would be held stable or even reduced?

Mr. COOPER. Absolutely, sir.

Mr. NEHMER. Absolutely.

Senator DANFORTH. What, in your opinion, would happen to the share of the U.S. market held by the American leather garment manufacturing industry, would it be increased during the 3-year period of time?

Mr. NEHMER. Yes, hopefully the share of the market would increase for the U.S. manufacturers and more jobs created in that process, yes.

Senator DANFORTH. And more jobs would also be created as the result?

Mr. NEHMER. That is right.

Senator DANFORTH. So the 3-year breathing period would really be a breathing period; it is not sort of an artificial life support system to keep something that would otherwise be dead, alive?

Mr. NEHMER. Not only that, but also at the end of the 3 years the industry, as the result of the improvements made, will be in a better position to compete to a better extent than they would before the import relief started. Absolutely.

Senator DANFORTH. Now, you may not know the answer to this question, but comparing the retail markup practices for imported leather garments and domestically produced leather garments, are they comparable?

Mr. NEHMER. No, sir. As was brought out during the course of the studies and a study by the Library of Congress and many other places, the retailer's markup on leather wearing apparel is clearly many times higher than that for domestic apparel. So that both the domestic and the imported apparel would be selling for roughly comparable prices.

This is what attracts the retailer to buy imported goods. He can get himself a much higher markup with the domestic leather apparel serving as the target. If he can sell a few dollars below or at that level, he can make much more on imported goods than the domestically produced goods.

Senator DANFORTH. What, specifically, is the markup practice?

Mr. NEHMER. About three times on the imports.

Mr. COOPER. The normal markup for the conventional retailers is what is called the keystone, which is double the wholesale price. We have found instances where imported merchandise was selling at three times the wholesale price.

Senator DANFORTH. So the domestic would be selling at about twice, and the imports would be selling at about three times; is that correct?

Mr. COOPER. Yes.

Mr. NEHMER. I might say, we have presented to the Commission during the course of the hearings in New York actual garments, comparable garments, the imported garment and the domestically produced garment, where this is acknowledged to be the case. This is on the record.

Mr. SHEINKMAN. If you destroy the domestic industry, then there is no restraint on imports on what they can charge. At least you have some measure that would be a touchstone on a domestic basis to keep them honest.

Once you have destroyed the industry, then you are at the will of all of the importers in all of these countries, and they can charge any price, and the public has no way of knowing what is a fair price.

Senator RIBICOFF. Senator Baucus?

Senator BAUCUS. Thank you, Mr. Chairman. I am wondering what the percent price increase of domestically produced leather wearing apparel has been in each of the last several years?

Mr. NEHMER. There has been an increase, as you know, in the cost of the raw material, which accounts for 54 percent of the value of the finished product. I don't have those figures offhand.

Senator BAUCUS. I am trying to compare either the retail price or the production value, the percentage increase of each in the last several years, compared with both the Consumer Price Index and the GNP deflator.

Mr. COOPER. Senator, I have a competitor here with me, and we have compared notes, not only today but earlier. Our prices are lower this year than they were last year.

Senator BAUCUS. What about compared with the preceding year; that is, 1978 to 1979?

Mr. COOPER. From 1978 to 1979 the entire industry had a relatively large increase in prices due to the unprecedented high rise of raw material.

Senator BAUCUS. Could you provide the answers to the questions I ask for the record? Could you do that? And specifically as I have stated it, too?

Mr. COOPER. Yes.

[The information follows:]

ECONOMIC CONSULTING SERVICES INC.

August 22, 1980

Hon. Abraham Ribicoff
Chairman, Subcommittee on
International Trade
Committee on Finance
U.S. Senate
Room 2227, Dirksen Senate
Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

At the August 19 hearings held on S. Con. Res. 108, Senator Baucus made a request of the representatives of the U.S. leather apparel industry to provide a comparison of the trends in the U.S. prices of leather apparel with the trends in the overall Consumer Price Index. The attached table provides the requested information.

As seen in the table, the price of leather apparel has closely paralleled movements in the CPI since 1975. Trends thus far in 1980 are not provided because 1980 prices were not available. Were such data available, however, it would show the price index of leather apparel to be well below the CPI. This could be expected because of 1) the marked lowering of leather prices in 1980 relative to 1979 and 2) the large increases in the overall CPI registered thus far this year.

We would be most willing to provide any further information which you may require in this matter.

With all best wishes,

Sincerely yours,

Stanley Nehmer
President

Attachment

1320 NINETEENTH STREET, N.W., WASHINGTON, D.C. 20036 (202) 466-7720

A COMPARISON OF THE PRICE OF U.S. PRODUCERS' SHIPMENTS OF LEATHER COATS AND JACKETS WITH THE CONSUMER PRICE INDEX FOR ALL COMMODITIES, 1975 - 1979

	Price of U.S. Producers Shipments of Leather Coats and Jackets:		
	Actual[1/] (in dollars)	Index (1975 = 100)	Consumer Price Index[2/] (1975 = 100)
1975	56.86	100.0	100.0
1976	61.20	107.6	105.8
1977	65.74	115.6	112.6
1978	69.82	122.8	121.2
1979	74.56[3/]	131.1[3/]	134.9

1/ Data contained in the Report to the President on Investigation No. TA-201-40 Under Section 201 of the Trade Act of 1974, United States International Trade Commission, USITC Publication 1030, January 1980, p. A-15.

2/ Calculated from data supplied by the U.S. Department of Labor, Bureau of Labor Statistics.

3/ Based on data for the first 8 months of 1979.

Senator BAUCUS. Speaking generally though, has the price of domestically produced leather wearing apparel here been somewhat less than, equal to, or greater than the Consumer Price Index for each of those years, the last several years?

Mr. COOPER. The prices of the domestic industry in 1980——

Senator BAUCUS. As a percentage increase, is it less than?

Mr. COOPER. I will give you a good example. The prices of 1980 are similar at wholesale to the prices of 1978 for equivalent merchandise.

Senator BAUCUS. That doesn't really answer my question. I am asking you, do you have that information?

Well, to what degree is the loss of jobs due to an increase in sales price?

Mr. SHEINKMAN. Let me make a statement about the apparel industry beyond the leather industry.

The general price increase of clothing generally has been much less than the Consumer Price Index for the last 5 years.

Senator BAUCUS. What about the leather?

Mr. SHEINKMAN. Leather, Mr. Nehmer will get it back to you and be able to supply that information.

Mr. COOPER. Let me say this: From 1975 through 1980 the price increases from year to year were, I would say, definitely lower than the cost-of-living index, except for the year between 1978 and 1979.

Senator RIBICOFF. I am just wondering if your economists—I know your union has them—could supply the information requested by Senator Baucus?

Mr. NEHMER. We shall.

[The information follows:]

ECONOMIC CONSULTING SERVICES INC.

August 22, 1980

Hon. Abraham Ribicoff
Chairman, Subcommittee on
International Trade
Committee on Finance
U.S. Senate
Room 2227, Dirksen Senate
Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

At the recent hearings on S. Con. Res. 108, you made a request of ~~the representatives of the U.S.~~ leather apparel ~~industry~~ for more specific details on what the U.S. leather apparel industry could and would do with a period of effective import relief. In response to that request, I am providing the attached document which outlines some of the plans of several firms in the U.S. leather apparel industry.

This document is based on a survey of nine firms in the industry which we conducted in late February of this year to gain a very clear and specific idea of what the industry would do to adjust if import relief were provided. We undertook the survey at the request of several Executive Branch agencies which felt such information was, at that point, very important in their deliberations. We were informed at that time that the information contained in this document and supplied to them was most useful and had "passed the test", so to speak, of showing that the industry could make effective use of import relief. Indeed, as a result, we understand that at least three agencies, including the Trade Representative's Office, recommended to the President that import relief be provided this industry.

As I stated in my written testimony of August 19 before the Subcommittee, the ITC judged three years of relief to be sufficient for the industry to implement the types of capital investment, production process improvement, and technological advancement which were possible for the industry. This judgment was based on an extensive investigation conducted by the ITC staff. Mr. William Fry, the supervisory investigator in that case, advised the Commission, during a public staff briefing, that three or four years would be necessary to implement the kinds of plans that the industry

1320 NINETEENTH STREET, N. W., WASHINGTON, D. C. 20036 (202) 466-7720

had in mind. These judgments certainly did not take place in a vacuum, without the requisite assurance that an import relief program could be used effectively.

I should like to emphasize in this regard that these plans require the increased market share, increased production, and increased capacity utilization which will result from an effective import relief program. These anticipated benefits of import relief will not only generate additional revenues to allow firms to make the investments required (as detailed in the attached), but will also lead to greater efficiency which will help to lower average unit production costs and help keep prices stable. Thus, the industry adjustment plans must go hand in hand with a temporary import relief program to allow the industry to make real gains in its competitive position.

I hope that the attached document will be helpful in reflecting to the Subcommittee the intentions of the industry to use the import relief program recommended by the ITC in the best interest of the firms, the workers, and the American consumer. In order to facilitate the dissemination of this information, we have deleted the names of the firms from which the information was obtained, so that the document does not have to be accorded business confidential treatment. We would be pleased to offer any further assistance which the Subcommittee requests.

With all best wishes,

Sincerely yours,

Stanley Nehmer

Stanley Nehmer
President

Attachment

SPECIFIC ADJUSTMENT PLANS OF SELECTED U.S. LEATHER APPAREL MANUFACTURERS DURING A PERIOD OF IMPORT RELIEF

Based on the results of a survey of major U.S. leather apparel producers, several types of machinery and equipment were identified as products in which U.S. firms would invest during a period of effective import relief. This equipment and machinery will improve the productive efficiency of U.S. firms and increase, to varying degress, the amount of output per man-hour in these firms.

The different types of such machinery, their functions, and cost include:

Durkpoff Sewing Machines and Pfaff Sewing Machines, With Needle Positioners And Under Trimmers: combines sewing and angle trimming in one operation	--	$2,000 per unit
Singer Sewing Machines: used for sewing leather	--	$1,100 per unit
Union Special Sewing Machines	--	$1,100 per unit
Singer Double Needle-Sewing Machines: used for stitch linings	--	$1,400 per unit
High-Speed Overlock Machines: used to sew together fabric for linings, prevents fraying	--	$2,300 per unit
Union Special Memory Stitcher	--	$9,000 per unit
Singer Bar Tacker: puts bar tacks on points of stress	--	$1,700 per unit
Needle Positioner and Underbed Trimmer	--	$1,200 per unit

Automatic Snap Machines	--	$600 per year rental
Cisell Steam Air Finisher: blows steam and air through finished garments	--	$2,000 per unit
Spreading Machines With Automatic Edge Guide and Automatic Cut-Off: used for cutting linings	--	$10,00 per unit
Air-Operated Pressing Machines: used for pressing garments	--	$2,400 to $3,000 per unit
Clicker Machine: a die-cutting machine for cutting smaller-sized pieces of leather	--	$2,500 per unit
Fusing Machine: used to press adhesive to the back of leather	--	$11,000 to $20,000 per unit
Strapping Machine: bundles finished garments	--	$1,700
TCF Machine: borrowed from the footwear industry, used to cement small hems and replace sewing operations	--	$12,000
Pre-Creasing Machines: folds leather to provide creases for sewers	--	?

Some firms are already equipped to some degree with some of these types of machines, while other firms must embark on full-scale efforts to upgrade their capital equipment. Thus, the capital investment needs and plans of individual firms will vary widely. According to the firms surveyed which are anticipating major upgrading programs with a period of effective import relief, investment in machinery will increase output per man-hour in individual operations by as much as 25 percent. One firm anticipated an overall increase in operating efficiency (output per man-hour) of 40 percent as a result of an investment program to upgrade facilities.

It is important to note that due to the relatively small size of leather apparel manufacturing firms, the cost of these machines constitutes major investments. For example, even a minimum investment in three new single-needle sewing machines with accessories, one air-finisher, one fusing press and one automatic cutter would require an outlay of between $23,000 and $38,000.

Given the poor profitability of this industry as a result of injury from imports, the cost of such an investment represents a considerable obstacle. For example, according to the ITC, in 1978, the average net operating profit before taxes for the 35 firms which accounted for the great majority of the industry's output was only $111,000. After expenses for debt servicing and other items, plus taxes, the amount would be considerably smaller. As low as this level of profits was, 1978 was a better year for the industry relative to the extremely poor profitability in 1979. ITC data for the first six months of 1979 show actual net operating profits before taxes of only $195,000 for 24 firms, or only $8,125 per firm, compared to $34,280 per firm in the first six months of 1978. Thus, although the cost of each machine described above is relatively low compared to other, more capital-intensive

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industries, it represents a major outlay to the U.S. leather apparel industry. Only increased shares of the U.S. market and the assurance of several years of longer production runs will make such investment economically feasible, a result which will occur only with the effective relief recommended by the U.S. industry.

To gain a better understanding of the major nature of investment possible for and needed by firms in the industry, the following information provides a full summary of the investment programs anticipated by three firms in the industry.

FIRM #1: INVESTMENT NEEDED TO UPGRADE PLANT AND EQUIPMENT DURING A PERIOD OF EFFECTIVE IMPORT RELIEF

Types Of Machine or Equipment	Units Required	Cost per Unit	Total Cost	Comments
Durkoff and Pfaff Single Needle Sewing Machines w/needle positioners and undertrimmers	50	$2,000	$100,000	Must replace outmoded sewing machines; will save 12-18% in SAMs 1/
High-Speed Overlock Machines	8	2,300	18,400	Will save 15-20% in SAMs over old equipment
Spreading Machine with automatic edge guide and cutter	2	6,000	12,000	Will save 10-15% in SAMs over old equipment
Lift truck, pallets, and storage bin			15,000	To improve materials handling system
Air-Operated Pressing Machines	10	2,400-3,000	24,000-30,000	To replace outmoded manual kick-pressers
Slick Rail system and rack storage			10,000-12,000	Revamp warehouse and distribution center
Mobil Carts	250	45	11,000	Improve plant work flow; will free one out four workers to do other work
Total Investment Program To Upgrade Facilities			$190,650 to $198,650	

1/ Standard allotted minutes.

FIRM #2: INVESTMENT NEEDED TO UPGRADE PLANT AND EQUIPMENT DURING A PERIOD OF EFFECTIVE IMPORT RELIEF

Types Of Machine or Equipment	Units Required	Cost per Unit	Total Cost	Comments 1/
Union Special 56-300 Sewing Machines	3	$1,700	$5,100	
Singer 269- Tacker	1	1,700	1,700	
12 Singer 211G 165 Sewing Machines	12	1,100	13,200	
Cisell Steam Air Finisher	1	2,000	2,000	
Fusing Press	1	11,000	11,000	
CRA Champion Automatic Cutter w/ automatic edge guide	1	4,000	4,000	
Needle positioner and underbed trimmer	15	1,200	18,000	
Cutting table (200'x 72")	1	2,500	2,500	
4-Wheel Trucks	40	500	20,000	[To improve [materials [handling [systems
Strapping Machine	2	1,700	3,400	
Total Investment Program To Upgrade Facilities			$80,900	

1/ It is estimated that this upgrading program will increase the output per man-hour of this firm's operation by 40 percent.

FIRM #3: PROGRAM OF INVESTMENT
IN PLANT AND EQUIPMENT TO INCREASE EFFICIENCY
DURING A PERIOD OF EFFECTIVE IMPORT RELIEF

Types Of Machine or Equipment	Units Required	Cost per Unit	Total Cost	Comments
APMC 8066 Gluing Machine	3	$6,155	$18,465	Will result in a total annual savings of $84,000
Roller Press	1	48,000	48,000	Will result in (1) estimated material savings (leather) of 4-5 percent, equalling an annual savings on leather usage of $180,000 to $190,000 and (2) a 10 percent increase in output per man-hour
Slick Rail System	1	60,000-65,000	60,000-65,000	Will result in increased use of floor-space, a 20 percent decrease in man-hours required for pressing, for total annual savings of $11,000, and increased quality control
Computerized grademarking of patterns			@$10,000	Saves $18,000 per year in labor costs
			$136,465-141,465	

Much of the above investment plan is the result of an in-depth analysis of manufacturing costs, work flow patterns, handling of in-process merchandise, and other related operations conducted by the firm over the last year. Already a substantial reduction in manufacturing time per unit output of 25 percent has been achieved. Continuing increases in efficiency will result from the above investment program.

Several firms with less extensive investment needs revealed anticipated purchases of machinery and equipment including leather die-cutters ($2,500 each), fusing presses ($11,000 to $20,000 each), lapel presses, pre-creasing machines, and TCF Machines.

Efficiency increases are anticipated through the purchase of this equipment, the bulk of which will not occur without import relief. In addition, major efficiencies are anticipated for firms which plan and become able to build a new plant either to replace a current plant or to expand capacity. These efficiencies relate to updated heating and air-conditioning systems to save on energy costs, to use of improved designs for the physical lay-out of the plant, and to new equipment to generate cost-savings in training new workers.

When substantial increases in production runs do occur, an increase in the purchase and use of die-cutting machines can be expected.

Senator BAUCUS. As I listen to your central arguments, I fully appreciate your concern here and the plight that the industry faces. Yet, I have a second general question. I know that you need time in order to make adjustments, roughly 3 years. I heard you describe the changes you are going to make in order to make the industry more competitive, et cetera. My second general question, then, is this: Why weren't these changes made earlier? That is, as I heard one of you mention that Canada faced a similar problem and made similar adjustments, I guess, in the form of import restrictions. I don't know what the Canadian leather goods industry did to adjust or to change. However, this didn't just strike you as a problem a few months ago or a year ago; you must have seen this coming.

So, I ask my question again: Why didn't the good old American enterprise and resilience and imagination respond earlier to meet the challenge?

Mr. COOPER. Senator, if you look at the figures on the imports, from 1977 to 1978 to 1979, they were overwhelming. It just ran right over us. There really was not time to take stock and to do a complete analysis and the complete change that has to be done.

Senator BAUCUS. But why? What happened?

Mr. NEHMER. If I may add to that, something very significant happened to this industry effective January 1, 1976: The import duty on imports from the developing countries was made zero by virtue of leather apparel being put on the preference list. That caused a major influx of imports; and the industry battled for 3 years to get this off the list, to get leather apparel off the list, and finally successfully.

But once the imports had gotten a foothold, with the aid of American importers and retailers, in the U.S. market, the elimination of GSP has not solved the problem at all. But the turning point so far as what we have been talking about, I think, has been that occurrence of putting this item on the preference list. That occurred not long after the Kennedy round and the duty on imports on leather wearing apparel were cut by 50 percent.

So, you have had two events giving an attraction to imports. As we know, once imports do get a foothold into the market, they continue in the absence of temporary import relief such as we are talking about today.

Mr. BAUCUS. What will happen if 3 or 4 years from now, assuming the resolution passes and the Trade Commission ruling stands. What is going to happen 3 or 4 more years from now if these other countries get more efficient compared with the United States and are able to significantly undersell the U.S. companies? Are you going to be back here again, asking for additional relief?

Also, what changes do you expect to occur within the industry in the next few years, and do you think they will be sufficient?

Mr. NEHMER. What the industry is asking for is a chance to be able to prove that it can become more competitive so that at the end of the period of import relief indeed it can stand on its own two feet. There is a reverse question of what will happen if import relief is not provided to this industry. You won't see us here in 3 or 4 years, that is for sure, because there will be no industry to speak up.

Senator BAUCUS. But let me ask the question I am asking——

Mr. NEHMER. I thought I had answered your question. I am sorry.

Senator BAUCUS. No. Will you be back in 3 or 4 years if the ITC decision stands and the resolution introduced here is passed and at the end of 3 or 4 years the companies overseas are for one reason or another able to undersell?

Mr. NEHMER. Under the law, there is no way this industry can come back and ask you for relief.

Senator BAUCUS. I have seen imaginative ways of coming back and asking for legislative assistance.

Mr. NEHMER. We are saying we expect the industry to be competitive enough to be able to stand on its own two feet at the end of the import relief.

Senator RIBICOFF. Senator Bradley?

Senator BRADLEY. Thank you.

Your industry went to the ITC in full conformity with all the rules pertaining to an ITC investigation under section 201; is that correct?

Mr. NEHMER. Yes.

Senator BRADLEY. And the ITC did make a finding of relief and injury?

Mr. NEHMER. Unanimously.

Senator BRADLEY. And did provide a 3-year period that was in full conformity with the normal procedures and rules?

Mr. NEHMER. Unanimously.

Senator BRADLEY. And then the President vetoed it?

Mr. NEHMER. Yes.

Senator BRADLEY. What is your opinion of trade liberalization, given this experience?

Mr. NEHMER. I think the procedure we are talking about, section 201, 202, 203, is an integral part of trade liberalization. The Congress recommended and it has been the administrative policy for a lot of administrations, that there must be a safety valve, a time when temporary relief can be provided to certain industries when certain criteria are met under certain circumstances; and in the absence of this kind of safety valve, trade liberalization will come to an end at some point in the not too distant future because the forces that will be at work to bring down trade liberalization will become very, very powerful.

It is for that reason that all administrations that I can recall find the escape clause procedure to be a very positive valve for that.

Now, if it doesn't work, as it has not worked in this particular case, and if it doesn't work in other cases, then trade liberalization can definitely be set back.

Mr. SHEINKMAN. In short, Senator, it is a tradeoff. The tradeoff is more liberalization, provided there is an escape provision; and we have complied. And if you comply with that escape provision, it seems inescapable to me that something has to be done after a full adjudication is made and there is an opportunity to hear full testimony on the record, that something has to be done. And you were out of the room, but as I said in my opening statement, otherwise you have no credibility as to what the laws really stand for.

Senator BRADLEY. So you are saying, basically, that these administrative procedures are really necessary to assure fair treatment of U.S. industry and to avoid having to become very restrictive and very protectionist generally; is that true?

Mr. SHEINKMAN. We supported the Trade Act on that basis and so did a lot of other organizations support it, on the basis that there would be an escape valve.

Senator BRADLEY. So that this is not the case of special treatment or a special effort to bail out a particular industry against the interests of the consumer in America but rather the case of a very specific judgment in conformity with the specific criteria and procedures of a law in part designed to avoid arbitrary protection; is that correct?

Mr. NEHMER. That is correct; and, furthermore, if I may add to that, the ability of Congress to override the President under these circumstances was a very clear tradeoff when the Trade Act of 1974 was going through, giving the President the authority to find in the national economic overall interest against import relief.

Senator BRADLEY. Now, you raised the question of what would happen if relief was not granted and you said that 3 years from now there would not be an industry. Can you go into some detail on that as to what would happen without relief, how many people would that affect in your union, and what would that mean in the way of payroll and capital?

Mr. NEHMER. I can answer that in this way: While this case was pending before the ITC, there was a definite slackening off in imports. If no import relief is finally not provided for this industry, then I would expect that there would be no holds barred, as it were.

The domestic industry will lose its confidence, whatever shreads of confidence exist as of right now, in its future. For Mr. Cooper to be making some of the investments, or for the State of New Jersey to be assisting him, could be considered to be perhaps throwing good money after bad; and in the absence of these kinds of improvements that we have surveyed and which Mr. Cooper has referred to, the poor competitive position of the industry today will be absolutely worse 3 years from now.

There are about 5,500 workers left in the industry; and there would be a reduction in employment. If it is not zero, it would be well down.

Mr. SHEINKMAN. Senator, I am not concerned about what will happen to my union. My union will survive this. I am concerned about what is going to happen to the people involved and where they are going to go, and whether they are going to be productive people in this society or be tossed on a junk heap.

My concern is not the 5,000 people in terms of dues collection, but in terms of what happens to them as human beings.

Senator BRADLEY. In that respect, Mr. Cooper, what would you do? If you don't get this relief for 3 years, will you have to lay people off? Will you have to do that?

Mr. COOPER. This has already occurred. I mentioned before that our work force at the peak was over 800 workers. It is down to 500 workers. When we were 800 workers we were working a full year, except for holidays and vacations. At the present time we are not working with the work force we have. We are not working a full year.

Senator BRADLEY. So without this relief the handwriting is on the wall for this industry?

Mr. COOPER. Well, whether you are Chrysler or Cooper, you can only lose money for so long.

Senator RIBICOFF. But the difference is that Chrysler comes and gets help and Cooper has to sweat out its existence?

Senator BRADLEY. Cooper only has its junior Senator from New Jersey.

Senator RIBICOFF. All I can tell you is, you have been a very effective junior Senator from New Jersey.

Senator BRADLEY. Well, let me not dispute that, but go on to the next question.

Ms. Hughes testified that if we grant relief to the industry there is a great danger that we will jeopardize agreements with some Latin American countries reducing barriers they place on their exportation of hides and leather. Now, my question to you is, if those barriers are not removed, will that raise the costs for your industry and hurt you in becoming more competitive?

Mr. COOPER. The United States has the world's greatest supply and biggest variety of types of hides right here in this country, and we have plenty of tanning capacity to bring those hides to their final state, into leather; and as far as agreements with the South American countries, our Government has entered into a number of agreements, and as of yet they haven't seen anything bountiful occur from those agreements.

Our Commerce Department just recently was down in Argentina and I am not sure about some of the other countries. But particularly on leather products they were going into "reimburso," which is a Spanish word for subsidy, and they found that subsidy still existed; and they were trying to bring some pressure.

As of yet, nothing has happened.

If I could add one point that was made prior to your entering the hearing, the supply of hides is much more a function of servicing the meat supply industry rather than providing for the supply of hides; and while we don't want to denigrate whatever agreements were made with the South American countries, it is really a very minor issue relative to the cattle slaughter issue in terms of the overall market.

Senator BRADLEY. Thank you, Mr. Chairman.

Senator RIBICOFF. Thank you, gentlemen.

[The prepared statements of the preceding panel follow:]

STATEMENT OF JACOB SHEINKMAN, GENERAL SECRETARY-TREASURER, AMALGAMATED CLOTHING AND TEXTILE WORKERS UNION

SUMMARY

The overwhelming import penetration and injury suffered by this industry is well documented in the report to the President from the U.S. International Trade Commission. The evidence of injury was so great and the need for relief so clear, that the ITC unanimously found injury and made a unanimous recommendation on remedy.

Of all industries which have filed for "escape clause" import relief, under the Trade Act of 1974, only six received unanimous findings of injury and of these only three received unanimous recommendations on import relief. The leather apparel industry is the only one to be denied any import relief by the President. If the President's decision is allowed to stand, the law and Congress will have lost their credibility in the eyes of thousands of workers, the majority of whom are members of our Union.

The thousands of workers whose livelihood depends on this industry are from the inner city of New York and Chicago and Newark, New Jersey, as well as from small towns in Missouri, Wisconsin, and rural New England. To think that these workers can find alternative employment, such as assembling airplanes in Seattle or programming computers in California, is absurd. Yet all people knowledgeable about the industry agree that American leather apparel workers are by far the most productive in the world.

The Senate Finance Committee itself in the legislative history to the Trade Act of 1974 put the jobs of American workers above some marginal cost to the consumer which may result from import relief. The inflationary impact on the consumer of import relief for the leather apparel industry will be so small as to be virtually unmeasurable.

Our people must see that the laws are not just for the rich and the powerful, that even the smallest, but legitimate, voices asking for help are heeded. The industry is prepared to do those things necessary to become more productive and more competitive. Our union has been and will continue to work with the industry in this process.

Chairman Ribicoff and members of the committee, I am Jacob Sheinkman, General Secretary-Treasurer of the Amalgamated Clothing and Textile Workers Union. With me is our Director for International Trade Affairs, Mr. Art Gundersheim. Our union represents close to one-half million workers in the apparel, textile and related industries, including the great majority of workers making leather apparel.

We welcome this hearing and the renewed opportunity it provides to alleviate the hard-pressed situation of the people who depend upon the leather apparel industry for their livelihood. These are people from the inner city of New York and Chicago and Newark, New Jersey. These are people from small towns in Missouri and Wisconsin, and from rural New England where the supplying tanneries are located. The workers are predominantly from various ethnic minorities and most lack a high school diploma. To think that these people will find alternative employment—that they would simply begin to assemble airplanes in Seattle or become program computers in California or administer oil entitlements in Houston—is absurd.

No one put it better than our member, Simon Tennenbaum, who testified before the International Trade Commission. Mr. Tennenbaum explained how he had spent his working career of 33 years as a leather cutter and now was unemployed. At age 61 he had been looking for another job for almost a year and had despaired of finding work again. When asked whether he had been offered retraining and, if so, what kind, Mr. Tennenbaum replied that no retraining opportunities had been made available to him. When the Labor Department asked him what he would like to be retrained for, he replied "How about brain surgeon!" Mr. Tennenbaum thus highlighted the complete lack of realism on the part of those who advocate readjustment assistance as a solution for the thousands who suffer the true impact of increased imports.

We are talking of 6,000 leather apparel workers who have already lost their jobs in the last few years and the remaining 5,500 who face unemployment in the near future if no action is taken. And I want to emphasize that all people knowledgeable about the industry agree that American leather apparel workers are by far the most productive in the world.

Gentlemen, the facts of this case make it unique in its injustice among all escape clause cases. The overwhelming import penetration and injury suffered by this industry is well documented in the ITC's report and need not be repeated again. Just keep in mind that three-fourths of the American leather apparel market now is imported garments.

But there is one fact we cannot neglect, nor, for that matter, can we explain to our unemployed membership. Of all industries which have filed for "escape clause" import relief, the ITC has made only six unanimous findings of injury since passage of the Trade Act. Of these six, some type of import relief was granted to all except one, the leather apparel industry being that one exception. Even more compelling, the ITC was also unanimous in its recommendation for import relief. This has happened for a total of only three of the above six industries, and the other two did receive import relief. It is not an exaggeration to say that what is at stake here is the very credibility of government action and the efficacy of our laws.

Congress passed the Trade Act of 1974 to encourage freer and expanded world trade. At the same time it provided a policy of import relief for those industries and workers who suffered a disproportionate burden from the consequences of expanded trade. Congress set explicit and stiff criteria that had to be met before import relief was granted. But at least it made available a means for obtaining such relief. The leather apparel industry met those criteria—in that there was no disagreement—but yet no relief was provided. If this case does not merit import relief, how then can any relief to any industry be justified under this statute? If the President's decision is allowed to stand, the law and Congress will have lost their credibility in the eyes of our membership—and with good reason.

Recall that when the President was considering whether or not to provide import relief to the leather apparel industry, it was just at the point of peak acceleration of our inflation problem. At that time inflation was running at an annual rate of 18 percent and everyone was running scared. Those advising the President to deny import relief to the leather apparel workers and industry thought this would be a significant step in reducing inflation.

On top of this basic point, the Committee should be aware that prices of leather apparel this year have declined from last year. In addition, there is a great misconception that retail prices directly reflect rises or declines in the duties assessed on imports. This is not the case.

But this is the wrong industry to bear the burden of the fight, a kind of Charge of the Light Brigade against the overwhelming Czarist forces. The attack is being made at the wrong point. Simple mathematics shows that providing import relief to the leather apparel industry—even of the most extreme type—would have a totally inconsequential effect on our nation's inflation problem. It is unconscionable that the remaining 5,000 plus workers in this industry be the cannon fodder in the inflation fight.

We ask all those who would oppose this override resolution what great national economic harm would be done if the modest tariff relief recommended by the ITC would be implemented?

Congress has an opportunity to tell the White House that its policy intent was very clear when the Trade Act provided a means for an industry to obtain amelioration from an overwhelming flow of imports. In your own words, the Senate Finance Committee's report on the Trade Act states:

"With regard to the effect of relief on consumers, the Committee feels that the goals of the Employment Act of 1946 should be paramount . . . If the choice is between (1) allowing an industry to collapse and thereby creating greater unemployment, larger Federal or state unemployment compensation payments, reduced tax revenues, and all the other costs to the economy associated with high unemployment, or (2) temporarily protecting that industry from excessive imports at some marginal cost to the consumer, then the Committee feels that the President should adopt the latter course and protect the industry and the jobs associated with that industry."

The one remaining chance of survival for the leather wearing apparel workers I am privileged to represent is to have Congress rectify the President's errant judgment. The recourse of the escape clause mechanism must regain credibility, both to regain respect for law and for government in general. Our people must see that the laws are not just for the rich and the powerful, that even the smallest, but legitimate, voices asking for help are heeded. The industry is prepared to do those things necessary to become more productive, more competitive, as you will hear shortly. Our union has been and will continue to work with the industry in this process.

We ask this Committee, and subsequently the rest of Congress, to provide the import relief the leather apparel industry and its work force surely deserve by quickly affirming the override resolution before you. Positive action will redress the insulting slap in the face given the thousands of insecure workers still dependent on domestic leather apparel production, will give the industry the chance it needs to regain its legitimate cost-effective market share, and will allow the Committee to reaffirm the coherent, equitable trade policy the Trade Act of 1974 was meant to provide. I urge the Subcommittee and full Committee to report favorably Senate Concurrent Resolution 108.

Statement of Morton Cooper, President of Cooper Sportswear Manufacturing Co., Inc.

Summary

Passage of S. Con. Res. 108 is essential to the workers and manufacturers of the U.S. leather apparel industry. Without it, the industry will have been denied a fair chance to compete against imports which have severely injured the industry in recent years. Imports have had a devastating impact on the U.S. industry and its workers:

Imports rose from 4 million units in 1975 to an estimated 6.7 million units in 1979.

Import penetration of the U.S. market rose from 62 percent in 1975 to 79 percent in 1979.

U.S. production of leather apparel during this same period fell from 2.5 million units to an estimated 1.9 million units, despite an increase in total U.S. consumption from 6.5 million units to 8.6 million units.

Imports are reasonable for the precipitous drop in employment in the U.S. industry from 11,100 workers in 1974 to an estimated 5,500 in 1979. Layoffs have continued in the industry in 1980.

After a unanimous finding of injury and a unanimous recommendation of an increase in tariffs by the ITC, the President stunned the industry by rejecting the ITC's recommendation.

With a period of effective import relief, this industry can and will improve its competitive position. Cooper Sportswear's efforts illustrate the will of the industry to get back on its feet: Increases in the size of the design department, engineering staff, and sales force; upgrading machinery and equipment; computerizing data systems for management analysis in an effort to re-position rapidly in response to changing market conditions; and arranging for technical assistance from the ACTWU engineering department and the Trade Adjustment Assistance Center of the New Jersey Economic Development Authority.

Despite these problems, effective import relief has not been forthcoming. S. Con. Res. 108 represents the last chance for the industry to get back on its feet.

I am Morton Cooper, President of Cooper Sportswear Manufacturing Co., Inc. which produces leather apparel. I am currently co-chairman of the Import Action Committee of the National Outerwear and Sportswear Association (NOSA), which represents domestic manufacturers of leather apparel, and have served as past Chairman and President of that Association. NOSA was one of the petitioners to the U.S. International Trade Commission in the recent investigation on leather apparel.

My appearance today is the eighth in the last several years before a government body in furtherance of our industry's efforts to obtain effective import relief from the difficulties being encountered by our firms and workers as a result of increasingly severe import competition.

There are those who may ask why our small industry keeps on doggedly pursuing what seems thus far to have been only an illusory goal to obtain redress of its legitimate import grievances. The answer is that our workers and managers reject any suggestion that America is no longer the country of opportunity for small business. As I have insisted on past occasions, we do not intend to just fade away as old soldiers do. My firm is one of the oldest in the leather apparel industry. It was started by my father and I have soldiered in it for many years. I owe it to my father, to my family, and to the hundreds of my workers to maintain my firm's economic viability. I can safely say my views are similarly shared by every executive officer of every other firm in this industry. My appearance today is a continuation of the latest battle in that struggle.

Today I would first like to review briefly the critical features of the trends in the industry over the last few years which vividly illustrate the need of the firms and workers for effective import relief. I will then recount the past history of the industry's fight to obtain recognition of our import problem. Finally, I would like to share with you the comprehensive plans of my firm to use the period of import relief to innovate and improve our competitive position so that we will stand in a much stronger position against imports when relief is terminated.

According to the most recent data available from the U.S. International Trade Commission and estimates calculated from these data, domestic production of leather apparel fell from 2.5 million units in 1975 to an estimated 1.9 million units in 1979, despite an increase in total U.S. consumption of leather apparel from 6.5 million units to an estimated 8.6 million units over the same period. The industry reports that domestic production has registered further declines in 1980. Consequently, capacity utilization in the industry has plummeted, particularly in the last two years, while many workers have lost their jobs and many firms have folded.

Over the same period, U.S. imports rose from 4 million units in 1975 to an estimated 6.7 million units in 1979. As a result of the massive increases, imports in 1979 garnered 79 percent of the quantity of the U.S. market. This level of import penetration is well above the 62 percent in quantity registered in 1975.

I should not fail to note the devastating peak year for imports in 1978, when nearly ten million units of leather apparel were imported. The U.S. industry is still reeling from that surge which overwhelmed the U.S. market unlike ever before and increased import penetration rates in terms of quantity to 82 percent.

The impact on employment has been tremendous. Our industry supported the jobs of 11,100 workers in 1974, while by 1979, the work force had dropped to an estimated 5,500. Even many of these remaining workers are being employed at reduced hours. We have been forced to continue to lay off workers in 1980. Thus, while most of the U.S. economy has experienced a serious recession only in 1980, we in the leather apparel industry have been in a recession as a result of imports for several years.

The U.S. industry, its firms and workers, have not stood idly by during this loss of our market to imports. In addition to constant efforts to become more efficient and improve productivity, we have taken many actions to deal directly with the import problem.

One effort, which stretched over three years, where we finally prevailed was the long battle with the Office of the U.S. Trade Representative to remove leather apparel from the list of articles eligible for duty-free treatment under the Generalized System of Preferences, or GSP. Despite the obvious and injurious progression of imports during recent years, it was not until March 1979, 38 months after we filed our initial petition, that leather apparel was finally removed from the GSP list. Although the indusry won a small and belated victory in its struggle with the import problem, the removal of leather apparel from the preference list has not solved the problem of injurious imports.

Because of the devastation of the great import surge in 1978 and the precipitous decline in production in 1979, the industry embarked on a major effort to force acknowledgement of, and to obtain relief from, the very severe import problem that was destroying the industry more rapidly than ever before. A petition filed jointly by the National Outerwear and Sportswear Association, the Amalgamated Clothing and Textile Workers Union, the International Ladies' Garment Workers' Union, the United Food and Commercial Workers Union, and the Tanner's Council of America was submitted to the ITC under the Escape Clause (Section 201) of the Trade Act of 1974 almost 13 months ago.

As is now well known, the ITC conducted a comprehensive investigation and found unanimously that the U.S. industry had been injured by import relief and unanimously recommended an increase in the tariff on imports of leather coats and jackets. However, the stunning negative decision by the Executive Branch once again prevented the appropriate redress of our industry's legitimate import grievances. We now appear before you, who represent in many respects the last chance for our industry to be heard by the U.S. Government. I cannot emphasize strongly enough how critical your affirmative vote on S. Con. Res. 108 will be to the firms and workers in our industry.

I am aware that some who are not predisposed to granting temporary import relief to injured U.S. industries may wonder what the U.S. leather apparel industry will do to really improve its competitive position against imports if import relief is granted. Let me assure you that Cooper Sportswear, one of the industry's leaders, will be doing everthing possible. Members of the subcommittee must realize that much of what my firm, as well as other firms in the industry, will do during an import relief program will be a natural extension of plans for improvement and investment which we have already begun or would like to begin. Effective import relief will actually enable us to implement our plans fully and to carry them to fruition, something which has simply been impossible for most firms over the last few years as a result of the overwhelming disruption of our market caused by imports. With this in mind, I would like to recount what will be possible for our firm to do with effective import relief.

Cooper Sportswear has been making every possible effort to remain competitive. We are in the process of increasing the size of our design department, our engineering staff, and our sales force; we will upgrade our machinery and other equipment; we have even installed a computer system to improve the collection of data for management analysis. These data enable us to spot trends in the market as they occur and to make adjustments in ordering certain supplies, in producing different styles or types of leather garments, and in targeting our sales force more effectively. Thus, we constantly maintain our operations in prime competitive condition, attempting to survive the onslaught of imports and to take advantage of any change for the better in market conditions.

While we anticipate good results from these efforts to improve, our chances will be slim in the absence of import relief. With the upcoming establishment of a permanent inhouse engineering department, we can be much more successful and efficient in matching changes in productior with fashion and style trends. In addition, we will be enhancing and expanding our level of cooperation with the engineering department of the Amalgamated Clothing and Textile Workers Union, which has a great deal of experience and expertise.

Our efforts in market research will be focused on expanding sales through the development of new channels of distribution. We are also exploring the possibility of adding new product lines to supplement our current production.

So that we leave no stone unturned, we have arranged through the Trade Adjustment Assistance Center of the New Jersey Economic Development Authority for diagnostic technical assistance which will identify all possible avenues, large and small, for increasing the efficiency of our plants and the productivity of our workers. The diagnostic study will look at production planning, the assignment of stylemix among plants, industrial engineering needs, quality control, plus storage and materials utilization.

To bring these plans to fruition, however, requires that we have a market to sell to. Only by obtaining the respite provided by the temporary import relief program recommended by the ITC can we realistically get from where we are now to where we want to be. Many of the things we have in process, as well as what we plan to do in the future, are becoming less and less economically justifiable as the import problem worsens. Make no mistake—we are an efficient producer with many highly productive workers. But we can do better.

The Government, in deciding to aid the U.S. leather apparel industry in its efforts to compete with imports, has every right to assurances that U.S. firms will make every attempt to improve. Likewise, those of us on the firing line who must make the day-to-day management decisions necessary to survive need the full and unrestrained backing of our Government. S. Con. Res. 108 offers a perfect opportunity for the Government and an important U.S. industry which supplies valuable employment opportunities for thousands of American workers to work hand in hand toward an objective we all deserve—a healthy U.S. industry making an important contribution to the U.S. economy.

STATEMENT OF STANLEY NEHMER, PRESIDENT OF ECONOMIC CONSULTING SERVICES INC.

SUMMARY

Passage of S. Con. Res. 108 is urgently needed by the firms and workers of the U.S. leather apparel industry to rectify the injustice of the President's determination not to provide import relief to the industry.

Despite the unanimous injury finding by the U.S. International Trade Commission and its unanimous recommendation on import relief, the President denied any import relief to the industry. The President's report to Congress gave two reasons for this determination to deny import relief: the unacceptable inflationary impact of higher tariffs and doubt that a relief program would help the industry compete effectively once the relief program had expired. Neither reason was accurate or credible then nor are they now.

Import relief to the leather apparel industry will not have an unacceptable inflationary impact and consumer cost. The importance of leather wearing apparel in U.S. consumer spending is so small that this commodity is not figured into the consumer price index compiled by the U.S. Government. Any price increases for leather apparel would not stimulate even a "blip" in the inflation rate. Moreover, intense competition among U.S. firms trying to get back on their feet will strongly moderate inflationary price increases by domestic producers. Furthermore, low-priced imports do not necessarily mean low prices to the consumer, but big margins for retailers. Tariff increases will simply cut the profit margins of retailers and turn them toward domestically-produced goods.

The judgment that the industry cannot become more effective with import relief is in error. An effective import relief program for this industry will make a decisive difference in the industry's efforts to get back on its feet. The industry's strenuous efforts to compete today and its plans for continued improvement assure that an effective import relief program will work. The U.S. ITC has proposed a three-year program of increased tariff protection. The protection proposed was much less than the maximum protection allowed in cases of this kind, but, if effective, will provide the needed time and market stability for the industry to adjust.

The key to the industry's competitive efforts, however, is effective import relief. The industry has already undertaken efforts to increase its productivity and responsiveness to market changes, and additional extensive efforts are underway. These efforts are expensive, however, especially for an industry suffering such extensive import injury. It is essential that the industry be allowed to earn the revenues necessary to make the changes that will improve its future competitive position.

My name is Stanley Nehmer. I am President of Economic Consulting Services Inc., which has served as economic consultants to the workers and firms of the U.S. leather apparel industry.

I am appearing here today to urge passage of Senate Concurrent Resolution 108, which would disapprove the determination by the President on March 24, 1980 not to provide import relief to the U.S. leather wearing apparel industry as recommended unanimously by the U.S. International Trade Commission (ITC). This determination by the President to deny any import relief to the leather wearing apparel industry was an ill-conceived and inappropriate decision, in view of the comprehensive ITC investigation which fully documented both the difficulties of this industry in coping with increasingly serious injury from imports and the need for effective temporary import relief. Many workers and firms in many areas of our country have been adversely affected by this industry's import problem, and the President's denial of relief to this industry was a severe disappointment for thousands of people. S. Con. Res. 108 will go far to rectify this injustice.

In the President's report to the Congress setting forth his determination to deny import relief to this industry, two reasons were given. The first reason was that import relief would have an inflationary impact and a consumer cost that the President considered unacceptable. The second reason was doubt that import relief would help the domestic industry to compete effectively with imports once the relief had expired.

Neither of these reasons for denying relief was accurate or credible then nor are they now. My comments today will be devoted to a brief discussion of some essential points which explain why this is so.

The argument that the ITC's import relief program would have an unacceptable inflationary impact is wholly unfounded. The industry and its sales are a small component of the U.S. economy, and changes in prices of leather apparel have virtually no impact on overall consumer prices. In fact, the Bureau of Labor Statistics' official Consumer Price Index, or CPI, does not even include leather wearing apparel in the wide range of products which are monitored to construct the CPI.

The insignificance of leather apparel prices to overall consumer prices can be seen in the comparison of the value of domestic consumption of leather apparel to total personal consumption expenditures in the U.S. In 1979, the approximately $470 million of leather apparel consumed in the United States accounted for only .03 percent of personal consumption expenditures. In other words, the influence of any changes in the prices of leather apparel consumed in the United States would be weighted at only three one-hundredths of one percent of overall consumer prices. Such a negligible weight in consumer prices means that even a large increase in the price of leather apparel would have no measurable impact on overall consumer prices. Even if leather apparel were included in the CPI, it would not even register a "blip."

More important than this, however, is the fact that the increase in the tariff proposed by the ITC would be imposed on only a portion of total consumption of leather apparel, that is, the imported portion. The intense competition among those U.S. firms which have survived the onslaught of imports in recent years will assert itself even more vigorously under an import relief program and will act as a strong moderating force on any inflationary price increases by domestic producers. Stability in domestic prices will be aided by the increased capacity utilization gained as larger shares of the market go to U.S. firms, while the investment plans of many firms improve production efficiency and work productivity.

Even with respect to imports, the price effects of the tariff on the U.S. consumer will be modest. Despite the large price gaps between much imported and domestically-produced leather apparel, as are well documented by the ITC, it is a widely known and acknowledged fact that retailers use that price gap to charge much higher mark-ups on imported merchandise, and hence collect larger profits. Many comparable items of domestic and imported leather apparel actually sell to the consumer for the same price. Since the competitive pressures among U.S. firms will act to minimize increases in domestic prices, importers and retailers will also be forced to maintain price responsibility, either absorbing much of the tariff, or, as is likely to happen for a substantial volume of apparel, shifting to domestic sources. Hence, it is unlikely for unwarranted inflationary price effects to occur at the consumer level for either imported or domestic products.

The second reason for the President's denial of import relief—doubts that import relief would help the domestic industry to adjust effectively—is equally spurious. One of the most obvious points which should have removed the President's doubts in this regard is the ITC's own remedy recommendation.

The ITC unanimously recommended what I feel was a modest three-year import relief program consisting of an increase in the tariff on leather coats and jackets valued at not over $150. The tariff increase recommended was 25 percentage points for the first year, 20 percentage points for the second year, and 15 percentage points for the third and final year. It is important to realize that while the Commission had the authority to recommend a tariff-rate increase of up to 50 percentage points for up to five years they chose to recommend a level of tariff increase far less than 50 percentage points for only three years.

It was the opinion of the Commission that this modest tariff increase would be sufficient "to equalize more nearly prices between imports and domestically produced articles." [1] Furthermore, the ITC judged three years "to be adequate time for the industry to make adjustments based on the proposed plans discussed before the Commission." [2]

Thus, the steps which the industry is prepared to take under a program of import relief were judged by the ITC to have such merit as to allow the Commission to propose a modest import relief program with confidence, as reflected in their unanimous finding. Clearly, by the end of the three-year period, at which time the import relief would terminate, the industry would be in a much better competitive situation than it now is.

Many firms in the industry have extensive plans to improve themselves, if the opportunity is provided through effective import relief to make those plans feasible. Based on the results of a survey of major U.S. leather apparel producers which we undertook, several types of machinery and equipment were identified as products in which U.S. firms would invest during a period of effective import relief. This equipment and machinery will improve the productive efficiency of U.S. firms and increase, to varying degrees, the amount of output per man-hour in these firms. This equipment and machinery will improve the productive efficiency of U.S. firms

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[1] Leather Wearing Apparel. Report to the President on Investigation No. TA-201-40 Under Section 201 of the Trade Act of 1974 Under Section 201 of the Trade Act of 1974, USITC Publication 1030, United States International Trade Commission, Washington, D.C., January 1980, p. 15.

[2] Id., p. 15.

and increase, to varying degrees, the amount of output per man-hour in these firms. This equipment and machinery would include new types of sewing machines, new machine accessories such as needle positioners and underbed trimmers, finishing machines, fusing machines, and in-plant transportation systems, among other items, all of which would improve productivity and production process efficiency.

Some firms are already equipped to some degree with some of these types of machines, while other firms must embark on full-scale efforts to upgrade their capital equipment. Thus, the capital investment needs and plans of individual firms will vary widely. According to those firms surveyed which are anticipating major upgrading programs in the range of tens of thousands of dollars during a period of effective import relief, investment in machinery will increase output per man-hour in individual operations by as much as 25 percent. One firm anticipated an overall increase in operating efficiency (output per man-hour) of 40 percent as a result of an investment program to upgrade facilities.

In addition to equipment and machinery purchases, major efficiencies are anticipated for firms which plan, and become able, to build a new plant either to replace a current plant or to expand capacity. These efficiencies relate to updated heating and air-conditioning systems to save on energy costs, to the use of improved physical layout of the plant, and to new equipment to generate cost-savings in training new workers.

It is important to note that due to the relatively small size of leather apparel manufacturing firms, the cost of these machines constitutes major investments. For example, even a minimum investment in three new single-needle sewing machines with accessories, one air-finisher, one fusing press, and one automatic cutter would require an outlay of between $23,000 and $38,000.

Given the poor profitability of this industry as a result of injury from imports, the cost of such an investment represents a considerable obstacle. For example, according to the ITC, in 1978, the average net operating profit before taxes for the 35 firms which accounted for the great majority of the industry's output was only $111,000. After expenses for debt servicing and other items, plus taxes, the amount would be considerably smaller.

As low as this level of profits was, 1978 was a better year for the industry relative to the extremely poor profitability in 1979. ITC data for the first six months of 1979 show actual net operating profits before taxes of only $195,000 for 24 firms, or only $8,125 per firm. This compares to $34,280 per firm in the first six months of 1978. Thus, although the cost of each machine described above is relatively low compared to other, more capital-intensive industries, it represents a major outlay to the U.S. leather apparel industry. Only increased shares of the U.S. market and the assurance of several years of longer production runs will make such investment economically feasible, a result which will occur only with effective import relief.

It should be clear that this U.S. industry has well documented its need for import relief and that it will make every effort to utilize that relief to the best advantage of its firms, workers, and the American consumers. No one knows better than the firms and workers in this industry that they must compete and improve just to survive, since in recent years many have not survived.

Concerns about inflation and the ability of the U.S. industry to improve its competitive position are unfounded and should not restrain your willingness to assist a deserving industry with a modest import relief program.

For the sake of an important industry and its remaining firms and workers, I strongly urge an affirmative vote on S. Con. Res. 108.

Senator RIBICOFF. The next panel will consist of Peter Suchman, David Simon, David Palmeter, Paul Delaney accompanied by Mr. Wilson and Mr. Berman.

Gentlemen, your statements will go in the record as if read. You have been here during these proceedings. You know what concerns the committee. I wonder if you would proceed to try to state your response to the positions taken by the previous witnesses?

STATEMENT OF PETER O. SUCHMAN, ESQ., COUNSEL, ON BEHALF OF CERTAIN IMPORTERS-DISTRIBUTORS OF LEATHER WEARING APPAREL

Mr. SUCHMAN. Mr. Chairman, my name is Peter Suchman, and perhaps I should introduce the other members of the panel:

David Simon is here. This is David Palmeter; next, Paul Delaney. Also present are Lyle Berman and Jeff Wilson.

I think it is my task to lead off and I will try to be brief.

I am an attorney with the firm of Sharretts, Paley, Carter & Blauvelt. We are here representing a group of 14 independent importer-distributors of leather coats and jackets.

We believe that the decision of the President of March 24 was correct and that the grounds that he cited, that is, the inflationary impact of the ITC recommendation and the fact that the domestic industry would not be able to adjust and become competitive in a 3-year period, is also correct.

I might start off by pointing out something that has not been discussed up to now and that is what is happening to imports of leather coats and jackets right now and what has been happening for the last 18 months. We believe the facts show leather coats and jackets are not being imported in increasing quantities.

In fact there has been a drastic reduction because of extraneous factors. For instance, between 1978 and 1979 on a quantity basis imports of leather coats and jackets were off 33.7 percent. In the first 5 months of this year on a value basis, because value is all we have so far this year, imports are off another 40 percent.

In such a situation I think it is self-evident that there is no need for relief in order to prevent further importations of a product where imports are already falling drastically.

Senator DANFORTH. Are those constant dollars you are using? Have you adjusted them for inflation?

Mr. SUCHMAN. The figures I gave for 1978 and 1979 are in units, based upon the ITC study. The actual figures for 1979 to 1980 for the first 5 months are in current dollars. And they showed an inflation adjusted drop of 39 percent.

If you want the actual figures, I have them. I believe the drop was somewhere from about $75 million to about $50 million in the first 5 months of the year.

It is our belief, and I believe this is part of the rationale for the decision of the administration, that rapidly escalating prices for raw hides and tanned leather in 1979 were a far more basic a cause of the difficulty that the domestic industry, and importers, found themselves in than import competition was.

While the cost of leather has not escalated recently, inflationary pressures have created difficulties and have resulted in price increases which have caused the price of these garments to reach a point of market resistance. And our point here is that a further increase along the lines recommended by the ITC would simply dry up the market.

Leather coats and jackets are not a necessity. They are a luxury item. There is a certain point at which consumers are no longer going to pay the price. We believe that the product has now reached that price.

I might say that for the segment of the market that my clients supply, we believe the ITC recommendation was basically flawed because the assumptions on which it was based were flawed. For instance, the calculations of f.o.b. value of imports upon which the ITC calculated the need for a 25 percent ad valorem duty included a sample which had in the products that are not competitive with what the domestic industry is producing such as patchwork garments, combination leather, and knit textile sweater jackets, and leather garment shells.

We have taken a survey of our clients and have found that the f.o.b. value of the goods that they import, which are still within the recommended relief of the ITC, are some 30 percent above the f.o.b. value for imports the ITC used in making its calculation.

As a result when you work through the normal importer and wholesaler markup, these imported garments are selling at a price higher than the domestic product. So that there is certainly no need for a duty increase in order to protect the domestic industry from these imports.

And you may ask if they are expensive, why are they being sold, why do consumers prefer them to the domestic product? And that leads me to the next major point I would like to make and that is that the product that my clients are importing into this country is a high fashion garment which we believe cannot be made domestically. It cannot be made domestically because there is no pool of labor, of skilled cutters who can at a reasonable price do what is done abroad.

The experience of my clients in trying to get these garments made domestically or indeed of trying to manufacture them themselves in the United States is that they are unable to get workers who will do this work. They have in fact had to import workers in order to get leather cutters.

I do not believe that a basic objective of this legislation is to lead to immigration. But I do think that if this duty increase goes through, the only way that the domestic industry will be able to produce the kinds of garments that are now being supplied by importers is to import workers from various Far Eastern and Latin American countries.

Senator RIBICOFF. Let me ask this question, as I understand it does not impact garments over $150, right?

Mr. SUCHMAN. That is correct.

Senator RIBICOFF. And those would be the fancier garments, would they not, the higher quality? Do you need a special skill for garments under $150?

Mr. SUCHMAN. I think that is an unrealistically high break point. A garment which is $150 f.o.b., and maybe some of these gentlemen can help me out with that, would probably retail at, what, $600 or something of that sort?

Mr. BERMAN. There are very, very few garments imported with an f.o.b. cost of $150. I cannot think of a single garment imported out of the Far East that comes in at f.o.b. $150. We import over 100,000 garments a year. I do not think we import anything that has an f.o.b. cost of over $70, $75.

Mr. SUCHMAN. I think there is a range of garments which are different from the basic jackets and coats produced, as the staple of the domestic industry, which are considered to be fashion garments even though they do not reach this astronomical price that was used as the break point by the ITC.

The point is that the large number of garments supplied by imports right now, even with the falling quantities of the last few years, range in the neighborhood, we do not know because we do not have present per-unit value figures, but they are, let's say, 5 to 7 million units, even given the fall in imports.

The ITC estimated in its report that the unused capacity in the domestic industry was something in the neighborhood of 600,000 units. There is no way that in a reasonable period of time the domestic industry can supply those garments. What is going to happen is that a market that has been developed by imports, the high fashion men's and boy's, leather jackets and coats, are going to become inaccessible to the American consumer who will simply buy something else.

You do not have to buy leather for an outer garment. You can buy down. You can buy cloth. Maybe we will have paper mache next year. Who knows? But it is just unrealistic to assume that all of these garments are now going to be supplied by the domestic industry, assuming they could find workers to do it, and we do not believe that there are skilled leather cutters available to do that in any reasonable period of time.

I might say I am told that it takes a minimum of over 1 year to train a willing person to become a skilled leather cutter.

Senator RIBICOFF. How long have the Koreans and Taiwanese been making leather garments?

STATEMENT OF DAVID SIMON, OF BREGMAN, ABELL, SOLTER & KAY

Mr. SIMON. My name is David Simon. I am with Bregman, Abell, Solter & Kay. I can say, sir, on behalf of the Taiwanese, whom I represent, that the first Taiwanese leather apparel manufacturing outfit was opened in the late 1960's, in 1968 or 1969. Since that time there have been an additional eight firms that entered the market there.

And they did it rather slowly. And the market has stabilized at the present level.

Senator RIBICOFF. All right. So this is a new industry basically for Taiwan, right, a relatively new industry?

Mr. SIMON. Well, a 14- or 15-year-old industry. If I may add though, the industry came into being in Taiwan during the first time in history that one could obtain garment quality leather at a price that was suitable for the mass market. And that garment quality leather was developed by American importers working with manufacturers overseas and tanners in the United States.

Senator RIBICOFF. But Mr. Cooper's business was founded in 1914, did you say? And the point that was just made by this gentleman is that the experience is not in the United States to work these coats, but the experience is in Taiwan and Korea. What happened between 1914 and 1968? Did we have any experienced Americans to do this?

Mr. SIMON. Yes. The situation as I understand it, and perhaps Mr. Wilson, who is familiar with the industry as a merchant, can explain it as well, is as follows: Until fairly recently, until the 1970's the U.S. mass market for leather wearing apparel was primarily buckskin, which is called split cow skin, heavy jackets, heavy outer wear garments, cowboy-type jackets, and then motorcycle-type jackets, sheep skin-type jackets.

The quality, the fine leathers that were available on the U.S. market at that time were European tanned leathers, were European cut and sewn garments primarily. It was not until the late 1960's and early 1970's that garment-grade leather, fine high-fashion-grade leather was available at a price that would satisfy the mass market.

Senator RIBICOFF. I know, but were those fine leathers tanned in the United States or were they tanned in Korea and Taiwan?

Mr. SIMON. There is as far as I am aware no garment-grade tannery in Taiwan or Korea.

Senator RIBICOFF. All right, then why couldn't those same fine leathers, since they are being tanned in the United States, be used by Mr. Cooper's company?

Mr. SIMON. In answer to that, I believe in part it is a labor problem. Mr. Suchman referred to the experience of one firm, a very reputable firm here in the United States, that went into the fine leather business and had to import its workers from Hong Kong.

Literally they were brought in under immigration procedures that allow the entry of workers who are skilled in a skill that there are no American workers for.

Senator RIBICOFF. Is Mr. Sheinkman still in the room? Are there no American workers who can do this type of work?

Mr. COOPER. We have had a large number of skilled leather cutters in the State of New Jersey who are collecting economic adjustment assistance. And I cannot understand why they say we do not have a pool of workers. We have men and women performing these skilled jobs. They have the same intelligence as Far Eastern workers and they are capable of being trained and being taught. And they are skilled workers.

Senator RIBICOFF. How much do you pay an hour for that?

Mr. COOPER. The jobs are production-incentive jobs and they vary anywhere from $5.50 to $9.00 an hour.

Senator RIBICOFF. What do you pay in Taiwan?

Mr. SIMON. That is, if I may be perfectly honest, a more difficult question than it appears on its face because in Taiwan a worker gets an hourly wage but he also lives in a dormitory, he also has food subsidies that he is paid by his employer in the form of the cafeteria in the dormitory and so forth.

We estimated during the course of the ITC hearings, we did attempt to estimate the wage differential between the American worker as reported by Commerce statistics and the Taiwanese worker. Honestly, the figure has escaped me right now but I would be happy to supply it for the committee.

Senator RIBICOFF. Do any of you have an idea of what those figures are, the differential between the Taiwan and Korean and American workers?

STATEMENT OF DAVID PALMETER, OF THE KOREAN EXPORT ASSOCIATION

Mr. PALMETER. I, the Korean Export Association, at least as far as Korea is concerned, we would not dispute wage rates for Korean leather apparel workers being considerably lower than the workers on the United States. And the information that we have is that

that low wage rate, comparatively low wage rate to the United States has translated itself into a more affordable garment; a product that really is a luxury for most consumers, it is not a necessity.

And at least the success in the past that the Korean industry has had, which is being turned around now by factors I will talk of later when my turn comes, is primarily attributable to their ability to have a garment that can be retailed in the U.S. market at a reasonable price.

If those workers received $9, probably the cost would cost so much that nobody would buy it. That appears to be the tradeoff.

Senator RIBICOFF. In other words, do you feel that an industry which employs 1,000 people doesn't deserve to exist?

Mr. PALMETER. Well, on behalf of the Koreans, I would not say that. I would like to say that is not what I am saying. I was simply saying the experience in Korea is the wage rate is lower. It is true there are many benefits in Korea that they receive that the American counterparts do not receive.

But I would say the Americans do receive a higher wage. Once that price is transferred into the product, when particularly it is a product that the consumer does not really have to have, it is something the economists consider as falling under an elasticity of demand.

I am not an expert on that but clearly more leather coats will be sold at $100 than at $2,000.

Senator RIBICOFF. Well let me ask Mr. Berman and Mr. Wilson, do you think if the domestic industry was given the ITC relief for 3 years they could turn their industry around in that 3-year period?

Mr. WILSON. Senator, I do not think that what is being addressed here is the essence of what the real problem is. I own retail stores that sell leather apparel around the country in 16 States. And I know why the American consumer is buying it. They are buying it for two reasons. They are buying imported garments as well as the domestic garments.

The first reason is that we are probably pricing it to where they can afford it. And the second reason, and that is one of the key problems that has not been addressed at this hearing, is that it is properly styled. The importers or the domestic people we are buying from are styling the garments to the liking of the consumer.

The American domesticmaker has lost his market for two reasons: One, he cannot compete pricewise against overseas imports, but that has always been the situation. But it is similar to the car situation, styling and assemblage of the garment, quality of the make and styling is far better in the imported garment today than it is with the domestic maker.

Senator RIBICOFF. Let's say what you say is true, let's say you who sell and know the style and what the market will buy, suppose you went into the manufacturing business. In 3 years, could you have a manufacturing business of leather goods that would be competitive with Korea and Taiwan?

Mr. WILSON. It depends if I had the taste to put together the product the American consumers want. And what the domestic manufacturers are here talking about, and some have been in business for 50 or 60 years, is they are not putting together the proper garments with the design and quality of make that the American consumer wants.

Senator RIBICOFF. But isn't it so that successful merchants like you in many ways determine what that design look is like? I mean the Taiwanese and the Koreans with their 10-year experience, they do not know the American market. They know it because of Mr. Berman and Mr. Wilson who have the sophistication to know what the American consumer wants.

Mr. WILSON. I can tell you this, the American consumer, when you put out goods on the floor, whether it is cars or whatever, they buy what they want. We as merchants put out what we want them to buy, but there are a lot of things they do not want to buy.

I would like to buy all my goods from domestic manufacturers. My family used to be in the manufacture business from 1950 to 1960, but I can tell you unequivocally the manufacturing of these products from overseas is of a better quality and as well as better taste.

And what the domestic manufacturers here are saying is give us 3 years. But to do what? They have not told you what they are going to do. They talk about equipment, of laser cutting, which is absurd and they talk about various things they are going to do, but actually there is nothing they can do because essentially they have to start with a product, and they have no product idea that they can put out today.

There are domestic manufacturers in business today and doing better business today than ever before but——

Senator RIBICOFF. I know what you are saying. And I think the American manufacturer now has to go over and learn from the Koreans and Taiwanese why they are better competitors. Now do you think they can do that in 3 years?

One of the great problems has been the unwillingness to learn why they are being outcompeted all over the world. Now they have 3 years to swallow their pride and realize they can learn a lot from the Taiwanese and Koreans what to do with domestic garments.

I am just using this case as a symbol because that symbol goes throughout the entire American position today in world trade. And I think that—isn't this what the ITC was trying to do in their decision?

Mr. WILSON. I was at the hearing. I think what the ITC did was to look down as to what the law said and said for what the law states we should give these people relief. What I came here today to say in this hearing is what they are saying to you is they have no formula for themselves for 3 years.

In turn what is going to happen is that American consumers will have to pay hundreds and hundreds of millions of dollars more if they want their leather product for 5,000 or 6,000 workers who may be in jeopardy.

Senator RIBICOFF. You see we passed the bill in 1974 to try to make them competitive. One of the great problems this country is facing is because it is no longer competitive.

And this is what we are doing, trying to get them to be more competitive.

This is only a symbol because it is a very small industry, but this is a symbol of the entire industrial story for the United States.

Mr. WILSON. The point being that styling is the essence besides price, proven by Toyota and Datsun, what is happening on the west coast where I am from, in the matter of imported cars. And that is styling. And that isn't just because you have 3 years: that takes taste, analysis, and quality people to do it.

Senator RIBICOFF. But that taste is not the Korean's and Taiwanese's. I think that it is the sophistication of Mr. Wilson and Berman. My feeling is if Mr. Cooper could hire Mr. Wilson and Mr. Berman, he could compete with the Taiwanese and with the Koreans.

In other words, if I were Mr. Cooper, you see, in that business, I would try to make a deal with you.

Mr. BERMAN. I would like to speak to that issue.

Senator RIBICOFF. For me this is a bigger issue than just the question of leather coats. And you happen to come in as a symbol when this country is searching its own industrial soul as to where it is going.

Now I walked down Madison Avenue today and every Madison Avenue shop—Madison Avenue has become an unusual street. It is French, it is Italian, it is German, it is Swiss, almost everything but American. And it is in style and it is quality.

And now the question is, What do we do to turn America around? There is a lot of soul searching being done by everybody in the American industrial scene. This is a matter that concerns Sentor Danforth and is a matter that concerns me because we are concerned about where the United States is going, because we are not competitive.

Now the question is, How do we make ourselves competitive?

Mr. WILSON. One of the problems we can look directly at is the American worker of that caliber, the sewers themselves, against what I see overseas and see around the world when I look at that caliber of worker. We do not have that type of worker today. That is a very small segment of our society.

Our society has gone higher and higher into technology as you know. And selling technology itself is a very low base, from what I understand, industry. So in reality that industry—I think all through the 1960's and 1970's there has been a trend away from that here in this country, not necessarily because the stylists aren't here, but that really the sellers and the manufacturing isn't really here today.

Senator RIBICOFF. But you see that again is not the answer. The answer is more in management than in the worker because the least important item today unfortunately is the worker because you can export capital, because you can export management, and you can export technology.

And what has been happening is the conglomerates, the big companies have learned that. And they go all over the world because you can export this. And that is the key to the entire problem of American productivity and American management.

And this is what we have to try to find for ourselves. And you people are really a symbol of what is happening and what is of great concern for many of us in Congress. It is something that has concerned us that have worked in this field.

Mr. BERMAN. The garments we import today from the Far East I will go on record as saying cannot be manufactured by Mr. Cooper or any domestic manufacturer to retail for the price we are retailing them to the American market today. It is an intensive labor product that with the differential and the wage rates it is impossible to make it in this country to retail for what we retail the garment for.

We retail garments today, just certain classifications, at we will say $139, that we can buy these same classifications—32 inches with two arms and a collar—domestically for $139. But to give the quality that we are giving the consumer would be $189 domestically or $179.

I would be very happy to give the Mr. Coopers of the United States—I will be their stylist. They do not even have to pay us. We would much prefer to do business domestically.

Senator RIBICOFF. Have you ever talked to Mr. Cooper and has Mr. Cooper ever talked to you?

Mr. BERMAN. I have talked to—Mr. Cooper, no. To Mr. Cooper's representatives, yes. But more importantly, to Mr. Edwards who for many years was one of our major suppliers. I think you are familiar with him; he is from Missouri.

Senator DANFORTH. I am familiar with him.

Mr. BERMAN. He cannot produce the garment in his factory that we need today at the price we must sell it in order to stay in business. And when you mention 3 years, there is another industry, and that is the retail leather apparel business which employes many many people.

Senator RIBICOFF. I do not know Mr. Edwards. In other words, you do not think that you could go with your designs and your styling and sit down with Mr. Edwards and give Mr. Edwards 3 years to be able to produce a garment that would make Mr. Edwards competitive with Taiwan and with Korea?

Mr. BERMAN. One, no, I couldn't, and two, I wouldn't be around in 3 years to buy from him. The 700 people we employ wouldn't have jobs because we wouldn't be doing the volume of business.

Mr. SUCHMAN. Senator, the people I represent have done this. I cannot say as to Mr. Cooper.

Senator RIBICOFF. I am just using him as a symbol.

Mr. SUCHMAN. They have gone with garments they have made in the Far East and said can you make this for us? And they have been told, no, we cannot because we do not have the skilled labor to do the kind of work and produce that kind of garment, at least not at any kind of a realistic price.

And as was just said, the fact is that we cannot wait around. The people that I represent would be glad to buy the goods domestically as well, the distributors. They sell to retailers. They have tried. Some of them have actually manufactured domestically from time to time. They have gone abroad because they cannot get the goods that sell domestically at a price that can be sold here.

Senator RIBICOFF. Well, let me ask you, Mr. Wilson and Mr. Berman, are your stores just high quality, high skilled merchandise stores or don't you run a complete line of varied goods for children, adults, working people, high school, society matron? What do you sell in your stores?

Mr. WILSON. My stores and Mr. Berman's stores, his stores are located essentially in the Midwest and mine in the east and west coast, we cater to the popular priced areas for men and women's garments, the price areas as well as styling.

What you are thinking about is the overall problem of what does this country do for its products, all of its products that are going all over the world that we are losing? But from what I understand, and the little I know about the car industry today, they can make a car just as cheap as the Japanese manufacturers here domestically. It is the styling and they are a little bit behind as far as the sizing and everything else that our car industry has missed.

Other businesses you cannot equate on the same basis. We are not talking apples to apples. We cannot manufacture in this country anywhere near the price nor the quality that we can overseas, nor is there anybody planning to do that as the domestic manufacturers are contending that they are.

Mr. SIMON. If I may interject an economics consideration here. The leather-wearing apparel is very price sensitive. Between 1978 and 1979 unit values of leather-wear imports increased about 27 percent. And the sales in the United States decreased by 25 percent. In other words, for every percentage increase in price there is a corresponding percentage decrease in consumption.

Senator RIBICOFF. All right, now that decrease of 25 percent, where did that go; to cloth, to synthetics? Where did it go to?

Mr. SIMON. I believe in large part it went to cloth and the down-filled garments, which at that time had also become a hot new fashion item.

Senator RIBICOFF. All right. Into cloth and down-filled. Were they of domestic production or were those also imported?

Mr. SIMON. I am not as close to those markets as I am to the leather wear, but I know there are a lot of down-filled garments that come into this country from Taiwan as well as cloth garments. The point that I would like to make is, if you are trying to save the leather-wearing apparel industry, you cannot do it by cutting overall consumption.

I think that is clear. If consumption goes down any further, then the domestic industry is not going to be able to increase its output.

In the first 6 months of this year, of 1980, imports are already down by 35 percent by value. Now that reflects rising material costs. They are down by more than 35 percent by quantity. There are not any domestic statistics for the first 6 months of this year that I am aware of, but I would bet that domestic production is similarly down.

Mr. Cooper said he is down from 800 to 500 employees. Everything in the industry is down a third or more in the first 6 months of this year. If you add a 25 percent tariff increase to that, the imports will be wiped out and the domestic prices, I submit, will rise correspondingly because the domestic industry has not been making the profits it needs to make.

If domestic prices rise, the entire market is just going to go way down. And who is going to get hurt? It is not only the domestic leather-wearing apparel manufacturers but also the domestic tanners who have been sending 25 percent of their garment leather to the Far East to be made into garments for export to the United States.

And if this garment market collapses or constricts, there are going to be a lot of very unhappy tanners who have 25 percent of their output that went to export that they cannot sell any more.

Senator RIBICOFF. One final question before I turn to the Senator from Missouri who knows Mr. Edwards. Your clients, the Taiwanese and Korean clients, how much of their production is sold in the United States?

Mr. SIMON. From Taiwan about half, a little over half.

Senator RIBICOFF. And how much of it is consumed or used in Taiwan?

Mr. SIMON. Very little. Leather wear is not suited for the tropics.

Senator RIBICOFF. So where does the other 50 percent go?

Mr. SIMON. A large part of it goes to Europe. A certain amount goes to Canada. I do not have the statistics but I think about 30 or 35 percent goes to Europe. The rest goes to Japan.

Mr. PALMETER. In the case of Korea it is slightly under half in the last 2 years has come to the United States. My understanding is that the remainder of the market is primarily in Western Europe and Canada. There is a small home market.

One point I would like to raise in relation to the question you gave Mr. Simon—and a success story, if you will, of American exports—and that has to do with the leather itself. There is quite a distinction as I understand in the industry between the hides and the leather. And those who tan hides and use leather can be quite upset about the exportation of hides.

Virtually all of the Korean wearing apparel is made from hides that originate in the United States. Quantities of them are tanned in Korea. Most of them are tanned in Japan from U.S. hides that are exported to Japan. The reason for the high level of purchases by Korea from Japan I was told had to do with the fact that the U.S. tanning industry simply did not offer the grades and qualities made from U.S. hides the Japanese did.

Eventually through some Government program that I do not have the details on they began to produce these types of hides. About 3 years ago they had a trade show in Seoul at an American-owned hotel in Seoul. It was rather successful. And the percentage of hand leather purchased by the Korean industry, the finished leather product directly from the United States, has increased enormously at the expense of Japan.

Senator RIBICOFF. Senator Danforth.

Senator DANFORTH. Yes, thank you.

As I understand it the International Trade Commission's recommendation was for a sliding scale downward of increased tariffs and an additional 25 percent on top of the existing 6 percent in the first year and then 20 percent the second year, and 15 percent the third year and nothing, other than the original 6 percent, the fourth year and that this was only to apply to garments that were imported into the United States at less than $150, correct?

Mr. SIMON. That is correct.

Senator DANFORTH. Now then, one of you stated that an import of a garment at $150 or more would be very rare.

Mr. BERMAN. I stated that.

Senator DANFORTH. Mr. Berman, what would be the more typical price?

Mr. BERMAN. I stated that out of the Far East—there are some expensive imports that come out of Spain and Western Europe—but out of the Far East a typical price would be between $40 and $70.

Senator DANFORTH. For the rest of you, how would that range comport with your experience of $40 to $70? How would that comport with your experience? Is that in your range?

Mr. SIMON. That is the range that I am familiar with. I have talked to all of the makers in Taiwan. There is very little that comes out of Taiwan that is under $40. There is a considerable amount that comes in between $70 and $100 that is sold in places like Neiman Marcus and Bloomingdale's more fashionable department.

So really Taiwan has a broad range from $40 to $90 f.o.b.

Senator DANFORTH. $40 to $90?

Mr. SIMON. Yes.

Senator DANFORTH. Does anybody else have an opinion?

Mr. SUCHMAN. Yes, Senator, my clients represent the import of approximately 10 percent of all the men's and boys' jackets. And we did a survey and found that their weighted average f.o.b. price was about $46.

Senator DANFORTH. $46 weighted average. Now what would the consumer pay for these products in the retail store?

Mr. SUCHMAN. Appended to my full statement are several tables. Table 3 shows the comparative average landed f.o.b. wholesale and retail price, both with the 6-percent duty and with the 31 percent which would result from the ITC recommendation.

At the present duty rate that $46.80 f.o.b. price retails for $158.76. Using the ITC recommendation, the retail price becomes $192.84.

Mr. BERMAN. For our company the prices would be substantially different.

Senator DANFORTH. Could I just ask this just on this? Just computing this out, the average f.o.b. price would be $46.80. Now what is the 6 percent applied for? It is applied to the f.o.b., isn't it?

Mr. SUCHMAN. Yes, but there are other things included in the difference between f.o.b. and landed duty paid. There are certain costs involved in landing the goods, the discharge from vessels, and so forth.

Senator DANFORTH. But what I am saying is that the 6 percent, the duty is applied to the average f.o.b.?

Mr. SUCHMAN. That is correct.

Senator DANFORTH. So what is 6 percent of $46.80?

Mr. SUCHMAN. I haven't got a calculator. About $2.50 approximately.

Senator DANFORTH. What is 31 percent of $46.80?

Mr. SIMON. About $15.

Senator DANFORTH. So the difference between them is about $12.50?

Mr. SIMON. On a landed duty paid basis at that point.

Senator DANFORTH. But the difference in the amount of duty, and this is only for 1 year, only the first year and then it declines, but the difference the first year is $20.50 on the duty; is that correct?

Mr. SUCHMAN. Right.

Senator DANFORTH. Now then your difference in the retail price is not $12.50.

Mr. SUCHMAN. Well, that is because the markups at each stage of distribution are based upon the cost price to that stage. For instance, the importer has to pay interest on the money he borrows in order to be able to afford to be in business.

And the interest includes the amount he has to pay in duty. That gets added into his cost and becomes a part of the markup. Similarly at the next stage between landed duty paid and wholesale, no, rather from wholesale to retail, the retailer's markup is based upon his cost.

I mean it is a standard rule of thumb in importing I believe that—oh, this is slightly different, that the retail price usually is about four times what you pay f.o.b., depending upon what the duty is.

Senator DANFORTH. Well, you know, I congratulate you on that but it would seem to me that if I were competitive and worried about people wearing papier mache coats, I might adjust that a little bit. I mean you have set forth some inexorable processes by which the $12.50 of increased duty is somehow translated into $34.09 of increased retail price.

And you are saying that this increased duty means that the consumer is going to be paying $34 more for a coat.

It does not mean anything of the kind.

Mr. SUCHMAN. Well, Senator, perhaps part of that question should be addressed to the retailers whose markup is a good part of that difference. You get a 100-percent markup between wholesale and retail.

Senator DANFORTH. Well I would be happy to ask it of anybody. But if you are interested in the competitiveness of the industry, it seems to me that to translate a $12.50 increase duty into a total increase to the consumer of $34.09 is making your own problem.

Mr. PALMETER. I think part of what happens is not the problem that these gentlemen have or cause or make. It is that Woodward & Lothrop here in Washington or some other store will demand and their supplier will demand a supply that can be sold for a certain percentage of markup.

And when they cannot get that markup for that product, they will shift to another product. That would be the concern. The discussion with Senator Ribicoff about the down coats and the cloth coats, for example, I myself bought two Pennsylvania-made wool coats last year rather than leather because the price was lower, among other reasons.

This is the problem. Woodward & Lothrop's or Montgomery Ward or Sears & Roebuck can get their percentage on some form of men's outerwear. And if they cannot get it on leather apparel because of a $12.50 duty, they will get it on something else and won't buy the leather apparel.

Mr. SUCHMAN. I think we shouldn't equate markup with profit either. Perhaps I did not explain it correctly, but the profit is dependent upon costs. And it does not matter to the importers or the retailer whether the elements of that cost are duty or anything else. He has to charge a certain percentage on what his cost is in order to make a profit.

Senator DANFORTH. Well, it would seem to me that, assuming he can make the sale, and this is your point, the $12.50 increased duty means a total of $22 of increased profit. Is that right?

Mr. SUCHMAN. No, Senator, I do not believe so.

Senator DANFORTH. Where am I wrong?

Mr. SUCHMAN. Well, I do not believe the fact that the duty element results in a higher markup, in a higher price to the next level, can be considered as profit.

Senator DANFORTH. Where is the money going?

Mr. SUCHMAN. Well, the money is going to pay for money, Senator, for one thing.

Senator DANFORTH. Not for the $12.50.

Mr. SIMON. When you bring in a container load of garments or an air freight load of garments and you are paying a 13-percent duty rate on that, you have to pay for the money. You have to borrow the money. So there is an additional 10 percent—the interest on the money that you are borrowing in order to pay the duty.

Senator DANFORTH. That is 10 percent of $12.50, and that is $1.25.

Mr. WILSON. Excuse me, what would happen is that I, as the importer, if it costs me $12 more, I would pass that on to my customer, period.

Senator DANFORTH. You would pass on the $12.50 more?

Mr. WILSON. That is correct.

Senator DANFORTH. But what you are doing is passing the $34 on.

Mr. WILSON. No; I am saying the importers would have to do it to be competitive with the domestic industry. And the American consumer would have to pay that much more for the leather product.

Senator DANFORTH. I am sorry, but what Mr. Suchman is saying is you are not passing on $12.50; you are passing on $34. And what your competitors, the domestic producers say, is the markup is much greater from imported leather garments than for domestic leather garments.

You are saying because the markup cannot be so great for imported leather garments, that somehow your industry is going to go under and people are going to be wearing papier mache coats. Something has gone wrong in the translation.

Mr. SUCHMAN. Senator, perhaps I can go through it. For one thing, the importer's share of this ends with the wholesale price. So that his price has really increased from $79.38 to $96.42, which is an increase of about, what is that, about $16 or $17. It is not the full amount of the difference.

It is at the retail level that the additional markup occurs. So that the $17 is what is covering the importer's additional costs for that.

And another point of course is that all of these goods have to be insured. Insurance is based upon value. If the value of the landed goods increases, then you have to pay more to cover it. Factor costs increase as the value of the goods increase.

Senator DANFORTH. Well, my only view is that I think you are converting a 3-year temporary help for an industry which is in real trouble into a major catastrophe for the imported leather garment business. And I just do not see that at all.

Mr. SUCHMAN. Senator, the importers I have asked about this say if the 25-percent duty increase goes through, they will lose between 50 and 75 percent of their business.

Mr. SIMON. Senator, if I may interject just to underscore the history that we have had in this industry, from an economic point of view it is a fascinating situation because we have seen the price rise of 25 percent in the last year and we have seen the corresponding percent for percent decrease in consumption.

It is a historical fact. There is no getting away from it. And there is no reason to assume that if that price increase hits again, the same thing will not happen again. And as the production base gets smaller and smaller in the United States and elsewhere, at some point you are going to eat up the entire operation, and you just go under.

Mr. PALMETER. Senator, there is one more fact, that with a 31-percent duty the question might be what is it intended to accomplish? What would this 3 years mean? What would happen in 3 years? Presumably imports would go down.

But the ITC report is in fact that in 1979 known imports were something like 25 percent lower than they were in 1978 in quantitative terms. In the first 6 months of this year export licenses granted in Korea are 41 percent below the first 6 months of 1979.

The number of firms producing this product in Korea has declined from around 180 to fewer than 100 in 2 years.

Senator RIBICOFF. Yes, but Korea is meeting competition from other sections of the world, from other Third World countries. So that is a factor, too.

Without objection, a statement of Senator Dole will be inserted in the record.

[The statement of Senator Dole is as follows:]

STATEMENT OF SENATOR BOB DOLE

Mr. Chairman, when this Committee was drafting the Trade Act of 1974 and was considering changes in the existing "escape clause" legislation, it expressed support for a fair and reasonable test to determine if an industry is being injured by imports and for that determination to be made by an independent fact finding body such as the International Trade Commission. This Committee also supported a statutory requirement that if such a determination was affirmative, the ITC would make a recommendation to the President of the import relief necessary to prevent or remedy the injury. The Committee report on the Trade Act clearly sets forth our intention that the relief recommended by the Commission "ought not to be denied for reasons that have nothing whatever to do with the merits of the case as determined under U.S. law."

It is now apparent after 40 investigations under this statute that the intentions which the Committee so clearly expressed in its report are not being heeded by the President. The President has not implemented the relief recommended by the Commission in a single instance. The investigation which is the subject of this hearing is a good example. After a unanimous ITC decision and remedy recommendation, the President determined not to impose the relief recommended but instead ordered expedited consideration of any adjustment assistance petitions filed by firms or workers in the industry. The explanation given for this determination, if it may be called an explanation, is that such relief would have an inflationary impact and that the industry might not be competitive after such relief expired.

While I support the provision of the escape clause legislation which permits the President to determine that particular relief recommended by the ITC is not in the "national economic interest" such a determination must be made on a sound basis and clearly articulated. The reasons for the President's determination in this case are so vague that they provide no guidance to future petitioners, the public, or this

Committee in its consideration of this matter. In exercising this function which has been delegated to him, the President has an even greater statutory responsibility to inform the Congress, within reasonable limits, of the basis for his determination not to implement the ITC's recommendation.

I have strong reservations about the overall effect of imposing import restrictions on leather wearing apparel—particularly the potential for retaliatory restrictions on hide exports. Since the President has not adequately explained his determination, or whether the possibility of such retaliation exists, it is my hope that the distinguished witnesses who will appear here this afternoon will direct their attention to this matter.

Senator RIBICOFF. Thank you very much, gentlemen. Your statements will be placed in the record.

[The prepared statements of the preceding panel follow:]

STATEMENT OF

PETER O. SUCHMAN

ON BEHALF OF

CERTAIN LEATHER APPAREL IMPORTERS/DISTRIBUTORS

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

COMMITTEE ON FINANCE
UNITED STATES SENATE
WASHINGTON, D.C.

AUGUST 19, 1980

68-939 O—80——6

Mr. Chairman:

My name is Peter O. Suchman. I am an attorney with the firm of Sharretts, Paley, Carter & Blauvelt, P.C., and we are here today representing a group of 14 independent importers/ distributors of leather coats and jackets. A list of the firms which make up our group is appended to this statement.

We appear here today in opposition to Senate Concurrent Resolution 108 which would disapprove the determination of the President not to provide import relief to the domestic leather apparel industry and would result in an increase in the duties on leather coats and jackets of 25% ad valorem. We believe that the March 24, 1980, decision of the President, after consideration of all relevant aspects of this case, including those set forth in Section 202(c) of the Trade Act of 1974, that the imposition of import relief would have an unacceptable inflationary impact, while not helping the domestic industry to adjust and become more competitive was correct. The criteria for imposing import relief have not been met. Furthermore, the only effect of the increase in duties which would result from passage of this resolution would be to increase the price of these products beyond the point of market resistance. The already shrinking demand for leather coats and jackets would dry up completely. Many jobs would be lost in the importing, distributing and retailing industries while domestic producers, because of their inability to hire the skilled craftsman in any where near the numbers necessary or to produce high fashion garments, would be unable to meet demand. The consumer would suffer with little if any net benefit to the domestic economy.

All in all, this is certainly not the case for Congress to exercise, for the first time, its statutory override authority. The facts of this case must be carefully examined in order to fully understand the futility of the duty increase recommended by the International Trade Commission (ITC).

Leather Coats And Jackets Are Not Being Imported In Increased Quantities.

Section 201 of the Trade Act of 1974 (19 USC 2251) provides that, upon the filing of a petition requesting import relief, the ITC must determine

> "whether an article is being imported into the United States in such increased quantities as to be a substantial cause of serious injury, or the threat thereof, to the domestic industry..."

It is indisputable that imports of leather coats and jackets are not increasing. The ITC staff report in Investigation No. TA-201-40 shows that the dollar value of imports of leather coats and jackets declined for the period January-August 1979 as compared with January-August 1978 from $171,402,000 to

$157,112,00. Import data for the entire year 1979 establishes that this downward trend in imports continued. The value of imports of leather coats and jackets fell in 1979 to $238,418,000 from a 1978 level of $293,848,000. The decline has accelerated during the first five months of 1980, dropping from $73,724,000 for January-May 1979 to $50,916,000 for the same period in 1980. Since these figures are stated in dollars they mark an even greater decline in units. Using data prepared by the ITC staff it is clear that the quantity of leather coats and jackets imported into the United States in 1979 declined precipitously, falling from 10,448,000 units in 1978 to only 6,927,000 units in 1979, a single year decline of 33.7%. Using value figures, all that are available for a five month 1979-1980 comparison, imports dropped another 31.5%, an understated figure since it does not take into account the inflationary increase in per unit cost. Using a 13% inflation rate the decline becomes 39%.

Not only have there been sharp absolute declines in imports, in 1979 there was also a decline in imports relative to domestic production. The ITC staff's data shows that the ratio of imports to apparent consumption dropped off from 81% in the first eight months of 1978 to 79% in the first eight months of 1979, a downward decline that continued throughout the final four months of 1979. Therefore, since the basic requirement for the provision of import relief under Section 201 of the Trade Act of 1974 - (i.e. increased imports) is not met, the President's determination is consistent with the law and the intent of Congress.

If The Domestic Leather Apparel Industry Is Suffering Economic Distress, Imports Are Not The Cause.

If the domestic leather apparel industry is suffering economic distress, it is not the serious injury required to trigger import relief pursuant to Section 201 of the Trade Act of 1974 nor are there sufficient grounds to override a Presidential determination. The ITC employment data is misleading in that although the average number of production and related employees in the industry in the first eight months of 1979 was 23% below the level for 1978, the average weekly hours per worker were up by 23.9%, with the average worker putting in an hour and a half of overtime per week. Similarly, while ITC data show a decline in capacity utilization in the first eight months of 1979, such decline cannot be import related. Since imports were dropping rapidly and workers were on overtime, the only explanation for this decline in capacity utilization is that domestic manufacturers were holding back production for other reasons, such as declining demand, unavailability of trained workers and rapidly escalating prices for raw hides and tanned leather.

Indeed, it is this final factor which is surely a substantial cause of any injury suffered by the domestic industry in 1979. Table 1 appended to this statement demonstrates that at least since 1975, and with the exception of 1978, when the domestic industry recorded a slight improvement in profitability, in the face of record imports, there has been a clear inverse relationship between the profitability of the domestic industry and the wholesale price index for tanned leather. Thus, the profitability of the domestic leather apparel industry is much more closely related to the wholesale price of tanned leather than it is to the level of imports. This correlation results of necessity since the cost of leather is reported to constitute 54% of the cost of manufacturing an article of leather wearing apparel.

Any injury which the domestic industry may be suffering as a result of increased raw material costs is not unique. The entire leather apparel industry worldwide is in the same position. Foreign producers are even more seriously affected since leather costs constitute between 65-75% of their FOB costs. Certainly U.S. importers were adversely affected by the 33.7% decline in import quantities in 1979. Importers unanimously blamed this decline in imports on rapidly escalating prices which caused a steep decline in demand as leather coats and jackets are forced out of the price range of the mass consumer market. While raw material prices have eased during recent months, the overall slowdown in the economy has undoubtedly affected both imports and domestic production equally. Any current fall in production, employment and profitability is obviously the result of the recession and cannot be blamed on imports, which continue to plummet.

<u>The International Trade Commission's Remedy Recommendation Was Based On Faulty Data And Erroneous Assumptions.</u>

It appears that in reaching its remedy recommendation the Commission attempted to determine the amount of duty increase that would be required to equalize the average wholesale selling price of imported and domestic men's and boys' coats and jackets. The Commission's determinations were, unfortunately, based on data that is highly questionable and on basic assumptions which are simply erroneous.

The ITC staff received importers questionnaire responses from 31 importers which represented 17% of total U.S. imports in 1978. In view of the large number of small importing firms involved we would consider this a very representative response. However, throughout the ITC staff report actual questionnaire response data is ignored in favor of data from a 6% "New York" sample which was prepared by analyzing all 3,500 entries of leather apparel made at the port of New York in the month of August for the years 1975-1979. Apparently the ITC staff felt that this sampling effort was required because it believed that importers who responded to the questionnaire generally imported higher priced merchandise and that the results would therefore be skewed if the questionnaire response data were used.

We believe that the perception that average FOB was overstated in questionnaire response data was wholly unwarranted. On the contrary, the "New York" sample is inadequate because it deflates average FOB prices in including in the average unit values of imported leather coats and jackets, patchwork garments produced from leather scraps, combination leather and knit textile sweater-jackets which are sold as sweaters and not as coats and jackets and, therefore, do not compete with leather coats and jackets at all, and leather garment shells imported from Latin America.

As a result, the "New York" sample is statistically unreliable. This was confirmed by a survey of our clients' purchase prices made in early 1980. This survey established that our clients imported more than 290,000 units in 1979 with a total value of over $13,750,000. This represented 9.4% of all imports of men's leather coats and jackets, a very significant percentage considering that importer - retailers have a large share of the import market. The average FOB price on our clients' imports in 1979 was $46.80 which is 30.8% above the $35.76 figure obtained from the "New York" sample.

Since the "New York" sample understated the average FOB price of imported leather coats and jackets by 30.8%, the relief perceived to be necessary to eliminate the alleged margin of underselling enjoyed by imports was based on inaccurate data and the ITC recommendation was fatally flawed.

In addition, there is also an obvious error in the methodology utilized by the ITC staff to arrive at a comparison of wholesale prices for domestic and imported leather coats and jackets.

The ITC staff report purports to calculate an average landed, duty-paid importers wholesale price with mark-up, by starting with FOB prices and adding a 10% factor to the FOB price to get a landed duty-paid price and by then adding a 20% factor to that result to obtain the importer's wholesale price. These factors are so seriously understated as to fatally skew any results obtained therefrom.

The importers we represent furnished us with actual figures as to the differences between FOB prices and landed duty-paid costs and as to their mark-ups to reach a wholesale price. Their data establishes that landed cost exceeds FOB price or first cost by 11.0% to 20.0% with a weighted average of 16.4% and that their mark-up to reach wholesale ranges from 25.0% to 69.5%, with a weighted average of 45.7%.

In attached Table 2, we have compared average domestic wholesale selling price, as determined by the ITC, with average imported wholesale selling price, as determined by the ITC, and as established by the survey of our clients.

Our analysis demonstrates that in 1979 imported men's coats and jackets did not undersell the domestic product. In fact, our survey (which covers a cross-section of importer-distributors accounting for at least 9.4% of imports of men's and boys' coats and jackets) shows that the domestic product undersold the imported product by 13.6%.

Accordingly, it is apparent that the overall average unit value of imported men's coats and jackets is not lower than the average wholesale value of the domestic product. Therefore, it naturally follows that no remedy is required to eliminate a non-existent margin of underselling.

Finally, we would note that in the area of women's coats and jackets the case against the need for an import remedy is even more persuasive. ITC staff data shows that imports of women's leather coats and jackets declined by a shocking 55.9% in 1979, a rate of decline much higher than that experienced by the domestic industry. For the period January-May 1980, as compared to January-May 1979, the decline on a value basis was 40.9% (47.7% adjusted for inflation). Moreover, when ITC staff data on FOB prices is subjected to the realistic mark-up utilized in our analysis it is clear that the average wholesale unit price of imported women's leather coats and jackets is increasing at a frightening rate. In 1978 according to the "New York" sample the average price at wholesale was $46.13. In 1979 the price had jumped to $60.42, an increase of 31.0%. In the same period domestic average unit prices as reported by the ITC staff rose by only 23.7%. Thus, as in the case of men's leather coats and jackets, no relief is warranted with regard to women's leather coats and jackets.

The Imposition Of The Duty Increases Would Destroy U.S. Importers Who Created The Market For Leather Apparel Without Promoting Adjustment By The Domestic Industry.

The data computed by the ITC staff on domestic production confirms that it was importers who created the domestic market for fashionable leather coats and jackets. The domestic industry has maintained relatively steady production levels for the past five years, and has not increased capacity to any significant degree. Between 1975 and 1978 domestic capacity increased by a mere 3.9%, while apparent consumption was soaring by 86.4%. The domestic industry has maintained its stable market for basic styles which do not require the high degree of craftsmanship, only available abroad, while importers have built a new and substantial market with fashionable, highly detailed, quality garments which require skilled handwork which is unavailable or too expensive for U.S. manufacturers.

Unfortunately for importers and domestic producers alike, an increase in the rate of duty applicable to leather coats and jackets will have a tremendously adverse effect on the entire industry. The obvious decline in demand for leather coats and jackets in 1979 and 1980 is potent testimony to the fact that the price increases necessitated by sharp increases in the price of tanned leather and general inflationary pressures have pushed leather apparel to the absolute highest price the buying public will accept. Leather coats and jackets are not necessities. Few if any consumers rely on leather coats or jackets as their only form of outerwear. Purchases of leather coats and jackets are entirely deferrable, and easily replaceable with cloth or down apparel purchases. From the above, it is apparent that the elasticities of demand are such that any further price increases will cause the market to literally dry up. As attached Table 3 demonstrates, a duty increase of 25% using data supplied by our clients would increase the retail price of the average priced imported product by $34.08.

If the importer's prices are forced up by this amount their volume will drop off even more sharply. ITC data indicated that the weighted average price increase for men's and women's leather coats and jackets in 1979 was $10.27 at wholesale. Since this increase caused a decline in unit imports of 33.7%, it is obvious that a further increase of $17.04 at wholesale would destroy the moderate price market for leather apparel. As a result, U.S. importers of leather coats and jackets, who are American businessmen and their employees, would be driven out of business with no gain for the domestic industry. In this regard we note that a survey of our clients led us to conclude that there are approximately 2500 jobs in New York City, and 5000 nationwide dependent upon the importation of men's and boys' leather apparel alone -- not considering those employed by women's and girls' apparel importers, retailers and related industries. The disappearance of 50% to 75% of present consumption -- which is our estimate of the probable effect of the ITC recommendation -- would be disastrous for these workers.

Even if imported leather were to disappear entirely from the U.S. market, as a result of the imposition of a remedy such as that recommended by the ITC, it is clear that the domestic industry would be completely unequipped to take up the bulk of the business created by the forced exodus of importers. ITC data states that importers supplied the U.S. market with over 9.7 million units in 1978. Yet, according to the staff data the U.S. industry had unused capacity of only 630,250 units in 1978. Even assuming that the domestic industry could gear up to 100% capacity utilization in a very short time, it would still be able to supply only 6.5% of the market currently supplied by importers.

Cutting leather by hand and sewing leather with slow heavy duty machines is tedious and painstaking labor that is extremely unattractive to today's young workers. As a result, the domestic industry finds it can't entice workers into taking these jobs. The experience of those in our group with experience in domestic manufacturing is that skilled cutters, particularly are unavailable domestically and must be brought in from abroad most often from the Far East. Thus, it is apparent that with or without imports the domestic industry's ability to produce leather coats and jackets is subject to an unexceedable limit due to the unavailability of qualified new workers. We are unaware that one of the objectives of U.S. trade legislation is to stimulate immigration! However, the domestic industry is not threatened with imminent demise. Through its efficiency and its use of high technology it has been able to continue to produce its basic items, as opposed to high fashion garments, at a competitive price. In addition, the industry is apparently now exploring the possibility of supplementing its stable U.S. market through exports. Although exports are still obviously a minor factor, accounting for only about 3.4% of domestic shipments in 1978, they are growing rapidly as evidenced by a 92.5% increase between 1975 and 1979. In the first five months of 1980, while imports plummeted, U.S. producers increased their exports of leather coats and jackets over the same period of last year by 149% on a value basis. Obviously, the domestic industry was making only minimal efforts in this area as recently as 1975. Since then it has scored impressive gains and we believe these gains have been recorded on a less than maximum effort to explore new markets. We certainly do not suggest that exports are a panacea for the domestic leather industry but they do seem to offer an opportunity for growth that may be more important than any gains that could be derived from the imposition of a 25% duty increase.

The Import Relief Recommended By The ITC Would Be Highly Inflationary And Would Deprive Consumers Of Quality Leather Garments.

An increase in duty of the magnitude suggested by the ITC is on its face dangerously inflationary. In 1979 about a quarter of a billion dollars worth of leather coats and jackets were imported into the United States. An increase in duty of 25% would increase the landed cost of these imports by $62,500,000. This cost would have to be passed on to the consumer and would obviously contribute to the inflationary pressures which the President and the Congress have been struggling to keep under control.

Needless to say, it would be bad enough if the only effect of the ITC's recommended remedy was a further fueling of inflation and the imposition on the consumer of a needlessly higher cost for leather garments. Unfortunately, as we have already pointed out, the actual effect of a 25% increase in duty would be even more severe. Fashionable, quality leather apparel would become a luxury item beyond the budgetary limits of the vast majority of Americans. Importers of moderately priced leather apparel will be forced to close down and lay off their U.S. work force, as the market they created for leather apparel becomes a mere transitory fashion trend of the past due to government intervention in the marketplace.

To date, the U.S. consumer has obviously been pleased with the leather fashions that have been offered by importers in recent years. Unfortunately, the consumer is only interested in this product if it is offered at a moderate price. The ITC's recommended remedy will cause the average retail price of an imported men's leather coat or jacket to soar by more than $34.00. Consumers simply are not willing to pay this price. Thus, U.S. consumers will bow out of the leather apparel market <u>en masse</u>. They will, of course, be able to continue to purchase wool or down garments as alternatives to leather, but they will obviously have suffered a net loss if high quality fashionable leather apparel is no longer within their price range.

Import Relief Would Have An Adverse Impact On Related Industries And On U.S. Trade.

In considering Senate Concurrent Resolution 108, the Committee also must weigh the effect of the proposed remedy on other industries in the United States. The vast majority of all leather apparel imported into the United States from both Taiwan and Korea is produced from hides originating in the U.S., some of which are tanned in the U.S.; some of which are tanned in Korea or Taiwan; and much of which are tanned in Japan.

Table 4 attached shows the very substantial volume of U.S. exports of hides and of tanned leather.

Obviously, all hide exports are not ultimately used in the production of leather apparel. However, the U.S. hide and leather industries employ a substantial number of workers. Many of these workers would be faced with unemployment if the ITC's recommended remedy is accepted, since the drastic decline in demand for leather apparel, which is inevitable given the elasticity of demand for these products, would result in a similar decline in the market for U.S. hides and tanned leather. The U.S. hide industry clearly needs its export markets, since in the first five months of 1979 73% of its production was exported. An important portion of this export market will dry up if the ITC's recommendation is implemented thereby adversely impacting on overall U.S. employment and on U.S. balance of payments.

Under the internationally recognized rules of the General Agreements on Tariffs and Trade (the GATT), countries whose trade is restricted by escape clause action are entitled to compensation. Such compensation would be obtained through retaliatory action against U.S. exports of comparable volume.

Table 5 attached sets forth the quantity of U.S. exports to major countries that could be subject to retaliation assuming 1979 import levels are a basis for compensation.

Obviously, even if all countries did not invoke full compensation, U.S. exporters could be badly hampered by compensation action. It would naturally follow that U.S. exporters would have to cut back on their employment. This type of unemployment may be less visible than other forms, but it is still just as real to the individuals involved, and must be carefully considered by the Committee

Conclusion

This Committee should reject Senate Concurrent Resolution 108, which would result in an increase of 25% ad valorem in the duty on imports of leather coats and jackets, for the following reasons:

--Imports have fallen rapidly during 1979 and 1980, apparently in the range of 30%-40% per year;

--The problems of the domestic industry are not caused by high fashion imports, which have created the U.S. market, but by high raw material costs, inflation and recession;

--The ITC analysis which led it to recommend the 25% ad valorem increase in duty was based on erroneous data and assumptions which grossly understated the prices of imports. Average import prices are actually above average domestic prices;

-- The duty increase would cost the jobs of large numbers of workers in the New York area and nationwide, without benefiting U.S. workers, since there is no pool of skilled leather workers who can produce high fashion garments;

--The duty increase would be highly inflationary; would adversely affect U.S. hide exports; and could lead to significant retaliatory action by our trading partners.

This is obviously not an appropriate case for the exercise, for the first time ever, of the Congressional authority to override a Presidential determination under the provisions of the Trade Act of 1974.

TABLE 1

Domestic Industry Profitability Versus U.S.
Wholesale Price Index for Tanned Leather
1975-1979

Year	Ratio of Net Operating Profit to Net Sales	Percent Change	U.S. Wholesale Price Index Tanned Leather 1967=100	Percent Change
1975	5.4%		151.5	
1976	4.8%	-11.1%	188.1	+24.2%
1977	2.3%	-52.1%	200.5	+ 6.6%
1978	2.9%	+26.1%	234.9	+17.2%
1979	0.3%	-89.7%	370.3	+57.6%

TABLE 2

Leather Wearing Apparel:
Import Average Unit Values
at Various Stages

1979

		FOB	CIF Duty Paid	Duty Paid With Mark-up
Men's Coats and Jackets	New York Sample	$35.76	$41.84	$61.34
	Client Response	$46.80	$54.48	$79.38
	Domestic			$68.56

TABLE 3

Retail Price Increase That Would Result From Implementation Of The ITC's Recommended Remedy

	Duty at 6%	Duty at 31%
Avg FOB	$46.80	$46.80
Landed Duty Paid	$54.48	$66.18
Wholesale Price	$79.38	$96.42
Retail Price	$158.76	$192.84

TABLE 4

Exports Of Hides And Skins And Tanned Garment Leather 1978-1979

1979

	Exports Of Whole Cattlehides	Exports Of Bovine Glove And Garment Leather	Exports of Garment Leather Of Sheep And Lambskin, etc. shearling
Total	$924,404,000	$37,193,000	$16,220,000
Korea	131,816,000	14,909,000	1,925,000
Taiwan	46,292,000	5,309,000	336,000
Japan	344,473,000	--	--

1978

	Exports Of Whole Cattlehides	Exports Of Bovine Glove And Garment Leather	Exports of Garment Leather Of Sheep And Lambskin, etc. shearling
Total	$625,428,937	$28,172,988	$24,114,567
Korea	106,132,165	7,132,387	3,390,242
Taiwan	21,414,776	4,071,319	926,056
Japan	233,303,694	--	--

TABLE 5

Level Of Compensation Which U.S. Exports Could Suffer If ITC Remedy Is Imposed

	Import Value By Country	Escape Clause Duty
Total	$238,418,000	$59,605,000
Korea	103,752,000	25,938,000
Taiwan	33,668,000	8,311,000
Argentina	19,864,000	4,966,000
Mexico	16,605,000	4,151,000
Uruguay	13,244,000	3,311,000

AD HOC GROUP OF LEATHER APPAREL IMPORTERS/DISTRIBUTORS

Winder Mfg. Co., Inc. (STRATOJAC)
Hammond, Indiana

Penn Leather, Inc.
New York, N.Y.

Scotts-Grey Ltd.
New York, N.Y.

Authentic Imports, Inc.
New York, N.Y.

The Comstock Load, Inc.
Boise, Idaho

International Fashions, Inc.
New York, N.Y.

Elliot & Kastle, Inc. (Mirage)
New York, N.Y.

Max Wiener & Co. (Raffaelo)
New York, N.Y.

El Toro Bravo
New York, N.Y.

Dial Import Corp.
New York, N.Y.

Fantastic International of
California
Van Nuys, Calif.

Pioneer Wear
Albuquerque, N.M.

Europa Sport, Inc.
Kenilworth, N.J.

The Leather Baron, Inc.
N. Hollywood, Calif.

BEFORE THE SUBCOMMITTEE ON INTERNATIONAL TRADE,

SENATE COMMITTEE ON FINANCE

STATEMENT OF DAVID SIMON, ESQUIRE ON BEHALF

OF THE BOARD OF FOREIGN TRADE OF THE

REPUBLIC OF CHINA (TAIWAN) AND THE TAIWAN

LEATHERWEAR PRODUCERS AND EXPORTERS IN

OPPOSITION TO S. CON. RES. 108

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August 18, 1980

SUMMARY

The Board of Foreign Trade of the Republic of China (Taiwan) and the ROC leatherwear producers and exporters oppose S. Con. Res. 108 for the following reasons:

1. The President's decision to deny import relief was economically sound, being premised on the inflationary impact of a tariff increase, the erosion of demand that such relief would cause, and the likelihood that relief would not enable the domestic industry to compete once relief expired.

2. Since the time of the ITC's report, imports have plummeted by 35 percent, and this decline continues to accelerate. Therefore relief is not needed.

3. The ITC's recommendation is premised on demonstrably erroneous assumptions concerning the quantity and unit values of imports. As a result, the ITC's remedy recommendation is excessive and in violation of U. S. trade laws and the GATT.

4. The major benefits of import relief, if granted, would be likely to flow not to U. S. workers but to Mexican and Dominican workers in TSUS 807 operations.

5. Relief would injure the U. S. tanning industry, which is the principal supplier to the major leatherwear exporting nations.

BEFORE THE SUBCOMMITTEE ON INTERNATIONAL TRADE,
SENATE COMMITTEE ON FINANCE

STATEMENT OF DAVID SIMON, ESQUIRE ON BEHALF
OF THE BOARD OF FOREIGN TRADE OF THE
REPUBLIC OF CHINA (TAIWAN) AND THE TAIWAN
LEATHERWEAR PRODUCERS AND EXPORTERS IN
OPPOSITION TO S. CON. RES. 108

This statement in opposition to S. Con. Res. 108, providing for an override of President Carter's determination to deny import relief as to leather wearing apparel, is submitted on behalf of the Board of Foreign Trade of the Republic of China (Taiwan) and the Taiwan leatherwear producers and exporters by David Simon, Esquire, of Bregman, Abell, Solter and Kay, whose address is Suite 610, 1900 L Street, N. W., Washington, D. C. 20036. Mr. Simon is duly registered as an attorney representing the Board of Foreign Trade of Taiwan, pursuant to 22 U.S.C. §612. A copy of that registration has been provided to this Committee pursuant to 22 U.S.C. §614(f). The Board of Foreign Trade is an agency of the Ministry of Economic Affairs of the Republic of China (Taiwan).

I. SUMMARY

The reasons advanced in opposition to the Congressional override of the President's decision to withhold import relief are summarized as follows:

1. President Carter's analysis of the leather wearing apparel industry and market was correct and his decision to deny import relief was economically sound. That decision was grounded on the following facts (45 Fed. Reg. 19543 (March 26, 1980)):

a. Import relief would be inflationary.

b. The price increases resulting from import relief would erode consumer demand.

c. The goals of the domestic industry -- purchases of new equipment and implementation of improved marketing techniques -- are adequately ensured through adjustment assistance.

d. The labor- and materials-intensive nature of the industry is such that it is not clear that the industry would be in a position to compete once relief expires.

2. The International Trade Commission (ITC) erred in recommending relief, for the following reasons:

a. The ITC improperly defined the domestic industry, failing distinguish between the subindustries, as defined in the trade, of grain (smooth) leather fashionwear and split cowhide (buckskin type) outerwear.

b. The ITC statistical extrapolation of the quantity of imports -- made necessary because import data are reported only by value -- was premised on wrong assumptions and is demonstrably inaccurate.

c. The ITC estimate of unit values of imports is inaccurate.

d. The ITC data base for the domestic industry was not large enough to provide reasonably accurate data.

e. The ITC erred in failing to appreciate that the huge increase in raw materials costs -- rather than imports -- in 1979 was the chief cause of whatever injury the domestic industry may have suffered.

3. The relief recommended by the ITC was excessive and in direct contravention of the principle (embodied in the GATT and in U. S. law) that the type and degree of relief to be afforded must be that which will be least injurious to foreign suppliers and U. S. importers which remaining effective for the domestic industry.

a. The break point of $150 per garment is excessive.

b. The 25% ad valorem tariff increase in the first year is prohibitive: it would force foreign manufacturers out of the market and would drive up prices in the United States to the point of virtually complete consumer resistance.

4. American workers would probably benefit only minimally from import relief because domestic manufacturers would be likely to establish border operations under TSUS 807 rather than expand within the United States.

5. The decline in imports which was evident at the time of the ITC hearings has accelerated in the intervening months. Currently, aggregate leatherwear imports are 35% below 1979 levels, and industry expectations are that this decline will accelerate further in the forthcoming months.

6. The current decline in leatherwear imports is already hurting the U. S. tanning industy, which is the chief supplier of the leather used by the major exporting countries. The prohibitive relief recommended by the ITC would severely hurt the domestic tanners.

The following analysis explains in detail why the President's decision is economically sound and proper and sets forth the inadequacies in the ITC's analysis.

I. THE ITC ERRED IN RECOMMENDING IMPORT RELIEF

A. The ITC's Definition of the Domestic Industry Improperly Ignored the Distinction Between Grain Leather and Split Cowhide Garments

The ITC's definition of the domestic industry is coextensive with the tariff schedule items as to which relief was recommended: producers of leather coats and jackets. <u>Leather Wearing</u>

Apparel, Report to the President on Investigation No. TA-201-40, U.S.I.T.C. Pub. No. 1030, at 5 (1980) (hereinafter, "ITC Report"). That definition masks the distinction, of prime importance to the industry, between grain leather and splits.

The record before the ITC establishes that the U. S. market for grain (smooth) leather garments has historically been an import market, with only a modest level of domestic production. Grain leather garments are generally medium to high priced, have a high labor and materials component, and embody high-fashion fast-turnover design. This market was created by importers, who, working with foreign manufacturers and U. S. tanners, developed medium-priced leathers that enabled these goods to reach a mass market. See Transcript of ITC Hearings (hereinafter, "Tr.") at 428-29, 440-42; 233; 200-01.

The split cowhide business, on the other hand, is an indigenous American industry. Its product is more likely to be low priced, with a modest labor and materials component and stable design. Producers of split cowhide garments are able to utilize long production runs and high technology to maintain low prices.

These distinctions were repeatedly made by witnesses for both sides before the ITC. Morton Cooper, testifying for the domestic industry, stated:

> "There are different type of leather garments. The lowest price leather garment is a split leather garment ... they go up the line and have some short grain leather garments." (Tr. 234-35.)

Jeff Wilson, testifying on the import side, made the point as follows:

"I think that if you were to characterize leather, budget [i.e., low price] leather would be split cowhide, and popular [i.e., medium price] price leather would be smooth cow, or lamb skin." (Tr. 442.)

In fact, petitioner's witness Peter Mummolo explicitly testified that fashionwear grain leather garments do not compete with split leather garments:

"MR. SIMON: Do you consider that sort of high fashion leather apparel to be competitive with your, if I may call it, your staple line of goods, your mass produced line of goods?

"MR. MUMMOLO: Is it competitive?

"MR. SIMON: Yes.

"MR. MUMMOLO: No, I would not say so. It's custom made." (Tr. 200-01.)

The ITC investigation failed to consider this distinction between grain leather and split cowhide garments. Had the investigation proceeded along these lines, it would likely have found that the concentration of imports in grain leather garments and domestic products in splits would require a finding that imports were not the cause of any injury that may have been experienced by the domestic industry.

B. The ITC's "Statistics" For Quantity of Imports Are Unreliable and Wrong

Customs statistics on imports of leather wearing apparel (TSUS items 791.7620 and 791.7640) are collected only on a value basis. For its remedy recommendation, the ITC decided to calculate the additional tariff needed to equalize prices between imports and domestic products. Having assumed that its own importers' questionnaires were not representative, the ITC purported to ascertain the quantity of imports by a statistical sample of imports through the port of New York. Unfortunately, the ITC's quantity determination is simply wrong.

The ITC analyzed all 3,500 entries of leather apparel through the port of New York in the month of August for each year 1975 - 1979. ITC report at A-26, A-38. These entries, however, vastly understate average FOB prices for several reasons:

1. They include in leather coats and jackets patch work garments produced from leather scraps. Patch work garments made from scraps have virtually no material cost and are therefore much less expensive than more typical leather coats and jackets.

2. The New York sample included a significant number of combination leather/knit textile garments which are sold as sweaters but classified by the U. S. Customs Service as leather wearing apparel. These garments are much less expensive than leather coats and jackets.

3. The New York sample included a substantial number of leather garments shells imported from Latin America. These unfinished products, which are finished in the United States, bear FOB values substantially lower than those of finished coats and jackets.

As a result of these factors, the ITC New York sample understated the average FOB price of imported leather coats and jackets by some 31 percent. (See Brief Submitted to the USTR by Sharretts, Paley, Carter and Blauvelt.)

Having overstated the quantity of imports, the ITC also understated their unit values, by a commensurate amount. This error, in turn, led the Commission to overstate the amount of relief needed to equalize prices between domestic and imported products.

The ITC further overstated the amount of relief needed to equalize prices by understating the importer's mark-up on leather wear. The ITC recommendation purports to use a 30 percent mark-up on cost (ITC Report at 15). The ITC staff report appears to use a mark-up of 20 percent on cost (id. at A-38). Unfortunately, however, the ITC questionnaire which was sent to importers did not even attempt to elicit importer mark-ups. The only statements on the record concerning the importer's mark-ups are (1) the testimony of Mr. Nehmer, on behalf of the domestic industry, which was proved on cross-examination to be unreliable (Tr. 104) and (2) the testimony of exporter Mr. John Chee (Tr. 419-21), which was not questioned by either the petitioner or the Commission. Mr. Chee's testimony was that a importer normally works on 50 percent above landed cost.

Simple addition of these two fundamental ITC errors -- unit value and mark-up -- indicates that the ITC figures used for price equalization purposes are some 50 percent below the actual unit value of imports in the United States.

Consequently, the relief recommendation based upon these erroneous assumptions is more than twice the relief needed by the domestic industry to compete fairly, assuming the domestic industry needs relief in the first place. The ITC recommendation therefore grossly contravenes the least-restrictive alternatives principle underlying U. S. trade laws and the GATT.

C. The ITC Injury Determination Is Not Supported By An Adequate Statistical Base

The ITC's findings of injury are predicated on responses of firms employing only slightly over one-third of the total domestic leatherwear manufacturing work force, and shipping only slightly more than 50 percent of the total value of industry shipments. In 1978, the total value of shipments of leather and sheep lined clothing in the United States amounted to $280 million (1979 U.S. Industrial Outlook at 400); companies responding to the ITC questionnaire shipped only slightly more than 50 percent of the total industry shipments ($154 million; ITC Report at A-15). Total industry employment in 1978 was 9,000 persons (1979 U.S. Industrial Outlook at 400); firms reporting to the ITC employed slightly over one-third of these persons (3,388 in 1978; ITC Report at A-18).

Thus the ITC injury finding is predicated, at most, on only half the industry. In other words, half the domestic industry did not even take the time to respond to the ITC questionnaire.

In view of this questionable data base and recalcitrance on the part of the industry, it is submitted that the ITC injury finding is highly questionable.

D. Until 1979, the Domestic Industry Was Relevantly Stable; The Injury in 1979 Was Caused, Not by Imports, But by the Increase in the Cost of Leather

Between 1975 and 1978, the value of domestic shipments increased from $143 million to $154 million (ITC Report at A-15); average unit value of domestic production increased by seven percent per year, from $56.86 to $69.82 (id.); domestic employment increased from 3164 production employees in 1975 to 3388 in 1978; man hours worked annually increased from 5.3 million in 1975 to 5.7 million in 1978; and average work hours per week increased modestly from 33.6 in 1975 to 33.7 in 1978 (id. at A-18).

These statistics generally portray a stable industry with relatively flat production and employment.

However, in the first eight months of 1979, hide and leather prices escalated by 61.3 percent (statistical tables prepared for use in the ITC hearing of November 6, 1979, table 13). As a direct result, domestic shipments in 1979 declined by 12.8 percent by quantity and by 2.6 percent by value, while unit values increased by 11.8 percent from $66.69 to $74.56 (ITC Report at A-15).

That the causal factor in this decline was not imports is evident because imports as a percentage of consumption actually declined in the first eight months of 1979, from 81 percent in January - August 1978 to 79 percent in January - August 1979 (id. at A-25).

Clearly, it is raw material cost which caused the injury in 1979, not only to the domestic industry but to exporters as well.

II. THE RELIEF RECOMMENDED BY THE ITC IS EXCESSIVE

A. The ITC Relief Recommendation Contravenes GATT and U.S. Trade Laws

The Trade Act of 1974 clearly requires that relief be limited to the least restrictive alternative.

Section 203 of the Trade Act of 1974 provides that the President shall provide import relief "to the extent and for such time . . . as he deems necessary . . . to prevent or remedy serious injury" to the domestic industry. The phrase "to the extent" is a phrase of limitation: the relief should not exceed the extent necessary for remedying the injury to which it is directed.

The Senate report on the Act expresses the intent of the Senate that the remedy not be excessive:

> "[W]hile the President has flexibility in determining the remedy he must impose, the Committee feels that the remedy should be commensurate with the injury found by the Commission." Senate Report No. 96-1298, 93rd Cong., 2d Sess. at 126 (1974).

The historical materials of the GATT also support the principles that relief should be in the form of the least restrictive alternative:

> "Any suspension, withdrawal or modification [under an escape clause action] . . . should avoid, to the fullest extent possible, injury to other supplying member countries." Havana Charter interpretive note ad article 40.

In short, no more relief should be given than that which is needed to remedy the injury. The excessive remedy recommended herein -- as will show below -- is therefore in contravention of GATT and U.S. trade law principles.

B. The Break Point Recommended
By the ITC is Excessive

The $150 price break point, above which relief would not apply, is much higher than is needed by the domestic industry. Testimony before the ITC on the domestic side clearly established that it is only low cost imports, if any, that cause injury to the domestic industry (Tr. 201). Nevertheless, the ITC included 99.5 percent of all imports in the category to which relief would apply.

C. The Twenty-Five Percent Tariff Increase is Excessive

The ITC's 25 percent tariff recommendation would raise prices so abruptly as to destroy the U. S. leatherwear market, forcing consumers to substitute other forms of consumption for leatherwear. By doing so, it would cause undue injury to our trading partners.

As Table No. 1 demonstrates, a 25 percent increase in unit price at the FOB level may be expected to cause about a 24 percent decrease in unit sales. Between 1978 and 1979, the global average unit value of leatherwear imports increased by 27.2 percent, accompanied by a decline in unit imports of 24.9 percent. Similarly, in that period unit values from Taiwan increased by 37.5 percent, while unit imports fell by 24.9 percent, and unit values from Korea increased by 28.5 percent, while imports from Korea fell by 19.5 percent.

Table No. 1

Increase In Unit Value and Decrease In Quantity of Imports, January-August 1978 Versus January-August 1979

Source Country	Percent Increase In Unit Value*	Percent Decrease In Imports By Quantity**
Taiwan	37.5%	24.9%
Korea	38.5%	19.5%
Argentina	10.4%	46.0%
Uruguay	24.5%	68.1%
Global	27.2%	24.9%

* Source: ITC Report at A-35
** Source: ITC Report at A-12

Clearly, the elasticity of demand would cause consumption of leather wearing apparel to fall drastically under the ITC's tariff recommendation, injuring the domestic industry as well as importers.

III. EVEN IF IMPLEMENTED, RELIEF WILL NOT ENABLE THE DOMESTIC INDUSTRY TO ADJUST TO IMPORT COMPETITION

The leather wearing apparel industry is labor intensive and materials intensive. In 1977, for example, the cost of materials was 56.9 percent of the value of shipments (<u>1977 Census of Manufacturers</u>). In 1979, when the cost of raw materials increased by over 60 percent (<u>supra</u>), the cost of materials as a percentage of the value of shipments must have increased commensurately.

Clearly, import relief would not make leatherwear any less materials intensive. In fact, as is shown below, the injury which will be experienced by the American tanning industry if leatherwear imports become prohibitive will increase the cost of leather to the domestic apparel industry if relief is implemented.

Moreover, it is clear that the labor component in grain leather garments could not be significantly reduced, even if import relief were implemented. For fashion leatherwear, each piece of leather in each garment must be cut individually; leather for fashion garments cannot be cut on a batch basis. Moreover, the heavy duty sewing machines used in leatherwear production are required to operate at lower speeds than those used, for example, in textile apparel production (Tr. 69, 71, 92, 422).

Thus, import relief will not make the U. S. industry less labor intensive or less materials intensive. Automation for a few large manufacturers of staple split cowhide garments may decrease labor cost somewhat, but this will not help the small producers of fashion garments.

In short, a tariff increase may provide a windfall, but it will not provide a remedy. It will create an import-relief addict and not a healthy industry.

IV. IF RELIEF IS IMPLEMENTED, DOMESTIC MANUFACTURERS WILL TAKE ADVANTAGE OF TSUS 807 OPERATIONS RATHER THAN EXPAND DOMESTIC PRODUCTION

As can be seen from Table No. 2, the domestic industry has only just begun to utilize TSUS 807 cut-and-sew operations. However, its use of foreign operations is increasing substantially.

Table No. 2

Leatherwear Imports under TSUS Item 807, at Six-Month Intervals in 1978-1979 and Monthly in 1980 ($ millions)

	Total 807 Goods			
	Men's	Women's	Total	Source Country
June 1978	0	0	0	
Dec. 1978	0	0	0	
June 1979	0.58	0.92	1.50	(Mexico)
Dec. 1979	0.26	0.44	0.70	(Mexico, Dom. Rep.)
Jan. 1980	0.05	0.05	0.10	(Mexico)
Feb. 1980	0.31	0.13	0.44	(Mexico, Dom. Rep.)
Mar. 1980	0.33	0.29	0.62	(Mexico, Dom. Rep.)
Apr. 1980	0.34	0.20	0.54	(Mexico, Dom. Rep.)
May 1980	0.34	0.35	0.69	(Mexico, Dom. Rep.)
June 1980	0.57	0.48	1.05	(Mexico, Dom. Rep.)

Source: Bureau of the Census, IM146.

If relief is implemented, domestic manufacturers will take advantage of the skilled, cheap labor in Mexico, the Dominican Republic and similar places under the provision of TSUS 807. While this might enhance the domestic industry's profitability, it will obviously do nothing for the domestic work force and nothing for domestic capital investment.

V. THE CONTINUING, PRECIPITOUS DECLINE OF IMPORTS OBVIATES THE NEED FOR IMPORT RELIEF

The ITC Report uses import data current through August 1979. Those data show that during 1979 imports were declining.

Table No. 3 herein shows how precipitous that decline was in 1979. Between 1978 and 1979, total imports of leather wearing apparel decreased by 18.8 percent from $293 million to $238.5 million. In view of the over 60 percent increase in raw materials cost, it is clear that the decline in the quantity of imports in 1979 must have been even greater than the decline in their value.

Looking at the separate categories of men's apparel and women's apparel in Table No. 3, it is clear that the greater decline was in women's apparel. Between 1978 and 1979, imports of men's apparel increased by 13.2 percent, while imports of women's apparel decreased by 44 percent. However, Table No. 4 indicates that men's apparel is now going the same way as women's apparel; down.

Table No. 3

Annual Imports of Leatherwear by Value, 1975 - 1979 ($ millions)

	Global Total	Taiwan	Korea	Hong Kong
Men's (791.7620)				
1975*	58.4	10.7	11.4	5.8
1976*	86.3	14.2	29.8	6.0
1977*	89.6	13.2	35.8	6.4
1978*	129.1	18.1	51.8	7.6
1979**	146.2	23.3	69.4	8.6
% Change, 79/80	+13.2	+28.7	+34.0	+13.1
Women's (791.7640)				
1975*	61.4	10.1	12.3	3.7
1976*	98.9	13.4	31.9	3.8
1977*	112.0	12.4	38.4	4.1
1978*	164.8	17.0	55.4	4.9
1979**	92.3	10.3	30.2	4.6
% Change, 79/80	-44.0	-39.4	-45.4	-6.1
Men's & Women's				
1975***	119.8	20.8	23.7	9.5
1976***	185.2	27.6	61.7	9.8
1977***	201.6	25.6	74.2	10.5
1978***	293.9	35.1	107.2	12.5
1979***	238.5	23.6	99.6	13.2
% Change, 79/80	-18.8	-32.8	-7.1	+5.6

*ITC Report #1030 at A-11.

**Bureau of Census, IM146.

***Sum of 791.7620 + 791.7640.

Table No. 4

Imports of Leatherwear by Value in the First Six Months
of 1978, 1979 and 1980 ($ millions)

	Jan-June Imports, $ Value Men's (791.7620)				Jan-June Imports, $ Value Women's (791.7640)				Jan-June Imports, $ Value Men's & Women's			
	1978	1979	1980	% Change 79/80	1978	1979	1980	% Change 79/80	1978	1979	1980	% Change 79/80
Total	38.2	58.2	41.1	-29.3	68.2	42.4	24.4	-42.5	106.4	100.6	65.5	-34.9
Taiwan	5.2	10.3	7.9	-23.3	8.0	4.9	2.9	-40.8	13.2	15.2	10.8	-28.9
Korea	12.3	27.1	19.8	-26.9	25.4	13.0	8.9	-31.5	37.7	40.1	28.7	-28.4
Hong Kong	2.3	3.2	2.5	-21.9	2.1	1.9	1.4	-26.3	4.4	5.1	3.9	-23.5

Source: Bureau of Census, IM146.

In the first six months of 1980, men's wear imports were off by 29 percent when compared with the same period of 1979. Women's wear imports for the same two periods declined by 42.5 percent, and the overall import level declined in the first six months of 1980 by 34.9 percent.

In view of this precipitous decline in import levels, the ITC's findings of fact concerning increased imports are clearly no longer tenable. In fact, imports are declining.

Discussions with members of the trade in the last few days have shown several reasons for the decline in imports:

1. The fad value of leatherwear has decreased, as consumers have become used to the concept of mass market fashion leatherwear.

2. The expense of leatherwear makes it a luxury item, and one which is easily given up in a recession.

3. When the 1979 raw materials price increases were passed along to consumers, consumers simply stopped purchasing leatherwear. After the market lost its momentum, buyers for retail stores turned to other types of merchandise, and the momentum has not been regained.

In short, the U.S. leatherwear market no longer resembles the market that was studied by the ITC in the latter half of 1979. For that reason, the import relief based on that study is no longer appropriate, if it ever was.

To impose a 25 percent tariff increase on imports that have declined by 35 percent in the past six months is economically irrational and contradictory to the stated purposes of the escape clause provisions.

VI. IMPORT RELIEF WOULD INJURE THE DOMESTIC TANNING INDUSTRY

The U. S. tanning industry is the primary supplier of garment leather to Taiwan and Korea. If leatherwear producers in those countries are effectively shut out of the U.S. market, the U.S. tanning industry will lose major customers. Moreover, those tanned leathers that would have gone to the Far East will not be absorbed by the domestic garment industry, for the following reason:

1. A 25 percent tariff increase will raise not only import prices but also domestic prices, since domestic producers will attempt to improve profits.

2. Demand elasticity will lower consumer purchases of all leatherwear, domestic and foreign, as prices escalate.

3. As demand and sales drop, and as foreign sellers drop out of the U. S. market, retail stores will find sources diminishing in number. This, in turn, will deprive the fashion market place of the wide variety of available goods it needs in order to thrive.

4. Thus higher prices will result in an overall constriction of the market, and tanners will not be able to replace lost export sales with domestic sales.

Tanning Council statistics, although not complete, indicate the importance of export sales of garment leather. In 1979, domestic production of cattlehide glove and garment leather was 72.2 million squuare feet. Of that, 33.4 million square feet (46%) were exported. Of those exports, Taiwan and Korea bought 16.7 million square feet, or 50 percent of all exports. In other words, in 1979 Taiwan and Korea bought 23 percent of all the cattlehide glove and garment leather produced in the United States. (Source: U. S. Leather Industry Statistics, 1980 edition, Tanners' Council of America.)

These figures, of course, do not include the significant purchases by foreign producers garment-grade sheep and lamb leathers tanned in the United States. In 1979, exports of such leathers to Taiwan and Korea amounted to 2.5 million square feet. (There are no public domestic production figures for these leathers.)

In 1979, U.S. exports of cattlehide and sheep and lamb glove and garment leather to Taiwan and Korea were valued at $21 million. We submit that this is simply too much leather to be absorbed by the domestic garment industry, and too big an export product to forego on the speculation that the domestic industry may be able to survive the constriction of demand that would accompany import relief herein.

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VII. CONCLUSIONS

In discussions with members of the Trade Policy Staff Committee during the President's consideration of this investigation, it became clear that Executive personnel -- as well as ourselves -- were seriously hampered by the failure of the ITC to provide an adequate statistical base for its recommendation and to calculate the elasticity of demand for leather wearing apparel. These failings on the part of the ITC made its remedy recommendation mere guess work.

If the domestic industry was in fact injured, and if that injury was in fact caused by imports -- both of which, we submit, are contrary to fact -- than it would be proper to impose relief which equalized prices between imports and domestic product. To equalize prices, one needs to know the quantity of imports (so as to derive average unit values) and the mark-up at each stage of the distribution chain. The ITC simply failed to obtain adequate data, and its import relief recommendation images this failure.

We therefore urge the Senate Finance Committee to cast a negative vote on Senate Concurrent Resolution 108 on the grounds that the relief recommended by the ITC is not supported by the facts, is excessive, is not consonant with our international obligations, and is not in the national economic interest.

We urge the Committe to support the President's finding that relief would be inflationary and of only dubious benefit to the domestic industry.

Respectfully submitted,

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August 18, 1980

BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL TRADE
COMMITTEE ON FINANCE
UNITED STATES SENATE
WASHINGTON, D.C.

Statement on Behalf of
Wilsons House of Suede & Leather and
Bermans, The Leather Experts, Division
of W.R. Grace & Co.
Regarding Senate Congressional Resolution
Number 108 to Override
Presidential Determination on
Leather Wearing Apparel

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August 18, 1980

Introduction and Summary

My name is Paul H. DeLaney, Jr., and I am testifying before the Subcommittee on behalf of Wilsons House of Suede and Leather and Bermans, The Leather Experts, Division of W.R. Grace & Co. I am accompanied today by Mr. Jeffrey Wilson, Vice President of Wilsons House of Suede, Inc., and Mr. Lyle Berman, President of Bermans, The Leather Experts. We are appearing to oppose Senate Concurrent Resolution Number 108 which would override the Presidential Determination of March 24, 1980 on leather wearing apparel.

We urge the Subcommittee to reject Senate Concurrent Resolution Number 108 which would reinstate import relief recommended by the United States International Trade Commission notwithstanding the Presidential Determination noted above. In accordance with the reasons set forth in the subject Presidential Determination, this resolution is contrary to the United States national interest for the following reasons:

1. It would increase inflationary pressures;

2. It would eliminate the domestic market for various price categories of the subject products;

3. It is doubtful that the relief requested would benefit the domestic industry in any significant way;

4. It would violate international commitments made by the United States to Argentina regarding the elimination of restrictions on the export of hides;

5. It would increase the likelihood of retaliation against United States exports by those countries which would be entitled to compensation under the escape clause procedures of the General Agreement on Tariffs and Trade.

Legislative and Procedural Considerations

History of Escape Clause and Import Relief Procedures

Article XIX of the General Agreement on Tariffs and Trade ("GATT") permits countries to modify, suspend, or withdraw obligations made under GATT if, as the result of obligations under GATT and unforeseen developments, imports increase to the extent that they cause, or threaten to cause, serious injury to domestic producers. This provision is commonly known as the "escape clause."

Prior to the Trade Act of 1974 ("TA"), United States law implementing the escape clause was Title III of the Trade Expansion Act of 1962 ("TEA"). Section 201 of the TA superceded the TEA with a different escape clause provision. Under the TEA, increased imports must have been in major part the result of trade agreement concessions before import relief measures could be instituted. Under the TA, no link to concessions is required. Furthermore, under the TA, increased imports must only be a substantial cause of serious injury or the threat thereof ("substantial cause" is defined to mean a cause which is "important" and not less than any other cause) and no longer the major factor (generally assumed to mean a cause greater than all other causes combined) causing injury.

Under provisions of the TA, if the United States International Trade Commission ("USITC") finds that imports are a substantial cause of serious injury, or threat thereof, to an industry, the President of the United States is required, with certain exceptions, to provide some form of import relief, including duty increases, tariff-rate quotas, quantitative restrictions, orderly marketing agreements, or, under appropriate circumstances and, upon a recommendation of the USITC, adjustment assistance, or a combination of remedies. Under the TA, the President can also choose not to provide import relief when he determines that it will not be in the national economic interest. However, if the Congress prefers the form of import relief proposed by the USITC to the relief provided by the President, or if the President determines not to provide import relief, then a majority of those present and voting of both houses of Congress can pass a resolution requiring the President to implement the relief recommended by the USITC.

Relevant Statutory Provisions under Title II of the Trade Act of 1974

Under Title II of the Trade Act of 1974, pertaining to relief from injury caused by import competition, the following statutory provisions are particularly significant for present purposes:

"A petition for eligibility for import relief for the purpose of facilitating orderly adjustment to import competition may be filed with the International Trade Commission (hereinafter in this chapter referred to as the 'Commission') by an entity, including a trade association, firm, certified or recognized union, or group of workers, which is representative of an industry. The petition shall include a statement describing the specific purposes for which import relief is being sought, which may include such objectives as facilitating the orderly transfer of resources to alternative uses and other means of adjustment to new conditions of competition." 1/

* * *

"In making its determinations under paragraph (1) the Commission shall take into account all economic factors which it considers relevant, including (but not limited to)--

(A) with respect to serious injury, the significant idling of productive facilities in the industry, the inability of a significant number of firms to operate at a reasonable level of profit, and significant unemployment or underemployment within the industry;

(B) with respect to threat of serious injury, a decline in sales, a higher and growing inventory, and a downward trend in production, profits, wages, or employment (or increasing underemployment) in the domestic industry concerned; and

(C) with respect to substantial cause, an increase in imports (either actual or relative to domestic production) and a decline in the proportion of the domestic market supplied by domestic producers.

For purposes of paragraph (1), in determining the domestic industry producing an article like or directly competitive with an imported article, the Commission--

(A) may, in the case of a domestic producer which also imports, treat as part of such domestic industry only its domestic production,

(B) may, in the case of a domestic producer which produces more than one article, treat as part of such domestic industry only that portion or subdivision of the producer which produces the like or directly competitive article, and

---

1/ See TA §201(a)(1).

(C) may, in the case of one or more domestic producers, who produce a like or directly competitive article in a major geographic area of the United States and whose production facilities in such area for such article constitute a substantial portion of the domestic industry in the United States and primarily serve the market in such area, treat as such domestic industry only that segment of the production located in such area.

For purposes of this section, the term 'substantial cause' means a cause which is important and not less than any other cause." 2/

* * *

"The Commission shall report to the President its findings under subsection (b), and the basis therefor and shall include in each report any dissenting or separate views. If the Commission finds with respect to any article, as a result of its investigation, the serious injury or threat thereof described in subsection (b), it shall--

(A) find the amount of the increase in or imposition of, any duty or import restriction on such article which is necessary to prevent or remedy such injury, or

(B) if it determines that adjustment assistance under chapters 2, 3, and 4 can effectively remedy such injury, recommend the provision of such assistance,

and shall include such findings or recommendation in its report to the President. The Commission shall furnish to the President a transcript of the hearings and any briefs which were submitted in connection with each investigation.

The report of the Commission of its determination under subsection (b) shall be made at the earliest practicable time, but not later than 6 months after the date on which the petition is filed (or the date on which the request or resolution is received or the motion is adopted, as the case may be). Upon making such report to the President, the Commission shall also promptly make public such report (with the exception of information which the Commission determines to be confidential) and shall cause a summary thereof to be published in the Federal Register.

2/ See TA §§201(b)(2) through 201(b)(4).

Except for good cause determined by the Commission to exist, no investigation for the purposes of this section shall be made with respect to the same subject matter as a previous investigation under this section, unless 1 year has elapsed since the Commission made its report to the President of the results of such previous investigation." 3/

United States International Trade Commission
Determinations under Section 201 of the
Trade Act of 1974 concerning Leather
Wearing Apparel

In accordance with section 201(d)(1) of the Trade Act of 1974, on January 24, 1980, the USITC reported to the President of the United States the results of its investigation regarding importation of leather wearing apparel into the United States (USITC Investigation Number TA-201-40).

This investigation was initiated to determine whether leather wearing apparel under TSUS category number 791.76 was being imported into the United States in such increased quantities as to be a substantial cause of serious injury, or the threat thereof, to the domestic industry producing an article like or directly competitive with the imported article. The USITC instituted this investigation under section 201(b)(1) of the Trade Act on August 3, 1979, following receipt, on July 24, 1979, of a petition for import relief filed by National Outerwear and Sportswear Association, Amalgamated Clothing and Textile Workers Union, International Ladies' Garment Workers Union, United Food and Commercial Workers Union, and Tanners' Council of America, Inc.

On the basis of its investigation, the USITC determined that leather wearing apparel under TSUS number 791.76 was being imported into the United States in such increased quantities as to be a substantial cause of serious injury or threat thereof, to the domestic industry producing an article like or directly competitive with the imported article.

The USITC found and determined that to prevent the injury to the domestic industry it would be necessary to impose additional rates of duty on the subject articles (the present rate of United States Customs duty on such articles is 6 percent ad valorem) so as to provide for the following ad valorem rates of duty:

1st year	31% ad valorem
2nd year	26% ad valorem
3rd year	21% ad valorem

3/ See TA §§201(d)(1) through 201(e).

Presidential Determination

In accordance with established practice and procedure under provisions of the Trade Act of 1974, the Chairman of the Trade Policy Staff Committee ("TPSC") issued a notice in the Federal Register on February 4, 1980, soliciting views from interested parties regarding the report of the USITC to the President of the United States concerning importation of leather wearing apparel into the United States (USITC Investigation Number TA-201-40).

On March 24, 1980, the President of the United States issued a determination denying import relief for leather wearing apparel, based on statutory national economic considerations, including the inflationary impact and the ineffectiveness of import relief as a means to promote adjustment. 4/

> "Pursuant to section 202(b)(1) of the Trade Act of 1974 (P.L. 93-618, 88 Stat. 1978), the President determined the action he would take with respect to the report of the United States International Trade Commission (USITC), transmitted to him on January 24, 1980, concerning the results of its investigation of a petition for import relief filed by the National Outerwear and Sportswear Association, the Amalgamated Clothing and Textile Worker's Union, the International Ladies' Garment Workers Union, the United Food and Commercial Workers Union, and the Tanners' Council of America, Inc., on behalf of the domestic industry producing leather wearing apparel, provided for in item 791.76 of the Tariff Schedules of the United States (TSUS).
>
> After considerating all relevant aspects of the case, including those considerations set forth in section 202(c) of the Trade Act of 1974, the President determined that expedited adjustment assistance is the most effective remedy for the injury suffered by the domestic leather wearing apparel industry, and that import relief is not in the national economic interest.
>
> Expedited adjustment assistance is the only positive action that would aid the adjustment process of the industry without being inflationary or possibly

4/ See Presidential Determination on section 202(b) of the Trade Act of 1974, March 24, 1980, and Federal Register, Vol. 45, No. 60, March 26, 1980, p. 19543 and Press Release #319, United States Trade Representative, March 24, 1980.

causing a further erosion in consumer demand by further increasing prices. Firm adjustment assistance would facilitate the purchase of new equipment and the implementation of new marketing techniques that the industry has stated would be its primary adjustment actions if import relief were granted.

The imposition of import relief itself would have an inflationary impact and consumer cost would be unacceptable in light of the strong emphasis that the Administration places on its anti-inflation efforts.

Also, it is not clear that the industry would be in a position to compete once relief expires.

The President directed the Secretaries of Commerce and Labor to give expeditious consideration to any petitions for adjustment assistance filed by firms producing leather wearing apparel, by their workers, and by communities impacted by imports of such articles." [Emphasis supplied.]

* * *

Congressional Override Proceedings

On July 21, 1980, Congressman James M. Shannon introduced House Concurrent Resolution Number 383, which was referred to the House Ways and Means Committee. 5/

On July 22, 1980, Senator John C. Danforth introduced Senate Concurrent Resolution Number 108, which was referred to the Senate Finance Committee. 6/ On August 1, 1980, this later resolution was scheduled for hearings before the Senate Finance Committee Subcommittee on International Trade. 7/

5/ See H. Con. Res. 383, 96th Cong., 2d Sess., July 21, 1980.

6/ See S. Con. Res. 108, 96th Cong., 2d Sess., July 22, 1980.

7/ See Press Release #H-43, Senate Finance Committee, August 1, 1980.

Additional Substantive Considerations

Raw Material Costs and Restrictions of Other Countries on the Export of Hides as a Substantial Cause Other than Increased Imports

It is clear that a major problem facing the United States leather wearing apparel industry relates to restrictions of other countries on the export of hides (raw material for leather wearing apparel). In this regard, it is important to note that such restrictions generally increase the cost of hides for United States domestic producers of leather wearing apparel and thus constitute a significant factor, independent of imports, which has affected the competitive position of domestic producers of leather wearing apparel.

Furthermore, the United States, with the prospective exception of Argentina, is the only major country which produces hides which does not severely restrict such exports.

In accordance with the record of discussion between the representatives of governments of the United States of America and Argentina in Washington, D.C. on August 10, 1979 concerning hide exports and other trade matters, the following was noted on the matter of possible future imposition of import restrictions by the United States on leather apparel: 8/

> "The Government of Argentina reserves the right to terminate the Agreement under paragraph 6 if the United States restricts imports of leather apparel as a result of the import relief petition."

Accordingly, if the subject Presidential Determination was overridden by the United States Congress to reinstate the decision of the USTIC, the Government of Argentina could justifiably withdraw from its commitments to the United States under the provisions of the agreement noted above.

8/ See Record of Discussion between Representatives of Governments of the United States of America and Argentina in Washington, D.C. August 10, 1979, concerning Hide Exports and Other Trade Matters accompanying the Agreement Between the Governments of the United States of America and Argentina concerning Hide Exports and Other Trade Matters, p.2.

Furthermore, this contention is also supported by statements and analysis set forth in the USTIC report on the subject case: 9/

"The Commission also considered the cost of raw materials as a cause of serious injury. Raw material costs are high in this industry, accounting for over 50 percent of costs of production, and play an obvious role in determining competitive conditions for leather wearing apparel on the world market. The fluctuation in U.S. imports from Latin America may demonstrate this link. In contrast to most other foreign suppliers, Latin American producers have access to indigenous hide supplies Argentina, Uruguay and Brazil place export restrictions on their hides and skins in order to ensure a stable supply for their leather apparel and footwear industries and, thus, during certain periods, leather apparel producers in these countries have paid less for raw materials than U.S. producers. This cost advantage experienced by Latin American suppliers may help to explain why Argentina and Uruguay were among the three foreign suppliers which most significantly increased their share of the U.S. import market." [Emphasis supplied.]

* * *

"Possible Substantial Causes of Serious Injury, or the Threat Thereof, Other Than Increased Imports

Hide prices and restrictive export practices

It is estimated that the cost of leather comprises approximately 54 percent of the cost of manufacturing an article of leather wearing apparel. 1/ Thus the cost of leather is of major concern to domestic producers of leather wearing apparel, whose products face competition not only from fur and cloth garments, but also from imports of leather wearing apparel from countries where labor costs are lower, and that may benefit from artificially low prices for hides, skins, and tanned leather.

Prices of hides, skins, and tanned leather in the U.S. market are by nature volatile, as the supply of hides is determined by cyclical trends in animal slaughter for meat, not by price and demand of the hides themselves. Hence, the tanning and leather wearing apparel industries are dependent on an almost perfectly inelastic supply of hides. 2/ Furthermore, the United States, although the world's largest hide producing country, is also one of the few countries which allows unrestricted exports of its hides. Although the United States accounted for approximately 25 percent of world production of hides in 1976-78, it accounted for 44 percent of world trade in

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9/ See United States Internation Trade Commission Report to the President on Investigation No. TA-201-40 under Section 201 of the Trade Act of 1974, USITC publication 1030, pp. 12 and A-41, A-42, A-44, A-45, January 1980.

these articles during the same period. Sixty percent of U.S. hides were exported in 1978. These rising exports, coupled with a cyclical low point in cattle slaughter, resulted in a severe inflation in the U.S. wholesale price of hides, skins, and tanned leathers in 1978 and 1979, as indicated in table 18. [Emphasis supplied.]

* * *

The highwater mark for hides, skins, and tanned leather prices was May 1979, when the price index reached 666.9 for hides and skins, and 429.4 for tanned leather. By August 1979 the hide index retreated to 511.9 and the tanned leather index to 365.9, indicating a slow but steady increase in the availability of hides as more cattle and other animals are made available for slaughter.

In the early 1970's, many Latin American countries, some of which had been major suppliers of hides in world trade, began to restrict their hide exports to insure a stable supply of hides for their leather apparel and footwear industries. Methods of restricting exports of hides include export taxes (Uruguay), export licensing (Mexico), export embargoes (Brazil and Colombia), and export controls (Argentina). 3/ The result of these restrictions has been that Latin American leather wearing apparel producers sometimes pay less for their leathers than United States and other foreign producers of these articles. This cost advantage is increased when hides are in short supply in major exporting countries such as the United States. A comparison of average prices of U.S. selected South American hides, from which articles of garment leather are made, is presented in table 19. [Emphasis supplied.]

* * *

Argentine garment leather hides undersold U.S. light native cowhides by an average 45 percent in 1978. The margin of underselling decreased to 31 percent in January-September 1979. Uruguayan hides undersold U.S. hides by an average 25 percent in 1978, but oversold them by an average of 7 percent in January-September 1979.

1/ See Certain Leather Wearing Apparel From Colombia and Brazil; Determinations of No Injury . . .,in Investigation Nos. 303-TA-7. . ., USITC Publication 948, February 1979.

2/ See the Structure, Pricing Characteristics, and Trade Policy of the Hides, Skins, Leather, and Leather Products Industry, U.S. Department of Agriculture, July 1979, p. 18.

3/ Ibid; p. 4. On Aug. 10, 1979, the United States reached agreement with Argentina to replace its export controls on hides with a 20 percent export tax. This tax is to be reduced to zero by Oct. 1, 1981. [Emphasis supplied.]

The raw material cost fluctuations experienced by these Latin American producers of leather wearing apparel may have been a contributing factor in the increase in those countries' exports of these articles to the United States from 1975 to 1978, and in the noticeable drop in exports from Uruguay in 1979. Imports of leather wearing apparel from countries that restrict hide exports are given in table 20. [Emphasis supplied.]

* * *

Imports of leather wearing apparel from hide restrictive countries rose significantly during 1975-78, increasing from $26.4 million in 1975 to $109.4 million in 1978, or by 314 percent. The value of imports from these countries declined by 35 percent, however, in January-August 1979, when compared with the corresponding period in 1978. The share of such imports to apparent U.S. consumption increased 140 percent from 1975-1978, but decreased by 30 percent in January-August 1979, as compared with January-August 1978."

Impact of Increased Relative Costs in the United States Market Including Inflation and Considerations

If the President of the United States were to adopt the USITC recommendation to increase United States customs duties to 36 percent ad valorem, it is clear that this would have a substantial inflationary impact on the United States economy. In this regard, it is important to note that various statements contained in the subject USITC report support the proposition that price considerations, including possible price increases as a consequence of increased United States customs duties, could result in elimination of certain portions of the United States market for these products (consumers would refrain from purchasing such products altogether) in: 10/

"Average unit values and their relationship to purchases

Because of problems with sparse price data in past leather wearing apparel investigations, several approaches were tried this time to improve the price picture. Among them were the tabulation of the "1-percent sample"1/ of all customs documents, a canvas of about 12 percent of customs documents of imports entering through New York, 2/ a canvas of retailers in the New York City area, and questionnaires to domestic producers, importers, and importer-retailers. These steps were taken so that import quantities could be accurately estimated and so that import prices and price trends could be examined for evidence of price suppression or depression, or for use in devising a remedy in the event of an affirmative determination by the Commission.

10/ Id. at p. A-26.

Based on the data obtained in the investigation, the following statements can be made with some certainty:

(1) Imports of leather wearing apparel increased in quantity and value from 1976 through 1978, and then imports of women's leather coats and jackets fell in 1979; the decline in imports of women's and jackets was large enough to cause the total imports of men's and women's coats and jackets to fall in 1979. <u>This decline in imports of women's coats and jackets may have been due to changing tastes, since domestic sales of women's coats and jackets also fell. However, it was noted that both domestic and imported women's coats and jackets increased sharply in</u> price in 1979, perhaps owing to increased leather costs." [Emphasis supplied.]

1/ The "1-percent sample" is a 1-percent sample of all customs entries; it may not correspond to a 1-percent sample of the subject TSUSA items. Approximately 80 documents were tabulated for each of the years, 1977-79.

2/ The New York sample consisted of all import entries through the port of New York (including John F. Kennedy Airport) for the month of August for the years 1975 through 1979. Over 3500 documents were tabulated. Nearly 60 percent of imports of the subject items enter through New York City. The month of August was determined to be typical.

Conclusion

Based on the points, authorities, developments and considerations set forth above, together with the attached business and transactional information submitted on behalf of Wilsons House of Suede and Bermans, it is urged that the Senate Finance Committee Subcommittee on International Trade recommend that Congressional Resolution Number 108 be defeated and that the Presidential Determination of March 24, 1980, be upheld.

Respectfully submitted,

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ATTACHMENT A

Imports of Leather Wearing Apparel into the United States (in United States Dollars) for the Years 1975 through 1979 with Respect to Category Numbers 791.7620 and 791.7640 of the Tariff Schedule of the United States

	Total United States Imports
1975	119,733,000
1976	185,165,000
1977	201,570,000
1978	293,848,000
1979	238,417,000
1980*	65,068,353

* Data reflects information for the period January 1, 1980, through June 30, 1980.

Source: Import statistics on leather wearing apparel are based on source materials available at United States Department of Commerce, Foreign Trade Statistics Section; these statistics are compiled monthly and summarized annually.

BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL TRADE
COMMITTEE ON FINANCE
UNITED STATES SENATE
WASHINGTON, D.C.

Summary Comments on Behalf of
Wilsons House of Suede & Leather and
Bermans, The Leather Experts, Division
of W.R. Grace & Co.
Regarding Senate Congressional Resolution
Number 108 to Override
Presidential Determination on
Leather Wearing Apparel

Paul H. DeLaney, Jr.
International Tax and Trade
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August 19, 1980

Outline and Summary Comments

Mr. Chairman and Members of the Subcommittee, thank you for providing us an opportunity to express our views at today's hearing on leather wearing apparel. My name is Paul H. DeLaney, Jr., and I am accompanied today by Mr. Jeffrey Wilson, Vice President of Wilsons House of Suede, Inc., and Mr. Lyle Berman, President of Bermans, The Leather Experts. We are appearing to oppose Senate Concurrent Resolution Number 108 which would override the Presidential Determination of March 24, 1980 on leather wearing apparel. We wish to have our full statement included as part of the record, and in accordance with the Subcommittee rules, we will only summarize our comments at today's hearings.

We urge the Subcommittee to reject Senate Concurrent Resolution Number 108, for the following reasons:

1. It would increase inflationary pressures;
2. It would eliminate the domestic market for various price categories of leather wearing apparel products;
3. It is doubtful that the relief requested would benefit the domestic industry in any significant way;
4. It would violate international commitments made by the United States to Argentina regarding the elimination of restrictions on the export of hides;
5. It would increase the likelihood of retaliation against United States exports by those countries which would be entitled to compensation under the escape clause procedures of the General Agreement on Tariffs and Trade (this could be particularly significant with respect to the potentially increasing market for exports of United States agricultural commodities to such countries as South Korea and Taiwan).

Presidential Determination

Under the subject Presidential Determination, it was noted that expedited adjustment assistance was the only positive action that would aid the adjustment process of the industry without being inflationary or possibly causing a further erosion in consumer demand by further increasing prices.

It was also stated that the imposition of import relief itself would have an inflationary impact and consumer cost would be unacceptable in light of the strong emphasis that the Administration places on its anti-inflation efforts and, also, that is was not clear that the industry would be in a position to compete once relief expires.

Raw Material Costs and Restrictions of Other Countries on the Export of Hides as a Substantial Cause Other than Increased Imports

It is clear that a major problem facing the United States leather wearing apparel industry relates to restrictions of other countries on the export of hides (raw material for leather wearing apparel). In this regard, it is important to note that such restrictions generally increase the cost of hides for United States domestic producers of leather wearing apparel and thus constitute a significant factor, independent of imports, which has affected the competitive position of domestic producers of leather wearing apparel.

Furthermore, the United States, with the prospective exception of Argentina, is the only major country which produces hides which does not severely restrict such exports. Although the record of the international trade agreement between the United States of America and the Government of Argentina concerning hide exports and other trade matters precludes the following on the matter of possible future imposition of import restrictions by the United States on leather apparel, the Government of Argentina reserves the right to terminate the Agreement under paragraph 6 if the United States restricts imports of leather apparel as a result of the import relief petition.

Accordingly, if the Presidential Determination were overridden by the United States Congress to reinstate the decision of the USITC, the Government of Argentina could justifiably withdraw from its commitments to the United States under the provisions of the agreement noted above.

The importance of this matter is also supported by the record of the USITC proceeding, which provides:

"The Commission also considered the cost of raw materials as a cause of serious injury. Raw material costs are high in this industry, accounting for over 50 percent of costs of production, and play an obvious role in determining competitive conditions for leather wearing apparel on the world market."

Hide Prices and Restrictive Export Practices as Substantial Causes of Serious Injury, Other Than Increased Imports

The USITC report related that it is estimated that the cost of leather comprises approximately 54 percent of the cost of manufacturing an article of leather wearing apparel, and that the United States, although the world's largest hide producing country, is also one of the few countries which allows unrestricted exports of its hides. Although the United States accounted for approximately 25 percent of world production of hides in 1976-78, it accounted for 44 percent of world trade in these articles during the same period. Sixty percent of U.S. hides were exported in 1978. These rising exports, coupled with a cyclical low point in cattle slaughter, resulted in a severe inflation in the U.S. wholesale price of hides, skins, and tanned leathers in 1978 and 1979.

Impact of Increased Relative Costs on the United States Market

If the USITC recommendation to increase United States customs duties to 36 percent ad valorem were adopted, it is clear that this would have a substantial inflationary impact on the United States economy. In this regard, it is important to note that various statements contained in the subject USITC report support the proposition that price considerations, including possible price increases as a consequence of increased United States customs duties, could result in elimination of certain portions of the United States market for these products. (Consumers would refrain from purchasing such products altogether.)

Further, the USITC report noted that decline in imports of women's coats and jackets may have been due to changing tastes, since domestic sales of women's coats and jackets also fell. However, it was noted that both domestic and imported women's coats and jackets increased sharply in price in 1979, perhaps owing to increased leather costs.

Transactional Experience

It is important to recognize that price has been a major factor in determining whether the United States consumers will be willing to purchase leather garments. Despite the statements of United States domestic manufacturers in claiming that they are losing business because of price points at which imports are brought in from other countries, United States producers never had certain portions of this business in the first place. Rather, the imported garments have in point of fact created a market in response to what the United States consumer has dictated based on the prices which such consumers are willing to pay for these garments.

Over the years firms such as Wilsons and Bermans have purchased from both domestic manufacturers and foreign producers, and have found far superior imported products, in many instances, in make and in detail. The reason is quite simple, over the years, United States producers have had difficulty finding quality sewing machine operators.

Where the United States labor force is not available to produce high quality competitively priced leather apparel, it would be unfair for United States consumers to bear the burden and costs of the drastic increases in United States customs duties recommended by the United States International Trade Commission.

Another major consideration in viewing the leather coat market at this time concerns recent changes in the patterns of demand for various styles of leather coats. As the following data indicates, imports of ladies coats reached a peak in 1978, and have subsequently fallen drastically due to a lack of demand for ladies styles of leather coats. (This same reasoning explains in part why many domestic firms have experienced difficulties. Sales of ladies leather coats have slackened, adversely affecting domestic manufacturers as well as importers.)

Women's Leather Coat Imports

1975	61,379,000
1976	98,891,000
1977	111,953,000
1978	164,762,000
1979	92,258,000
1980*	:24,418,276

* Data reflects information for the period January 1, 1980, through June 30, 1980.

Source: Import statistics on leather wearing apparel are based on source materials available at United States Department of Commerce, Foreign Trade Statistics Section; these statistics are compiled monthly and summarized annually.

It has been our clients' experience that leather coats and jackets are extremely price sensitive. As an example, a certain type of men's car coats which retailed in November 1978 at $149, retailed in November 1979 at $179. If the subject United States duties were imposed, this item would retail at about $220, which would cause retailers to give serious consideration to discontinuing the item.

In most cases, the decision to purchase an item overseas rather than domestically is not based on price alone. Many of the items that customers want are so labor intensive that they could not be made in the United States for a reasonable price. Since firms such as Wilsons and Bermans specify the leather to be used (mostly American tanned hides), they have better control over quality and delivery. The lower labor costs for imports enables them to have inspectors watching production from beginning to end. As a result, the rejection rate has been less than 1/2 of 1 percent on items purchased overseas as compared with a rejection rate of 3 to 4 percent on items purchased domestically. In producing items overseas retailers are able to give the consumer a better garment with a much greater value, e.g. all seams are glued down, button holes are bound and finished, and final inspection is done by hand.

It should be noted that the rapid expansion of leather wearing apparel beginning in 1974 is directly related to the increase of imports, and it is our belief that imports created a market which did not exist before.

Additional Points and Concerns of United States Agricultural Interests

If the Presidential Determination were overriden, this would renew pressures for United States export controls on hides (in view of conditions under United States-Argentina international trade agreement).

Cattle producers are concerned about anything which could limit the need for leather goods, whether domestically produced or imported. On the import side, export demand for cattle hides is very large and if anything were done to restrict imports of leather products this could have a substantial adverse impact on the export of hides. (It is important to note that those countries which purchase United States exports of hides are often the very countries which produce the leather wearing apparel which is the subject of these proceedings.) Accordingly, this could be harmful to domestic cattle producers as hides are the largest bi-product of cattle production.

Furthermore, this would also invite retaliation from our trading partners which would be entitled to compensation under GATT. This could result in a considerable curtailment of major United States exports of agricultural commodities to such countries as South Korea and Taiwan.

Continuing Recent Declines of
Imports of Leather Wearing Apparel
in the United States

	Total United States Imports
1978	293,848,000
1979	238,417,000
1980*	65,068,353

* Data reflects information for the period January 1, 1980, through June 30, 1980.

Have significant further substantial declines in imports six months of 1980 which already demonstrated that even if requested relief were provided, it is not at all certain that this would provide any significant benefit to domestic producers, although it is clear that this would increase inflationary pressures and harm consumers.

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Conclusion

Based on these points and considerations, we urge the Senate Finance Committee Subcommittee on International Trade to recommend that Congressional Resolution Number 108 be defeated and that the Presidential Determination of March 24, 1980, be upheld.

Thank you very much for providing us this opportunity to testify before the Subcommittee. We would be delighted to answer any questions.

TESTIMONY

of

N. DAVID PALMETER

before the

SUBCOMMITTEE ON INTERNATIONAL TRADE
COMMITTEE ON FINANCE
UNITED STATES SENATE

on behalf of
THE KOREA LEATHER AND FUR EXPORTER'S ASSOCIATION
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August 18, 1980

Daniels, Houlihan & Palmeter, P. C. is a law firm retained by the Korea Leather and Fur Exporter's Association (KOLFEXA), and is registered with the Department of Justice under provisions of 22 U.S.C., Sec. 611, et seq. as an agent of such foreign principal. Copies of the firm's registration statement are available for public inspection in Department of Justice files. Registration does not indicate approval of this publication by the United States Government.

SUMMARY

1. The President's determination not to provide import relief was justified by the fact that imports during 1979 were running 25 percent below 1978 levels.

2. This trend has continued in 1980: during the first six months of this year, the quantity of leather apparel items licensed for export from Korea is 41 percent below the quantity licensed during the same period in 1979.

3. Imposition of a 25 percent tariff clearly would be inflationary. The International Trade Commission specifically found that the lower price of imports is passed on to the consumer at the retail level.

4. Increased imports are not a cause of serious injury to the domestic industry, as measured by employment in that industry. While imports were growing, employment remained stable. When the employment fell significantly, imports were declining at an even more rapid rate.

5. The leather apparel industry in the United States is experiencing difficulties because consumers are reacting negatively to higher prices, and fashion trends are moving away from the industry's product.

6. In an industry characterized by high labor and raw material costs, the amount of technological adjustment possible is severly limited. Thus, higher tariffs cannot serve their statutory purpose of providing a period within which the industry may "adjust".

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

I am David Palmeter of the law firm of Daniels, Houlihan and Palmeter, P. C., Washington, D. C. I represent the Korea Leather and Fur Exporter's Association (KOLFEXA), a trade association headquartered in Seoul, Korea whose members consist of manufacturers and exporters of leather wearing apparel from that country.

Korea is the largest foreign supplier of leather wearing apparel to the United States. According to data published by the U. S. International Trade Commission, in 1978 Korea accounted for some 48 percent of the quantity of total U. S. imports, while for the first eight months of 1979 (the latest period for which data are available) Korea accounted for approximately 51 percent of the total quantity.

On January 24, 1980, the International Trade Commission reported to the President, in Investigation No. TA-201-40, Leather Wearing Apparel, its affirmative determination and recommendation of relief in the form of higher duties on imported leather apparel. The President determined on March 24 that the import relief recommended by the International Trade Commission should not be provided. The President's determination was correct based on the evidence available when it was made. Subsequent developments have borne out the wisdom of that determination. Consequently, we believe that the President's determination should be approved.

1. The Decline in Imports Both Absolutely and Relative to Domestic Production Support the President's Determination.

Section 201(b)(1) of the Trade Act of 1974 permits import relief only if it is determined that "an article is being imported into the United States in such increased quantities as to be a substantial cause of serious injury." (Emphasis added). Time and again the domestic producers in the leather apparel industry have ignored the important word "quantities". They speak of increases in the value of imports -- but value data alone are legally and economically irrelevant.

The International Trade Commission, in the course of its investigation, obtained quantitative data based upon a sampling of imports, and from those domestic firms that provided responses to the Commission's questionnaire.1/ The Commission data show that during the period January-August 1979, total imports were 25 percent below 1978 levels. During the same period, imports from Korea, the leading supplier, were 20 percent below 1978 levels. Furthermore, the ITC data demonstrated that the ratio of imports to U. S. shipments was

1/ Fewer than 50 firms of the approximately 100 firms producing leather apparel in the United States took the time to respond to the ITC questionnaire and supply shipment data. Thus, the quantities given in the ITC Report for domestic shipments understate the level of those shipments, and consequently overstate imports as a percentage of domestic shipments or consumption. See, ITC Report, pp. A13-A15.

lower in 1979 than in 1978. With total imports down sharply on an absolute basis, and down also relative to domestic shipments, the President clearly was justified in determining that the import relief recommended by the ITC was not needed to limit imports or to provide protection for the domestic industry.

Furthermore, this import trend has continued since the President's determination. The quantity of leather apparel items licensed for export from Korea during the first six months of 1980 is 41 percent below the quantity licensed during the same period in 1979. The value of actual exports from Korea during the first six months of 1980 was 32 percent below the comparable period in 1979. Thus, indications are that exports from Korea -- the leading foreign supplier to the U. S. market -- will be even lower in the second half of 1980 than they were in the first. With exports from Korea down some 41 percent below the levels that obtained prior to the President's determination, one wonders what purpose the proposed duty increase is intended to serve?

2. The President was correct in his determination that import relief would be inflationary.

The President stated that the imposition of a 25 percent tariff increase on imported leather apparel would be inflationary, and he was correct. Domestic producers, on the other hand, claim that higher tariffs would not be inflationary because retailers allegedly apply a higher markup to imports -- so the consumer does not benefit from lower priced imports. But the ITC specifically found that this is not the case.

The ITC reported (page A-38) that a survey of retail prices in New York City during its investigation revealed that "import prices are between 3 percent and 30 percent below the comparable domestic product." There were further indications that in some instances the retail price to the consumer was as much as 40 percent below the comparable domestic product. Clearly the charge of exhorbitant retail markup was not borne out by the facts of the ITC investigation. The consumer does benefit from lower priced imports. The President's concern with the inflationary impact of a substantial duty increase was well founded and deserves the approval of the Congress.

3. "Increased" Imports are Not a Substantial Cause of Serious Injury to the Domestic Industry, as Measured by Employment

The President's determination not to provide import relief is justified, we submit, on the basis that imports are not undergoing the statutorily required increase. For this reason alone, the President's determination should be approved. But even assuming the contrary for purposes of analysis, the question remains whether "increased" imports are a substantial cause of injury. A comparison of import performance to available employment data (a major indicator of injury) demonstrates that they are not.

The attached table compares the average number of production and related workers and total manhours worked with Korean exports, imports from Korea, and total imports for the period 1976 through 1978, and for January - August 1978 and 1979. Employment, whether measured by average number of production and related workers, or by manhours, can best be described as stable during the period 1976 through 1978, although both measurements decline slightly. But employment and total manhours worked fell sharply during January - August 1979 compared to the same period in 1978. Such a decline could be a reliable indicator of the existence of injury. But is that decline caused in substantial part by increased imports? Clearly, no, as the the remainder of the data on the table demonstrate.

While employment, as measured by the average number of production and related workers, dropped 15 percent, and total manhours worked dropped 12 percent, Korean exports dropped 11.6 percent, imports from Korea dropped 19.5 percent, and total imports dropped 24.9 percent. The 15 or 12 percent declines in employment (depending upon the measurement used) could not have been caused by increased imports when imports were declining by nearly 25 percent. Imports clearly were not a substantial cause of this decline in employment.

If imports are not the cause of the decline in employment in the leather apparel industry in the United States, what is?

The ITC stated one of the causes in its discussion of women's leather coats and jackets: "Considerable resistance of consumers to the rapidly escalating prices." */ If consumers are reducing their buying of leather wearing apparel because of "rapidly escalating prices", a substantial duty increase can only make the market worse. This is reason enough to support the President.

Moreover, in addition to this price factor, there is a fashion factor present that was previously described by the Commission in its discussion of the U. S. market in the case of Leather Wearing Apparel from Uruguay. **/

> "During the 1970's, a dramatic expansion occurred in the leather wearing apparel market, particularly in the low- and medium-priced ranges. A rise in consumer demand for apparel with a 'natural' and 'genuine' look coincided with the development of new leather processing techniques. The result of these two occurrences was increased production of leather garments at lower prices, especially since the new technology allowed a lightweight supple garment grain leather to be produced from cattlehides, rather than imported kidskin and goatskins. By 1977, the boom had waned..."

*/ ITC Report, A-16.

**/ Leather Wearing Apparel from Uruguay, USITC Pub. 883, April 1978, p. A-8.

High prices and changing fashion trends, therefore, are the substantial cause of the plateau the leather apparel industry in the United States has reached and the decline in employment, not imports which themselves are decreasing. It is entirely possible that high prices themselves are contributing to the changing fashion trends. The fact that the substantial cause of the current situation of leather apparel is not in imports means that any remedy that restrains imports will be of no benefit to the leather apparel industry.

4. Higher Tariffs Would Not Permit the Industry to "Adjust" to Unrestrained Future Import Competition.

The President provided expedited adjustment assistance to the leather wearing apparel industry, rather than industry wide tariff relief, in part because he determined that "expedited adjustment assistance is the only positive action that would aid the adjustment process of the industry without being inflationary or possibly causing a further erosion in consumer demand by further increasing prices." Adjustment assistance, tailored to the needs of particular companies, is the only remedy that makes sense.

Tariff relief should be granted only if, among other factors, it would effectively provide breathing space for the industry to adjust. But a legitimate question is, what steps could the domestic producers of leather apparel take to "adjust" to the competittion that would resume once the temporary respite from imports is terminated.

The production of leather apparel is extremely labor intensive, and raw material costs amount to more than 50 percent of the total manufacturing costs. Capital costs are minimal: the industry's capital investment really consists of little more than sewing machines. In these circumstances, it is difficult to understand precisely what steps this industry would take to adjust to the import competition that would ensue following the termination of relief.

The paucity of steps even possible for adjustment can be seen by the ITC's discussion of the efforts of U. S. leather wearing apparel producers to compete with imports. Only 14 producers responded to this portion of the Commission's questionnaire, from an industry estimated at 100 firms, and in which at least 43 participated in the Commission's investigation. Most of the firms that particiapted in the Commission's investigation, in other words, did not even discuss possible steps to adjust to import competition.

Of the 14 that responded, five indicated that their adjustment steps were to turn to imports, while the other 9 cited obscure technological developments of an apparent minor nature. The fact that only 9 of the 43 firms that participated in the investigation even spoke of newer technology and newer efficiencies demonstrates overwhelmingly, we submit, that there is nothing practical that can be done to assist this industry in an effort "adjust" to import competition, or, even if there is, that any significant number of firms intend to do so.

Adjustment assistance, on the other hand, that might reach the specific problems of particular firms might provide benefit peculiar to individual circumstances -- including the nine that have indicated that they could make technological changes.

CONCLUSION

In conclusion, we submit that the President's determination was correct when it was made, and is supported by the facts that have developed since. Imports were lower then than in the previous year, and have contined to decline.

Higher tariffs clearly would be inflationary, as the ITC specifically found that the benefits of lower priced imports were in fact passed on to consumers at the retail level.

The overwhelming evidence on the record of the ITC investigation demonstrates that such factors as higher prices combined with fashion changes that may themselves have been exacerbated by the higher prices -- rather than imports -- are responsible for the troubles of this industry.

Finally, it is apparent that the higher tariffs recommended by the ITC would not permit this industry to "adjust" to future import competition.

For all of the reasons, we urge the Subcommittee to support the President's determination.

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LEATHER APPAREL: EMPLOYMENT AND MANHOURS WORKED
EXPORTS FROM KOREA, U. S. IMPORTS FROM KOREA,
AND TOTAL U. S. IMPORTS, 1976-1978, JAN.-AUG. 1978-79

	Employment 1/	Percent Change	Manhours 2/	Percent Change	Korean Exports 3/	Percent Change	Imports from Korea 4/	Percent Change	Total Imports 5/	Percent Change
1976	3,584	-	6,112	-	3,443	-	2,449	-	6,019	-
1977	3,518	- 1.8%	5,859	- 4.1%	5,156	+50.0%	3,011	+22.9%	6,432	+ 6.9%
1978	3,388	- 3.7%	5,705	- 2.7%	4,737	- 8.1%	4,672	+55.2%	9,784	+52.1%
January - August										
1978	3,038	-	3,041	-	2,933	-	2,733	-	5,777	-
1979	2,578	-15.1%	2,677	-12.0%	2,593	-11.6%	2,199	-19.5%	4,338	-24.9%

1/ Average number of production and related workers, ITC Report, A-18.

2/ Thousands of manhours worked by production and related workers, ITC Report, A-18.

3/ Korea Leather and Fur Export Association, 1,000 pieces.

4/ ITC Report, Table 3, A-12.

5/ *Ibid.*

Senator RIBICOFF. I think we have explored this very thoroughly. I want to thank all of you for your contribution.

[Whereupon, at 5:30 p.m., the subcommittee was adjourned subject to the call of the Chair.]

[By direction of the chairman the following communications were made a part of the hearing record:]

STATEMENT BY SENATOR GAYLORD NELSON
TO THE
SUBCOMMITTEE ON INTERNATIONAL TRADE
SENATE FINANCE COMMITTEE
CONCERNING S. CON. RES. 108
August 19, 1980

Mr. Chairman, I am a co-sponsor of S. Con. Res. 108, and welcome the opportunity to testify in support of this measure.

This resolution would overturn the President's decision to deny import relief for the domestic leather garment industry, such relief having been recommended by the United States International Trade Commission (ITC) in January of this year.

The domestic industry brought an action for import relief before the ITC in July, 1979. Pursuant to Section 201 of the Trade Act of 1974, the industry charged that increased imports of leather coats and jackets were a substantial cause of serious injury to domestic manufacturers.

These petitioners presented a compelling case for relief. That the industry had been injured was clear: employment dropped by nearly one-third between 1974-1977. And the evidence was persuasive that imports were the cause: imports of leather wearing apparel had increased by a whopping 143 percent between 1975 and 1978, and had captured fully 82 percent of the U.S. market by 1979.

The International Trade Commission ruled for the domestic industry, in a rare unanimous opinion, in January, 1980. The ITC found that the industry was seriously injured by imports and recommended to the President that he increase the existing rates of duty, which are now six percent, for a period of three years. The ITC recommended a 25 percent additional duty in the first year, 20 percent in the second, and 15 percent in the third.

President Carter rejected the ITC's remedy on March 26, 1980, citing his belief that import restraints would increase inflation and his doubts that import relief would increase the leather garment industry's competitiveness. Instead, the President ordered only expedited consideration of trade adjustment assistance petitions by the industry.

I disagree with the President's assessment of the effects of imposing temporarily increased tariffs. First, short-term import relief could well improve the competitiveness of the domestic industry. According to industry testimony before the Trade Policy Staff Committee of the Office of the U.S. Trade Representative, the industry has devised a well thought-out program for adjustment to import competition in the next several years. The industry, which already stresses advanced technology and high efficiency in its operations, plans to purchase new equipment, expand its sales forces, computerize inventory and billing procedures, and increase its emphasis on styling, among other improvements.

Industry plans for improvement require capital investment, however, which in turn depends on an increased market share. The ITC's recommended import relief program can ensure that market share.

Second, the inflationary effect of import restraints would, in my judgment, be minimal. The fundamental goal of the domestic leather apparel industry in winning temporary import relief is the building of a more efficient and productive labor force, which can lower overall per unit labor costs and thus keep prices down. Furthermore, consumers have not in the past received the benefit of lower prices on imports produced abroad at lower labor costs. This is because U.S. retailers have often simply applied higher markups to imported apparel than to domestic apparel.

The International Trade Commission's recommendations for relief are fully consistent with well-established international trade law and domestic law. The basis of the ITC's remedy is a principle firmly grounded in the General Agreement on Tariffs and Trade (GATT). That principle is that an industry seriously injured by a rapid surge in imports is entitled to import relief for a temporary period to facilitate its adjustment to new competitive conditions.

The Congress has 90 working days to override the President's decision and re-establish the ITC's recommended remedy. Seventy-two working days have already elapsed. I urge prompt approval of S. Con. Res. 108, to ensure the temporary import relief that the domestic leather apparel industry so urgently requires.

AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

August 18, 1980

Honorable Abraham Ribicoff, Chairman
Subcommittee on International Trade
Committee on Finance
United States Senate
Washington, D.C.

Dear Chairman Ribicoff:

The AFL-CIO supports S. Con. Res. 108 to provide for action to stem the flood of injurious imports of leather wearing apparel. Further delay in curbing these damaging imports will destroy the remaining jobs and production in this U.S. industry.

The injury is so severe, the case for action so overwhelming, that failure to act could undermine confidence in U.S. trade laws and international trade agreements. In proceedings before the U.S. International Trade Commission, the industry and the unions have proved that imports cause serious injury. Title II of the Trade Act of 1974 provides that the Commission, if it finds injury, can recommend relief. In January 1980 the Commission unanimously found injury and recommended relief. Article XIX of the General Agreement on Tariffs and Trade recognizes that relief against imports that injure domestic industry is appropriate.

We urge swift action on S. Con. Res. 108 which disapproves the President's determination not to follow the recommendations of the International Trade Commission for import restraints on leather wearing apparel. If a resolution of disapproval is passed by both the Senate and the House, the President will be required to proclaim the relief recommended earlier by the ITC. Approval by the Senate Finance Committee of S. Con. Res. 108 will provide an important first step toward helping injured U.S. industries and saving the jobs and production in leather wearing apparel.

Sincerely,

Ray Denison

Ray Denison, Director
DEPARTMENT OF LEGISLATION

cc: all Finance Committee members

National Retail Merchants Association

NRMA

1000 Connecticut Avenue, N.W.
Washington, D.C. 20036
202/223-8250

August 22, 1980

The Honorable Abraham A. Ribicoff
Chairman
Subcommittee on International Trade
Committee on Finance
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

On behalf of the National Retail Merchants Association, I am writing to express NRMA's opposition to S.Con.Res. 108, now pending before the Finance Committee. If passed by the Senate and the House of Representatives, this resolution would reverse the President's decision not to impose import restrictions on leather coats and jackets and, in so doing, would cause the tariff on most of these products to be increased from 6% to 31% ad valorem.*/ We ask that this letter be incorporated in the hearing record on S.Con.Res. 108.

The President's Decision Recognizes the Harm to the Consumer and the Doubtful Benefit for the Domestic Industry of the ITC's Recommendation

In the testimony presented by the Administration at the August 19 hearing held by the International Trade Subcommittee, the President's decision was clearly explained and amply justified.

The President chose to give priority to trade adjustment assistance for workers, communities and firms, and rejected the heavy tariff increase proposed by the ITC. He did so because of the inflationary nature of the ITC's recommendation and because the domestic industry could not demonstrate that import restrictions would help it adjust effectively and become any more competitive with imports once the relief expired. The

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*/ The U.S. International Trade Commission recommended that the tariff be increased twenty-five percentage points in the first year of relief, twenty percentage points in the second year, and fifteen percentage points in the third year.

The validity of the President's judgment is clear from a brief review of the characteristics of the market for leather coats and jackets and of the foreign and domestic manufacturers who serve it.

Imports Created and Serve Markets that Are Not Serviceable by U.S. Production

According to the ITC, consumer demand for leather coats and jackets increased significantly from 1975 through 1978. Our experience indicates that this growth was due almost entirely to the ability of Far East suppliers to provide the American consumer with fashionable, high quality, popularly priced leather coats and jackets. Given that production of these quality fashion garments is extremely labor intensive, it is most unlikely that domestic producers will be able to service the market created by imports, particulary in light of the substantial wage differential between the U.S. and overseas countries.

Without the combination of fashion, high quality and moderate prices, consumer demand will evaporate as quickly as it appeared. Indeed, price increases in 1979 and 1980, brought on by worldwide cost increases in raw materials, have already caused a significant decline in sales of all leather coats and jackets, with import sales down 30 - 40%. The ready availability of alternative products not made of leather and the continued perception of leather coats and jackets as luxury items are the obvious explanations for the price sensitive nature of this market.

This price elasticity is a critical consideration in determining whether the proposed tariff escalation will provide any assistance to the domestic industry, because the domestic industry has never been able and, in our opinion, will not be able in the future to provide consumers with such fashionable, popularly priced, high quality leather coats and jackets. This basic fact, we believe, dooms the import "relief" mechanism to certain failure as a vehicle for promoting a more competitive domestic industry.

The reason that the domestic industry is in this situation is readily apparent. As noted, the production of leather coats and jackets is highly labor intensive. Moreover, production of fashionable, quality garments, with an emphasis on hand-worked styling and detailing -- the type of imported garment that has done so well in the U.S. -- demands a very skilled cutting and stitching labor force. The domestic industry simply does not have a pool of these kinds of skilled workers to draw from. Further, the wage differential between any such U.S. workers and those in other countries is insurmountable.

Given the experience of 1979 and 1980, which demonstrates that consumers are simply unwilling to pay higher prices for leather garments, there is no realistic possibility that the domestic industry can compete effectively in the current market served by imports. Clearly, if fashionable, high quality imports have been losing sales due to price resistance by consumers, it is inevitable that domestically produced garments -- higher priced, less stylish and of lower quality due to high labor costs and low labor skills -- will fare far worse.

If Granted, the Three-Year "Temporary" Relief from Imports Would Be Only the Beginning of Long-Term Import Protection

We are concerned that a three-year tariff increase might entice segments of the domestic industry into the mistake of making investments which would never pay off. The industry -- shielded temporarily from more efficient foreign producers -- will, in effect, be encouraged to attempt to develop production capacity for the market segment now served almost entirely by imports. Unfortunately, we believe the domestic industry will be unable to match the high quality and moderate prices of current imports.

Moreover, the poor performance which we believe is inevitable will force the industry to make repeated demands for protection from imports. The "escape clause" process, under which the present case was brought, allows an industry to seek renewal of any import relief obtained, making the present three-year request actually a six-year proposition. Further, it is our understanding that this industry is already seeking permanent protection from imports through coverage under the Multi-Fiber Arrangement. In short, the present request would be but the first installment on a continuous, but fruitless, program of protection.

Unlike the tariff increase, which would encourage the industry to attempt to compete in a market segment where we believe it will never be competitive, trade adjustment assistance will encourage the industry to develop areas of possible market strength. Investments will be made with the assurance that the near and long-term competitive situation will be the same.

The Crude Protection Recommended by the ITC Will Serve Only to Deprive Consumers of Choice, Value, and Styling

As indicated above, we believe that the only demonstrable impact of the proposed tariff increase would be to increase the price of leather coats and jackets, both imported and domestically-produced. While the exact price increases to the consumer will vary according to the garment's initial cost and other factors, the recent market experience demonstrates that consumers will resist any price increases and that demand for leather garments will contract correspondingly. To the extent that consumer demand is eliminated -- which is sure to happen, given the clear evidence of market contraction in the face of rising prices in 1979-80 -- there will be no benefit to the domestic industry.

There will, however, be injury to the American consumer, in both product choice and product cost. While there is no claim that leather coats and jackets are major elements of any index of inflation, the price increases that will occur will be very real to consumers of this product. Nor should the cumulative effect on inflation of import restrictions of this kind be dismissed.

A series of private and government studies have demonstrated conclusively that increases in trade barriers, whether they are tariffs or quotas or combinations of both, increase prices and reduce product choice. As Professor David G. Hartman of Harvard University's economics department stated, in a 1979 paper, "Whatever form it takes, protectionism is a subsidy to a particular industry paid for by the consumer in higher prices."*/ William R. Cline, Senior Fellow of the Brookings Institution, in a study conducted in 1978, found that:

> Protection would aggravate inflation in two ways. First, by reducing the availability of cheaper imported goods, increased protection would cause a shift to more costly domestic supply. Second, by limiting the availability of total supply, protection would lead to an

*/ Hartman, "Costs of Protectionism", (pamphlet), Washington, D.C.

> indirect rise in prices as domestic firms raised their prices and consumers paid more in order to reach a new equilibrium between smaller supply and, therefore, smaller demand (which could be reduced only by the discouragement to consumption coming from higher prices).*/

A 1978 study of the textile and apparel industries by the Council on Wage and Price Stability found that the 29.3% average tariff on apparel imports costs American consumers $2.7 billion a year, that quotas on the quantity of goods which 18 foreign countries are permitted to sell to the United States cost consumers $369.4 million a year, and that the cost per textile job "protected" through these tariffs and quotas is $81,000.**/

Most recently, a Federal Trade Commission staff report, which investigated import restrictions on CB radios, color televisions, sugar, nonrubber footwear, and textiles, concluded:

> The result of this study is that the costs of protection clearly and considerably exceed the benefits of reduced adjustment. This is true across the diverse industries of our study ...***/

* * *

For the reasons outlined above, NRMA urges Congress not to overturn the President's decision in this case.

By way of background, NRMA is a national, non-profit trade association composed of over 3,500 members who operate more than 35,000 department, chain and specialty stores in the general merchandise retail industry. Our members have an aggregate annual sales volume of approximately $100 billion and employ over 2.5 million workers.

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*/ Cline, "Imports and Consumer Prices: A Survey Analysis," 55 Journal of Retailing 3, 4 (1979).

**/ Council on Wage and Price Stability, Textiles/Apparel, Washington, D. C. (July 1978), at 66, 68, 70.

***/ Morkre, Tarr, Staff Report on Effects of Restrictions on United States Imports: Five Case Studies and Theory, Bureau of Economics of the Federal Trade Commission (June 1980) at 198.

If you or any member of your staff have any questions concerning NRMA or our position on this issue, please do not hesitate to contact me at 223-8250.

Thank you for your consideration on this matter.

Sincerely,

Verrick O. French

Verrick O. French
Senior Vice President
Governmental Affairs

JCPenney

August 21, 1980

Honorable Abraham Ribicoff
Chairman, Subcommittee on International Trade,
Committee on Finance
United States Senate
Room 2227 Dirksen Senate Office Building
Washington, D.C. 10510

Re: Senate Concurrent Resolution 108

This statement is filed pursuant to the Subcommittee's notice of hearings, H-43, August 1, 1980.

J. C. Penney Company, Inc. ("Penney") is a general merchandise retailer with over 1900 stores located throughout the fifty states. Among the products sold by Penney are leather coats and jackets purchased from both domestic and foreign sources. Penney opposes S. Con. Res. 108. Penney believes that President Carter's decision as announced on March 24, 1980, is in the national economic interest and urges the Committee to approve the President's determination.

Penney believes that the remedy recommended by the United States International Trade Commission (the "Commission") is ill-conceived. An increase in duty of the magnitude recommended by the Commission will not necessarily have the effect of diverting retailer purchasers to domestic from foreign producers, nor will it permit domestic producers to raise prices, except at the expense of reduced sales volume. To the extent that prices are increased the inflationary impact on consumers will be substantial.

Legal Department J.C. Penney Company, Inc., 1301 Avenue of the Americas, New York, New York 10019

1. The probable effectiveness of the Commission's recommendation

The Commission found that a tariff increase (25% *ad valorem*, in the first year, 20% *ad valorem* in the second year, 15% *ad valorem* in the third year) is necessary to "equalize more nearly prices between imports and domestically produced articles."[1] Presumably, the Commission felt that price equalization would cause retailers to purchase a greater percentage of their requirements from domestic producers. This was certainly the fond hope of that portion of the domestic industry which participated in the proceeding when it stated that any benefit it might derive from the import relief requested would have to be predicated on increased orders.[2] An examination of the facts, however, strongly suggests that higher tariffs will not increase domestic orders.

The Commission notes that in the period 1975-1978 total apparent consumption for leather coats and jackets increased almost two-fold and that the bulk of this increase was "captured" by imports. (Report at 11). It is not quite correct that imports "captured" the increase in consumption; imports created the increase by permitting retailers to offer fashion leather coats and jackets at prices within the reach of

[1] Leather Wearing Apparel; TA-201-40, USITC Publication 1030, at 15, January, 1980 (the "Report")

[2] Petitioners Post Hearing Brief, page 19.

middle and lower income consumers.[3] This was certainly Penney's experience during this period. Imports were a major factor in creating and sustaining this part of the market. Penney's imports were and continue to be lower-priced garments purchased as promotions. With some exceptions, domestic suppliers were not able to match these prices.

This part of the market is not price elastic. Higher prices are invariably followed by reduced volume.[4] Penney's experience in 1978 and 1979 graphically illustrates this truth. In 1978, Penney sold substantial quantities of leather coats and jackets at prices averaging $83.32. In 1979, the average unit value increased by 28.9% and unit sales decreased by almost 50%. A specific example of consumer resistance to price increases in leather apparel is Penney's experience in marketing men's lined leather coats. These coats sold for $90 in 1978 and $120 in 1979. The 25% price increase led to a 50% reduction in demand. 1980 demand has improved because prices have been reduced to 1978 levels.

Penney believes that a tariff increase will invariably lead to higher prices, will further reduce consumer demand and consequently domestic production. Middle and lower income consumers will turn to cloth garments to replace the leather garments they can no longer afford. Penney's assortment plans for Fall 1980 contain fewer leather garments than were offered

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[3] Transcript of Hearings ("TR") at pp. 426-430. See also, Report, Figures 1 through 4, at A-29 which suggest that most imports fall in the lower price categories.

[4] TR at pp. 428; 235; 292. Report at A-16.

in prior years. It seems unlikely, therefore, that a tariff increase will have the desired effect.

Assuming that the tariff increase will generate greater demand for domestic products, data presented to the Commission indicates that domestic producers may not be able to satisfy this demand.

Clearly, unless there is a marked under utilization of domestic capacity, an increase in tariffs will have no positive effect.[5/] Capacity utilization data is set forth in the Report at A-16, 17, and suggests that substantial production facilities now idle are available to meet an increase in demand. But since the leather garment industry is extremely labor intensive,[6/] the availability of labor is at least as important as the availability of production facilities if domestic suppliers are to meet any increased demand. The availability of skilled production workers in sufficient numbers to permit domestic producers to operate at anything near full-capacity has been questioned.[7/] If there is a shortage of workers, domestic producers will be unable to take advantage of any increased demand.

Increased productivity could, of course, alleviate any shortage of production workers, but, since the productivity of the domestic leather industry exceeds that of virtually every

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5/TR at page 156.

6/Report at A-5.

7/Letter to the Commission from D. Chan, an industrial designer employed by a domestic manufacturer, dated October 24, 1979. The letter is in the Commission's Public Inspection File.

other country in the world,[8/] it seems unlikely that technological innovations can be expected to increase greatly the production capacity of domestic producers.

Thus, it is reasonable to anticipate that a tariff increase will not result in a greater demand for domestic leather coats and jackets and if it does come to pass that demand increases, there is no assurance that the demand will be satisfied. The result will be higher prices, lower consumer demand, and eventually the disappearance of popular priced fashion leather coats and jackets . . . none of which will aid the recovery of domestic leather producers, save those who shift to producing cloth garments.

2. The effect of import relief on consumers.

As was noted previously, the Commission's recommendation will lead to sharply higher prices. This will be true for domestic as well as imported products since import competition serves to restrain domestic prices.

The domestic industry argued before the Commission that a tariff increase would not harm consumers since retailers do not pass on the benefit of lower prices to consumers.[9/] This is absurd; imports do provide lower prices.[10/] The highly competitive nature of the retail industry ensures that

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8/TR at page 102.

9/Petitioners Post Hearing Brief, at page 18.

10/W.R. Cline, "Imports and Consumer Prices: A Survey Analysis," 55 Journal of Retailing 3 (1979).

consumers will benefit from savings realized at the wholesale level. Imports have not taken a significant market share without providing the consumer with something domestic producers are unwilling or unable to offer. There can be no serious doubt that in the case of leather coats and jackets this something is lower prices.

In any event, domestic industry's claim that higher tariffs will not harm consumers makes little sense, unless they assume that the same retailers who do not pass on lower costs also do not pass on higher costs. This is nonsensical. Higher costs mean higher prices.

Further, import relief is likely to severely limit consumer choice. For the reasons set forth above, it is Penney's belief that leather coats and jackets, at least those in the popular price category, will not sell at prices much higher than those now prevailing. Accordingly, if Congress decides to reinstate the Commission's recommendation, Penney will be forced to limit the range of merchandise offered in this category. Penney assumes that other mass retailers will find it necessary to make the same decision. Thus, consumers will be denied the option of popular priced leather coats and jackets, since such garments will no longer be available from any source. This will have the greatest impact on lower income consumers. The more affluent consumer will still have a choice because higher priced imports and domestic products will continue to be available.[11]

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[11] The very high priced merchandise would be exempt from higher duties under the Commission's recommendation.

The Commission's recommendation is inflationary, and, as is true of virtually all import relief, discriminates against the consumer, particularly the low-income consumer.

3. Other observations.

The Commission's recommendation would apply to all imports regardless of source. Thus, imports from countries such as Brazil, Canada, Colombia, Israel, and Spain, who collectively account for less than 9% of domestic consumption,[12] would be subject to higher duties. This fact illustrates the ill-considered nature of the Commission's recommendation.

4. Conclusion

Import relief will not aid the domestic industry in any meaningful sense. Import relief will increase prices, will restrict consumer choice, and is inflationary. In view of the above, Penney believes that Sen. Conc. Res. 108 should be rejected.

Respectfully submitted,

J. C. PENNEY COMPANY, INC.

By ____________________
John B. Pellegrini
Senior Attorney

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[12] Report, Table 1 (A-9) and Table 11 (A-25).

1346 Connecticut Avenue NW Washington D.C. 20036 (202) 785 4835
consumers CWT for world trade

STATEMENT
TO THE
U.S. SENATE COMMITTEE ON FINANCE
SUBCOMMITTEE ON INTERNATIONAL TRADE

August 19, 1980

Re: S. Con. Res. 108
Concerning the President's determination under Section 202(b) of the Trade Act of 1974, with respect to leather wearing apparel

Chairman Ribicoff and Members of the Committee:

Consumers for World Trade (CWT), a national, non-profit membership organization, committed to open, competitive and fair trade, strongly supports the President's decision not to impose import restrictions on leather coats valued below $150.00, as was recommended by the International Trade Commission (ITC) - (Inv. No. TA 201-40). We urge the Senate to concur with this determination.

The additional duties proposed by the ITC would contribute substantially to an already inflated economy, by forcing an increase in price in both the imported and comparable domestic merchandise, an increase to be borne by the American consumer.

In a study commissioned by CWT and prepared by Dr. David Hartman of Harvard University, it is indicated that the 29.3% average tariff on apparel imports is costing consumers 2.7 billion dollars a year, and that it is costing the American public 81,000 dollars a year for each textile and apparel job protected by trade barriers.

The tariffs recommended by the ITC would be applied only to leather apparel priced under 150 dollars, which constitutes almost 98.5% of all imports in this product area. As is often the case, it is the lower-cost items that are hit with the highest duties and it is the low and fixed-income consumers, the group most vulnerable to an inflated economy, who bear the burden of higher prices.

U.S. Council for an Open World Economy
INCORPORATED
7216 Stafford Road, Alexandria, Virginia 22307
[redacted]
(202) 785-3772

Statement submitted by David J. Steinberg, president, U.S. Council for an Open World Economy, to the Subcommittee on International Trade of the Senate Committee on Finance, in opposition to Congressional override of the President's rejection of import restrictions on leather coats and jackets, August 19, 1980

(The U.S. Council for an Open World Economy is a private, non-profit organization engaged in research and public education on the merits and problems of achieving an open international economic system in the overall national interest. The Council does not act on behalf of any private interest in this or any other matter. Its sole standard is what it perceives to be the total public interest.)

Summary

Congressional override of the President's rejection of import restrictions on leather coats and jackets would sanction an International Trade Commission analysis and conclusion which have significant shortcomings. The President's handling of this case is itself not without shortcomings. For Congress to side with the Commission would only compound what is already an unsatisfactory performance by the two other actors in this trade-policy drama. For Congress to do so for reasons that are certain to be laden with short-run political considerations would make the mistake of such override even more reprehensible.

This testimony is in opposition to Senate Concurrent Resolution 108 which would override the President's denial of import restrictions to U.S. producers of leather coats and jackets valued at not over $150, and would thereby put into effect the International Trade Commission's recommendation of additional tariffs on these imports: increases of 25 percent ad valorem in the first year, 20 percent in the second year, and 15 percent in the third year. Such Congressional intrusion in this case (a case where the Commission found serious injury from imports in a 4-0 vote) would make a triangle of faulty performance out of what are now less-than-adequate judgments by the International Trade Commission and the President (although the President's judgment seems somewhat the better of the two). To instal the Commission's judgment in place of the President's judgment would be the worst possible choice.

Shortcomings of the ITC Judgment

Not to the exclusion of other faults that may be found in the Commission's analysis and conclusion (possibly including the very finding of serious injury), neither the staff report nor the judgment reached by the Commissioners themselves reveals analysis (as distinct from the brief recording of informational returns from questionnaires) of industry efforts to compete more effectively with imports. Section 201(b)5 of the Trade Act of 1974 requires the Commission to "investigate and report" such efforts, and at least by implication requires the President to evaluate such efforts. The Section's legislative history indicates that the Commission is itself expected to evaluate such efforts. In its commentary on this Section, the Senate Finance Committee's report on the "Trade Reform Act of 1974" (page 122) states: "The escape clause is not intended to protect industries which fail to help themselves become more competitive through reasonable research and investment efforts, steps to improve productivity and other measures that competitive industries must continually undertake."

ITC investigation and reporting in this regard -- only cursorily handled in this case as in all other import-relief cases I can recall (at least under the Trade Act of 1974) -- are not only explicitly required by law as essential to the President's fulfillment of his responsibilities in such cases; they implicitly call for Commission analysis, and also for Commission inquiry (and, later, Presidential judgment in the cases that reach him for decision) into any impediments to adjustment efforts, particularly the extent to which government domestic policy (statutes, regulations, etc.) may inexcusably be impeding such efforts. To the extent that such impediments exist, they should be corrected. Such reforms belong in a coherent policy of constructive assistance to an ailing industry, regardless of whether imports are restricted.

An industry-wide adjustment strategy -- over and above any "adjustment assistance" (as the term has come to be known) to particular firms, workers or communities, and with or without import restriction -- is one of the options the President may choose (and should choose) in addressing the problems of an industry seriously injured by imports. The Trade Act does not explicitly provide for it, but nor does the Act prevent it. The logic even of the existing trade legislation underscores the merit of such an approach.

Proper ITC analysis in this escape-clause case would have provided the President with the aforementioned adjustment material to help him carry out his responsibilities in this matter. The

Commission has not fulfilled its function in this respect. Nor, for his part, has the President taken steps to get the Commission to do so.

Having omitted detailed attention to the industry's adjustment problems and needs, the Commission proposes import-control subsidies (which is what tariff hikes amount to) as the sole remedy insofar as government action is concerned. Applying uniformly to the whole industry, import restraints provide windfall gains to companies that may not need government help without dealing incisively with the problems of companies that do need government help. Helping both the stronger members of the industry and the weaker members in this manner could very well place the weaker members at an even greater disadvantage within their own industry, offsetting any benefits that may tend to result from import controls. It is not clear from the Commission's analysis which sectors of the 100-firm industry would benefit from import restrictions, which would not, and whether other remedies, on an industry-wide or other basis, may be necessary so far as government action is concerned. Nor (a fault with the escape clause as written and hence not influencing my criticism of the handling of this particular case) is there any industry commitment as to what the industry will do on its own as a quid pro quo for import controls. This array of omissions adds up to the "pig in a poke" approach which has characterized escape-clause legislation and proceedings far too long.

Shortcomings in the President's Judgment

The White House, accepting the Commission's finding of serious injury but rejecting the Commission's proposed remedy of tariff increases, emphasizes that "expedited adjustment assistance is the most effective remedy .. (and) is the only positive action that would aid the adjustment process of the industry without being inflationary or possibly causing a further erosion in consumer demand by further increasing prices." However, the White House has not moved comprehensively and imaginatively to ensure a fully developed adjustment strategy to deal effectively with the industry's problems. The President's emphasis on the adjustment process is nevertheless superior to the Commission's exclusive emphasis on import restriction, which the ITC sees as buying time for the adjustment efforts which some producers told the Commission they would undertake (although the industry is not legally committed to such efforts)

The President's concern with the inflationary impact of import restrictions is most commendable. Stating, however, that adjustment assistance is the only action that would help the adjustment process without being inflationary, he seems to give the anti-inflation standard overriding priority in import-relief cases. Worthy as it is in principle, this priority would summarily rule out the use of import restrictions of any kind in import-relief cases, contrary to Congressional designation of import relief as an appropriate remedy in some instances. Where serious injury (or threat thereof) has properly been found (I do not argue it has been so found in this case), import relief may be necessary to buy adjustment time. The President's decision focused entirely on adjustment assistance as the only acceptable remedy but did not concern itself with the need for adjustment time (or, as noted above, with the full proportions of the adjustment issue).

The Commission, on the other hand, decided on import restriction as the only suitable remedy (for the purpose of buying adjustment time) but neglected the substance of a fully developed adjustment effort. Notwithstanding his sole recourse to adjustment assistance to particular firms and workers, the President stated (as one of his reasons for rejecting import control) that "it is not clear that the industry would be in a position to compete once relief expires." This supposedly refers to import relief without adjustment help to particular producers. However, these two remedies are not mutually exclusive. The Commission, on the other hand, showed no appreciation of the adverse effect which import restrictions might possibly have on the competitive problems of some U.S. producers within their own industry, devoted no attention to the particular adjustment problems various producers might be having, and no attention to the adjustment help which the whole industry or individual producers or groups of workers might need.

Conclusion

The protagonists thus far on stage in this trade-policy drama have given faulty performances. For Congress now to enter from the wings to side with the Commission by overturning the President's judgment would be a deus ex machina that could hardly be considered helpful.

If Congress wants to take action in this case, it should limit its action to encouraging the President and the Commission on what both should do to improve their performances in such cases within the letter and the spirit of the current legislation. There is actually need to reform the Trade Act in this and other respects. But that is another matter, outside the practicalities of the case now under review. If there is a genuine interest in developing a soundly based "industrial policy," reform of government performance in escape-clause cases -- first within the parameters of current legislation, then through reforms of the trade statute -- would be a good place to start. The Administration had an opportunity to initiate its "inustrial policy" reforms in the way it handled the leather apparel case. It still has that opportunity within the framework of the President's decision in this import-relief case. Full attention to all the dimensions of a full-fledged adjustment strategy is a basic necessity. Eliciting commitments from the industry on quid pro quos -- concerning productivity, pricing, etc. -- for the aid that government provides should be one element of this new policy.

STATEMENT IN OPPOSITION TO

SENATE CONCURRENT RESOLUTION 108

SUBMITTED BY

THE FASHION INSTITUTE OF ISRAEL

TO THE SUBCOMMITTEE ON INTERNATIONAL TRADE

COMMITTEE ON FINANCE

UNITED STATES SENATE

WASHINGTON, D.C.

AUGUST 22, 1980

STATEMENT OF THE FASHION INSTITUTE OF ISRAEL
IN OPPOSITION TO SENATE CONCURRENT RESOLUTION 108

I. INTRODUCTION

On March 24, 1980, the President determined not to provide to the United States leather wearing apparel industry import relief which would have resulted in an increase in duties on leather coats and jackets of 25% *ad valorem*. The President decided that the imposition of import relief would have an unacceptable inflationary impact while not helping the domestic industry to adjust.

The President's determination was made after careful consideration of an affirmative determination by the United States International Trade Commission that leather coats and jackets are "being imported into the United States in such increased quantities as to be a substantial cause of serious injury...to the domestic industry producing like or directly competitive articles." The Commission had recommended to the President that, to prevent or remedy this serious injury, the rate of duty should be increased on all subject articles "valued at not over $150.00 each."

The Fashion Institute of Israel urges that the President's determination not be overturned by Congress.

II. HIGH-FASHION LEATHER WEARING APPAREL FROM ISRAEL DOES NOT COMPETE WITH DOMESTIC MERCHANDISE.

Israel is an exporter of leather wearing apparel to the United States. In 1979, imports into the United States of leather coats and jackets from Israel amounted to $1.7 million. The majority of Israel's exports are high-fashion, high quality garments sold exclusively in specialty boutiques and better department stores. These garments are considerably more expensive than leather wearing apparel produced in the United States. Statistics were submitted to the United States International Trade Commission showing that the landed price of men's and women's leather jackets from Israel respectively were at least 35% and 19% higher than prices for comparable jackets produced by United States manufacturers.

III. <u>THE RELIEF RECOMMENDED BY THE ITC SET AN INAPPROPRIATELY HIGH BREAKPOINT FOR HIGH-FASHION LEATHER APPAREL AT $150.00 F.O.B.</u>

As a result of this large price differential, the leather wearing apparel industry of Israel argued to the Commission that high-priced, "haute couture" items ought to be exempted from any remedy recommendation. The Commission, in fact, accepted this argument noting in its findings that:

> Haute couture or high-fashion apparel, which consists mostly of women's leather wearing apparel, does not compete directly with the vast majority of domestically produced leather wearing apparel. For these reasons, the Commission has recommended that articles valued at or above $150.00 F.O.B., primarily haute couture items, be excluded from the remedy action. The remedy thus applies to all but 1.6% of imports (1979 basis).

<u>Leather Wearing Apparel, Report to the President on Investigation No. TA-201-40</u>, U.S.I.T.C. Pub. 1030, January 1980 at 14.

Consequently, although the Commission accepted the argument that "haute couture" leather wearing apparel ought to be excepted from the remedy, it set the breakpoint at the unreasonably high level of $150.00 F.O.B. Because the breakpoint was so high, it meant that almost all of the leather wearing apparel imported from Israel would have been subject to increased duties had the President accepted the Commission's recommendation. For example, Beged-Or, the leading Israeli exporter of high-fashion leather wearing apparel, advised that the majority of its product line enters into the United States at around $100.00 F.O.B. and sells at retail at much higher prices than most U.S. produced leather apparel. Yet, because of the unduly restrictive recommendation of the ITC, much of the high-fashion leather apparel imports still would have been subject to the recommended relief, notwithstanding the fact that such apparel does not compete with and is not causing any injury to U.S. leather wearing apparel producers.

IV. IF THE PRESIDENT'S DETERMINATION IS REVERSED, REINSTATEMENT OF THE ITC RECOMMENDATION WILL CAUSE IRREPARABLE INJURY TO ISRAEL'S LEATHERWEAR INDUSTRY.

Should Concurrent Resolution 108 pass, and the President's determination be disapproved, the President would be required by law to reinstate and to proclaim the relief recommended by the International Trade Commission. We understand that Congress is without power to redefine the recommended relief. If a 25% duty is placed on imports of leather wearing apparel entering at less than $150.00 F.O.B., this unduly restrictive remedy will cause considerable hardship to Israel's exporters and to Israel's industry. Already Israel's leading exporter, Beged-Or, is suffering as a result of Israel's economic situation and of the loss of GSP benefits to leatherwear which occurred in 1979.

Current inflation in Israel is running at over 100% per annum. Any additional hardship to Israel's industry resulting from the recommended escape clause relief in one of Israel's major export markets is certain to lead to dire results.

V. <u>CONCLUSION</u>

The Fashion Institute of Israel is sympathetic to the difficulties experienced by the leather wearing apparel industry in the United States and by its workers. We in Israel are also struggling to survive in an inflationary economy. However, reinstatement of the inappropriately-broad relief recommended by the International Trade Commission would cause irreparable harm to workers and other members of the leather wearing apparel industry in Israel, an industry which does not compete with the U.S. industry.

Accordingly, we respectfully urge the Committee to reject Senate Concurrent Resolution 108.

FRANCIS WEISMAN (Owner)

The Spanish Leather Pavillion Ltd.

490 SEVENTH AVENUE
NEW YORK, NEW YORK 10018
TEL (212) 695-7242

TELEX # 238236

TO: Honorable Senator ABRAHAM RIBICOFF
- UNITED STATES SENATE -
Committee on Finance
Subcommittee on Internation, Trade
2227 Dirksen Senate Office Bldg.
Washington, DC 20510

DATE August 9, 80

SUBJECT: S.CON. RES. # 108
- INCREASE DUTY for LEATHER WEARING APPAREL

ATT.: MICHAEL STERN, Esq. Staff Director Comm. on Finance

Sir,

We are informed that again it is taken action to INCREASE duty for leather Apparel with cca. 400% against present level.

1. We are a small specialized import Firm, importing ONLY Leather Garments fom SPAIN, FRANCE and ISRAEL.

   In LEATHER APPAREL IMPORTS we are confronting a desastrous year; - from fashion point of view - - - LEATHER GARMENTS ARE NO MORE A ATTRACTIVE, PREFERED ITEM; you can not see ads in papers; no ads in Fashion Magazines, the item is NOT displayed in windows . . . simply it is NO GRATA item;

2. Our import figures in $ are miroring the situation;

Year 1980 (first 6 month) compared to . . . . half year 1977	. . . .	decreased to 40%
1980/78	. . . .	" to 78%
1980/79	------	101%

3. With full responsability I made the following STATEMENT, based on profesional survey of the situation; IT IS N O UNEMPLYMENT IN NY area, in leather industry; CONTRARY - - - IT IS A S H O R T A G E in SKILLED OPERATORS (pressers, cutters, mechanists). ALL leather shops are operating with full capacity; almost 80% converted to manufacture other type of garments (quilted lining garments, corderoys, and fake furs, and sherlings). Due to short notice, I am unable to substantiate with figures - - - but the REALITY IS THAT IT IS NO UNEMPLYMENT to-day, it is total shortage in skilled labor.

Increase of duty will only have a visible INFLATIONARY effect. Imports from SPAIN, FRANCE and ISRAEL, in NO circumstance are hurting the USA industry; .//.

The Spanish Leather Pavillion Ltd.
499 SEVENTH AVENUE
NEW YORK, NEW YORK 10018
TEL (212) 886-7242

TO: DATE:

SUBJECT.

- CONTINUED PAGE 2 -

- the skins are totally different (NO U S A tannery produces leathers comparable to the Spanish and French Industry; NO NY Metropolitan Manufacturer can duplicate the workmanship etc.-

I am simply C H A L E N G I N G any domestic manufacturer, if he can duplicate, copy etc., - type of leather garments imported by us from Spain, France.

I respectfully suggest to evaluate realistically present situation in our trade.

REFERENCES;

BANK OF COMMERCE
462 - 7th Avenue ACCT. # 87-01808-5
New York, NY 10018

I.R.S. Fed. # 13-66968-39

D & B. # 07-279-8093

Member US - SPAIN CHAMBER OF COMMERCE

We are almost 10 year in busniess (samle line)

PERSONAL DATA; USA Citizen, Degre in Economics (from my old home: Roumania) ;
Attended; FASHION INSTITUE of TECHNILOGY, NY.

Respectfully submited,

Francis Reisman

House Couture in Fine Leather & Suede & Shearlings
Exclusive Leather imports from SPAIN, FRANCE, FINLAND and ISRAEL.

AUG 21 11 07 AM '80

August 25, 1980

The Honorable Russell B. Long
United States Senate
217 Russel Senate Office Building
Washington, D.C. 20510

Dear Senator Long:

It is our understanding that the Senate Committee on Finance will soon consider a bill introduced by Senators Danforth and Heinz to grant import relief to producers of leather wearing apparel. The legislation was introduced as a result of President Carter's decision not to grant import relief to leather wearing apparel manufacturers.

The American Soybean Association is opposed to restricting the importation of leather wearing apparel from abroad. Our opposition is based on two concerns. First, the imported leather wearing apparel of concern to U.S. manufacturers is manufactured primarily in Taiwan and Korea. Both of these nations are major U.S. trading partners with the United States being a major supplier of agricultural commodities, including soybeans, to both nations. While we do not challenge the fact that U.S. leather apparel producers may have been adversely impacted by imported leather goods, the imported leather apparel has not been and is not being subsidized by foreign producers. For the U.S. to restrict the importation of such unsubsidized products would not be consistent with the U.S. commitment to free trade and could result in retaliatory actions against U.S. exports to the leather exporting countries.

Second, to a large degree the leather wearing apparel produced abroad is made from U.S. cattle hides. If the U.S. restricts the importation of leather from abroad there will be, by necessity, a reduction in the demand for U.S. cattle hides. Since U.S. tanners and leather manufacturers cannot use the larger number of U.S. cattle hides that would become available there would be a drop in the prices of hides. Faced with a lower hide price U.S. beef packers would be forced to either pay less for live cattle they purchase or charge more for the beef and beef by-products they sell. In either case it will be the American agricultural industry that will be adversely impacted by import restrictions on leather wearing apparel.

777 CRAIG ROAD, P.O. BOX [illegible], ST. LOUIS, MO [illegible], TELEX [illegible], PHONE [illegible]

Soybeans
American Soybean Association

Therefore, the American Soybean Association urges you to oppose placing restrictions on leather wearing apparel imports. American soybean producers will export over $9 billion of their production this year, much of it to Korea and Taiwan, and have much to lose if the U.S. adopts protectionist policies. America will be best served by continuing its free trade policies and avoid unnecessary protections of inefficient and uncompetitive domestic industries.

Sincerely,

Frank Ray

Frank Ray
President

FR/mf

cc: Reubin Askew, U.S. Trade Representative
Don Nelson, Asst. U.S. Trade Representative
Jim Starkey, USDA