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UNITED STATES INTERNATIONAL TRADE COMMISSION

CERTAIN ZORIS FROM THE REPUBLIC OF CHINA (TAIWAN)

Determination of No Injury or Likelihood Thereof or  
11 Prevention of Establishment in Investigation No.  
303-TA-1 Under Section 303(b) of the Tariff  
Act of 1930, as Amended, Together With  
the Information Obtained in the  
Investigation



USITC Publication 787  
Washington, D. C.  
September 1976

UNITED STATES INTERNATIONAL TRADE CO

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UNITED STATES INTERNATIONAL TRADE COMMISSION  
Washington, D.C.

September 22, 1976

[303-TA-1]

CERTAIN ZORIS FROM THE REPUBLIC OF CHINA (TAIWAN)

Determination of No Injury or Likelihood Thereof  
or Prevention of Establishment

On June 22, 1976, the United States International Trade Commission received advice from the Department of the Treasury (Treasury) that a bounty or grant is being paid with respect to footwear known as zoris imported from the Republic of China (Taiwan), entered under item 700.54 of the Tariff Schedules of the United States (TSUS) and accorded duty-free treatment under section 501 of the Trade Act of 1974. Accordingly, the Commission, on July 6, 1976, instituted investigation No. 303-TA-1, under section 303(b) of the Tariff Act of 1930, as amended, to determine whether an industry in the United States is being or is likely to be injured, or is prevented from being established, by reason of the importation of such merchandise into the United States.

Public notice of the investigation and of the public hearing were duly given by posting copies of the notice at the Secretary's office in the Commission's building in Washington, D.C., and in the Commission's office in New York City, and by publishing the original notice in the Federal Register of July 12, 1976 (41 F.R. 28594). In addition, copies of the notice were mailed to all known U.S. producers of footwear.

The public hearing opened as scheduled on August 17, 1976, but no witnesses appeared.

In arriving at its determination, the Commission gave due consideration to written submissions from interested parties and all factual information obtained by the Commission's staff from questionnaires, personal interviews, and other sources.

On the basis of its investigation, the United States International Trade Commission has unanimously determined that an industry in the United States is not being and is not likely to be injured, and is not prevented from being established, by reason of the importation of zoris from the Republic of China (Taiwan), entered under item 700.54 of the Tariff Schedules of the United States and accorded duty-free treatment under section 501 of the Trade Act of 1974, upon which the Treasury has determined that a bounty or grant is being paid within the meaning of section 303 of the Tariff Act of 1930, as amended.

By order of the Commission:



Kenneth R. Mason  
Secretary

Statement of Reasons 1/

On June 22, 1976, the United States International Trade Commission received advice under section 303(b) of the Tariff Act of 1930 from the Department of the Treasury (Treasury) that a bounty or grant is being paid with respect to footwear known as zoris imported from the Republic of China (Taiwan), entered under item 700.54 of the Tariff Schedules of the United States (TSUS) and accorded duty-free treatment under section 501 of the Trade Act of 1974. 2/ Accordingly, on July 6, 1976, the Commission instituted investigation No. 303-TA-1 under section 303(b) to determine whether an industry in the United States is being or is likely to be injured, or is prevented from being established, by reason of the importation of such merchandise into the United States. 3/

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1/ Commissioner Ablondi concurs in the result.

2/ Sec. 501 of the Trade Act authorizes the President to accord duty-free treatment to designated eligible articles from designated beneficiary developing countries under the Generalized System of Preferences (GSP). Imports of the subject zoris have been accorded duty-free treatment under the GSP since Jan. 1, 1976.

3/ Sec. 303 of the Tariff Act of 1930 is the so-called countervailing duty law of the United States. Prior to its amendment by the Trade Act of 1974, sec. 303 did not provide for any U.S. International Trade Commission determination in order for a countervailing duty to be levied against articles upon which a bounty or grant was being paid within the meaning of such section. Sec. 331 of the Trade Act amended sec. 303 of the Tariff Act of 1930 to provide that in the case of articles which are free of duty (such articles were not covered by sec. 303 prior to the enactment of the Trade Act) and upon which Treasury has determined a bounty or grant is being paid, the Commission must determine that an industry is being or is likely to be injured, or is prevented from being established, by reason of the importation of such articles before any countervailing duty may be imposed.

This is the Commission's first investigation under the provisions of such section.

Before the Commission may find in the affirmative in this investigation, it is necessary that the following two conditions be met:

- (1) An industry in the United States is being or is likely to be injured, or is prevented from being established, and
- (2) The requisite injury or prevention of establishment must be by reason of the importation into the United States of the merchandise upon which Treasury has determined a bounty or grant is being paid within the meaning of section 303 of the Tariff Act of 1930, as amended.

#### Determination

On the basis of this investigation, we determine that an industry in the United States is not being and is not likely to be injured, and is not prevented from being established, by reason of the importation of footwear known as zoris from the Republic of China (Taiwan), entered under item 700.54 of the TSUS and accorded duty-free treatment under section 501 of the Trade Act of 1974, upon which Treasury has determined a bounty or grant is being paid within the meaning of section 303 of the Tariff Act of 1930, as amended.

#### Standards for determination

In making its determination set out above, the Commission has interpreted the relevant operative words of section 303(b)--

whether an industry in the United States is being or is likely to be injured, or is prevented from being established, by reason of the importation of such . . . merchandise into the United States . . .

in the same way it has interpreted identical language under section 201(a)

of the Antidumping Act, 1921, as amended. This was clearly the intent of Congress in using identical language. 1/ Thus, Commission determinations under the Antidumping Act provide guidance for the Commission's determination in this investigation.

#### The subject imports

The imports which are the subject of this investigation are zoris imported from Taiwan under TSUS item 700.54, which enter duty free under the Generalized System of Preferences and upon which Treasury has determined a bounty or grant is being paid. Zoris entered prior to January 1, 1976, are not included. 2/ During the period January 1, 1976, through June 30, 1976, the maximum potential volume of zoris which are the subject of this investigation amounted to 6.4 million pairs, valued at \$1.6 million. Data are not available for periods after June 30, 1976. On the basis of the average unit value of these imports, a 5-percent bounty or grant, estimated by Treasury, would have amounted to 1.3 cents per pair.

#### The U.S. industry

At the time of the institution of the instant investigation, information available to the Commission indicated that zoris of the kind subject to the Treasury determination were not being produced in the United

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1/ This is stated in the report by the House Committee on Ways and Means on the bill which became the Trade Act of 1974 and which introduced the subject language into section 303. Trade Reform Act of 1973: Report of the Committee on Ways and Means . . . H. Rept. No. 93-571 (93d Cong., 2d sess.), 1973, p. 74.

2/ Imports of the subject zoris entered under TSUS item 700.54 have been entitled to duty-free treatment under the Generalized System of Preferences only since Jan. 1, 1976. 5

States.<sup>1/</sup> No different information is available now. Therefore, the domestic industry most likely to be adversely affected by imports of the zoris which are the subject of this investigation would consist of facilities devoted to the production of footwear competitive with the subject imports. Zoris of the type covered in this investigation sell at retail in the U.S. market in the range of \$0.27 to \$0.79 per pair. Therefore, the Commission limited its investigation to 60 U.S. footwear manufacturers of inexpensive rubber and nonrubber footwear which may have included footwear wholesaling for not more than \$1.00 per pair in their product lines, as these domestic producers are most likely to produce a competitive product. The Commission has no information to indicate that any business entities in addition to U.S. footwear manufacturers might have been adversely affected by the importation of zoris from Taiwan.

No injury, likelihood of injury, or prevention of establishment by reason of the subject imports

The principal supplier of zoris to the U.S. market is Hong Kong; it accounted for 69 percent of the imports in January-June 1976. Zoris imported from Taiwan are substantially higher in unit values (25 percent higher in January-June 1976) than those imported from Hong Kong, which are the "price setters" for zoris in the U.S. market. Moreover, information obtained from the U.S. Customs Service and from importers of both Taiwanese and Hong Kong zoris indicates that imports of zoris of the

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<sup>1/</sup> In the recent investigation on the footwear industry, conducted under the authority of sec. 201 of the Trade Act of 1974, Commissioners Minchew, Moore, Bedell, and Parker excluded zoris from their determinations. Commissioners Minchew and Parker stated, "Both zoris and paper slippers have been omitted from the discussion of increased imports, despite the fact that they fall under the scope of the investigation, because they are low in per unit cost and because they generally are not 'like or directly competitive' with articles produced in this country."

type entered under TSUS item 700.54 have been accounting for a declining share of the U.S. market for casual footwear, the market for competitive domestic footwear, while more expensive zori-type casual footwear from Taiwan such as "tatamis" and "deckers," not entered under TSUS item 700.54 and already subject to a deposit of a 5-percent countervailing duty, are accounting for an increasing share of the market. As noted previously, the bounty or grant paid on the subject imports of zoris would amount to only about 1.3 cents per pair. Such a bounty or grant would account for only a fraction of the margin of underselling which the subject imports enjoy over casual footwear produced in the United States. On the basis of these facts, we conclude that any injury or likelihood of injury which any domestic industry may be experiencing is not by reason of the subject imports of zoris. 1/

All the domestic producers surveyed were asked whether the importation of the subject Taiwanese zoris prevented them from producing such inexpensive footwear. No affirmative responses were received. A few responding firms indicated that the high cost of labor involved in producing "low end" (inexpensive) footwear was responsible for their inability to manufacture such footwear. The 5-percent bounty or grant on imports of the subject zoris from Taiwan--about 1.3 cents per pair--would have no discernible effect in discouraging the production of competitive

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1/ It is further noted that of the 53 producers that responded to the Commission's questionnaire, 47 stated that they did not produce zoris or footwear competitive with zoris. In conclusionary statements, the other six claimed injury to various types of inexpensive footwear produced by them. Notwithstanding such statements, they declined, when requested, to furnish supporting statistical data needed to determine the issues of injury or likelihood of injury.

domestic products in view of the much more discouraging effect of the high labor and other costs that would be involved in producing competitive domestic products. Thus, we find that any prevention of the establishment of a U.S. industry is not by reason of the subject imports of zoris.

#### Conclusion

The information obtained in this investigation indicates that imports of zoris from the Republic of China (Taiwan), entered under TSUS item 700.54 and accorded duty-free treatment under section 501 of the Trade Act of 1974, upon which Treasury has determined a bounty or grant is being paid within the meaning of section 303 of the Tariff Act of 1930, as amended, are not an identifiable cause of injury or likelihood of injury to an industry in the United States or the prevention of the establishment of an industry in the United States.

INFORMATION OBTAINED IN THE INVESTIGATION

Introduction

On June 22, 1976, the United States International Trade Commission received advice from the Department of the Treasury 1/ that a bounty or grant is being paid with respect to footwear known as zoris imported from the Republic of China (Taiwan), entered under item 700.54 of the Tariff Schedules of the United States (TSUS) and accorded duty-free treatment under section 501 of the Trade Act of 1974. Accordingly, the Commission, on July 6, 1976, instituted investigation No. 303-TA-1, under section 303(b) of the Tariff Act of 1930, as amended, to determine whether an industry in the United States is being or is likely to be injured, or is prevented from being established, by reason of the importation of such merchandise into the United States. The statute directs that the Commission make its determination in this investigation within 3 months.

Public notice of the investigation and of the public hearing were duly given by posting copies of the notice at the Secretary's office in the Commission's building in Washington, D.C., and in the Commission's office in New York City, and by publishing the original notice in the Federal Register of July 12, 1976 (41 F.R. 28594). In addition, copies of the notice were mailed to all known U.S. producers of footwear.

The public hearing opened as scheduled on August 17, 1976, but no witnesses appeared.

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1/ A copy of the letter from the Department of the Treasury is included in app. A to this report.

Development of the instant investigation

On April 26, 1973, the Footwear Division of the Rubber Manufacturers Association petitioned the Department of the Treasury to impose countervailing duties against tax incentives provided exports of footwear from the Republic of China (Taiwan). This petition set forth tariff items 700.51, 700.52, 700.53, 700.55, and 700.60 as the subjects of the complaint. In August 1974, the American Footwear Industries Association petitioned the Treasury Department to impose countervailing duties against Taiwanese tax incentives provided exports of footwear described in tariff items 700.05 through 700.85.

The Treasury Department published a "Notice of Receipt of Countervailing Duty Petitions" on January 15, 1975 (40 F.R. 2718). The notice stated that petitions had been received alleging that payments, bestowals, rebates, or refunds, granted by the Taiwanese Government upon the manufacture, production, or exportation of footwear constitute the payment or bestowal of a bounty or grant within the meaning of section 303 of the Tariff Act of 1930, as amended. On July 3, 1975, a "Notice of Preliminary Countervailing Duty Determination" was published in the Federal Register (40 F.R. 28105). At that time the Treasury Department announced that incentives under the Taiwanese Statute for the Encouragement of Investment were preliminarily found either not to constitute bounties or grants or to have, at most, de minimis impact on exports of footwear. The notice stated, however, that further inquiry regarding those incentives would be made prior to a final determination.

On January 7, 1976, the Treasury Department published a "Final Countervailing Duty Determination" in the Federal Register (41 F.R. 1298). This notice stated that--

Subsequent analysis has revealed that footwear facilities in Taiwan may be eligible for various tax and other incentives under the Statute for Encouragement of Investment, the criteria of which includes enterprises that would qualify if they export all of their production. Since the Treasury Department cannot ascertain at this time that no footwear facilities receive benefits under the Statute for Encouragement of Investment, it has been determined that exports of footwear from Taiwan are subject to bounties or grants within the meaning of section 303 of the Tariff Act of 1930, as amended (19 U.S.C. 1303). Further inquiry will be made to determine those footwear facilities, if any, who receive benefits under the above-mentioned statute.

Accordingly, the Treasury suspended liquidation of all entries of footwear from Taiwan, ordered the deposit of a countervailing duty amounting to an estimated 5 percent ad valorem on the dutiable entries, and, in accordance with section 303(b) of the act, referred the case of zoris (TSUS item 700.54) from Taiwan, which have been duty free under the Generalized System of Preferences since January 1, 1976, to the Commission for a determination whether an industry in the United States is being or is likely to be injured, or is prevented from being established, by reason of the importation of zoris into the United States.

Procedures used in this investigation

At the time this investigation was instituted, information available to the Commission indicated that zoris of the type covered by this investigation were not being produced in the United States. <sup>1/</sup> In order to obtain information on U.S. production of zoris, if any, or on other types of footwear that may be deemed like or directly competitive with zoris, questionnaires were mailed to all known U.S. producers of inexpensive footwear, including all rubber-footwear manufacturers, which may have included in their product lines zoris or footwear wholesaling for not more than \$1.00 a pair. Zoris covered by this investigation retail in the range of \$0.27 to \$0.79 a pair.

Fifty-three of sixty firms to which questionnaires were sent responded; none reported statistical data on operations, but some volunteered general comments. Those producers that indicated that some of their footwear valued at wholesale at more than \$1.00 a pair is competitive with the subject zoris and other producers that offered comments were contacted and given the opportunity to provide statistical data on such footwear or additional information. All declined to pursue the matter any further. In lieu of statistical data, comments received from the surveyed U.S. firms and those from the

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<sup>1/</sup> In the recent industry investigation (TA-201-7), Commissioners Minchew, Moore, Bedell, and Parker excluded zoris from their injury determinations. Vice Chairman Minchew and Commissioner Parker stated in their views in the footwear report (p. 12) that, "Both zoris and paper slippers have been omitted from the discussion of increased imports, despite the fact that they fall under the scope of the investigation, because they are low in per unit cost and because they generally are not 'like or directly competitive' with articles produced in this country."

American Footwear Industries Association and the Rubber Manufacturers Association are summarized in the section of this report entitled "Information Obtained From U.S. Producers."

Because the term "an industry" in the statute may be interpreted to encompass business entities that are not manufacturing facilities, other U.S. firms (mainly importers) were surveyed by questionnaires and through interviews for information concerning potential adverse effects resulting from the importation of zoris benefiting from bounties or grants of the Taiwanese Government. As a result of this survey, no adversely affected business entities were found. Information received from the foregoing sources is summarized in the section of this report entitled "Information Obtained From U.S. Importers."

## The Product

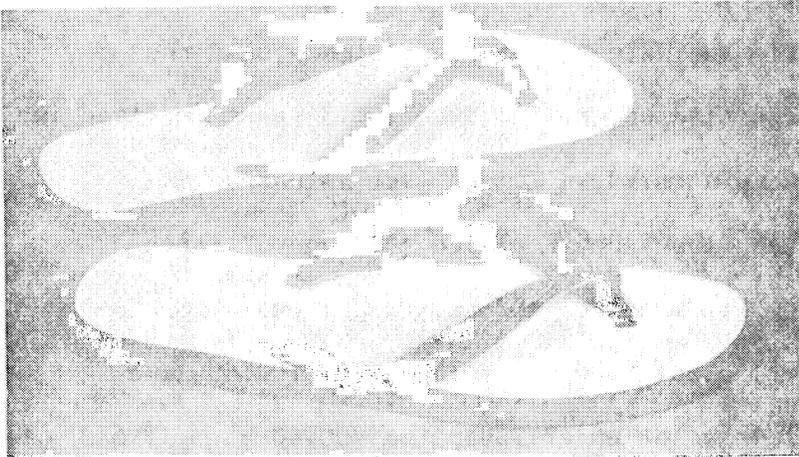
Zoris (classified under TSUS item 700.54) are sandal-type footwear of rubber 1/ or plastics that feature a flat sole with no distinct heel and an unlined V-strap (thong) or a cross strap that goes across the instep of the foot. In order to be classified under TSUS item 700.54 by the U.S. Customs Service, the upper straps must pass through the sole and have round plugs at the end to prevent them from pulling through. Certain zoris may feature ornamentation such as a plastic flower attached to the strap.

The zori is a variant form of the traditional Japanese geta. A rubber version was produced in small quantity in Japan before World War II, but it was first introduced to Americans during the occupation, when such footwear was sold in military exchanges as a novelty shower shoe. By 1955, the popularity of the shoe in the United States had soared.

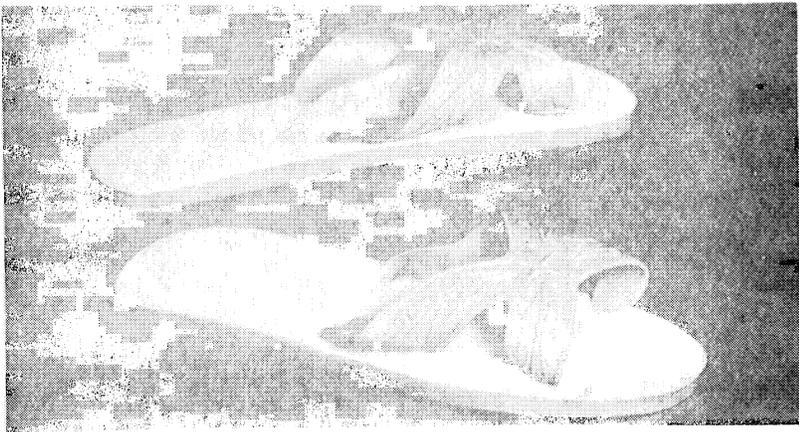
Zoris are casual footwear worn primarily out-of-doors in warm weather and indoors at anytime. They are sold at retail principally through drugstores and other mass-merchandising outlets. Zoris sell at retail in U.S. markets in a range of \$0.27 to \$0.79 per pair. Three types of zoris are shown in the illustrations on the following page.

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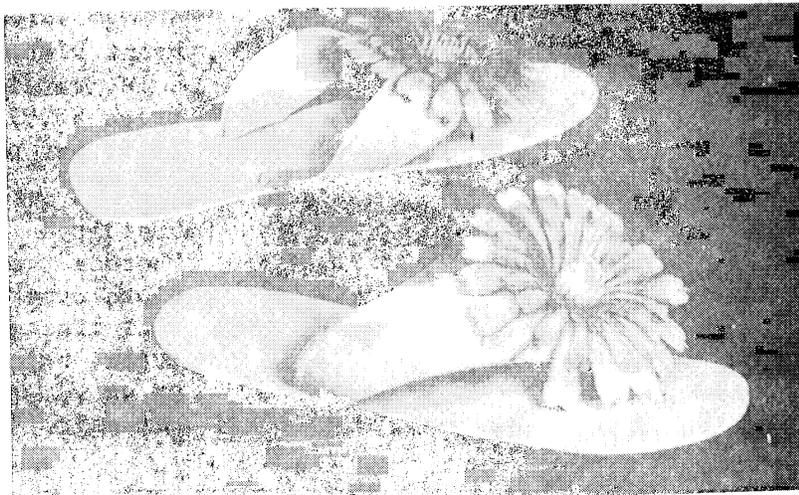
1/ This type of footwear, although usually referred to as rubber footwear, generally has less than 12 percent rubber in the bottoms; zori bottoms are made mostly with filler materials other than rubber.



V-strap



Cross strap



V-strap with ornamentation

Several importers of zoris and data on imports indicate that the type of zoris from Taiwan classified under TSUS item 700.54 have declined in popularity. The new styles manufactured in Taiwan (see illustrations below) and elsewhere have in many instances replaced the type of zoris classified under TSUS item 700.54. The popular tatami styles, depending upon constituent materials, are classified under TSUS item 700.60 at a 20 percent ad valorem rate of duty, or under TSUS item 700.80 at a 12.5 percent ad valorem rate of duty. 1/ Such footwear from Taiwan is already



Beachcomber or deckers with nylon uppers, retail price \$4 to \$14 per pair.



Printed burlap "Hotdog" zori, retail price \$3.99 to \$6.99 per pair.



Traditional oriental zori with natural straw sock lining, retail price \$1.20 to \$3.99 per pair.



"Hotdog" velvet print with ripple sole, retail price \$3.99 to \$6.99 per pair.



Embroidered "Hotdog" terry cloth upper and sock lining, retail price \$3.99 to \$6.99 per pair.



1/ TSUS item 700.60 provides for certain footwear with uppers of fibers and soles of rubber or plastics; TSUS item 700.80 provides for certain footwear with uppers of fibers and soles of materials other than leather.

subject to a deposit of countervailing duties. These styles, although frequently called zoris by the trade, are not considered to be zoris by the Customs Service and hence are not classified under TSUS item 700.54 and are not within the scope of this investigation.

## U.S. Customs Treatment

Prior to January 1, 1976, zoris were provided for under TSUS item 700.55, with a column 1 rate of 6 percent ad valorem. Effective January 1, 1976, item 700.55 was deleted and new items 700.54 and 700.58 1/ were added in lieu thereof.

Since January 1, 1976, zoris have been provided for under TSUS item 700.54, with a column 1 rate of 6 percent ad valorem and a column 2 rate of 35 percent ad valorem. Zoris from countries designated as beneficiary developing countries for the purposes of the Generalized System of Preferences (GSP) have been entitled to duty-free treatment since January 1, 1976. In addition to the Republic of China (Taiwan), countries so designated which are suppliers of zoris to the U.S. market include Hong Kong, Thailand, Macao, and the Republic of Korea.

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1/ TSUS item 700.58 provides for certain footwear with uppers of plastics.

Nature and Extent of Bounties or Grants Bestowed on Subject Imports

Taiwanese tax incentives

The Taiwanese Statute for Encouragement of Investment, in effect since 1960, provides, among other things, that a newly established productive enterprise may qualify for exemption from income tax for a period of 5 consecutive years from the date on which it begins to market its products or to render services. The Treasury Department found more than 30 Taiwanese plastic- or rubber-footwear producers taking advantage of this tax holiday, although three of the firms investigated did not receive an exemption for the full 5 years. No Taiwanese plastic- or rubber-footwear manufacturer has been approved for this tax exemption since May 1, 1973, at which time the Ministry of Finance determined that the plastic and rubber industries did not have a significant enough impact on the development of the Republic of China to qualify for the incentive.

The Statute for Encouragement of Investment also provides for a 4-year tax holiday for increased income resulting from expansion of a facility's equipment. Seven of the Taiwanese plastic- or rubber-footwear manufacturers investigated by the Treasury Department were beneficiaries of this tax exemption.

Other incentives in the Statute for Encouragement of Investment include an exemption for export sales from a 6-percent business tax levied on domestic sales and a reduction from a 4-percent stamp tax levied on all other sales to a 1-percent stamp tax for export sales.

Volume of goods subject to countervailing duties

At present, an affirmative determination by the Commission would result in countervailing duty deposits of 5 percent ad valorem applicable to all zoris from Taiwan. However, the Treasury Department may find that only certain Taiwanese zoris producers benefit from bounties or grants. In such an event, Treasury would refund the deposit paid by firms importing zoris from such producers, and the zoris manufactured by such Taiwanese producers and imported into the United States would be free from taxation in the future. No finding of this type has yet been made by Treasury.

The maximum potential volume of imports from Taiwan that may have benefited from bounties or grants during January 1-June 30, 1976, amounted to 6.4 million pairs, valued at \$1.6 million. On the basis of the average unit value of imports during the foregoing period, a 5-percent bounty would have amounted to 1.3 cents per pair, or a total of about \$75,000.

## U.S. Imports

Total U.S. imports of zoris declined irregularly from 26.2 million pairs, valued at \$3.2 million, in 1970, to 20.1 million pairs, valued at \$6.4 million, in 1975 (see table on following page). The average unit value of imports rose annually from \$0.12 per pair in 1970 to \$0.32 per pair in 1975. The average unit value was \$0.21 in January-June 1976, compared with \$0.28 in the corresponding period of 1975.

Imports from Hong Kong, 1/ the principal supplier in recent years, increased irregularly from 3.6 million pairs, valued at \$365,000, in 1970, to 11.1 million pairs, valued at \$2.5 million, in 1975. In January-June 1976, they amounted to 15.3 million pairs, valued at \$3.0 million--representing an 82-percent increase in quantity and a 64-percent increase in value over the corresponding period of 1975. Imports from Taiwan, the second largest supplier and subject of this investigation, increased from 5.3 million pairs, valued at \$690,000, in 1970, to a high of 11.5 million pairs, valued at \$2.2 million, in 1973, then declined in pairage to 7.0 million pairs, valued at \$2.8 million, in 1975. Imported zoris from Taiwan amounted to 4.7 million pairs, valued at \$1.6 million, in January-June 1975 and 6.4 million pairs, valued at \$1.6 million, during the corresponding period in 1976--representing a 34-percent increase in quantity but no change in value.

Zoris imported from Taiwan are substantially higher in value than those from Hong Kong. In 1975, imports from Taiwan had an average unit value 81 percent above that for Hong Kong, and in January-June 1976 they had a unit value 25 percent above that for Hong Kong.

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1/ As noted earlier, imports from Hong Kong have entered duty free under the Generalized System of Preferences since January 1, 1976.

Zoris: U.S. imports for consumption, by principal sources, 1970-75, January-June 1975,  
and January-June 1976

Source	1970	1971	1972	1973	1974	1975	January- June	
							1975	1976
Quantity (1,000 pairs)								
Hong Kong-----	3,631	3,274	9,508	8,883	13,130	11,127	8,406	15,270
Taiwan-----	5,336	5,781	7,538	11,513	7,935	7,035	4,734	6,353
Japan-----	17,186	13,441	8,231	2,704	1,078	805	523	190
Thailand-----	-	1	1	7	34	513	350	36
Italy-----	8	121	18	39	11	52	-	-
Macao-----	-	-	-	-	1,206	541	-	-
Republic of Korea-----	-	4	71	3	-	8	-	-
Venezuela-----	-	-	-	60	1	-	-	-
All other-----	12	83	56	53	149	10	525	414
Total-----	26,173	22,705	25,423	23,262	23,544	20,091	14,538	22,263
Value (1,000 dollars)								
Hong Kong-----	365	350	1,004	1,067	2,737	2,452	1,818	2,976
Taiwan-----	690	801	1,164	2,153	2,493	2,833	1,590	1,556
Japan-----	2,178	1,868	1,276	602	652	535	311	138
Thailand-----	-	<sup>1/</sup>	1	1	27	288	190	17
Italy-----	9	54	43	94	30	146	-	-
Macao-----	-	-	-	-	221	85	-	-
Republic of Korea-----	-	4	7	2	-	2	-	-
Venezuela-----	-	-	-	59	1	-	-	-
All other-----	5	84	15	64	66	33	241	68
Total-----	3,247	3,161	3,510	4,042	6,227	6,374	4,150	4,755
Unit value (per pair)								
Hong Kong-----	\$0.10	\$0.11	\$0.11	\$0.12	\$0.21	\$0.22	\$0.22	\$0.20
Taiwan-----	.13	.14	.15	.19	.31	.40	.34	.25
Japan-----	.13	.14	.16	.22	.61	.66	.59	.73
Thailand-----	-	<sup>2/</sup> .65	1.00	.14	.79	.56	.54	.47
Italy-----	1.13	.45	2.39	2.41	2.73	2.81	-	-
Macao-----	-	-	-	-	.18	.16	-	-
Republic of Korea-----	-	1.00	.10	.67	-	.25	-	-
Venezuela-----	-	-	-	.98	1.00	-	-	-
All other-----	.42	1.01	.27	1.21	.44	3.30	.46	.16
Total-----	.12	.14	.14	.17	.26	.32	.28	.21

<sup>1/</sup> Less than \$500.

<sup>2/</sup> Calculated from the unrounded figures.

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

Based on the average unit value of imports of zoris from Taiwan in January-June 1976, a 5-percent countervailing duty would amount to approximately 1.3 cents per pair and would further disadvantage imports from Taiwan vis-a-vis those from Hong Kong which enter duty free under the GSP.

Information on the rubber-footwear industry in Taiwan is given in appendix B to this report.

#### U.S. Consumption

Imports have supplied all known U.S. consumption of the type of zoris covered by this investigation. In terms of quantity, the share of U.S. consumption supplied by zoris from Taiwan rose from about one-fifth in 1970, to about one-half in 1973, then declined to a little over one-third in 1975, and further declined to somewhat less than three-tenths in January-June 1976.

## U.S. Producers

As stated earlier, zoris of the type covered in this investigation sell at retail in the U.S. market in the range of \$0.27 to \$0.79 per pair. There is no known U.S. production of footwear selling in the retail price range of these imported zoris.

Information available to the Commission indicates that inexpensive footwear is produced in the United States by about 60 companies. No information on individual operations of these firms was received through questionnaires. However, it is known that the retail price of the great bulk of low-end footwear--canvas footwear, sandals, and slippers--produced in the United States is in the range of \$3 to \$5 per pair; some of this footwear may retail as low as approximately \$2 per pair.

Available information indicates that the 60 firms producing low-end footwear in the United States are a very diverse group. Some of the smaller firms produce primarily one line of shoes, i.e., washable scuffs, and employ as few as 4 to 25 workers. One corporation, which produces a wide variety of footwear in all price ranges, employs more than 6,000 workers. Inexpensive footwear produced by many of the larger firms accounts for only a small portion of their total output.

### Channels of Distribution and Pricing Practices

Imported zoris are marketed to consumers in the United States mainly through supermarkets, drugstores, and large discount department store chains. Foreign manufacturers either sell directly to U.S. retailers (mainly chainstores) if they are large or utilize a U.S. importer as a middle man.

Inexpensive U.S.-produced footwear is sold to the consumer through the same channels--supermarkets, discount department stores, and drugstore chains.

The retail markup on footwear in general is about 50 percent. The markup on zoris and other inexpensive footwear is less. Zoris are subject to extensive "loss leader" merchandising on the retail level, resulting in small, if any, margins.

## Information Obtained From U.S. Producers

Officials of both the American Footwear Industries Association and the Rubber Manufacturers Association indicated to the Commission staff that they know of no companies within their memberships that produce zoris. Moreover, they have had no complaints from companies alleging that they were being prevented from establishing production by reason of the importation of zoris from Taiwan.

Of the 53 firms that responded to the Commission's questionnaire, none produced zoris and none claimed that they have been prevented from establishing production of the subject zoris in the United States. <sup>1/</sup> Six of the 53 firms claimed injury in their response. They stated either that it was impossible to produce zoris in the United States because of the cost of labor or that the low prices at which imported zoris are sold have resulted in lost sales for other so-called low-end footwear. Those who registered complaints did not produce footwear wholesaling for less than \$1.00 per pair. However, they claimed that the more expensive footwear which they produced (e.g., washable slippers wholesaling at \$2 to \$3) is competitive with zoris. Footwear produced by those complaining of injury due to zoris was limited primarily to sneakers, sandals, and slippers. Two companies claiming injury produced infants' footwear.

Concerning price competitiveness and lost sales, Ms. Doris Cisne of Cisne Shoes, Inc., addressed both considerations, stating in her response to the questionnaire, "We can not manufacture a shoe that would whole-sale for \$1 or less because of the cost of labor, but we could sell more

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<sup>1/</sup> As noted earlier, none provided statistical data.

shoes and work more people if we did not have these cheap shoes on the market." Ms. Cisne's opinion concerning the prohibitive cost of labor in the United States was echoed by Mr. Frank Smedek, of C & S Shoe Co., who stated: "With our standard of living and our labor conditions, it is impossible to make a shoe in this country . . . under \$2.00." Mr. Howard Gonchar, president of Carter Rubber Co., said that his firm had made a "preliminary survey on manufacturing zoris and found the cost to be prohibitive."

Four producers attributed lost sales to the importation of zoris; none attributed lost sales specifically to bounties or grants paid by the Taiwanese Government, or recognized that imports from Hong Kong are priced lower than those from Taiwan. Mr. George Nagasawa, of Holo Holo Slippers, wrote, "Our sales have dropped tremendously ever since the so-called 'Kamaboko' and surfer slippers 1/ from Taiwan came in." Mr. Howard Gonchar of Carter Rubber Co. further stated: "We are unable to be specific on names, places and dates as we have never manufactured this item, but the market flooded with the very low-cost Taiwanese zoris had to curb the sales of our own footwear."

Pertinent letters from two other producers, Mr. Flay F. Baugh, of Baugh Shoe Co., Inc., and Mr. J. W. Bray, Jr., of J. W. Bray Co., Inc., are included in appendix C. With respect to lost sales, Mr. Baugh stated that "Imports, especially those from Taiwan have continually cut into our volume for the past ten years," while Mr. Bray wrote that "The most harmful aspect of the importation of Zoris is that it completely devastates our wholesale \$2 and \$3 washable market due to cost."

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1/ These styles, although frequently called zoris by the trade, are not considered to be zoris by the U.S. Customs Service.

## Information Obtained From U.S. Importers

In order to elicit more detailed information on the zoris market and the possible impact of zoris on the production and distribution of other types of inexpensive footwear, several importers 1/ and the U.S. Customs Service footwear specialist in New York, N.Y., were contacted by the Commission staff. These sources reported that the market for zoris is on the decline, and that more expensive footwear, such as tatamis and deckers, are accounting for an increasing share of low-end casual footwear sales.

All of the importers contacted reported that zoris constituted a small percentage of their total footwear import business. No significant warehousing facilities or other capital investments devoted primarily to zoris were reported. In response to the warehousing question, one importer indicated that most of his imports of zoris were sold "right from the harbor."

When asked about possibility of injury due to bounties or grants paid by the Taiwanese Government, each importer emphatically denied the likelihood of injury to his operations. One importer commented that a 5-percent export subsidy was "large" and that a corresponding countervailing duty would cause him to switch to Hong Kong zoris, thereby losing some customers tied to the Taiwanese product. Several large importers of zoris from Hong Kong 2/ commented that if the price difference resulting from bounties or grants was significant, a switch to Taiwanese zoris would have taken place. In this

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1/ Among those interviewed were corporate executives from the largest importer of Taiwanese zoris and the largest importer of zoris from Hong Kong.

2/ Hong Kong has been the principal supplier in recent years, accounting for 45 percent of the quantity of zoris imported during 1970-75 and 67 percent of those entered in January-April 1976.

respect, no importer felt that injury was likely, except possibly to the non-Taiwanese manufacturers of zoris for the U.S. market.

In general it was suggested that Hong Kong zoris of high quality may be bought at lower prices than the competitive Taiwanese product. One contact familiar with the industry stated that zoris from Hong Kong are the industry "price setters."



APPENDIX A

TREASURY LETTER AND PERTINENT NOTICE





A-23

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

*Handwritten initials*

JUN 17 1976

JUN 22 11 12:43

APP-4-05-0:D:T LB  
U.S. INTL. TRADE COMMISSION

Dear Mr. Chairman:

In accordance with section 303(b) of the Tariff Act of 1930, as amended, you are hereby advised that a bounty or grant is being paid with respect to footwear known as zoris imported from Taiwan and entered under TSUS item 700.54, which merchandise from said country is accorded duty-free treatment under section 501 of the Generalized System of Preferences (Title V) of the Trade Act of 1974.

The U.S. Customs Service will make available to the U.S. International Trade Commission as promptly as possible its files on the instant bounties or grants being paid or bestowed for the Commission's use in the investigation as to whether an industry in the U.S. is being, or likely to be injured, or is prevented from being established, by reason of the importation of this merchandise into the United States.

Since some of the data in this file is regarded by the Customs Service to be of a confidential nature, it is requested that the U.S. International Trade Commission consider all information therein contained for the official use of the U.S. International Trade Commission only, and not to be disclosed to others without prior clearance with Customs.

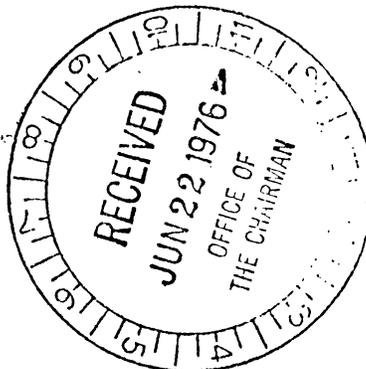
Sincerely yours,

*David R. Macdonald*

David R. Macdonald  
Assistant Secretary  
(Enforcement, Operations,  
and Tariff Affairs)

DOCKET NUMBER
# 399
Office of the Secretary Intl. Trade Commission

The Honorable  
Will E. Leonard, Jr., Chairman  
U.S. International Trade Commission  
Washington, D.C. 20436



DEPARTMENT OF THE TREASURY  
UNITED STATES CUSTOMS SERVICE

## FOOTWEAR FROM TAIWAN

## FINAL COUNTERVAILING DUTY DETERMINATION

On July 3, 1975, a "Notice of Preliminary Countervailing Duty Determination" was published in the FEDERAL REGISTER (40 F.R. 28105). The notice stated that on the basis of an investigation conducted pursuant to section 159.47(c), Customs Regulations (19 CFR 159.47(c)), a preliminary determination was made that no bounty or grant is being paid or bestowed, directly or indirectly, within the meaning of section 303, Tariff Act of 1930, as amended, (19 U.S.C. 1303) upon the manufacture, production, or exportation of footwear from Taiwan.

The notice stated further that before a final determination would be made in the proceeding, consideration would be given to any relevant data, views, or arguments submitted in writing within 30 days from the date of the notice with respect to the preliminary determination. The 30 day period for the submission of views was extended to 60 days by notice published in the FEDERAL REGISTER on August 15, 1975 (40 F.R. 34423).

Subsequent analysis has revealed that footwear facilities in Taiwan may be eligible for various tax and other incentives under the Statute For Encouragement of Investment, the criteria of which includes enterprises that would qualify if they export all of their production. Since the Treasury Department cannot ascertain at this time that no footwear facilities receive

benefits under the Statute For Encouragement of Investment, it has been determined that exports of footwear from Taiwan are subject to bounties or grants within the meaning of section 303 of the Tariff Act of 1930, as amended (19 U.S.C. 1303). Further inquiry will be made to determine those footwear facilities, if any, who receive benefits under the above-mentioned statute.

Accordingly, notice is hereby given that footwear imported directly or indirectly from Taiwan, if entered, or withdrawn from warehouse, for consumption on or after the date of publication in the FEDERAL REGISTER, will be subject to payment of countervailing duties equal to the net amount of any bounty or grant ascertained and determined, or estimated, to have been paid or bestowed.

The liquidation of all entries for consumption or withdrawals from warehouse for consumption of such dutiable footwear imported directly or indirectly from Taiwan which benefit from such bounties or grants and is subject to the order shall be suspended pending declarations of the net amounts of the bounties or grants paid or bestowed. A deposit of the estimated counter-

vailing duty, in the amount of 5 percent ad valorem, shall be required at the time of entry for consumption or withdrawal from warehouse for consumption.

Effective on or after the date of publication of this notice in the FEDERAL REGISTER and until further notice, upon the entry for consumption or withdrawal from warehouse for consumption of such dutiable footwear imported directly from Taiwan, which benefit from these bounties or grants, there shall be collected, in addition to any other duties estimated or determined to be due, countervailing duties in the amount ascertained in accordance with the above declaration.

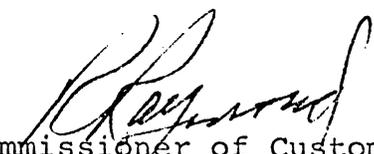
The table in section 159.47(f) of the Customs Regulations (19 CFR 159.47(f)) is amended by inserting in the column headed "Country", the name Taiwan. The column headed "Commodity" is amended by inserting the word "footwear". The column headed "Treasury Decision" is amended by inserting the number of this Treasury Decision, and the words "Bounty Declared--Rate" in the column headed "Action".

This notice is published pursuant to section 303, Tariff Act of 1930, as amended (19 U.S.C. 1303). (R.S. 251, secs. 303, as amended, 624; 46 Stat. 687, 759, 88 Stat. 2050; 19 U.S.C. 66, 1303, as amended, 1624).

Approved:



Assistant Secretary of the Treasury  
David R. Macdonald

  
Acting  
Commissioner of Customs  
Roland Raymond

DEC 30 1975

APPENDIX B  
NOTICE OF INVESTIGATION

UNITED STATES INTERNATIONAL TRADE COMMISSION  
Washington, D.C.

[303-TA-1]

Certain Zoris from the Republic of China

Notice of Investigation, Hearing, and Request  
for Written Views

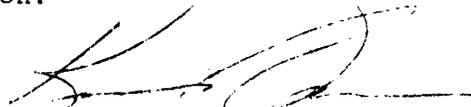
Having received advice from the Department of the Treasury on June 22, 1976, that a bounty or grant is being paid with respect to footwear known as zoris imported from the Republic of China (Taiwan), entered under item 700.54 of the Tariff Schedules of the United States and accorded duty-free treatment under section 501 of Title V (Generalized System of Preferences) of the Trade Act of 1974, the United States International Trade Commission on July 6, 1976, instituted investigation No. 303-TA-1 under section 303(b) of the Tariff Act of 1930, as amended (19 U.S.C. 1303(b)), to determine whether an industry in the United States is being or is likely to be injured, or is prevented from being established, by reason of the importation of such merchandise into the United States.

Hearing. A public hearing in connection with the investigation will be held in the Commission's Hearing Room, 701 E Street NW., Washington, D.C. 20436, beginning at 10 a.m., e.d.t., on Tuesday, August 17, 1976. All interested persons will be given an opportunity to be present, to produce evidence, and to be heard at such hearing.

Requests to appear at the public hearing should be addressed to the Secretary, United States International Trade Commission, 701 E Street NW., Washington, D.C. 20436, and should be received not later than noon on Friday, August 13, 1976.

Written statements. In addition to, or in lieu of, an appearance at the hearing, interested persons are requested to submit to the Commission, in writing, any information pertinent to whether an industry in the United States is being or is likely to be injured or is prevented from being established, by reason of the importation of the subject zoris. Written statements should be addressed to the Secretary of the Commission at the Commission's office in Washington, D.C., and should be submitted not later than August 3, 1976.

By order of the Commission:



KENNETH R. MASON  
Secretary

Issued: July 7, 1976



APPENDIX C  
THE FOREIGN INDUSTRY



## The Foreign Industry

The rubber-footwear industry, which includes producers of zoris, in the Republic of China (Taiwan) has grown rapidly in the 1970's. In 1974, exports of rubber footwear from Taiwan amounted to \$73 million and the industry employed about 11,000 workers. Production is mainly confined to four areas: (1) canvas shoes, (2) rain shoes, (3) sandals and slippers (including zoris), and (4) rubber soles for footwear of various types.

There are only two basic processes involved in the production of zoris. The bottoms are cut (usually by dies) directly from sheets coming off calendering machines. The holes for the uppers (which are also pressed and cut from sheets) are then hand-stamped and the uppers pulled through.

The major competitive advantage of the Taiwanese rubber-footwear industry is an abundance of competent, low-cost labor. Most jobs require minimal skills which can be learned in a few weeks of on-the-job training. According to major importers of zoris, teenagers make up a large portion of the production workers in factories producing zoris in Taiwan. It was reported that in some cases dormitories are provided for school age workers so that they can attend school a few hours a day and then return to the factory. 1/ The base wage for female

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1/ One importer stated that to his knowledge there was only one factory left in Taiwan producing zoris of the types that enter under TSUS item 700.54. All other facilities have switched to the newer styles with ethylene-vinyl acetate (EVA) bottoms.

production employees was between \$66 and \$79 a month as of the end of 1974, while males received between \$118 and \$158; both wage rates show a 40-percent increase over those in 1973.

The United States has been the leading market for exports of rubber footwear from Taiwan for several years, although the U.S. export share dropped from a high of 60 percent in 1970 to 36 percent in 1973. Other markets for the Taiwanese products are Western Europe, Japan, and Canada. A diversification trend has been in effect for the last several years, with strong markets developing in Australia and the Middle East. Taiwan's domestic market absorbs about 25 percent of the industry's output.

Flagging market conditions abroad have had a substantial impact on the highly export-oriented industry. Of the 151 registered factories, only 97 were in production at the end of 1974, presumably owing to the impact of recessions in the major market economies. Employment fell 50 percent during 1974, and large inventories and a shortage of new orders were expected to continue into 1975. Taiwanese manufacturers are combating these problems with an emphasis upon better designed products and more sophisticated management and marketing techniques. The improvement of overseas markets as evidenced by recent economic trends in the United States and other free market economies are expected to trigger expansion in 1976.

In the light of the improving conditions abroad, Taiwanese rubber-footwear manufacturers have expressed confidence in the future but are

at the same time concerned with rising costs of labor and materials and strong competition from other low-cost producing countries such as Korea. Response to this competition has included a movement toward more capital-intensive methods of production.

Data are not separately available on production of zoris in Taiwan. The tables on the next three pages show data on production and exports of rubber footwear, by principal type (most zoris are included under sandals and slippers), for specified years, and the number of producers and employment in the industry for the years 1965-75.

Rubber footwear: Republic of China (Taiwan) production, by types, 1970-74

Year	Total		Canvas shoes		Rain shoes		Sandals and slippers		Soles and heels	
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
	: 1,000 pairs	: 1,000 dollars	: 1,000 pairs	: 1,000 dollars	: 1,000 pairs	: 1,000 dollars	: 1,000 pairs	: 1,000 dollars	: 1,000 pairs	: 1,000 dollars
1970-----	37,945	21,093	22,210	11,400	7,435	8,635	1,720	507	6,580	551
1971-----	65,110	40,446	37,178	22,712	10,792	14,816	3,182	1,433	13,958	1,485
1972-----	97,812	49,586	59,841	31,324	13,116	13,513	12,889	3,139	11,966	1,610
1973-----	89,910	70,190	57,152	48,207	11,380	17,491	20,988	4,376	390	116
1974-----	66,219	100,255	48,482	63,725	9,002	33,140	7,980	2,965	755	425

Source: Report from U.S. Embassy, Taipei, 1975.

Rubber footwear: Exports of the Republic of China (Taiwan) to  
the United States, 1972-74

Products	1972		1973		1974	
	Quantity	Value	Quantity	Value	Quantity	Value
	1,000	1,000	1,000	1,000	1,000	1,000
	pairs	dollars	pairs	dollars	pairs	dollars
Canvas shoes-----	9,856	5,511	10,171	8,217	9,432	11,548
Rain shoes-----	4,717	7,029	4,913	8,968	2,551	7,409
Sandals and slippers-----	875	586	3,750	536	3,621	738
Soles and heels-----	-	-	132	81	202	150
Total-----	15,448	13,126	18,966	17,802	15,806	19,845

Source: Report from U.S. Embassy, Taipei, 1975.

Republic of China (Taiwan) rubber-footwear industry:  
 Number of manufacturers and employees, 1965-75

<u>Year</u>	<u>Number of manufacturers</u>	<u>Number of employees</u>
1965-----	26	4,767
1966-----	27	5,450
1967-----	33	7,839
1968-----	44	9,156
1969-----	58	11,165
1970-----	70	13,689
1971-----	98	15,097
1972-----	135	17,947
1973-----	146	18,391
1974-----	151	20,722
1975-----	-	<u>1/</u> 11,000

1/ Estimated.

Source: Report from U.S. Embassy, Taipei, 1975.

APPENDIX C

LETTERS FROM J. W. BRAY CO., INC. AND  
\* \* \*



A-38

July 26, 1976

Ms. Gail Burns  
United States International Trade Commission  
Washington, DC 20436

Dear Ms. Burns:

I have received your Producers Questionnaire CERTAIN ZORIS.

I believe I can explain in this letter the general facts from our Company in more of an overview of our relationship to the importation of Zoris than in the specifics of your questionnaire.

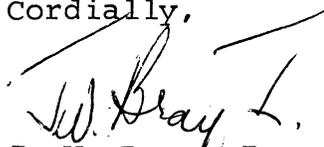
- 1) We have never produced Zoris.
- 2) We have never entertained producing Zoris in this country because of the ridiculously low import prices, and I have never heard of a domestic manufacturer foolish enough to try.
- 3) We have never imported Zoris.

Our operation is the manufacturing of washable cloth scuffs and slippers. These items have soft soles and are made primarily of terrycloth and fleece fabrics and are visually packaged, normally in bags.

At this time the \$1.00 per pair wholesale level you mention is just under our lowest priced styles. Our most inexpensive item has been fluctuating around that point for the last year or two.

The most harmful aspect of the importation of Zoris is that it completely devastates our wholesale \$2 and \$3 washable market due to cost. With American labor and material constantly increasing and our prices moving up we are finding less and less demand for our goods due to the saturation distribution of Zoris in this Country; therefore, we are being forced out of an area we have been in for 30 years.

Cordially,

  
J. W. Bray, Jr.  
President

A-38

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